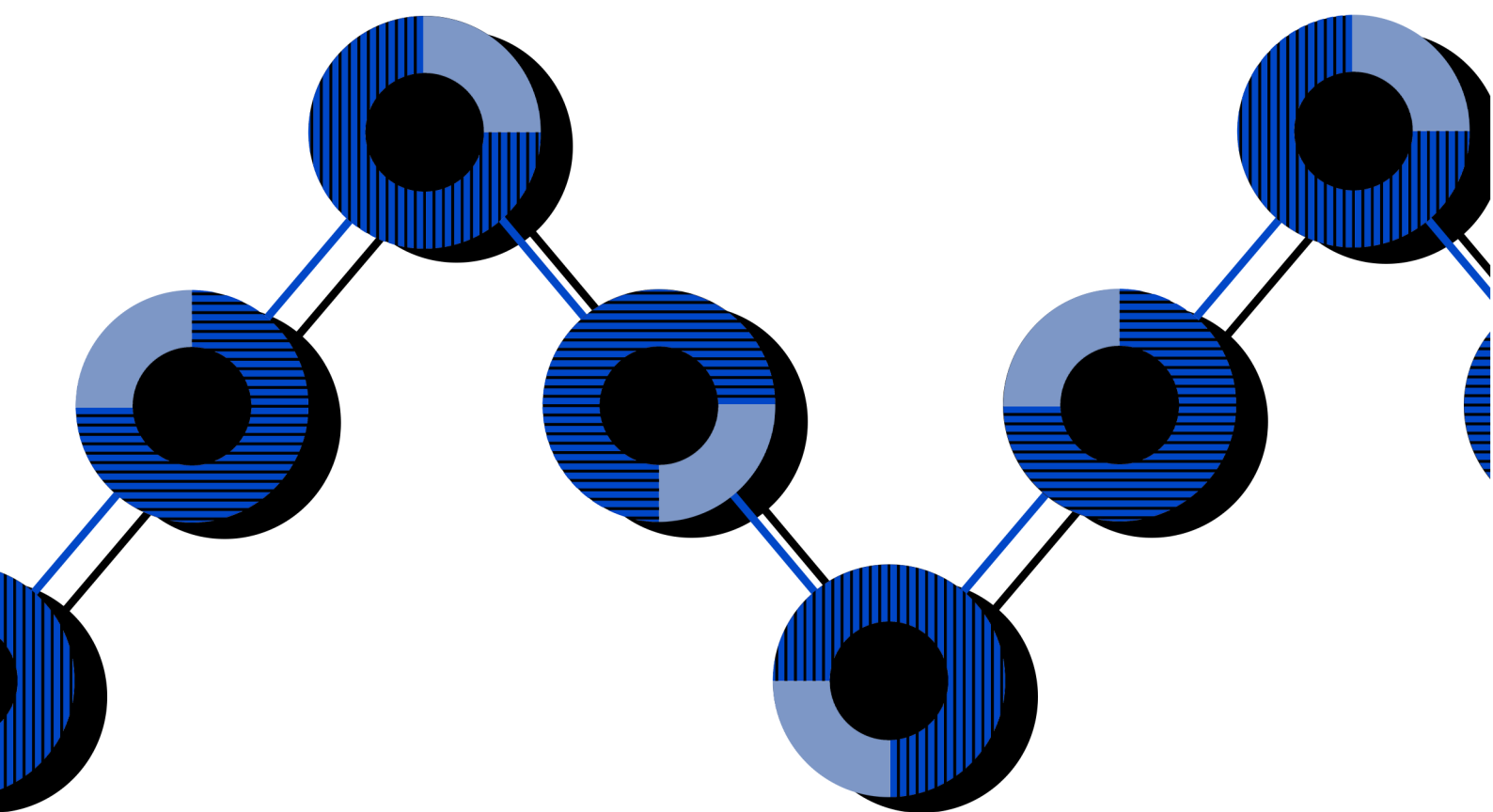


UK IN A
CHANGING
EUROPE

UK-EU REGULATORY DIVERGENCE TRACKER Q2-Q3 2026



JOËL RELAND

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OVERVIEW

This is the seventeenth edition of UK in a Changing Europe's regulatory divergence tracker, outlining how UK and EU rules and regulations have aligned and diverged in the period April-September 2026. This tracker identifies seven cases of alignment (where UK and EU align their rules or processes) and three cases of convergence (where UK and EU rules or processes move closer to one another, without formal alignment). There are six cases of 'active' divergence (where the UK changes its rules in ways which the EU does not mirror) and 23 cases of passive divergence (where the EU changes its rules in ways which the UK does not mirror).

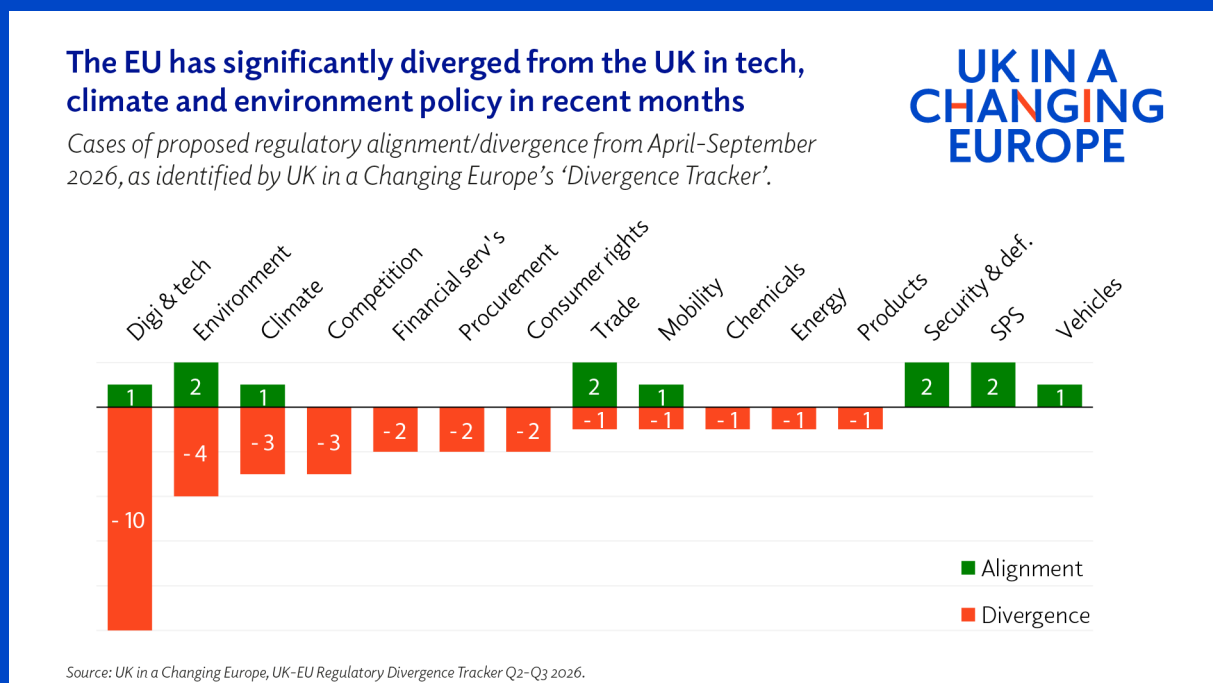
The months covered in this tracker took in a change of UK Prime Minister. While Andy Burnham has, thus far, been very discreet about his plans for EU relations, the latter days of the Starmer government saw a continuation of his agenda of closer EU alignment (even if the July UK-EU summit, where it was hoped that agreements on SPS, ETS and youth mobility might be sealed, was postponed due to Starmer's resignation). Two marquee moments were the finalisation of an agreement on Gibraltar, and the agreement on UK participation in the EU's €90bn 'Ukraine Support Loan' scheme. The former enables the free movement of goods and people between Gibraltar and the EU, bringing down a border fence with Spain which has stood for over a century; while the latter allows Ukraine to procure British-made military equipment through the loan funds, with the UK making a financial contribution to the scheme proportionate to the value of the contracts it receives.

The Starmer administration also continued to take a range of lower-profile steps to align with EU rules, so as to ease trading frictions. It consulted on adopting 'Euro 7' emissions testing standards at the same time as the EU (to simplify vehicle import and export processes); added domestic maritime emissions to its emissions trading scheme (a key step towards 'linkage' with the EU scheme); and set out plans to stop the import of goods linked to deforestation which is explicitly designed to 'operate consistently' alongside the EU's upcoming regime. The UK is also consulting on 'potential powers to protect the UK from adverse economic pressure' (widely criticised as symbolic) which bear great resemblance to the EU's 'anti-coercion instrument'; and has gained access to the EU's Prüm database for vehicle license plates – aiding police cooperation and delivering on an commitment set out in the Trade and Cooperation Agreement (TCA).

The Starmer-induced trend of limited 'active' divergence from EU rules continued – and even some of the little divergence which did occur was in practice about adopting stricter rules than the EU. For instance, the UK's seventh carbon budget, setting an 87% emissions reduction target for 2037-42, is slightly lower than the EU's (90% by 2040) but is potentially more demanding

as it does not allow for 5% of the target to be met through ‘carbon credits’. One deregulatory move has been to simplify planned prudential rules for crypto-assets, while an early case of Burnham-led divergence is a reform of procurement rules (to redefine what constitutes ‘social value’) which could potentially conflict with TCA obligations not to discriminate against EU companies (and in theory lead to the EU taking retaliatory action under its own planned revision of its procurement regime to favour European companies).

The scale of EU-led ‘passive’ divergence has been far greater: with the Commission outlining major plans to reduce strategic dependencies in tech and advanced manufacturing by increasing its industrial capacity base. A ‘Tech Sovereignty Package’ contains the Cloud and AI Development Act, which aims to grow EU capacity to host cloud services and data centres (thus reducing dependence on US-owned companies); and the Chips Act 2.0, which aims to boost the EU’s skills and research capabilities in semiconductor production – acknowledging that it is well off-track to meet a target to double domestic chip production to 20% of global market share by 2030. A proposed relaxation of merger guidelines aims to create ‘European champions’ which can ‘reach the necessary size to compete’ in global markets; while the ‘AccelerateEU’ package and ‘Electrification Action Plan’ allow member states to give more financial support to businesses to help with their energy costs, with the aim of boosting domestic clean tech manufacturing capacity.



Andy Burnham’s team has expressed similar ambitions to reduce US-dependence in tech and AI and develop a ‘reindustrialisation’ programme focused on advanced technologies. They may want to pay close attention to what can be learned from the Tech Sovereignty Package (a common criticism is that the EU’s production targets are unrealistic, and it should instead seek to corner

the market in other specialist capabilities that are integral to tech supply chains) and consider whether there are opportunities for the two sides to coordinate approaches: for instance in the procurement of critical minerals or development of clean tech infrastructure.

The EU has also taken a very firm line against US and Chinese tech companies in recent months – opening investigations or imposing fines in eight separate cases relating to breaches of antitrust or online safety rules. The UK, despite having very similar legislation in place, has been far more reluctant to open targeted investigations – there has been only one notable case, against the Chinese company TikTok – perhaps for fear of upsetting the US administration. The UK has also only opted to designate four cloud service companies as ‘critical third parties’ for its financial services sector (subjecting them to enhanced regulatory oversight) whereas the EU has already designated 19 companies as such. And, while the UK and EU have converged in announcing plans for age restrictions on social media use, the EU has gone further in announcing new, supplementary obligations for tech companies to ensure the safety of children online. The UK has appeared more concerned than the EU about upsetting the US government through regulatory action in this space, though there are some early signs that the Burnham administration is considering a more interventionist approach, especially in relation to online safety.

Finally, there are a number of cases of passive divergence which will add complexity to UK-EU trade. New EU legislation on the reusability of packaging, energy labelling, the destruction of unused clothes, and recycled content in plastic bottles will all require British firms to adapt their processes in order to keep serving the EU/NI markets; while the temporary introduction (until a new duty regime is established) of a €3 fee on low-value packages imported to the EU – designed to stop the widespread import of defective goods from low-cost Chinese websites – will lead to tariffs on some UK exports which should normally trade tariff-free under the TCA. Changes to the design of the EU ETS, CBAM and rules on genetically edited goods, meanwhile, all have implications for the ongoing negotiations on ‘SPS’ and linking emissions trading schemes.

The new Prime Minister may not be spending much time talking about the EU, but there is plenty happening on the continent which is going to have a profound effect on the UK, whether he pays attention or not.



1. TRADE / MOBILITY

UK-EU agreement on Gibraltar.

ISSUE	IMPACT
In July 2026 the UK and EU <u>signed a treaty</u> on Gibraltar. This sets the terms for the movement of people and goods between Gibraltar and Spain. Gibraltar is not covered by the TCA and since 2021 has been subject to a range of temporary measures to keep goods and people moving relatively freely across the border with Spain – with which its economy and society is <u>deeply integrated</u>. But the lack of legal framework made the long-term viability of the arrangements uncertain. The new treaty addresses this by enshrining provisions for an open land border, while making some important changes to Gibraltar’s relationship with the EU. A draft agreement was published in February (covered in the <u>previous divergence tracker</u>) and the final treaty maintains the same core provisions (though some wording changes <u>have been made</u> and a few clauses added). The key provisions include the introduction of border checks conducted by EU (i.e. Spanish) officials at Gibraltar’s port and airport – thus removing the need for immigration checks between Gibraltar and Spain (effectively integrating Gibraltar into the Schengen area); a customs union between the EU and Gibraltar (meaning no tariffs or quotas on goods trade and necessitating some changes to Gibraltar’s tax regime to align it with the EU’s); and dynamic alignment by Gibraltar with the EU law necessary to maintain a free flow of goods and services. Gibraltar will <u>have to give legal effect</u> to the relevant EU law (it does not apply directly) and there is no enforcement role for the Courts of Justice of the European Union.	As noted in the previous tracker, this is a significant development which addresses one of last remaining unresolved issues in the UK and EU’s post-Brexit settlement. The EU was concerned about the risk of Gibraltar becoming a back door for goods and people into the EU: which is addressed by the customs union and de facto integration of Gibraltar into Schengen. This has led to the <u>dismantling</u> of a border fence which has stood since 1908 and allows flights between Gibraltar and the EU to resume, having been mostly suspended for decades. The UK was concerned about protecting British sovereignty over Gibraltar and its military facilities, and has <u>emphasised</u> this in its press release. Article 2 of the agreement states that it is ‘without prejudice to, and shall not otherwise affect, the respective legal positions of the United Kingdom of Great Britain and Northern Ireland or of the Kingdom of Spain with regard to sovereignty and jurisdiction, and shall not constitute the basis for any assertion or denial of sovereignty’. Gibraltar’s Chief Minister Fabian Picardo <u>welcomed</u> the agreement, stating that it “will protect future generations of British Gibraltarians and does not in any way affect our British sovereignty”, while Spain’s Prime Minister Pedro Sánchez said it “unlocks significant opportunities to strengthen UK-Spain relations”. The agreement was signed in the last days of the Starmer government – perhaps hinting at the importance of political will in driving towards a final conclusion.

2. SECURITY & DEFENCE

UK participation in Ukraine Support Loan.

ISSUE	IMPACT
In July 2026, the UK and EU <u>agreed on</u> the UK's participation in the EU's <u>Ukraine Support Loan</u> scheme. The scheme was formally adopted by the EU in April of this year, providing a loan of €90bn to Ukraine over 2026 and 2027. €30bn is for macroeconomic support (e.g. to address urgent budgetary needs) while the other €60bn is for investment in defence industrial capabilities. The UK-EU agreement gives UK defence firms full access to the scheme, meaning that contracts funded through the loan can be used to procure British-made military equipment. Without formal UK participation, British companies would only be able to obtain up to 35% of the value of a contract. The UK will make a <u>financial contribution</u> to the loan, proportionate to the value of contracts which British companies receive under the scheme. The EU has also, separately, signed a <u>defence industrial partnership</u> with Ukraine to support the joint production of drones and counter-drone systems by the end of 2026, and anti-ballistic missiles by 2028. The partnership provides funding for joint ventures between EU and Ukrainian companies (there are 18 founding members), financed by the Support Loan Scheme, and work will also be done to align standards and thus remove technical barriers to cooperation. The UK is not part of the defence industrial partnership.	The outgoing EU ambassador to the UK hailed the agreement as a “template” for further UK-EU cooperation on security and defence, stating that “the United Kingdom is one of the most important military powers in Europe with a very important defence industry” and “if we’re going to be successful, we will be successful together.” Yet the two sides have not always found it easy to agree to formalised cooperation on security and defence. The UK’s participation in the EU’s €150bn ‘Security Action for Europe’ (SAFE) instrument for common defence borrowing was foreseen under last year’s ‘Common Understanding’ but negotiations <u>fell apart</u> over the size of the UK’s financial contribution. The Ukraine loan agreement could in theory help to re-animate talks on SAFE (especially as France had some SAFE loan applications <u>turned down</u> because they necessitated UK participation in the scheme) or other forms of security cooperation. The agreement was - notably - one of Keir Starmer’s last acts as Prime Minister, and something he was seemingly determined to secure before his departure. While Andy Burnham is <u>likely to adopt</u> similar positions on European security, a strong personal commitment from the Prime Minister will be needed to secure further formalised agreements on defence cooperation.

3. SECURITY & DEFENCE

UK access to Prüm database for license plates.

ISSUE	IMPACT
In June 2026, the UK government <u>announced</u> that it has gained access to the EU's Prüm database for the purpose of checking number plates. Previously, UK police officers had to make individual requests to EU member states, but they will now able to run checks themselves, receiving results within ten seconds. When a number plate is matched in the Prüm system, officers are able to see key information such as who owns the vehicle and whether it has been stolen. EU authorities will gain reciprocal access to UK Driver and Vehicle Licensing Agency data. The UK maintained access to the Prüm system for DNA and fingerprint data sharing as part of the TCA. Access to license plate data, however, required the UK to fulfil certain implementing measures, such as making all categories of data available for searching and comparison, and undergoing an evaluation visit and pilot run. Those processes are now complete, meaning that data sharing on licence plates is ready to go live. The Police Service of Northern Ireland gained access first, before it was rolled out to forces across the rest of the UK.	This is the fulfilment of a commitment made in the TCA, rather than a substantive new cooperation agreement between the UK and EU. The UK government <u>says</u> that access to license plate records 'will strengthen intelligence on cross-border crime and improve the identification of vehicles linked to trafficking networks.' The EU is intending to upgrade to a new 'Prüm II' system, which will allow the sharing of facial images of suspects, and it is <u>not clear</u> whether the UK will seek participation with this element (though the Sunak government consulted on the matter).

4. CLIMATE

Domestic maritime added to UK emissions trading scheme.

ISSUE	IMPACT
In July 2026, the UK <u>expanded</u> the scope of its emissions trading scheme (ETS) to include domestic maritime emissions. The UK ETS requires companies in certain industries to purchase allowances for each unit of greenhouse gas emissions they create, with the number of available allowances reducing year-on-year. The aim is to incentivise companies to reduce their emissions, before ultimately reaching net zero. As of 1 July 2026, the ETS has been extended to cover emissions generated by cargo and passenger vessels with a gross tonnage of 5,000+ (i.e. large vessels) during domestic activity (i.e. those made on intra-UK journeys or while a vessel is in port in the UK). There are exclusions for certain activities (e.g. government, military, police and emergency activities, and ferries serving Scottish islands); and <u>offshore ships</u> (e.g. those used to support other vessels/infrastructure) will be included from January 2027. Operators are required to monitor and declare all of their carbon dioxide, methane and nitrous oxide emissions. They must submit ETS allowances covering 100% of those emissions (<u>reduced</u> to 50% on voyages between Great Britain and Northern Ireland). For each calendar year of the scheme, emissions have to be reported by 31 March of the following year, with the requisite allowances surrendered by 30 April. The first six months of the scheme will be benefit from greater	This expansion is an important step towards the <u>linking of UK and EU emissions trading systems</u>: something which the two sides committed to in the May 2025 Common Understanding, and which is still under negotiation. Linkage would see UK and EU ETS allowances become interchangeable: so a UK firm could purchase allowances on the EU ETS market and vice-versa. The Common Understanding explicitly <u>states that</u> linkage should take in virtually all of the sectors covered by the EU ETS, including ‘domestic and international maritime transport’. The UK created its own ETS post-Brexit which broadly resembled the EU’s in both design and scope: but one notable case of divergence was the lack of coverage of maritime emissions. The expansion of the ETS to domestic emissions goes a long way to addressing that divergence, especially as the UK has also mirrored the EU in terms of the types of emissions covered and the proportion which have to be monitored, declared and accounted for. But one outstanding difference is that the UK scheme will not expand to international emissions before 2028. It is not clear when exactly the UK and EU want linkage to formally begin, and whether the maritime sector would be excluded until the time when the UK has fully caught up in scope. One other thing to note is that the EU has <u>just announced</u> a revision of its own ETS, which

flexibility: with emissions from that period (along with those from 2027) needing to be reported and accounted for by spring 2028. The respective environment agencies of the four devolved nations are responsible for regulating the scheme.

The UK government has also proposed expanding the scheme to cover emissions from international maritime activity from 2028. This would require operators to monitor and declare all of their emissions for voyages between a UK and non-UK port (in either direction), and to surrender ETS allowances for 50% of those emissions.

includes a proposal to expand the ETS for maritime to include ships of over 400 gross tonnage. The UK might thus be required, under any future linkage agreement, to follow the EU in including smaller vessels in its scheme - but this remains uncertain as the EU reforms are still subject to negotiation and any expansion of the maritime ETS is unlikely to occur before the start of the next decade.

5. ENVIRONMENT / TRADE

UK policy paper on deforestation regulations.

ISSUE	IMPACT
In June 2026, the UK government <u>published</u> a policy paper on its approach to deforestation regulations. It plans to introduce regulations, under the Environment Act 2021, requiring businesses to carry out due diligence to ensure that goods they handle are not contributing to deforestation. The goods in question are wood, cattle, cocoa, coffee, palm oil, rubber, soy, and ‘certain derived products like chocolate and furniture’. Businesses in Great Britain with an annual turnover of more than £1m will have to establish a system to ensure that any such goods which they handle are produced in compliance with local laws. This will include collecting geolocation data to prove the exact origin of specific goods. The government says explicitly that it wants to ensure its rules ‘operate consistently alongside the EU Regulation on Deforestation-free Products (EUDR)’, which also requires geolocation data. This is to ensure consistency with both the EU and Northern Ireland (which is subject to the EUDR) markets, so companies can use the same information to prove compliance with both the GB and EU/NI regimes, thus ‘avoiding duplication of business burdens and disincentives to trade’. Legislation for the UK regime is expected to be delivered in 2027. That means there is likely to be temporary divergence with the EU, given its deforestation regime will take effect from the end of 2026.	This is a notable case of the UK government voluntarily aligning with EU rules. As we have <u>written about previously</u>, voluntary alignment does not earn British firms privileged access to the single market, but it does avoid new passive divergence which could otherwise complicate trade due to differing rules and requirements on either side. The EU deforestation regulation has <u>proven controversial</u> among countries which export many affected goods (e.g. Brazil, India, Indonesia and the US) because of the heavy compliance burden it places on producers, in terms of geolocation and traceability requirements, which they argue many small-scale producers have no feasible means of meeting. Amid the controversy, the start date of the regulation has twice been delayed by a year. A UK decision to implement parallel legislation could upset those countries and potentially harm trading relations. Indeed, the United States, which has also been heavily critical of the EU regulation, <u>says</u> it has “strong concerns” about the UK’s plans, with its meat lobby stating it could make Great Britain “a more difficult market to serve”. The US government has also been pushing the EU to reduce the compliance obligations for countries classified as ‘low-risk’. Were the UK and EU minded to simplify their regimes, they could in theory try to do this in parallel via the TCA <u>specialised committee on technical barriers to trade</u>.

6. ENVIRONMENT / VEHICLES

Consultation on updated minimum emission standard.

ISSUE	IMPACT
In April 2026 the Department for Transport launched a <u>consultation</u> on updating the minimum standards for vehicle emissions to match the ‘Euro 7’ standards which will soon come into force in the EU. The ‘Euro’ regime sets maximum permitted emissions levels for certain pollutants and procedures for testing for those emissions. Great Britain is currently operating to ‘Euro 6d’ standards for light vehicles (cars and vans) and ‘Euro VI Step D’ for heavy-duty ones (trucks, buses and coaches). But the EU and Northern Ireland have since introduced stricter requirements (Euro 6e and Euro VI Step E) and will adopt new ‘Euro 7’ standards for light and heavy vehicles from 29 November 2026 and 29 May 2028 respectively. Euro 7 introduces new testing methods to capture the presence of smaller emissions particles; extends the length of time for which ‘durability’ and ‘lifetime compliance’ obligations last; and mandates the presence of onboard systems for real-time emissions monitoring. It also, for the first time, sets limits on emissions from brakes and tyres – which are <u>thought to be</u> the main source of particulate matter emissions – and introduces requirements for electric vehicles to have ‘minimum capacity retention thresholds’ and standardised, accurate battery health monitors. The UK government proposes introducing Euro 7 standards for both light and heavy-duty vehicles in Great Britain, following the same implementation dates as the EU. The changes would be made via statutory instrument.	The consultation <u>explicitly states</u> that one of the key objectives of adopting Euro 7 is to ‘implement the government’s commitment to align with EU type approval regulations where possible, to minimise and avoid regulatory divergence between Great Britain and Northern Ireland’. Avoiding divergence in technical standards simplifies processes for manufacturers serving the GB and EU/NI markets: as they do not need to seek separate approvals for each market. Vehicles stand out as perhaps the area where the government has made the most concerted effort to maintain voluntary alignment with EU regulations. This may reflect the high degree of dependence which Great Britain has on the EU as both an import and export market, and the high degree of integration with NI as an export market. The government also highlights the climate and environmental benefits of the changes. Stricter emissions limits contribute to improved air quality while the introduction of battery durability requirements, it is hoped, will support the transition to electric vehicles by building confidence in the second-hand market. Though the government seems intent on adopting Euro 7 requirements, it has not yet published its response to the consultation, which closed on 25 May.

7. SPS

The Windsor Framework (Retail Movement Scheme: Plant Health) (Amendment) Regulations 2026.

ISSUE	IMPACT
In late April 2026 the UK government <u>laid a statutory instrument</u> before Parliament to align Great Britain with new EU food import restrictions. From the autumn of 2026, the EU is, for pest control reasons, introducing new import controls on tomatoes and peppers and from Taiwan and Israel, and ginger from all non-EU countries. The statutory instrument introduces parallel controls for England, Wales and Scotland, taking effect from 15 October. SPS legislation is a devolved matter, and Defra says it developed the instrument with the Scottish and Welsh governments, securing the ‘relevant legislative consent’ from them.	The legislation has been brought in to maintain the functioning of the <u>Northern Ireland Retail Movement Scheme</u> (NIRMS), introduced under the Windsor Framework, which simplifies the process for exporting a range of retail goods from Great Britain to Northern Ireland. In many cases, goods which meet UK (rather than EU) rules are eligible for the NIRMS, if they can prove they are ‘not at risk’ of entering the EU. But in some cases (such as pest control) adherence to EU standards is necessary. UK alignment with the new EU import controls is thus necessary to allow the continued export of the relevant food items from Great Britain to Northern Ireland. The UK government <u>does not anticipate</u> any significant impacts on businesses, other organisations or the public sector from the rule change. Should the UK and EU finalise an SPS deal, this type of alignment would happen ‘dynamically’ (meaning the UK would be notified by the EU of the rule change and legally required to adopt it) rather than on the voluntary basis seen here.

8. DIGITAL & TECH

UK and EU social media restrictions for young people.

ISSUE	IMPACT
In June 2026, the UK government <u>announced plans</u> to ban social media for under 16s. Legislation is expected before the end of the year, and ‘the first set of regulations could be in effect in Spring 2027’. The UK will follow the same model as Australia, by banning under 16s from ‘user-to-user platforms’ including Snapchat, TikTok, YouTube, Instagram, Facebook and X (but not messaging services like WhatsApp and Signal). The government also intends to ban under 16s from accessing ‘harmful functions’ such as self-livestreaming and tools for communicating with strangers on a wider range of platforms, including gaming sites (with restrictions remaining on by default for under 18s); and to ban under 18s will from using ‘romantic companion’ chatbots. In July 2026, the government <u>announced</u> further plans for new default restrictions on 16 and 17 year olds’ social media usage: namely an ‘overnight curfew’ making apps unavailable to between 00:00 and 06:00; and the switching off of addictive features such as infinite scrolling and automatic video play. In both cases, 16 and 17 year olds users would be able to switch off the restrictions if they wish. In September 2026, the European Commission announced a ‘<u>Kids Act</u>’ which bans children under 13 from having a social media account, while those aged 13-14 will only be allowed to have ‘mini’ accounts, set up and supervised by guardians with limited features and screen	This represents convergence between the UK and EU, which are both taking active steps to limit young people’s access to social media, even if there are some differences in their respective policy proposals. In particular, the EU has gone further than the UK in introducing supplementary responsibilities for platforms to protect children online – such as the development of new safety plans – with President von der Leyen <u>stating that</u> “an age limit does not mean letting tech companies off the hook for the content on the platform”. There are a number of questions around the enforceability and effectiveness of blanket social media bans. It will require platforms to introduce age verification processes, but it is not yet clear how those processes will work. The UK government <u>says</u> Ofcom will set out options in the coming months. Some children’s charities <u>argue that</u> a blanket ban is the “politically easy route” but will not work in practice, as children can easily circumvent the ban, for instance by using VPNs. They argue government should instead have “compelled tech companies to change their business models and tackle product safety at source”. The Estonian government has made <u>similar criticisms</u> of the EU’s proposed ban. The Australian government implemented a social media ban for under-16s in December 2025. In March 2026 it <u>reported</u> that the ban had resulted in a ‘significant number’

time. Platforms will be obliged to conduct age verification either through the EU age verification tool or a third-party provider.

The act also obliges providers to ensure that all services designed for children do not have addictive design features (such as infinite scrolling and push notifications during sleep hours) and contain a range of 'safe' settings. Large online platforms (45 million+ monthly users) will have to newly prove that their services are safe for children ex-ante (rather than responding to concerns once they are raised) and have a compliance plan approved by the Commission for new services, features or functionalities before they can be rolled out.

of accounts being deactivated but that a 'substantial number' remained. Subsequent research by the University of Newcastle, Australia, found the ban to be suffering from 'limited implementation, incomplete compliance, and substantial circumvention'. Australian law requires platforms to take 'reasonable steps' to verify users' age (and can impose multi-million dollar fines for non-compliance) but does not prescribe the use of specific methods or technologies. The research found that the 'implementation of more stringent age verification strategies... may be needed to prevent circumvention and improve the effectiveness of the Act'.

9. SPS

EU approves rules on new genomic techniques.

ISSUE	IMPACT
The European Parliament has given <u>final approval</u> to new EU rules facilitating the use of new genomic techniques (NGT). Provisional agreement was <u>reached last December</u>, but the final agreement now kicks off a two-year transition period before the rules take effect in 2028. <u>NGTs</u> involve altering the genetic material of organisms. The new legislation will <u>create a distinction</u> between plants which have undergone ‘a limited number and type of changes that could have occurred through conventional breeding’ (NGT-1); and those which have ‘undergone more extensive or complex genetic modifications’ which could not have happened naturally (NGT-2). NGT-2 plants will remain subject to existing EU rules on genetically modified organisms. These <u>impose</u> stringent obligations around labelling, tracking, monitoring and risk assessment, which drastically limit their presence in the EU. NGT-1 techniques will benefit from looser obligations (e.g. <u>no risks assessments</u>, and no labelling for food and feed). All NGT-1-derived plant varieties will have to be listed in a public database, and all NGT-1 seed bags and reproductive material will still have to be labelled. NGTs of all kinds will remain forbidden in organic production except where it is ‘technically unavoidable’. The patenting of	As noted in previous trackers, this is a significant case of convergence, with the UK government having already legislated to liberalise the use of gene editing techniques in England. But there are some important differences between the UK and EU rules which could lead to complications down the line. Analysis by Jiyeong Go for the Centre for Inclusive Trade Policy <u>highlights</u> that the EU rules set a ‘numerical threshold’ on the level of modification which NGT-1 plants can undergo, whereas the UK has opted for a more ‘flexible’ definition of ‘precision bred’ organisms (as NGT-1s are called in the UK jargon) as those which ‘could have resulted from traditional processes’. There are also differences in the information required for the UK and EU’s respective public registers of NGT-1/precision-bred plants. This has implications for the UK-EU negotiations on an ‘SPS’ deal, which would require the UK to dynamically align with EU rules on animal and plant health, including – in theory – those related to NGTs. However, recent <u>guidance</u> from the UK government states that there are ‘ongoing negotiations’ regarding precision breeding rules, and the EU has ‘accepted there will need to be a number of areas where we need to retain our own rules’. This raises a number of questions. First, how far will the UK go in seeking to retain its own rules? Will the two regimes retain entirely distinct, or might there be some regulatory

harmonisation (e.g. of databases, definitions, or traceability and labelling rules) in order to minimise divergence as far as possible?

Second, what barriers to trade will be created by divergence in UK/EU rules and how might that be managed? Will plants precision-bred in England be permissible in the EU/Northern Ireland (and vice-versa), and will they have to complete border checks/declarations prior to export?

And third, what will happen in Scotland and Wales? Will they dynamically align to EU NGT rules? Replicate the regime in England? Or stick with the status quo (where there is no NGT-1/NGT-2 distinction), thereby diverging from both England and the EU/Northern Ireland? This has implications for the UK internal market, as the nature of the UK Internal Market Act could mean that Scotland and Wales have to accept precision-bred goods from England and Northern Ireland despite not being able to produce those goods themselves.

10. TRADE

Powers to protect the UK from adverse economic pressure.

ISSUE	IMPACT
In April 2026, the UK government launched a <u>consultation</u> on ‘potential powers to protect the UK from adverse economic pressure’. The context for the review is the rising global use of trade restrictions (a fivefold increase between 2015 and 2023), such as unexplained customs delays and ‘excessive’ inspections; the imposition of ‘arbitrary border procedures’ and additional duties and tariffs; threats to withdraw loans and investments; and state-backed boycotts. This, the consultation states, poses a threat to the UK’s ‘highly open and trade-dependent economy’, and asks whether the government should give itself new ‘trade defence’ powers to retaliate in ‘swift, proportionate and time-limited’ manner, as an act of last resort. It notes that, at present, the government can use a ‘range of options’ including ‘diplomatic engagement and dispute settlement, both under the WTO and our free trade agreements’ – but that these were not designed with ‘adverse economic pressure’ in mind. New measures could include ‘restrictions on the export or import of certain goods, services or investment flows to or from the pressuring state’.	The proposal bears great resemblance to the <u>EU Anti-Coercion Instrument</u> (ACI), which took effect in December 2023. Often referred to as the ‘trade bazooka’, it sets out a four-step framework of action for responding to cases of economic coercion: based on ‘examination’ of the case; ‘determination’ of whether coercion is occurring; ‘engagement’ to try and resolve the issue diplomatically; and, finally, ‘response measures of no resolution has been found. Some trade experts have questioned whether the UK seriously intends to use any new powers at its disposal. Former UK chief Trade Negotiator Crawford Falconer <u>suggests that</u> getting into a trade war with powerful countries like the US or China could do “more harm than good” and that the proposal is more about adopting a “macho posture”. Similar criticisms have been levelled at the EU ACI in the past, which is also perceived primarily as a tool of deterrence rather than action. It has – notably – not been utilised despite repeated recent threats of tariffs and other forms of coercion from the United States. Experts <u>note that</u> the Trump White House enjoys ‘escalatory dominance’ in a tariff war: as it is less worried about the impact of tariffs and therefore willing to inflict more damage in a tit-for-tat exchange. Trade defence measures are, in theory, an issue where the UK and EU could take coordinated action if they faced similar threats, but to date they have not done so.

11. CLIMATE

Seventh UK carbon budget.

ISSUE	IMPACT
In June 2026 the UK passed its <u>seventh carbon budget</u>: setting a legally binding limit on carbon emissions reductions for the period 2037-42. It sets a target to reduce emissions by 87% compared to 1990 levels – and constitutes a key step in its aim to reach net zero emissions by 2050. It will be the second carbon budget in a row to include international aviation and maritime emissions. The UK is <u>planning to</u> expand its emissions trading scheme to cover international maritime emissions from 2028.	Though the UK and EU are highly aligned in their net zero ambitions, it has been classified as divergence due to some small differences in their targets and the means by which they can be met. The UK, like the EU, is committed to reaching net zero by 2050. The EU has set a slightly higher <u>2040 target</u> of a 90% reduction in emissions – which the UK would have been subject to had it remained a member state. However, up to 5% of the EU target can be covered by international carbon credits – through which member states offset their own emissions through the financing of international climate projects. Carbon credits are controversial and have been <u>criticised</u> by the EU's own scientific advisory board for reducing incentives for member states to cut domestic emissions. The Climate Change Committee, an independent body which advises the government on its emissions targets, <u>described</u> the new UK target 'ambitious but achievable' and said it provides 'the long-term certainty that businesses, investors, and communities need to accelerate the transition away from fossil fuels'. However, it also <u>notes that</u> meeting the target will require 'significant reduction in emissions across sectors including surface transport, buildings, industry and agriculture' – with much of the underpinning policy action yet to be taken.

12. COMPETITION

Investigation into PayPal, Visa and Mastercard.

ISSUE	IMPACT
In May 2026 the UK Financial Conduct Authority (FCA) <u>launched an investigation</u> into a number of payment service providers for potential violations of the Competition Act 1998. PayPal is a digital wallet service within which users can hold a number of different digital payment cards. The FCA suspects PayPal, Mastercard and Visa (the latter two being the two dominant payment card providers) of entering into an agreement intended to restrict or distort competition by preferencing Visa and Mastercard payment options within PayPal wallets. The FCA is also looking into another potential breach of the Competition Act 1998 by Visa and Mastercard, for abusing their position of dominance within the payment card market. It will gather evidence before making a final ruling, which could lead to the imposition of fines (which can go as high as 10% of annual turnover) on the three companies. Separately, the Payment Systems Regulator (PSR), is <u>consulting</u> on proposals to oblige Mastercard and Visa to report on their financial performance, so the PSR ‘can better monitor and assess profitability over time’. The PSR recently <u>conducted a review</u> raising concerns that Visa and Mastercard’s ‘profit margins are higher than expected in competitive markets’ – pointing in particular to significant recent rises in processing fees.	The Financial Times has <u>described</u> the investigation as ‘a rare antitrust probe by the watchdog’. The FCA has only opened 14 competition law investigations since it was given powers to do so in 2015 – and only twice taken action. Moreover, it was last year given a ‘<u>strategic steer</u>’ by the government to effectively reduce its scale of interventions, ‘focusing on markets and harms that particularly impact UK-based consumers and businesses’. Generally speaking, the UK has taken a more hands-off approach than the EU in recent years to digital market interventions, especially in cases involving US companies. But payment systems is one area where it has held sustained concerns. In late 2023, the PSR <u>proposed</u> a cap on fees charged for cross-border online payments, after finding that Visa and Mastercard had significantly inflated the fees charged to UK businesses for processing online transactions made with EU-issued cards post-Brexit. This led to a strong backlash from both MEPs and European financial institutions, with Visa, Mastercard and Revolut filing a judicial review claiming it was damaging competition. The claim was <u>rejected</u> by the High Court in January but the PSR is yet to set out a formal plan for capping cross-border fees. The EU has not publicly indicated any interest in a parallel investigation into payment systems providers, or a similar cap on cross-border fees.

13. DIGITAL & TECH

Investigation into TikTok under the Online Safety Act.

ISSUE	IMPACT
In July 2026, Ofcom <u>announced</u> an investigation into TikTok over its compliance with obligations under the Online Safety Act. The Act imposes duties on social media companies to protect children from harmful content, through the use of ‘proportionate systems and processes’ including ‘age assurance that is highly effective’. Two Ofcom reports published in <u>May</u> and <u>July</u> raised concerns that TikTok is the platform where children are most likely to say they have seen harmful content, and that its ‘age inference’ processes (which analyse a user’s activity to determine whether they are a child) is failing to identify a significant proportion of children using the platform – thus leaving them at risk of exposure to harmful content. The investigation will look into whether there are ‘reasonable grounds to believe that TikTok has failed, or is failing, to comply with its legal obligations’. If it does ultimately find compliance failures to have occurred, Ofcom can impose fines of up to £18m or 10% of qualifying worldwide revenue (whichever is greater) and, in the most serious cases, order third parties (such as internet service providers) to withdraw their services from the platform. Ofcom says it will provide an update in October 2026.	These types of targeted investigations against tech companies have been made frequently by the EU (including multiple instances in this tracker) but only rarely by the UK. So this is a notable instance of case-based divergence: where Ofcom has acted and the Commission has not. The Commission has already ruled TikTok to be in breach of obligations under the Digital Services Act (the EU equivalent of the Online Safety Act) in relation to both <u>data transparency</u> and <u>harm to users’ physical and mental wellbeing</u> (from addictive design features). It has also <u>opened an investigation</u> into Meta for failing to adequately verify the age of users on Facebook and Instagram, but it has not (so far) formally looked into TikTok’s processes. More broadly, the UK and EU evidently share many of the same concerns about the safety of young people online (also reflected in their respective <u>proposed social media bans</u> for young people) and the failure of platforms to introduce sufficient safeguards. They could in theory seek to share information or conduct coordinated investigations in order to more effectively tackle some of these challenges.

14. FINANCIAL SERVICES / DIGITAL & TECH

Designation of four companies as ‘critical third parties’.

ISSUE	IMPACT
In July 2026 HM Treasury <u>announced</u> that four global cloud service providers (Microsoft, Google, Amazon and Oracle) would come under the direct oversight of three regulators: the Bank of England, the Prudential Regulation Authority and the Financial Conduct Authority. A <u>regulatory framework</u> took effect in January 2025 allowing the three regulators to designate providers as ‘critical third parties’ (CTPs) if the disruption or failure of their services ‘could threaten the stability of, or confidence in, the UK financial system’. CTPs are subject to enhanced oversight, in terms of ‘robust resilience standards’ they have to meet (such as enhanced disclosure requirements), annual-self assessments and other testing, and powers for regulators to intervene to raise resilience where necessary. Despite the framework taking effect at the start of last year, these are the first CTP designations to be established. And FCA survey from 2024 <u>found that</u> Amazon, Google and Microsoft combined provide 73% of UK cloud computing surveys to UK financial companies.	The action reflects the growing concern, across Europe, about the high level of dependence which critical services have upon US-owned cloud services and data centres. Last year, an outage at Amazon Web Services led to major banks’ services and the London Stock Exchange. The Financial Times <u>notes</u>, however, that the UK has opted for a ‘narrower’ approach than the EU, which acted faster and more comprehensively to last year impose direct regulatory oversight on 19 services providers (including Bloomberg, Accenture and IBM) under its equivalent legislation. The UK government <u>emphasises</u> that it is taking a ‘targeted and proportionate approach’ as part of a ‘rolling regime’ which may lead to further designations over time. As <u>covered elsewhere in this tracker</u>, the EU has taken further action under the Cloud and AI Development Act to try and reduce its dependence on US-owned cloud services and data centres by increasing EU-based capacity – though there are major question marks about the feasibility of this ambition.

15. FINANCIAL SERVICES

Revision of Prudential Regime for Cryptoasset Firms.

ISSUE	IMPACT
In June 2026 the Financial Conduct Authority (FCA) <u>announced</u> that it had ‘simplified’ some of the requirements under its forthcoming regulatory regime for crypto companies. Crypto assets were <u>brought into</u> the FCA’s remit under regulations passed in February 2026, with the first ever full set of rules set to take effect from October 2027. Consultations are ongoing on various aspects of the rulebook, and the FCA has now outlined its final set of proposals for the prudential regime, which sets rules around capital, liquidity and risk management to ensure that companies do not put customers or the economy at risk. It makes several changes to the original proposal to lighten the regulatory burden on firms. A revised market risk framework sets a ‘single’ requirement for all companies with crypto assets to have capital reserves covering 40% of their net risk position – dropping a previous requirement for 100% coverage for higher-risk assets. The level of additional capital required by issuers of stablecoins (crypto assets pegged to sovereign currencies) has been <u>halved</u>, from 2% to 1%. And smaller firms holding lower-risk assets will be exempted from having to disclose their capital requirements. The FCA is encouraging crypto firms to prepare for the upcoming regulations. They will be able to apply for authorisation between September 2026 and February 2027, allowing them to trade once the regime takes effect in October 2027.	The UK is lagging behind the US and EU in the development of a comprehensive regulatory regime for crypto assets, which is <u>seen to be</u> undermining its attempts to attract investment and innovation in the sector – as its future regulatory landscape is less clear. There has also been <u>criticism</u> from industry that the original rules in development were excessively onerous, with a <u>recent report</u> the House of Lords financial regulation committee stating that ‘there are key elements of the regime that witnesses were concerned by, and which diverge from major international jurisdictions’. The reforms moves the UK towards a lighter-touch, more industry-friendly position, though the law firm Pinsent Masons <u>notes that</u> ‘the UK continues to chart a distinct path’. In particular, the UK stands out for proposing two distinct regimes, with the Bank of England taking responsibility for stablecoins, while the FCA will cover all other crypto assets. This element has also <u>come in for criticism</u> from industry for adding regulatory complexity. The deregulatory shift also carries risks: in particular potentially making the UK an attractive destination for using crypto assets for illicit purposes.

16. PROCUREMENT

'Social Value Model' for procurement.

ISSUE	IMPACT
In August 2026 the UK government <u>announced</u> plans to reform public procurement rules by reducing the range of criteria which bidders have to meet when assessing the 'social value' of a project. A new '<u>Social Value Model</u>' will require applicants to prove they are meeting only two delivery outcomes ('good jobs' and 'skills') down from <u>eight previously</u>. A <u>set of criteria</u> for delivering these outcomes has been published, including: offering pay which is above statutory minimum wage; 'progressive remuneration policies' to reward and retain staff; access to trade union representation; and jobs which address barriers to entry for young people, skills shortages and help individuals progress their careers. For contracts worth £5m or more, the proportion of an applicants' score be based on 'social value' will also be increased from 10% to 20%, while the criteria have been dropped for contracts below £1m, which the government says will reduce the red tape burden on smaller firms. The reform is set to take effect from the start of 2027, and will apply to contracts issued by central government departments, their executive agencies and non-departmental public bodies.	The government <u>emphasises</u> that this is a simplification of the definition of social value to focus more 'ruthlessly' on jobs and skills over other criteria (such as net zero and environmental impacts, tackling domestic abuse and improving high streets). It also argues that its rule changes will help smaller and medium sized firms bid for contracts, because the existing social value criteria allow "certain players" to "really game the system" as they have become skilled in proving their eligibility across an "amorphous" set of criteria. Dr. Totis Kotsonis of the law firm Pinsent Masons has <u>highlighted</u> a potential tension with the UK's obligations under free trade agreements. For example, the TCA <u>ensures that</u> EU companies established in the UK cannot be discriminated against during procurement processes. Dr. Kotsonis notes the "potentially disproportionate burden [which] these [non-UK] suppliers may experience in satisfying from abroad these model award criteria, relative to domestic suppliers". He further notes that the government notice is "very clear that these social value rules may only be applied where a model award criterion... does not create unnecessary burdens for suppliers or barriers to participation, and does not discriminate against treaty state suppliers". That means there could be many instances where contracting authorities are unable to supply the social value criteria - or else potentially face legal challenge from EU/other non-UK applicants.

17. CHEMICALS

Ban on Bisphenol A in food packaging.

ISSUE	IMPACT
In July 2026, an <u>EU ban took effect</u> on the presence of the chemical Bisphenol A (BPA) in food packaging. The ban first took effect in early 2025, covering food contact materials (ranging from packaging to water bottles and kitchenware) as well as adhesives, rubbers, ion-exchange resins, plastics, printing inks, silicones, and varnishes and coatings. However, an exemption allowed ‘single and repeat-use final food contact articles’ (i.e. food and takeaway packaging) made before that date to continue being placed on the EU market until 20 July 2026. BPA will continue to be allowed in single-use packaging for preserving fruit, vegetables and processed fish products until 20 July 2028. Single-use items placed on the market before the relevant ban took/takes effect may still be ‘filled with food and sealed’ for a further 12 months after, and the resulting products can then be sold until stocks are exhausted. BPA is used on the interior coatings of food and beverage containers, to stop metal rusting and contaminating its contents. But BPA can also contaminate the contents and studies have found that it can alter immune response systems and increase risks of certain diseases.	This is one of a <u>growing number of cases</u> where the EU has introduced a restriction on a chemical substance which has not been replicated in the Great Britain. The ban applies in Northern Ireland under the Windsor Framework, and GB-based firms exporting to the EU/NI will be obliged to comply with the new EU restrictions.

18. CLIMATE

Revision of EU Emissions Trading System.

ISSUE	IMPACT
In July 2026 the European Commission <u>announced</u> proposals to revise its Emissions Trading System (ETS). The ETS creates a finite number of ‘allowances’ for carbon emissions in a range of heavily polluting sectors. Businesses have to buy enough allowances to cover their emissions – the price is set at auction – and the number of available allowances declines year-on-year, thus incentivising businesses to decarbonise rather than compete for ever-more-scarce allowances. The Commission has now proposed slowing the rate at which the number of available allowances is reduced, with an annual reduction rate of 3.7% between 2031 and 2035 (compared to 4.4% previously) and 1.7% from 2036. The rate was previously due to reach zero by 2039 (meaning industry would be expected to have reached net-zero emissions), but allowances are now expected to remain available for a good part of the 2040s. The pressure on allowances is further diminished by allowing companies, from 2036, to buy international carbon credits (which finance climate initiatives abroad) to offset an additional 2% of their emissions; while 250 metric tonnes of allowances which fund ‘domestic <u>carbon removals</u>’ (which remove CO₂ from the atmosphere) will also be made available. These in effect allow industry to pay to keep polluting if they run out of standard allowances. Another feature of the ETS is free allowances	The Commission <u>says</u> the reforms ‘will bring relief to industry’, by significantly reducing the pressure on them to reduce their carbon emissions. The slower reduction in allowances, coupled with the increased availability of free allowances and alternative credits, means EU industries will be able to pollute more, for longer. The reforms have <u>proven unpopular</u> with some countries in the EU including Spain, the Netherlands and the Nordics, who are concerned that it will both hinder the EU’s net zero transition and harm its reputation as an international climate leader. The Commission <u>argues</u> that it has made a compromise: by giving industry longer and more flexibility to pollute, but <u>requiring</u> member states to spend 50% of the revenues they raise at allowance auctions on investments to decarbonise ETS sectors. Some MEPs disagree, <u>arguing</u> that it “undermines the level playing field for the companies that have led the way by investing in ambitious climate action.” The reforms are subject to negotiation, meaning they could change significantly before final agreement, which the Commission hopes to reach in early 2027. The EU has a legal obligation to propose an extension to expand on its updated proposals for aviation and maritime emissions, if they do not deliver meaningful emissions reductions by 2032. There are also potential implications for the UK, which is in the process of negotiating

- which in effect subsidise emissions for businesses in the sectors which are hardest to decarbonise. An additional €6bn worth of free allowances will be made available for 2026-2030, and the final phase-out date for free allowances has been extended to 2038 (from 2034) for sectors which are covered by the Carbon Border Adjustment Mechanism.

In terms of sectoral coverage, the ETS will be extended to cover municipal waste incineration, with the regime to be phased in from 2031-2034. Coverage of aviation emissions will be extended to outbound flights which land up to 5,000km away from the EU (Frankfurt airport, to be precise) and all inbound and outbound private jets. At present, the ETS only covers flights within the EEA. The reform, notably, means that commercial flights to the US and China will remain exempt from the ETS. The ETS for maritime emissions could also be extended to cover emissions from cover smaller ships over 400 gross tonnage (GT), up from the current limit of 5,000 GT, with a feasibility report due by the end of 2031.

with the EU to link their respective ETSs (so UK and EU-administered allowances could be traded interchangeably and the two sides would be exempt from each other's carbon border levies). The UK-EU Common Understanding states that linkage should incorporate the maritime and aviation sectors, and the UK could thus have to reform its ETS over time to match the EU's expansions in sectoral coverage.

Another matter for the linkage negotiations is the approach to free allowances. If one side offers greater subsidies to industry, via free allowances, than the other, this could distort the level playing field within the ETS market. The UK has so far taken a more liberal approach to free allowances than the EU, but it may now be concerned that the EU's reforms would give its industry a competitive advantage over British firms.

19. CLIMATE

Council agrees on expansion of CBAM to downstream products.

ISSUE	IMPACT
In June 2026 the European Council <u>agreed</u> to expand the EU Carbon Border Adjustment Mechanism (CBAM) to cover a range of ‘downstream’ products made of aluminium and steel. Under the EU emissions trading scheme (ETS), a range of materials (such as aluminium, cement, electricity and steel) must pay a tariff on every unit of carbon emitted during their production. The CBAM aims to ensure this does not, in turn, incentivise EU businesses to import cheaper, more carbon-intensive raw materials from third countries where no such carbon pricing regime exists. It does this by levying an equivalent tariff on imports of ETS-covered materials at the border. The near-exclusive focus of the CBAM on raw materials, however, means that ‘downstream’ goods, which contain a significant proportion of materials like steel or aluminium, are in effect able to circumvent the CBAM regime. Thus, late last year the Commission <u>announced</u> plans to extend the CBAM to 180 downstream goods containing a significant proportion of steel/ aluminium (mostly industrial supply chain products as well as some household goods and appliances). The Council has now proposed adding a further 200 goods to the list, with an <u>estimated</u> annual import value of €160bn. The proposals are now subject to negotiation between the Council and Parliament (whose Committee on Environment, Climate and Food Safety has <u>proposed</u> an even wider expansion in scope), meaning the extent of the CBAM expansion is still to be determined.	<u>Analysis</u> by the think tank Bruegel shows that the proposals would significantly increase the trade impact of the CBAM. It finds that, in its current form, the CBAM covers 4% of total EU imports, and this would increase to 7% under the Commission’s proposals and 9% under the Council’s. The United States would see the biggest proportional increase in its exports covered by the CBAM: rising from 1% under the current regime to 4% under the Commission’s plan and 9% under the Council’s (increases of 241% and 477% respectively). Japan and China would each see a lower but still very significant increase of around 300% under the Council’s proposals, with their overall level of coverage (13% and 11% respectively) remaining higher than the US’s (9%). Calculations were not done for the UK but it will likely see some increase in coverage too (though it will be exempted from the EU CBAM if and when negotiations on <u>ETS linkage</u> are completed). The reform could prompt the UK to consider imposing parallel restrictions on downstream products, to protect its own industry. Indeed, the EU could in theory also insist on this as a condition of ETS linkage – as otherwise <u>there is a risk</u> that downstream goods could circumvent the EU CBAM by first entering the UK and then passing into the EU without any additional controls). Some countries, such as Mozambique, which are heavily dependent on the EU as an

aluminium export destination, have raised concerns about the restrictions this will place on their trade, arguing that they should instead be supported with finance to help decarbonise their domestic industry.

Bruegel argues that the proposals come at a 'particularly sensitive moment' for the EU's international trade relations, which have 'already been strained by the strengthening of trade protection for the steel industry and the proposed 'Made in EU' requirements under the Industry Accelerator Act'. It proposes that the coverage of downstream products should be limited to those goods with a 'sufficiently significant share' of embedded carbon; and that the EU should enter into 'dialogue' with developing countries to find equitable solutions to compliance challenges - including not imposing 'punitive' default tariffs when importers cannot provide emissions data.

20. COMPETITION

Review of merger guidelines.

ISSUE	IMPACT
In April 2026 the European Commission <u>published</u> a draft set of merger guidelines. This would replace the existing rulebooks on ‘horizontal’ (between companies that supply similar products/services) and ‘non-horizontal’ mergers, published in 2004 and 2008 respectively, with a new, single framework. Under the draft text, the central legal test for approving a merger – ensuring that it does not impose a ‘significant impediment to effective competition’ (SIEC) – remains in place. However, the criteria that constitute effective competition have been expanded. For example, it <u>proposes</u> giving ‘adequate weight to scale, innovation, investment and resilience’ as ‘factors that can benefit from a degree of consolidation’; and to consider potential ‘dynamic efficiencies’ (such as enabling economies of scale or combining scarce assets or capabilities), which go beyond the traditional metrics of cost savings and quality improvements, as grounds for approving a merger. It also introduces a <u>distinction</u>, when assessing mergers between ‘direct effects’ (on existing products and market structures) and ‘dynamic effects’ (firms’ ability and incentives to invest and innovate, and on future product market competition’); and introduces new ‘theories of harm’ for undertaking assessments, such as ‘loss of investment and expansion competition’, ‘loss of innovation competition’, ‘entrenchment of a dominant position’, and ‘loss of potential competition’. These all give the Commission	The new guidelines are an <u>explicit response</u> by the Commission to the “external chaos” of the international economy – where states like China and the US are giving significant backing to major industries in key sectors. The proposals <u>seek to</u> ‘modernise the way the Commission assesses mergers to reflect today’s changed geo-political and trade context’, in which ‘industrial scale and global competitiveness’ have become more important. This is, in effect, a plan to allow larger-scale mergers which help EU firms ‘to reach the necessary size to compete’ in global markets. The 2024 <u>Draghi Report</u> highlighted the lack of new EU companies ‘rising up to disrupt existing industries or develop new growth engines’ and Ursula von der Leyen has subsequently <u>called for</u> a “new approach” on competition that is “more supportive of companies scaling up in global markets” – with the expectation the Commission will put more effort into backing ‘European champions’. At the same time, the core legal principles of the EU’s merger regime <u>remain in place</u> – centred on an assessment of whether a merger is likely to lead to an SIEC – only with slightly more flexibility in the mode of assessment. The impact of the new rules will depend on how the Commission exercises these new flexibilities, and there could be a tension between twin imperatives to both support ‘European champions’ and protect EU consumers from mergers which could negatively impact the cost or quality of goods and services.

greater flexibility in the ways that it can choose to approve or reject a merger.

Some more specific benchmarks are established for when an SIEC should be considered to have occurred: such as when the merging parties' combined market share is below 25%; or below 50% when the market is considered to be of low concentration (this is measured using an 'HHI index') and therefore less susceptible to dominance by a few firms.

The Commission ran a public consultation on the draft text until late June, and is set to finalise the review process in the last quarter of this year.

21. CONSUMER RIGHTS

Reform of air passenger rights.

ISSUE	IMPACT
In June 2026, the European Council and Parliament <u>reached an agreement</u> on an updated package of rights for air passengers. This puts into final form a package of reforms which was first proposed over a decade ago, and which has been subject to strenuous negotiation in recent months (as outlined in a <u>previous tracker</u>). There are slight changes to the amount of compensation which passengers can claim for delays. All passengers who experience a delay of three hours or more on a long-haul flight (over 3,500km) will now be entitled to €600 of compensation (subject to eligibility rules outlined in the opposite column). At present, this level of compensation kicks in at four hours, with an entitlement of €300 for delays of over three hours but under four hours. Airlines still do not have to pay compensation in ‘extraordinary circumstances’ beyond their control, but a new ‘non-exhaustive’ list of such circumstances has been agreed to help clarify the concept, while airlines will now have to provide passengers with a ‘clear, substantiated and easy-to-understand explanation’ if they reject a compensation claim on such grounds. Passengers also gain new rights to compensation if their flight is cancelled under 14 days before departure; and to be offered an alternative route within three hours of a flight cancellation (or else be able to organise their own rerouting and claim up to 400% of the original ticket price). The package introduces new obligations for airlines: to include the cost of taking on hand baggage in advertised prices;	The agreement represents something of a victory for the European Parliament, which has successfully resisted Council <u>proposals</u> to increase the length of delay before passengers can claim compensation and reduce the level of compensation available; while also some of its other <u>suggested amendments</u> were incorporated in full or part. The updated rules will have a significant effect on UK airlines and UK travellers, as they apply to any passenger who is: flying within the EU (on any airline); into the EU on an EU airline; or out of the EU on any airline. This will create some divergence with the UK’s <u>compensation scheme</u>, which is derived from the EU’s. Passengers travelling between the UK and a non-EU country (or flying into the EU on a non-EU airline) would not be entitled to the enhanced package of rights under EU law. That means, for instance, that someone travelling to the US would receive lower compensation for a delay of between three and four hours if their flight takes off from London (£260) rather than Paris (€600).

to allow families and those accompanying people with reduced mobility to sit together at no extra cost; and preventing them from denying boarding to passengers who did not take their outbound flight. People with reduced mobility gain new rights, including to claim compensation when airports do not provide sufficient assistance and to travel with their necessary equipment without paying for extra insurance.

The package also clarifies that, in cases of delays, passengers are entitled to refreshments every two hours; a meal after three hours (and every five thereafter); internet access and two phone calls; and free hotel accommodation including transport to and from it (where an overnight wait is necessary). Airlines will be obliged to inform passengers, within 96 hours of arrival, when they are entitled to claim delay compensation, including 'clear instructions on how to submit a request for compensation'. They must also immediately acknowledge the receipt of a claim and pay the compensation (or offer clear grounds for refusal) within 30 days.

The rules must be formally adopted by the European Parliament and Council, and are expected to take effect from mid-2027.

22. CONSUMER RIGHTS / COMPETITION

Passenger Package for rail travel.

ISSUE	IMPACT
In May 2026, the European Commission <u>announced</u> plans for new rules to simplify the booking of long-distance, cross-border train travel in Europe. The ‘Passenger Package’ aims to make it possible for travellers to book all their rail tickets from a single platform, rather than having to buy separate tickets from different rail companies for each individual leg. <u>This will be done</u> by obliging railway operators to make their tickets available to online ticketing platforms - meaning that those platforms can, if they wish, offer customers a single, integrated ticket comprising multiple legs from different rail companies. In addition, ticketing services belonging to railway companies and with a market share of more than 50% in a country will be obliged to display all available options when a customer searches for a journey - including services operated by rival companies (and they must also sell tickets for rival routes, if the company requests it). Meanwhile, ticketing platforms will be obliged to display options in a ‘neutral and transparent manner’ so as not to favour certain companies. The new single tickets must also offer full protection rights to passengers, even when the legs are not all operated by the same rail company. So, if a passenger misses their connection between two trains operated by different companies, they will have the right to be reimbursed or re-routed without buying	The Commission <u>says</u> it is taking action due to a lack of transparency in the rail ticketing market, where ‘the most important and visible online ticketing services are owned by rail operators, who have an incentive to limit the visibility of their direct competitors’. It hopes this will allow smaller businesses to better compete in the rail ticketing market which, in turn, could mean cheaper fares for travellers - who should also benefit from greater clarity about their options, a simplified booking experience, and stronger consumer protections. The new package will not cover journeys to and from the UK, given it is not subject to EU law, meaning passengers on those trips will not be able to benefit from the ‘single ticket’ booking option or the enhanced protections it provides. That said, Eurostar is part of the ‘<u>Railteam alliance</u>’ with a number of EU high speed rail operators, under which passengers have a right to take the next available train, free of charge, if they miss a connection between two Railteam-operated services. This does not cover connections between the Eurostar and UK high-speed rail services.

a new ticket; to claim necessary assistance such as meals or overnight accommodation; and to claim compensation for the overall delay across the journey (with liability falling on the company which caused the delay). Currently, those rights are only available to passengers whose entire journey is with the same rail company, or with multiple companies who cooperate on 'through-ticketing'.

23. DIGITAL & TECH

Tech Sovereignty package: Cloud and AI Development Act.

ISSUE	IMPACT
In June 2026 the European Commission <u>announced</u> a new ‘Tech Sovereignty package’, aiming to bolster the EU’s ‘digital autonomy’ through two new legislative proposals. The first, and most significant, of these is the <u>Cloud and AI Development Act</u> (CADA). The CADA aims to grow the EU’s cloud and data centre capacity, to reduce dependence on foreign (mainly US) providers. <u>Cloud services</u> are used by companies to store data outside of their own premises, and European companies are <u>highly dependent</u> on three US firms (Amazon, Google, Microsoft) which hold a 70% market share. <u>Data centres</u> house the resources (like routers, servers and storage systems) required to run digital services – and growing use of AI in particular is set to lead to a rapid increase in demand. Europe currently has <u>half the data centre capability</u> of the US. The Act consists of three pillars. The first seeks to provide funding for research, development and innovation in cloud and AI technologies. There will be a particular focus on developing resource-efficient technologies, given the huge energy demand of AI. Data centres’ demand for energy is <u>estimated</u> to have doubled globally between 2022 and 2026. The second pillar focuses on increasing data centre capacity in the EU, by creating the conditions for attracting new investment, <u>with the aim</u> of tripling capacity in 5-7 years. In late July the Commission <u>launched a call</u> for tenders to build up to seven ‘<u>AI gigafactories</u>’	The CADA is the most high-profile and substantively new element of the Tech Sovereignty package. It gives the Commission significant powers to block foreign cloud service providers’ access to critical EU infrastructure. The main concern is with stopping hostile foreign powers from accessing sensitive information or suddenly shutting off users’ services. It has potentially significant implications for US cloud services which currently dominate the EU market. In theory, US companies could be excluded from all ‘assurance levels’ except level 1. Levels 2 and 3 (covering an <u>estimated</u> 29% of the EU market, with another 1% being level 4) exclude providers from companies which operate ‘kill switch’ requirements, which the US <u>used last year</u> against an International Criminal Court judge who issued an arrest warrant for Benjamin Netanyahu. Yet the Commission will have a large degree of discretion over which countries qualify for levels 2 and 3, and the Commission <u>has been</u> pains to emphasise the fact that the CADA is not designed to exclude US firms. This is reflected in <u>public utterances</u> as well as the CADA seemingly having been deliberately designed to mirror the US’s own ‘FedRamp’ system, and to leave open the possibility of US inclusion as an associated third country (given it has an EU adequacy decision). There thus appears within the CADA a tension between augmenting EU autonomy on the one hand and preserving transatlantic relations on the other.

(to house processors, software and cloud technology stacks, high-speed connectivity and energy-efficient data centres) with €10bn of EU and national funding made available. The gigafactories are expected to begin operations within 18 months of contracts being awarded in early 2027.

The third, and most significant, pillar focuses on ‘autonomy’. It establishes an ‘EU-wide assessment framework’ for determining the risk level of different activities that concern ‘public order’ (e.g. national security, internal security, external border management, defence, justice or law enforcement), based on the ‘sensitivity, criticality and magnitude of personal and non-personal data processed in cloud environment’. Activities will be grade with an ‘assurance’ level ranging from 1-4, with corresponding requirements around where cloud-based services can be procured from.

At level 1, the cloud provider must process and store data in the EU. If that provider is controlled by a third country, it must provide assurances that it is under no legal obligation to report information on software vulnerabilities to those authorities. At level 2, providers must also prove that the third country cannot access the data being hosted or suddenly use a ‘kill switch’ to turn off services. At level 3, they must not be subject to the control of a third country or third country-based legal entity. And at level 4, they must also demonstrate that their components and products are not under third country control. Levels 2-4 require third-party auditing.

Cloud service providers which do not meet these criteria may still be contracted if ‘no adequate or reasonable alternative or comparable cloud computing service exists’. Providers from ‘associated third countries’ will be eligible for providing level 3 services. To gain ‘associated’ status, the country in question must have a data adequacy agreement with the

Writing for the Centre for European Reform, Zach Meyers notes that the CADA will mostly be implemented by member states, meaning that ‘many may choose to buy American’, while others may opt to choose a domestic provider over European competitors, ‘which would lead to European cloud companies needlessly missing out on scale’. He also notes that compliance with level 4 necessitates ‘significant work’ to remove all non-European controlled hardware, which could impose ‘disproportionate cost’ on European firms; and that large US firms could find it easier to meet CADA requirements (for instance by using encryption technologies and joint ventures with EU firms) than smaller European firms.

He further argues that a successful European strategy will require not only ‘mitigating dependencies’ on foreign providers but also ‘strengthening Europe’s own... technological capabilities’ by specialising in particular ‘disruptive’ technologies which other countries, including the US, depend upon. This leverage would minimise the risk of hostile tech-related disruption by third countries (a similar point is made by Bruegel about the need to create ‘reciprocal dependencies’).

The UK would likely be considered an associated third country under the scheme, and the CADA could also be looked at with interest by the Andy Burnham administration. His team reportedly wants to develop a less ‘US-centric’ approach to tech and AI regulation with a greater focus on regulatory sovereignty, including “making sure that 100 per cent of data centres aren’t owned by foreign companies.”

Yet some have questioned the realism of that ambition, with Mehren Gul arguing in the Financial Times that ‘data centres do not constitute sovereign AI capability’ because, even if you build the centres at home, the hardware that powers them will be

EU and not have measures in place enabling it to access non-personal data protected under the EU Data Act or to activate a kill switch.

Alongside the legislative proposals, the Commission has announced an 'Open Source Strategy' and 'Strategic roadmap for digitalisation and AI in energy'. The former aims to increase the uptake of EU-based 'open-source' (i.e. collaboratively maintained) systems in critical domains (including operating systems, cloud, AI, cybersecurity, software development infrastructure, semiconductors and future internet architectures); by cataloguing existing ones and promoting the uptake and development of new ones across society. The latter, largely amounting to a statement of intent, aims to 'accelerate the rollout of digital solutions, including European sovereign AI solutions, in areas that are important for the decarbonisation process, such as electricity grid optimisation, energy efficiency in buildings and industry, and demand-side flexibility'.

overwhelmingly US-made - and countries therefore have to make accommodations to US interests in order to obtain the necessary supplies. As Gul puts it: 'Data centres do not guarantee strategic autonomy so much as offer a strategic bargain: access to frontier compute in return for geopolitical alignment.'

24. DIGITAL & TECH

Tech Sovereignty package: Chips Act 2.0.

ISSUE	IMPACT
In June 2026 the European Commission <u>announced</u> a new ‘Tech Sovereignty package’, aiming to bolster the EU’s ‘digital autonomy’ through two new legislative proposals. The second of these is the <u>Chips Act 2.0</u>. The original Chips Act, <u>unveiled in 2022</u>, aimed to ensure security of supply for microchips (also called semiconductors) which are integral to the production of many advanced technologies. The Covid-19 pandemic had led to a slowdown in global production, highlighting the EU’s overdependence on US and Asian manufacturing capacity. The Act aimed to double the EU market share of chip production to 20% by 2030, by mobilising over €50bn in public and private capital investment and faster permitting processes for construction facilities. Yet the Commission <u>notes that</u> ‘the EU remains dependent on third countries’ for chip production (with its 20% target for 2030 <u>well off track</u>). The updated Act seeks to strengthen research and innovation capabilities through international partnerships, ‘Grand Challenges’ to support industrial development’, and an increased focus on research and skills development. It aims to stimulate demand through ‘Demand Accelerators’ which ensure products are ‘aligned with industry needs and reach the market more quickly’ and public procurement processes which prioritise EU-based production. It aims to boost supply by enabling state aid funding for ‘First-of-a-Kind’ projects	The new measures reflect the failure of the original Chips Act to rapidly accelerate European chip production. The EU still does not have an advanced chip manufacturing centre, with Intel in 2024 <u>abandoning</u> plans to build a major site in Germany due to financial issues. But it is questionable whether the EU can hope to meet its manufacturing ambitions by doubling down on the original plan. Although the Chips Act has leveraged new capital investment, it is <u>dwarfed by</u> the sums on offer from the US government. The think tank Bruegel <u>points out</u> that Europe also lacks the wider ecosystems and expertise necessary to grow at scale. Chip manufacturing relies on long, complex supply chains, which Asian economies have built up in dense locations over decades, but which are lacking in Europe. Moreover, there is a small talent pool of experienced engineers centred in Taiwan and Korea, which European firms cannot access. And even where the EU to successfully build its own supply chains, European products would cost far more than those made elsewhere. Bruegel <u>argues</u> that ‘pursuing self-sufficiency across the chip value chain risks repeating the Chip Act’s central mistake: dispersing scarce public resources in a bid to achieve unattainable targets.’ It suggests that the EU should instead pursue a strategy of ‘sovereignty through indispensability’ by cornering the market for certain ‘inputs, capabilities or chokepoints’

not yet present in the EU and designated 'projects of strategic importance'.

A new 'Business-to-Business Semiconductor Supply Chain Platform' is being set up to help industry improve their resilience to supply disruptions, and the Commission will issue guidance to sectors at risk of supply disruption on how to conduct risks assessments and adopt risk mitigation measures.

The Act also gives the Commission new powers to address supply shortages in critical sectors. It will be able to 'demand production and disruption data' from companies in the supply chain (with fines of up to €300,000 for non-compliance); override existing contracts with manufacturers, obliging them to prioritise orders of 'crisis-critical products'; and act as a central buyer for multiple member states, if they are facing severe shortages.

which are vital to global supply chains. This would create 'reciprocal dependence: when others need European inputs, they acquire their own commercial interest in keeping Europe stable, supplied and integrated into the global system.' Similar critiques have been made about EU plans to reduce dependencies on third countries for cloud computing and data centres.

The CEO of ASML, an EU company which makes machines for chip production, argues that it makes little sense to build chipmaking capacity in Europe because most of the demand for the products would be in the US: "so then you'll be in a situation where Europe subsidizes a big project and the output of this project goes somewhere else." Most EU semiconductor demand currently comes from automotive and industrial sectors, which do not require the most advanced chips. He argues that the EU first needs to create greater demand for chips, i.e. through boosting uptake of AI and related technologies.

The UK lacks a comparable semiconductor strategy. The last notable policy paper was published in 2023. It primarily set out a vision and summarised existing actions.

25. DIGITAL & TECH

Ruling against Meta for breaching Digital Services Act.

ISSUE	IMPACT
In April 2026, the European Commission <u>issued</u> a preliminary ruling against Meta for breaching the Digital Services Act (DSA) by failing to prevent children under the age of 13 from using its Instagram and Facebook services. The DSA requires companies to ‘diligently identify, assess and mitigate the risks’ of their platforms to minors. Meta’s terms and conditions state that 13 is the minimum age at which Instagram and Facebook can be accessed safely, but the Commission takes the view that Meta’s measures for enforcing this age restriction are not effective: It highlights that users can input a false date of birth when creating an account, with no further checks, and finds the tool for reporting the presence of minors on the platform to be ‘difficult to use and not effective’, with ‘no proper follow-up’ in many cases. It further finds risk assessment processes to be ‘incomplete and arbitrary’, disregarding ‘readily available scientific evidence’ about the likely presence of under-13s on the platform. The Commission stipulates that Instagram and Facebook should strengthen their measures for preventing, detecting and removing children under 13 from the platform; and change their methodology for evaluating the risks their platforms pose to minors – while effectively countering and mitigating those risks. As this is a preliminary ruling, Meta will have a right to respond before the Commission reaches its final decision. If the ruling is upheld, Meta will have to undertake behavioural remedies and could be fined up to 6% of its worldwide turnover.	This is one of a mounting number of cases where the EU has <u>taken action</u> against big tech platforms for failing to comply with DSA obligations to keep users safe. It is also <u>planning</u> to introduce an EU-wide age verification app to better enforce age restrictions. The UK government has expressed similar concerns about the harms posed to young people by social media, but has not undertaken as many individual interventions against companies using its Online Safety Act (the UK equivalent of the DSA). It has, however, opted for a blunter tool by committing to <u>introduce a ban</u> on the use of social media by under-16s, aiming to bring it into place from spring 2027 (this is discussed in more detail in <u>another entry</u>). The European Commission has since announced <u>similar plans</u>.

26. DIGITAL & TECH

Ruling against Meta for breaching Digital Services Act.

ISSUE	IMPACT
In July 2026 the European Commission <u>issued</u> a preliminary ruling against Meta, finding the ‘addictive design’ of its Instagram and Facebook platforms to be in breach of its Digital Services Act. Specifically, it found that Meta has failed to fulfil obligations to adequately assess risks to the physical and mental wellbeing of users stemming from design features ‘such as highly personalised recommendations, autoplay and infinite scroll’. The Commission asserts that these features ‘fuel the user’s urge to keep scrolling and shift the brain into ‘autopilot mode’, contributing to unhealthy habits and compulsive use’. It also found that Meta disregarded ‘available information’ about the risks of excessive usage among young people. In addition, the Commission contends that Meta ‘failed to effectively tackle the risks stemming from its addictive design’: as its time management tools ‘can be easily dismissed and do not lead to a meaningful reduction’ in usage; while parental controls are ‘only effective if parents and guardians possess adequate technical expertise’ and ‘devote effort and time’ to understanding them. Meta now has a right of response before the Commission issues a definitive ruling. If its preliminary findings are upheld, it can impose a fine of up to 6% of annual worldwide turnover and demand behavioural remedies.	If the ruling is upheld, this could lead to divergence between the UK and EU, with Meta’s platforms including fewer addictive design features in the EU. Alternatively, Meta might opt to introduce the changes globally, meaning they would also take effect in the UK. The EU and UK are aligned in their concerns about the addictive design of social media – and in particular its impact on young people. But, whereas the Commission has opted to open specific interventions against tech companies (see also a separate investigation into age verification measures), the UK is instead prioritising a blanket ban on young people’ access to social media (which the EU also planning similar measures). There is an open debate about which is the more effective approach, with critics of age restrictions on social media usage arguing that it takes responsibility away from social media companies to ensure the safety of their platforms. In contrast, targeted interventions such as the one undertaken here by the Commission are more likely to lead to changes in platform design and user experience.

27. DIGITAL & TECH

Interim measures imposed on Meta for antitrust breaches.

ISSUE	IMPACT
In June 2026 the European Commission imposed <u>'interim measures'</u> on Meta, requiring it to restore access to WhatsApp for rival AI companies. As covered in a <u>previous tracker</u>, last December the Commission opened an antitrust investigation into Meta for preventing companies from using any AI chatbots other than Meta's own 'Meta AI' to communicate with customers via the 'WhatsApp Business Solution' tool. It considered this a potential abuse of a dominant position in the consumer communication market, which prevents fair competition. Though the investigation is yet to conclude, the Commission has decided that 'interim measures are warranted to prevent serious and irreparable damage to competition in the growing market for general-purpose AI assistants'. It thus ordered Meta to re-instate access for third party AI assistants, free of charge, until the Commission has come to its final decision. Meta had five days to introduce the change. If the Commission ultimately rules than a breach of antitrust rules has occurred, it can impose a fine of up to 10% of annual turnover.	The practical consequence of this ruling is a differing experience for businesses in the EU compared to the rest of the world (including the UK), with EU businesses able to use AI assistants other than Meta AI to communicate with customers via WhatsApp. This is one of a number of interventions in this tracker made by the Commission against Meta - highlighting the more interventionist approach the EU has taken against US big tech for perceived threats to both user safety and fair competition. Meta has <u>accused</u> the Commission of 'regulatory overreach' and the US government last year <u>complained</u> about what it sees as targeted attacks by the EU against US firms.

28. DIGITAL & TECH

AliExpress fined for breaching Digital Services Act.

ISSUE	IMPACT
In June 2026 the European Commission <u>issued</u> a <u>fine</u> of €550m to the e-commerce platform AliExpress for breaching its Digital Services Act (DSA) by failing to ‘assess and mitigate risks relating to the sale of illegal, unsafe or counterfeit products’. The Commission found that many illegal products ‘from counterfeit products to unsafe toys and dangerous cosmetics, circulated on the platform and, even if detected, remained online for multiple weeks’, and that AliExpress did not properly implement its penalty process for the sale of illegal goods. It also found that the company overestimated the effectiveness of its system for detecting and removing illegal products; implemented product compliance checks which could easily be circumvented; and did not adequately assess how its recommender and advertising systems exacerbated the spread of illegal products. Alongside the fine, AliExpress has to submit an action plan by October 2026, outlining how it will remedy the breaches and assess and mitigate risks.	The €550m fine is the <u>biggest ever</u> imposed under the Digital Services Act, which came into force in 2022 and is designed to combat a wide range of online harms, including the sale of illegal and potentially harmful goods. That said, the fine only represented 1% of the global annual revenue of the parent company, Alibaba, whereas it could have gone as high as 6%. AliExpress is the <u>largest</u> Chinese online retailer in the EU, with 193 million users. From a divergence perspective, the case is notable as another case of the European Commission being more active than the UK in using its powers to address harms and market abuse caused by tech companies. Most of these interventions have been against American companies, whereas Alibaba is Chinese. The Commission has also recently issued a fine against another major Chinese e-commerce site, Temu, for its own breaches of the DSA, which is covered in the <u>next entry</u>. It is also notable because tackling the sale of unsafe goods via online marketplaces is one of the areas where the UK government has previously <u>expressed interest</u> in maintaining unilateral alignment with the EU. Yet it has not opened an equivalent investigation, or mirrored <u>other EU actions</u> such as imposing duties on low-value imports to try and reduce the sale of cheap, potentially illegal goods via sites like AliExpress and Temu.

29. DIGITAL & TECH

Temu fined for breaching Digital Services Act.

ISSUE	IMPACT
In May 2026, the European Commission <u>fined</u> the e-commerce site Temu €200m for breaches of the Digital Services Act. It found that Temu ‘failed to diligently identify, analyse, and assess the systemic risks of illegal products being offered on its platform and the resulting harm to consumers in the European Union. It stated that consumers are ‘very likely’ to encounter illegal items on Temu, and that the company’s risk assessment falls short of the DSA’s requirements: due to lacking in specific evidence; seriously underestimating the risk of exposure to illegal products; and inadequate assessment of how its recommender and advertising systems could amplify the sale of illegal goods. Alongside the fine, Temu had to submit an action plan by late August outlining the measures it will take to remedy the breaches.	This case is very similar to the fine issued to AliExpress, outlined in the <u>entry above</u>, underlining how the EU is taking more action than the UK to combat the sale of illegal goods online.

30. DIGITAL & TECH

Google fined for two breaches of Digital Markets Act.

ISSUE	IMPACT
In July 2026 the European Commission <u>ruled</u> that Google had committed two breaches of the Digital Markets Act (DMA), fining it €890m. The DMA aims to prevent companies with positions of dominance within particular digital markets (they are referred to as ‘gatekeepers’ under the act) from engaging in anti-competitive practices. In a first ruling, the Commission found that Google’s Search tool gives preferential treatment (in terms of higher position and ‘enhanced visuals and filters’) to a range of Google services (including shopping, hotels and transport) over those of third parties – breaching its obligations under the DMA to be ‘transparent, fair and non-discriminatory’. It issued a fine of €460m. In a second ruling, the Commission found that the ‘Google Play’ app store imposes high and long-lasting ‘steering-related fees’ which prevent app developers from freely communicating to customers about ‘alternative, often cheaper, offers’ for their services on alternative websites or app stores. It issued a fine of €430m. The Commission has ordered Google to take action to address the breaches and notes that, ‘after a constructive dialogue, Google has proposed and started testing changes’ to both its search results and steering terms. It deems these actions to respectively constitute ‘substantial’ and ‘good’ progress, and it will continue to monitor their implementation.	This concludes a <u>long-running process</u>, with the Commission first notifying Google of its investigations in March 2024, with a preliminary ruling issued in March 2025. The Commission <u>says</u> the significant size of Google’s fine reflects the ‘gravity, duration and recurrence of the breaches’. The US President <u>reacted</u> by saying the EU was “robbing” US companies and threatening “substantial” retaliatory tariffs (which have yet to materialise). Last year, <u>Apple and Meta</u> received fines of €500m and €200m respectively for breaches of the DMA (Apple’s fine also related to anti-steering practices within its App Store), while <u>X was fined</u> €120m for a breach of the DMA’s sister Digital Services Act (and this tracker contains several more investigations in relation to that act). The UK has also investigated Google and Apple over the same issues, designating the companies with ‘Strategic Market Status’ under its Digital Markets, Competition and Consumers Act (the equivalent of being a gatekeeper under the EU DMA). Yet it has opted for a much lighter-touch approach: consulting on <u>proposed measures</u> to ensure Google’s approach to search rankings is ‘fair and transparent’ (this is yet to be finalised and no fine has been issued) and <u>announcing that</u> it has ‘secured commitments’ from Apple and Google to address anti-steering practices within their app stores but stopping short of issuing any fines or demanding specific behavioural changes.

31. DIGITAL & TECH / ENERGY

Common rating scheme for data centres.

ISSUE	IMPACT
In September 2026, the European Commission <u>published</u> a proposal for a ‘common rating scheme for data centres’ which provides information on their energy and water usage. <u>Data centres</u> house the computer equipment – including servers and data storage systems – on which digital technologies rely; making them integral to the operation of much of the modern economy. Data centres consume huge quantities of energy and water – with demand expected to grow exponentially with the rapid increase in AI deployment. Data centres represent 2.5% of EU electricity demand, with this <u>expected</u> to reach more than 3% by 2030 (while they already <u>account for 6%</u> in the UK and US). The proposed EU rating scheme is <u>designed</u> to increase ‘transparency’ about data centres’ resource demand and thus promote ‘improvements in efficiency’. Much like existing <u>energy labels</u> for appliances, it will rate large data centres (an <u>estimated</u> 770 facilities over 500kW) on a scale from A-G. This will be based on five measures: energy consumption, water consumption, waste heat reuse, clean energy generation, and grid flexibility. The regime is set to take effect from next August.	As covered in <u>another entry in this tracker</u>, the European Commission <u>aims to</u> triple its data centre capacity over the next 5-7 years, in order to reduce dependence on those based abroad. This raises significant questions about the scale of resource demand it will create (as well as about <u>whether</u> EU-based data centres do in fact give the EU greater autonomy from US tech). The EU purports that its rating scheme will be the most comprehensive in the world (Australia and Singapore already have systems in place) and help ensure that it does not undermine wider attempts to decarbonise. Yet the data on which the ratings will be based is very patchy: with <u>only half</u> of companies covered by the labelling regime disclosed the required information on energy and water usage this year. Meanwhile, companies will also <u>be allowed</u> to purchase ‘green certificates’ to offset fossil fuel usage – meaning they will not necessarily have to reduce their overall emissions to obtain a higher rating. There is also a political rationale to the scheme. With public backlash against data centres growing, especially in the <u>US</u> but also <u>Europe</u>, over their environmental impact in particular; the Commission sees the labels are a way for data centres to augment their claims to sustainability – though they could well come to be seen as a form of greenwashing instead.

32. ENERGY

AccelerateEU and Electrification Action Plan.

ISSUE	IMPACT
In April 2026, the European Commission <u>announced</u> a package of measures, dubbed ‘AccelerateEU’, to help European households and industries deal with the rising cost of energy following US and Israeli attacks on Iran. To help businesses with their immediate costs, a ‘<u>Temporary Framework</u>’ relaxes state aid rules in the agriculture, fisheries and transport sectors until the end of the year. It allows member states to cover up to 70% of the extra costs incurred by companies due to increases in fuel and fertiliser prices; and to provide aid of up to €50,000 to help with ‘additional fuel costs’. It also increases the flexibility of the <u>electricity price relief scheme</u> under the Clean Industrial Deal (which allows member states to provide temporary support for electricity prices to companies in sectors of ‘elevated risk’), so that support can cover up to 70% of their consumption (the threshold was previously set at 50%). In a separate move in June, the Commission <u>relaxed its fiscal rules</u>, which limit budget deficits to 3% of GDP, to allow member states to spend an extra 0.3% of GDP per year on investment in the green transition between 2026 and 2028 (up to 0.6% across the three years). To better respond to emergencies, a ‘Fuel Observatory’ will be established to monitor EU stocks of transport fuels and thus help identify shortage risks. The Commission also intends to oversee greater coordination of member state gas storage filling, oil stock releases and national emergency measures, to ensure that	The closure of the Strait of Hormuz exposed the EU’s dependence on Gulf region for certain fuels, in particular jet fuel and diesel, while an <u>Iranian attack</u> on Qatari natural gas fields led to a sudden curtailment in liquid natural gas supplies for certain member states. This reflects a wider challenge for the EU: the significant variation in energy mixes between member states which makes it hard to develop a homogeneous response to international crises like the one unfolding in the Gulf. That, in turn, is why much of the EU’s recent package focuses on better systems for coordinating supplies and accelerating existing plans for electrification – so as to reduce fossil fuel dependence. Some member states – namely those that have gone further in decarbonising their energy systems – have <u>raised concerns</u> about the further relaxation of state aid rules, arguing that it compensates those member states who have made less effort to decarbonise for their lack of action, and risks distorting competition within the single market. The UK faces a similar challenge to the EU in terms of trying to bring down the cost of electricity relative to gas, and in encouraging the uptake of green technologies. Rachel Reeves moved some policy costs from electricity to the general taxpayer for three years in her last Budget; and one of Andy Burnham’s first acts on taking office was to remove VAT from domestic electricity bills for six months from 1 October.

supplies more effectively meet demand across the EU.

To reduce dependence on imported fossil fuels, and thus better control energy prices, the Commission promised an Electrification Action Plan, which was published in July. Its core aims are to bring down the cost of electricity relative to gas, and to incentivise the uptake of clean technologies such as heat pumps, electric vehicles and batteries.

The plan for the former rests on member states designing more flexible network charges, which make electricity grids more efficient and predictable; and allowing member states to reduce taxes and grid charges for certain users (such as energy intensive industries). The latter rests on providing a range of financing instruments to lower the upfront costs of electrification for industry; and the creation of an 'Electrification Action Plan Alliance', comprised of key sectoral stakeholders, to take a 'holistic approach' to speeding up the development of clean energy solutions: focused on access to raw materials, increasing manufacturing capacity and encouraging greater demand. The EU will also invest in training people with the skills to work in clean energy design and deployment.

The UK will need to keep close tabs on the EU's electrification plans, to monitor both plans and projects which it could potentially participate in (for example around access to critical minerals and boosting electricity infrastructure); and structural changes to the EU grid which might have implications for existing energy interconnections between the UK and EU.

33. ENVIRONMENT

New methodology for assessing recycled content in plastic bottles.

ISSUE	IMPACT
In June 2026 the European Commission <u>published</u> an implementing act establishing its first-ever methodology for calculating and verifying the proportion of recycled content in plastic bottles. This is designed to help meet targets for recycled content to constitute 25% of 'PET' plastic bottles from 2025; and 30% of 'SUP' bottles by 2030. Producers of PET bottles will have to obtain data at <u>various points along the recycling chain</u>: 'ranging from (post-consumer) plastic waste, recycling, conversion to assembling of the different bottle parts at the filling-stage'. The act sets out rules which operators must apply in making their calculations and declaring their data. This then allows producers to calculate the proportion of recycled plastic in the bottles they place on the market annually. Member state authorities are obliged to collect the data from producers and report it to the Commission. Until November 2027, only recycled plastic from the EU and EEA will count as recycled content - as it will not be possible to verify the content of third country imports according to the new criteria. The transition phase is designed to give member states time to 'adjust their data collection and reporting' for imports from other countries. After that date, plastic from OECD countries, with equivalent standards related to human health and environmental protection, will also count towards recycled content totals.	The British Plastics Federation <u>says</u> it is 'deeply concerned' by the new regime which 'effectively cuts off' Great Britain from the recycled plastic market in the EU and Northern Ireland until late 2027. The UK is the largest exporter of recycled plastic to the EU, and industry could struggle to find alternative export destinations. Industry has said the impact could be 'profound', if the made in EU principle 'becomes the standard blueprint for future recycled content targets'. There could also be a risk that the November 2027 start date ends up being delayed, if member states do not have the necessary verification systems in place; or OECD exporters could be placed at a long-term competitive disadvantage if the systems for verifying their materials are more complex to navigate than those within the EU. There is also a risk that cheap recycled plastics from other countries will be diverted to the GB market, because they no longer count towards EU content targets, potentially undercutting the UK plastic recycling sector (though perhaps reducing costs for British firms that use recycled plastic).

34. ENVIRONMENT

Ban on destruction of unsold clothes.

ISSUE	IMPACT
In July 2026, <u>new EU rules</u> came into force banning large companies from destroying unused clothing, accessories and footwear. They will apply to medium sized companies from 2030. The measures, part of the Ecodesign for Sustainable Products Regulation, require firms to try and keep such goods in use by selling them (e.g. via alternative/discount sites), donating them to charity, or repairing/refurbishing them so they can be reused. Destruction is only permitted when items are unsafe, counterfeit, infringe intellectual property rights, or have been rejected by donation schemes. Businesses must publish annual reports on clothes they have discarded and provide proof that they made use of legitimate exemptions. National authorities will be charged with checking for compliance and able to impose fines in cases of violations.	The European Commission has introduced the rules to tackle the environmental impact of fashion industry waste. It <u>notes that</u>, each year in Europe, an estimated 4-9% of unsold textiles are destroyed, generating CO₂ emissions (5.6 million tons) equivalent to Sweden's 2021 net emissions. A large proportion of waste comes from items bought online and then returned by customers. The European Environment Agency <u>notes that</u> 20% of clothing and 30% of footwear bought online is returned, and that processing a return typically costs a retailer 55%-75% of the value of the item, while many items lose value by the time they are re-processed because they have been superseded by newer stock. This leads to many items being destroyed rather than resold. Large British firms operating in the EU will be affected by the rule change, having to adjust their processes accordingly. Some high-end fashion groups have expressed concern that having to donate or resell products at a discount will harm their business model as it affects the 'scarcity value' of those goods. The UK government has not indicated any parallel plans in this area. It has expressed interest in voluntarily aligning with new EU rules related to the environmental impact of goods when there is a trade benefit, but <u>not for purely environmental reasons</u>.

35. ENVIRONMENT

Packaging and Packaging Waste Regulation.

ISSUE	IMPACT
In August 2026, <u>new EU rules</u> on packaging and packaging waste entered into force. This introduces new limits on the presence of 'PFAS' substances in food-contact packaging. PFAS, also known as 'forever chemicals', are a group of substances which take a very long time to break down and are damaging to human and environmental health. They are widely present in packaging such as takeaway containers and wrappers, baking paper and pizza boxes. There are also <u>new limits</u> on the concentration of heavy metals in packaging, new conformity assessment procedures to be completed before packaging can be placed on the market, and an obligation for companies to have an <u>authorised representative</u> in each EU country they export to. The majority of the new rules do not, however, take immediate effect. From 2028, there will be a new harmonised labelling system for packaging across the EU, designed to increase the efficiency of recycling and composting. From 2030, there will be new measures designed to cut down on packaging waste, including obligations for most packaging to be recyclable (with <u>some exceptions</u>) and mandatory use of recycled plastic in new packaging, as well as restrictions on empty space in packaging and the use of single-use packaging for certain items (such as fruit and veg).	The new rules create divergence with Great Britain, which does not have equivalent restrictions on PFAS in food packaging. This has both environmental and trade impacts. From an environmental perspective, it means that people and the environment in Britain are more exposed to potentially harmful chemicals. The EU has already introduced a wide range of restrictions on PFAS substances which <u>have not been replicated</u> in Britain, and this widens the gap. From a trade perspective, it means that GB-based suppliers will have to comply with the new rules, and complete new conformity assessments, if they want to keep exporting to the EU and Northern Ireland (which will apply the new regulation with some <u>exceptions</u> around reuse and recycling rules). There are already <u>reports</u> that some small EU businesses are set to stop exporting to other EU countries due to the cost of complying with the requirements. The UK government '<u>intends to explore alignment</u>' with the regulation, with a consultation planned for early 2027. This could undo some of the new trade friction the regulation creates – e.g. by creating harmonised standards for things like recycled content – but not all of it. For example, British exporters to the EU would still need to complete conformity assessments and establish authorised representatives in export countries.

The rule changes which take effect in 2028 and 2030 could prove more challenging for British firms to adapt to – as they demand more significant shifts in production processes. It is also not clear, for example, whether the new labelling rules will allow UK and EU recycling labels to be carried on the same packaging, or whether there will need to be distinct packaging for each market (which would create significant cost and complexity for firms serving both markets).

The regulation has proven very controversial among businesses, with it reportedly being of the most-lobbied files in EU history. Though the Commission argues that harmonised rules will help businesses operating across the EU, firms have complained about the ‘considerable resources’ required to adapt to the rule changes, with some speculation that aspects of the regulation (such as the requirement for an authorised representative in each member state exported to) could be watered down.

36. MOBILITY

Changes to EU pet passport rules.

ISSUE	IMPACT
As of April 2026, residents of Great Britain travelling to the EU are <u>no longer able</u> to use EU pet passports when bringing their pet into the EU, meaning they must instead obtain an ‘animal health certificate’ (AHC) issued by a vet in Great Britain. British residents have, in principle, required AHCs since Brexit took effect in 2021, but many <u>were able to avoid this</u> by obtaining an EU pet passport from an EU-based vet. The EU has now changed the rules so that pet passports are only available to those resident in the EU. Pet passports and AHCs apply to dogs, cats and ferrets; and certify that the animal is fit and healthy enough to enter the EU. The key practical difference is that pet passports <u>are valid</u> for the life of a pet (subject to changes in their health/vaccination status) whereas AHCs are valid for six months, costing <u>£100 or more</u> each time, and must be issued no more than ten days prior to arrival in the EU. If a pet using an AHC is travelling with someone other than the owner, that person <u>must have</u> written permission from the owner, and the pet must travel within five days of the owner. The number of pets travelling in a (non-commercial) vehicle is limited to five per vehicle, rather than five per person.	The changes will make it harder for GB residents to travel to the EU with their pets, adding administrative complexity and cost. Those living in Northern Ireland <u>can still</u> obtain a pet passport, as can residents of <u>EEA/EFTA states</u>. The rules for pet travel between Great Britain and Northern Ireland are governed by a different scheme, which has not changed. The GB-EU situation <u>could change</u> if the UK and EU conclude negotiations on an ‘SPS’ deal which would, among other things, harmonise animal health rules.

37. PROCUREMENT

EU Public Procurement Act.

ISSUE	IMPACT
In September 2026 the European Commission outlined a <u>proposal</u> for an EU Public Procurement Act to reform existing public procurement rules. The package has <u>been dubbed</u> ‘buy European’ in the media because it includes new powers to restrict foreign companies’ access to public procurement markets. This <u>may occur</u> if ‘a market access analysis establishes that a third country has failed to grant Union operators fair market access in line with its commitments, or where restrictions are needed to avoid security of supply dependencies or protect our economic security interests’. There are also changes to the rules for assessing bids, by making ‘<u>Best Price-Quality Ratio</u>’ (BPQR) assessments - rather than those focused solely on the cost of a bid - the default method. This <u>places</u> a stronger emphasis on ‘long-term public benefit rather than focusing only on the lowest upfront cost’, with ‘quality criteria’, such as environmental, social and security impacts, carrying a minimum weight of 30% in assessing bids for standard contracts - and 50% for labour-intensive contracts. Awards may, however, still be made on the basis of costs only, ‘where the quality of the procured works, supplies or services can be sufficiently ensured through specifications or conditions for the performance of the contract’. <u>Another proposal</u> is a new ‘Digital Marketplace’: designed as a ‘one-stop-shop’ to simplify procurement procedures, by linking up existing national and local procurement	Stéphane Séjourné, the Commissioner overseeing the Act, has <u>explicitly framed</u> it as a way to introduce “a preferential approach to European bids” into public procurement processes. The package reportedly addresses Commission concerns that public bodies feel obliged, under the existing rulebook, to select the cheapest bid when making public awards - despite efforts at the EU and member state level to promote greater domestic industrial capacity. It is important to note that, unlike other ‘made in Europe’ schemes, the Act does not stipulate that companies must be based in the EU (or meet some broader definition of ‘European’) in order to be eligible for contracts. Instead, there will be powers to explicitly exclude operators from specific countries which are not considered to be offering reciprocal market access to EU firms - with <u>China a likely target</u>. The UK is unlikely to be an immediate target, though should the reforms of its own procurement regime (covered <u>elsewhere in this tracker</u>) come to be seen by the EU as leading to discrimination against its firms, then in theory the Commission could retaliate by excluding British firms from the EU public procurement market. The Commission also <u>claims that</u> the greater harmonisation of processes through the ‘Digital Marketplace’ and integrated rulebook will lead to administrative savings of €650m a year - mostly for companies bidding for contracts.

platforms and creating a set of common standards. This will avoid companies having to repeatedly input the same information for each different EU market in which they bid, while also giving public authorities better oversight of third country companies and goods with access to the EU procurement market - which in turn will help with the aforementioned 'market access analysis' and 'European preference' measures.

The Commission also hopes that integrating three existing directives - and wider provisions set out in sector-specific legislation - into a single new regulation will help to clarify procurement rules for economic operators. That proposed act is now subject to negotiation by the European Parliament and Council of the EU.

38. PRODUCT STANDARDS / ENERGY

Changes to energy labelling rules.

ISSUE	IMPACT
In June 2026, the European Commission <u>set out</u> proposals for a new ‘simplified’ set of rules for energy labelling. The existing labelling rules are designed to give consumers ‘clear, comparable information’ about the energy efficiency of <u>over two million products</u>, including home appliances, electronic devices and tyres, prior to purchase. The labels also carry QR codes taking consumers to a database containing a wider set of information on things like supplier guarantees and contact details. The rule changes are designed to offer more flexibility around how labels are displayed: such as allowing certain goods (such as those not sold in physical shops) to carry a QR code rather than a physical label. Car dealers would also no longer be obliged to show tyre labels ‘when selling a new car where customers are rarely offered a choice’. It also imposes greater accountability on ‘the responsibilities of representatives of non-EU manufacturers’ (for example tyre fitters) to provide the necessary labelling and simplifies the process for suppliers and sellers to update labels when ratings are rescaled.	The European Commission claims that the rule changes will save companies €125m over ten years – with most of the benefit falling to suppliers of products rather than dealers – while national market surveillance authorities are expected to save €3.7m per year due to better compliance data. The rule changes will apply in Northern Ireland under the Windsor Framework, and a <u>UK government memo</u> notes that it ‘could create some additional complexity for businesses operating across both GB and EU/Ni markets due to administrative divergence’ – with GB suppliers facing additional packaging, labelling and product information requirements. This in turn, could add costs to exports and lead to the curtailment of supplies to Northern Ireland in particular (given it is a less lucrative export market than the EU). The UK government also ‘recognises the potential benefits of digitalisation in reducing administrative burdens and improving access to product information’ and will ‘assess the merits of analogical reforms in the GB’, noting industry support for such measures. This could in theory be done using powers under the Product, Regulation and Metrology Act.

39. TRADE

Abolition of duty exemption for low-value imports.

ISSUE	IMPACT
On 1 July 2026, the EU abolished its ‘de minimis’ duty exemption for ‘low-value’ imports (i.e. packages containing goods worth under €150). Under new rules, each separate type of item in a low-value package will be subject to a €3 customs duty (so five t-shirts would incur a €3 duty but five t-shirts plus a watch would incur €6). It applies only to ‘distance sales’, i.e. goods shipped directly from an online retailer to a consumer. The flat fee is a temporary measure, lasting for two years, while the EU sets up new IT systems that will allow it to introduce full customs processes (including duties and paperwork) for low-value imports from July 2028. The measure aims to address the large-scale import of cheap goods from ‘e-commerce’ sites (like Amazon, Temy and Shein) which frequently do not meet EU safety standards – for instance by lacking key safety information or containing forbidden ingredients. The Commission argues that the lack of import duties has allowed such goods to enter “too easily”, with 5.9bn items imported in low-value packages in 2025 – constituting 98% of all EU imports by number but only 2% by value. The additional duties, it is hoped, will reduce the number of purchases made on such platforms, which are attractive due to their very low prices. From 1 November, goods will also be required to have ‘product identifiers’ to make it easier to trace them; and the Commission will also this autumn announce details of the start date and cost of a new ‘handling fee’ which will be	The Commission says that the duty exemption for low-value items, initially introduced to ‘prevent the disproportionate administrative burden on customs authorities... is no longer justified’ due to the ‘competitive advantage’ it affords low-cost online retailers. It follows in the footsteps of the United States, which abolished its own \$800 de minimis exemption in August 2025. The UK also committed in the November 2025 Budget to remove its own de minimis exemption (currently set at £135) by March 2029, to ‘support fair competition between high street businesses and online retailers’. It published a consultation response in July which brought the target date for implementation forward to October 2028 at the latest and, like the EU, proposed a handling fee to help with customs processing costs. The UK has, unlike the EU, not opted to introduce a temporary flat import duty while it gets its customs systems prepared for the change. It is expected that dropping the de minimis exemption will increase the number of UK import declarations being made sixfold, and Dr Anna Jerzewska, writing for the UK Trade Policy Observatory, notes that a new IT system will be needed to manage the task. She further notes that the customs industry is supportive of the UK’s slower approach – in contrast to the ‘seven-month sprint’ to introduce the €3 duty in the EU which ‘prompted major express carriers to write to the EU finance ministers that key elements were not ready’ (even if so

applied to low-value imports, to cover the costs of customs processing (this is expected to be around €2).

far the system seems to be operating relatively smoothly).

For both the UK and EU, the abolition of the de minimis threshold will put significant new demand on their customs systems, and make it more complicated to import goods. Jerzewska notes that the UK had initially sought to use a 'simplified' set of tariff rates to help with this, but it ultimately opted to follow the EU by sticking with its standard schedule. This suggests a UK desire to minimise divergence from the new EU regime, which could otherwise mean more complexity for traders - in having to navigate significantly different processes for importing to GB compared to the EU/NI. However, because the UK and EU are not in a customs union, there will inevitably be differences in their respective import processes.

The introduction of the flat €3 fee has some immediate implications for UK-EU trade. Many items which can normally be exported from GB to the EU tariff-free under the TCA will, for the next two years, be subject to the customs duty if they are sold via an online platform directly to a consumer. Some GB sectors, including books and newspapers, have warned that this could make their goods prohibitively expensive for EU customers. Another question is whether more low-value items will be redirected from the EU to the GB market because of the comparatively low import costs.

A UK government note states that the impact on GB-NI trade (in terms of NI consumers buying from GB online retailers) will be 'minimal because the vast majority of parcels destined for consumers in Northern Ireland will be considered 'not at risk' of entering the EU and therefore not in scope of the €3 per item duty charge'.

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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