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”EU-UK cooperation: Carbon Border Adjustment Mechanism, Artificial Intelligence and Mobility”

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In Summer 2023, the UK government announced a review of net zero industrial policy, dropping its core target. Also, during my meetings with the representatives of the British Chambers of Commerce I had the impression of a certain confusion regarding their investment plans in the context of announced changes to climate policy. According to them, as a result, the emission costs in the UK would go down and in 2026, when the Carbon Border Adjustment Mechanism (CBAM) financial consequences would come into effect, the costs of British export to the EU, in particular in the case of carbon intensive industry, would go up. The concerns included steel, aluminum and electricity, the most carbon intensive sectors. This could reduce the import demand on the EU side which in the context of a strong UK export dependence on the EU market, could impact negatively British export. There is also a risk that the UK markets, in case of a lack of their own CBAM-like protection could attract products of high carbon intensity looking for an alternative to well protected EU markets. All that would only add to the burdens and uncertainty regarding EU-UK regulatory divergence, financial burdens due to new labeling requirements for products travelling from the Great Britain into the Northern Ireland and export health certificate, physical checks, safety and security certificates. This would affect in particular the supply chains involved British SMEs that in the post Brexit reality lack financial resources and staff.

Currently in the UK, public consultation on possible CBAM solutions takes place. There is the possibility of establishing by 2026 a British CBAM. This could be an independent, UK only instrument, but there is also an option of linking it to the EU Emission Trading Scheme and CBAM. There is of course a political argument already raised that such a link, while allowing to avoid additional costs for British businesses, could be seen as an example of a dynamic alignment which the UK

rejected in the course of negotiating the Trade and Cooperation Agreement. It would require bilateral negotiations and it is worth reminding that in the case of a similar EU - Switzerland agreement negotiations lasted more than seven years. And last but not least, we should bear in mind possible new tensions that CBAM could produce when being applied to the Northern Ireland which is both in the UK and EU single markets. CBAM falls under the scope of the Northern Ireland Protocol. That would imply either a full or partial application in the Northern Ireland. While various options can be considered, this will require most likely a consent between the EU and UK. One option could mean applying CBAM to all goods imported into the NI and destined to the EU. In this case, the valid question would be what would happen to CBAM goods produced in NI which under Protocol can freely enter the EU. Applying CBAM to all goods imported to the NI could mean discrimination under WTO rules. In any case, before 2026 the issue will have to be solved.

Another issue that in my view should become one of the most dynamic streams of work between the EU and UK in the years to come is the AI. This is an epochal, transformational technology that would change global economy, security and the quality of human life. As we speak here there are dozens of events across the world where various aspects of AI are debated, including both risks and humongous opportunities. Also, not so long ago there was an AI summit in London where 30 states took part focusing mostly on the security dimension of AI. In the EU, where the AI act is still negotiated between the EP and the Council, we expect to see soon a final agreement. It is of course rooted in European values, it is, I would say, complementary to other actions related to AI.

The European Union has been for a while involved in an AI dialogue with the US. This is taking place within the Trade and Technology Council. In this framework, in Lulea, at the end of May 2023 we had this issue on the agenda. Three joint working groups have been established with a view to look forward on what we can do together regarding terminology and taxonomy, categories of risks and the standardization. Further work on standards setting for AI took place and Code of Conduct was prepared, shared with G7 meeting in Hiroshima.

But let me be clear - we see various jurisdictions coping with the AI challenge through different perspectives and approaches. As I said, the EU approach is aiming at the

conclusion of a hard law, a prescriptive regulation, looking at risks, technology, foundation, use cases. In the US we see an executive order of the President but when it comes to the philosophy of the AI process, the approach is rather to follow what the business community is doing rather than having a top down regulation. My understanding of the UK approach is that a rather lengthy process of reflection, consultations and data collecting continues, and when we hear that there will be at the end of this path a regulatory framework, we can safely assume it will be rather a principle based legislation. The UK assumes that in case of a technology that is still a moving target on moving sands one should not push for quickly done legislation. As I believe that standard setting on AI should be a bottom up approach with a strong engagement of the industry, I would expect that there would be a chance for a landing zone to be a shared regulatory framework allowing global businesses to cooperate in a common regulatory space. There is no doubt that the world will need a strong input from the scientific community, continuous scientific checks and balances, robust security standards, including cyber resilience.

And the third issue worth mentioning when it comes to EU-UK relations is the mobility. Of particular concern is certainly the youth mobility. It is an issue on which there is a total silence in the TCA which is highly regrettable.

The termination of the free movement of labor as a consequence of the UK withdrawal from the EU resulted in a dramatic reduction of the mobility rate. In the last two years more European left the UK than arrived in UK. There is a negative net migration of the EU citizens amounting in 2022 to more than 51 thousands. We can also see a very low share of Europeans in visas with the work permit since 2021. At the same time, the European citizens looking for the opportunities to study in the UK has been reduced in the post Brexit years by 50%. This is to a large extent due to enormous increase in costs.

It is of course well to remember that ending the free movement was one of the main factors behind the withdrawal. Also, the UK took the decision not to associate itself to the Erasmus +. Consequences embrace school children, business people, artists performing abroad. There is an opportunity to benefit from a visa free short stay travel, as well as from long term mobility in line with comprehensive legal frameworks in both the EU and UK. The costs of visa applications and health surcharge impact

negatively in particular young Europeans. The interest in facilitating mobility is absent.

Mobility challenge should not be reduced to the labor market only. Also, it is rather hard to understand the contradiction between some visa facilitation process for students on the one hand and at the same time growing costs of visas, health surcharge, skyrocketing international tuition fees which make it practically impossible for young Europeans to study in UK. On the EU side it would be appreciated to see the UK administration replacing the bilateral agreements with some EU member states with an EU wide approach.

It seems that a lot remains to be done to start building bridges between the EU and UK citizens. For mobility issues we have not found yet a workable solution. Maybe starting with a visa waiver for school kids participating in excursions, a solution for touring artists often travelling with their equipment. There are many obstacles and their accumulation goes against the spirit and the logic of TCA.