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Opinion – The Calibrated Brussels-Effect: Regulatory Power and Investment Risks

<https://www.e-ir.info/2025/10/09/opinion-the-calibrated-brussels-effect-regulatory-power-and-investment-risks/>

EMRE KANBER, OCT 9 2025

In April 2025, the European Union and the United Arab Emirates officially launched negotiations for a Comprehensive Economic Partnership Agreement (CEPA) — a framework formally presented as a Free Trade Agreement (FTA) aimed at deepening investment and trade ties. The agreement seeks to reduce tariffs and facilitate trade across a wide spectrum of sectors, including renewable energy—particularly green hydrogen—financial services, and emerging digital technologies such as Artificial Intelligence (AI). The scale of the economic relationship underscores its importance: bilateral trade in goods reached €55 billion in 2024, while services accounted for an additional €39 billion in 2023, both reflecting a steady upward trend. Yet, the CEPA represents far more than just a trade deal. For the UAE, it offers an integrated access point to the world's largest single market, enabling the export of renewable energies such as green hydrogen, advancing economic diversification toward a sustainable, post-oil economy, and securing access to European expertise in high-value sectors like advanced machinery and technical engineering.

For the European Union, however, the stakes might be arguably higher. The agreement is critical to securing (renewable) energy supply chains essential to achieving the REPowerEU 2030 and 2050 targets and protecting the EU's substantial €186 billion in foreign direct investment within the UAE. Moreover, EU exports to the UAE have grown strongly by 14.3% in 2024, coupled with a European trade surplus of €33.2 billion, underscoring the high commercial stakes. At the same time, Brussels views the CEPA as a geostrategic instrument to counterbalance growing Chinese and American influence in the Gulf. With the region emerging as a global hub of trade and finance, it is in the interest of the EU to ensure that the rules of that new global hub favor European commercial interests over those of its systemic rivals.

We know that the European Union's global influence has been increasingly resting on its regulatory authority—its capacity to set global standards through market size, compliance incentives, and legal precision; also coined the “Brussels-Effect” by Anu Bradford. We also know that the United Arab Emirates is guided by a clear doctrine of sovereign-based economic ruling, which protects its national strategic autonomy and demands operational flexibility for its state-owned enterprises – a combination poised to resist external impositions of governance and rules. The central question now for investors and European businesses is how the EU can (and will) reconcile its traditional regulation-imposition approach to create commercial advantages for its industry over foreign ones.

This analysis addresses that calculus by showcasing that the EU-UAE CEPA is an illustration of the execution of a “Calibrated Brussels-Effect,” whereby the EU strategically extends its regulatory power across selective trade areas and sectors (the Brussels-Effect), but simultaneously softens regulatory maximalism on other areas to secure commercial advantages and lasting geostrategic leverage over other, fast-moving players (the “Calibrated Brussels-Effect”). The analysis will draw on contemporary trade data and regulatory dynamics, focusing specifically on the high-value sectors of clean energy and digital trade.

The EU's initial negotiating position will be extending its regulatory framework into the Gulf, applying the logic of the Brussels-Effect. This mechanism dictates that, due to the sheer size of the Single Market, the UAE is compelled to adopt specific EU standards if it wishes to export high-value, sensitive products to Europe. This regulatory export is not an academic exercise; it is the most powerful tool the EU possesses to provide a sustained competitive

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advantage to its firms over rivals from China and the US. This commercial value is delivered through two core mechanisms applied across the sectors of energy and digital tech: Investment De-Risking and Technological Lock-In.

In the current geopolitical climate, one of the highest commercial risks is regulatory uncertainties. The EU will use the CEPA to mitigate these by mandating compliance that guarantees the bankability of European capital deployed in the Gulf. This is crucial given that EU exports to the UAE are heavily weighted toward high-value Machinery and Transport Equipment (44.7% of all exports in 2024), a sector reliant on predictable regulatory environments.

In the Energy Sector, the Energy and Raw Materials Chapter of the official Negotiation Documents ensures that multi-billion-euro contracts for Green Hydrogen are de-risked from the start. The EU's proposal prioritizes trade in "clean technologies" and mandates alignment with sustainability requirements, effectively forcing the UAE's product to comply with the EU's specific definition of Renewable Fuels of Non-Biological Origin (RFNBO). This compliance guarantees that the product will meet stringent EU import standards upon arrival, securing the return on investment for European off-takers and developers. Furthermore, the push for "non-discriminatory terms" in access to new infrastructure (pipelines, terminals) ensures that large UAE State-Owned Enterprises (SOEs) cannot use infrastructure control to freeze out European partners, securing operational stability.

Similarly, in the digital sector, the EU minimizes the risk of regulatory friction in its financial investments in digital ecosystems and start-ups. The Digital Trade Chapter explicitly bans restrictive measures such as "data localization" requirements and mandates for using local computing facilities. This clarity allows European firms to manage data flows using their existing global IT architecture, significantly lowering their operational friction and compliance costs.

The most structural benefit of the Brussels Effect is the creation of a built-in competitive advantage for European industry: once the UAE aligns with EU rules and adopts EU-certified technologies—from electrolyzers and hydrogen turbines to cybersecurity architectures and AI governance tools—it effectively locks in a long-term market for European systems, as switching later to US or Chinese alternatives would be costly, legally complex, and technically incompatible.

In the Energy Sector, the strict sustainability criteria embedded in the Energy Chapter naturally favor EU-based technology and engineering firms. Compliance with RFNBO standards—which involve complex monitoring, reporting, and verification—is straightforward for European companies already operating within the EU taxonomy. This higher technical standard establishes a structural competitive edge by raising the compliance bar for non-EU players who must retool their technology or partner with an EU entity to gain market entry.

In the Digital Sector, the EU proposal mandates interoperability for digital services by defining and facilitating specific technical mechanisms like "electronic authentication," "electronic seal," and "electronic registered delivery service." This insistence on interoperable "electronic trust services" effectively integrates European providers and platforms into the UAE's digital economy. The result is a technology preference where using the compliant, established EU framework becomes the easiest, lowest-risk choice for UAE firms, creating lock-in for European system providers. By converting technical compliance into a structural market advantage, the EU positions its industry as the default, low-risk partner in the Gulf's emerging digital and energy economy.

The traditional EU approach is being countered by the Emirates' Sovereign-Based Economic ruling based on three key leverage points by the UAE. These are the energy imperative, the capital lever, and its flexible trade options. The first source of leverage is Europe's urgent need for diversified energy supplies following the war in Ukraine. The REPowerEU agenda fundamentally altered the supply-demand balance, making the UAE a critical partner. This dependency is quantifiable and structural: despite the EU's focus on high-tech exports, its imports from the UAE are structurally dominated by energy. Mineral Fuels, Lubricants, and related materials account for 49.3% (€5.5 Billion) of all EU imports from the UAE. This high share of energy grants the UAE a geopolitical veto, ensuring that the EU cannot risk the stability of this supply channel over political disputes related to competition law or labor standards.

The second source of leverage is the UAE's vast pool of flexible, state-controlled capital. The EU desperately needs

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this capital for two reasons: protecting its existing base of €186 billion in Foreign Direct Investment (FDI) and, more critically, financing the next wave of massive investment projects required by the CEPA, particularly in the Green Hydrogen supply chain to Europe. Financing these projects—namely solar parks, hydrogen plants, shipping ports, and methods—requires multi-decade, highly secure investments. The UAE's SWFs hold the keys to this financing, as Europeans will not be able to fund these projects on their own. To secure the indispensable flow of long-term Emirati funding for CEPA-related infrastructure, Brussels will thus have to temper the enforceability of such non-trade provisions—prioritizing investment certainty over normative ambition.

Lastly, the UAE has created a new CEPAS initiative with over thirty countries since 2021, amongst which are countries like Turkey, India, Ukraine, Israel, Japan, and Malaysia. The deal with India, for instance, boosted bilateral non-oil trade by 20.5% last year, with Emirati exports to India surging 75%. Trade with China – despite no official CEPA – is also rising: Chinese exports reached US\$65.6 billion in 2024, and more significantly, non-oil UAE exports to China rose by 432.5 percent in the first quarter of 2025. At the same time, while European exports have grown steadily, imports from the UAE (UAE's exports) demonstrated a significant decrease of -34.8% in 2024, confirming that the UAE has flexible options in choosing to divert its commodity exports and engage in more pragmatic, less regulatory-heavy ways.

Taken together, these three levers—energy, capital, and diversification—give the UAE the ability to shape the terms of engagement with Brussels. Rather than accepting the full weight of EU rule-making, the UAE can negotiate from a position of strength. The result is a more balanced, “calibrated” Brussels Effect—one in which the EU's regulatory power persists, but only when aligned with the UAE's sovereign and strategic priorities.

The Calibrated Brussels Effect is not about regulatory expansion but about stability. To safeguard its high-tech machinery exports and Foreign Direct Investments, the EU must strike a delicate balance: it preserves strict technical rules where they secure commercial returns but relaxes political and procedural clauses that could induce uncertainty into long-term capital deployment. This section explains how that trade-off functions as a risk-mitigation strategy, not a concession.

The primary objective is to remove operational risk for European investors and exporters. The EU's negotiating documents make clear that two specific areas—Competition Policy and Dispute Settlement—are where Brussels is prepared to show flexibility to secure the broader economic relationship.

In practice, the UAE's economy is driven by state-owned and state-linked enterprises that dominate strategic sectors such as energy, aviation, and logistics. The EU's draft competition chapter acknowledges this reality by proposing significant carve-outs for SOEs and sovereign investment vehicles, allowing them to maintain public policy objectives and domestic industrial policy. While this marks a departure from the EU's usual market-liberal template, it removes the risk of regulatory conflict with Emirati industrial strategy. For European companies—especially machinery and infrastructure suppliers whose projects depend on partnerships with entities like TAQA, ADNOC, or Mubadala—these carve-outs translate directly into contractual predictability and long-term project security.

The most critical concession is the decoupling of governance from enforcement. The EU's Dispute Settlement Chapter (Art. 22.3 and 22.5) clarifies that violations of Non-Trade Commitments (NTCs)—notably Labor and Environmental standards under the Trade and Sustainable Development Chapter—will not be subject to the formal Dispute Settlement Mechanism (DSM). Instead, these issues will be handled through non-binding dialogue and expert consultations. This shift from legal sanction to political consultation removes a major source of risk for European investors who feared that an unrelated normative dispute could suspend their commercial operations or contracts. In effect, the EU is trading normative enforceability for investment stability—a move that anchors the €186 billion stock of European FDI against political volatility.

The rationale behind this strategic softening is straightforward. The EU's €19.9 billion machinery exports—which account for over 51% of all EU goods exports to the UAE—depend on a predictable market. That predictability is purchased by yielding on political norms that might otherwise jeopardize the new planned Green Corridor (let alone the €5.5 billion energy import channel) and the €33.2 billion trade surplus. This is not regulatory retreat but regulatory

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prioritization—a deliberate focus on securing rules that support bankable projects and sustainable cash flows. By removing the threat of suspensions linked to labor or environmental disputes, the EU creates the political and legal predictability required for multi-decade hydrogen and digital infrastructure investments.

In sum, Brussels' strategic trade-off is commercially rational. By selectively yielding on non-essential political clauses while entrenching its technical rulebook, the EU turns the CEPA into a long-term risk-management instrument for its industry—one that stabilizes energy imports, locks in high-value exports, and anchors European capital in the Gulf's fast-moving market.

The EU-UAE CEPA demonstrates that even the EU's regulatory power has limits when faced with sovereign-led, strategically important partners. The agreement shows that Brussels must compromise on certain normative ambitions—particularly the enforceability of non-trade obligations in areas like labor and environmental standards—to secure investment predictability, energy supply stability, and long-term commercial advantage for European firms over external players.

The structural decoupling of these non-trade obligations from the formal Dispute Settlement Mechanism (DSM) exemplifies this compromise. While the EU preserves technical standards in high-value sectors such as machinery, digital systems, and clean energy technologies, it shows a willingness to relax governance enforcement to de-risk the €186 billion stock of European FDI and enable multi-decade infrastructure projects.

Looking ahead, the CEPA serves as both a test case and a potential blueprint for future EU-GCC relations. It signals that Brussels may increasingly adopt a calibrated approach: maintaining strict regulatory rules where they secure strategic and commercial returns, but showing flexibility on governance and procedural clauses when necessary to gain access to key markets, protect critical supply chains, and ensure sustainable European presence in the region. For policymakers and investors, the takeaway is that the EU needs to be prepared to make pragmatic concessions to safeguard long-term strategic and economic interests.

About the author:

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