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A STUDY OF THE EUROPEAN UNION'S LEGISLATION ON ARTIFICIAL INTELLIGENCE

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ABSTRACT

The European Union's Artificial Intelligence Act is mostly about high risk artificial intelligence systems, and these are heavily regulated. It also sets out a narrower category for low risk artificial intelligence systems, with lighter legal obligations, mainly relating to transparency. This means developers and deployers have to ensure users are clearly told they are talking to AI, as with chatbots and deepfakes. In contrast, artificial intelligence systems with minimal risk are not regulated. Most of the AI applications already on the EU single market fall into this category, including AI enabled video games and spam filters. As for liability, the Act makes providers of high risk artificial intelligence systems primarily liable, no matter where they are based and also applies to providers outside the EU if their systems are used in the EU. Obligations of deployers are relatively lighter and apply to deployers within the EU and users from third countries operating within the EU. GPAI model providers are subject to a range of obligations, such as technical documentation and copyright related obligations. Where such models are made available under a free licence, providers must also publish summaries of training data and further safeguards apply where the model creates a systemic risk.

Keywords: Governance, Risk Management, artificial intelligence, compliance, Regulation

OBJECTIVE OF THE AI ACT

The European Union AI Act aims to create a harmonized and comprehensive regulatory framework for the development, deployment and use of artificial intelligence systems across the Member States. Its main objective is to make sure that artificial intelligence (AI) technologies operating in the European Union are safe, reliable and in line with fundamental rights and democratic values, while also fostering technological development and innovation.

It attempts to strike a balance between protecting people from potential risks arising from conventional artificial intelligence and promoting innovation. The Act aims to enhance legal certainty for businesses, enhance public trust in AI tools and promote the responsible development and uptake of artificial intelligence in the EU by establishing harmonized rules across the EU. Further it also aims to encourage investment in AI by providing clear standards for compliance and regulatory expectations. This framework aims at enabling the European Union to promote the development of an innovative and competitive AI ecosystem, while ensuring that the technological progress is consistent with the principles of transparency, accountability, safety and respect for fundamental human rights. The AI Act has two main parallel objectives: to protect individuals and society from the risks of artificial intelligence, while encouraging innovation, investment and responsible use of AI tools throughout the European Union.

TO WHOM DOES IT APPLY?

The EU Artificial Intelligence Act is broad in scope and covers almost all stakeholders in the AI value chain. It applies directly to businesses and entities that develop, distribute, import,

manufacture, deploy or otherwise place standard artificial intelligence (AI) systems on the market and operate within the European Union. It clearly outlines and defines the different actors in the lifecycle of an AI system and imposes some compliance duties on each category to ensure accountability. Therefore, it is the responsibility of all participants to ensure their activities comply with the requirements set out in the Act.

The Act applies to the stakeholders of the following categories:

a) Service Providers

Providers are entities that develop or market artificial intelligence (AI) systems under their own name or trademark. Their compliance obligations are the most far-reaching, above all for high-risk artificial intelligence (AI) systems. These obligations encompass risk management, technical documentation, conformity assessments, transparency requirements and ongoing evaluation of system performance.

b) Users (deployers)

The Act refers to those who use artificial intelligence systems as “deployers.” They are people, businesses or public authorities who use artificial intelligence systems in the course of their work. Although deployers will generally face less onerous obligations than providers, it will nonetheless be their responsibility to ensure their deployment of standard artificial intelligence (AI) systems complies with applicable regulatory requirements and safeguards.

c) Importers.

Importers are the entities that place standard artificial intelligence (AI) systems from outside the EU market onto the market of the EU. They shall ensure that the imported artificial intelligence systems comply with the applicable requirements of the AI Act prior to their placing on the Union market.

d) Suppliers;

The supply chain includes distributors, who have to exercise due diligence when placing standard artificial intelligence (AI) systems on the market. They must ensure that systems they distribute are compliant with the relevant regulatory standards and compliance obligations under the Act.

EXTRATERRITORIALITY OF EU ARTIFICIAL INTELLIGENCE ACT

One of the most important features of the EU Artificial Intelligence Act is its extraterritorial reach. The Act applies to entities established in the European Union as well as to organizations located outside the EU where their standard artificial intelligence systems or AI generated outputs are used in the Union.

Regulatory Scope and Significance

With the extension of its application beyond territorial borders, the AI Act sets one of the most comprehensive regulatory regimes for artificial intelligence worldwide. The legislation ensures that any actor seeking to enter the EU market must meet common standards on safety,

transparency, accountability and the protection of fundamental rights, thereby establishing a harmonized framework for the governance of artificial intelligence (AI) technologies.

Business implications of the EU AI Act

The EU Artificial Intelligence Act has wide ranging consequences for companies that develop, deploy, distribute, import or manufacture artificial intelligence systems. The Act aims at establishing accountability across the AI value chain by putting in place a comprehensive regulatory framework and defining the roles of different stakeholders. Therefore, organizations that operate in or target the European Union market need to review their current AI practices and put in place mechanisms to ensure compliance with the new regulatory requirements.

One of the interesting aspects of the Act is its broad territorial reach. The legal obligations will apply not only to entities established in the European Union, but also to organizations outside the EU whose artificial intelligence (AI) systems or AI-generated outputs are used in the Union. This means companies everywhere may need to adjust their AI governance frameworks to meet European regulatory standards.

Sanctions in the event of Non Compliance

With the EU AI Act, there are strict enforcement mechanisms to ensure compliance with its regulatory framework. The Act recognizes the possible effect that artificial intelligence can have on individuals, businesses and society and imposes significant financial penalties on entities that do not comply with its provisions. The penalties are meant not just to punish violations, but also to encourage organizations to put in place strong compliance and responsible AI governance.

Regulatory Approach to Enforcing

The enforcement regime under the AI Act is a risk-based approach. The severity of the fine will depend on the nature of the breach, the level of non-compliance and the possible damage caused by the infringement. As such, any organization developing, deploying, importing, distributing or using standard artificial intelligence (AI) systems must comply with the requirements of the Act to the letter or face significant financial and reputational consequences.

IMPACT OF EU ARTIFICIAL INTELLIGENCE ACT IN INDIA

The European Union AI Act is expected to have significant implications for Indian companies, particularly regarding the development, deployment and export of artificial intelligence technologies. The European Union passes the legislation, but because of its extraterritorial reach, organizations outside the EU may also be required to comply where their artificial intelligence (AI) systems or AI-generated outputs are put on or used within the European market. Thus, the Act is expected to impact the operational, regulatory and strategic decisions of Indian AI companies looking to expand internationally.

A major concern the AI Act raises is the additional compliance burden it places on companies doing business in the AI sector. Industry experts have pointed out that meeting the requirements of the Act can involve considerable costs, administrative requirements and technical adjustments. Such obligations could create operational difficulties for small and medium sized enterprises (SMEs), which generally have limited resources and could be affected in their competitiveness on international markets.

The Influence of Extraterritoriality on Indian AI Startups

One of the important aspects of the AI Act is that it applies not only to those present within the European Union. The Act will be applicable to Indian startups and tech companies that sell standard artificial intelligence (AI) systems in the EU market, regardless of their registration or operation location. Any Indian organization looking to offer AI based products or services in the European Union will have to ensure that its systems comply with the regulatory standards prescribed under the legislation.

This extraterritorial application means that an Indian business cannot avoid compliance simply because its development activity is conducted outside Europe. The deciding factor is instead whether the AI system is put on the EU market or if its outputs are used within the EU. This could require a significant number of Indian AI companies to revamp their offerings, implement compliance measures and invest additional resources in regulatory compliance before they can enter or scale up in the European market.

Impact on growth and internationalization

New compliance obligations under the AI Act could derail Indian AI companies' growth plans. That said, the barriers to entry for startups looking to expand internationally can be higher, as they need to perform regulatory checks, provide documentation, and stay compliant on an ongoing basis. Such measures could improve accountability and consumer protection but could also raise the cost of innovation and market access.

But there are also long-term benefits of following the EU's AI Act. Indian companies that align their operations with internationally accepted regulatory standards could boost their credibility, consumer trust and competitiveness in global markets. Such businesses would also be well positioned to take advantage of the development of similar AI governance frameworks in other jurisdictions.

The EU AI Act is likely to have a wider impact than direct implications for businesses and will shape the conversation around AI governance and regulation in India. As it is one of the first of its kind comprehensive AI regulatory framework in the world, the Act could guide Indian policymakers in framing future legislation governing artificial intelligence. Its focus on risk-based regulation, transparency, accountability and protection of fundamental rights offers a model that could guide India's efforts to strike a balance between technological innovation and legal and ethical safeguards.

To conclude, the EU AI Act is a challenge and opportunity for India. It is not clear whether the compliance costs and regulatory burdens faced by Indian companies in the European market will increase, but the legislation can also promote higher standards of governance and can possibly result in a more resilient and globally comparable AI ecosystem in India.

The EU AI Act will affect immediately and widely any organization that develops, uses or deploys artificial intelligence systems. The Act requires businesses to assess their artificial intelligence (AI) systems and classify them under the appropriate risk level in a risk based regulatory framework, and implement compliance measures within specified timeframes. The legislation therefore governs not only conventional artificial intelligence (AI) technologies, but also changes the way organizations undertake AI governance, risk management and operational planning.

A key impact of the Act is the ban on standard artificial intelligence systems that are deemed to pose an unacceptable risk to people and society. Prohibited AI practices are covered by the Act six months after it enters into force, unlike other categories of artificial intelligence systems which

benefit from longer transition periods. Thus, organizations using such systems should either abandon them or adjust them so that they comply with the regulatory framework. This early implementation shows the European Union's determination to prevent AI practices that could endanger fundamental rights, human dignity, privacy or democratic values.

The Act sets out different compliance periods depending on the nature of the AI system concerned. General-purpose AI (GPAI) system providers will be given one year and high-risk AI system providers may be given up to three years to comply with the relevant regulatory requirements. This staggered implementation approach provides businesses with sufficient time to adjust their systems and internal governance structures, while maintaining the mandatory compliance requirement. Thus, organizations need to start preparing for compliance well in advance by putting in place internal policies, documentation processes, transparency mechanisms and risk management frameworks.

One of the most important practical implications of the AI Act is that organizations will have to carry out detailed risk assessments of their artificial intelligence (AI) systems. In the relatively near future, after the Act has been implemented, companies may be required to assess their AI applications and to classify them into prohibited, high-risk, limited-risk or minimal-risk. This classification process is important because the regulatory obligations imposed under the Act differ based on the level of risk posed by the AI system, in lieu of which organizations therefore need to:

- a) Identify all artificial intelligence systems used within their operations;
- b) Evaluate the function and possible impact of each system;
- c) Identify the relevant risk classification; and
- d) Put in place the relevant compliance measures required by the Act.

The Act essentially turns AI governance from a voluntary corporate practice to a regulatory mandate. Firms can no longer rely on internal policies or codes of ethics, but must put in place formal compliance measures that can demonstrate compliance with legal standards. This may necessitate the establishment of dedicated governance structures, systems for technical documentation, audit procedures and mechanisms for human review. Organizations also will need to continuously monitor their artificial intelligence (AI) systems to ensure ongoing compliance as technologies evolve and regulatory expectations change.

The AI Act is likely to have implications beyond individual organizations and affect the broader global AI ecosystem. Because of the extraterritoriality and economic importance of the European market, companies from all over the world may decide to follow standards consistent with those of the EU, even if their domestic legislations do not impose equivalent standards. This could drive the development of international best practices on transparency, accountability, safety and responsible AI development. The legislation is thus expected to set a standard for future regulation of AI in other jurisdictions and may spur the establishment of similar governance frameworks worldwide.

Important Provisions Relating to India

The EU AI Act is a European regulation, but many of its provisions are of particular importance to Indian businesses, especially those looking to develop, deploy or market artificial intelligence (AI) systems within the European Union. The Act is extraterritorial in nature and therefore companies in India doing business in the EU or catering to the EU market should be compliant with its regulatory requirements. Thus, it is important for Indian enterprises, startups and policy makers to understand the following key provisions of the legislation.

a) Risk Classification System

A major pillar of the AI Act is its risk-based approach to regulation, which is largely outlined in Article 6. Artificial intelligence systems are classified by the law according to risk and relevant regulatory obligations are set. There are three main categories:

- i) High-Risk Artificial Intelligence
- ii) Artificial Intelligence Systems with Low Risk
- iii) Minimal or Acceptable Risk Artificial Intelligence Systems
- iv) Artificial intelligence systems posing unacceptable risk or prohibited

For Indian companies looking to deploy standard artificial intelligence (AI) systems on the European market, the first step is identifying the risk category applicable. This classification has a major impact on compliance obligations, conformity assessments, transparency requirements and regulatory oversight. It is the foundation for the entire compliance structure created under the Act. So risk categorization is

b) Compliance Requirements of Different Risk Categories

The AI Act sets different obligations based on the risk category attached to an AI system. The relevant provisions are contained in several Articles of the legislation:

- i) Articles 10-13 set out obligations for high-risk artificial intelligence systems.
- ii) Articles 14 to 17 concern obligations regarding oversight by humans, accuracy, robustness and cybersecurity.
- iii) Further obligations of compliance and conformity are outlined in Articles 18–20

c) Transparency and oversight of individuals

The AI Act focuses on transparency and human supervision of artificial intelligence systems. Transparency obligations require that users be provided with relevant information on the functioning, capabilities, limitations and potential risks of standard artificial intelligence systems. The provisions on oversight by humans are likewise intended to prevent important decisions being taken by automated systems alone, without meaningful human involvement.

d) Restricted AI Practices

Under Article 5 of the AI Act, certain AI practices are banned because they are deemed incompatible with fundamental rights and democratic values. These include manipulative artificial intelligence (AI), social scoring, some uses of biometric categorization, and other applications that present unacceptable risks to individuals and society.

e) Implications for India's AI Companies

Several Indian AI companies including [Yellow.ai](#), SigTuple and [Qure.ai](#) are already working in or looking to expand into Europe. For such organizations, the AI Act adds a number of additional obligations that need to be addressed ahead of the deployment or scaling of AI-based products in the EU.

India's Significance

The provisions of the EU AI Act will be of particular relevance to India, as it will set standards that many Indian companies may have to comply with, if they were to enter global markets. The Act raises the bar for AI governance by emphasizing risk assessment, transparency, accountability, oversight by humans, and responsible innovation. These provisions may also impact on the development of future domestic regulatory regimes around artificial intelligence, as India continues to develop its AI industry.

Basically the EU AI act is an opportunity as well as a challenge for Indian businesses. While compliance might require additional capital investment and operational adjustments, following these standards can enhance credibility, facilitate access to global markets, and contribute to the development of a more robust and ethical AI ecosystem.

THE FUTURE OF AI REGULATION

Artificial intelligence is developing fast and this brings a lot of opportunities and risks. Artificial intelligence has the potential to revolutionize industries, increase efficiency and promote creativity but also raises important concerns regarding privacy, bias, discrimination, accountability and fundamental rights. The rapid development of artificial intelligence (AI) technology requires, therefore, the establishment of a comprehensive and effective regulatory framework that can balance innovation and adequate protection.

The Importance of Good AI Governance

Artificial intelligence has a double nature. It promotes economic development, technological progress and better decision-making on one hand. But artificial intelligence run-away could endanger individual liberties, democratic processes and human rights. The duality suggests the need for strong legal and regulatory structures that can grapple with both the benefits and the hazards of artificial intelligence (AI) technologies.

And artificial intelligence systems are evolving fast, and regulations have to evolve fast as well. Failing to keep pace with technological advances, laws and policies risk obsolescence, allowing new types of harm to emerge in the absence of effective oversight.

International Cooperation and Harmonization

Individual countries alone cannot regulate artificial intelligence. Artificial intelligence (AI) technologies are transnational and their effects often extend beyond national jurisdictions. So international collaboration is key in the evolution of common standards around transparency, accountability, safety and ethical use of AI.

With the EU AI Act, the European Union is setting the standard for AI governance around the world. The Act is one of the first comprehensive legal structures specifically targeting artificial intelligence and offers important lessons for other jurisdictions wishing to regulate artificial intelligence (AI) technologies. It is a risk-based approach that illustrates how innovation can be incentivized while safeguarding fundamental rights and public interests.

India, the world's largest democracy and one of the fastest growing digital economies, is uniquely positioned in the global AI ecosystem. The rising penetration of AI into sectors such as healthcare, finance, education, governance, law enforcement and commerce calls for the development of a comprehensive domestic regulatory architecture that can respond to emerging challenges.

CONCLUSION

The future of AI regulation will be about building balanced, adaptive and human centered governance frameworks that can respond to the opportunities and challenges presented by Artificial Intelligence. With the development of artificial intelligence (AI) technologies, countries need to put in place legal structures that foster innovation and at the same time ensure accountability, transparency, fairness and respect for fundamental rights. The EU AI Act is an important step in that direction and offers useful guidance to countries like India that are considering broad AI regulation. Policymakers can work across borders and govern responsibly, putting people first, to ensure that AI is a force for sustainable and inclusive development.

The EU AI Act is a critical step in the development of future AI governance mechanisms. Its emphasis on risk classification, transparency requirements, conformity assessments and accountability frameworks provide valuable lessons to policymakers around the world. The legislation provides a useful benchmark for India to evolve a comprehensive regulatory regime that would be more in tune with the legal, economic and social realities of the country.

India need not clone the European model of regulation but the core values of the Act – responsible innovation, rights protection, risk based regulations are good reference points for future legislation and policy development.

The increasing importance of the EU AI Act is likely to set the global standards for artificial intelligence. Aligning domestic policies with internationally accepted principles could help India to improve cross-border cooperation, market access for Indian companies and interoperability between regulatory regimes. Alignment could also spur investment, innovation and the creation of trusted AI ecosystems that meet global expectations.

Furthermore, the participation of governments, industry stakeholders, academic institutions and civil society organizations will be vital in forging a regulatory environment that adapts to technological change while safeguarding societal interests.