



# THE EU AI ACT

## *New Challenges for HR in Europe*

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Artificial intelligence (AI) is no longer confined to data scientists and tech labs. In European workplaces, algorithms are increasingly shaping hiring, promotions, performance evaluations, and even day-to-day management. With the EU Artificial Intelligence Act (AI Act) entering into force on August 1, 2024, in phased implementation starting from February 2025, human resource (HR) leaders across the globe - particularly in U.S. and international companies with European operations - must grapple with one of the most ambitious regulatory frameworks in the world. The AI Act applies to any company operating in the EU market, regardless of where it is headquartered.

The AI Act does not simply target tech providers. It reaches every company doing business in the EU that uses AI systems, including HR tools. Much like the EU's General Data Protection Regulation (GDPR), which transformed global data protection practices, the AI Act will reshape how businesses manage workforce technol-

ogy, employee relations, and compliance.

From mandatory training to the involvement of employee representatives and the risk of fines up to €35 million or 7% of global turnover, the AI Act demands that HR becomes a central player in compliance. For a Fortune 500 company, the fines could mean billions, plus investigations by national authorities or the EU regulators. This article explains what HR leaders of international businesses need to know to navigate the AI Act.

### WHY HR CANNOT IGNORE THE AI ACT

For many companies, AI has already become part of the HR ecosystem. Tools are being deployed for: (i) recruitment: resume-screening algorithms, video interview analysis, predictive hiring software; (ii) employee management: productivity monitoring, scheduling, and workforce optimization tools; (iii) performance evaluation: AI-driven assessments, gamified performance metrics, and automated feedback systems; (iv) learning & development: personalized training paths and adaptive

e-learning. Under the AI Act, many of these tools fall into the "high-risk" category because they directly affect fundamental rights, such as equal treatment, privacy, and workplace safety. That classification brings stringent obligations, including transparency, documentation, and human oversight. For HR leaders, this means AI is no longer a "black box" managed by IT or procurement. It becomes a core compliance responsibility.

### MANDATORY AI LITERACY AND TRAINING

One of the most significant - and often overlooked - requirements is AI literacy training. The AI Act explicitly requires companies to ensure that all employees using AI systems understand the technology, its limits, and potential harms. For HR, this entails:

- Rolling out training programs for recruiters, HR staff, managers, and any employee interacting with AI tools.

- Providing education to works councils and employee representatives, who must be meaningfully informed and consulted about new AI systems.
- Ongoing updates: training cannot be a one-time effort but must evolve as AI systems are updated or replaced.

This is a cultural as much as a compliance challenge. Businesses will need to design training that is not overly technical but equips employees to use AI responsibly and to spot potential risks such as bias or misuse.

### EMPLOYEE REPRESENTATIVE INVOLVEMENT

Europe's tradition of social partnership means that the rollout of AI systems is not a unilateral management decision. Works councils, trade unions, and other employee representatives will play a decisive role. The AI Act interacts with existing EU and national labor laws that require information, consultation, and in some cases negotiation before deploying new technologies. For HR leaders, this means:

- Early engagement with employee representatives is critical. Introducing AI tools without consultation risks legal challenges and reputational fallout.
- Documentation: companies must demonstrate not only that AI tools comply with the AI Act but also that employee representatives were involved in the process.
- Transparency obligations: employees must be informed when they are subject to AI-driven decisions or monitoring, and they must know the basis for such assessments.

This marks a significant cultural shift for international businesses used to faster, top-down decision-making. In Europe, AI compliance will be as much about social dialogue as about technology. In countries like Germany, this extends to co-determination rights, where councils can negotiate AI implementation if it monitors behavior. Best practice is often to map EU subsidiaries' representation structures early and integrate them into AI rollout plans. This not only ensures compliance but builds buy-in, reducing resistance and enhancing AI adoption. From an international HR viewpoint, this means adapting centralized policies to local consultation processes. A multinational retailer using AI for shift scheduling might need French works council approval to ensure there is no undue monitoring. Failure to engage could halt deployments or trigger disputes.

### COMPLIANCE RISKS AND SANCTIONS

The AI Act comes with teeth. As mentioned above, non-compliance can lead to fines of up to € 35 million or 7% of global revenue - figures designed to ensure even the largest multinationals pay attention. For HR departments, the biggest risks include: using prohibited AI systems (e.g. emotion recognition in the workplace, subliminal techniques, or untargeted biometric categorization); failing to classify HR tools correctly: mislabeling a high-risk system as "low-risk"; lack of documentation: HR leaders must ensure technical documentation, risk assessments, and training records are available for regulators; procurement risks: liability may extend to using third-party vendors whose tools are not compliant. The sanctions regime means HR must take ownership of AI compliance. Vendor oversight is no longer optional; responsibility ultimately sits with the employer.

### PRACTICAL STEPS FOR HR LEADERS

To prepare for compliance, international companies should act now. The steps we recommend are:

#### Conduct an AI HR Audit

- Identify all AI systems currently in use within HR and management.
- Classify them by risk level under the AI Act.

#### Establish Cross-Functional AI Governance

- Create a compliance team involving HR, legal, IT, data protection, and employee representatives.
- Assign clear responsibilities for oversight and reporting.

#### Build Training Programs

- Develop mandatory AI literacy training tailored to HR users.
- Keep training practical—focusing on ethical use, bias awareness, and escalation procedures.

#### Engage Employee Representatives Early

- Share impact assessments and technical documentation.
- Use consultation as an opportunity to build trust and avoid conflict.

#### Update Policies and Contracts

- Revise HR policies to reflect AI transparency requirements.
- Ensure vendor contracts include AI Act compliance clauses, requiring technical documentation and audit rights.

### INTERNATIONAL CHALLENGES & STRATEGIC OPPORTUNITY

For U.S. and international businesses, compliance is complicated by the patchwork of global AI regulations. While the EU AI Act is the most advanced, other jurisdictions are moving quickly, including California,

Canada, and the UK, among them.

This creates three specific challenges for HR leaders:

1. **Consistency vs. Localization:** Should companies create one global AI policy or adapt separately for each jurisdiction?

2. **Vendor Management:** Many HR tools are purchased from U.S. or global vendors. Businesses must demand EU-compliant features and documentation, even if the vendor is not EU-based.

3. **Cultural Differences:** U.S. businesses may be less accustomed to strong employee representation rights. HR teams must be trained in European consultation practices to avoid labor disputes.

While the AI Act raises compliance costs, it also presents an opportunity. By adopting a responsible AI strategy, companies can enhance employer branding by demonstrating commitment to fairness and transparency. Another step is to reduce the risks of bias and discrimination claims. Next comes building stronger employee trust, particularly in a labor market where digital surveillance and algorithmic management are increasingly controversial. Such measures will help employers to position themselves ahead of competitors in adapting to a new regulatory environment. In short, the AI Act is not just a compliance burden but also a chance for HR to lead in building ethical, human-centered workplaces.

### CONCLUSION

The EU AI Act is a landmark regulation with global reach. For HR leaders in U.S. and international businesses, it demands more than legal awareness; it requires strategic transformation of HR practices. Training employees, engaging with works councils, monitoring vendors, and embedding transparency will be essential to avoid massive fines and reputational damage. Just as the EU's GDPR reshaped global data governance, the AI Act will reshape workforce governance. For HR, the challenge is clear: move early, act decisively, and position compliance not only as a legal requirement but as a cornerstone of responsible leadership in the AI era.



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