ENVIRONMENTAL AFFAIRS AND SUSTAINABILITY DEPARTMENT

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Feedback on EU consultation to **Sustainable investment – review of the EU taxonomy environmental delegated act**

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We welcome the EU Commission's initiative to revise the technical Screening Criteria.

The machinery and plant engineering sector continues to be disadvantaged by the current taxonomy. Either the industry is subject to imprecise criteria like CCM 3.6, which require expensive third-party verification and result in inherently low alignment, or its NACE codes are not listed under the environmental objectives, making it ineligible altogether.

But it is precisely the mechanical and plant engineering industry that enables industry in terms of climate protection and the circular economy.

With this in mind, we would like to provide the following feedback, some of which goes beyond the scope of this consultation.

Changes that the EU Commission should consider regarding the environmental criteria

- We see a missed opportunity for our industry, to not include NACE-Code 28 as a whole under the Taxo4 criteria 5. “Services” (repair, refurbishment and remanufacturing, sale of spare parts, preparation for re-use of end-of-life products and product components, sale of second-hand goods, product-as-a-service and other circular use- and result-oriented service models, marketplace for the trade of second-hand goods for reuse) as those are important services for our industry and make a major contribution to the environmental performance of our products and extending their lifespan.
- The same applies to IT/OT solutions, Taxo4 criteria 4.1 “Provision of IT/OT data-driven solutions”. Also here our industry provides data driven solutions and should be able to align their economic activities under this criteria. At the same time there is more clearance needed in the understanding of what “professional services” mean.

Further changes are needed regarding the climate criteria 3.6 (manufacture of other low carbon technologies)

Criteria 3.6 “Manufacture of other low-carbon technologies” is decisive for the overall mechanical engineering sector (NACE code 28) in the climate DA. The following problems arise here:

- The calculation of life-cycle emissions savings is not trivial. This is already a major challenge for many SMEs to obtain the relevant data and emission factors for the correct calculation.
- What does “substantial life-cycle GHG emissions savings” mean? Current FAQs from the Commission does not give adequate information for companies reporting, as well as for auditors.
- How should “best performing alternative technology/product/solution available on the market” be identified if often only individual solutions/tailor-made products are manufactured in the mechanical engineering sector? We have little to no basis for benchmarking (products are tailormade, very individual and special, no series; so who can define, what the best performing alternative is).
- Furthermore, the term “best performing alternative” puts our companies in a different competitive position than in other sectors. For economic activities such as the production of steel or in the automotive sector, any manufacturer that fulfils the criteria can report taxonomy alignment; in our sector, it is only the one company that produces the “best performing technology”.
- Who can be used as an “independent third party”? How long does the verification last (1 year, several years)?

Conclusion

- We criticize the restrictive and complex nature of the existing technical criteria under the taxonomy regulation and its lack of adaptability to the innovation dynamics in our industry. A highly innovative industry with ‘enabling technologies’ must be recognised as such by the taxonomy!
- We call for clear guidelines that enable pragmatic implementation in order to make it easier for companies in the mechanical engineering sector to implement the reporting requirements and avoid additional costs.
- SMEs in particular are being overwhelmed by the current sustainability regulations. Also companies that are not subject to reporting obligations have within our sector an indirect impact via their value chain.

About VDMA

The VDMA represents over 3,600 mechanical engineering companies in Germany and Europe. The industry stands for innovation, export orientation and medium-sized companies and employs around three million people in Europe, more than 1.2 million of them in Germany

alone. This makes the machinery and equipment manufacturers the largest employer among the capital goods industries, both in the EU-27 and in Germany. It accounts for an estimated turnover of 910 billion euros in the European Union.
The basis for the international success of the machinery and equipment manufacturing industry is a strong global network with efficient and innovative suppliers and customers all over the world. Around a third of the machines and systems produced in the EU are sold outside the EU. From the machines sold in the EU domestic market, around 80 per cent comes from an EU production facility. Conversely, this means that a fifth of the machinery sold is imported from a non-EU country. China, the USA, Japan and the United Kingdom are the most important countries of origin here. By cooperating with companies in almost all regions of the world, the European machinery and equipment manufacturing industry makes an important contribution to prosperity and growth. Global value chains are an important factor in the success of the European machinery and equipment manufacturing industry.

Numerous regulations of the Green Deal - especially those that are now to be adapted through the omnibus regulation - affect European mechanical engineering companies particularly strongly due to the medium-sized structure of the industry (60 per cent of VDMA member companies have a turnover of less than 50 million euros per year) and the strong integration into global value chains. The implementation of the regulations is particularly resource-intensive for SMEs and worsens their competitive position on international markets, too.

Contact:

[redacted]

[redacted]

[redacted]

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