

## **Position paper on the Commission proposal for an Omnibus Regulation on CS3D, CSRD and EU-Taxonomy**

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## I. About the 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 products 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.

## II. The challenges of the Green Deal

The mechanical and plant engineering industry remains strongly committed to the European Union's sustainability goals and the transition to a more sustainable economy. It is our industry's technologies that make this transition possible. As an industry, we support the objectives of the Green Deal, but not the way in which these objectives were implemented in directives, regulations and delegated acts in the last legislative period.

From the VDMA's perspective, the main issues are the sheer number of Green Deal regulations, their granularity, their excessively detailed process requirements, and the countless accompanying documents (FAQs, guidelines, interpretative documents, etc.) that are now necessary in order to understand the regulations at all, and to be able to apply them, which involves an enormous amount of effort.

These requirements place an excessive burden on companies, especially SMEs, while having a very manageable effect on global sustainability goals. The smaller a company is, the greater the bureaucratic burden in relation to the number of employees or turnover. Due to the far-reaching knock-on effect contained in many regulations, SMEs in particular are increasingly indirectly affected. In addition, many regulations from the Green Deal can have a detrimental effect on competitiveness for companies whose main competitors are based outside Europe. Costs and benefits are not in proportion here. They also represent an obstacle in the Commission's trade negotiations with third countries.

All attempts to reduce bureaucracy should therefore consider the entire effort from the perspective of companies. In line with this principle, we, as one of the largest European business organizations, are attempting to do justice to this with this position paper.

### III. VDMA recommendations on the Omnibus Regulation

We welcome the European Commission's initiative to combine at least three regulations from the Green Deal - the **Corporate Sustainability Due Diligence Directive (CS3D)**, the **Corporate Sustainability Reporting Directive (CSRD)** and the **EU Taxonomy** - into one omnibus regulation, simplifying them and thus reducing bureaucracy.

The integration of frameworks such as CSRD, CS3D and the Taxonomy Regulation into one regulation will reduce complexity and increase clarity, while also urgently revising the content. **In order to ensure a comprehensive approach, we also recommend a timely and practical revision of other regulations, such as CBAM and the EUDR in particular, possibly also in an omnibus procedure; Simplification would also be necessary for Delegated Act 2023/1185 (REDIII), see also V. "Excursus".** Simplifying content, reducing documentation requirements and raising thresholds or extending implementation deadlines can further support companies in effectively adapting and at the same time advance the EU's sustainability goals. The omnibus initiative is the right way to create a standardized and efficient legal framework for a sustainable European economy.

We fully support the proposals for the Omnibus initiative set out by various German ministries in a letter to the EU Commission in December 2024. The measures described therein would be an important and urgently needed first step towards strengthening the competitiveness of European companies again without throwing sustainability goals overboard. However, the revision of the three regulations mentioned must not be limited to their frameworks (e.g. common user thresholds) but must also include a comprehensive adjustment of the content of the regulations and the legal acts falling under them (limiting the trickle-down effect, reducing data points, technical criteria, etc.).

**As this requires time in a legislative process and it is essential to create legal certainty for directly affected companies as quickly as possible, we are calling for a multi-step approach as part of the Omnibus Regulation.**

## 1. STEP 1: Rapid adaptation regarding the deadlines and user thresholds, as well as legal acts that have not yet been implemented, which should focus on the following framework of the Omnibus Regulation:

The VDMA is calling for the first step of the Omnibus Regulation:

- a. With regard to the implementation deadline for the CSRD and the delegated acts falling under it and the EU Taxonomy, the **postponement of the scope of application for all companies that were/are not affected by the Non-Financial Reporting Directive (NFRD) by at least 2 years** - and then, analogous to CS3D thresholds, a gradual introduction of the obligation→ these adjustments must be done legally as early as possible;
- b. The consolidation of the three regulations into one **regulation**, which must be implemented uniformly throughout Europe in the member states;
- c. **Standardization of the threshold by raising it to 1,000 employees and 450 million turnover**;
- d. **Voluntary reporting under Article 8 of the EU Taxonomy** for all companies not covered by the NFRD;
- e. The **cancellation of the planned introduction of sector-specific reporting standards** as part of the CSRD;
- f. Significantly **limit the knock-on effect** in the frameworks;
- g. The **EU's commitment to legally finalizing fundamental changes to the content of regulations, directives and, in particular, the implementing acts fall under them as early as possible** and publish them in the Official Journal - above all with the aim of streamlining and simplifying requirements and minimizing the trickle-down effect (= STEP 2);
- h. For **large capital market-oriented companies that were already required to report under the NFRD**, a clarification that **reporting based on the current European Sustainability Reporting Standard (ESRS Set 1) is sufficient** until the revision of the content of the CSRD under the Omnibus Regulation becomes effective.

### Justification

A quick and easy way to minimize the bureaucratic burden is to introduce higher thresholds for the CSRD. Even if some work has already gone into reporting for companies that would then fall outside the scope of application, this would not be in vain. Smaller companies can also report voluntarily, but not strictly in accordance with the European Sustainability Reporting Standard (ESRS Set 1), but rather in accordance with the Voluntary SME Standard (VSME) or only in line with ESRS.

A postponement of the CSRD implementation by 2 years and then the introduction of a step-by-step application introduction analogue to CS3D implementation is imperative, as it is not acceptable that companies should already have to implement processes to determine the KPI key figures of the CSRD when they do not yet know the "final form" of the regulatory obligation (according to the omnibus procedure).

As it is already possible within the CSRD framework to report key company-specific figures, the outstanding legal acts on sector-specific standards should be withdrawn.

Particularly for capital goods industries such as mechanical and plant engineering, for example for component manufacturers, the currently envisaged 10 percent turnover link would often lead to companies reporting on several sector standards without any real added value for and about the sustainability performance of the companies concerned.

## **2. STEP 2: Revision of the content requirements of the three regulations CS3D, CSRD and EU taxonomy**

**VDMA is calling for the second step of the Omnibus Regulation:**

- i. Revision and simplification of the content of the regulatory frameworks and the associated delegated acts, e.g.:
  - i. Simplification and consistency of specifications
  - ii. Reduction of data points,
  - iii. Reduction of the trickle-down effect in the supply chain,
  - iv. Set more incentives, fewer process requirements,
  - v. etc., see chapter IV ANNEX

### **Justification**

Regarding the comprehensive sustainability framework that European companies must fulfil under the current sustainability reporting, it is not only necessary to adapt the general framework conditions, as described under step 1, but also to simplify and streamline the detailed requirements of the legal frameworks. The priority here is to reduce complexity, significantly limit the trickle-down effect and identify and adapt overlapping requirements. This will require a longer political process and therefore more time, particularly in light of the fact that this will require a detailed review and a revision of the three sets of regulations, including the associated delegated acts. This should therefore take place in a second step (step 2), which should ideally be completed by the end of 2025 to allow companies enough time for implementation.

**Specific proposals for adaptation and simplification for STEP 2 are presented in detail in the following annex (Chapter IV) for the respective three sets of regulations.**

## IV. Annex: concrete proposals for changes to adapt and simplify CS3D, CSRD and EU Taxonomy

### a. STEP 2: Thematic change proposals in relation to CS3D

In view of the increasing crises (Russia's invasion of Ukraine and the very tense geopolitical situation overall), there is an urgent need for regulations such as the CS3D to allow more consideration to be given to factors such as the safety or health of the local population. It is important that the risk and competitive position of European companies in comparison to other companies from non-EU countries is not worsened but improved by sustainable regulations and due diligence obligations.

For this reason, the VDMA has called from the outset for due diligence obligations to be limited to what companies can control and influence - their own operations, subsidiaries and suppliers at the first level of the upstream supply chain, where influence is possible due to market power and turnover. If all major European companies were to fulfil their due diligence obligations in this way, then the chances of successfully combating human rights violations in the workplace would be significantly higher - and in an effective and not inappropriately ambitious manner.

We therefore propose the following specific adjustments and measures for the CS3D:

- **Clear and standardized regulations and definitions:** Regulations and standards must be clearly defined. To this end, indices should be standardized that companies and auditors can use as a binding guide.
  - To improve and simplify the implementation of CS3D, clearer definitions of key terms such as "adverse effects" and "reasonable effort" ... are needed to reduce ambiguity.
  - Specific provisions should be included in Article 3 to prevent Member States from adopting different definitions
- **Uniform Level Playing Field:** In order to create equal conditions of competition and avoid further fragmentation of the internal market in the European Union, a genuine maximum harmonization clause must be introduced to ensure, as far as possible, that member states cannot go beyond European requirements when implementing the directive at national level in key areas of regulation. Otherwise, European companies will be confronted with 27 different individual implementations, which would significantly increase the implementation effort. It is essential to remove Article 4 Paragraph 2 in order to prevent member states from introducing divergent rules and overshooting the goal. Divergent national legislation on due diligence would not only be costly and burdensome for companies of all sizes, but more importantly would risk failing to achieve the objectives of the legislation in an efficient and effective manner.
- **Reduction of the scope of application analogous to the German Supply Chain Due Diligence Act (LkSG):** The complete chain of activity, as envisaged in the CS3D, is difficult to implement. The LkSG only requires effort beyond Tier 1 if a company has "reasonable knowledge" of violations (see LkSG Art. 9(3)). This proven concept should also be included in the CS3D, as it allows companies to focus their efforts where an actual positive impact is most likely.

- **Risk identification (focus on own business division and Tier 1):** The materiality approach according to CSRD must also be the authoritative approach for determining the risk to people and the environment within the framework of CS3D. It is imperative that the value chain approach (or the aforementioned "chain of activity") for determining the risks is limited to what a company can also control - namely its own business area, its own subsidiaries and certain first-tier suppliers where the influence is large enough. The EU Commission's FAQ (Draft Commission Notice on CSRD) points in the right direction here with question 29 *"What are reasonable efforts to obtain necessary information from the value chain"*. The answer to question 29 mentions criteria that are each sufficient in themselves to *"establish that reasonable efforts have been made..."*. The criteria mentioned here include *"influence and purchasing power"* and *"proximity of the actor in the value chain"*
- **No active involvement and consideration of affected parties:** The requirement to involve affected stakeholder groups in the risk due diligence process goes beyond what is feasible for many companies, but also for the affected parties or their representative groups, and therefore urgently needs to be changed. The focus should be on considering the interests of those affected without actively involving the relevant groups, similar to the materiality approach of the ESRS/CSRD.
- **Provide country-specific whitelists:** The introduction of so-called "whitelists" in countries with corresponding legislation is not only sensible and risk-free, but also urgently needed, as it not only, but in particular, means relief for small and medium-sized companies. Who are we going to trust if not our European partners or like-minded countries such as Canada and New Zealand? As a recently published BDI survey unfortunately shows, companies affected by the German Supply Chain Act often do not take a risk-based approach in their supply chains due to concerns about insufficient implementation. As a result, their suppliers are inundated with questionnaires and customer requirements from several sides, even though there is no risk potential. If the far-reaching chain of activity approach is not scaled back, a similar situation is to be feared with the implementation of the European directive. Although it is possible that human rights violations may also occur in Europe in isolated cases, there is already a functioning jurisdiction for such cases - in line with the guiding principles of the United Nations (UN): "The highest duty of protection lies with the state."
- **Blacklists:** At the same time, the EU Commission's blacklist approach must be strengthened and expanded.
- **Standardization of questionnaires and queries in the supply chain:** There should also be a standardized questionnaire on sustainability issues in general and due diligence in particular, for which private providers of rating platforms must be accredited. Private "rating" providers are currently developing their own questionnaires without mutual recognition. This leads to unnecessary additional work. Legal standardization - even if it leaves scope for sectoral differences - would be urgently needed. If legal standardization cannot be implemented, at least a whitelist of rating providers must be maintained. In this case, it would be imperative that all questionnaires from the rating providers on the whitelist are subject to mutual recognition.
- **Delete the civil liability clause:** The liability clause reinforces the undesirable effect of showering all suppliers with questionnaires or contractual measures, as companies affected by this directive must prove in the event of a claim that they did not cause it or contribute to it at the business partner. Both the German Supply Chain Act and the UN Guiding Principles on Business and Human Rights quite rightly do not provide for civil liability.



- **Appropriate sanctions:** Sanctions of five percent of global turnover are not appropriate. In order to achieve a high degree of legal certainty and a level playing field, the maximum amount of the sanction should not exceed 2 percent of global turnover.
- **Provision of guidelines for implementation:** Implementation guide: A manageable guide on how companies should implement due diligence processes, including for indirectly affected small and medium-sized enterprises (SMEs) that produce outside the EU, would be beneficial.
- **Digital reporting and expanding the availability of databases:** There must be a clear basis and databases for analyzing the risks of one's own supply chain. The development and provision of free digital platforms on which companies can manage their due diligence documentation would be desirable. In addition, an EU-wide auditing tool (particularly for auditing high-risk suppliers) would also be useful to avoid multiple audits and create more efficiency for affected large companies and indirectly affected EU and non-EU suppliers. Sectoral audit solutions are only of limited help here, as the interdependencies between the value chains of different industries are sometimes very complex.
- **Conversion from Directive to Regulation / ensuring harmonization within the EU:** The opportunity to revise the CS3D should be used to convert the Directive into a Regulation to ensure uniform application in all EU Member States. The original reason for choosing the legal instrument of a directive was the planned inclusion of specific obligations for company directors (and thus touching on company law). However, these obligations were deleted during the legislative process and were no longer part of the final legal CS3D text.

## b. STEP 2: Thematic change proposals in relation to CSRD

Many companies are currently preparing for the CSRD and are facing major challenges and lots of unanswered implementation questions. For a revision of the CSRD and ESRS requirements, the VDMA recommends the following suggestions for improvement, which are organized according to various common categories. Simplification, more practical relevance and flexibility should be emphasized throughout, and simple and understandable language should be used.

### General:

- **Withdrawal from the planned sector-specific standards:** The planned sector-specific reporting standards (ESRS Set 2) must be abandoned. Particularly for capital goods industries like the machinery and equipment manufacturing industry, the currently planned turnover linkage of 10 percent would often lead to reporting on several sector standards without really creating any added value for and about the sustainability performance of the companies involved. As it is and should remain possible to report key company-specific indicators, a certain sector-specific reporting criteria set will be created automatically over time.
- **International standards:** Harmonization of the reporting framework with global standards such as GRI and ISSB is necessary to improve user-friendliness and comparability for multinational companies.

- **Flexibility in reporting periods for sustainability indicators:** It must be possible to extrapolate the key figures for a part of the financial year based on the key figures determined for the first months of the financial year. Due to the tight timeline for financial reporting, the complex calculation and determination of sustainability key figures, and the dependency on information from the value chain, calculating the sustainability key figures for the reporting year within the financial reporting timeframe is associated with a great deal of effort. For example, a “10+2” rule can help to make the process more flexible and can also improve the quality of the data. It should be made possible to present the final figures in the following report.
- **Restriction of the reporting scope to essential locations/units:** It must be possible to include only essential locations in the reporting scope. When implementing management standards, a “de minimis threshold” has proven effective in this regard. Additionally, data is often unavailable for small sales locations. Provision is therefore often not possible or only feasible with significant effort.
- **Better structured framework:** The application requirements should not be placed separately at the end of each standard but should be incorporated into the relevant report chapter. In addition, it must be ensured that links, page numbers and generally better-defined references are provided.
- **Centralized information repository:** Provide a central database or support website that provides guidance, FAQs, tools, templates (e.g. materiality tables), resources and best practices in all languages to assist companies with reporting. Emphasis should be placed on simple, understandable language. To strengthen voluntary reporting by SMEs, the EU should provide support aids and tools (such as those planned by the DNK office).

#### **Reducing the knock-on effect by curbing the value chain approach:**

- **Legally anchored reference parameters for the inclusion of the value chain:** As already explained above in the section of the proposals concerning the CS3D, the parameters mentioned in the EU Commission's FAQ (influence and purchasing power as well as proximity to the business partner in the value chain) should be decisive for the inclusion of the value chain in the materiality analysis and should be enshrined in law accordingly.
- **Limiting the value chain approach:** In addition, the inclusion of the value chain should not require real data queries along the supply chain. Focusing on your own measures and your own sphere of influence is much more effective!
- **Recognition of the VSME in the value chain:** A revised value chain approach must ensure that a VSME – voluntarily applied by SMEs and medium-sized companies with fewer than 1000 employees, as well as reporting based on ESRS – acts as a risk-minimizing measure and is also accepted and appreciated accordingly by large companies addressed by the omnibus regulation.

**Justification:** The collection and verification of the required data is extremely time-consuming and contributes little to the EU's concrete sustainability goal due to the lack of influence SMEs have, especially in global value chains and when information is required from suppliers in third countries where the regulatory landscape is less strict.

#### **Clear and simple materiality requirements:**

- **Materiality as a foundation:** The CSRD/ESRS materiality approach should be used as a basis not only for reporting in accordance with ESRS, but also for risk analysis according to CS3D (albeit with a limited focus on inside-out). However, the scope of the materiality methodology must be limited.
- **Guidance, clear definitions of issues and examples of materiality:** Provide more detailed guidance on how companies should conduct materiality assessments. This includes defining what constitutes a material issue, opportunity, positive or negative impact and providing examples of best practice. This will help to minimize subjective interpretations and ensure consistency.
- **Reduce the scope of the materiality assessment and documentation:** Assessing over 80 (sub-sub-) topics at this level of granularity is not expedient. (Sub-sub-) topics can be partially merged. Duplicate reporting disclosures in relation to the materiality analysis - such as those resulting in part from the current reporting obligations under ESRS 2 - should be eliminated. The reduction should particularly focus on ensuring the equivalence of topics. Some of the topics listed so far rather have the character of a measure and should therefore be discarded.

### **Reduction and simplification of the scope of reporting obligations and data points**

- **Reduction:** The scope and detail of the required explanations and descriptions of processes, assumptions, data sources, etc. must be reduced. This would not only reduce the burden on companies but also improve the readability of the reports.
- **Simplification of the data points:**
  - If an issue is identified as non-material, no reporting obligations should be required.
  - Reduce complexity by focusing on fewer, more meaningful key figures that prioritize relevant data and reduce administrative effort.
  - ESRS 2 should be reduced to an absolute minimum of meaningful data points. Today, many of the required data points overlap.
  - Limiting the number of key topics or data points would make a lot of sense. If necessary, only a certain number of data points in years 1 to 3 and then successively expand the content of the report.
  - Limiting the scope of quantitative data points; clarification of reporting obligations (e.g. explicit definition); limited responsibility for upstream and downstream values that are far removed from the core business; clear guidance also for auditors on a limited consulting market for auditors and "negotiation" on material topics in the DMA.
  - Improved assignment of data points to topics and (sub-)subtopics.
  - Reduce duplicate reporting of data points contained in different ESRS standards.
  - There should be clear clarification of what must be reported and what can be reported optionally. Unclear terms and unestablished methods should also be deleted.
- **Improvement/specification of the KPIs to be reported:** Some KPIs still need to be specified and standardized. This helps to improve comparability between companies (e.g. standardized transnational definition of reportable occupational accidents, the gender pay gap, etc.).

- **The CO2 calculation should be simplified:** Instead of all GHG emissions, only CO2 emissions should be included. Especially regarding climate reporting, the requirements for Scope 3 are too detailed and difficult to implement for medium-sized companies or involve many estimated values, which means that accuracy and comparability suffer. Much is still in the area that cannot be influenced if you are only a small customer of your own suppliers. The focus should therefore be on measuring Scope 1 and Scope 2 emissions. It would be helpful if there were concrete assistance and suitable templates/tools available free of charge for calculating greenhouse gas emissions. It must be ensured that companies can calculate their CO2 values in the Scope 3 categories of the value chain as an estimate (spend-based approach), as provided by the GHG Protocol. It would also be helpful if they could concentrate on the largest and most significant values and completely omit immaterial Scope 3 values as immaterial.
- **Disclosure obligation G1-6 - Payment practices:** Payment terms and permitted payment periods are regulated by national law in many EU member states, i.e. companies must fulfil legal obligations in this regard. The payment method has no influence on sustainability targets or performance. The reporting obligation on payment practices must therefore be cancelled.
- **Avoid overlap:** Avoid overlap of CSRD reporting requirements and data points with other regulations, e.g. disclosure requirement E5
  - e.g. rubber as a bio-based material (global certification requirements); rubber also falls within the scope of the EU Deforestation Regulation (which prescribes due diligence based on country risk categories).
  - e.g. packaging worldwide as opposed to packaging regulations in the EU only.
- **Enable more phase-in phases:** Phase-in phases for individual reporting requirements can help to properly collect complex methods and data points. The phased introduction of reporting standards or reporting elements should be based on reporting years and not calendar years. For example, it would be conceivable to report only E1, S1 and G1 in the first reporting year and then gradually expand to other standards per reporting year depending on materiality.

## Change audit obligation

- **Simplified audit requirements:** The audit of sustainability reports by third parties must be transparent and simplified. The audit must be based on clear guidelines / audit standards for the aspects to be assured that are transparent for the companies to be assured. The assurance approach must also include a tiered approach based on the size and complexity of the organization.
- **Stop transition to reasonable assurance:** For the time being, the audit should be based on limited assurance. Switching to reasonable assurance would entail enormously high administrative costs and would be highly anti-competitive for the companies concerned.
- **Opening the audit:** We are calling for other accredited certification companies to be authorized to audit sustainability reports in addition to auditing firms. The changes made as part of the Omnibus Regulation must ensure that this audit option is standardized and binding in all EU countries.
- **Protection against sanctions:** Minor reporting errors should not lead directly to sanctions or a lack of an audit opinion. A certain amount of leeway must be possible here to organize the audit effort appropriately.

## Refrain from XBRL-Tagging

- **No mandatory XBRL-Tagging:** Mandatory XBRL tagging should either be cancelled completely (in times of AI deployment possibilities with the supposed addresses, this is no longer necessary) or at least only be interpreted as a "disclosure solution" and NOT as a preparation solution.

## Digital Tools

- **Provision of standardized tools:** Companies need to invest heavily in different tools just to fulfil reporting obligations. Platforms for data collection, reporting and supplier evaluation must be standardized to improve consistency, efficiency and comparability between companies.
- **Free support tools:** In addition, free tools should be provided to reduce the compliance burden. The VSME must also be considered and receive support. The planned support measures of the German Sustainability Code (DNK) are exemplary here.

## c. STEP 2: Thematic change proposals in relation to EU Taxonomy

### General aspects:

- **Voluntary reporting in accordance with Article 8 for all non-listed companies:** For unlisted companies, reporting in accordance with Article 8 of the EU Taxonomy often does not represent any significant added value. In addition, smaller companies, as well as companies from sectors with less standardized and less "commodity similar mass-produced goods" for which technical criteria have been defined, are unfairly penalized in comparison to large industries such as the automotive and steel industries. Special machinery manufacturers in particular are confronted with significantly higher requirements and greater effort to achieve compliance, which is perceived as unfair.
- **Introduction of a materiality threshold:** A threshold (one to two per cent of total turnover) should be introduced for all capital market-oriented companies and voluntarily reporting companies (see point above), which companies are only obliged to report if their activities exceed the defined materiality threshold. This would reduce the bureaucratic burden and at the same time increase the efficiency of reporting.
- **Synchronization of the DNSH criteria with existing regulatory systems:** Proof that no significant harm is caused ("DNSH") should be simplified and limited to the relevant cases. The DNSH criteria must also be harmonized with existing regulations such as RoHS and REACH in order to avoid redundant requirements and facilitate implementation for companies. A closer link between the criteria and established systems would simplify the practical implementation of the Taxonomy for companies. In particular, FAQ documents that do not form a legal basis must not serve as an essential basis for implementation for companies and auditors, as in the case of Annex C of the DNSH criteria and go beyond the actual legal framework of the technical criteria under the taxonomy.

- **Introduction of a transition period:** Initially, companies should only have to report the economic activities that are directly supported by the EU Taxonomy and only have to report the Taxonomy eligibility. A transition period would offer companies the opportunity to gradually adapt to the requirements and minimize the burden in the initial phase in order to then report alignment in the second step.
- **Reduction of reporting obligations:** Reporting obligations should be reduced to the essentials to reduce the administrative burden on companies. A simplified structure such as a standardized checklist that can be used by different company departments would promote quick and correct compliance with the requirements and reduce complexity.
- **Legal certainty through clear definitions and criteria:** Many terms and criteria within the EU Taxonomy are vague and difficult to understand, which leads to uncertainty during implementation. A clear and precise definition of the terms and a more pragmatic approach to the application of the criteria are necessary to facilitate implementation and avoid misunderstandings. This is particularly relevant as implementation is currently a key challenge due to the different interpretations and interpretations of auditors.
- **Do not equate FAQ documents with legal requirements:** FAQs, which do not reflect a legal basis, should only be used as "Frequently Asked Questions" and not represent the central implementation documents for companies and auditors and, in addition, go beyond the actual technical legal framework (see also the point "Synchronization of DNSH criteria with existing regulatory systems").
- **Simplification of the technical assessment criteria:** The technical criteria of the EU Taxonomy must be simplified and structured more clearly to make implementation more practicable and less bureaucratic for companies. The current complex requirements pose major challenges for companies.
- **Standardization of databases and portals:** Access to information and reporting in connection with the EU Taxonomy should be considerably simplified by introducing standardized databases and reducing the large number of portals and documents (FAQs). This would reduce the administrative burden and optimize the use of resources for businesses.
- **Simplifying the assessment of capex and opex:** The requirements for the assessment and documentation of investment and operating expenses (capex and opex) must be simplified and structured more clearly. The informational value and effect of Opex is also questionable. Consideration could be given in deleting the Opex information or making it voluntary. This would help companies to fulfil the requirements more efficiently and reduce the bureaucratic burden.
- **Consider the knock-on effect in Taxonomy too:** Small and medium-sized enterprises (SMEs) are often overburdened with the current sustainability regulations. However, companies in the mechanical and plant engineering sector that are not subject to the reporting obligation for the EU Taxonomy have an indirect responsibility via their value chain. Customer industries can only fulfil the reporting obligations imposed on them if their supplier industries, such as mechanical engineering, provide them with the relevant information and data. SMEs are therefore often asked to demonstrate whether their technologies are taxonomy-aligned.

- **No application of the Taxonomy beyond its original purpose:** In general, we see the danger that the EU Taxonomy will be extended far beyond the definition of sustainable financial products and used as a template for a fundamental ecological classification of economic activities, as is already the case with export financing. This should be avoided, and the focus should be solely on the actual objective.

#### **Demands to improve the Taxonomy-climate delegated act:**

- We criticize the restrictive and complex nature of the existing technical criteria and their inability to adapt to the innovation dynamics of our industry. The current technical criteria are almost impossible to implement in practice for a sector as heterogeneous and complex as mechanical engineering. We therefore call for a far-reaching revision of the climate delegated act, in particular criterion 3.6 "Manufacturing of other low-carbon technologies".
- Criterion 3.6 "Manufacturing of other low-carbon technologies" is crucial for the entire mechanical engineering sector (NACE code 28) in the climate-delegated act. Today, the following challenges arise, which must be adapted for better implementation:
  - Calculating life cycle GHG emission savings is not trivial. It is already a major challenge for many medium-sized companies to obtain the relevant data and emission factors for the correct life cycle calculation. To improve the comparability of LCAs, the mechanical and plant engineering industry is already working on so-called Product Category Rules (PCRs) for individual technology areas. In order to increase comparability and reduce costs for companies, the EU Commission should facilitate this work through freely accessible tools and databases, including emission factors, and thus ensure that calculations are carried out according to standardized procedures and values.
  - It is extremely difficult to demonstrate "significant savings in GHG emissions over the entire life cycle" of technology. There cannot be a single threshold value in mechanical and plant engineering, as the differentiation between "significant savings" for components, machines and large-scale plants reveals completely different levels of efficiency.
  - However, the biggest challenge in our industry is to determine and credibly present the aspect of "in comparison to the best performing alternative technology/solution available on the market". Mechanical and plant engineering often produces individual solutions/customized products. This means that there is little or no basis for benchmarking. In addition, the term "best performing alternative available on the market" puts our companies in a different competitive position than other industries. In economic activities such as steel production or the automotive sector, any manufacturer that fulfils the criteria can report Taxonomy alignment; in mechanical engineering, this is only possible for the "best performing alternative".
- **Flexibility for emerging sectors:** In order to cope with the dynamic changes in new technologies and markets, a flexible framework needs to be created that takes emerging sectors and technologies into account. This could support companies in innovative sectors that are central to the transition to a green economy. To this end, a framework for the implementation and verification of "enabling activities" needs to be

developed to allow companies in the mechanical engineering sector to classify their "enabler" technologies as compliant.

- **Improved transparency and regular updates:** There should be a regular review of delegated acts and alignment with the latest scientific evidence to ensure that the EU Taxonomy is in line with global climate targets and advancing developments in technology.

#### **Demands to improve the Taxonomy-Environmental Delegated Act (Taxo4):**

- **Adapt criteria for the circular economy:** We see it as a key missed opportunity that criterion 5 "Services" is not applied to all mechanical engineering technologies (NACE code 28 in its entirety), as these are important services for our industry that make a major contribution to the environmental sustainability of our products and to extending their lifespan. We therefore call for NACE code 28 in its entirety to be included under 5 "Services" in the environmental delegated act.
- **Scientifically sound criteria for biodiversity:** The criteria for the environmental goal of biodiversity must be made more scientifically sound and comprehensive in order to reflect the dependence of almost all companies on ecosystem services. More economic activities should be taken into account, as biodiversity is an increasingly important component of sustainability reporting.
- **Simplified DNSH criteria for biodiversity and water:** The requirements for the DNSH principle around biodiversity and water should be simplified to make it easier to demonstrate compliance. Clear, specific examples and standardized methods should be provided for this purpose.



## **V. Excursus: Parallel to this omnibus regulation, CBAM, EUDR and the Forced Labor Regulation (FLR) should be made manageable for companies**

- The requirements from the regulations mentioned in the title of the excursus are in part unmanageable. EUDR and CBAM are extremely detrimental to competition with non-European competitors and can lead to serious supply bottlenecks that further destabilize Europe's economic power. At this point, the VDMA refers to its current [CBAM position](#) and the latest press statement regarding [EUDR](#). The content requirements of the regulations mentioned should therefore be urgently and promptly designed in a manageable way and it must be examined to what extent this can also be done via omnibus regulation.
- The mandatory requirements should be tested for practicability in advance by state and municipal administrations in the context of public procurement and adapted accordingly.
- The involvement of economic experts and company representatives, especially from SMEs (for example through their association representatives), should also be ensured as part of the legislative amendment.
- Regulatory simplification should also be addressed in the Delegated Act 2023/1185 (REDIII): So far, this act prohibits trade in carbon-containing hydrogen derivatives from third countries whose CO<sub>2</sub> originates from an industrial point source. A pragmatic approach should be developed to enable trade in these derivatives.

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