European Office

Fast-Tracks to Simplification

Principles, best practices and concrete proposals for an innovation-friendly and competitive regulatory framework

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1. Introduction

Both the Letta report and the Draghi report have been wake-up calls: Europe's competitiveness and prosperity are at stake. Alongside other factors such as infrastructure, demographic change or energy prices, a more innovation-friendly regulatory framework will be crucial to making the EU an attractive location for innovators, founders, businesses and investors.

The European machinery and equipment manufacturers are horizontal enablers, developing and delivering innovative industrial technologies to many sectors and to global markets. Because of this role, they feel the regulatory burden even more than others: First, as suppliers to a wide range of sectors, they must comply with many sectorial pieces of legislation. Second, they export to global markets where they compete with companies that have a lighter regulatory burden. Third, many of them are SMEs or midcaps that innovatein small series and cannot spread compliance costs over large series. And fourth, as industry 4.0 companies, their machines include both digital and physical elements, making them subject to both traditional and digital regulation. Better regulation would not only unleash a wave of innovation in the machinery industry itself, but also increase productivity and innovation in customer sectors.

We therefore share the conclusions of Mr Letta's and Mr Draghi's reports. With this paper, we would like to express our views and make some concrete proposals.

VDMA is convinced that a better balance can be achieved between the need for intervention on the one hand and the need to leave room for innovation and transformation processes on the other. EU policymakers already have the key in their hands: On the one hand, the well-known principles of better regulation - subsidiarity, proportionality and technological neutrality. On the other hand, a wide range of good regulatory practices have been applied in the past – such as the New Legislative Framework, risk-based approaches and effective market surveillance - and should be recalled.

In the following chapter, we have identified 11 best regulatory practices that could make regulation less burdensome for our businesses. Many of these could be still applied when shaping delegated acts or become part of a possible "omnibus-regulation". We have also included Annex 8 concrete examples where the application of these approaches could provide immediate relief.

However, it should not stop here: Besides this "quick fix"-measures, Europe needs a ground-breaking political debate on how the EU wants to regulate. In our view, the root cause of many burdensome regulations is an overly risk-averse approach and a lack of trust in the ability of businesses, citizens and markets to make the right decisions.

What is needed is a fundamental cultural change: innovation friendliness, technological neutrality and individual responsibility must be the compass. Finally, each regulatory initiative must have as a mandatory co-objective to make Europe an attractive place for innovation and investment.

2. Best practices and easy-to-apply-approaches to simplify regulations and to reduce regulatory burden

1. **Favour risk-based approaches over undiscriminated bans or general authorization requirements:** Bans are the strictest way of regulating with massive and often unknown impacts on innovation, companies and investors. Wherever possible, a risk-based approach must be used (e.g., in the review of REACH).
2. **Make feasibility of measurement and availability of data a necessary element** of impact assessments and practicality checks: No regulation should enter into force before it is clear how target parameters can be measured. Without this precondition, massive uncertainties will hamper implementation and distort a fair application of the rules.
3. **Improve market surveillance rather than tighten regulation:** For the regulatory system to work effectively, it is essential to strengthen the market surveillance system and to ensure that the rules are applied fairly. The current weakness of market surveillance is a disadvantage for European businesses which have to comply with the regulatory burden while competing against non-compliant products at the same time. Market surveillance does not directly reduce the regulatory burden on EU manufacturers but avoids distortions due to unfair non-compliance and can contribute to a better protection against unfair competition. Before considering other measures, it must be ensured that unfair competition is not caused by a lack of effective market surveillance.
4. **Replace mandatory third party-assessments with manufacturer´s self-assessment:** Third-party certification is not an innovation-friendly instrument as it increases costs and time-to-market. It also does not protect consumers from non-compliant products, nor does it protect European manufacturers from unfair competition. Conformity assessments should, as far as possible, be carried out under the responsibility of the manufacturer (‘internal production control’ and allowing self-assessment) to reduce unnecessary burdens, long time-to-market delays and bottlenecks at 3rd conformity assessment bodies.
5. **New Legislative Framework for product regulation:** The core legal documents should be limited to clear general principles, with essential requirements set out in an annex and the definition of the state of the art and its implementation left to standardisation and industry. These principles of the New Legislative Framework (NLF) ensure that legislation is technology-neutral, future-proof and flexible to take account of technological innovation and new developments.
6. **Accelerating harmonized standardization:** The EU's system of harmonised standards is an essential element of the NLF, allowing the state-of-the art not to be described in legislation and conformity to be presumed if these standards are followed. Shortcomings in this system must be addressed as a matter of priority.

7. **Remove overlaps and inconsistencies through a “one law only”-clause:** In many cases, similar risks and objectives are addressed in different pieces of legislation, leading to duplication of compliance burdens or even inconsistencies. Where such overlaps do not cover actual regulatory gaps, a simple clause could clarify which provisions take precedence.
8. **Clarify and reduce scope:** A more focused scope would facilitate and improve implementation by stakeholders and public authorities. The focus of regulation should be where the risks are and where the addressees can influence them. A targeted scope considering the objectives as well as the feasibility of practical implementation can reduce the burden without sacrificing effectiveness. Examples include “white lists” of situations which are presumed to be compliant without further prove, exemptions for SMEs or raising thresholds. Particular **care should the taken when extending the scope**: Before extending the legal scope of any legislation, the basic steps of stakeholder consultation and impact assessment should always be followed. Broadening a piece of legislation to additional sectors may lead to less uniform application compared to existing ones. Hence, the use of delegated acts for such scope extension should be avoided, as the involvement of the European Parliament plays a crucial role in ensuring a balanced and democratic EU policy-making process.
9. **Differentiation B2B-B2C:** In general, in B2B-situations, companies are on a level playing field and use contractual arrangements to set the terms that suit them best. In many cases, the application of regulations could be limited to the B2C-relationships where protection of consumers and citizens is more critical.
10. **Extend transition periods:** In many cases, the burden on addressees could be reduced simply by extending the transition periods and allowing more time for implementation – where appropriate, voluntary compliance before the hard deadline could be encouraged and supported.
11. **Efficient administrative support for implementation:** In cases of reporting obligations, where national authorities and the European commissions are involved, strengthening their efficient administrative support and communication providing concrete answers to individual questions, webinars, and templates maximize the chances for successful implementation.

Annex: Urgent, but easy-to-implement cases for simplifying existing or upcoming regulation

1. **Taxonomy:** With regard to the implementation of the reporting obligations for the Sustainable Finance Taxonomy, which all companies subject to CSRD reporting requirements must fulfil, legal guidelines for correct implementation would bring significant progress. Many technical criteria (e.g. 3.6 Manufacturing of low-carbon technologies) leave room for interpretation, which leads to implementation difficulties for companies and makes the audits unpredictable. In addition, a review of the applicable NACE codes under the EU taxonomy should take place. Under the so called "Taxo4 criteria", economic activities such as repair, refurbish or remanufacture are listed under "Services" (5. Services) for only very selected technologies. There should be an extension of the NACE codes to the entire mechanical engineering sector (NACE code 28), as the listed services are central economic activities in the mechanical engineering sector and companies must be given the opportunity to have them recognised as taxonomy-aligned.
2. **CBAM:** The reporting obligations started in October 2023, while the full operationalization is scheduled for early 2026. However, the lack of administrative support at EU and national level, the complexity and huge bureaucracy of the reporting requirements together with the unavailability of primary emissions data, and the technical problems at the CBAM Portal are serious indications for the flawed design of the current legislation. At the same time, the very low de minimis requirement of EUR 150 is not a proportionate threshold between the high administrative burden for reporting and the very low climate impact of imports. These significant implementation challenges confirm that a potential extension of the CBAM scope is currently unfeasible without addressing existing issues and providing support for EU companies, especially SMEs.
3. **CSDDD:** The Directive on Corporate Sustainability Due Diligence (CSDDD) entered into force in July 2024. However, Governments and State authorities are in a much better position than businesses to reveal violations and enforce human rights. We require here the support of the EU institutions and the EU Member States. They should, wherever possible, provide for example data regarding human rights country risks, white-lists of countries where the CSDD Directive will not apply, checklists, etc. We would also welcome a black-list of companies with which European companies are not allowed to maintain relations. Proportionality in implementation can only succeed if the affected companies are provided with precisely the instruments mentioned above. Otherwise, we will experience an enormous EU-wide trickle-down effect, which will place an excessive burden on indirectly affected SMEs in particular.
4. **Machinery Regulation (2023/1230): Reducing the need for 3rd party assessments:** Annex 1 of the Machinery Regulation defines which categories of machines are subject to a burdensome and innovation-hampering mandatory 3rd party assessment. The

amended of this annex through a delegated act is already foreseen in Art. 6, based upon a reassessment of the risks: Based upon accident reports of the Member States[1], machine categories can be added, but also be deleted. The Commission could therefore ask Member States to provide accident reports (before 20.1.2027) on the categories of Annex I machinery. If no or insufficient accident reports are received for a category, this category could be removed from Annex I. This would not only relieve manufacturers, but also notified bodies and market surveillance authorities. It would also reduce the need for harmonized standards.

5. **Posting of workers:** No purchase of machines in the highly export-oriented mechanical engineering and plant engineering sector is possible without their installation, operationalisation, servicing and maintenance. Highly qualified specialist workers, who are not suspected of being involved in social dumping, are therefore active daily in EU cross-border postings. However, there is a high bureaucracy for our member companies in this area, e.g. a patchwork of 27 different national reporting obligations, documentation demanded in the national language and a compulsory contact in many EU Member States is required. The EU institutions and the EU Member States are urgently requested to remedy these flaws by harmonising and coordinating rules as well as by preparing tools that are fit for daily use. Solutions include an exemption to report the first ten days of a posting and the eDeclaration on which the Commission is working.

6. **AI-Act (2024/1689): Waiving obligations for products already covered by harmonized EU-laws:** Through List of Union harmonisation legislation in Annex I, the AI act extends the scope of potential High-Risk-AI Systems to products which are already regulated, adding additional obligations. For High-Risk Systems with purely safety-relevant risks and without risks for other fundamental rights, the risks are fully covered in the vertical regulations. Therefore, non-safety-relevant and similar obligations as in the vertical regulation can be waived for products which are already compliant. Examples are the obligations such as “Compliance with Instructions”, “Human Oversight”, Data Protection Impact Assessment (DPIA), Fundamental Rights Impact Assessment (FRIA), Robustness and Cybersecurity,Risk Assessments.

7. **AI-Act (2024/1689): Extension of “Opt-Out”- clause for High-Risk AI:** Art. 6 (3) allows under certain conditions that certain AI systems (referred to in Annex III) are not be considered to be high-risk if they do “not pose a significant risk of harm to the health, safety or fundamental rights of natural persons, including by not materially influencing the outcome of decision making”. The purpose is to avoid that narrow procedural task are covered by the full regulatory burden. This opt-out should be extended to the AI-systems covered bey Art. 6 (1), as the conditionality “not pose significant harm” also applies to the systems covered in Art.6 (1).

[1] Process is already established in IR 2024/1922

8. **Extend transition time to accounting renewable energy electricity for hydrogen production creates more flexibility until 2030 in the Delegated Act 2023/1184**The rules of additionality are too strict and complex for an upcoming market like hydrogen. In many EU countries the rules make hydrogen projects unprofitable. We therefore suggest extending the phase-in period for additionality until 2035 and the phase-in period for temporal correlation to 31 December 2030.

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