

PRESS RELEASE

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Study Assesses Effects of Climate Policy Costs on German Manufacturers

- Analysis of 75,000 German manufacturers (2000–2019)
- Firms receiving compensating support within EU ETS were less likely to shut down
- EPoS Economic Research Center at Bonn and Mannheim publishes results

Bonn, Mannheim, 07. October, 2026 - **There are concerns that climate policies of the European Union pose a cost risk to German manufacturers. Economists have now analyzed the impact of policies such as the Emissions Trading System (ETS) which puts a price on firms' polluting activities. They find that compliance costs had little measurable impact on employment and wages at regulated manufacturers. Importantly, regarding the impact of free permit allocations, they find that recipient establishments were only half as likely to cease operation compared to unregulated firms. The findings are published by the EPoS Economic Research Center at the Universities of Bonn and Mannheim in the discussion paper "Climate Policy, Manufacturing Competitiveness and the Decision to Exit: Evidence from Germany".**

In the first two phases of the ETS, starting in 2005, all establishments regulated by the ETS received a free allocation of permits. The researchers compared regulated with unregulated establishments. "Our findings suggest that regulated manufacturers exited the market at a much lower rate than unregulated firms," says Ulrich Wagner from the EPoS Economic Research Center. "The free emission permits given to those firms as compensating support may have created economic benefits large enough to offset any incentive to close associated with carbon-compliance costs."

As of 2013, only establishments in sectors on the so-called Carbon Leakage List were able to receive continued support. These sectors generate comparatively high emissions and are more exposed to international competition. The EU wanted to prevent firms in these sectors from relocating production to countries with more lenient climate regulations.

Fewer exits of establishments receiving continued support

The researchers also examine whether establishments that continued to receive a free allocation of permits were less likely to exit the market. They find suggestive, but not conclusive, evidence of lower exit rates among these establishments.

"Overall, our results confirm the findings of other studies that environmental policies, and efforts to support industries affected by them, can often have quite muted effects on firm performance," says Kathrine von Graevenitz. "However, focusing only on employment or wages may miss important effects on the composition of manufacturing, which is reflected in the decision to exit the market or stay in operation. We consider this to be a fruitful avenue for future research."

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About the study

The study uses the German Establishment History Panel, covering the universe of German establishments, for 2000–2019. The analysis focuses on manufacturing establishments that had at least 20 employees in at least one year, yielding approximately 75,000–90,000 establishments. The researchers identified establishments regulated under the EU ETS and establishments receiving the EEG levy exemption, and compared them with matched establishments of similar size in the same sector.

The presented discussion paper is a publication without peer review of the Collaborative Research Center Transregio 224 EPoS. Access the full discussion paper here:
<https://www.crctr224.de/research/discussion-papers/archive/dp775>

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Authors

Markus Janser, Senior Researcher, Institute for Employment Research, Nuremberg

Stephen Jarvis, Assistant Professor of Environmental Economics, London School of Economics

Kathrine von Graevenitz, Professor of Environmental Economics, ZEW and University of Mannheim and member of EPoS Economic Research Center

Ulrich J. Wagner, Professor of Economics, University of Mannheim and member of EPoS Economic Research Center

The Collaborative Research Center (CRC) Transregio 224 EPoS

Established in 2018, the Collaborative Research Center Transregio 224 EPoS, a cooperation of the universities Bonn and Mannheim, is a long-term research institution funded by the German Research Foundation (Deutsche Forschungsgemeinschaft, DFG). EPoS addresses three key societal challenges: how to promote equality of opportunity; how to regulate markets in light of the internationalization and digitalization of economic activity; and how to safeguard the stability of the financial system.

Press Contact

econNEWSnetwork Sonja Heer

Tel. + 49 (0) 40 82244284

Sonja.Heer@econ-news.de

Contact

Prof. Kathrine von Graevenitz

Environmental and Climate Economics, ZEW, and Department of Economics

University of Mannheim

Kathrine.vongraevenitz@zew.de

CRC TR 224 office, Marja Eisheuer

phone +49 228 73 7926

email crctr224@uni-bonn.de

www.crctr224.de