



Germany's Role in the EU's Carbon Border Adjustment Mechanism (CBAM)

Germany's manufacturing sector is a cornerstone of its economy, contributing 26.6 percent to the country's gross value added, well above France (16.8 percent) and the USA (18.4 percent), though slightly trailing Japan (29 percent). This powerhouse sector generates a turnover of €2,096 billion, with the automotive industry taking the lead at €459 billion. The industrial landscape is dominated by automotive, mechanical engineering, chemical, and electrical industries, with global giants like Volkswagen, Daimler, BMW, BASF, and Siemens driving innovation and exports. Mechanical engineering, largely composed of SMEs, is the largest industry, employing 1.1 million people. Nearly half of the sector's output is exported, with motor vehicles and parts topping the list at €244.4 billion, representing 15.5 percent of total exports. The manufacturing sector also provides jobs for 7.5 million people, underscoring its critical role in Germany's economic and social fabric. As a key player in the European Union, Germany has been instrumental in advancing climate action, particularly through its significant role in shaping the EU's Carbon Border Adjustment Mechanism (CBAM).

Germany's Support for CBAM

Germany's support for the Carbon Border Adjustment Mechanism (CBAM) is driven by several key motivations aimed at protecting its domestic industries and ensuring fair competition. The CBAM is viewed as an essential tool to prevent Germany's industries from being undermined by countries with lower environmental standards. By imposing a carbon price on imports, Germany seeks to ensure that imported goods bear a similar carbon cost to those produced domestically, thereby levelling the playing field for its energy-intensive sectors.

1- Protecting Domestic Industries, Key Sectors in Germany That Could Benefit from the CBAM Include:

- (a) Automotive Industry:** The automotive sector in Germany generated €459 billion in turnover. As a major contributor to the economy, it could greatly benefit from the CBAM by ensuring that imported vehicles and parts from countries with weaker environmental regulations face similar carbon pricing, safeguarding the competitiveness of domestic manufacturers like Volkswagen, Daimler, and BMW.
- (b) Mechanical Engineering:** With over 1.1 million employees, the mechanical engineering industry is the largest industrial sector in Germany. This sector plays a central role in the country's export-driven economy. By applying carbon pricing to imports, the CBAM would help protect the sector from international competition that might not adhere to the same environmental standards.
- (c) Electrical Industry:** Siemens and other major players in the electrical sector rely on energy-intensive processes. The electrical industry's value is part of Germany's overall €2,096 billion manufacturing turnover. With the CBAM in place, Germany's electrical industry would benefit from a more level global playing field, as imports of electrical



goods would also be subject to carbon pricing, protecting domestic manufacturers from unfair competition.

(d) Steel Industry: The steel industry is responsible for 30 percent of Germany's industrial emissions. This sector, highly energy-intensive, would stand to benefit from the CBAM by mitigating increased costs due to the abolition of free emissions certificates and the introduction of full pricing for greenhouse gases. Steel production is a vital part of Germany's economy, contributing significantly to both industrial output and exports.

(e) Cement Industry: The cement industry, responsible for a significant portion of Germany's industrial emissions, would benefit from CBAM by reducing the competitive edge of imports from countries with lax environmental regulations. Germany is already leading projects like Catch4Climate and LEILAC 2 to reduce emissions from cement production. By 2030, the cement industry in Germany will need to capture at least 1 Mt of CO₂ per year, expanding to more than 10 Mt by 2045. The CBAM could further support these efforts by ensuring that imported cement also faces carbon pricing.

(f) Chemical Industry: With a turnover of €225.5 billion, the chemical industry is one of Germany's largest and most energy-intensive sectors. It plays a significant role in Germany's economy, employing a large number of people. The CBAM could protect this vital industry from competition with countries that have less stringent climate policies, ensuring that imported chemicals are subject to the same carbon pricing that domestic products face.

2- Promoting Global Climate Action and Strengthening the EU's Climate Leadership:

Germany believes that the CBAM can incentivize non-EU countries to adopt more stringent climate policies. By making it more expensive to export carbon-intensive goods to the EU, the CBAM can encourage other countries to decarbonize their economies. As a key player in the EU, Germany believes the CBAM can spark a global shift toward more sustainable practices. By encouraging countries to reduce their carbon footprints, the CBAM can create a competitive advantage for nations that lead in decarbonization, fostering green technologies and cleaner industries. Germany's advocacy for the CBAM is part of a broader effort to position itself as a global leader in climate action, ensuring that the transition to a low-carbon economy is a collective international effort. Through this mechanism, Germany hopes to reshape global trade in a way that prioritizes sustainability, helping drive a future where climate responsibility is a shared global standard.

Germany's Role in Shaping CBAM (Challenges and Concerns)

While Germany strongly supports the objectives of the Carbon Border Adjustment Mechanism (CBAM), there are several challenges and concerns that need to be addressed. First, Germany faces the complexity of implementing the CBAM effectively. As a comprehensive policy, it demands a detailed design and smooth execution to avoid administrative burdens on businesses. **Germany is concerned about the potential unintended consequences of such a large-scale regulatory shift, which could disrupt the balance of domestic and international trade.**

Another concern is the potential for international trade disputes. Countries that feel unfairly targeted by the CBAM may challenge the policy, creating diplomatic and economic tensions. Germany, as a key player

in the EU, must ensure that the CBAM complies with global trade rules to avoid trade conflicts and safeguard the EU's position in international markets. Lastly, Germany recognizes that the CBAM could have an impact on developing countries that depend on exporting carbon-intensive goods to the EU. **Germany is keen to address the social and economic implications of the CBAM on these nations, ensuring the policy's fairness and inclusivity while promoting global climate goals.**

Conclusion

Germany's support for the Carbon Border Adjustment Mechanism (CBAM) underscores its dedication to combating climate change while ensuring fair competition for European industries. As a leading advocate for climate action within the EU, Germany is central to shaping policies like CBAM that aim to decarbonize economies globally. Addressing the challenges and concerns tied to CBAM's implementation will be crucial for its success, paving the way for a more sustainable and equitable low-carbon future.

To gain a deeper understanding of Germany's pivotal role, consider exploring key areas such as the specific industries most affected by CBAM, its economic and social implications for German businesses, and Germany's influence in international climate negotiations. Additionally, examining how German industries are adapting to CBAM and reducing their carbon footprint can provide valuable insights into the intersection of climate policy and global trade. These perspectives highlight Germany's leadership in shaping the future of climate and economic policy on a global scale. ■

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