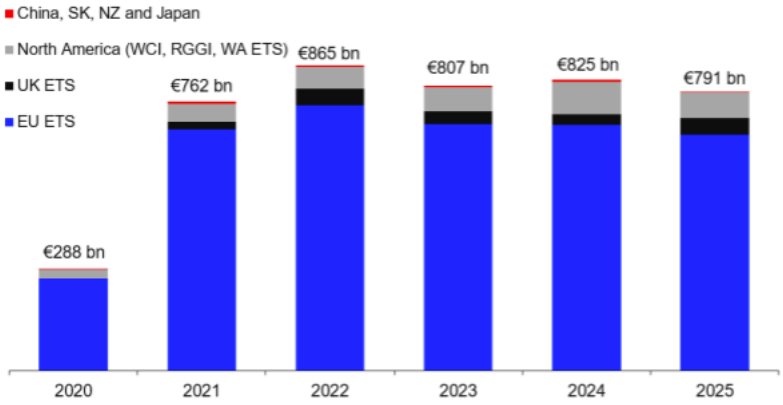
LSEG Carbon Research

Global Carbon Market 2025 Year in Review & 2026 Year Ahead

LSEG Carbon Research has published two reports examining the state of the global carbon markets: a 2025 Year in Review published in December 2025 and a 2026 Carbon Markets Outlook published early-February 2026. The data covered in both full reports includes all data published in past "LSEG Carbon Research: Year in Review" reports, in addition to new content that has not previously been included. For a complete picture of LSEG Carbon Research's full view on the global carbon markets, it is recommended to read both reports. Please reach out to market.response@lseg.com for more information and full access to both complete reports.

Introduction

Figure 1: World Carbon Markets by Segment (Euros)



Source: LSEG Carbon Research. Compiled by data from ICE, EEX, LEBA, CME, CBL, KRX, Jarden, JPX and the Chinese Carbon Markets Exchanges. Data complete as of 15 December 2025.

Throughout 2025, commitment to climate action remained overshadowed by government and business concerns about global conflict, economic growth and development, and energy security. In addition to these evergreen issues, 2025 also included new challenges. Newly re-elected US President Donald Trump kicked off a round of new—and extremely high—US tariffs in April that threw global equities markets into turmoil and reshaped global trade dynamics as different governments scrambled to negotiate new trade terms. By contrast, the surge in AI investment proved to be a boon for equities markets, even amid concerns about the impact on the environment, job security, and sustainability; in some regions, the rapid buildout of data centers has stalled progress on decarbonization and renewable energy rollout, while also creating concerns about fresh water supply. Russia's invasion of Ukraine will enter its fourth year in February 2026 which, in addition to the toll it has had on Europe's economy, it has also prompted Europe to re-examine its own defence priorities, partly at the expense of its previous focus on climate action.

President Trump signed an executive order to pull the US out of the Paris Agreement for the second time the day he took office—in January 2026, this was expanded to include full withdrawal from the UN Framework Convention on Climate Change (UNFCCC)—raising concerns about the future of multilateral climate action. However, it has also opened room for new international leaders at a point when renewable energy is surging, the EU's Carbon Border Adjustment Mechanism (CBAM) and the Paris Climate Agreement's Nationally Determined Contributions (NDCs) have motivated greater adoption of carbon pricing initiatives, and changing international alliances are already forging new ties in cross-border trade and cooperation.

COP30 was held in Belém, Brazil in November 2025, and while it fell short of many of the commitments activists had hoped for, it did prompt a renewed focus on global forestry, indigenous land rights, and adaptation financing for the most vulnerable nations. Many countries failed to submit their updated Nationally Determined Contribution (NDC) pledges for 2035 in time, and many who did were seen to be falling short of the ambition to meet the Paris climate objectives. The flagship "Emissions Gap Report" published by the

UN Environment Programme (UNEP) ahead of COP indicated that while progress has been made to slow climate change, current policies have placed warming still well above the 2-degree threshold, with the 1.5-degrees aimed for with the Paris Agreement nearly out of reach.

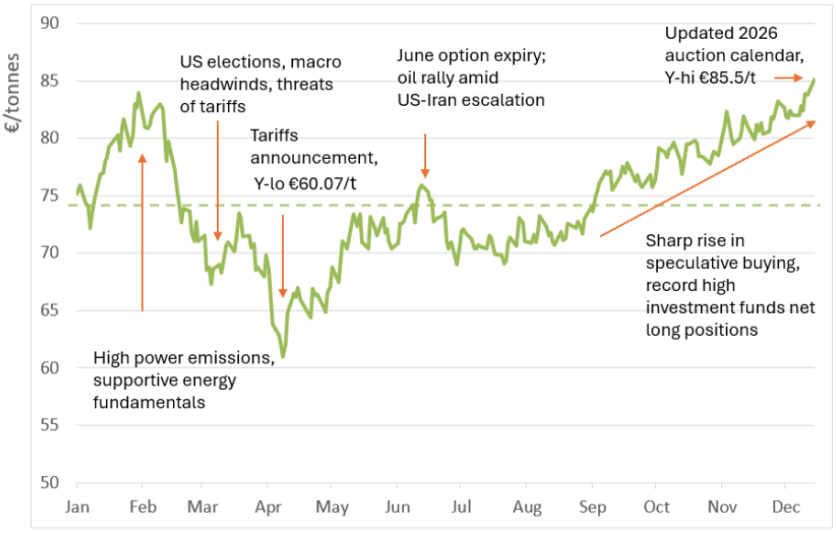
While carbon pricing instruments continued to expand throughout 2025, bolstered by a combination of NDC Commitments and the launch of the EU's CBAM, 2025 showed a contraction in global compliance carbon markets in 2025, with total value dropping to €791 billion, the lowest since 2021. Every year is a pivotal year for climate change and for carbon pricing, but 2026 is set to be a year that is likely to set the direction for many years to come. It has been more than a decade since the signing of the Paris Climate Agreement, which recognised the critical role of carbon markets in mitigating not just climate change, but also biodiversity loss and ecosystem destruction.

The European Union & the United Kingdom

The EU carbon market celebrated its 20th year of operation in 2025 but experienced a turbulent year, seeing EUAs pulled by different market forces. Energy fundamentals, the traditional driver of the EUA market, provided strong bullish sentiment for the EUA market in Q1, but became less significant as the year progressed. The deteriorating global macroeconomic situation launched by increased US protectionism vis-à-vis new tariffs in Q2, pulled the EU carbon market into closer correlation with the global equities markets. Throughout Q4, prices rose sharply mainly driven by the expansion of net long positions among investment funds, which accumulated ahead of a much shorter auction calendar for 2026.

2025 has also been a year in which political support for climate policy at the EU level has deteriorated with a watered-down 2040 climate agreement—despite the 90% GHG reduction headline figure—and the unravelling of the EU's 2035 internal combustion vehicle ban in Q4. Decarbonization policy was forced to compete for political oxygen in a tense geopolitical climate.

Figure 2: Dec25 EUA price (green); yearly average (green-dotted)



Source: LSEG Carbon Research. LSEG Workspace.

The EU Commission is set to undertake a substantial review of the EU ETS in 2026 which is set to address a number of outstanding questions across a wide range of different topics, many of which are likely to impact the trajectory of the EU Carbon price. This review is following on from the significant changes that were announced to the EU 2040 target, the timeline for ETS II and the decision to scrap the ICE ban that were decided as the year drew to a close. For a full overview of the 2026 ETS review, please see our analysis. (LSEG Workspace subscription required.) Much of the practical application of these decisions will need to be negotiated and implemented 2026, which could lead to some additional volatility in the EU carbon allowance price throughout the year. Further, 2026 marks a "planning" year for the EU Commission as it prepares for Phase V of the EU ETS, meaning that the direction of negotiation in 2026 will have a profound impact on the trajectory of the EU ETS for the next several years. LSEG's Q1 2026 long-term EUA price, supply and demand forecast is available here. (LSEG Workspace subscription required.)

The UKA market's discount to EUAs narrowed sharply mid-way through 2025 as the long-speculated realignment between the EU and UK ETS systems was confirmed as a priority by Keir Starmer's Labour government. While a specific timeline still needs to be worked out between London and Brussels, it is likely that the UK will push for alignment relatively quickly in order to prevent further divergence between the two markets. Additionally, the Labour government pursued a tightening of the market cap throughout 2025, moved to launch its own CBAM, and confirmed that shipping will be included in the UK ETS from mid-2026. All of these developments, coupled with the sharp rise in EUA prices, proved to be distinctly bullish for the UKAs in 2025. Like the EU ETS, the UK ETS is set to face significantly lower supply of UKAs in 2026 and 2027 due to tighter free allocation and a much shorter auction schedule. LSEG's Q1 2026 UKA medium-term UKA price, supply and demand forecast is available here. (LSEG Workspace subscription required.)

For LSEG Carbon Research's full analysis on the EU ETS and UK ETS markets, a detailed look at an operational CBAM, and additional research on the upcoming 2026 ETS review and re-link between the two markets, please reach out to market.respons@lseg.com.

China

China's National carbon market (CN ETS) entered its fourth compliance period in 2025. As carbon markets have become more international through the formalization of Article 6 Paris Agreement rules and the introduction of the EU's CBAM, China has continued to evolve and strengthen its carbon market system. In 2025, the State Council published crucial guidance, offering a more explicit medium- to long-term roadmap which strengthened the confidence of market participants. Additionally, after including only power generation since its launch in 2021, the market officially expanded its scope to include emissions from several key industrial sectors through the release of the final work plan, allowance allocation plan and technical documents covering iron & steel, aluminum and cement.

However, despite significant policy developments, prices for China Emission Allowances (CEAs) saw an overall downward trajectory through 2025, which was largely driven by the carry-over policy that took effect in 2024. At its lowest, the CEA composite price fell to 2022 levels around CNY50/t, half the level seen during the market's peak in 2024. Throughout 2025, the weighted average price of the 2025 CEA, both listed and bilateral trades, was CNY62.36/t (approx. €7.70/t), down 35% from the previous year's average of CNY 96.02/t (approx. €11.87/t). OTC trades accounted for over 65% of the total volume, below the 80% plus typically seen in prior years. In the fourth compliance period, 3,378 entities were regulated: 2087 power; 232 iron & steel; 962 cement; 97 aluminum. Total allowances to be settled reached 8.194 billion tonnes. The Ministry of Ecology and Environment (MEE) reported a 99.99% compliance rate, implying fewer than one million tonnes of allowances have yet to be surrendered.

Figure 3: Average CCER price vs CEA Composite (CNY/t)

Source: LSEG Carbon Research. LSEG Workspace.

From a macro perspective, 2026 marks the opening year of China's 15th Five-Year Plan (2026–2030). Relevant top-level guidance and supporting policies are expected to roll out progressively, spanning key areas including macroeconomic policy; supply-side structural reform, including efforts to address excess capacity; efforts to expand domestic demand and boost consumption; the development of a modern industrial system; the energy transition; green and low-carbon development; and carbon market development. LSEG's H1 2026 China ETS price, supply & demand update is available here. (LSEG Workspace subscription required.)

Following the confirmation that the steel, cement, and aluminum smelting sectors must fulfil compliance obligations for 2024–2025 emissions in the National ETS, the scale of the pilot ETSs has been further diminished. The supply-demand dynamics for market allowances have once again become uncertain, with most pilot ETSs exhibiting sluggish prices and traded volumes. On 29 May, the General Offices of the CPC Central Committee and the State Council issued Opinions on Improving the Market-based Allocation System for Resource and Environmental Factors. Regarding the development of the CCER market, the opinions propose gradually expanding the scope of support for CCER projects. They also call for strengthening the linkage between green certificates and both the National ETS and the CCER market, preventing trading entities from deriving duplicate benefits from both green certificate trading and voluntary emissions trading. Furthermore, while focusing on domestic market development, efforts should be made to actively promote mutual recognition and integration with relevant international mechanisms. For more details about the China's CN ETS, regional Pilot markets, and the relaunch of the CCER market, please refer to the full reports.

Japan, South Korea, Australia & New Zealand

In Japan, 2025 marked the second full year of formal operation for the carbon credit market on the Tokyo Stock Exchange (TSE), where prices rose over the year, despite a contraction in trading volume. This period also marks the transition from Phase 1 (the voluntary trial period) of the Green Transformation Emissions Trading System (GX-ETS) to the launch of the fully operational, mandatory GX-ETS in FY2026 (starting April 2026). The system will not only include compliance entities, but also open participation to experienced traders. To date, draft benchmarks for the power and manufacturing sectors have been released, with all final benchmarks, along with critical top-level designs—such as price caps and floors (upper/lower limits)—to be fully established in early 2026, even while the country is set to face a snap election under its new Prime Minister. LSEG Carbon Research has published a detailed overview of the Japan ETS that examines the existing benchmarks, the industries covered, and the timeline for the program which is available here. (LSEG Workspace subscription required.) For additional access, please reach out to market.response@lseg.com. For more information about the impact that the launch has had on the market, please review the full reports.

Figure 4: J-Credit Prices on the TSE by credit type

Credit Type	Average Price (JPY/tCO2e)	EUR-equivalent (approx.)	% Change Year-on-Year
Renewable Energy	6,176	34	+50
Energy Efficiency	4,495	25	+149
Renewable Heat	4,279	23	+86
Woody Biomass	4,015	22	+92

Source: LSEG Workspace.

The South Korea ETS has continued to struggle amid a persistent surplus of allowances, which regulators have been trying to manage through limitations on auctions in 2025. SK ETS announced its 2026 auction plan on 30 December 2025, with twelve auctions to be held monthly and allocating 23.98 million tonnes of allowances. However, authorities did not make any announcements around specific operational methods and quantitative controls for its Market Stability Reserve (MSR) which is being introduced to manage the surplus of available allowances. Updates are expected to be announced in the first half of 2026, and the finalization and implementation of the program will determine future fundamentals of the SK ETS and help to shape market confidence in the system moving forward. For additional details about South Korea's efforts to reform its ETS and manage the surplus of allowances in the market, please review the full reports.

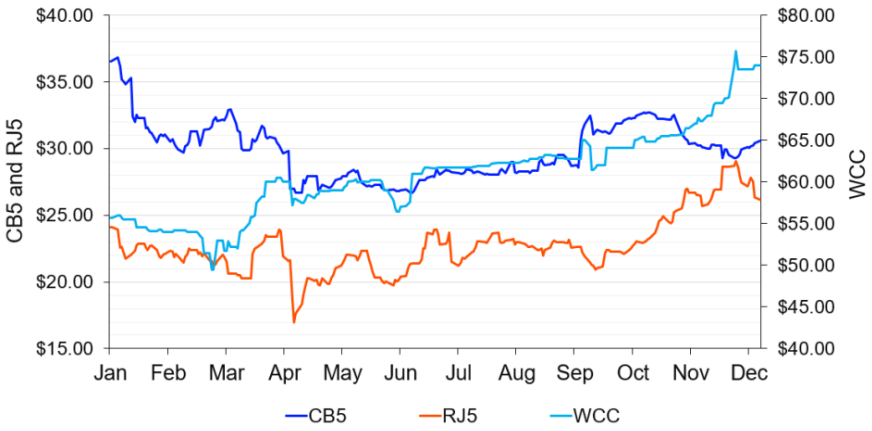
Australia's government is set to institute its first review of the reformulated Safeguard Mechanism in FY2027 starting in July—Australia's financial year runs from 1 July to 30 June. Following Labour's second election victory in mid-2025, the Australian government is poised to strengthen the Safeguard Mechanism as part of the review, while also looking to pursue further reforms to the Australian Carbon Credit Unit (ACCU) market. Currently, the Safeguard Mechanism has a high threshold, covering emitters of 100,000 tCO2e and above. This has raised concerns that emitters could "fall out" of the scheme quite quickly if they continue to meet progressively tightening emissions targets, thereby undermining the effectiveness and longevity of the program. For more information about the scope of the Safeguard Mechanism review, ACCUs, and Australia's plans for COP31, please see the full reports.

New Zealand is set to face another round of elections in 2026 in a rematch of the 2023 contest between Prime Minister Christopher Luxon and Labour leader Chris Hipkins on November 7. New Zealand's mixed member proportional voting system has elections every three years and typically requires the two major political parties—the center-right National Party and the center-left Labour party—to form coalitions with smaller political parties with a wide range of specific interests. The Emissions Trading System played a not-insignificant role in the conversation around the election in 2023, particularly given promises made to the country's large agriculture agency that the National-led coalition has largely followed through on—including removing the industry from its planned inclusion in the ETS from 2025. It is not yet clear whether the ETS will loom as large in the upcoming contest, but it is likely that the environmental policies rolled out by the National-led coalition over the last two years certainly will. For more information auctions, price dynamics, and the New Zealand government's policy changes in 2025, please see the full reports.

North America

North America's Carbon Markets are state-led initiatives rather than federal, but federal policy choices can often have a significant impact on how they operate. Throughout 2025, a significantly more confrontational approach towards collective climate action at the state level from the Second Trump Administration created new legal hurdles for America's carbon cap-and-trade markets. This was particularly true of the California-Quebec joint carbon market, which is by far the largest state carbon pricing initiative in the US. Additionally, California has been at a policy crossroads in determining how aggressively to tighten its emissions cap in the years ahead, which had an impact on the dynamics of the market in 2025. By contrast, the US's other carbon markets—the Washington Cap-and-Invest program and the east coast's Regional Greenhouse Gas Initiative—both saw the resolution of longstanding policy challenges which helped to boost market confidence in the direction of both programs. For more analysis on the California Air Resource's Board (CARB) long-awaited Initial Statement of Reasons (ISOR) report, released in late-December, please see the Carbon Markets Outlook Report. Additional research and insights on the linkage of the Washington Cap-and-Invest program with WCI is also available in both reports.

Figure 5: North America ICE Dec25 Futures prices, 2025 (current) vintage



Source: Intercontinental Exchange.

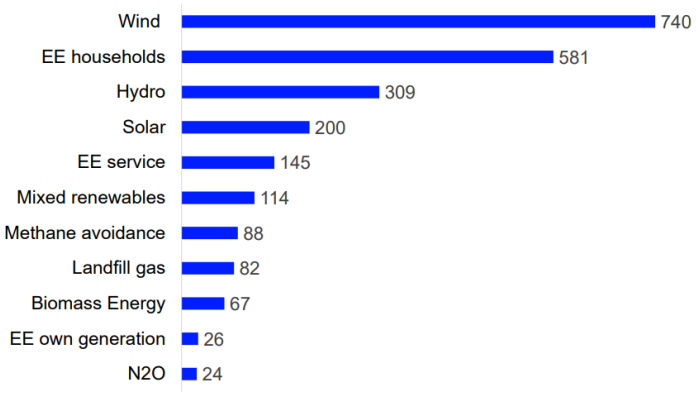
New York, a founding member of RGGI, is developing its own state-wide Cap-and-Invest program to cover a wider array of industries. In December 2023, the New York Department of Environmental Conservation (DEC) and the New York State Energy Research and Development Authority (NYSERDA) began an exhaustive multi-step effort to develop a statewide carbon program: the New York Cap and Invest (NYCI). Meanwhile, in Virginia, the Democratic sweep of Virginia's statewide offices is likely to reopen discussions for Virginia to rejoin RGGI. This is likely to provide some additional certainty for the program following years of legal wrangling over Virginia and Pennsylvania's participation in the program. For more details on the upcoming NYCI, including a proposed timeline, as well as details about Virginia's future participation in RGGI, please see the Carbon Markets Outlook.

The full reports also include analysis on up-and-coming carbon markets (Brazil, India, the UAE, Indonesia, Egypt & Turkey) and their relationship and exposure to international initiatives like Article 6 and CBAM. We have also included research on Carbon Taxes for the first time, as they are starting to play a critical role in carbon pricing in a world where international initiatives are playing an ever-larger role.

Global Initiatives

2025 saw both developments and setbacks for global cooperation on climate. COP30, which was held in Belém, Brazil was seen by many to be less successful than previous COPs, with Parties failing to agree to language committing to the phase out of fossil fuels. International financing for climate mitigation continues to fall short of what is needed, and Brazil's push for special financing to protect tropical forests failed to attract as much commitment as hoped—although Brazil is also aiming to raise funds through the international capital markets for the project. Additionally, pushback from the US ahead of the International Maritime Organization's (IMO) vote on new carbon rules contributed to a decision to delay the vote by a year to 2026, thereby putting the entire initiative at risk. However, 2025 was in many ways also a pivotal year for international carbon markets, with Article 6 approaching operation following the finalization of rules at COP29 in 2024. This has, in turn, helped to spur progress—if not exactly trading activity—in the Voluntary Carbon Markets, which have become increasingly intertwined with compliance initiatives like CORSIA.

Figure 6: CDM Transition Requests



Source: UN Environmental Program

All of this development means that 2026 may finally see the long-awaited operationalization of the international carbon trading mechanism first laid out a decade ago in the Paris Climate Agreement. Building on the momentum of finalized rulebooks and the launch of interim registries, the coming year is expected to see the first issuance of credits under the Paris Agreement Crediting Mechanism (PACM) and wider adoption of cooperative approaches within Article 6.2. The voluntary carbon market could also finally see a big shift in market sentiment in 2026 after several years of very low demand. Industry standards like ICVCM's Core Carbon Principles, VCMI Scope 3 Code, coupled with compliance systems like CORSIA and Article 6, are finally standardizing market understanding of credit credibility. This has increased as the market has increasingly moved to align itself with the terms laid out in Article 6, which lays out stricter rules around transparency, permanence and measurement and verification. For more details on carbon pricing in the

voluntary and Article 6 markets and details about policy implications, including the EU's *Carbon Removal Certification Framework* (CRCF), please see the full reports.

Figure 7: Expected VCM Market Developments, 2026

Trend	Policy Drivers	Implications for VCM 2026
Certified Credit Pricing	Standardization Frameworks	Premiums for Verified Credits
Supply Crunch	Compliance rules requiring verified credits	Tightening market for supply
Market Maturation	National funding, carbon tax/legal regimes	Growing capital flow

Source: LSEG Workspace.

The full LSEG Carbon Research 2025 Year in Review and 2026 Carbon Markets Outlook includes additional detail on:

- Paris Agreement and Article 6
- The Voluntary Carbon Market and Standardization Initiatives
- CORSIA and International Aviation
- The IMO Net Zero Framework and International Shipping

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