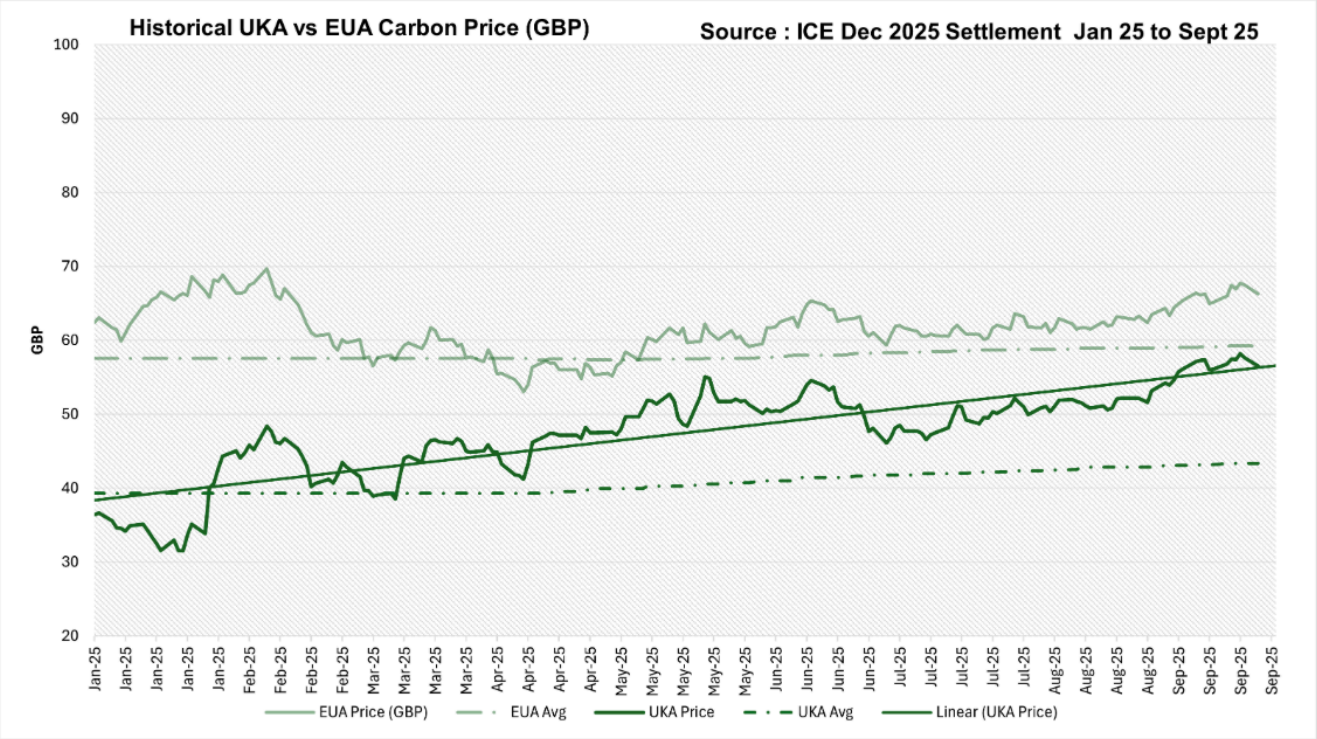
Carbon insights

Sturgeon Weekly Carbon Report

24th September 2025

- UK carbon price follows the larger EU market
- Why is the price of compliance carbon credits volatile
- Confidence returns to the carbon market
- COP 30 should focus on meeting commitments



UK carbon follows the larger EU market

UK carbon continued its move up by another 2.9% last week closing at £57.60. It continues to follow the EU market higher as it approaches compliance on the 30th September. The price increase could also be attributed to the announcement by the EU to phase out LNG imports from Russia by 2027. This week EU auction numbers reduce to four selling 11.5m allowances. Renewable generation is expected to reduce, however Norwegian maintenance is coming to an end bringing more gas to market. We expect the colder weather to support the current price levels before pushing higher into Q4.

Why is the price of compliance carbon credits volatile

Why do people buy UK & EU allowances? If you are a compliance company, you buy them because you need them to cover your emissions. The market also attracts investment funds who buy them because they believe someone will pay more for them in the future. Compliance buyers have a regulated need for allowances, but it is financial players who are the price setters. They

buy in anticipation of an undersupplied market, and they go short when they think the market will be oversupplied. Following a subdued summer we have recently seen a significant jump in investment funds net long positioning which is driving allowance prices higher.

Confidence returns to the carbon market

Carbon Border Adjustment Mechanism (CBAM) is moving closer with a January 2026 start in Europe, this will offer protection for EU produced good. The carbon auction volume was brought forward from 2027/28 to 2023/25 to ease cost following Russia's invasion of Ukraine. The 2026 auction calendar has been published removing uncertainty, with a looming deficit from these previously brought forward allowances. The EU remains committed to decarbonisation and reducing its dependence on Russia, Middle East and the US, setting a new target of cutting greenhouse gas emissions by 90% by 2040, through higher costs on carbon emissions. This will push industry to innovate, with billions in subsidies gained from the growing €40bn in carbon auction revenue. Recently we have seen carbon prices decoupling from gas which suggests increased trading on its own fundamentals rather than following other energy prices. The market will soon be undersupplied as we now have greater visibility on both the demand side and the supply side, in near term and long term.

COP 30 should focus on meeting commitments

As we approach the annual Conference of the Parties (COP) in November the focus should turn to countries meeting their National Determined Contribution (NDC) which is a country's individual climate action plan under the Paris Agreement to limit global temperature rising above 1.5C. The EU has said it will only present a statement of intent due to political differences, and China is not expected to deliver an NDC which would align with the ambitions initially set out. Bloomberg have reported that fewer than 40 of the 195 signatories to the agreement had submitted pledges by mid-September.

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