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Report on the Functioning of the UK Carbon Market for 2025

A joint report from the UK ETS Authority

Department for Energy Security and Net Zero (2026)

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1. Introduction

The UK Emissions Trading Scheme (UK ETS) was established on 1 January 2021 by the UK ETS Authority (UK Government, Scottish Government, Welsh Government and the Department of Agriculture, Environment and Rural Affairs for Northern Ireland, (DAERA)) to incentivise cost-effective carbon emissions reduction in the industrial and power sectors ("Operators"), and aviation sectors ("Aircraft Operators") as part of our plans to deliver against our net zero commitments.

This report on the functioning of the UK carbon market for the 2025 scheme year represents a synthesis of existing publicly available material. It is presented in accordance with the UK ETS Authority's commitment to provide transparency wherever possible in the performance of the scheme.

2. UK ETS Participants

The UK ETS applies to energy intensive industries, the power generation sector and aviation sector, and to the domestic maritime sector as of 1 July 2026. Activities in scope of the UK ETS are listed in Schedule 1 (aircraft operators), Schedule 2 (operators) and Schedule 2A (maritime) to the Greenhouse Gas Emissions Trading Scheme Order 2020.[1]

2.1 Installations overview

The UK ETS applies to regulated activities which result in greenhouse gas emissions, including combustion of fuels on a site where combustion units with a total rated thermal input exceeding 20MW are operated (except in installations where the primary purpose is the incineration of hazardous or municipal waste).

Installations with hospital and small emitters (HSE) status, have simplified compliance obligations. Installations are eligible to apply for HSE status if their emissions are lower than 25,000 tCO_2e per annum, where the installation carrying out the activity of combustion has rated thermal capacity below 35MW, or if at least 85% of the heat produced is used by or supplied to one or more hospitals. Installations with HSE status are subject to emissions targets instead of having UKA surrender obligations. HSE status is applied for so installations can choose to remain subject to the full UK ETS compliance obligations if they prefer.

If eligible, installations with emissions lower than 2,500 tCO_2e per annum may obtain ultra-small emitter (USE) status. Installations with USE status are not required to hold a permit but are still required to monitor emissions and must notify their regulator if they go over the threshold.

There are 6 power generating stations in Northern Ireland that do not participate in the UK ETS. They remain as participants in the EU ETS, under the terms of the Windsor Framework, to maintain a single ETS price for Irish electricity generators and, in turn, to facilitate the operation of the Single Electricity Market on the island of Ireland.

2.2 Aviation overview

In 2025 flights covered by the UK ETS included UK domestic flights, flights between the UK and Gibraltar, flights departing the UK to European Economic Area States, and Switzerland conducted by all Aircraft Operators, regardless of nationality. As in the EU ETS, certain

[1] https://www.legislation.gov.uk/uksi/2020/1265/contents

flights are exempt from regulation, for example, humanitarian flights. Further information is available at https://www.gov.uk/guidance/uk-emissions-trading-scheme-for-aviation-how-to-comply.

An aviation company will have an obligation for a given scheme year if they conduct an aviation activity and are not exempted by being below the thresholds for full-scope flights[2] under Article 7 or 8 of the Order.

2.3 Domestic Maritime overview

Domestic maritime entered the UK ETS on 1 July 2026. Maritime activities covered by the UK ETS involve those voyages between voyages, by vessels over 5,000 GT in size, departing from a UK port of call and arriving at either its port of departure, or another UK port of call.

Like the aviation sector, there are maritime activities which are exempt from the UK ETS regulation, for example, military purposes or search and rescue. Further information is available at UK Emissions Trading Scheme for maritime: how to comply - GOV.UK

A maritime operator will have an obligation for a given scheme year if they conduct a maritime activity and are not exempted by being below the threshold for vessel size under schedule 2A of the Order.

3. The UK ETS Registry

The UK ETS Registry[3] tracks the number of UKAs held in the accounts of scheme participants and any transactions between those accounts. As part of their compliance obligations, operators and aircraft operators are required to use the Registry to surrender an amount of UKAs equal to their reportable emissions or aviation emissions respectively. As well as containing the accounts for operators and aircraft operators, the Registry also contains trading accounts that are used for the holding and trading of UKAs. The Registry is provided and maintained by the UK ETS Authority, with the Registry Administrator (the Environment Agency on behalf of all regulators) carrying out the day to-day operations and acting as the point of contact for the holders and authorised representatives of Registry accounts.

[2] An aviation company will have an obligation for a given scheme year if they conduct an aviation activity and are not exempted by being below the thresholds for full-scope flights under Article 7 or 8 of the Order.
[3] The UK ETS Registry is part of the UK Emissions Trading Registry, which also contained the Kyoto Protocol Registry until it closed permanently on 1 April 2026.

3.1 Registry account holders

By the end of the 2025 scheme year, the following open accounts were held in the Registry:

Installations - there were 717 operators with an open Operator Holding Account (OHA).[4]

Aviation - there were 625 aircraft operators with an open aircraft operator holding account (AOHA) in 2025.

Trading accounts - there were 216 open trading accounts.

[4] An open Registry account does not necessarily mean that the installation itself is open.

4. Functioning of the Carbon Market

4.1 Supply: UKAs released in 2025

In its July 2023 response to the 'Developing the UK Emissions Trading Scheme' consultation, the Authority confirmed the decision to set a net zero consistent UK ETS cap. This meant reducing the phase 1 cap (2021 – 2030) to 936 million UKAs, a drop of 30% over the course of this phase. To smooth the transition to the net zero cap, the UK ETS Authority announced that it would release 53.5 million additional UKAs from the reserve pots to the market between 2024 and 2027, thus ensuring no sudden drop in UKA supply. These are pre-existing allowances created in previous scheme years and remain under the limit set by the overall Scheme cap. This ensures that the UK ETS continues to drive ambitious decarbonisation within the covered sectors, while allowing the market and participants time to adapt.

For the calendar year 2025, the UK ETS Authority issued 24.8m UKAs to eligible operators for free and 56.0m UKAs at auction.

4.2 Free allocation

UK ETS operators in sectors at risk of carbon leakage can apply to be provided with a free allocation of UKAs to address this issue.

Installations

The table at https://www.gov.uk/government/publications/uk-ets-allocation-table-for-operators-of-installations contains a list of each installation's free allocation entitlement for the 2021-2026 allocation period.[5] This includes amendments to stationary installations' free allocation due to an activity level change (ALC).

The annual ALC reporting process ultimately determines whether an installation is receiving too much, or too little, free allocation based on their actual emissions data for the two previous years. When the level of activity at an installation either increases or decreases by more than 15% at an average over a two-year period, when compared to the historic activity level (HAL), the level of free allocation entitlement is adjusted. Further changes have a lower threshold for change at 5%. This may mean retrospectively adjusting free allocation entitlement through an allocation period (i.e. 2021-2026). Free allocation entitlement for the

[5] The "UK Emissions Trading Scheme: Moving the Second UK ETS Free Allocation Period Authority Response" confirmed that the start of the second UK ETS free allocation period will be moved from 2026 to 2027. This means that the 2026 scheme year is treated as an extension of the 2021-2025 allocation period, with free allocation for installations in the 2026 scheme year determined on the basis of the same rules for the years 2021-2025.

next allocation period (2027-2030) will be determined by the new baseline data collected in 2025. The 2027 free allocation entitlement for installations will be published by 1 January 2027.

Aircraft operators

The list of free allocation entitlements for Aircraft Operators for the 2021-2025 allocation period can be found at https://www.gov.uk/government/publications/uk-ets-aviation-allocation-table.

Aircraft operators received free allowances in 2025.[6] The amount of free allocation that has been awarded to an aircraft operator may also be adjusted for previous years if a reporting error is identified.

For the 2021-2025 scheme years, aircraft operators were not subject to the ALC process described above. Instead, their free allocation was amended in-year if their expected emissions were more or less than their actual emissions.

4.3 Participating in UKA auctions and secondary markets

Participants (installation operators, aircraft operators and traders) wishing to take part in UK ETS auctions must register as bidders with ICE Futures Europe (ICE), the contracted auction platform provider. Auctions of UKAs were hosted on a fortnightly basis on the ICE platform during 2025 excluding in December when there was one auction due to public holidays.

Delivery of UKAs following any successful bid in the primary market are distributed to winning bidders before 09:00 the day after the auction.

Once allowances have been released through auctions and free allocation, they can be traded on the UK ETS secondary market, including via futures products available on ICE's exchange, third party traders or intermediaries, or directly with another operator. A UKA Futures Contract is a deliverable contract that allows participants to agree to buy or sell UKAs for delivery at a future date. When the contract ends, the relevant Clearing Member (firms responsible for settling the trade) arrange for the agreed UKAs to be transferred from the seller to the buyer through the Registry.

The primary and secondary markets provide a means for market participants to source allowances for immediate compliance purposes and/or to plan ahead through hedging future carbon costs.

[6] Free allocation for aircraft operators has been fully phased out from 2026.

5. Auction results in 2025

5.1 Auction overview

There was a total of 55,964,500 UKAs available for auction in 2025.

The 2025 auction calendar was first published by ICE on 25 October 2024, with a revised version published by ICE on 03 September 2025. The updated calendar took account of the revised free allocation entitlements for aircraft operators, which had increased from the initial estimate. The amendment to the 2025 auction volume was a reduction of 1,000 UKAs spread evenly across the last two auctions of 2025.

Before an auction finalises, ICE Futures Europe evaluates the live trading price of identical allowances on the secondary futures index. When bidding closes, ICE ranks bids from highest to lowest price. Bids at the same price are ordered randomly. ICE determines the clearing price by adding up the quantities bid, starting with the highest-priced bids, until the cumulative quantity matches or exceeds the volume of UKAs offered for sale. The price of the bid at that point is the provisional clearing price.

If the provisional clearing price is deemed significantly below the prevailing secondary-market price, ICE applies a bespoke assessment methodology to ensure the final clearing price is the lowest bid price that is not significantly below the prevailing market price.

The Auction Reserve Price (ARP) sets a minimum bid price at auctions, which for 2025 was £22.[7]

All auctions in 2025 successfully cleared. The outcomes of the UKA auctions in 2025 are set out in Table 1 below. Further auction data is available on the ICE website at https://www.ice.com/report/278

[7] Following the publication of the 2025 UK ETS Authority Response to the Future Markets Policy Consultation, it was decided to maintain the real value of the ARP accounting for inflation. Therefore, the ARP for 2026 has been adjusted from £22 to £28, and the value will by adjusted yearly by inflation from 2027.

Auction date	UKAs auctioned	UKAs bid for	Total bidders	Successful bidders	Clearing price	Prevailing secondary market price	Revenue
08 Jan	2,239,000	4,002,500	18	14	£32.80	£32.20	£73,439,200
22 Jan	2,239,000	4,823,500	19	16	£31.20	£31.10	£69,856,800
05 Feb	2,239,000	4,257,500	20	12	£44.50	£42.40	£99,635,500
19 Feb	2,239,000	3,859,500	21	17	£41.25	£41.80	£92,358,750
05 Mar	2,239,000	4,591,000	20	15	£38.03	£38.40	£85,149,170
19 Mar	2,239,000	3,634,000	16	14	£44.55	£45.10	£99,747,450
02 Apr	2,238,500	3,889,000	17	14	£43.25	£43.25	£96,815,125
16 Apr	2,238,500	4,411,000	18	15	£46.01	£46.20	£102,993,385
30 Apr	2,238,500	3,364,000	14	13	£45.00	£45.70	£100,732,500
14 May	2,238,500	3,335,000	17	16	£47.44	£48.20	£106,194,440
28 May	2,238,500	4,331,500	17	12	£50.37	£49.85	£112,753,245
11 Jun	2,238,500	4,797,500	20	15	£51.63	£51.15	£115,573,755
25 Jun	2,238,500	3,218,500	16	15	£48.11	£48.85	£107,694,235
09 Jul	2,238,500	3,526,000	19	16	£45.60	£45.95	£102,075,600
23 Jul	2,238,500	3,547,500	18	11	£48.50	£48.10	£108,567,250
06 Aug	2,238,500	3,753,000	19	12	£49.75	£49.45	£111,365,375
20 Aug	2,238,500	3,429,500	17	13	£49.95	£50.00	£111,813,075
03 Sep	2,238,500	3,765,500	16	14	£53.55	£53.70	£119,871,675

Auction date	UKAs auctioned	UKAs bid for	Total bidders	Successful bidders	Clearing price	Prevailing secondary market price	Revenue
17 Sep	2,238,500	3,769,000	16	11	£57.25	£56.70	£128,154,125
01 Oct	2,238,500	3,348,000	16	14	£53.50	£53.70	£119,759,750
15 Oct	2,238,500	3,587,000	15	10	£54.40	£53.95	£121,774,400
29 Oct	2,238,500	3,506,000	15	10	£55.50	£55.45	£124,236,750
12 Nov	2,238,500	3,599,000	19	12	£57.10	£57.10	£127,818,350
26 Nov	2,238,000	3,074,500	14	13	£57.03	£58.10	£127,633,140
10 Dec	2,238,000	3,396,500	16	13	£55.11	£55.40	£123,336,180

Table 1: Auction outcomes for the 2025 scheme year

The clearing price at auctions ranged from a low of £31.20 on 22 January 2025 to a high of £57.25 on 17 September 2025. The total number of bidders per auction fluctuated between 14 and 21 total bidders per auction.

On the secondary market, the end of day settlement price for the 2025 December futures contract ranged between £31.54 on 17 January and £58.55 on 4 November.[8]

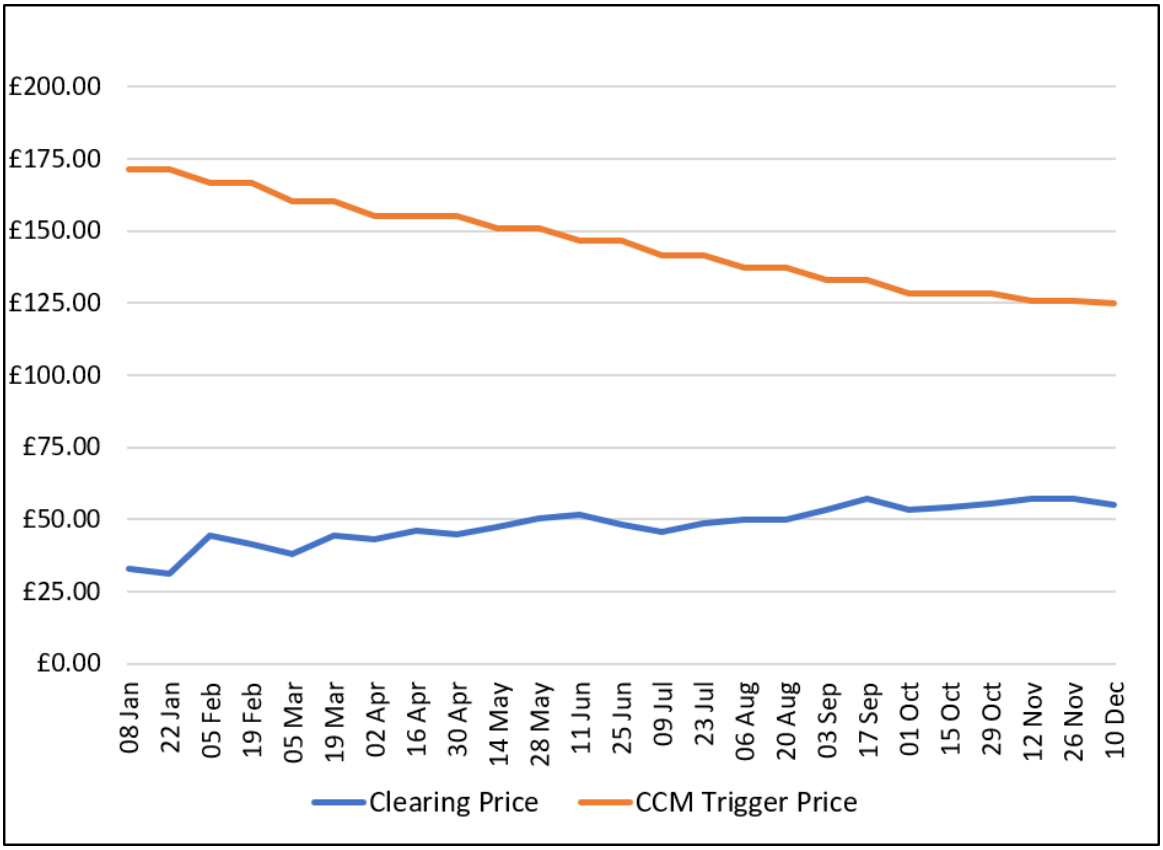
[8] End of day settlement prices for the 2025 December futures contract are only available to customers of ICE Connect. However, a graph showing the end of day settlement price data in 2025 for the current 2026 December futures contract is publicly available on ICE's website and these prices closely tracked the 2025 December futures contract price in 2025.

5.2 Cost Containment Mechanism

The UK ETS has a Cost Containment Mechanism (CCM) that is triggered if current prices are elevated for a sustained period relative to a historic average. The CCM is triggered if the average of the end-of-day settlement prices for the UKA December futures contract over a given month is more than 3 times higher than the comparator prices of the reference period (the previous 2 years) for 6 consecutive months. The UK ETS Authority must then assess the nature of the price movements in question and decide whether and to what extent to intervene by bringing increased supply to future auctions. Further information is available at https://www.gov.uk/government/publications/taking-part-in-the-uk-emissions-trading-scheme-markets/taking-part-in-the-uk-emissions-trading-scheme-markets.

Due to settlement prices being below the level needed to trigger the CCM in any given month of the scheme year, the CCM was not triggered in 2025 (see Figure 1).

Chart 1: UKA auction and CCM trigger prices in 2025



6. Market Oversight

The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 sets out that the carbon allowances of both the EU ETS and UK ETS (i.e. EUAs and UKAs) are “financial instruments”. This means that rules applicable to traditional financial markets, including carbon derivatives traded on leading platforms or over-the counter (OTC), also apply to the spot segment of the secondary carbon market (transactions in emission allowances for immediate delivery in the secondary market). This segment is thus put on equal footing with the derivatives market in terms of transparency, investor protection and integrity. The framework for oversight in the primary market for UKAs is covered by the Greenhouse Gas Emissions Trading Scheme Auctioning Regulations 2021. It details market oversight requirements for the auction platform (ICE), the auctioneer (DESNZ) and the Financial Conduct Authority (FCA) directly. However, the framework also relies on other financial regulations market supervision requirements such as the UK Markets in Financial Instruments Regulation 2014 and the Recognised Auction Platforms Regulations 2011 to support this framework and supplement the direct requirements.

Other pieces of financial markets legislation apply to the primary and secondary market of UKAs. For example, the UK Market Abuse Regulation (UK MAR) which covers transactions and conduct involving emission allowances, on both primary and secondary markets. The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 also applies.

The Financial Conduct Authority (FCA) is responsible for monitoring the market under the existing market abuse rules, both with respect to the auctions and the secondary market. The FCA has the power to impose remedial action or sanctions when they decide that certain behaviours give rise to market abuse. To allow the FCA to carry out their market monitoring task, the financial markets legislation establishes several reporting and transparency requirements applicable to trading venues. This includes the requirement for trading venues and investment firms to communicate to the FCA detailed data on transactions in emission allowances or their derivatives, carried out on the trading venues and OTC. The reporting requirements also include an obligation for trading venues and investment firms to provide the FCA with on the positions they hold in relation to UKAs, this is part of the transparency requirements. Trade data and weekly aggregated position data are made public by trading venues and investment firms.

7. Compliance

7.1 Compliance overview

The five UK ETS regulators are responsible for monitoring compliance with the UK ETS Regulations and taking any necessary enforcement action. This includes carrying out operational functions such as issuing and ensuring compliance with permits for Operators and emissions monitoring plans for aircraft operators).

The regulators for each of the UK nations, controlled waters, territorial sea, and the UK sector of the continental shelf are listed in Article 10 of the Order and set out in Table 2 below.

Regulators of the UK nations

Jurisdiction	**Regulator**
England (and aircraft operators registered or resident outside the UK)	Environment Agency (EA)
Scotland	Scottish Environment Protection Agency (SEPA)
Wales	Natural Resources Wales (NRW)
Northern Ireland	Northern Ireland Environment Agency (NIEA)
Offshore (UK Sector of the Continental Shelf)	Offshore Petroleum Regulator for Environment and Decommissioning (OPRED)

An operator or aircraft operator with an ‘obligation to surrender’ in a given Scheme Year must, by 30 April of the following year, surrender one UKA for every one tCO_2e of their reportable emissions or aviation emissions, respectively. The Order provides for a mandatory excess emissions penalty of £100 (indexed to inflation) for every UKA a participant fails to surrender to meet its obligation.

Note that a participant’s obligation and its compliance status relate to the entire trading period (currently 2021 to 2030), and not just a particular scheme year. This means that, should a participant fail to meet its obligation for a given scheme year and incur an excess

emissions penalty, the participant will still be required to surrender the outstanding allowances to make up any shortfall by the subsequent year's surrender deadline.

7.2 Compliance statistics for the 2025 scheme year

On 17 July 2026 the UK ETS Authority published a report based on the compliance status of installation operators and aircraft operators,[9] detailing the cumulative surrender and emissions figures of each in the 2025 scheme year. Since that date, the emissions figures may have been revised and any over or under-surrender position corrected.

7.3 Total sector emissions

The total emissions recorded in the fifth compliance year of the UK ETS were 79,716,174 tCO_2e. This compares to 85,610,435 tCO_2e in 2024, which represents a year-on-year decrease of 5,894,261 tCO_2e (a decrease of 6.9%).

This change comprised **decreases** in the following sectors:

- Industrial emissions from 35,472,613 tCO_2e to 29,998,594 tCO_2e (-15.4%)
- Fuel supply emissions from 11,446,431 tCO_2e to 10,980,473 tCO_2e (-4.1%).
- Aviation emissions from 8,976,959 tCO_2e to 8,591,412 tCO_2e (-4.3%).
- Other[10] emissions from 611,750 tCO_2e to 585,484 tCO_2e (-4.3%).

Whilst the following sectors saw **increases**:

- Power emissions from 29,102,742 tCO_2e to 29,560,211 tCO_2e (+1.6%).

Chart 2: Emissions and free allocation since 2021 - all sectors

[9] https://reports.view-emissions-trading-registry.service.gov.uk/ets-reports.html#:~:text=Compliance%20Report%20%2D%20emissions%20and%20surrenders

[10] Other is anything in scope that isn't industrial, fuel supply, aviation and power emissions, e.g. district heating, data centres, military bases, university campuses.

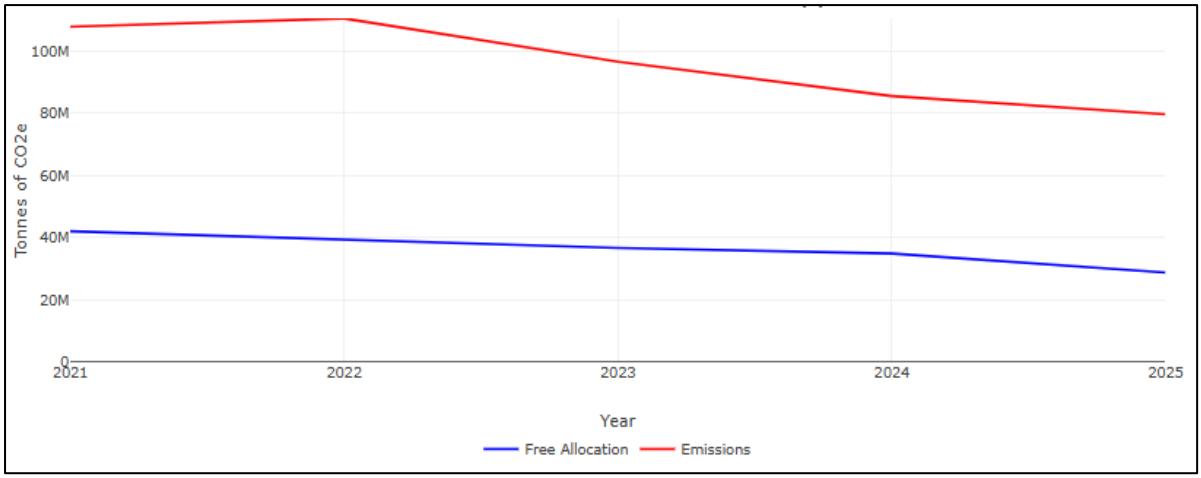
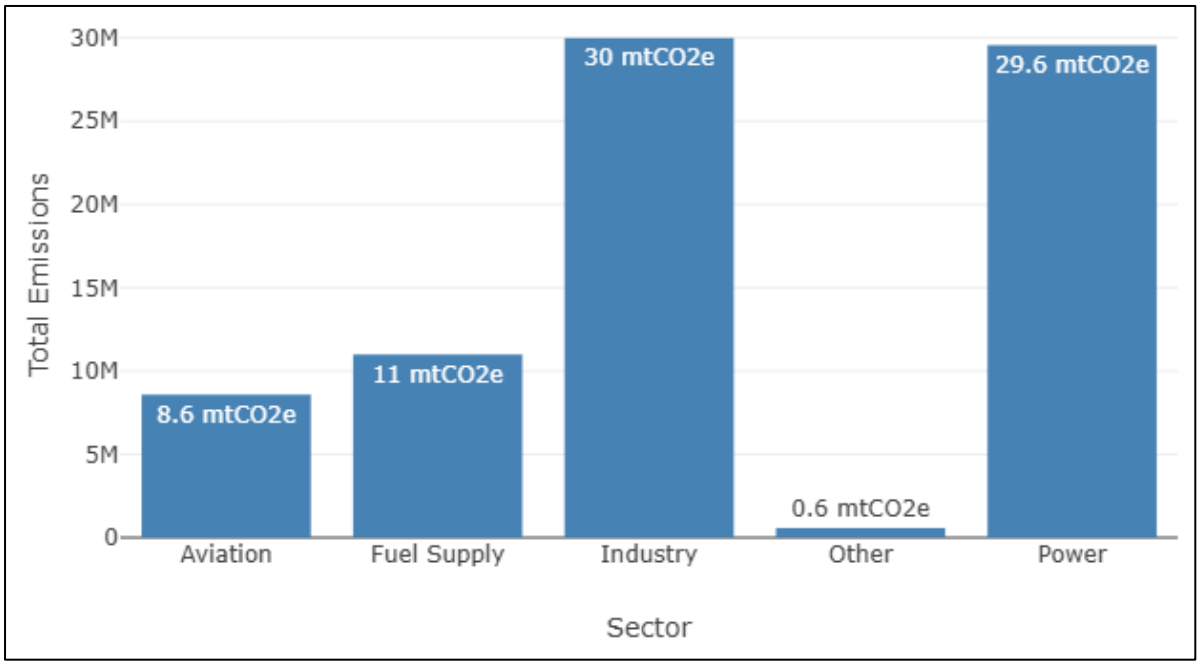


Chart 3: 2025 greenhouse gas emissions under UK ETS – by sector



7.4 Emissions and surrender obligations

Operators of installations

Of the 717 open OHA in the Registry, 683 had a surrender obligation for 2025. Of these, 681 operators surrendered UKAs equal to or greater than their reportable emissions recorded in the Registry by the 30 April 2026 deadline. The total reportable emissions from installations in 2025 amounted to 71,124,762 tCO_2e. Since the scheme launched in 2021, the cumulative reportable emissions of installations stand at 442,796,685 tCO_2e, with an equivalent of 442,239,806 tCO_2e surrendered in UKAs by operators over the same period. This represents an overall compliance rate for the entire scheme of 99.9%.

Aircraft operators

There are 625 aircraft operators with an open AOHA in the Registry. 585 of these have had a surrender obligation over the first five years of the UK ETS, with 376 having a surrender obligation in 2025. Of the 376 aircraft operators with an obligation, 363 surrendered UKAs equal to or greater than their aviation emissions recorded in the Registry by the 30 April 2026 surrender deadline.

There are 3 aircraft operators with an AOHA and a surrender obligation that failed to report by the reporting deadline, and 10 AOHAs that did not meet their obligation by the surrender deadline. However, these operators represent less than 1% of the total recorded obligations for aviation emissions.

The total aviation emissions in 2025 amounted to 8,591,642 tCO_2e.

Since the scheme launched in 2021, the cumulative reportable emissions of aircraft operators stand at 37,627,614 tCO_2e with an equivalent of 37,579,408 tCO_2e surrendered in UKAs by aircraft operators over the same period. This represents an overall compliance rate of 99.9%.

Maritime operators

Domestic maritime entered the UK ETS on 1 July 2026. As such, maritime operators have not yet completed their first compliance year. Therefore, there is no data to report.

Overall compliance

On 1 May 2026, 92.9% of installations and aircraft operators were fully compliant with their surrender obligations accrued over the entire 2021 to 2025 compliance period.

This equates to over 96.9% of installations and 88.5% of aircraft operators surrendering UKAs at least equal to their cumulative recorded emissions over the 2021 to 2025 period. This high surrender rate was assisted by the targeted messaging of the regulators to help participants prepare for this deadline. These figures do not include aircraft operators who did not have an AOHA in the Registry.

Regulators have begun the process of enforcement for non-compliance relating to any failure to surrender the required number of UKAs. Regulators publish the lists of operators and aircraft operators who have been issued with a penalty as required by legislation.[11]

[11] Chapter 2, Part 7, The Greenhouse Gas ETS Order 2020 sets out all the civil penalties for non-compliance with the scheme

8. Conclusions for 2025

The fifth scheme year was again an operational success. All 25 auctions held for the 2025 scheme year successfully cleared, allowing a smooth release of allowances into the market.

The high rates of compliance are indicative of engaged operators and effective communications between participants and the UK ETS Authority, regulators, and the Registry Administrator, and representative of familiarity with a maturing scheme. The Registry and METS systems remained robust, with no security breaches and there were no unplanned outages that resulted in inaccessibility to operators and traders.

The UK ETS Authority is currently undertaking the second phase of its monitoring and evaluation programme which will provide a comprehensive assessment of the scheme's long-term impacts. It is due to report in late 2026.

9. Outlook

The UK and the EU have agreed to work towards linking the UK ETS and the EU ETS as announced at the EU-UK Summit on 19 May 2025. Linking with the EU ETS will help facilitate a cheaper path to net zero via a larger, more liquid carbon market, meaning UK business will have greater certainty when it comes to investment. Furthermore, trade worth £7bn in 2024 is currently at risk from paying the EU CBAM, with the linking of the two schemes creating the conditions to exempt UK exporters from this cost. The EU and UK have stated their aim to conclude the negotiations on linking the schemes by the time of the next EU-UK summit, due to take place in Brussels on 20 November.

The latest information on existing policy and policy developments on the UK ETS itself, including the status of ongoing consultations, can be found at our UK ETS policy overview page on gov.uk

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