

MNI: Monthly European Carbon Market Policy Monitor - December

By Felicia Grosse & Scott Chen (28/11/2025)

Executive Summary:

- **EU Automotive Package:** The EU's 2035 combustion-engine ban faces growing pushback from member states and automakers, prompting a potential delay of the Commission's 10 December review.
- **UKA/EUA Dec25 Options Expiry:** On the non-policy side, EUA Dec-25 options head into 10 December expiry with implied volatility inching up from record lows, skew turning more negative, and open interest thinning—highlighting steady volatility expectations but rising relative demand for downside protection. UKA Dec-25 options approach 10 December expiry with implied volatility at multi-month highs and a record put/call tilt, underscoring heightened demand for downside protection as overall open interest dwindle.

Policy Meeting Calendar

Date	Institution	Event
4 Nov	EU Environment Council	Climate Target or NDC 2035
6-7 Nov	UN	COP30 Leader Summit
10 Nov	EU Parliament ENVI Committee	Vote on 2040 Climate Target
10-21 Nov	UN	COP30 Conference
12 Nov	EU Parliament	Plenary Debate 2040 Climate Target
14 Nov	EU Commission	EU GHG Emissions 2Q 2025
26 Nov	UK Parliament	UK Autumn Budget
26 Nov	UK ETS Authority	UK ETS Free Allocation Authority Response
4 Dec	EU Council	Transport, Telecommunications and Energy Council (Transport)
10 Dec	EU Commission	Clean Industrial Deal Implementation
10 Dec	EU Commission	Automotive Package
10 Dec	ICE	EUA ICE Dec25 Options Expiry
10 Dec	ICE	UKA ICE Dec25 Options Expiry
12 Dec	ICE	Last UKA Auction 2025
15 Dec	EEX	Last EU EUA Auction 2025
15 Dec	EU Council	Transport, Telecommunications and Energy Council (Energy)
16 Dec	EU Council	EU ENVI Ministers Meeting

November Policy Review

4 November – EU Environment Council Meeting on 2040 Climate Target and NDC 2035

The EU Environment Council on 5 November reached an agreement on the EU's 2040 Climate Target, a one-year delay of EU ETS2 to 2028 and the EU's 2035 Nationally Determined Contribution (NDC). Earlier divisions among member states had delayed the decision that was initially scheduled to be presented on 4 November.

- "The general approach would set a legally binding target of 90% reduction of net greenhouse gas emissions compared to 1990 level... We have increased the amount up to 5% of high-quality international credits corresponding to a domestic reduction of 85% we have kept the starting year for international credits in 2036. At the same time the climate law now includes a one-year postponement of the start of the system [EU ETS2]," said Lars Aagaard, Denmark's Minister for Climate, Energy and Utilities.
- Under the 2040 Climate Target, the bloc raised the permissible use of international carbon credits to 5% from 2036, while introducing a pilot phase between 2031 and 2035. The previous proposal had suggested allowing 3% international credits.
- Member states also endorsed the EU's 2035 NDC, confirming a reduction range of 66.25%–72.5%, unchanged from the September statement of intent.
- The start of EU ETS2 was formally postponed by one year to 1 January 2028, with a reform proposal on the market stability mechanism expected before the end of 2025.

EU ETS2

On 27 November, the EU Commission published a proposal suggesting to double allowance injections through 2029 the Market Stability Reserve (MSR) if the EU ETS2 price exceeds €45/ton CO2e, potentially releasing up to 80mn allowances per year.

- The bloc also plans to extend the validity of EU ETS2 allowances in the reserve beyond 2030, making all 600mn allowances in the reserve available if needed. This amount is equivalent to 10 years of ETS2 emissions abatement.
- The Commission plans an earlier start to ETS2 auctions, generating revenues from 2027 to support early investments and provide an initial price signal.
- The EU Commission and the European Investment Bank are exploring a new ETS2 Frontloading Facility that could release up to €6bn in 2026-2027, in addition to the national ETS2 revenues and the Social Climate Fund.
- The proposal is in line with previous announcements.

10 November - EU Parliament ENVI Committee Vote on 2040 Climate Target

- The EU Parliament's ENVI Committee voted to back the EU's Climate Law proposal – including the 2040 Climate Target.

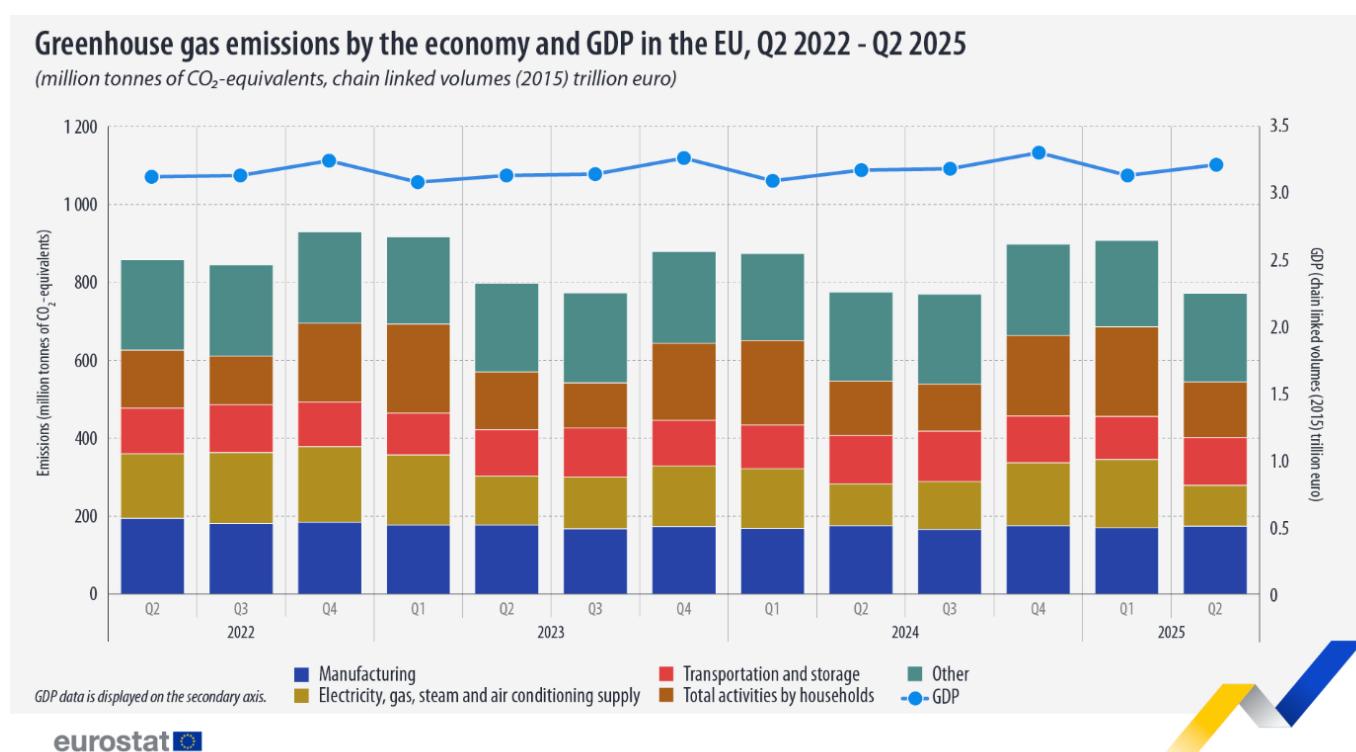
12 November - EU Parliament Plenary Debate 2040 Climate Target

- The EU Parliament has adopted the text on the Climate Law, which will be followed by negotiations with member states to finalise the Law. The text passed with 379 votes in favour, 248 against, and 10 abstentions.

14 November – EU 2Q 2025 GHG Emissions Data Release

EU greenhouse gas (GHG) emissions in Q2 2025 were estimated to have decreased by 0.4% year-on-year to 772mn tCO₂e, with electricity, gas, steam and air-conditioning supply recording the largest reduction, according to Eurostat.

- Compared with Q2 2024, emissions fell in four of the nine monitored sectors.
- The largest sectoral declines were recorded in electricity, gas, steam and air-conditioning supply (-2.9%), agriculture, forestry and fishing (-1.6%), manufacturing (-0.4%) and transportation and storage (-0.4%).
- Emissions were estimated to have risen year-on-year in 14 EU member states and declined in 12.
- The steepest reductions were observed in Slovenia (-8.9%), the Netherlands (-5.9%) and Finland (-4.2%).
- Germany and Finland both reduced their emissions while also experiencing GDP declines.
- EUA Dec25 futures fell 0.3% from the intraday high following the release of the data.



(Source: Eurostat)

10-21 November - UN Climate Change Conference 2025 - COP 30

The main COP30 outcomes on emissions include a collective acknowledgment that the 1.5°C target will be exceeded without additional action. Leaders also agreed to discuss a fossil-fuel transition roadmap at the “Transitioning Away from Fossil Fuels” conference scheduled for 28–29 April 2026 in Santa Marta. In addition, 122 out of 193 nations have submitted their updated pledges.

- 1.5C Goal Overshoot - For the first time in a COP text, parties formally acknowledge an expected “overshoot” of the 1.5C target and commit to limiting both its scale and duration.
- Two new voluntary initiatives were launched, including “Global Implementation Accelerator” (GIA) and the “Belém mission to 1.5C”, though both lack detailed mandates.

- Fossil-Fuel Roadmap Absence - The final “mutirão decision”, widely interpreted as a text containing key agreements from COP30, does not reference fossil fuels or a roadmap for the transition, despite fossil fuels being the main source of global emissions.
- The EU did not back the roadmap as the EU Climate Commissioner Wopke Hoekstra stated that the bloc uses different wording regarding fossil-fuel phase-out topics.
- By the end of the summit, supporting countries grew from 29 nations to 86, according to Carbon Brief.
- 2035 NDCs – By the end of the summit, 122 countries out of 193 had submitted their new pledges. The text urged those that have not yet made new pledges to do so as soon as possible.
- Looking ahead - Colombia and the Netherlands announced that they will co-host the first international conference on transitioning away from fossil fuels on 28–29 April 2026 in Santa Marta.
- The fossil-fuel roadmap will be shaped by outcomes from the conference.

26 November – UK Autumn Budget 2025

UK Chancellor Rachel Reeves presented the UK 2025 Autumn Budget on 26 November. Market reaction from UKAs and equities was relatively muted.

- The government committed to significantly higher public spending while setting out a package of tax rises and welfare reforms.
- Overall, day-to-day government spending (RDEL) is set at £525bn in 2025–26, and capital spending (CDEL) at £118bn.
- The Budget increases long-term public spending such that by 2029/30 annual public spending will be about £32 billion higher than previously forecast.
- To pay for this, the government announced tax and revenue measures expected to raise £26bn by 2029/30 — including freezing personal-tax thresholds, applying National Insurance to higher pension contributions, and hiking taxes on property, savings and dividends.
- Borrowing is forecast to fall over time: Government borrowing is expected to drop from £138bn in 2025–26 to £67bn by 2030–31.

UK Mileage Charge on EVs Expected to Cut Sales By 440K Units Between 2028-2031

- The UK Government plans a new mileage-based charge for electric vehicles, starting April 2028, which is expected to reduce EV sales by around 440k units across 2028-2031, as part of the Autumn 2025 Budget.
- In 2028-29, rates will be £0.03 per mile for battery electric cars and £0.015 per mile for plug-in hybrids, additional to the current vehicle excise duty (VED) charges paid by all vehicles.
- The government also expanded the electric car grant between 2025-26 and 2029-30 at an average cost of £0.3 billion annually.

26 November - UK ETS Authority Response on UK ETS Free Allocation

The UK ETS Authority published the main UK ETS Authority response to the 2023 free allocation review consultation and 2024 free allocation review carbon leakage consultation.

The UK ETS will phase out free allocation over a nine-year period starting in 2027, and will adopt EU benchmark values for the free allocation calculation for 2028-2030, according to a government document.

- The phase-out schedule is part of its implementation of UK CBAM, while reflecting the UK's decision to align with the EU ETS.
- The UK will retain the current carbon leakage list and will not introduce tiering of free allocation.
- There will be no early phase-out of free allocation for sectors not on the carbon leakage list.

In other news... EU CBAM Benchmark Draft Document Leak

A draft of the updated EU CBAM framework by the European Commission was leaked on 11 November, indicating that CBAM emissions-intensity benchmarks will be tightened, which will in turn guide adjustments to EU ETS free allocations.

- From 2026, EU CBAM emission intensity benchmarks will align with the EU ETS 2026-2030 benchmarks, raising the compliance bar for importers.
- Non-EU producers must now demonstrate emissions intensities close to the EU's best performers using verified data to avoid higher CBAM certificate obligations.
- The Commission will publish the methodology for calculating actual emissions and the full list of default emission factors before the end of Q4 2025.

December Policy Outlook

4 December – EU Council on Transport, Telecommunications and Energy Council (Transport) Meeting

The EU Council on Transport, Telecommunications and Energy Council (Transport) is scheduled to meet on 4 December with the agenda suggesting two environmental-related topics will be discussed.

- The EU Presidency will share information on the IMO's Net Zero Framework.
- The EU Commission will share information on the Sustainable Transport Investment plan.

10 December – EU Commission Set to Present CBAM Strengthening Legislation in Clean Industrial Deal

The European Commission is scheduled to present the new legislation on 10 December to strengthen CBAM, targeting circumvention, resource shuffling, a broader CBAM scope, and measures to protect exports of CBAM-covered goods.

- PRICE IMPACT: Could drive EUAs and UKAs if EU-UK ETS linkage is mentioned.

10 December – Revision of EU 2035 Combustion Engine Ban

The European Commission is scheduled to present its Action Plan on the future of the automotive sector on 10 December, including a revision of the CO2e standards for vehicles and the 2035 combustion-engine ban.

- Automotive industry stakeholders have been warned that the review of the EU's 2035 combustion-engine ban—currently planned for 10 December—may be postponed to January, according to sources cited by Bloomberg in late November.
- Both industry stakeholders and several member states have expressed opposition to the ban.
- Germany and Italy have previously issued a joint memo in October to the EU Commission, calling for vehicles that are powered by renewable fuels to be eligible for registration after 2035.
- France, Spain and Sweden have previously urged the EU to stick to the timeline and ban.

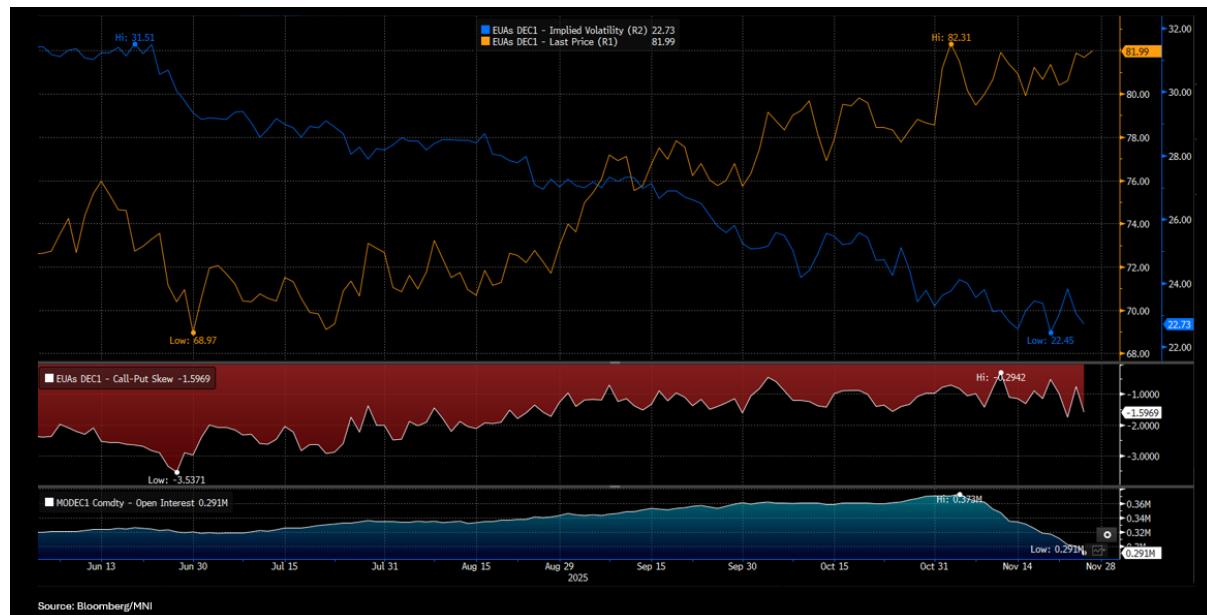
- The German coalition government during a meeting on 27 November agreed on a common stance on the planned 2035 new combustion engine sales ban. Germany plans to urge the European Commission to update its vehicle-fleet emissions rules, to allow combustion-engine cars but only if they meet strict efficiency standards and keep pollutant output to a minimum. In addition, Germany intends to bring back incentives for buyers of hybrid models.
- Car manufacturers including Renault and Stellantis have urged the bloc to allow for more flexibilities on the ban.
- PRICE IMPACT: Any relaxation of the ban would be bullish for EU ETS2 prices, as the scheme covers emissions from fuel combustion in road transport.

10 December – ICE EUA Dec25 Options Expiry

On the non-policy side, the ICE EUA December 2025 options will expire on 10 December. EUA Dec25 options implied volatility as of 26 November rose slightly from the all-time low reached on 20 November, while the call-put volatility skew widened, signaling stable expectations on price swings and higher relative costs for downside protection.

- The largest open interest at the €70/t put strike is at 24k contracts, and the €100/t call strike is at 26k contracts.
- Implied volatility increased to 22.73% on 26 November, from 22.45% on 20 November.
- The 25-delta call-put volatility skew widened to -1.6%, from -0.53% during the same period.
- The put/call open interest ratio rose to 0.96 on 26 November, from 0.94 on 20 November, with put open interest climbing 1% to 185k contracts, while call open interest fell 1% to 192k contracts.
- EUA Dec25 open interest dropped to 291k on 26 November, reaching the lowest level since early January.

EUA December 2025 Option Positions & Volatility



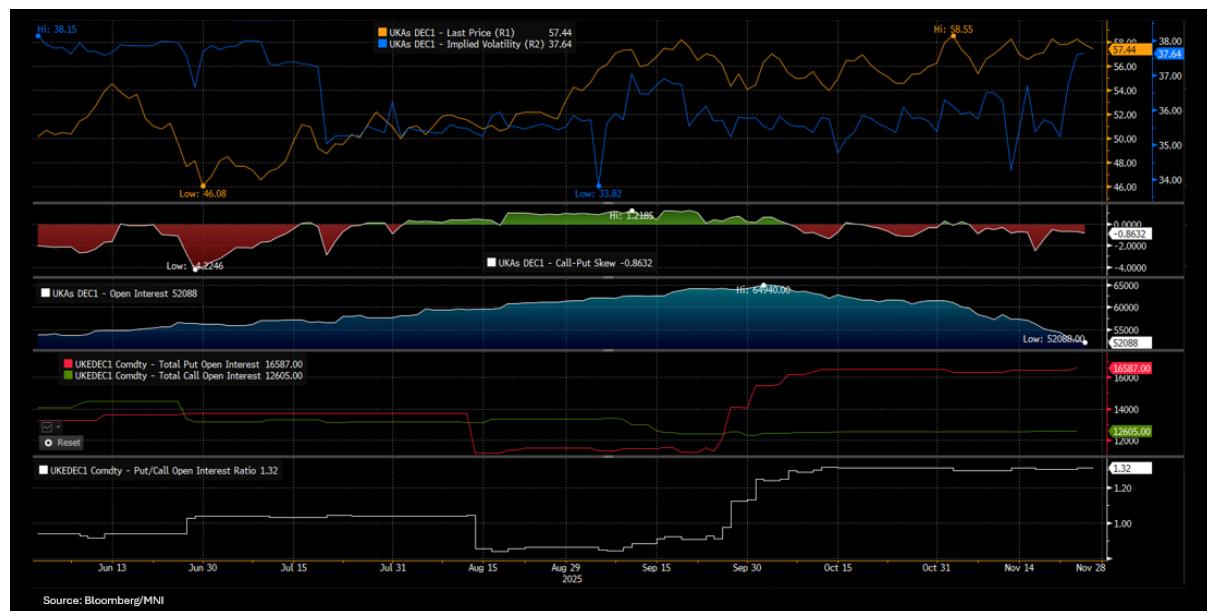
(Source: Bloomberg Finance L.P./ MNI)

10 December – ICE UKA Dec25 Options Expiry

ICE UKA December 2025 options are also set to expire on 10 December. UKA Dec25 options implied volatility rose to the highest level since early July as of 26 November, while the put/call open interest ratio rose to highest so far this year, reflecting rising demand for downside protection ahead of expiry.

- Implied volatility stood at 37.64% on 26 November, compared with the all-time low of 33.82% on 4 September.
- The 25-delta call-put volatility skew stood at -0.86%, signaling higher relative cost for downside protection.
- Put open interest climbed to an all-time high at 17k contracts, while call open interest declined to the lowest since early September at 12k contracts.
- The largest open interest is at the €45/t put strike with 6,025 contracts, and the €50/t call strike with 3,225 contracts.
- UKA Dec25 open interest fell to the lowest level since mid-May at 52,088 as of 26 November.

EUA December 2025 Option Positions & Volatility



(Source: Bloomberg Finance L.P./ MNI)

15 December – Last EU EUA Auction 2025

The last EU ETS CAP3 auction will take place on 15 December.

- In 2026, a total of 583mn EUAs are scheduled to be auctioned, down from 589mn in 2025, according to the calendar published by EEX in July.
- BNEF sees total EU ETS deficit in 2026 to reach the highest level since 2022 at 217mn EUAs.
- Total supply in 2026 is forecast to decline by 21% year on year to 860mn EUAs, while the total demand only is forecast to decline by 4.8% to 1,077mn EUAs, according to BNEF.
- In comparison, ICIS forecasts the EU carbon market is expected to be short by 158mn tons in 2026 and 166mn tons in 2027.

- The mean and median market forecasts for EUAs spot price in 2026 are at €85.68/tCO2e and €85/tCO2e, according to Bloomberg survey.
- S&P Global expects EUAs to average €85/tCO2e in 2026, in line with current forward prices.
- ICIS expects EUAs could reach €100/tCO2e in Q1 2026, implying a 19% upside from current EUAs Dec26 prices, driven by forecasted deficits, tightening supply and exhausted fuel-switching options.

15 December – EU Energy Council

The EU's Energy Council is scheduled to meet on 15 November.

- The leaked agenda, reported by Contexte, will include the Demark presidency seeking a general approach on the Connecting Europe Facility (CEF), and policy debate on the Grids Package, energy security with NATO's Secretary General and competitiveness with IEA.
- The official agenda will be released one-week before the meeting.
- At the last meeting on 20 October, the EU energy ministers reached an agreement on the proposal to phase out remaining gas imports from Russia.
- PRICE IMPACT: Expected impact on EUAs and UKAs is limited.

16 December – EU Environment Council

- The EU Environment Council is scheduled to meet on 16 December. Contents of the meeting have not yet been released.