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Britain's worst polluters set for windfall of millions

A flagship European scheme designed to fight global warming is set to benefit companies in almost all sectors of the British economy, a Guardian investigation has revealed

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A flagship European scheme designed to fight global warming is set to hand hundreds of millions of pounds to some of Britain's most polluting companies, with little or no benefit to the environment, an investigation by the Guardian has revealed.

Dozens of multinational firms stand to benefit from the windfall, which comes from the over-allocation of carbon permits under the European emissions trading scheme.

The permits are given to companies by the government, and are supposed to account for their carbon pollution over the next five years. But figures published by the European Commission show that many companies have been allocated far too many permits, which they can sell for cash.

The scheme is supposed to only distribute as many permits as companies require, with one permit allocated for each tonne of CO2 produced.

The figures, compiled by the Guardian and the campaign group Sandbag, suggest that up to 9m extra annual permits have been allocated to 200 companies across almost all sectors of the British economy, from steel and cement making, to car manufacturing and the food and drink industry. Dozens of household names such as Ford, Thames Water, Astra Zeneca and Vauxhall are among the companies that could benefit.

One of the largest over-allocation of permits is to Castle Cement, which makes a quarter of all British cement at three works in Lancashire, north Wales and Rutland. The figures show carbon dioxide emissions from the three plants have fallen from 2.3m tonnes in 2005 to 2.1m tonnes in 2007. Yet, under the ETS, the firm has been handed enough permits to produce 2.9m tonnes CO2 for each of the next five years - an annual surplus of 829,000 permits.

A spokesman for Castle Cement said: "Castle Cement will not require all its allocated permits to cover CO2 emissions in 2008 as we continue to reduce our impact on the environment in line with our sustainability strategy.

"Total CO2 emissions from our three works are likely to be less than in 2007 due to further improvements in efficiency, increased use of low-carbon fuels and a weakening demand for cement caused by the general economic downturn. Surplus credits will be traded."

At the current price of £21, the company could sell its surplus permits for £83.5m over the five years.

Ford said it expected an annual surplus of almost 80,000 permits, which it would consider selling. Astra Zeneca said it would sell permits from its expected annual surplus of 37,000, but that the resulting money would be used to improve environmental performance. Thames Water, Heathrow Airport and Toyota were among companies who said they had not decided what to do with surplus credits.

Each company's surplus was calculated using figures published by the European Commission on corporate CO2 emissions for 2007, and annual permit allocations for 2008-12, under the ETS second phase.

The over-allocation comes from the way the government calculated the likely emissions of each site owned by the companies in the scheme. Each site's permit allocation was based on average emissions from 2000-2003, but also took into account projected growth and improvements in energy efficiency.

Campaigners say the allocations were also influenced by industry group lobbying. A source at a major UK car manufacturing firm, which has been allocated more than double the number of permits it needs, told the Guardian they were given out based on "magical logic".

Karsten Neuhoff, an expert in emissions trading at Cambridge University, said the over-allocation to so many companies was "an indication of the bargaining power of industry".

He said: "We may agree as a society that we need to cut emissions, but when it comes down to individual companies and then individual installations and individual behaviours, we say 'oh no, we can't cut them here'. Everyone is a special case."

Not all apparent surpluses are over-allocation of permits. Some companies, including those in the cement and offshore industries, have been given extra permits to account for changes in the way their emissions are measured. Steel maker Corus, which has the largest apparent annual surplus of 2.8m, says the extra credits for 2008 must cover 10% more of its operations than were counted in 2007.

A few companies have been allocated fewer permits than they require. The Leeds Teaching Hospitals NHS Trust, with an apparent annual deficit of 5,800 said it would need to buy permits this year.

The only sector to be given fewer permits than it needs is the electricity supply industry, which is more than 70m short. The government says this is because they are not subject to international competition, and they can pass on the cost of buying permits to customers. The under allocation to the UK electricity sector means emissions overall will reduce by some 60m tonnes a year.

Bryony Worthington, founder of Sandbag, said: "The way this is set up the environment takes all the risk and business doesn't take any. Hundreds of companies have been given a free ride while those that do have to buy permits can simply pass on the costs.

"That means electricity customers are effectively subsidising heavy industry's right to pollute, while being urged to make environmental sacrifices in their own lives."

Sandbag will launch a campaign this week to pressure companies to surrender surplus credits. It aims to take a