Britain's big polluters accused of abusing EU's carbon trading scheme

by Terry Macalister
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Britain's biggest polluting companies are abusing a European emissions trading scheme (ETS) designed to tackle global warming by cashing in their carbon credits in order to bolster ailing balance sheets .

The sell-off has helped trigger a collapse in the price of carbon, making it cheaper to burn high-carbon fossil fuels and leading to a fall in the number of clean energy projects. The moves were seized on by environmentalists and other critics who have previously criticised the European Union's ETS for delivering more windfall profits for business than climate change.

"This [ETS] was not designed as a scheme to give corporates cheap short-term funding options in the face of a credit crunch meltdown where banks are not lending, but that appears to be what's happening," said Mark Lewis, a carbon analyst at Deutsche Bank.

Steel, concrete and glassmakers are believed to be the main sellers along with financial speculators such as hedge funds. The sell-off of the pollution permits has led to carbon prices plunging 60% â€“ from over â‚¬30 to around â‚¬12 per tonne.

The EU's emissions trading scheme was set up as a market solution to cut greenhouse gas pollution from industry. Polluters were issued with permits that can be traded between companies and countries as a way of encouraging an overall reduction in carbon output. However, companies are now cashing them in for their own financial benefit.

Up to â‚¬1bn-worth of carbon emissions permits are said to have been sold off in recent months as industrial companies see an opportunity to bring in funds at a time when their carbon output is expected to fall due to lower production.

Environmentalists expressed anger last night about the way the ETS was being used. "The ETS has bowed to corporate self-interest at every stage of its design and implementation, so there is no surprise that it is now being used as a cash cow to see firms through a difficult financial phase," said Oscar Reyes, a researcher with Carbon Trade Watch.

Point Carbon, an information provider and consultancy, claims the sell-offs are only one of a number of factors that are influencing prices and argues it is "rational" for companies to be selling off credits at this time. The falling price of oil â€“ from $147 per barrel last summer to less than $40 now â€“ has dragged down the cost of gas, making it relatively cheap to burn in power stations, it argues.

"Recession in Europe is bringing a slowdown in manufacturing meaning less production and less emissions. Companies are doing exactly what is the rational thing to do in these circumstances which is to sell if they are long on credits. It is right that if they are emitting less then they do not need the credits so much and the price of carbon will fall," said Henrik Hasselknippe, global head of carbon at Point Carbon.

But the price collapse brings echoes of 2006 when it emerged that EU states had given industry too many carbon credits, creating a glut that made them almost worthless. Since then the European commission has amended the scheme and some of the credits have been auctioned rather than given away.

A study commissioned by the WWF environmental organisation from Point Carbon, published in March last year, estimated that "windfall profits" of between â‚¬23bn (Â£21.4bn) and â‚¬71bn would be made under the ETS between 2008 and 2012 on the basis

that the price of carbon would be between â‚¬21 and â‚¬32. Up to â‚¬15bn could be made by British companies that were given credits they did not need.

Analysts said it was very hard to identify on an individual basis which companies were selling their credits but easier to say which sectors they came from such as cement, whose production is expected to drop 20% this year and steel where volumes could fall by 15%.

Lafarge, the world's biggest cement maker and owner of Blue Circle Cement in Britain, said last night that it had only sold a small number of credits on the open market. "We mainly sell our credits from one country to another, for example if we have too many in France then we might sell them to Romania if we don't have enough there. Very few credits are being sold on the [open] market," said a spokeswoman at its Paris headquarters, while steelmaker Corus was unavailable for comment.

The collapse in the price of carbon has also caused a slowdown in clean energy projects in developing countries against which western firms can gain credits. The price of Clean Development Mechanism (CDMs) offsets has slumped by nearly 30% over the last couple of weeks.

CantorC02e, a broker in the field, says it is scaling back its operations. The emissions trading firm has no immediate plans to cut its 40 staff, but says this cannot be ruled out while EcoSecurities, a stock-listed carbon offsetting company, has seen its share price collapse from Â£1.50 to less than 30p.

The low price of UN-approved offsets, known as Certified Emissions Reductions, is slowing the number of clean energy projects being developed in China. "I'd say there is half the number of players now than there was a year ago. Banks have cut back considerably," said a small Chinese project developer.

James Thompson, finance director of EcoSecurities, says he is confident that the price of carbon will rebound along with a wider economic recovery in 12 or 18 months' time. "The short-term price will also recover when the flow of credits stop coming on to the market and long-term pressure will come from governments realising they need a strong carbon price for environmental reasons."

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