CARBON CREDIT FRAUD CAUSES MORE THAN 5 BILLION EUROS DAMAGE FOR EUROPEAN TAXPAYER

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Press Release

The European Union (EU) Emission Trading System (ETS) has been the victim of fraudulent traders in the past 18 months. This resulted in losses of approximately 5 billion euros for several national tax revenues. It is estimated that in some countries, up to 90% of the whole market volume was caused by fraudulent activities.

Indications of suspicious trading activities were noted in late 2008, when several market platforms saw an unprecedented increase in the trade volume of European Unit Allowances (EUAs). Market volume peaked in May 2009, with several hundred million EUAs traded in e.g. in France and Denmark. At that time the market price of 1 EUA, which equals 1 ton of carbon dioxide, was around EUR 12,5.

As an immediate measure to prevent further losses France, the Netherlands, the UK and most recently Spain, have all changed their taxation rules on these transactions. After these measures were taken, the market volume in the aforementioned countries dropped by up to 90 percent.

With the support of Belgium, Denmark, France, the Netherlands, Spain and the United Kingdom Europol has set up a specific project to collect and analyse information in order to identify and disrupt the organised criminal structures behind these fraud schemes. There are reasons to believe that fraudsters might soon migrate towards the gas and electricity branches of the energy sector.

Mr. Wainwright, Director of Europol, says “These criminal activities endanger the credibility of the European Union Emission Trading System and lead to the loss of significant tax revenue for governments. Europol is using its expertise and information capabilities to help target the organised crime groups involved”. Europol has therefore offered its support to the European Commission - DG Environment to safeguard the integrity of the Community Independent Transaction Log."

Background information

Missing trader intra-community fraud (MTIC) is the theft of Value Added Tax (VAT) from a government by organised crime groups who exploit the way VAT is treated within the member states of the EU.
The EU has the objective of limiting global warming to 2 degrees Celsius above pre-industrial levels, to reduce climate change and meet its obligations under the Kyoto Protocol. Each MS has granted its emitting facilities a certain amount of emission rights by means of a National Allocation Plan. These emission rights can be traded like any other commodity on the market. The transfer of greenhouse gas emission allowances is a taxable supply of services.

In Europe there are 6 trading platforms: European Climate Exchange (London, UK), Nordic Power Exchange (Oslo, Norway), European Energy Exchange (Leipzig, Germany), Energy Exchange Austria (Graz, Austria), Climex (Amsterdam, the Netherlands) and BlueNext (Paris, France) and various other market platforms such as SENDECO2, Italian Power Exchange GME and most recently Greenmarket, set up by Deutsche Bank at the Munich exchange. More than 2 billion EUAs have been allocated to 12,000 emitting facilities in the 27 MS. The EU carbon market is estimated to be worth about €90 billion a year!

The Emissions Trading Scheme (EU ETS) was created as a cap-and-trade system for transactions of European Unit Allowances. Each transfer of EUAs is recorded in a national registry before it is centrally stored in the Community Independent Transaction Log (CITL) at the EU Commission.

Carbon credit fraud is a variation on the VAT carousel fraud.

Press Release (28 December 2010) Further investigations into VAT fraud linked to the Carbon Emissions Trading System

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