FURTHER INVESTIGATIONS INTO VAT FRAUD LINKED TO THE CARBON EMISSIONS TRADING SYSTEM

28 Dec 2010
Press Release
The Hague, the Netherlands

One year on from a Europol warning about an estimated 5 billion euros in damage for European taxpayers, caused by VAT-fraud within the EU Emission Trading System (ETS), law enforcement authorities around Europe continue to fight the criminal networks involved. In operations during 2010, several hundred offices all over Europe have been raided and more than 100 people arrested.

In the latest operation on 17 December 2010, the Italian Guardia di Finanza, under the instruction of Milan’s prosecution office, carried out raids on about 150 companies in eight different regions of Italy. These operations happened just a few weeks after the Italian Power Exchange (G.M.E) halted all trading in carbon credits due to a high number of abnormal transactions. The potential VAT-loss is estimated to reach 500 million euros.

Earlier this year authorities in France, Germany, Spain, United Kingdom and other countries conducted numerous operations against criminal networks involved in carbon credit fraud. The biggest swoop, initiated by Germany in late April, saw more than 2500 officers involved across Europe and in non-EU countries.

Norway, Switzerland and the EU countries Belgium, Czech Republic, Denmark, Latvia, the Netherlands, Slovak Republic and Portugal are all among the countries trying to identify the network of criminals behind this massive fraud - a fraud with links to criminal networks operating outside the EU and in other continents, like the Middle East.

Rob Wainwright, Director of Europol, says: "Organised VAT fraud remains a significant criminal activity in Europe. It is responsible for draining huge resources from central government revenues and undermining the objective of transforming Europe into a competitive and greener economy. Europol is determined to crack down on the organised crime groups involved and is pleased to have assisted a number of successful operations this year, carried out by law enforcement authorities in EU Member States. Europol is also currently monitoring apparent new trends in this criminal activity, including possible organised crime infiltration of the gas and electricity markets."
Together with a large group of countries affected by the carbon credit fraud and Eurojust, Europol is collecting and analysing information in order to identify and disrupt the organised criminal structures behind these fraud schemes.

**Background information**
Indications of suspicious trading activities were noted in late 2008, when several market platforms saw an unprecedented increase in the volume of trade in European Unit Allowances (EUAs). Market volume peaked in May 2009, with several hundred million EUAs traded in e.g. France and Denmark. At that time the market price of 1 EUA, which equals 1 tonne of carbon dioxide, was around 12.5 euros. As a measure to prevent further losses, a lot of EU Member States, had to change their taxation rules on these transactions. After these measures were taken, the market volume dropped by up to 90 percent.

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 EU Member States.

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 European Commission. Carbon credit fraud is a variation on VAT carousel fraud. The graphic below shows how carbon credit carousel fraud works.

Press Release (9 December 2009) *Carbon Credit fraud causes more than 5 billion euros damage for European Taxpayer*

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