

# 21<sup>st</sup> May 2010 Guardian Report

## Offices raided and 21 held as EU probe into carbon trading fraud intensifies

Denmark criticised for slow reaction after apparently being targeted in alleged 'carousel' scam

British tax authorities have arrested 21 people after raiding homes and offices across Europe as part of a crackdown on alleged carbon-trading fraud, HM Revenue & Customs confirmed today .

Some 450 staff took part in raids on Wednesday as tax authorities across the continent intensified an ongoing investigation into alleged carbon-trading fraud, which is estimated to have cost €5bn in unpaid taxes.

[Deutsche Bank](#) and energy company RWE were among 230 offices and homes raided this week by German authorities. Four arrests followed, including one in the UK under a European arrest warrant.

In a linked operation in the UK, eight people were arrested in Scotland and 13 in England, said the HMRC spokesman.

Pressure to stamp out suspected fraudulent activity on the EU [emissions trading](#) scheme (ETS) has increased in recent months. [Denmark](#) appears to have been particularly vulnerable to so-called carousel fraud and has had to slash the number of accounts on its carbon registry, which allows traders to buy and sell pollution permits within the ETS from 1,200 to 140. Most of the remaining accounts are barred from trading as the investigation continues.

An interim carbon register, seen by the Guardian, reveals that at least 172 UK-registered accounts have been removed from what had been Europe's largest registry after the Danish authorities imposed tight new registration requirements. The final figure of UK-registered accounts removed from the registry may be much higher.

Denmark's climate minister Lykke Friis admitted that British authorities had contacted Denmark last autumn to request closure of UK-registered accounts. But the [Danish Energy Agency, which runs the registry](#) and climate ministry, previously led by the EU's new climate chief Connie Hedegaard, have been criticised for a slow response which allowed alleged fraudulent trades to continue.

A total of 58 people across Europe have now either been arrested or charged in connection with alleged carbon-trading fraud in the last nine months.

Carousel fraud, also called missing-trader fraud, involves bogus traders buying pollution permits in the EU emissions trading scheme in one country without paying VAT. They sell them on in another country with VAT added, but pocket the difference, rather than pay the VAT to the relevant tax authorities. With the profit made, the trader goes missing.

At least three of the British nationals have been charged so far. On [29 December last year three British men who cannot be named for legal reasons were arrested](#) at a hotel in Brussels in connection with trades worth €2.11m.

The Belgian prosecutor of Tournai, Jean Bernard Cambier, confirmed that the last of the three men was released on bail in February. The men have so far been charged with money laundering and falsifying documents, and a third charge of VAT fraud is still subject to an investigation. Under Belgian law the names of the accused are not usually released since the men denied the charges. A court date has yet to be set, but if convicted, the men face up to five years in prison.

The Danish authorities were asked to change their registration procedures by the European commission in July last year. In an email seen by the Guardian, Istvan-Laszlo Bart, an official from the commission's directorate-general of environment, demanded that the Danish Energy Authority change its procedures to include documentation such as a copy of ID or a passport. "If you are not requesting [proof of identity] it is not a surprise that everyone opens accounts in the DK registry," he wrote to a member of staff at the Danish carbon registry.

In addition, an internal climate ministry document from last August, obtained by the Danish newspaper Ekstra Bladet, said that Danish tax authorities had notified the ministry that "especially Denmark is now the target for VAT fraud".

At around the same time, Britain, France and the Netherlands scrapped VAT on carbon trading after concerns about carousel fraud on the carbon markets. Soon after, on [19 August, seven arrests were made in Gravesend and Greater London](#) A further two people handed themselves into police at Heathrow later that day. No formal charges have been made. HM Revenue & Customs announced at the time of the arrests that the suspected fraud could be worth £38m.

But the authorities in Denmark were slower to respond, and had to rush through [legislation just before the UN climate change summit in Copenhagen in December](#), which was chaired by Hedegaard, who denies knowing about the suspected fraud until the newspaper reports. "I was never informed about this until last autumn when Ekstra Bladet looked into the fraud," she told the Guardian.

The Danish Energy Agency tightened registration procedures for new accounts, requesting passport ID and VAT numbers, from last summer. But existing account holders were not required to provide the documents, despite the European commission's request in July that they "retroactively request this from all operators". In December last year, the DEA finally began to request this information, setting a deadline for compliance of 1 February. The Guardian's enquiries have now revealed that almost 90% of the accounts have been deleted.

Richard Gledhill, head of carbon markets and climate change services at PricewaterhouseCoopers, said: "This is tried and tested financial fraud, applied to a green market. Carbon trading was a US\$125bn (£81.9bn) market last year, so it's no surprise that it has attracted this sort of highly organised crime.

"Fraudsters have arbitrated differences in national rules and processes, and taken advantage of the relative inexperience of some market participants. What's needed is harmonised

systems and procedures across the EU. and rigorous compliance. Market players have to be more vigilant, to stay one step ahead of the fraudsters."