



# Carbon credit trading schemes



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We are receiving an increasing number of reports from people who have been approached by firms promoting carbon credit trading schemes. Are these schemes a genuine investment opportunity or a new scam? We take a look.

A carbon credit is a certificate or permit which represents the right to emit one tonne of carbon dioxide (CO<sub>2</sub>) and they can be traded for money.

Firms may try to sell you carbon credit certificates or get you to invest directly in a 'green' scheme or project that generates carbon credits as a return on your investment.

There are two categories of carbon credits: voluntary emission reductions (VERs) and certified emission reductions (CERs).

VERs involve the offset or reduction of carbon in any way, such as through a forestry scheme or solar panel project. This type of carbon credit is increasingly being promoted to UK investors.

Governments and large corporate entities typically trade in CERs certificates and these are highly unlikely to be offered in small volumes to consumers.

## **How it works**

The contact usually comes out of the blue, with most schemes cold-calling investors. But it can also come by email, post, word of mouth or at a seminar or exhibition.

You might be told that carbon credits are 'the new big thing' in commodity trading and that you could make significant profits.

The caller may claim industries now have to off-set their emissions, the government is focusing on green developments and that carbon credit trading is an ever growing market.

You may also be told that in the current economic climate you will earn larger profits from carbon credits than traditional investment products.

While not all carbon credit trading schemes are a scam, it is often not made clear to investors that trading on Over-The-Counter (OTC) markets requires experience and skill. You may lose money on your investment by not getting a competitive rate when trading a small volume of carbon credits or not being able to sell your credits at all.

## **How to protect yourself**

Beware that VERs certificates are often labelled as 'certified', but this certification is voluntary involving a wide range of bodies and different quality standards that are not recognised by any UK financial compensation scheme.

Just because the salesperson mentions the Kyoto Protocol or 'government-backed' plans does not tell you anything about the type of carbon credit you are investing in.

Also keep in mind that the projects generating VERs are usually based overseas and the UK authorities have no way of controlling the quality or validity of the scheme.

Remember if the company promoting or operating the scheme is not authorised by us, you will not have access to the [Financial Ombudsman Service](#) or [Financial Services Compensation Scheme](#) (FSCS) if things go wrong.

This also means you will not be able to take your case to the Ombudsman Service or FSCS if you cannot sell or trade your carbon credits.

There are more steps you can take to keep your savings safe – find out [how to protect yourself from investment scams](#).

## What to do if you have been scammed

If you are concerned about a carbon credit trading scheme you should stop sending money to the firm and individuals involved. If you have given them your bank account details, tell your bank immediately.

You should then contact our [Consumer Helpline](#). Please provide as much information as you can about your investment and the company involved, including their contact details and ‘firm reference number’ (FRN) if they claim to be authorised by us.

The more information we have, the better our chances of assessing whether the company is operating a scheme for which they need to be authorised by us, as explained below.

## Carbon credits as a CIS

We do not regulate the sale or trading of carbon credits. But we do regulate collective investment schemes (CIS) and certain types of exchange contracts (often called ‘futures’), and a firm must be authorised by us to promote or operate them in the UK.

We can only take action over a carbon credit trading scheme when it is being promoted or operated as a CIS or futures contract, without our authorisation.

The scheme may be a CIS where:

- a. investors do not have day-to-day control over managing the property that is generating the credits (such as a plot of forest or solar panels);
- b. the scheme involves pooling investor funds; and
- c. the operator is responsible for managing the scheme as a whole.

It is possible to sell carbon credits without the scheme being a CIS. So, many schemes are set up to avoid the characteristics of a CIS – at least on paper.

However, sales people may tell a different story and it helps us prove that a carbon credits trading scheme is a CIS if we know what you are told when it is being promoted.

You may be entering a futures contract where:

- a. delivery of the carbon credits is done at a future date; and
- b. the contract is made for investment purposes.

If there is not enough evidence that a scheme is being run as a CIS or futures contract but there are wider concerns, we can refer it to Trading Standards, the Corporate Complaints Team at the the Department of Business, Innovation and Skills (DBIS)