

UK police join hunt for £1bn carbon credit fraudsters

Scotland Yard works with Europol to track down carbon credit gangs

Rajeev SyalThe Observer, Sunday 4 October 2009

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An international carbon credits scam worth more than £1bn is being investigated by detectives in at least five European countries, including Britain, the *Observer* can reveal.

The fraud, originally co-ordinated by gangs in Spain and Britain, involves the buying and selling of emission allowances across borders in order to avoid VAT. The disclosure of the scale of the illegal trade in carbon credits will cause further consternation for the governments and environmental groups that set up the system to measure and limit emissions. It comes as the EU introduces rules to control the fraud.

Scotland Yard detectives and Revenue and Customs officers are involved in the investigation to track down gangs operating across Europe. Police in Italy, Spain, Denmark and Sweden are being co-ordinated by Europol, the European law enforcement agency.

A source close to the investigation said: "The inquiry has escalated. This is a Europe-wide operation and we are finding it difficult to keep up."

With only two months to go before the climate summit in Copenhagen, the EU wants to clean up the market as it tries to get its form of "cap-and-trade" carbon trading scheme adopted around the world as a key weapon against carbon emissions.

The EU carbon market is now worth about €90bn a year. It is the largely unregulated spot market that has been targeted this summer by fraudsters. Nine people were arrested in Britain in August on suspicion of being part of an organised crime group. It is alleged that they traded large volumes of credits.

Seven people were held in and around Gravesend, Kent, and Greater London in August and 27 properties were searched. A further two arrests have been made and all nine are now on bail. It is understood that most of the suspects are company directors and businessmen and live lavishly.

The scam works by the fraudster or company buying carbon credits from overseas VAT-free sources, then selling them to UK businesses at a VAT-inclusive price. The tax charged is never paid to Revenue and Customs.

It is another form of carousel, or "missing trader", fraud, which arises where standard-rated goods or services can effectively be traded VAT-free between EU countries.

A 2008 report estimated that the total in lost tax revenues from fraud across Europe is

as high as €250bn, with €40bn down to VAT fraud alone.

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