



Extract from the report to the  
Public Accounts Committee on  
the administration of the Danish  
Emission Trading Registry

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## I. Introduction and conclusion

1. This report is about the administration of the Danish Emission Trading Registry and VAT carousel fraud in CO<sub>2</sub> allowances. Rigsrevisionen launched the examination in April 2011 at the request of the Public Accounts Committee.

2. In Europe VAT carousel fraud in CO<sub>2</sub> allowances was extensive particularly in 2009. According to Europol's estimate, the fraud amounted to DKK 38 billion, but the basis of the estimate is uncertain. The media linked the fraud with the fact that VAT frauds from all parts of the world could open accounts with the Danish Emission Trading Registry, because persons and companies wanting to set up accounts with the Registry were not by the Danish Energy Agency required to provide any documentation of their identity.

3. The Danish Emission Trading Registry was established in January 2005 under the auspices of the Danish Environmental Protection Agency where it remained until January 2008, when the Danish Energy Agency under the Ministry of Climate, Energy and Building took over operation of the Registry. The principal responsibility of the Danish Energy Agency as the administrator of the Danish Emission Trading Registry is keeping account of the Danish companies' compliance with their obligations to reduce CO<sub>2</sub> emissions, and setting up and administering person holding accounts in the Registry.

4. The Ministry of Climate and Energy was in October 2011 transformed into the Ministry of Climate, Energy and Building, and Rigsrevisionen has decided to use the new name of the ministry throughout this report. In the section of the report that concerns the minister's briefing of the Danish Folketing (the parliament), Rigsrevisionen refers to the minister as the minister of "climate and energy".

5. The objective of the examination is to assess whether the Ministry of the Environment and the Ministry of Climate, Energy and Building has ensured that the Danish Emission Trading Registry was managed in a satisfactory manner. The report also looks into the scope of the VAT carousel fraud in trading CO<sub>2</sub> allowances and current possibilities of committing VAT carousel fraud. The report answers the following questions:

- Has the Ministry of the Environment and the Ministry of Climate, Energy and Building ensured satisfactory administration of person holding accounts in the Danish Emission Trading Registry?
- Has the minister of climate and energy briefed the Folketing correctly on the issues relating to the administration of the person holding accounts in the Danish Emission Trading Registry?
- What is the scope of VAT carousel fraud in trading CO<sub>2</sub> allowances in Europe and current possibilities of committing VAT carousel fraud?

With Denmark's ratification of the Kyoto Protocol followed an obligation to set up an allowance registry to keep record of all CO<sub>2</sub> allowances. A CO<sub>2</sub> allowance is an electronic unit with a unique number which gives the holder of the allowance the right to emit one tonne of CO<sub>2</sub> for a defined period of time. CO<sub>2</sub> allowances can be traded in all EU Member States, irrespective of their origin.

The Danish Emission Trading Registry contains **person holding accounts**, held by individuals or companies wishing to trade allowances, and **operator holding accounts**, held by companies that are subject to the emissions trading scheme.

## MAIN CONCLUSION

In the opinion of Rigsrevisionen, the Ministry of the Environment and the Ministry of Climate, Energy and Building did not manage the Danish Emission Trading Registry in a satisfactory manner in the period January 2005 to December 2009. Rigsrevisionen also finds that the practice of the Danish Energy Agency has attracted VAT frauds and impacted the scope of VAT carousel fraud in other EU Member States.

For a period of four and a half years it was possible for persons using false identities to trade in CO<sub>2</sub> allowances in the Danish Emission Trading Registry, because the Danish Environmental Protection Agency and the Danish Energy Agency – in conflict with the EU regulations – did not require account holders to provide documentation of their identity. The Danish Energy Agency was made aware of this situation in July 2009 and the documentation requirements in relation to setting up new accounts were subsequently tightened. The Agency did not, however, begin to collect documentation in relation to existing accounts until December 2009. The account holders that had set up accounts under false identities were thus at liberty to continue to trade in CO<sub>2</sub> allowances in the Danish Emission Trading Registry and commit VAT carousel fraud for another six months.

In Europe VAT carousel fraud on CO<sub>2</sub> allowances was extensive particularly in 2009. It has not been possible for Rigsrevisionen to determine the full scope of the fraud in the EU, as investigations are on-going and findings are in certain countries treated with confidentiality.

The Danish Customs and Tax Administration (SKAT) has identified VAT losses amounting to DKK 1.4 million, but according to the assessment made by Rigsrevisionen, the actual VAT losses incurred by the Danish government may be greater. Moreover, 14 EU Member States have stated that they suspect VAT carousel fraud worth DKK 1.4 billion through the Danish Emission Trading Registry. Several countries have not yet quantified their suspected losses, and total losses may therefore exceed DKK 1.4 billion. Like most other EU Member States, Denmark has now changed its VAT regulations and since the new VAT rules took effect in April 2010 the opportunities to commit VAT carousel fraud in CO<sub>2</sub> allowances have been considerably reduced.

Since December 2009, the minister of climate and energy has kept the Folketing updated on the issues relating to the administration of person holding accounts in the Danish Emission Trading Registry and expressed regret regarding the administrative errors made. The minister has provided correct information on the administration of the Danish Emission Trading Registry in the period when most of the accounts were set up and the VAT carousel fraud took place. But the minister has not provided correct information to the Folketing concerning the administration of the Danish Emission Trading Registry when it was placed under the Danish Environmental Protection Agency.

The main conclusion is based on the following sub-conclusions:

*Has the Ministry of the Environment and the Ministry of Climate, Energy and Building ensured satisfactory administration of person holding accounts in the Danish Emission Trading Registry?*

Neither the Ministry of the Environment nor the Ministry of Climate, Energy and Building has ensured satisfactory administration of the Danish Emission Trading Registry. Neither the guidelines of the Danish Environmental Protection Agency nor of the Danish Energy Agency met the requirements of the EU regulation concerning account holders' documentation of their identity, for instance in the form of a copy of passport. Moreover, the agencies did only by exception require copies of passports in the period January 2005 to July 2009. The Danish Energy Agency was in July 2009 instructed to tighten the documentation requirements. The Agency did not, however, begin to collect documentation in relation to existing accounts till December 2009 and the approximately 700 accounts in the Registry were thus open for trading while the VAT carousel fraud was at its peak.

*Has the minister of climate and energy briefed the Folketing correctly on the issues relating to the administration of person holding accounts in the Danish Emission Trading Registry?*

Since December 2009, the minister of climate and energy has kept the Folketing updated on the issues relating to the administration of person holding accounts in the Danish Emission Trading Registry. The minister has also expressed regret regarding the administrative errors made. The minister has provided correct information on the Danish Energy Agency's administration of the Danish Emission Trading Registry from 2008 and onwards, but has on several occasions been obliged to correct the information provided in respect to the Danish Energy Agency's collection of documentation. But the minister has not provided correct information to the Folketing concerning the administration of the Danish Emission Trading Registry when it was placed under the Danish Environmental Protection Agency.

*What is the scope of VAT carousel fraud in trading CO<sub>2</sub> allowances in Europe and the current possibilities of committing VAT carousel fraud?*

The Danish Customs and Tax Administration (SKAT) has identified VAT losses amounting to DKK 1.4 million, but according to the assessment made by Rigsrevisionen, the actual VAT losses incurred by the Danish government may be greater. Moreover, 14 EU Member States have stated that they suspect VAT carousel fraud worth at least DKK 1.4 billion committed through the Danish Emission Trading Registry. However, it is not possible to determine the total value of VAT carousel fraud in relation to CO<sub>2</sub> trading in Europe at this point, because investigations are on-going and findings are considered confidential in certain countries. The introduction of reverse charge for CO<sub>2</sub> allowance trading in April 2010 has reduced the risk of VAT carousel fraud committed against the Danish treasury considerably.

EU regulations have immediate binding force throughout the EU Member States, and no action is required to make them part of national law.