

The Carbon Markets and Investors Association (CMIA) is an international trade association representing companies that finance, build, and support emission reduction projects across five continents, as well as service providers to liable entities under cap-and-trade schemes. Formed to represent businesses working to reduce carbon emissions through the market mechanisms of the United Nations Framework Convention on Climate Change (UNFCCC) and Kyoto Protocol, CMIA's international membership accounts for an estimated 75 per cent of the global carbon market, valued at USD 100 billion in 2008.

The UK Treasury announced late last week that, within the United Kingdom and effective immediately, all EU ETS emissions allowances and credits "pursuant to the Kyoto Protocol" and dated from 31 July, 2009 will be Value Added Tax (VAT) zero-rated. This directive covers both CER (Certified Emissions Reductions) and EUA (European Union Allowances) over-the-counter (OTC) spot trades, futures transactions, and options. Businesses retain the right to recover any VAT associated costs they incur from the UK Treasury.

It is important to note that this directive does not present a different environment for trades cleared on the European Climate Exchange (ECX), which have been and remain under the umbrella of the Terminal Markets Order (TMO). The implication is that all emissions allowance and credit trades cleared OTC will now also be VAT zero-rated.

CMIA recognizes that this is an interim solution pending the implementation of an EU-wide directive. However, only three Member States¹ have implemented legislative measures, and thereby **the urgency for such an EU directive is increased substantially**. That is, under current circumstances, certain cross-border transactions on non-legislated exchanges remain at risk.

Comprehensive Know Your Client (KYC) procedures remain as the primary means to safeguard against malignant counterparties. As such, CMIA urges the European Commission (EC) to take swift measures on two fronts:

- **The establishment of a clear programme for counterparty screening, and monitoring controls focusing on irregular trading activities, and**
- **The legislating of clear and inclusive tax treatment of carbon market transactions within the EU**

Insofar as the EU ETS was created to serve the needs of industries of 27 Member States, it is imperative that there is no disparity created by unequal tax treatment of transactions.

While we support the interim measures taken as immediately available tools to prevent suspicious and fraudulent activities, we would encourage the EC to act quickly and expediently on an issue that **affects not only direct EU ETS participants, but carbon market service providers and investors of all descriptions.**

In the interests of market integrity and efficiency, the environment must be stabilized and equalized – and swiftly.

ENDS

CMIA Contact Information:

Alexandra Galin

Manager, Policy and Working Groups

alexandra.galin@cmia.net

Sandy Nicolson

CMIA Treasurer

Interim Chair of the CMIA Taxation Working Group

sandy.nicolson@kpmg.co.uk

¹ France, the Netherlands, and most recently the United Kingdom.