

UK traders seek to clear up tax concerns

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Traders will meet UK officials to ease doubts over how to deal with fraud in the carbon market.

A group from the Carbon Markets and Investors Association (CMIA), will meet treasury and customs staff on 5 August to identify steps traders need to take to avoid getting caught up in dodgy deals.

The association wants clearer guidelines on what companies need to do to show they carried out checks on sellers of carbon instruments, according to Sandy Nicolson, chair of CMIA's working group on tax issues.

CMIA reckons such doubts risk innocent companies falling foul of scam sellers who disappear without paying value-added-tax (VAT) on the deals.

Precautionary measures

UK-based traders told Point Carbon they are generally confident regulations are robust enough to block the scammers.

But they warned thorough checks were necessary amid a steady stream of new operators keen to get a slice of the rapidly-expanding emissions sector.

Both the French and Dutch governments have changed the way they tax the trade of spot carbon credits in the last two months in an attempt to deter fraud.

The French suspected a spike in trading volumes on the Paris-based Bluenext exchange in May and June was due to VAT scams.

While futures contracts are classified as financial instruments subject to tighter scrutiny, attention has focused on the trade in spot EU allowances and UN-backed certified emission reductions (CERs).

The UK, a base for many of the world's biggest carbon market participants, has so far said it has no plans to make changes to its treatment of VAT on carbon trade.

Suspicious activity

London-based sources said in recent months they had been contacted by potential traders they regarded as suspicious.

One even said as many as a quarter of the precautionary checks carried out on potential counterparties, which include know-your-customer (KYC) procedures, failed to stand up to scrutiny.

Laurent Segalen, London-based managing director of commodities and environment at Japanese bank Nomura, said he had had contact from at least three companies in recent weeks which he questioned their legitimate trading motives.

"I need to go further than legal KYC checks before I will trade with people. There needs to be face-to-face contact, meetings and a level of trust there before I will be willing to do business," he said.

"Because of that, these sorts of enquiries are non-starters in getting anywhere with me, but this might not be the case if they come across a more junior person elsewhere."

Rejected offers

Other traders reckoned checks had filtered out companies they didn't want to trade with, but weren't sure if all market participants always applied similar procedures.

"We have certainly rejected a number of companies that have wanted to do business with us on the basis of these checks," said Reuben Maltby, CEO of Carbon Capital Markets.

"Regulated companies have to do checks on their trading counterparties by law, whereas unregulated ones don't. So while you can be reasonably confident of the procedures in place within regulated companies, you cannot be so sure with the unregulated ones," he said.

Another London-based trader at a bank, who did not want to be named, said his desk had grown used to fielding calls from potential new entrants to the market.

"There have been people phoning in a fair bit making enquiries about trading, but you have to be suspicious when they know little about the market and don't seem to be bothered about learning," he said.

CMIA reckons an EU-wide measure eventually could be the best way to clear up any current uncertainty and avoid differences emerging in how each EU member state deals with the issue.

"Buyers should exercise maximum caution (until the uncertainty is addressed) and, where possible, deal with well-established institutions," the group said.

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