CO2 Certificates Investment scams for individuals, Part II
- Will we see emission trading for road transportation?

As we have already started our Part I in Emission-News 03-2015, Emissionshändler.com® reports on the fraudulent activities of brokers and traders who sell in the context of a "Green Investment Hype" worthless CO2 allowances to medium-sized companies and individuals, and always try to entice new customers with promises of immense value increases.

This obviously known scam, that has fared already for several years still attracts private customers and small and medium-sized businesses who are looking in the vicinity of a zero interest rate policy for salvation in an industry in which not only high yields but also the satisfaction of a green conscience is promised. In the present Part II we review the methods of fraudsters in detail and give first hints on how you can protect yourself.

In Part III, presented in August 2015, it be explained in detail from the perspective of a fraud victim, how the approach and the exploitation took place. Furthermore we report in our present Emission-News 08-2015 on first ideas in Europe from 2021 to include road transportation in the emissions trading scheme and on what this would potentially cost the individual car driver or a truck.

Why does fraud with VER certificates happen in voluntary emissions trading?
Background of the fraud with VER certificates in voluntary emissions trading having begun probably in 2009 already is the fact that structures, the know-how and the capital for it had been available for more than 2 years. Already in 2008 criminal gangs started to build up sales tax carousels for the mandatory emissions trading and to evade billions of Euros, mostly in Great Britain and France. In Germany, however, the tax authorities obtained clear information presuming a systematic and gang-like tax evasion of the mandatory emissions trading only in early 2009.

For example, tax investigators of the Hamburg VAT anti-fraud department disposed in early 2009 by their own account of information that traders being suspected to fraud chose the German CO2 market as their next target for tax fraud.

The reason to displace tax fraud to Germany was the loss of a business basis which happened to criminal gangs by the abolition of sales tax liability for CO2 certificates of the mandatory emissions trading. The reverse-charge-procedure introduced to Great Britain and France reversed the sales tax liability, thus...

... In autumn of the same year the suspicion of German tax investigators intensified and after powerful investigations in early 2010 led by the Hamburg prosecutor, a bulk of evidences was presented in the frame of a worldwide police raid in...
Hong Kong, USA, Luxembourg, Belgium, Bulgaria, Cyprus, and Liechtenstein. More than 3 million Euros from accounts of accused individuals had been recovered, taking the accused to prison for many years. 

According to Interpol statements, more than 6 billion Euros of tax had been evaded in the mandatory emissions trading until 2012. So it is obvious that only fractions of the money evaded could be found and only a few gangs and networks could be

This explains that criminal gangs could not go on with their kind of business in mandatory emissions trading after introduction of the reverse-charge procedure for July 2010. From this date on they continued intensively their shady dealings in voluntary emissions trading. In fact they had no longer the chance to evade VAT but private investors and smaller enterprises were cheated out of their money by means of black money laundering and especially by sophisticated investment frauds with voluntary CO2 certificates.

The conditions needed as there would be funds, product knowledge, marvellous websites, functional structures were already existing. Only sales structures needed to be modified as no longer mandatory emissions trading power plants and industrial customers as (mostly unaware) members of a tax carousel were needed but private customers

Customers once being registered in a "boiler room's" data base received not only fraudulent offers for CO2 certificates but also

A customer was bothered with offers for projects, investments in red wine, diamonds, wood plantation in Indonesia, rare or in the Ukraine - all this because contact data were transmitted unrestrained to third parties or by brokers who took along data to a new business house. Nothing seems or seemed too unusual to business houses and their brokers to keep the customer interested and loyal.

However, the brokers found in any case customers being keenly interested in CO2 certificates as these did not only meet the present climate and environment trends but seemed to be attractive, new and promising due to their immaterial characteristics (see also info box below).

Fraud with CO2 Certificates becomes a bulk business

Enterprises who often called themselves brokerage house or business house intended fraudulently to distribute VER/VCS certificates from the voluntary emission trading among their customers. For this reason they use to rent office rooms in

and Spain. The traders/brokers used to sit closely like chicken on the pole in these stuffy aired rooms and tried to lure new customers by means of sudden phone calls or to persuade their regular customers to make new deals. The office rooms being often situated in finest business areas were soon titled from insiders as "boiler rooms" where the brokers used to contact potential customers every minute.

**Infobox**

**Guide to Carbon Trading Crime of INTERPOL - Sale of carbon credits that either do not exist or belong to someone else (June 2013)**

The intangible nature of carbon credits makes it possible to separate ownership in the carbon rights from the physical project. A project such as planting trees, or upgrading a factory, for example, may be owned and managed by one person or company, while another acquires the legal rights to trade in any carbon credits generated.

The risk of corruption, therefore, is increased by the fact that there is no physical indication of the identity of the person who beyond a piece of paper or record in a government register. Fraud may also be facilitated by government corruption that allows persons to register forged documents concerning ownership of carbon credits.

However, the relative immaturity of the carbon market, coupled with the intangible nature of the commodity itself, leaves the carbon market particularly that would typically be incapable of penetrating other commodity markets. The noteworthy potential for the carbon market to be exploited rests on a single significant vulnerability that distinguishes it from other markets - the intangible nature of carbon itself.

**Source:** Interpol publication of July 5, Notes to the address given above.
Business houses, agents, brokers, and "help scammers" construct an international network

In the middle of 2010 the activities of business houses and those of agents and brokers rose more and more and caused the attention of investigators especially in Great Britain. Customers drew the investigators' attention to the mounting evidence on fraud. Also a new particularly nasty kind of business was born, it was called "Recovery Scams". It was created by enterprises that all this of course for money and fraudulently. All the new founded companies had bought the data of former betrayed customers respectively had suffered a loss by themselves. They easily approached to their victims and offered them "to help". The fraudulent offers for help included a lot of various methods. Some of them claimed a payment in advance or e.g. Edgebrook Carbon Invest. Lots of them asked for an additional investment at a considerable sum in order to sell everything shortly afterwards with a huge profit. Clark Carbon Capital acted like this. Others offered to "modify" VER certificates to CER Certificates because this kind of certificate the trick of additional investment having been the most attractive method for business houses was especially offered by Clark Carbon Capital in Switzerland and Carbon-ex headquartered in Luxembourg. It was usual to get qualified for the sale of own trash certificates by buying several thousands of Carbon Credits additionally. As the "help business" ran better and better, more and more fraudulent business houses entered into the profitable business. It is remarkable in this context that due to the obvious circulation of customer data alternate products were offered repeatedly respective further help methods against lousy investments served as consolation and perspective. Due to higher frequency of company formations and company closures (planned and unplanned insolvencies of fraudulent enterprises), even national authorities began to pay attention in some cases to the trade with VER/VCS/CER certificates. This also because the number of betrayed customers was growing constantly. One of the best known cases was introduced by London authorities end of May 2014 because not less than 13 enterprises having their headquarters in London had to file for bankruptcy within a short time or wanted to be insolvent. Nearly all of them had their activities in CO2 certificates. According to authorities' investigations, thousands of people lost more than 19 million Pounds.

Selling worthless certificates brings high profits

According to the investigations of the authorities at the center of the network of these companies was the company Eco-Synergies, which, as a wholesaler, was supplied by the members of the network with VER CO2 allowances from the voluntary market. After the investigation it was found that Eco-Synergies bought the certificates for an average of 65 pence each (approx. € 0.80) and blew their value through its partners, in particular the company MH Carbon and Carbonex up to 6 pounds (€ 7.20) for the private buyer. Sometimes the value was increased up to 11 pounds (about 13 euros) per piece. Eco-Synergies described themselves on their website as with over 25 active trading agents as well as the purchaser of 2-5 new climate projects per month, then to a total of 1-2 million allowances per month were sold to trading partners and customers. Of course, the financial results of up to 869% profit on the now withdrawn from the Internet website. Instead, potential and existing customers were informed on websites of connected distribution companies about tremendous sales increases on the CO2 market, thus suggesting a high future profit.

"Clean energy, investments in Carbon Credits will increase for 30% in 2010 and raise to 243 billion dollars". Beside dream returns, also dream sales being three decimal places too high are suggested to the potential customer.
Parts of fraudulent business houses go into bankruptcy, others work on

Mr. Clive H. Jones, appointed liquidator of the London bankruptcy court for 13 business houses having gone into bankruptcy so far, gave a statement end of May 2014, expressing that he was sure "that the sale of VER Emission credits is basing on fraudulent representations if it is said that certificates would considerably increase in value, these promises were completely wrong.

The first larger study about fraud mischief with CO2 certificates on the voluntary market showed that this criminal business method can still do a lot of harm to potential fraud victims. The capital and the knowledge of fraudulent business houses and brokers is only one method to cheat private individuals and small business out of their money by means of VER and VCS certificates. The enormous data set of swindled customers and product data by criminal elements is a further advantage being taken by the cheaters. These data sets called "sucker lists" (name, address, phone number, and background information) guarantee the data's owners to "suck" to their victims again and again because these unfortunately bear

The only advice which prospective customers as well as betrayed victims can take is to get informed on www.redd-monitor.org where always the newest scams and reports from betrayed investors are published. After more than 5 years of fraud with CO2 certificates in mandatory and voluntary emissions trading, enough experiences and advices have been collected to recognise an attempt to defraud or rather a fraudulent intention.

Caution and information for potential companies and individuals in the voluntary carbon market

Businesses and individuals who want to participate in the area of voluntary emissions trading for the purpose of offsetting CO2 activities or want to delete VER, VCS or other offsets (voluntary certificates) or want to buy as an investment (that is strongly not recommended) can be given the following instructions to recognize at least the

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greatest risks and pitfalls. Special care is required when the following terms and conditions are available or are present:

- Not the certificates themselves are offered, but
- The acquisition of climate certificates
- The value is protected by investing in
- The seller conceals the
- Astronomical gains are forecasted for the period after when a

Particularly unscrupulous traders offer disappointed buyers worthless climate certificates as a deposit of guarantees, so then an can take place subsequently. Phishing and identity theft also take place in this area, and they can result the certificates to be stolen.

Infobox:
Taking over of invalid/ineligible remaining stocks of CER/ERU

Emissionshändler.com® offers all investment operators and Airlines to take over all their remaining stocks of invalid CER/ERU. Emissionshändler.com® pays 0.5 EuroCent/t, 250.00 Euro max. to each investor, a total of 1.00 Euro minimum at least, however, for taking over invalid/ineligible CER/ERU.

The seller receives in any case a Word template as a file, enabling him to present an invoice to Emissionshändler.com® of 1.00 Euro minimum. If the account holder needs help to set up a trust account for Emissionshändler.com®, free assistance and solutions will be offered. For the request of a selling form, interested investment operators address themselves to Emissionshändler.com® under info@emissionshaendler.com

A second category of fraudulent certificate trading is multi-level marketing pyramid (so-called "Ponzi Schemes") in which buyers have the opportunity to invest quickly in the resale of "allowances" that can be used again. The units sold in the pyramid are often not

Before the sold projects are implemented, the company disappears, and its founder takes a sunbath in the Bahamas.
Evidence of dubious deals - even when erasure and decommissioning
Regardless of the desire to make voluntary CO2 certificates much money, can (and should) be this also used to soothe by deleting and decommissioning own environmental conscience. In this case, many other so that not even one's own conscience is still being ripped off and guarantees the savings of CO2 in projects and runs correctly.

The following peculiarities in dealing with brokerage and trading houses to voluntary CO2 certificates should make a company suspicious:

- Only are available, no climate certificates.
- There is no
- The traded unit refers to such as "an acre of rainforest", but not on emission reductions.
- A detailed of the project is not available.
- Environmental associations or foundations with sounding names, which have been established by the vendor, support the project.
- The company can prove no
- The local population receives without knowing what is really planned.
- The central government of the host country has

Voluntary carbon offsets often serve as evidence of business sustainability (CSR = Corporate Social Responsibility). It is strongly recommended that there should be a potential in the company for reducing emissions. However, the public critically monitors the offset projects themselves. A wrong selection of these projects can lead to damage to their image if they do not fit the corporate philosophy.

End of second part of “CO2 certificates serve as an investment fraud for individuals”. Third part in the next Emission News

Integration of road traffic into the emission trade scheme could solve the problem of excess certificates circulating on the market
On the occasion of its annual meeting on June 10, 2015, the Federal association of emissions trading and climate change (bvek) pointed out that the best solution for present problems of German national and European climate protection politic would be to extend tradable emission rights (EU-ETS) to the road transport sector. It would be the most simple and economical solution and should be realized beginning of at the latest. The bvek’s proposal finds a cautious support in the German automotive industry in the meantime and also the oil industry seems to accept the idea. A discussion takes place also at EU level where more and more supporters are found, for example in the association of European railway operators (a distortion of competition is recognizable at present).

The Basic Idea: Only a few issuers instead of a lot of fuel consumers
This would mean that not a lot of small issuers by which the millions of cars and trucks are meant should have to be included into the system but only those who bring fuel into circulation on the first trade level. These are issuers who run petroleum refineries or import fuel gases to the EU, in other words the big oil companies. Their big centralized fuel storage tanks could be treated in the same way as the present stationary plants of the ETS.

Extension of EU-ETS on fuels of the first trading level
However, these storage tanks run through a severe national control already now (in Germany by the custom houses) and all sorts of fuels being brought into traffic are registered and reported exactly in order to raise the various monthly energy taxes. These volumes should only be multiplied and the results should be forwarded to the responsible national emission registrars (in Germany DEHSt). bureaucracy and for the inclusion of fuels into the EU-ETS would be unnecessary.
Of course the oil companies would have to undergo a legal obligation to establish corresponding investment accounts in the union registry and to
pay annually their emission volumes in conformity with their emission allowances.

Who bears the cost?
The oil companies would of course transmit the cost for procurement of the needed emission allowances to the following trading levels and finally charge the fuel prices at the gas stations. As no Carbon-Leakage risk can be found here, the emission allowances of the traffic sector could be completely and trouble-free.

Together with the present details the gas station bills should include the appropriate emission factor of the tanked fuel, the resulting CO\textsubscript{2} emission volume as well as the price of the emission allowances sold together with the fuel. On this way every vehicle driver or owner will know his individual CO\textsubscript{2}-emissions and the resulting cost. This may influence his drive or purchase behavior.

The effect on the climate and the supersetst existing in the EU-ETS
The effect on the climate after such an ETS expansion depends of course on the relation of the traffic sector’s emissions to the emission allowances being additionally left at the ETS system’s disposal – less emission allowances (EB) mean a higher effect on climate protection! This is a pure political decision and can entail

Example 1: If the government means that Germany still disposes of a reduction gap of 22 million t CO\textsubscript{2}/a in order to achieve its national climate protection aim: reduction of 40% greenhouse gas emissions until 2020 compared with 1990, this gap could be closed exactly and safely by means of leaving 22 million EB less at the EU-ETS disposal than the German traffic sector will emit according to the Federal government’s estimation (forecast for 2020: 150 million tons CO\textsubscript{2} /a. 150 – 22 = \textbf{128 million EB})

Example 2: If the responsible EU bodies mean that the present EU-ETS dispose of 2 billion too many emission allowances, this putative superset could be eliminated safely by granting the EU-ETS only 50% emission allowances additionally between 2016 and 2020 as all ETS member countries emit together in the road traffic sector (EU-28 emissions road traffic 2012: 830 million tons CO\textsubscript{2}, 50% of it = approx. 400 million x 5 years = \textbf{2,000 million EB})

However, the decisive advantage of including the road traffic sector is not only the simple fixing of climate protection effect but also in contrast to all other political climate protection instruments.

The shortage in emission allowances according to example 1 would be so little that, if so, only small effects on the present price of 7 – 7.50 €/EUA would arise. Estimations are basing on a price increase of probably approx. 0.50 €/EUA.

But the shortage according to example 2 would lead to a significant price increase to approx. €/EUA.

The effect on the EUA price
With the expansion of the EU-ETS fixing of the additional emission allowances being at the disposal of EU-ETS, the effects on the price development of the emission allowances are determined – the less additional emission allowances, the bigger the shortage in emission allowances. Thus the price will raise, indeed the present market price!

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Example 3: The „conclusions for the frame for climate and energy politics until 2030“ decided by the EU council in October 2014 includes among others that the sectors not falling under ETS should reduce their greenhouse gas emissions until 2030 for 30% compared with 2005. Until now these sectors also included the road traffic sector. If this aim is also prescribed to the road traffic sector, it would certainly be considered as soon as the ETS would include the road traffic sector and reduce the emission allowances for the ETS to approx. 630 million pieces/a until 2030 (EU emission road traffic sector 2005 approx. 9 million tons CO\textsubscript{2}. 70% of 900 \(= 630\) million EB).
The effects on the shortage according to example 3 depends on the fact how fast the reduction of the latest EUA superset of 2.4 billion to 630 million emission allowances/a will be realized. Its effect could be established.

The effects on fuel and diesel prices
On the basis of example 1, the price for Otto fuels (emission factor 2.33 kg CO\textsubscript{2}/liter) would increase for 1.8 Cents/liter only, for Diesel fuels (emission factor 2.65 CO\textsubscript{2}/liter) only for 2 Cents/liter. Example 2 would present an increase of 3.5 Cents/liter max. or 4 Cents/liter max.

Annual incremental costs for an average vehicle driver will arise (15,000 km/a mileage, average consumption rate 7.5 liter Otto fuel/100 km) and amount to 20 €/year respectively 40 €/year. An average truck driver (100,000 km/a mileage, average consumption 30 liters diesel/100 km) would lead to 600 €/year respectively 1,200 €/year).

This low additional cost would certainly not lead to a different driving behavior; neither would a truck holder because the alternatives to emission reductions might be considerably more expensive. The real emission reductions might take place mainly in the present ETS operation plants in Germany and/or other ETS states. These dispose of various options to avoid emissions at specific costs of less than 14 €/ton CO\textsubscript{2}-äq.

The bvek meeting also presented cost considerations for example 3, an EU wide decrease of the road traffic reduction. Together with the Massachusetts Institute of Technology the ZEW found out by calculations that the climate protection rate being achieved in the EU by means of intensification of CO\textsubscript{2} emission limits for new vehicles until 2025 could be realized with 40 - 60 billion € less cost for the EU economy if the road traffic would be integrated into the EU-ETS.

By integrating the road traffic into the EU-ETS for Germany respectively for the whole EU opposite the climate protection programs planned by politicians, Euros could be saved and taken for important social responsibilities (education, research, infrastructure, public-spirited tasks, etc.).

Conclusion to integration of road traffic into emissions trading
If the integration of road traffic into emissions trading would be realized in accordance with example scenarios 2 or 3, operators of stationary plants should consider that a price increase effect will take place, this because of the more or less quick reduction of supersets billions of emission allowances. This price increase effect and the perspectives secured by law will most of all attract investors and speculators who might cause a further (probably very quickly) increase of the certificate prices.

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Kind emission regards

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