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How Major Banks Turned a Blind Eye to the Theft of Billions of Pounds of Public Money

By Madlen Davies, Ben Stockton, and Ferdinand Moeck

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Major banks enabled fraudsters to steal billions of pounds of public money through VAT scams, allege documents obtained by the Bureau. A decade later, tax authorities are still chasing the money through the courts.

Traders in London facilitated the so-called carousel fraud by organised crime gangs in 2009, which involved the trading of carbon credits, permits which allow a country or organisation to emit greenhouse gases.

The gangs imported millions of carbon credits from outside the UK without paying VAT on them. They sold them on to traders adding 20% to the bill as if they had paid VAT. What made these frauds different was that the last link in the chain would be a respectable financial institution such as Deutsche Bank, Royal Bank of Scotland or Citibank and these institutions bought the credits at a discount and then claimed the VAT (which had never been paid) back from the Revenue.

In just eight weeks in 2009 they claimed back £300 million before the Revenue stopped paying up and HMRC is still pursuing that money though the courts.

The fraudsters moved their operations from one country to another as different administrations shut the frauds down which has made it difficult to trace the full picture. It is estimated the fraudsters stole €5bn across Europe but many of the key players have never faced justice.

Now the German non-profit media organisation CORRECTIV has coordinated 35 newsrooms across Europe to put the jigsaw together. The Bureau and the other teams of investigative journalists have scoured thousands of newly obtained documents and tracked down some of the participants in the fraud as part of a project called Grand Theft Europe.

The documents reveal in great detail the allegations made against Deutsche Bank, Royal Bank of Scotland (RBS) and Citibank and the broker companies who sold them the carbon credits. It is alleged the banks and brokers did not do enough to ensure the credits they traded were not connected to fraud.

The current civil cases involve RBS – now called NatWest Markets Plc – which is being sued for £71m and Citibank which is being sued for £14m by liquidators of a string of companies involved in the fraud. The companies that absconded with the VAT have gone into liquidation. Accountancy firm Grant Thornton is acting on behalf of the companies in an attempt to recover the money.

Deutsche Bank settled with Grant Thornton in the UK in May last year, without admitting liability. It has refused to tell the Bureau how big the settlement was.

Citibank said it considers the claim to be “fundamentally misconceived and entirely without merit” and that it is “vigorously defending against the allegations.”

NatWest Markets said it “denies the allegations and defended them in court in 2018. This is a long-running claim and we are expecting judgment to be handed down shortly.”

Raids at Germany’s biggest bank

In April 2010 EU police and tax investigators raided hundreds of offices and homes across Germany, including those of Deutsche Bank in Frankfurt. The bank was ordered to repay €145m (£124m) of lost VAT on trades between August 2009 until the raids in April 2010 that were connected to fraud. Deutsche Bank told the Bureau it “exited carbon emissions trading in 2010 and reimbursed the German state.”

Court documents reveal allegations that the fraud uncovered in Germany had its seeds in the UK in the months before the raids. Grant Thornton’s lawyers also alleged that an employee at the London branch of Deutsche Bank, **Hector Freitas**, who was trading carbon credits in the UK in June and July 2009, was then “instrumental” in setting up trades in Germany after HMRC clamped down on the fraud. He is about to be charged for his alleged part in the fraud in Germany, according to German press reports.

Seven Deutsche Bank employees in Germany have been prosecuted to date. In 2016 **Helmut Hohnholz**, formerly the regional sales manager in its global markets division in Frankfurt, was jailed for three years for what the judge said was a particularly “severe case of tax evasion”. Five former bankers received suspended jail sentences for abetting this, though one case was overturned on appeal. A seventh former employee was cautioned with a fine.

None of the traders in Deutsche Bank’s London office have faced criminal charges.

The documents piece together how the carbon credit carousel fraud began in France, moved to the Netherlands and the UK, before migrating to Germany and Italy. In total VAT carousel frauds have cost EU governments tens of billions of euros.

By early June 2009 a series of scandals meant it was widely known across Europe that the market for carbon credits was teeming with frauds. The Paris-based BlueNext Exchange, the main trading exchange for carbon emissions, closed for two days on June 8 and 9 as the

French tax administration opted to charge a zero rate of VAT on carbon credits to prevent carousel fraud. A few days later the Paris prosecutor's office admitted it was investigating a multi-million euro VAT fraud in the French carbon emissions market. Within a week, the Netherlands had also introduced a mechanism to combat the fraud.

This pushed the fraud to the UK – where VAT was still charged on sales of carbon credits – and HMRC had been given only a day's notice about the changes in France. An internal RBS email sent in early July said "It seems the UK's carbon emissions market is rotten" and " is being targeted by carousel trading fraudsters". RBS said this email reflects that individual's opinion and not the wider team's.

A summer spree

Shortly after the BlueNext Exchange reopened on June 9, 2009, court documents show an associate at Deutsche Bank London's carbon trading desk, messaged a broker about the closure:

> "The whole carousel/VAT scam is a bit troubling," she wrote, "maybe it really is a scam, and clearly illegal and clearly troubling".

In any case, she predicted a "summer slowdown" on trades "as we all take holiday". But in reality, over the next seven weeks trading suddenly exploded as fraudsters cashed in on the UK carbon credit market.

In mid-June Deutsche Bank was approached by SVS Securities, a broker with whom Deutsche Bank hadn't dealt before. It had carbon credits to trade and expected to grow its business.

SVS was soon providing Deutsche Bank with many more carbon credits than expected. On July 2, SVS sold 842,000 credits to the bank, three times the amount it had initially estimated it could supply. In its defence SVS said this was because the initial volume was calculated by an intern. It said the sudden increase can only be said to "appear illegitimate with the benefit of hindsight."

The bank asked SVS for a reason behind the spike in carbon credits. SVS brokers met Deutsche Bank traders at a Corney & Barrow wine bar, and gave a plausible explanation for the uptick in business, according to Deutsche Bank. SVS said another broker, Tradition Financial Services (TFS), had approached it with an influx of clients from Eastern Europe wanting to sell carbon credits, and that SVS and TFS introduced them to Deutsche Bank and split the commission.

SVS denies it ever gave the bank this explanation and said the meeting was simply a social occasion.

SVS and TFS's clients were not in fact genuine Eastern European suppliers. They were the 'missing traders' who disappeared with the VAT once Deutsche Bank sent in a claims form to HMRC, according to a witness statement given by Rod Stone, a fraud investigator at HMRC, during the German authorities' investigation.

After the meeting trading resumed and over the next 23 days Deutsche Bank bought more than 24m credits from SVS.

The documents reveal that during this summer spree traders at SVS and TFS were raising their own concerns about the carbon credits they were selling on to the banks.

Phone calls between **Simon Fox**, a trader at SVS, and **Luca Bertali** from TFS reveal they had never met anyone from one of the companies they were trading with and Bertali said one of them "could be an axe murderer". Fox also questioned whether the company could "do a runner."

After hearing of a presentation by Barclays bank about how to detect VAT fraud, Bertali phoned Fox and asked:

> "What are we going to do?… I hope to God they're not all dodgy, I can't imagine every single one of these people being fucking dodgy."

The documents also show one of Bertali's colleagues at TFS raised concerns with a senior employee of Deutsche Bank that he "didn't want anything to do with it". He added:

> "I don't want to make accusations but VAT, VAT, VAT fraud comes to mind".

In another phone call between two unidentified SVS and TFS employees, the two agreed "the shit" will eventually come down on carbon credit trading.

The Bureau spoke to Bertali, who left TFS in 2014 and now owns a yoga studio in Shoreditch, east London. He said he believed the market for carbon credits was genuine, and that clients came to brokers like TFS who took less of a cut of profits than a bank.

> "It's very easy to say with hindsight. We were just doing what we thought was the right thing," he said. "We weren't the ones stealing the VAT."

A member of the emission trading desk at Deutsche Bank in London claims to have raised concerns about SVS's trading, though it is unknown exactly when. The trader said she had queried the high volumes of carbon credits coming from SVS.

During the civil case in the UK the lawyers acting on behalf of SVS and TFS' creditors, Grant Thornton, alleged Deutsche Bank should have questioned SVS's purported business model as it "made no commercial sense". No other financial institution experienced such a spike in trading.

Deutsche Bank London bought increasing numbers of credits from SVS at favourable prices while knowingly failing to investigate SVS's business properly as it was not in its financial interest to do so, the lawyers allege.

They were "wilfully shutting their eyes to the obvious, which was that there was no legitimate explanation for the trades such that there was a significant and unexplored risk that they were connected with criminal activity and in particular VAT fraud," the claimants allege.

While Deutsche Bank settled, Grant Thornton lawyers are still seeking £50m from SVS, two of its former employees and TFS. The case will be heard in March 2020.

In its defence SVS said it denies being a knowing party in the fraud and denies that its traders “deliberately closed their minds or failed to ask questions”. They are “not culpable” for any fraud against companies or HMRC, it added.

TFS also denies assisting alleged VAT fraud but that if it did assist “it did so unwittingly and not dishonestly”.

Suspicions about Deutsche Bank’s trading were later raised at HMRC when in September 2009 the bank submitted a VAT refund claim for £48m, while prior to January 2009, the London branch would normally have paid VAT to HMRC. On investigators’ instructions, HMRC withheld the claim.

By this time, carbon credits were no longer charged VAT, putting an end to the fraud in the UK. RBS and Citibank stopped trading with SVS in July 2009 over concerns of fraud. Despite this, Deutsche Bank London carried on trading: it stopped buying carbon credits from SVS and started selling to them instead. These credits were coming from the bank’s Frankfurt branch and fraudsters were now stealing from German tax authorities, where VAT was still being charged.

Hector Freitas, who travelled between the London and Frankfurt offices was “instrumental” in this switch in trading, HMRC’s lawyers allege. Deutsche Bank declined to comment further.

Almost a decade after the first suspicions of fraud emerged at HMRC, it has still been unable to recoup the full amount stolen from British taxpayers with major banks as intermediaries. Even if it wins in court, it is likely HMRC will only get back around half of the £300m owed.

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Featured image: Header image of Deutsche Bank’s London headquarters by Robert Evans/Alamy

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Articles by: **Madlen Davies**,
Ben Stockton, and
Ferdinand Moeck