

Focus on VAT fraud

REMIT and Market Surveillance

GME 2013 Annual report presentation, Rome, 8 July 2014

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EPEXSPOT

Agenda

1. EPEX SPOT overview
2. Why talking about VAT fraud today?
3. What is VAT fraud?
4. How to prevent VAT fraud to happen on energy markets?

EPEX SPOT overview

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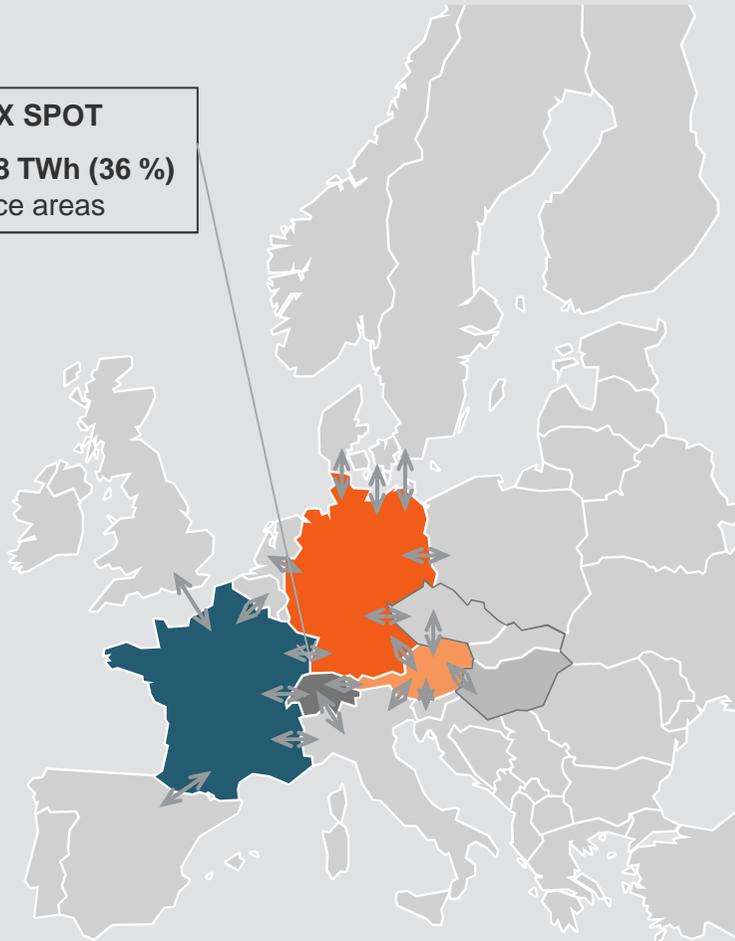
EPEXSPOT

The markets of EPEX SPOT: 346 TWh traded in 2013

EPEX SPOT'S market areas cover an area of **1,200 TWh** of yearly power consumption, which represents **40%** of the EU's Integrated Electricity Market.

EPEX SPOT

1.148 TWh (36 %)
3 price areas



3 EPEX SPOT Markets, on Day-Ahead & Intraday

- Germany/Austria
- France
- Switzerland

+ Hungarian Day-Ahead Market on behalf of the Hungarian Power Exchange HUPX

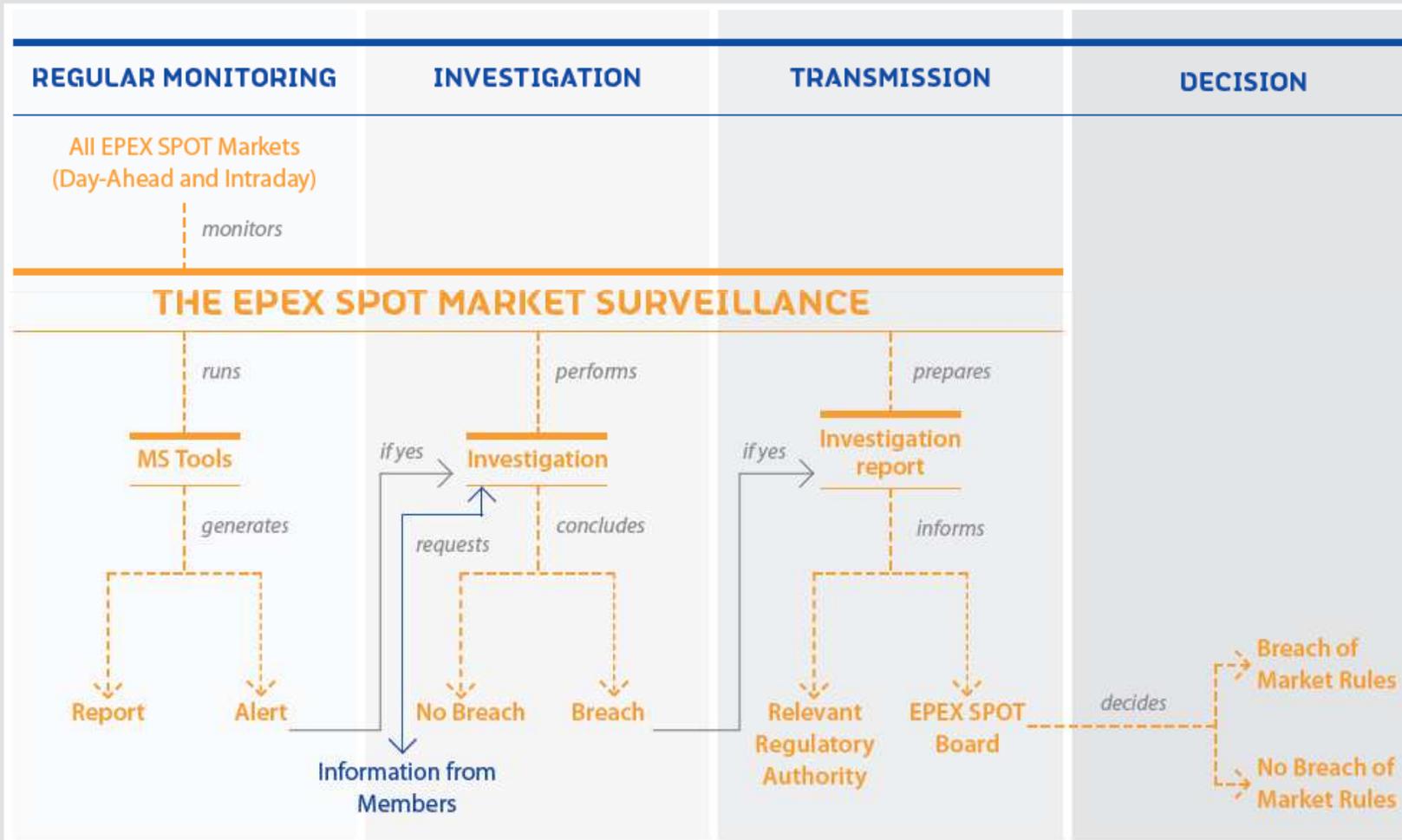
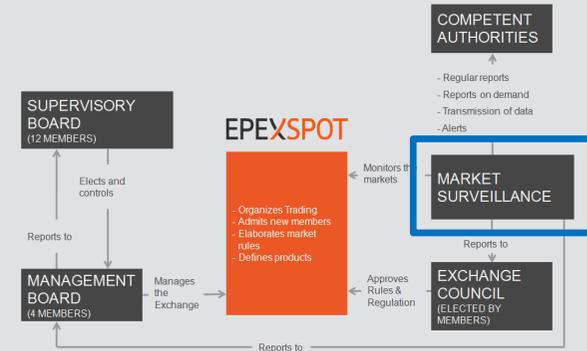
+ Coupling services for Slovakian OKTE, Czech OTE and HUPX

19 interconnectors with own and neighbouring markets

EPEX SPOT has an inherent incentive to integrate European power markets.

We support this process by our harmonised cross-border trading systems.

The role of EPEX SPOT Market Surveillance



Why talking about VAT fraud today?

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Power and gas markets can be affected by VAT fraud

They present similar characteristics as the CO2 market

- Liberalization of the Energy market
- No entrance burden to registration on the grid
- VAT Rules
- No overall monitoring of trading data

Specificities are

- Electricity (and gas) spot products refer to a delivery period
- Each market participant has to be equilibrated on its balancing perimeter at the end of each delivery hour

Power and gas markets are surely already affected by VAT fraud

- Energy Associations have publically addressed this concern and have pushed for long-term fiscal measures
- European Legislators adopted an anti-fraud package in June 2013
- 5 Member States have implemented RCM or an equivalent mechanism on power and gas
- Article in the press mentioned investigations and cases reported by tax authorities

Work done at EPEX SPOT

Since mid 2009, EPEX SPOT has considered VAT fraud as a high risk for power and gas markets

EPEX SPOT has implemented several measures to fight against VAT fraud to protect its price reference

- By strengthening its admission process
- By adapting its monitoring method
- By regularly informing its members

EPEX SPOT has been in contact with relevant authorities

What is VAT fraud?

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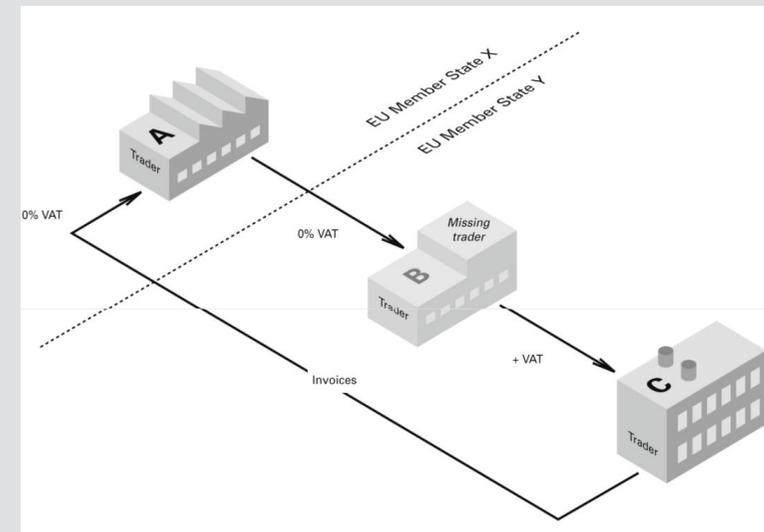


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Description of the Carousel fraud

The diagram shows how a MTIC fraud works

- Three companies/traders, one of which is in another EU Member State
- A stream of invoices between the companies/traders
- A company who charges VAT (trader B) but who does not remit it ('missing trader')



This can repeat many times, with the goods going round in a 'carousel'.

Who does organize VAT fraud?

Criminal organizations structured with companies and individuals

- Buffer company
- Shell company or Missing Trader
- Straw man
- Money coming from other fraudulent activities

They are attracted to VAT carousel fraud because it generates large profits with a relatively low risk of prosecution

The risks

- Economy
 - Significant financial losses for Member States
 - Money is laundered in the international banking system
- the Market
 - Legitimacy of energy trading
 - Competition distortion
 - In worst case, repercussion for the security of energy supply
- the stakeholders
 - Reputation
 - Possible recovering of VAT loss from other parties involved
 - Possible law prosecution

How to prevent VAT fraud to happen on energy markets?

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For the Member States

- Implement Reverse Charge
- Cooperate with all National tax authorities and European Intelligence Unit
- Draw attention to stakeholders

The Reverse Charge mechanism is the solution but only if it is implemented in all countries

For the Market

For Market Participants:

- avoid suspicious contractual business relationship
- do not engage into transactions whose economic cause appears unusual

For Persons professionally arranging transactions:

- Strengthen the criteria for market access
- monitor individual behavior and investigate unusual behavior

And alert if suspicion as soon as possible

REMIT, a solution to go further

REMIT is the solution to detect VAT carousel

- Regulation for the European energy market Integrity
- Centralized collection of trading data

ACER and National Energy regulators can detect, investigate and report VAT fraud cases

- ACER will monitor all transactions and is in charge to coordinate actions
- National Energy regulators have the investigation and enforcement powers

Key messages

Be cautious

Alert if suspicion

Keep permanently raising awareness on the potential danger energy markets are exposed to

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