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**Deutsche Bank, RWE Raided in German Probe of CO2 Tax (Update2)**

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By Mathew Carr and Karin Matussek



April 28 (Bloomberg) -- German prosecutors searched **Deutsche Bank AG** and RWE AG in a raid on 230 offices and homes nationwide to investigate 180 million euros (\$238 million) of tax evasion linked to emissions trading.

The Frankfurt Chief Prosecutor's Office said it targeted 150 suspects at 50 companies and has frozen assets. Deutsche Bank, Germany's largest bank, and RWE, the country's second-biggest utility, said they are cooperating with the probe and aren't the focus of the investigations.

The U.K., France, Netherlands are among nations that started investigations last year of "carousel fraud," where carbon traders collect tax and disappear before turning it in to authorities. Today's raid was the biggest related to a fraud that may have tainted an estimated 7 percent of carbon trades in last year's \$125 billion market.

"We are glad to see that German authorities are taking the necessary steps to deal with a fraud that has affected, however unfairly, foreign perceptions of the EU emission trading system," **Henry Derwent**, chief executive officer of the Geneva-based International Emissions Trading Association, said in a phone interview. The lobby group speaks for CO2 trading firms.

Europe lost about **5 billion euros in revenue** for the 18 months ending in 2009 because of value-added tax fraud in the CO2 market, according to Europol, the law enforcement agency.

"We're supporting similar investigations in other EU member states," said Soren Pedersen, spokesman for Europol in the Hague. He declined to elaborate.

Cooperating With Investigators

EU carbon allowances for December fell 1.5 percent to 14.97 euros a metric ton on London's European Climate Exchange as of 5:30 p.m. They have gained 19 percent so far this year

Deutsche Bank is cooperating with investigators and isn't the focus of the probe, spokesman **Ronald Weichert** said by phone.

RWE's Supply & Trading offices were searched, spokesman Michael Rosen said today. RWE is cooperating and the company "hasn't been charged and is not under suspicion," he said today in an e-mailed statement. The investigation concerns one company that had business relations with RWE Supply & Trading in 2009, Rosen said.

About 400 million metric tons of emission trades may have been fraudulent last year, or about 7 percent of the total market, including futures transactions, according to estimates from Bloomberg New Energy Finance. BNEF is a unit of Bloomberg LP, the parent of Bloomberg News.

Fraud Estimates

Europol's estimate would indicate about 27 percent of the market was fraudulent for 18 months ended in 2009, or 1.9 billion tons. The comparison of the BNEF and Europol estimates is based on a value-added tax of 17 percent, an average CO2-permit price of 15.80 euros a ton and 7 billion tons traded in the period.

The EU approved measures last month to fight fraud in its emissions market, the world's largest, by shifting the levy to customers. The law eliminates the need for the supplier to submit the payment to the treasury.

German prosecutors declined to name the 50 companies involved in the raids.

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**Claudia Bresgen**, a spokeswoman in Munich for HVB Group, said she couldn't immediately comment on whether the unit of Italian bank UniCredit SpA was searched. Commerzbank AG offices weren't involved in the probe, company spokesman **Maximilian Bicker** in Frankfurt said by telephone today.

Offices of E.ON AG's energy trading arm weren't raided, said **Jamee Majid**, a spokesman for the unit. EnBW Energie Baden- Wuerttemberg AG spokesman **Dirk Ommeln** said the utility wasn't targeted. Vattenfall AB's German unit isn't involved in the investigation, Berlin-based spokeswoman **Sandra Kuehberger**.

Tax Evasion

The Frankfurt Chief Prosecutor is investigating allegations that carbon traders evaded the tax. Guenter Wittig, the prosecutor's spokesman, said today in a statement. Prosecutors suspect "that emission rights were bought from foreign companies and were sold via a chain of corporations for the purpose to evade value-added tax," he said.

The "VAT-carousel" led to the loss of 180 million euros in tax revenue and prosecutors froze money in accounts that may be linked to wrongdoings, Wittig said. He declined to name the account holders or say how much was frozen.

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