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# CFTC Turns on the Bat Signal: Whistleblowers Needed to Fight Carbon Credit Fraud

Cap-and-trade fraudsters should be on notice: the Commodity Futures Trading Commission (CFTC) wants to address market manipulation in the voluntary carbon credit markets, and they want help from whistleblowers to do it. Earlier this week, the CFTC issued an [alert](#) inviting the public to provide tips to the agency about “fraud or manipulation in the carbon markets.” Alerts like these are a continuing sign of CFTC’s great culture of valuing whistleblower submissions and viewing whistleblowers as indispensable partners in their mandate to enforce the Commodities Exchange Act (CEA).

If done right, the [voluntary carbon credit](#) market could be an important piece of the puzzle to combat climate change, as the markets try to create efficient products for companies to leverage as a part of global carbon emissions reduction. Voluntary carbon markets work by providing financial products called “carbon credits” that can be sold by carbon-reducing “project developers” and can be bought by intermediaries like brokers or traders, or can be bought by “end users” who will hold the credits to be used as “offsets” in their measurement of their carbon emissions.

For a simple example, a hydroelectric power plant generates renewable electricity. Because these power plants are creating renewable electricity rather than fossil fuel-burning electricity, they are granted carbon credits. A carbon-emitting business (like an airline) can then purchase those credits from the power plant or from third parties who already bought it, and those credits subtract from the airline’s carbon ledger.

The voluntary carbon credit market is already enormous and, given the significant push worldwide to even more aggressively reduce carbon emissions in the coming decades, is poised to explode in size. As of last year, the market included over 3,800 projects that were listed, poised to be registered, or waiting for issuance of their credits. Also as of last year, the market had a total value of \$2 billion. Morgan Stanley [estimates](#) that value will grow fifty-fold to \$100 billion by 2030, and to a further \$250 billion by 2050.

There is a lot of money at play here, and the stakes (climate change) are high. As in any complex financial system, those are the markets where the fraudsters and cheaters come in.

Some project developers have been accused of fraud by, for example, obtaining credits for reforestation when [they had barely increased the forest area](#). Some small businesses have obtained and sold millions in credits by claiming to operate electric

vehicle charging machines when they were never even unwrapped. The cryptocurrency folks are also getting in on the market, creating their own “subprime” carbon credit market through the creation of derivative “digital tokens” based on carbon credits.

In the actual buying and selling of credits in the marketplace, fraud is also a continuing problem. A couple in Taipei were convicted of fraud on investors in Taiwan, China, and the US for operating in essence a Ponzi scheme claiming to buy and sell carbon credits when most of the transactions were forged. In New York, a man was charged for running a boiler room selling worthless carbon credit certificates to unsophisticated investors. As the market grows, the risk will grow too. Other kinds of fraud like benchmark manipulation, spoofing, and more will present themselves in the carbon credit markets as they have in other commodities markets.

CFTC putting out the call for help from whistleblowers is a welcome sign that the agency will value whistleblowers as partners and that the government is looking to aggressively curb fraud and abuse in the growing voluntary carbon credit market. Pollock Cohen represents whistleblowers in a variety of programs, including the CFTC program. Under the CFTC program, whistleblowers can remain anonymous when working with an attorney and are entitled to a share of any moneys the CFTC obtains as a result of their original information. You can learn more about how the program works from our FAQ page.

Do you know about fraud in the issuance, purchase, or sale of carbon credits? Contact us. We want to hear from you.