

**Guidelines on a common understanding of Article 11b (6) of Directive  
2003/87/EC as amended by Directive 2004/101/EC  
(non-paper)**

**Objective: To harmonize the procedure in relation to large hydropower projects under Article 11b(6) so as to give the market and the Member States confidence when using and accepting CERs/ERUs under the EU ETS.**

**I. Introduction**

1. This document stems from an attempt to reach an agreement among the Member States and the Commission on the interpretation and application of Article 11b(6) of the Linking Directive.
2. The document establishes a common understanding of the meaning of certain aspects of the text of Article 11b(6) relating to its scope (see Section III.1.: "Scope", below) and on the means whereby project proponents can establish that their projects meet the relevant requirements (see Section III.2.: "Demonstrating Compliance", below). Although the final decision regarding the acceptance of a project as meeting the aforementioned requirements remains the responsibility of the Member State approving the project activity, agreement on these principles ensures that the competent DNAs/DFPs use the same criteria specified in the Compliance Report Template<sup>1</sup> when assessing similar hydropower project activities. This is aimed to ensure that project proponents receive fair and equal treatment regardless of which Member State they apply to for approval, thus giving clarity to the carbon market.
3. By adopting these guidelines, and the Compliance Report Template through national procedures by 1 April 2009, Member States aim at creating a level playing field for proponents of hydroelectric project activities. The agreement to abide by these guidelines is a voluntary agreement by the Member States. Its purpose is to facilitate a harmonised approach to the implementation of Article 11b (6) across the EU and to give Member States confidence in accepting

---

<sup>1</sup>"Compliance Report assessing application of Article 11 b (6) of the Emissions Trading Directive to hydroelectric project activities exceeding 20MW", see Annex 1 to the "Guidelines".

CERs/ERUs from these projects for use in the EU ETS. It does not compromise the sovereign authority of the DNA/DFP of each Member State to decide which project activities to approve.

4. According to Article 11a of the Directive, “*Member States... may allow operators to use CERs and ERUs from project activities in the Community scheme*”. The Directive stipulates that a decision which CERs and ERUs can be used is left to Member States, with the exception of carbon credits that are excluded from use in the EU ETS.<sup>2</sup> Since participation in JI and CDM project activities is voluntary, and the directive ultimately lets Member States decide whether to allow the use of carbon credits from project activities in the Emissions Trading system, “*companies should be encouraged to improve the social and environmental performance of JI and CDM activities in which they participate*”.<sup>3</sup> In the case of hydroelectric projects with generating capacity above 20 MW, these requirements are defined in Article 11b(6) which states: “*In the case of hydroelectric power production project activities with a generating capacity exceeding 20 MW, Member States shall, when approving such project activities, ensure that relevant international criteria and guidelines, including those contained in the World Commission on Dams November 2000 Report “Dams and Development – A New Framework for Decision-Making”, will be respected during the development of such project activities.*” The interpretation of this article currently varies among Member States and so has led to fragmentation of the carbon market and uncertainty for its participants.
5. Member States have agreed to accept in principle common guidelines for approval of large hydropower project activities, which may also constitute guidance for Member States on which carbon credits to accept for compliance.
6. A document entitled “Compliance Report Assessing Application of Article 11b(6) of Emissions Trading Directive to Hydroelectric Project Activities Exceeding 20 MW” (further referred to as the Compliance Report Template) sets out the assessment criteria selected by Member States. These criteria will be applied by

---

<sup>2</sup> Carbon offsets from nuclear project activities and temporary credits from the LULUCF projects.

<sup>3</sup> Recital 15 in the preamble to the Directive 2004/101/EC

DNAs/DFPs to select large hydro project activities that will generate carbon offsets allowed in the Community trading scheme.

7. Once a project activity has received a Letter of Approval (LoA) from an investor country upon the submission and positive assessment of a validated Article 11b(6) Compliance Report, all Member States agree to accept CERs/ERUs from this project for use in their national registries under the EU ETS.
8. Credits from all hydro project activities approved by Member States before 1 April 2009 can also be surrendered for compliance in the national registries of Member States. In this regard, in line with Article 11a of the Directive, Member States may exercise their sovereign right to decide which carbon offsets to accept for compliance. If so decided by a Member State, the acceptance of those credits for compliance in its National Registry may be conditional on submission to its Registry Administrator of a validated Article 11b (6) Compliance Report, or another validated report accepted by another DNA/DFP in a Member State and demonstrating that 7 strategic priorities set out in the World Commission on Dams November 200 Report "Dams and Development – A New Framework for Decisions-Making" have been respected during development of that project. The validity of CERs/ERUs from such projects for use in the registries of other Member States is not thereby questioned.
9. Taking into account the desired harmonization of procedures, Member States agree to provide publicly accessible information on projects that have been approved as fulfilling the requirements of Article 11(b)(6) as well as indicating the entities accepted to carry out a validation of the Compliance Report<sup>4</sup> in each Member State. This is aimed to secure transparency of the procedures and to provide current information on the implementation of this voluntary agreement.

## **II. Background**

1. Large hydropower projects can adversely affect development in certain regions and have unwanted social and environmental impacts. On the other hand, they

---

<sup>4</sup> Compliance Report prepared in line with the Compliance Report Template which constitutes Annex 1 to these "Guidelines".

can also do much to promote human development in a way that is socially equitable, environmentally sustainable and economically viable. Deployment of hydroelectric power production, if undertaken in a responsible and equitable way, can significantly contribute to lowering greenhouse gas emissions. However, adverse environmental and social effects of large hydroelectric projects could undermine the positive impacts of these projects. By adopting Article 11 b(6) of Directive 2004/101/EC, the European Union undertook to ensure that development of hydroelectric projects respect relevant international guidelines, including those contained in the World Commission on Dams November 2000 Report “Dams and Development – A New Framework for Decision-Making”.

2. The World Commission on Dams set two objectives: 1) to review the development effectiveness of large dams and assess alternatives for water resources and energy development; and 2) to develop internationally acceptable criteria, guidelines and standards, where appropriate, for the planning, design, appraisal, construction, operation, monitoring and decommissioning of dams. These objectives comprise, but are not limited to, the following general aspects:
- avoiding and minimising impacts on ecosystems, livelihoods, health and cultural (and religious) heritage,
  - analysing needs and options on the basis of many different criteria (multi-criteria analysis),
  - improving the livelihoods of people displaced and affected by projects,
  - ensuring compliance with the compensatory measures,
  - applying the principles of corporate environmental and social responsibility and accountability, in accordance with recital 15 of Directive 2004/101/EC.<sup>5</sup>

A harmonised approach should help ensure the sustainability and environmental integrity of the large hydropower project activities, approved by Member States.

---

<sup>5</sup> Since the aim of the Guidelines is both, to safeguard the obligations of MS under the UNFCCC and the Kyoto Protocol AND to reflect the spirit of Article 11b(6) and relevant recitals in the preamble to the Directive 2004/101/EC.

### **III. Compliance with Article 11 b (6) of the Emissions Trading Directive**

#### **1. Scope**

1. Article 11b (6) applies to all hydroelectric power production project activities with a generating capacity exceeding 20 MW regardless of whether there is a dam involved or not and regardless of the size of the dam<sup>6</sup>.
2. When approving project activities, Member States have to ensure that every project involving hydroelectric power production facilities with generating capacity above 20 MW complies with Article 11b (6) during its development.
3. In the case of improvements and extensions to existing installations, Article 11b (6) applies only where the CDM/JI project activity which is the subject of the application includes generating capacity which exceeds 20 MW. The capacity of the existing facilities is not relevant. So in the case of improvements and extensions to existing facilities, it is the improvement or extension which must exceed 20 MW, unless the existing facility is already a CDM/JI project.
4. Article 11b (6) applies to hydropower project activities exceeding 20 MW which consist of two or more smaller projects that are bundled as one project according to the bundling rules of the CDM Executive Board.
5. Where project proponents are applying for approval of several small hydropower project activities in one PDD, which add up to a combined capacity of 20MW or more but there is no technical or environmental link between them<sup>7</sup>, Article 11b(6) should not be taken into account.

#### **2. Demonstrating Compliance**

1. Article 11b (6) refers to “relevant international criteria and guidelines, including those contained in the” WCD Report. The WCD guidelines were designed to

---

<sup>6</sup> Here the "Guidelines" refer to the interpretation of the scope of Article 11b (6). The Directive applies regardless of the definition of a large dam as outlined by the International Commission on Large Dams. According to some stakeholders the WCD could be applied only to projects with a dam and with a dam higher than 15m. Article 11 b (6) sets a different boundary which is defined in the above paragraph.

<sup>7</sup> As defined in the Environmental Impact Assessment

reflect best practice on sustainability assessment. As such the WCD Report can be assumed to be a fair reflection of the “*relevant international criteria and guidelines*”, without prejudging the possibility of considering as well other relevant criteria and guidelines in the future, if such are accepted jointly by the Member States.

2. Entities seeking the approval of a project by Member States should provide evidence demonstrating compliance of the project with the requirements of Article 11b (6).
3. To demonstrate compliance with Article 11b (6), the project proponent should submit a separate Compliance Report with the application documents to the DNA/DFP of the Member State or an entity designated by the Member State to fulfil this function.
4. The Compliance Report (based on documents, visits and interviews and following the outline provided in the Compliance Report Template<sup>8</sup>) may be prepared either by one of the participants in the project or by a third party on behalf of the participant (an outside consultant/expert, or a DOE).
5. The Compliance Report should be validated by a Designated Operational Entity (DOE) or an Accredited Independent Entity (AIE) licensed for that particular Sectoral Scope, or other qualified independent third party accepted by the Member State, hereafter referred to as “Independent Validating Entity”.
6. The final decision on whether the project complies with Article 11 b (6) is taken by a Member State DNA/DFP.
7. “Development of a project” includes the following stages:
  - needs and options assessment,
  - project preparation,
  - and
  - project implementation.

---

<sup>8</sup> See Annex 1 to the "Guidelines".

The quality standards set out in the World Commission on Dams November 2000 Report "Dams and Development – A New Framework for Decision-Making" can only be verified at a more advanced stage of project development, once the needs and options have been assessed. So a LoA may be issued to a large hydro project as defined in Article 11b (6) at the earliest at the project preparation stage.

8. The compliance in the implementation phase is deemed to have been respected once mitigation and compensatory measures have been put in place and monitored and, where possible, once decommissioning plans have been developed.
9. Where a project is at the preparation or implementation stage, Member States may issue a LoA, with parallel requirements regarding monitoring of the implementation of compensatory measures and other undertakings.

### **3. *Content of the "Article 11b (6) Compliance Report"***

1. The Compliance Report Template establishes a standard for presenting the information required to confirm that the relevant international criteria and guidelines were respected during development of project activities. (See Annex 1)
2. Member States agree to accept the Compliance Report Template as the standard template for providing information necessary for demonstrating compliance with Article 11b (6).
3. The Compliance Report includes an undertaking by an Independent Validating Entity that, in their assessment, the project respects the seven strategic priorities, outlined in the World Commission on Dams November 2000 Report "Dams and Development– A New Framework for Decision-Making "

4. The complexity and level of detail of the Compliance Report should be commensurate with the scale of the project and its impacts.<sup>9</sup>
5. The Compliance Report is modelled on Chapter 8 of the WCD recommendations, consisting of seven strategic priorities for good practice, as explained in the introduction above.
6. For the purpose of validation, the project proponent should provide for the Independent Validating Entity objective evidence presented according to best auditing practice. Best practice for preparing a Compliance Report and making a legal declaration on compliance with Article 11b (6) involves:
  - *Interviews and public involvement:* Where possible, interviews should be conducted. The key documentation (e.g., social and environmental impact assessments) should be made public/made available to the relevant stakeholders such as the project owner, the technical advisors, the relevant local authorities, and the people affected;
  - *Site observation:* This entails studying the physical location and other activities related to the construction and management of the hydroelectric project activity as defined in Article 11b (6). Site observations should be conducted with the purpose of confirming what is proposed and approved in the design documents and what the DOEs/DFPs/ independent validating entities affirm in the compliance report based on a desk analysis.
  - *Document review:* This is essential in order to assess documents such as:
    - the Environmental Impact Assessment,
    - any other supporting material for the information listed under section D of the PDD and approval from the relevant environment authority,
    - planning documents (e.g. feasibility studies),
    - option assessment documents<sup>10</sup> ,
    - documents concerning stakeholder consultation.

---

<sup>9</sup> The requirements as to the depth and extent of the report should be commensurate to the characteristics of the project in question. For example, a 20MW run-of-river- project that does not include resettlement requires much less attention than a 1000 MW dam project with a large reservoir and 5000 people resettled.

<sup>10</sup> As specified in the Compliance Report Template

7. Where applicable, further documents may be requested such as compensation, resettlement, development and financing plans. If it is not possible to gather all the documentation required, a site visit is necessary.
  
8. Member States may jointly assess and modify the content of the Compliance Report Template and the recommendations in these "Guidelines" from time to time to ensure the desired level of harmonisation as regards compliance with Article 11b (6).