

CREATING A CLIMATE POLICY REVIEW MECHANISM

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International climate negotiations are becoming increasingly focused on suites of emissions-cutting policies and measures, rather than solely on traditional targets and timetables, particularly for developing countries². This approach raises at least two important challenges for negotiators and policymakers³. First, how can negotiators judge whether states' proposed policies and measures are commensurate with ambitious global goals for controlling emissions? Second, how can policymakers evaluate whether climate policies and measures (in both developed and developing countries) are succeeding and maximize the odds that countries will actually deliver needed emissions cuts? Answering both questions is essential to reconciling a bottom-up approach to climate change mitigation with top-down need for strong global emissions cuts.

Continuous collective examination and evaluation of existing and proposed national mitigation efforts will be needed to address both issues. States should create a multilateral Climate Policy Review Mechanism that would institutionalize this process. This would borrow from the successful use of "peer review" to help address other challenges including trade, monetary, and environmental policy⁴. The effort should be anchored in a new international institution whose sole purpose would be to facilitate the review process or in an expanded International Energy Agency (IEA). Member countries would be required to participate in the review mechanism. (Depending on the circumstances under which the mechanism was created, membership could include all UNFCCC members or could be limited to G-20 nations.) In order to maximize states' cooperation, though, the body would have no authority to determine compliance with or prescribe enforcement action under any international treaty.

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The Case for a Climate Policy Review Mechanism

The world of international governance is replete with peer review processes that illuminate and help improve countries' performance on critical international issues. Schemes vary in their details and effectiveness but the basic contours are usually the same. Each country involved in addressing the issue in question agrees to semi-regular international reviews of its performance. Reviews under the International Monetary Fund (IMF) Article IV surveillance process, for example, focus on fiscal and monetary policy in each IMF member country; audits under the World Trade Organization (WTO) Trade Policy Review Mechanism (TPRM) evaluate a range of trade-related measures in each WTO-member country; and Organisation for Economic Co-Operation and Development (OECD) country reviews focus on different areas, such as economic performance, research and development, and the environment, for each review. Reviews are conducted by a secretariat (or in some regimes by officials from one or more peer countries) with the active cooperation of the country being examined. (The division of labor between the country being reviewed and the secretariat varies among different regimes.) At the end of each review, a summary report is prepared, and, often, made public; the balance in these reports between descriptive content and critical analysis and recommendations differs among regimes, but reports generally include at least some of the latter. These reports, often along with synthesis documents (such as the IMF's World Economic Outlooks) that aggregate multiple countries, are ultimately used to inform both domestic policymaking and high-level international political deliberation.

Climate change policy could be immeasurably improved by a similar international review process. Individual states and international institutions (such as the World Bank or United Nations Environment Programme, UNEP) will undoubtedly conduct reviews of their own climate efforts with an eye toward estimating their impacts and improving their functioning. Various nongovernmental and intergovernmental organizations will evaluate states' and others' performance too. But such efforts will leave important gaps that can only be addressed by an effective multilateral review process.

An international review process would be well-positioned to assess the combined impact of different countries' and institutions' climate policies. This could be done both with proposed policies—which would help estimate whether bottom-up efforts were sufficient to meet top-down goals—and with existing policies, to see whether they were on course to deliver anticipated results. Such assessments would facilitate high-level international climate diplomacy by providing a common knowledge base for national leaders when they discuss the adequacy and effectiveness of countries' climate commitments and efforts through forums like the G-20 or the Major Economies Forum (MEF). While individual countries or other, self-appointed, institutions could also provide assessments (and indeed could offer a valuable check on as well as input into those produced by an official review process), it would be difficult for any one analysis to be accepted as a common foundation for political discussion.

An official international review process could, unlike other analytical efforts, also be designed to require countries' active cooperation, which would in turn add invaluable and uniquely to its quality and accuracy. Countries could be required to provide structured self-assessments as the basis for international review and to work with secretariat staff to answer questions and resolve ambiguities. Involvement of independent international reviewers would ensure more credible analysis than national-level reporting and self-assessment alone. It would also help make sure that reviews covered issues of concern to other countries. Participation in a international review process would, finally, help ensure that countries and

institutions conducted their own internal reviews on a regular basis and with a minimum level of quality, since parties would need to conduct their own reviews in order to participate effectively in an international scheme.

Advantages and Shortcomings of a Review Mechanism

There is little disagreement that solid analysis, both of proposed measures and of implemented policies, can inform more effective international deliberations. That is reason enough to establish a review mechanism. Many have claimed, though, that intensive reviews will also directly steer national governments toward better policies through peer pressure on regulators and learning by technocrats involved in the reviews⁵. There are many cases where this has been and will be true—but there are also important limits to what peer review can accomplish⁶. Peer review is most limited in its direct impacts when politics precludes adoption of reviewers' recommendations or serious reflection of their findings in national policymaking and when there are no other meaningful incentives (such as explicit financial rewards) for following those recommendations⁷. A review that determined, for example, that the United States should tighten greenhouse gas emissions limits in a cap-and-trade system would have no direct impact on U.S. policy, which will be shaped almost entirely by legislators rather than technocrats.

The technical contribution of a new international review mechanism to domestic policy development in the larger (and particularly in developed) countries is also likely to be limited. Regulators and policymakers in those countries already have extensive networks of professional connections through which they share experience and ideas; adding one more forum to the mix will not necessarily add much value.

There are a host of areas, though, where reviews could be particularly effective in directly affecting policies. Multilateral review is likely to be most useful and effective in influencing design and implementation of multilateral (rather than purely domestic) mechanisms for advancing climate policy, particularly when regulators have considerable discretion in implanting those. Take, for example, a U.S.-based system for certifying international offsets as part of a cap-and-trade scheme. International review, by incorporating deeper understanding of the impact of offsets in countries that generate them, could provide important and constructive feedback that U.S. government reviewers would find difficult to produce themselves. Conversely, the review process could provide an opportunity for U.S. regulators to explain and justify their criteria for accepting or rejecting offsets. And since a U.S. offset system is likely to give regulators substantial flexibility in determining credit eligibility, the outcomes of these exchanges may well become reflected in actual policy. Other areas that gain from multilateral cooperation, such as public support for technology development, would also benefit.

Reviews of national policies in the developing world may also help improve international efforts by developed countries and multilateral institutions to help steer countries toward low-carbon development. By illuminating the domestic policy environment in developing countries, reviews would help developed countries and international institutions direct financial and technological assistance more efficiently; greater confidence that resources were being effectively deployed could, in turn, promote higher contributions⁸. Conversely, reviews of financial and technological assistance policies could help developing countries make policy changes that would increase the flow and effectiveness of international resources.

The right review mechanism, in sum, would help policymakers understand whether countries' proposed policies were sufficient to achieve global climate objectives and, at the same time, could promote continuous improvement in policies worldwide. To that end, policymakers should establish a Climate Policy Review Mechanism. They will need to decide who to include, how to structure a new mechanism, and where to house it.

Designing and Establishing a Review Mechanism

There is a strong case to be made for a review mechanism that focuses on the members of the G-20 or the Major Economies Forum, at least initially. In many areas, as noted above, reviews will only be useful if they are coupled with an effective forum for high-level political engagement. Both the G-20 and the MEF provide that. The UNFCCC, on the other hand, will always be too large for serious and sustained high-level political coordination; the value of a global (rather than minilateral) review effort, therefore, would be limited. Excessive breadth, meanwhile, would make it more difficult for collective reviews to focus on the countries of greatest importance to global emissions, diminishing their value for G-20 or MEF decisionmakers. In addition, reviews can be expensive, both for the body performing the review and for the state being reviewed; limiting scope would thus limit cost. The IMF provides a sense of scale: it conducts annual reviews of most countries around the world and requires an annual surveillance budget of over \$200 million to do that (though that budget pays for other activities too)⁹.

Yet despite this case for a focused mechanism, global politics may dictate a more inclusive approach. If a review process is established through the UNFCCC negotiations, which itself has global reach, it will be difficult for it to be anything other than universal. In addition, to the extent that reviews establish transparency that helps countries become more attractive destinations for low-carbon investment and assistance, a broader set of states may demand to be part of a review process. If, for either reason, a global (rather than minilateral) review process is essential, leaders will need to be careful to ensure that the largest emitters nonetheless remain its focus, both to promote better policy and to keep costs under control.

The WTO Trade Policy Review Mechanism provides a model solution for resolving this tension. It conducts reviews of the top four trading countries (the "Quad") every two years, of the next sixteen trading countries every four years, and of all other WTO members every six years, with least developed countries allowed to participate even less frequently on a case-by-case basis. A Climate Policy Review Mechanism may conduct reviews of the top eight emitters (treating the European Union as a single entity), which are responsible for about 65 percent of global emissions, on a (rolling) biennial basis; the remaining eight members of the G-20, responsible for about 15 percent more, every four years (again on a rolling basis); and all other countries less frequently, with additional leniency for least developed countries¹⁰. More frequent but more focused reviews could be conducted for key countries in particular sectors: for example, forestry reviews could be conducted more often for countries with the highest rates of deforestation as well as those developed countries contributing the most funds to help prevent deforestation. Special reports could also be prepared for G-20 or MEF leaders' meetings. Ideally, critical international institutions, including the World Bank and UN bodies like UNEP, would undergo review too, helping improve their functioning and transparency. The WTO process, with a similar number of annual reviews to the proposed Climate Policy Review Mechanism, provides some indication of what this all would cost: its annual bud-

get for trade policy reviews was about \$7 million in 2006¹¹.

This review process would require a secretariat. There are four options. The most obvious is to house it within the UNFCCC secretariat itself. But that secretariat lacks technical credibility; it is also too closely associated with the global climate negotiations to be a core part of a G-20 or MEF process. Choosing UNEP to host a secretariat would help distance the process from formal global negotiations and could be appealing to developing countries because of its equitable governance structure. UNEP, though, lacks expertise on developed countries and is often seen as weak on large-scale energy issues. For these reasons, it is not a viable option.

The IEA has deep technical expertise that would provide a strong analytical foundation for a review process. It could also manage expansion to include a review effort: its annual budget of about \$40 million is several times more than what a well-designed review process would cost¹². But it is difficult to see the IEA, which is controlled by the world's wealthy countries, being acceptable as a neutral reviewer to the developing world, and the near-term prospects for IEA enlargement are dim. (Even if the IEA were to expand, it would not become anywhere near universal; it would only include the largest developing countries.) The IEA would also need to supplement its own expertise with outside expertise on non-energy emissions. Still, if a review process is established outside the UNFCCC negotiations and the IEA is able to expand, it would be an ideal candidate for housing it.

Absent those conditions, however, a new institution will need to be established. This would allow all stakeholders to have real roles in its governance. Establishing credibility and competency, though, would be challenging. The best solution may be to create a legally independent secretariat but to house it at the IEA. This approach was recently used for the secretariat of the International Partnership for Energy Efficiency Cooperation (IPEEC), a new body that includes not only OECD countries but also India and China. The IPEEC secretariat is substantially smaller than a Climate Policy Review Mechanism secretariat would need to be, but such a hybrid scheme should still be manageable¹³.

CONCLUSION

But why would countries join? Part of the motivation would need to come from a desire to promote better international climate policy and cooperation—but that would be insufficient incentive alone, particularly for many developing countries. Those developing countries could also benefit in other ways. A review process that made them more attractive destinations for foreign investment (public and private) in low-carbon infrastructure, by providing transparency and helping them shape their domestic policies, would provide a financial boost. Developing countries could also benefit from the policy feedback that a review mechanism would provide. Developed countries, meanwhile, would gain from a review process that helped them direct public finance and carbon markets in more effective and efficient ways, as well as coordinate regulations and technology investment. Developed country participation would be critical, in any case, in order to legitimize the process and hence promote developing-country involvement. And all countries would gain from having a review process that shone a regular, credible, and public spotlight on others that were not taking sufficient action on climate change.

Participation could also be mandated as part of a global post-Kyoto climate deal. But policymakers should be careful to avoid formally and legally linking a review process to compliance mechanisms such as trade sanctions or to international financial assistance. Such links (particularly to trade sanctions) would likely deter cooperation with a review mechanism or encourage countries to reject its establishment in the first place. Ruling out formal, legal links to compliance mechanisms would follow the model of the Trade Policy Review Mechanism, which is explicitly independent of the WTO dispute resolution process.

This does not necessarily mean, however, that review outcomes would never become inputs into decisions regarding penalties or assistance. Decisions about how to use review outcomes would inevitably be in the hands of those states or institutions imposing penalties or providing assistance. This should be acceptable not only to developed countries but also to developing countries, which could use review findings to argue against having sanctions imposed on them or in favor of their becoming eligible for greater financial help.

This new Climate Policy Review Mechanism and its secretariat could be established immediately—regardless of whether there is a strong international climate deal at the Fifteenth Conference of the Parties in Copenhagen in December 2009 or soon after. It would by no means substitute for strong domestic efforts on the parts of all major emitting countries for meaningful international commitments or for robust international cooperation. But it would help build confidence and aid lawmakers and regulators in improving policy, while supporting more effective engagement among international leaders as they strive to strengthen the global response to climate change over the coming years and decades.

NOTES

²Michael A. Levi, “Copenhagen’s Inconvenient Truth: How to Salvage the Climate Conference.” *Foreign Affairs*, September/October 2009; Robert N. Stavins “A Portfolio of Domestic Commitments: Implementing Common but Differentiated Responsibilities.” *Viewpoints*, Harvard Project on International Climate Agreements, Belfer Center for Science and International Affairs, Harvard Kennedy School, October 19, 2009.

³This is not an exhaustive list. For other related issues, see Carolyn Fischer and Richard Morgenstern, “Metrics for Evaluating Policy Commitments in a Fragmented World: The Challenges of Equity And Integrity,” Discussion Paper 2008-17, Cambridge, Mass.: Harvard Project on International Climate Agreements, November 2008.

⁴Several other authors have advocated the use of review mechanisms in promoting effective climate policy. See, for example, David G. Victor, “Fragmented carbon markets and reluctant nations: implications for the design of effective architectures,” in Joseph E. Aldy and Robert N. Stavins, eds., *Architectures for Agreement: Addressing Global Climate Change in the Post-Kyoto World* (Cambridge, UK: Cambridge University Press, 2007); William A. Pizer, “Practical global climate policy,” in Aldy and Stavins, eds., *Architectures for Agreement*.

⁵For a typology of ways that peer reviews can influence national policies, see Domenico Lombardi and Ngaire Woods, "The Political Economy of IMF Surveillance," CIGI Working Paper, No. 17, February 2007.

⁶For a range of examples, see the essays in David G. Victor et al., eds., *The Implementation and Effectiveness of International Environmental Commitments: Theory and Practice* (Cambridge, Mass: The MIT Press, 1998).

⁷For one particularly clear example, see Bessma Momani, "Assessing the Utility of, and Measuring Learning from, Canada's IMF Article IV Consultations," *Canadian Journal of Political Science*, Vol. 39, No. 2, June 2006, pp. 249-69.

⁸For evidence of this process in another setting, see Owen Greene, "Implementation Review and the Baltic Sea Regime," in Victor et al., eds., *The Implementation and Effectiveness of International Environmental Commitments*, pp. 194, 207.

⁹The IMF surveillance budget for FY05 was \$258.6M. This includes not only Article IV reviews but also regional and global syntheses. International Monetary Fund, *The FY 2005 Budget and the Medium-Term Expenditure Framework*, April 1, 2004. Accessed 11 November 2009 at www.imf.org/External/NP/OBP/budget/040104.pdf

¹⁰It is worth noting that the bulk of the reviews in any one year would still focus on countries outside the G-20 or MEF. If a review mechanism were focused on the smaller set of countries that make up the G-20 and MEF, that would enable more frequent reviews at the same or possibly even lower cost.

¹¹"A Governance Audit of the WTO: Roundtable Discussion on Making Global Trade Governance Work for Development," Global Economic Governance Programme, University College, Oxford, 2007. Accessed 11 November 2009 at www.wto.org/english/forums_e/public_forum2007_e/session1_briefing_note_e.pdf

¹²Untitled, International Energy Agency. Accessed 11 November 2009 at www.iea.org/about/docs/IEA_Budget.pdf

¹³IPEEC has a startup budget of 1.3 million euros from mid-2009 through the end of 2010. "Memorandum Concerning the Hosting by the IEA of the Secretariat to the International Partnership for Energy Efficiency Cooperation (IPEEC)". Accessed 11 November 2009 at vibe.nrel.gov/c/document_library/get_file?uuid=8eb78565-b98d-426c-a24d-c0a889a06e60&groupId=17160

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ABOUT THE HARVARD PROJECT ON INTERNATIONAL CLIMATE AGREEMENTS

The goal of the Harvard Project on International Climate Agreements is to help identify and advance scientifically sound, economically rational, and politically pragmatic public policy options for addressing global climate change. Drawing upon leading thinkers in Australia, China, Europe, India, Japan, the United States, and other countries, the Project conducts research on policy architecture and key design elements of a post-2012 international climate policy regime. The Harvard Project also provides insight and advice regarding countries' domestic climate policies, especially as these policies relate to the prospects for meaningful international action. The Project is directed by Robert N. Stavins, Albert Pratt Professor of Business and Government at the Harvard Kennedy School. Major funding for the Harvard Project on International Climate Agreements is provided by a generous grant from the Climate Change Initiative of the Doris Duke Charitable Foundation.

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