

## **Board Report from Gaspar Frontini European Commission – DG Trade**

Our objective is still very much to support the development of GTAP activities as a tool for quantitative economic analysis of global issues in a way which is useful for policy making. 2006 has seen the launch of several projects financed by the European Commission to contribute to the enhancement of GTAP. 2007 has seen the continuation of this work with some of them already finalised or close to coming to an end. We believe that these projects must be pursued actively and that they must be completed by work on several issues where we still lack of good quality data and tools.

In DG Trade, and more broadly in the European Commission, our interest is first and foremost in having good quality, transparent, comprehensive and robust GTAP database.

### **1. Completed and ongoing projects**

With the ongoing negotiation of the Economic Partnership Agreements between the EU and African, Caribbean and Pacific countries, we expressed in 2006 a special interest in developing GTAP database regarding these countries. Meeting the same needs than two eminent institutions, UNECA and World Bank, we have found an agreement to fund the development of a specific database for African countries. The first stage of this project has been successfully completed in 2006 and 2007 by the GTAP team in Purdue. We have now the possibility to undertake studies in order to better assess economic effects of some trade policy scenarios for these countries. The second step is to be completed this year and there are already 7 individual Input-Output tables in GTAP-compatible format: Cameroon, Cote d'Ivoire, Democratic Republic of Congo, Ghana, Kenya and Sudan. This is a great achievement but our effort needs to be pursued.

Another project has been completed this year with the financial support of the European Commission. It concerns the building up by the CEPII of a database on bilateral and sectoral flows and stocks of FDI. The original dataset has been transmitted to the GTAP team to be incorporated in the database. This is a crucial contribution to one of the key elements of the research programme that we find essential for GTAP and GTAP users, namely the possibility to model mode 3 service liberalisation. This movement of resources is crucial in understanding the current evolution of the global economy in a very wide range of issues. This is something that can no longer be left apart from the GTAP framework. We would strongly support any new initiative in this field. The first step was indeed to construct this database. Now, that it is done, we would all need to think again how to improve the way we put into equations the important economic effects arising from a liberalisation of direct investments.

Another project is about to be completed concerning EU SAM for its 27 Member States. A branch of the European Commission, the Joint Research Centre<sup>1</sup>, is currently finalising its work on Eurostat data in order to construct a new EU SAM. We hope that it will still be possible to incorporate this new SAM in the GTAP7 database. It is an important element, not

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<sup>1</sup> More precisely, the ITPS branch in Sevilla (Spain).

only for all European users, but for the overall quality of the database, given the weight of the EU in world GDP.

## **2. Future projects and priorities**

Despite clear progress, there are still a number of issues that we believe deserve more attention and should be tackled in the future, both because of their importance in the world of trade negotiations and because of the need to improve the way they are dealt with in the database.

We welcome the work of the CPB on building up a better database regarding bilateral trade flows in services. This is a big step forward but which needs to be complemented for North-South and South-South flows which at this stage are derived on the basis of rather unclear assumptions. In this respect, it would be useful to have a document better describing which part of the data set is build on existing data and which part is build on estimations (gravity equations).

A second issue of interest for us and for an increasingly large number of GTAP users, is the issue of biofuels. We commissioned a study to IFPRI in collaboration with CEPII to disaggregate the GTAP SAM into specific biofuels crops and products, and land use patterns for these crops, for all countries and regions. We could provide GTAP with this data. However, there are other researchers and institutions working on this issue. They have produced, or are in the process of producing, similar disaggregations, though with different emphasis and product structures. It would probably be wise to have a more coordinated approach to this issue.

A second issue of interest for us is related to data linked to agricultural policies which should be revised, in particular in order to reflect all types of export competition tools. This is also true for all kinds of domestic support, for which data are sometimes quite far from the economic reality or incorporated into the model in the wrong way. For instance, GTAP data on US subsidies for plant based fibres (\$1bn), which include cotton, are far lower than those reported by the USDA or the FAPRI (\$3bn). This entails a serious risk in terms of credibility for GTAP on a very sensitive issue in the current context.

Pursuing the geographical desegregation of the database is another subject of interest for us. Apart from the joint initiative in which we support the work on the desegregation, we would warmly welcome other contributions, for instance on Caribbean, on CIS countries as well as on Middle Eastern countries.