

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

Last year was our first participation in GTAP advisory board after few years of interruption. Our objective today is still very much to support the development of the GTAP database as a useful tool for quantitative economic analysis of global issues. 2006 has seen the launch of several projects financed by the European Commission to contribute to the enhancement of GTAP. 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.

The EC has a special interest in a large set of issues that can be dealt with by using GTAP database: from development to environmental issues through energy and migration. However, my report will express a special interest in the trade related issues.

In DG Trade, we are indirect users of GTAP as we usually do not make the studies in house but rather outsource them. Our interest is then first and foremost in having good quality, transparent, comprehensive and robust GTAP database.

### **1. Ongoing projects**

With the ongoing negotiation of the Economic Partnership Agreements between the EU and African, Caribbean and Pacific countries, we expressed last year 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. Today, I am happy to see that the first stage of this project has been successfully completed by the GTAP team here 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. This is a major improvement in comparison to the situation that we had last year and I think that it deserves a large publicity.

Another project has been launched concerning EU SAM for its 27 Member States. A branch of the European Commission, the Joint Research Centre<sup>1</sup>, is currently working on Eurostat data in order to construct a new EU SAM, which will be easily updated. Maybe not for the first release of the GTAP7 database, but most probably only few months after it, this new SAM will be incorporated in the GTAP database for the Board members to check its quality. I think this is an important element, not only for all European users, but for the overall quality of the database, given the weight of the EU in world GDP.

The European Commission has also given its financial support for another project concerning the building up by the CEPII of a database on bilateral and sectoral flows and stocks of FDI. 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 is indeed to construct this database before we all think again how to

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

improve the way we put into equations the important economic effects arising from a liberalisation of direct investments.

In the field of services, we think that a new database on service protection is decisive for the GTAP community to better assess this potential major source of efficiency gains arising from trade liberalisation. We strongly welcome CPB's work in this field and we are very much looking forward launching new studies on the basis of this work.

## **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.

The first of these issues is the need to build up a better database regarding bilateral trade flows in services. It seems that different methodologies have been applied so far without much information provided on the background. This leads to a number of discrepancies, even with IMF data from which GTAP data are supposed to be taken. We believe that it would be useful and necessary to undertake a broad check of available tables based on simple systematic tests, which should enable us to correct most of the problems.

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 subsidies. 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 (3 billion US dollars). 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 of the Africa and Caribbean regions, we would warmly welcome other contributions, for instance on CIS countries as well as on Middle Eastern countries.

Finally, another issue of much interest for us, and I believe for an increasingly large number of GTAP users, is the issue of biofuels. We very much welcome the ongoing reflection regarding this issue and in particular regarding the best way to incorporate such type of products in GTAP sectoral disaggregation.