



bruegel annual report

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Members as per May 2007. For further information about Bruegel's governance and its relationship with its members, see page 14.

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Bruegel's mission

BRUEGEL AIMS TO CONTRIBUTE TO THE QUALITY OF ECONOMIC POLICYMAKING IN EUROPE THROUGH OPEN, FACT-BASED AND POLICY-RELEVANT RESEARCH, ANALYSIS AND DISCUSSION.

Bruegel is defined by five key features:

Outward-oriented focus. The European Union is an open market economy and a major world player. It must enrich its policy debates, which too often suffer from an inward-looking bias, and develop genuine policy discussions with other international economic players. Bruegel aims to contribute to a better understanding of the economic challenges and responsibilities facing Europe in the context of globalisation.

Evidence-based policy recommendations. Bruegel does not stand for any particular policy doctrine. Its research, which is conducted both in-house and through partnerships with other research organisations, draws on state-of-the-art analysis to assess economic transformations, discuss policy options and propose recommendations – while always keeping an eye on their practical feasibility.

Demand-driven questions, independent answers. Bruegel's yearly Research Programme is set by the Board, which represents the diversity of Bruegel's stakeholders. Decisions on new research projects follow extensive discussions with Bruegel's members. Once a research topic is chosen, however, research and publications are fully independent. All publications are released under the signature of their author(s), and Bruegel itself abstains from taking any policy positions.

Linking government, research, business and civil society. Bruegel provides a forum for informed discussions between individuals from diverse backgrounds. It builds on the diversity of experience of its stakeholders to develop interaction between communities. Bruegel also aims to cooperate with leading European and international research institutions on specific research projects.

European reach. From the outset, Bruegel has adopted a pan-European approach. It addresses topics for which policy responsibility rests with individual states, the European Union, or international organisations. It intends to develop its presence in national debates across Europe, as well as Brussels and international discussion forums.

BRUEGEL'S NAME, while referring to a 'Brussels European and Global Economic Laboratory', pays tribute to Pieter Bruegel ('the Elder'), considered one of Europe's most innovative painters in the 16th Century. Pieter Bruegel's son and nephew were also renowned painters who spelled their names 'Breughel'; Bruegel the Elder, however, signed most of his masterpieces with 'Bruegel'.

Operational review

2006 WAS BRUEGEL'S FIRST FULL YEAR OF OPERATION.

EXECUTION OF THE RESEARCH PROGRAMME

Bruegel's 2006 activities were structured around the Research Programme, set by the Board in October 2005 and covering the period up to 31 December 2006. The Programme had four broad research themes.

1. Europe's Growth and Reform Strategy

In **Policy Brief 2006/02 'Last Exit to Lisbon'** (March), Bruegel's Director Jean Pisani-Ferry and Senior Fellow André Sapir called for more focused guidelines, robust assessments of performance, and help for Lisbon's goals in the 2008 budget review. The authors presented a discussion paper, on which the Policy Brief is based, to EU finance ministers on 14 March 2006 at the request of the Austrian Presidency of the EU. This paper was also presented and discussed in meetings of the OECD and the Economic Policy Committee of the EU.

In **Policy Brief 2006/06 'A Primer on Innovation and Growth'** (October), non-resident Senior Fellow Philippe Aghion explored policy avenues to stimulate innovation and growth in Europe, arguing that more spending on research and development and more protection of intellectual property would not be enough to bring Europe's economy to the 'innovation frontier'. This piece was prepared in view of the informal meeting of Heads of State or Government in Lahti, Finland.

A **workshop** was held in partnership with the Hungarian Ministry of Finance and coordinated by Visiting Fellow Xavier Debrun, on **Fiscal Rules and Institutions** in Budapest on

November 16-17. This workshop heard contributions from Jürgen Kröger (European Commission, DG ECFIN), Joaquim Ayuso (DG ECFIN), Daniele Franco (Banca d'Italia), Henri Bogaert (Federal Planning Bureau, Belgium), Jens Henriksson (former State Secretary of Finance, Sweden), Christian Kastrop (Federal Ministry of Finance, Germany), George Kopits (National Bank of Hungary), Almos Kovács (State Secretary of Finance, Hungary), Jean Pisani-Ferry, and Gyorgy Suranyi (former governor of the National Bank of Hungary).

Another workshop, coordinated by Research Fellow Nicolas Véron, was held at Bruegel's offices on December 14, entitled **What Value Added is the European Union for Europe's Companies?** Contributors included Etienne Davignon (Member of the Board of Directors of Suez), Vitor Gaspar (Banco de Portugal), Bruegel's chairman Mario Monti, Erkki Ormala (Nokia), Riccardo Perissich (Telecom Italia), Lars-Hendrik Röller (President of ESMT Berlin and non-resident Senior Fellow at Bruegel), Loukas Tsoukalis (ELIAMEP, Athens), and Michel de Virville (Renault).

Bruegel created a group to assess the performance of *higher education in Europe* and to outline recommendations for reform. The Group's members are Philippe Aghion (Harvard University and Bruegel), Mathias Dewatripont (Université Libre de Bruxelles), Andreu Mas-Colell (University Pompeu Fabra), and André Sapir (Université Libre de Bruxelles and Bruegel). Their report is due in autumn 2007.

2. Integration and Competitiveness

The migration aspect of integration and competitiveness was the topic of a **workshop** organised by Research Fellow Jakob von Weizsäcker on March 17, on **'Managing Migration: Internal and External Challenges.'** Looking at migration as an economic rather than cultural or political issue, it raised questions on labour market competition from migrants, internal migration between European regions, the free movement of workers following the present and future rounds of enlargement, coordination within the EU regarding third country nationals, and comparisons with the US. Contributors were Alan Barrett (ESRI, Dublin), Tito Boeri (Bocconi, Milan), Sophie Boissard (Centre d'Analyse Stratégique, Paris), George Borjas (Harvard University), Herbert Brücker (IAB, Nuremberg), Riccardo Faini (University of Rome), Rafal Hykawy (Office of the Committee for European Integration, Poland), Krystyna Iglicka (CIR, Warsaw), Karl Pichelmann (European Commission), Jacques-François Thisse (Université Catholique de Louvain), and Patrick Weil (University Paris-1).

On April 12, Bruegel hosted a **workshop** on **'Capital Market Integration Policies in Europe: Assessing the Challenges'**, to assess the current stage of the integration process and the priorities for Europe's financial market policies. The workshop, organised by Nicolas Véron, heard contributions from Harald Benink (Erasmus University, Rotterdam), John Berrigan (DG ECFIN, European Commission), Thierry Francq (French Treasury), Kees Koedijk (Erasmus University, Rotterdam), Peter Parker (UK Financial Services Authority), Adam Posen (Institute for International Economics, Washington DC), Alexander Schaub (DG MARKT, European Commission), Freddy Van den Spiegel (Fortis Bank), and Wolfgang Wagner (PricewaterhouseCoopers).

Policy Brief 2006/03 'Welcome to Europe' by Jakob von Weizsäcker (April) argued that Europe needs more high-skilled migration and

the debate on low-skilled migration should not be an excuse to slow this process. Rather, the EU should use new tools to encourage high-skilled migration, including a skills-based points system with a 'Blue Card' granting access to its entire labour market, echoing the US Green Card system. This paper was presented at meetings of the Economic Policy Committee of the EU, and formed the basis for presentations to various national bodies.

Policy Brief 2006/04 'Farewell National Champions' by Nicolas Véron (June) presented new data on the internationalisation of Europe's largest companies and their US counterparts, and drew implications for 'economic patriotism' policy approaches at national level and the prospects for increased regulatory competition in Europe. This paper was the topic of several debates in national capitals, including in parliamentary circles.

In **Policy Brief 2006/05 'Single Market Trails Home Bias'** (October), Research Fellow Juan Delgado explored the level of home bias in Europe's goods and services markets, and in equity investment. Measuring home bias against different benchmarks, he found the single market programme has had only a limited impact on reducing home bias in Europe.

Bruegel started a cooperation with the Centre for Economic Policy Research (CEPR, London) to compare the patterns of internationalisation of European firms. The project, called *European firms and international markets*, involves participants from eight countries.

Bruegel also launched a project on *European energy policy*, directed by non-resident fellow Lars-Hendrik Röller.

3. Challenges and Policies for the Euro Area

Policy Brief 2006/01, 'The Euro: Only for the Agile' (February), by Research Fellow Alan Ahearne and Jean Pisani-Ferry, explored the implications for policy makers of economic divergence in the euro area, as well as the

discipline required to be part of the single currency. The resulting policy recommendations are both for the policies and monitoring of existing euro area members, and for the selection of those of the new Member States that may adopt the euro in the next few years.

Bruegel's work on global current account imbalances, begun in 2005, continued with the first **Asia Europe Economic Forum** Conference in Beijing (13-14 July). The Forum is a long-term collaborative endeavour initiated by Bruegel with four East Asian partners: the Institute of World Economics and Politics at the Chinese Academy of Social Sciences (CASS); Global Security Research Centre, Keio University (Tokyo); Korean Institute for International Economic Policy; and Centre for International Commerce and Finance, Seoul National University, as well as Institut für Weltwirtschaft (IfW) in Kiel, Germany. The conference, '**European and Asian Perspectives on Global Imbalances**', assessed the risks of abrupt unwinding of imbalances, and possible policy options for Europe and Asia. The conference conclusions were included in a short policy note, '**A Perspective on Global Imbalances**', released in September as the first publication of the Asia-Europe Economic Forum, and co-authored by Yung Chul Park (Seoul National University), Jean Pisani-Ferry, Naoyuki Yoshino (Keio University), and Yu Yongding (IWEF/CASS).

Other participants in the Beijing conference included Pervenche Berès MEP, Lorenzo Bini Smaghi (European Central Bank), Benoît Coeuré (Agence France-Tresor), Jon Cunliffe (UK Treasury), Fan Gang (National Economy Research Institute of China), Mitsuhiro Fukao (President, Japan Center for Economic Research), Fumio Hoshi (Japan Bank for International Cooperation), Hu Xiaolian (Deputy Governor, People's Bank of China), Kiyoto Ido (Director General of the International Bureau of the Japanese Ministry of Finance), Ku-Hyun Jung (Samsung Economic Research Institute), In June Kim (Korea Investment Corporation), Caio Koch-

Weser (Deutsche Bank), Li Ruogu (Chairman, Export-Import Bank of China), Lu Feng (Beijing University), Zembei Mizoguchi (Japan Centre for International Finance), Wolfgang Münchau (Financial Times), Erik Nielsen (Goldman Sachs), Klaus Regling (DG ECFIN, European Commission), Dariusz Rosati MEP, Shi Jianhuai (Beijing University), Myoung Ho Shin (HSBC Korea), Dennis Snower (IfW), Tang Xu (Department of Finance Research, PBoC), David Vines (Oxford), Yi Gang (Assistant Governor, PBoC), as well as Bruegel's Mario Monti, Alan Ahearne, and André Sapir.

Bruegel launched a **Euro Area Task Force** to assess the governance of the euro area and outline avenues for its reform. The Task Force comprises Philippe Aghion (Harvard University and Bruegel), Alan Ahearne (Bruegel), Marek Belka (UN Commission for Europe), Jürgen von Hagen (Bonn University and Bruegel), Lars Heikensten (former governor of the Bank of Sweden), Jean Pisani-Ferry (Bruegel) and André Sapir (Université Libre de Bruxelles and Bruegel). The late Riccardo Faini (University of Rome) participated in the first meetings of the Task Force, which also met with several senior policymakers.

4. Europe and the World Economy

In 2006 Bruegel launched a **book** project coordinated by Senior Fellow André Sapir, on the EU's external economic policies (forthcoming in 2007, provisionally entitled **The Fragmented Power**).

The book will include chapters on: macroeconomic policy, exchange rates and the international financial system (Bruegel's Alan Ahearne, and Barry Eichengreen from UC Berkeley); financial market regulation (Marco Becht, ECARES/Université Libre de Bruxelles, and Luis Correia from Oxera); competition policy (Marc Ivaldi and Olivier Bertrand, IDEI / University of Toulouse); energy (Coby van der Linde, Clingendael Institute and Groningen University); trade (Simon Evenett, University of St. Gallen); migration (Herbert Bruecker, IAB

Nuremberg, and Bruegel's Jakob von Weizsäcker); development policy (Arne Bigsten, Göteborg University); global economic institutions and governance (Benoit Coeuré, Ecole Polytechnique, and Jean Pisani-Ferry).

A **conference** on the book's themes was held in partnership with the Finnish Presidency of the EU, on October 12-13 in Brussels. In addition to the book's authors, contributors included Esko Aho (Former Prime Minister of Finland and President of SITRA, the Finnish National Fund for Research and Development), Uri Dadush (World Bank), Pierre Defraigne (EUR-IFRI), Claus-Dieter Ehlermann (WilmerHale), Boyden Gray (U.S. Ambassador to the EU), Patrick Low (World Trade Organisation), Erika Mann MEP, Jean-Pol Poncelet (Areva), Vesa Vihriala (State Under-Secretary for Economic Affairs, Finnish Prime Minister's Office), Thomas Wieser (Austrian Ministry of Finance), and David Wright (DG MARKT, European Commission).

Europe's role in the world economy was also the focus of **Policy Brief 2006/07, 'Global Governance: An Agenda for Europe'** (December) by Alan Ahearne, André Sapir, Jean Pisani-Ferry and Nicolas Véron. This paper, an earlier version of which was prepared at the request of the Finnish Prime Minister's office and published in September in a volume by the Finnish Presidency of the EU, discussed the challenges and opportunities of the current state of global policymaking, in a context of diminished US leadership and a growing number of policy issues of worldwide importance.

OTHER OPERATIONS

1. Events

In addition to research theme-related workshops and conferences, which are described in the preceding section, Bruegel regularly holds discussions and seminars.

The **Lunchtalk** series is a regular feature on the Bruegel calendar, highlighting current topics and featuring presentations by guest speakers followed by a response from an expert in the same field. Lunchtalk is coordinated by Research Fellow Juan Delgado. There were 11 in 2006:

- 6 March, '**Mittal-Arcelor: Should Governments have a Say?**' with Elie Cohen (CNRS, Paris) and Damien Neven (HEI Geneva).
- 27 March, '**Made in China: Exploring China's Economic role in the Asia/Pacific Region**' with K. C. Fung (University of California, Santa Cruz), and Philippe De Buck (UNICE, Brussels) as discussant.
- 11 May, '**Europe Two Years after Enlargement: A Polish Perspective**' with Marek Belka (Head of the United Nations Economic Commission for Europe, Geneva), and Pierre Moscovici, vice-president of the European Parliament, as discussant.
- 22 May, '**Reform in a Rich Country: Germany**' with Adam Posen (Institute for International Economics, Washington DC), and Thomas Westphal (Permanent Representation of Germany to the EU) as discussant.
- 1 June, '**Does Globalisation Force One Best Model? Results from the MIT Globalisation Study**' with Suzanne Berger (MIT), and Philippe Riès (Agence France Presse, Brussels) as discussant.
- 20 June, '**Declining Exports in Italy and France: Cause for Concern?**' with Lionel Fontagné (CEPII, Paris) and Gianmarco Ottaviano (University of Bologna).
- 26 June, '**The Indian Economy – Has it Taken Off?**' with Rajiv Kumar (Director of

ICRIER, New Delhi), and Bruegel's André Sapir as discussant.

- 19 September, '**Does Accounting Matter?**' with Bruegel's Nicolas Véron (who presented his book *Smoke & Mirrors, Inc.*), and Karel Van Hulle (European Commission, DG MARKT) as discussant.
- 28 September, '**Is There a Brussels Consensus?**' with John Williamson (Institute for International Economics, Washington DC), and John Parker (Brussels Bureau Chief, The Economist) as discussant.
- 19 October, '**Open for Business? Trade Policies of the EU, US, Canada and Japan**' with Henrik Isakson and Lena Johansson (Swedish Board of Trade, Stockholm).
- 27 October, '**The Future of Europe: Reform or Decline**' with Alberto Alesina (Harvard University), and Bruegel's André Sapir as discussant.

The Bruegel **Economic Policy Seminar**, coordinated by Research Fellow Jakob von Weizsäcker, had six sessions in 2006. The Seminar on Economic Policy provides an opportunity for speakers to present academic papers before their peers and public policy stakeholders, for informed debate.

- 12 January, '**Is there an Economic Case for a Social Europe?**' with Giuseppe Bertola (University of Turin), and Wolfgang Munchau (Financial Times, Brussels) as discussant.
- 30 March, '**Which research should be done where? Academic versus Private Sector R&D**' with Mathias Dewatripont (Université Libre de Bruxelles), and Isabel Grilo (European Commission, DG ENTR) as discussant.
- 2 May, '**European Integration Post-enlargement: A New Economic Geography Approach**' with Marius Brühlhart (University of Lausanne), and Attila Marján (European Commission, cabinet of Commissioner Kovács) as discussant.
- 12 September, '**The Great Doubling of the Global Workforce**' with Richard Freeman (Harvard University), and Daniel Traça (Université Libre de Bruxelles, Solvay

Business School) as discussant.

- 14 September, '**Made or Marred in Leisure? Issues in Transatlantic Welfare Comparisons**' with Robert Gordon (Northwestern University, Chicago), and Marco Buti (European Commission, DG ECFIN) as discussant.
- 6 November, '**Sticky Teuro? On the Impact of EMU on Price Setting Behaviour**' with Ignazio Angeloni (Italian Treasury), and Paul De Grauwe (Katholieke Universiteit Leuven) as discussant.

The **Finance Focus Breakfast series**, coordinated by Research Fellow Nicolas Véron, is specifically targeted at market participants, policymakers and academics interested in financial market issues. Two sessions were held in 2006:

- 26 September, '**Reforming the Financial Sector for Productivity and Growth in Europe**' with Philipp Hartmann, Florian Heider and Elias Papaioannou (DG Research, European Central Bank, Frankfurt).
- 5 December, '**Are the Big Four Too Few? A Regulator's Look at the Audit Market**' with Julian Rose (Financial Reporting Council, London).

Bruegel also hosted three **Special Meetings** with the International Monetary Fund and the World Bank on the occasion of visits of their officials to Brussels. On May 15 **Michael Deppler**, Director of the European Department at the IMF presented the IMF's new framework for multilateral surveillance. On September 21 **Daniel Kaufmann**, Director for Global Programs and Governance at the World Bank Institute, addressed a special lunchtime meeting on 'Aid, Governance and Corruption, post-Singapore'. And on October 17 Bruegel hosted a special breakfast meeting with **Masood Ahmed**, Director of External Relations at the IMF. Mr Ahmed briefed participants on the IMF's Annual meeting in Singapore, discussing the fund's Medium-Term Strategy, and detailed the Fund's approach on multilateral surveillance.

Finally, on 14-15 June, Bruegel held its first **Annual Meeting** as a high-level event giving the opportunity to bring together its Members, Board and Staff. The discussion, on ‘**Economic Integration under Threat?**’, featured as speakers Joaquín Almunia (European Commissioner for Economic and Monetary Affairs), Etienne Davignon (Member of the Board of Directors of Suez), Mario Draghi (Governor of the Bank of Italy), Jeffrey Frieden (Professor of Government, Harvard University), Alfonso Iozzo (Managing Director, Sanpaolo IMI), Peter Mandelson (European Commissioner for Trade), Thomas Mirow (Secretary of State, German Federal Ministry of Finance), Xavier Musca (Director General of the French Treasury), as well as Bruegel’s Mario Monti, Jean Pisani-Ferry, André Sapir and Jürgen von Hagen.

2. Publications

Alongside Bruegel’s **Policy Briefs** (covered in the section on the execution of the research programme), Bruegel developed other publication series in 2006.

Working Papers present work in progress by the staff or research associates of Bruegel. During 2006 Bruegel published three working papers from Bruegel fellows as well as visiting fellows and external contributors:

- ‘**European Perspectives on Global Imbalances**’ by Alan Ahearne and Jürgen von Hagen (July);
- ‘**The EU and the Governance of Globalisation**’ by Alan Ahearne, André Sapir, Jean Pisani-Ferry and Nicolas Véron (September);
- ‘**Flying Geese or Sitting Ducks? China’s Impact on the Trading Fortunes of other Asian Countries**’ by Alan Ahearne, John Fernald (Federal Reserve Bank of San Francisco), Prakash Loungani (International Monetary Fund) and John Schindler (Board of Governors of the Federal Reserve System) (November).

Policy Contributions are short texts on specific policy questions, including testimonies at hearings and responses to discussion papers or other types of consultations. During 2006 Bruegel published five policy contributions:

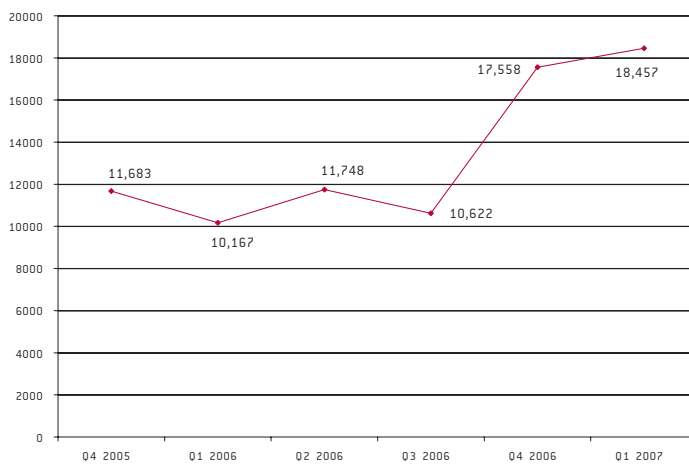
- Jean Pisani-Ferry prepared the note ‘**Mediocre Growth in the euro area: Is Governance part of the Answer?**’ for the European Parliament-National Parliaments Debate on ‘How to Raise Growth in the Euro Area’ on February 21.
- On May 30 Jean Pisani-Ferry gave a note at a hearing of the Economic and Monetary Affairs Committee of the European Parliament entitled ‘**There is Room for Improvement in the Appointment of ECB Executive Board Members**’.
- In July André Sapir produced a short paper ‘**Some Ideas for Reforming the Community Anti-Dumping Instrument**’ at the request of Commissioner Mandelson for the Expert Seminar on Trade Defence Instruments at the European Commission.
- Nicolas Véron responded to a UK Financial Reporting Council consultation, with the policy contribution ‘**Choice in the UK Audit Market**’ (August).
- ‘**Economic Reforms in the Euro Area: Is there a Common Agenda**’ was prepared by Jean Pisani-Ferry and Xavier Debrun for the Eurogroup Working Group of the Economic Policy Committee of the EU in October.

The **Essay and Lectures Series** provides a compact record of the views of scholars and practitioners as they write for, or lecture at Bruegel events. Following his address during Bruegel’s Annual Meeting in 2006, Bruegel invited **Jeffrey Frieden** (Harvard University) to be the first person to contribute to this series. ‘**Will Global Capitalism Fall Again?**’ focuses on why the first era of globalisation could not be restored after the first world war, on why it was ultimately replaced by a system based on the rules of Bretton Woods, and on lessons for policymakers at the current juncture.

3. Website

All Bruegel's publications, op-eds and other output are made available on www.bruegel.org. Event reports are available to members on the same website. The evolution of the website in 2006 followed the evolution of Bruegel's team, their publications and organised events. Over the year the website welcomed more than 50,000 unique visitors and more than 67,000 publications were downloaded.

Quarterly evolution of unique visitors to www.bruegel.org.



4. Press and Media

We recorded 361 articles published during 2006 that included a reference to Bruegel or a quote or interview of a Bruegel scholar; 158 of these were substantive articles, 19 were interviews, and 56 of them were opinion pieces or columns written by Bruegel research staff. Over the year mentions appeared in the media of 22 European Union countries, and of 18 countries outside the EU. Bruegel scholars also participated in online media, including op-eds in La Voce (Italy) and Telos (France), and gave broadcast interviews to CNBC Europe, LCI, Bloomberg TV, Sveriges Television SVT, BBC Radio, DW-Radio, France Inter, France Culture, Radio BFM, Radio Classique, ORF Austria and others.

Team Development

BY THE END OF 2006, THE BRUEGEL TEAM NUMBERED TWENTY, INCLUDING THIRTEEN SPENDING ALL OR MOST OF THEIR WORKING TIME AT BRUEGEL (SEE LIST ON PAGE 19).

The following individuals joined Bruegel during 2006:

Philippe Aghion, *Non-Resident Senior Fellow* since September 2006, is the Robert C. Waggoner Professor of Economics at Harvard University. His research interests include corporate finance, industrial organisation, political economy and macroeconomics. He participates in Bruegel research on the euro area and higher education.

Henrik Horn, *Non-Resident Senior Fellow* since October 2006, is a Senior Research Fellow at the Research Institute of Industrial Economics, Stockholm. His research focuses on economic aspects of trade law and competition law. He participates in Bruegel research on trade.

Gianmarco Ottaviano, *Non-Resident Senior Fellow* since September 2006, is Professor of Economics at the University of Bologna, Italy. He researches spatial economics, international trade, development and growth, capital movements and multinationals. He is responsible for the Bruegel-CEPR project on European firms and international markets.

Lars-Hendrik Röller, *Non-Resident Senior Fellow* since September 2006, is President of the European School Management and Technology in Berlin. He was previously first Chief Competition Economist of the European Commission, and Director of the research unit 'Competitiveness and Industrial Change' at the Wissenschaftszentrum Berlin. He participates in Bruegel research on energy policy.

Emanuele Ciriolo, *Research Assistant* since November 2006, is a PhD candidate in Economics at Université Libre de Bruxelles.

Jérémie Cohen-Setton, *Research Assistant* from June to October 2006, is a PhD candidate at Ecole Normale Supérieure, Paris.

Charles Colot, *Outreach Officer* since November 2006, holds a degree in journalism and a masters degree in mass media communication from the University of Geneva.

Matt Dann, *Outreach Manager* since February 2006, is a graduate of Keele University, England and has an MBA from Solvay Business School, at the Université Libre de Bruxelles. He has worked in both television and the financial sector.

Alexandre Janiak, *Research Assistant* since June 2006, is a PhD candidate in Economics at ECARES, Université Libre de Bruxelles.

Manuela Naessl, *Research Assistant* from April to June 2006, has a Master's degree in international economics from the Graduate Institute of International Studies, Geneva, Switzerland.

Martín Saldías Zambrana, *Research Assistant* since October 2006, is a PhD student at the Department of Financial Economics of Ghent University.

Indhira Santos, *Research Assistant* since September 2006, is a PhD candidate in Public Policy at the John F. Kennedy School of Government (KSG) at Harvard University.

Andreas Unterstaller, *Outreach Officer* from March to September 2006, has a Master's degree in contemporary European studies, with a thesis on the impact of EMU on transatlantic relations.

Balazs Egert, **KC Fung**, **Etienne Wasmer**, and **John Williamson** also participated in Bruegel's development as Visiting Fellows during 2006.

*During the course of 2006 Bruegel also benefited from the work of **Claire Delpeuch** (Trainee), **Fulvio Mulatero** (Research Assistant), **Reg Rea** (Editor), **Jan Szomburg** (Trainee) and **Christoph Thiel** (Trainee).*

Governance

BRUEGEL'S GOVERNANCE FRAMEWORK IS ONE OF ITS KEY STRENGTHS, ENSURING BOTH THE INDEPENDENCE OF ITS RESEARCH AND ITS RELEVANCE TO ITS DIVERSE STAKEHOLDERS.

Bruegel was registered as a Belgian **international non-profit association** (Association Internationale Sans But Lucratif) under the number 0867636096, on 10 August 2004. On 30 June 2005 it adopted its current name and registered office, on Rue de la Charité 33, B-1210 Brussels. The basis for its governance is formed by its statute and bylaws, both of which can be downloaded from Bruegel's website.

In 2006, the association had two categories of **Members**. State Members are governments of member states of the European Union which have chosen to join Bruegel; Corporate Members are international firms whose request for membership has been approved by Bruegel's Board. Each Member appoints a Senior Contact Person and an Alternate, which represent it in Bruegel's governance bodies. The details of Members' financial contributions are in the 'Financials' section of this report.

The highest body in Bruegel's governance framework is the **General Assembly**, which brings together all Members. The General Assembly is complemented by so-called **Groups** which are formed, respectively, by Bruegel's state and corporate members. In 2006, the General Assembly met on 15 June (ordinary meeting) and 14 December; the Group of States met on 19 May and 14 December, and the Group of Corporate Members met on 14 December.

The **Board** has broad decision-making powers, including on Bruegel's senior recruitments and research programme, and guarantees the independence of Bruegel's work. It was elected in December 2004 for a three-year mandate.

The Board met three times in 2006 (on 20 January, 3 May, and 16 October), with an average attendance rate of 73 percent.

The Board currently has two **Committees**. The Audit Committee did not meet formally in 2006, given the simplicity of Bruegel's financials which allowed their examination by the full Board. The Compensation Committee did not meet formally in 2006 but informally advised the Director on the recruitment of senior staff.

The **Scientific Council**, comprised of eight internationally recognized economists, met only once in 2006, on 6 September. Its role is to advise Bruegel's Board and Director and to assess the scientific quality of Bruegel's output. Seven of the current Scientific Council members were appointed by the Board in 2005 for a three-year mandate; the eighth is Lucrezia Reichlin, who replaced Lars-Hendrik Röller on 16 October 2006 following the latter's appointment as a non-resident Senior Fellow of Bruegel.

Bruegel's **Research Programme** is currently prepared on a yearly pace. Based on extensive consultation with Bruegel members, including at least one plenary meeting of members' Senior Economists, a draft programme is prepared by Bruegel's staff, sent to members for consultation, and proposed to the Board together with the members' feedbacks. The Board is the decision-making body on the research programme and may make changes to the staff's draft as it deems appropriate.

In 2006, Bruegel developed projects on the

basis of its first Research Programme, which had been adopted by the Board in October 2005. The meeting of Senior Economists to prepare the 2007 programme was held on 9 November 2006, and the resulting draft research programme was sent to members for consultation on 21 December. The Board eventually adopted the 2007 research programme on 22 January 2007. Both the 2006 and 2007 research programmes can be downloaded from Bruegel's website.

None of Bruegel's financial resources in 2006 were tied to specific research projects.

On 3 May 2006, the Board adopted a **Statement on Research Integrity**, which is available on Bruegel's website. The Statement sets rules for the avoidance of political, national or commercial conflicts of interest which could harm the integrity of Bruegel's research.

Web references:

Bruegel's statute:

<http://www.bruegel.org/1570>

Bruegel's bylaws:

<http://www.bruegel.org/1572>

2005-06 research programme:

<http://www.bruegel.org/1688>

2007 research programme:

<http://www.bruegel.org/2198>

Statement on research integrity:

<http://www.bruegel.org/1574>

Financials

BALANCE SHEET 2006 - 2005		
	2006	2005
ASSETS		
FIXED ASSETS	114,856.45	147,039.52
Furniture and office equipment	113,445.83	146,309.21
Financial fixed assets		
Bank guarantee	1410.62	730.31
CURRENT ASSETS	39,614.71	48,334.27
Receivables	0.00	365.15
Other amounts receivables		
VAT recoverable		34,478.69
Financial income to receive	20,122.62	9,744.71
Other debtors	19,492.09	3,745.72
CASH & CASH EQUIVALENTS	2,819,953.14	1,911,311.95
DEFERRALS AND ACCRUALS	25,415.14	24,695.33
Deferred rent	24,425.14	23,110.50
Deferred insurance	990.00	1,584.83
TOTAL ASSETS	2,999,839.44	2,131,381.07
LIABILITIES		
CURRENT LIABILITIES	218,577.98	80,637.41
Trade payables	52,634.35	30,637.41
Prepaid income	50,000.00	50,000.00
Remuneration and social security payables	115,943.63	-
NET ASSETS		
NET ASSETS	2,781,261.46	2,050,743.66
Reserves		
Surplus of the year	730,517.80	1,142,985.27
Accumulated reserves from last year	2,050,743.66	907,758.39
TOTAL LIABILITIES AND NET ASSETS	2,999,839.44	2,131,381.07

INCOME STATEMENT 2006 - 2005

	2006	2005
REVENUE		
Subscriptions - State Members [1]	1,196,092.00	1,114,856.00
Category 1 - Cyprus, Luxembourg, Slovenia	42,988.00	11,702.00
Category 2 - Ireland	45,517.00	46,809.00
Category 3 - Austria, Denmark, Hungary	182,069.00	120,172.00
Category 4 - Belgium, The Netherlands, Poland	242,758.00	234,043.00
Category 5 - France, Germany, Italy, Spain, UK	682,759.00	702,130.00
Subscriptions - Corporate Members	1,345,833.00	1,000,000.00
Full-Year Corporate Members [2]	1,250,000.00	900,000.00
Corporate Members joining during the year [3]	95,833.00	100,000.00
Other revenue	20,000.00	-
TOTAL REVENUE	2,561,925.00	2,114,856.00
EXPENSES		
Wages and Compensation	-1,251,290.63	-647,095.16
Other operating expenses	-500,601.25	-308,111.80
Travel costs (staff, board and scientific council)	75,173.44	86,851.12
External research costs	26,157.06	
Documentation costs	22,955.32	8,640.02
Outreach-related costs	155,629.38	62,397.44
Office rents and charges	106,676.16	28,859.21
Other office costs	60,043.06	84,686.93
General and administrative costs	53,966.83	36,677.08
Depreciation charges	-55,198.44	-48,931.54
Reduction value on unrecoverable VAT	-88,201.11	
Net financial income	63,884.24	32,267.77
Financial income	78,263.85	40,375.87
Financial charges	-2,640.03	-2,069.39
Withholding Tax	-11,739.58	-6,038.71
TOTAL EXPENSES	-1,831,407.19	-971,870.73
NET SURPLUS	730,517.80	1,142,985.27

Notes

[1] In accordance with Bruegel's Bylaws, in 2006 Cyprus, Hungary, Poland and Slovenia paid a subscription reduced by one-third compared with other states in the same respective categories.

[2] In 2006: Areva, BP, DaimlerChrysler, Deutsche Börse, Deutsche Post World Net, Deutsche Telecom, EADS, EMI, Euronext, Fortis, Goldman Sachs International, Hellenic Petroleum, Iberdrola, Nokia, Novartis, PricewaterhouseCoopers, Renault, RWE, Sanpaolo IMI, Siemens, Suez, Telecom Italia, Telefonica, Thomson, Unicredit/HVB (€50,000 per member).

[3] In 2006: GE, IBM, Deutsche Bank (reduced subscription on a *pro rata* basis).

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AISBL International Association
BRUEGEL, Rue de la charité, 33 - 1210 Brussels - Belgium

**STATUTORY AUDITOR'S REPORT FOR THE YEAR ENDED DECEMBER 31, 2006
to the General Assembly of the International Association to be held in June 2007**

In accordance with the legal and statutory requirements, we report to you on the performance of the mandate of statutory auditor, which has been entrusted to us. This report contains our opinion on the true and fair view of the financial statements as well as the required additional statements and information.

Unqualified audit opinion on the financial statements

We have audited the financial statements for the year ended 31 December, 2006, prepared in accordance with the financial reporting framework applicable in Belgium, which show a balance sheet total of € 2,999,839.44 and a surplus for the year of € 730,517.80.

Management is responsible for the preparation and the fair presentation of these financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the legal requirements and the Auditing Standards applicable in Belgium, as issued by the Institute of Registered Auditors. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement, whether due to fraud or error.

In accordance with the above-mentioned auditing standards, we considered the association's accounting system, as well as its internal control procedures. We have obtained from management and from the association's officials the explanations and information necessary for executing our audit procedures. We have examined, on a test basis, the evidence supporting the amounts included in the financial statements. We have assessed the appropriateness of accounting policies and the reasonableness of the significant accounting estimates made by the association as well as the overall financial statement presentation. We believe that these procedures provide a reasonable basis for our opinion.

In our opinion, the financial statements for the year ended December 31, 2006 give a true and fair view of the association's assets and liabilities, its financial position and the results of its operations in accordance with the financial reporting framework applicable in Belgium.

Additional statements and information

The compliance by the international association with the Law of 27 June 1921 related to non profit associations, international non profit associations and foundations is the responsibility of management.

Our responsibility is to supplement our report with the following additional statements (and information), which do not modify our audit opinion on the financial statements:

- Without prejudice to formal aspects of minor importance, the accounting records were maintained in accordance with the legal and regulatory requirements applicable in Belgium.
- There are no transactions undertaken or decisions taken in violation of the association's statutes or the Law of 27 June 1921 related to non profit associations, international non profit associations and foundations that we have to report to you.

Brussels, May 22nd, 2007



Marie-Chantal DEBROUX-LEDDET
Certified Auditor

Bruegel's people

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