The EU is in bad shape, to say the least. It is confronted with institutional as well as with economic and political deficiencies that are of urgent character. First and foremost, it is still about the future of the Eurozone. For outsiders it may seem that the issue is dealt with successfully, given that Greece got its third bailout program; and Ireland, Spain, and Portugal left the Troika programs. And yet, there is still the sense that the task is by far not completed and that a next deep economic-financial crisis may hint to the deep-sitting weaknesses. Next is the upcoming Brexit decision, and this is a decision as much about the position of the UK in the EU as it is about the future of the EU: How deep should integration go? Third, it is about the position of the EU in the global economy in times of ongoing trade agreement negotiations. Trade policy has become another contested arena in the EU, mainly due to TTIP and also CETA that are seen by sectors of the civil society as agreements that undermine political democracy. Fourth, and I will end the list here, is the process that has been labeled as refugee crisis and is nothing else then the outcome of deeply damaged economies and societies in the periphery of Europe. Those damages are often as much inflicted by domestic sources as they are the caused by international conflicts.

Let me go though those topic areas. In the aftermath of the Financial Crisis of 2008 the Eurozone experienced its own crisis episodes, and this episodes were devastating as well as dangerous. It turned out that the institutional architecture of the Eurozone was a fair weather design but not made for storms, or even perfect storms. One of the core problems was that members of the currency unions had less policy tools available than stand-alone economies (take UK and Spain, for example). Members of a CU give up the tool of exchange rate policy; and in case of the Eurozone they also were equipped with a central bank that came with a very narrow mandate. In a situation where the liberalization of capital flows came with huge flows from the core to the periphery that reflected the polarization of current accounts (latter mainly due to differences in price competitiveness, furthered by differences in national inflation rates) and saw the build up of debts, mainly by the private sectors, that then resulted in overcapacity and speculative trends (housing). The burst of the bubbles was triggered by small sparks, of Greek origin, and started the herd behaviour of financial markets that then triggered capital outflows. In order to save national financial industries private debt crises turned into national sovereign debt crises.

Now, the problem was on the side off governments who had to safe national financial industries. Recapitalization, creation of baad banks and the forth, all of the actions led to steep increases of public debt ratios. This then made financial marketers even more nervous, and the risk premiums went up. This undermined further the credibility of nation states….Eventually, they had to turn to the newly created Troika to get emergency funding in exchange for harsh economic policy conditionalities.
The sovereign debt crises brought back a debate about the character of the project of European Integration. If it is true that the fundamental problem of the institutional architecture of the Eurozone is that out is incomplete, i.e. missing a political union, then the logical response is to move towards an even closer union. One problem, though, is how to deal with those members of the EU who even did oppose membership in the Eurozone and definitely don’t want to go further. The most organized debate is the one in the UK where the majority government time ago proposed to held a referendum about Britain’s membership. The idea is to get a Bristol deal with a much lower level of integration and to ask the British electorate to sign off; this includes the possibility to miss a majority and to leave the EU. How much EU is acceptable and where is the point where membership has negative benefits? How to measure costs and benefits off membership? It is interesting, though, that the question ‘what EU?’ is not very much debated in the member states. The UK follows ist instincts and would be happy to get an EU as a customs union of a kind that may have features of an common market without all four forms of freedoms.

This leads me to the trade policy topic. You may know that CETA is in front of our doors. The agreement is currently in the phase of ‘legal scraping’ and is then ready for ratification. I have no privileged knowledge whether there will be any change due to the change in government in Canada. There are rumours that the EU may ask for some modifications, and they mostly are in regards to the ISDS clause. It needed TTIP to make civil society organizations in Europe concerned about this clause. Last weekend about 250 000 people demonstrated in Berlin against TTIP and CETA. The EU definitely started time ago a process to streamline its trade policy and to make it more transparent. There is also the idea to modify ISDS. In any case, the EU feels pressure to move quickly forward to establish a more prominent role in trade agreements - not least because WTO still is a lame duck that can’t move too much.

The Treaty of Lisbon, the most recent treaty of the EU, brought besides other things a High Representative of the Union for Foreign Affairs and Security Policy who is also Vice-President of the Commission. The HR is representing the EU at international fora such as the United Nations, chairing the Commission’s Group on External Action to deliver a common approach for EU action on the world stage, regularly reporting back to the Commission’s President and to the whole College about geopolitical developments, and coordinating the work of all Commissioners in charge of external relations portfolios. Yet, the HR is dependent on national foreign policy preferences and can’t act by herself. In other words, the EU is no real foreign policy player. This is to some strong degree confirmed by the ongoing refugee crisis. The strongest driver for refugees is the Syrian crisis, from where globally spoken one of five rebuff-gees is coming from. Syria is also the trigger for refugees from Libya, Sudan, Afghanistan, Somalia and more. We are experiencing dramatic population shifts, not only in Europe. Lebanon with a population of 5 mio currently hosts 1 mio Syrian
refugees; Jordan with 7 min hosts about 800 000 Syrians, and so on. Asylum seekers move along to Europe, and this creates severe problems. It is also big business: conservative calculations estimate Euro 2500 for the trip from Syria to the EU, and given current numbers this amounts to about Euro 2 billion turnover. Quite an industry. In any case, Europe was not at it prepared, and thus we see that most of the principles that were in place turned out to be fair weather rules. This creates logistical problems as well as political and social-cultural problems. And the EU Commission so far only can try to build on voluntary efforts, and they are scarce.

What does this all mean? First and very obviously, the EU faces enormous challenges, and it arrived at a point where the traditional manner - integration via crises - is no longer working.