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## **Young Leaders Study Group on “The Future of Europe: Perspectives for European Integration”**

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**CONFERENCE  
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## INTRODUCTION

At the first meeting of the Young Leaders Study Group on the “Future of Europe” in Berlin in fall 2003, the discussion focussed on the differing perceptions of Europe. Participants found the understanding of Europe to vary greatly both among nationalities (and even regions within the continent) but also across generations, and on both sides of the Atlantic. In their talks, they tried to develop a better understanding of political and cultural identity of Europe without necessarily providing a clear-cut definition of such identity.

The aim of the Warsaw conference, scheduled only four weeks ahead of the actual accession to the European Union (EU) of ten states, most of them former communist states in Central and Eastern Europe, was to discuss the pressing challenges facing both European structures and policies as well as transatlantic relations. *What are the main issues around the accession of these states? How is, in particular, Poland affected as the largest of the new members, making up more than half of the 70 million new EU citizens? And what are the effects on EU-US relations of this enlargement?*

While it is wrong to perceive the ten new member states through the “Polish lens”, this country nevertheless deserves special attention. Not only is it the sole “big country” entering the Union and joining a group with Spain, Italy, France, the UK, and Germany. But it has also lived through an exceptionally difficult transition period, falling from an economic quick starter in the early nineties to a foot-dragger in 2003, endangering both ratification of the Nice Treaty by referendum and its own accession by slow implementation of EU standards. Therefore, it was with particular intent that the Study Group met in the Polish capital and also in one of the major provincial towns.

This report summarizes the discussions by giving an overview of the different dimensions of the questions at stake, while paying special attention to Poland: The political challenges within the EU around its future institutional design; the economic system of an enlarged Union; the global political consequences, with special regard to the transatlantic alliance; and, finally, Europe as a player in global economic competition.

## 1. THE EUROPEAN SPHERE

### 1.1. EUROPEAN POLITICS

The most important European event between the two meetings of the Study Group was without doubt the breakdown of the talks among European heads of State over the *Constitutional Treaty* in December 2003. An Intergovernmental Conference (IGC) failed to agree on a text that could become a “European Constitution.” Hopes that were voiced at the last meeting by some of the Young Leaders for a successful conclusion before the Warsaw conference were disappointed.

#### HOW WILL THE EU OVERCOME THE CRISIS AFTER IGC?

Some argued that this failure, in fact, was to be seen as a success in ending a particular way of European politics, i.e. advancement of the Union by initiatives hammered out by the Franco-German couple, and presented an opportunity for a more democratic way of organising the EU. The talks on the Constitutional Treaty, this argument goes, have been put to a hold because some of the (present and future) member states were afraid to be governed by “the big countries”, in particular France and Germany. With the institutional crisis, a great opportunity for dramatic rethinking was looming: To get rid of the Franco-German founding myth of the Union, to abandon the apolitical façade of the EU and start making decisions about power and political competition, and to dump the phrase of “ever closer union” in exchange for an honest discussion about the ends of (political) integration.

Some who felt that there was a certain “*idée fixe*” about European integration, which did not accept disagreement by any so-called “euro-sceptics”, supported this contention. Such exclusion, in turn, would create irresponsible dissent on the side of the sceptics. Moreover, had the EU not reached the goals it set at its inception, i.e. economic integration, so it could now be content and need not set new objectives? The EU does not need to “go political”, some said, but should stick to its unquestioned competencies in trade and competition.

Others disagreed with this position, saying that the EU had always been more than an economic interest group. Driven by the experiences of brutal and devastating wars, the Union’s aim has been to create a zone of peace and stability among its members. In addition, in today’s world, the need to integrate further would come both from the inside and from the outside, making a politically strong EU a necessity.

## SUBSIDIARITY, SOVEREIGNTY, SUPRANATIONALITY

Even after ratification of the Constitutional Treaty – chances of which looked much brighter at the time of the conference than at the beginning of the year – some thorny issues will remain. With ten new members joining the EU, there will also be new ways of thinking about sovereignty and supranationality in the European debate. The question will be, one participant put it, whether especially the Central and Eastern European (CEE) countries, having experienced communist rule, would be willing to embrace the European concepts of pooling (or sharing) sovereignty.

The fact that there are various layers of decision-making, as they are foreseen under subsidiarity, does not pose any problem as such. Yet these need to be organized properly and explained to the public. A “Multi-Speed Europe” where countries have the choice to opt-in rather than opt-out could alleviate some of the problems with sovereignty. It would also potentially lower the level of conflict if those wishing to advance could do so and the others could opt-in, rather than trying to have everyone “on board” where those wishing not to advance can only veto the whole endeavor or, in special cases, opt-out. But what exactly would “Multi-speed Europe” mean?

## MULTI-SPEED EUROPE

“Multi-speed” is the term used for fixed objectives that all member states share but will reach at a different point in time. “Variable geometry” allows for different objectives reached at different speeds, thus creating potentially overlapping circles within the membership. “A la carte” means factual disintegration where every country chooses the specific form of co-operation and integration that it wishes at a certain point in time.

One participant proposed another distinction: the one between formal and informal ways of enhanced co-operation. While the formal one, often seen as a threat to European unity, was in fact already taking place through Schengen and the Euro, it was the informal cooperation – be it among the Nordic or Benelux countries or, as of recent, the trilateral meetings between France, Germany, and the UK – that was essentially good for Europe. Such modes of working together could be used to ventilate ideas without forcing others to agree or disagree.

Another word of caution came from the EU practitioners’ side: 99 percent of the daily work, they claimed, was formal and low-key co-operation, where only one percent was informal, usually intergovernmental and potentially high-key co-operation. The question whether the

smaller countries' fear of informal arrangements was irrational or not, thus depended on the ultimate objective of these arrangements, i.e. whether this was only the national interest of those involved or the overarching European interest serving all member states.

Nevertheless, it was difficult to name the areas in which an enhanced co-operation was possible at all – and defence seemed the only option. This would simply mean to open up a third field of co-operation in addition to the existing ones in monetary co-operation (the Euro) and home affairs (Schengen). However, such a mechanism would not necessitate talk of a multi-speed Europe. This talk, one participant concluded, was more about a myth than reality and thus mainly directed at threatening those who do not wish to integrate.

One participant challenged her Polish colleagues by asking whether enhanced co-operation taking place in the “Weimar Triangle” built by France, Germany, and Poland was seen as bad (hard-core concept) or as good (leadership)? As with all informal co-operation mechanisms, it was thought to be good as long as the outcome remained open for others to join. Another question was whether a group of smaller countries could in fact form a “core” or whether participation of at least one of the “big states” was essential.

Especially in this debate about the concept after which the EU should or could develop, it became clear that much of the discussion about the rules and procedures was futile unless one had agreed on the objectives beforehand, i.e. whether one wanted a political union or not. Much of the flexibility debate was simply caused by a lack of a common vision.

Nevertheless, even if the EU today had such a common vision, conflicts between member states would persist. Thus, two main questions remain: How can the EU solve conflicts of interest among its members? And how can it show unity to the outside while internal differences persist, as was the case during the Iraq crisis?

#### CONFLICT AND CONFLICT-RESOLUTION WITHIN THE EU

An ‘old’ EU tactic seems to have been to ‘buy off’ critics, i.e. to solve a conflict by providing a material solution. Still, this concept only works for distributional conflicts – no one expects conflicts over sovereignty to be resolved by “more Euros.” Therefore, the EU needs to find mechanisms to solve this kind of conflict about sovereignty and ideology within its confines.

At the same time, the EU also has to create the means to resolve conflicts outside of its borders, be it in the near neighborhood or in parts of the world that are of strategic importance

to Europe. Therefore, one (non-material) ingredient to conflict resolution becomes more important than ever: solidarity among member states, for which, in turn, shared general interests are needed. This sometimes seems to be clearer when there is a genuine threat from the outside, like after the terrorist bombing in Madrid and the ensuing governments' plea to invoke the Constitution's "Solidarity clause" prior to the entry into force of the whole document. For all these tasks, a group of participants insisted, the EU does not need more money to distribute, but first and foremost European "champions" from political and economic elite of the continent.

However, for want of these champions, even the "traditional" distributional conflicts will be more difficult to overcome in the future. The new member states cannot be treated as a single bloc, a lesson Poland itself had to learn when co-operation in the Visegrad group (Poland, Czech Republic, Hungary, and Slovakia) became difficult. Moreover, with Europe facing economic difficulties, it is hard to provide the material incentives needed to "buy compromise." Especially Germany, once a check book nation, has made it clear that it is not in the position to finance any deals. Given this situation, more attention needs to be paid to the economic state of the Union.

#### THE CASE OF POLAND

After Poland had become notorious over the last months for the hard-ball negotiations it led during the IGC, some wondered whether the country wanted to contribute something to the EU at all, and whether Poland wanted to be a creative rather than a destructive actor. One participant compared this attitude to the "Euro-sclerosis" of the 1970s where some members seemed particularly keen on weakening the common institutions.

For many in the Polish elite, the Union is more of a process than an end goal. While co-operation among the countries should gradually become deeper and deeper, this was thought to be a matter for the next generation rather than for the next few years.

By the time the Study Group convened in Poland, a crisis within the Polish center-left government had culminated in the Prime Minister's announced resignation on the day after his country's accession to the EU. Already during the prior months, this government had looked particularly weak and not few political observers regarded the tough Polish stance during the intergovernmental negotiations as a tribute to the internal difficulties. Then, a debate had taken place within the Socialist party over the proposed reforms, which some

regarded as “too liberal and market-oriented.” The announcement by some of the members of the governing party to form a new left-wing party prompted the declared resignation of Prime Minister Miller.

Poland is in need of economic reforms, one speaker asserted, not only because there is a debt crisis looming but also because of the expected negative consequences that Enlargement will bring initially. Nothing, he deplored, had been done during the referendum on accession last year or since to alleviate this danger. Taxes would need to be lowered, the budget would have to be streamlined, health care systems are in need of an overhaul, and the number of seats in Parliament could be reduced by roughly two fifths.

The present debate about a compromise over the institutional arrangements was not such an issue in Poland but the question of agricultural reform was in the limelight. A rearrangement of the Common Agricultural Policy (CAP), though, would be a disaster for Polish farmers and, thus, would have a negative impact on public opinion vis-à-vis Europe. This opinion is not generally downbeat towards the EU but rests on the expectation that there will be reciprocal benefits. A real danger exists that politicians, both domestic and European, cannot deliver on these expectations.

The Catholic Church is seen as something typical for Poland – no wonder with 98 percent of the population being Catholic. Church attendance is at around 50 percent and has not changed significantly between 1987 and 2003, which means that the “new freedom” has not led to an estrangement of the religious institutions. To the contrary, the Church enjoys a high level of trust within the general public and encompasses the mainstream of the population, including multipliers like the media and celebrities. This is not least due to its role under Communist rule, where it had always been a staunch supporter of a democratic transition and still is a chief promoter of civil society, values, and national responsibility.

Many people in Poland would be in favor of a more “religious Europe” including a reference to God in the preamble of the European Constitution. The example of the Polish Constitution would show, one speaker maintained, that this was possible without any discrimination to other believers or even non-believers. While Europe was based on many religions and cultures, Christianity created much of the uniqueness of Europe, the speaker continued. However, he mentioned that the potential membership of Turkey in the EU was more of a human rights issue than a matter of religion.

Pope John Paul II could be regarded as emblematic both for Poland and Europe: Recently, he was awarded the Charles' Prize, in recognition of his outstanding achievements for European integration and world peace. While the Pope usually declines any public honors, he was willing to accept this special acknowledgment.

## **1.2. THE EUROPEAN ECONOMY**

### LABOR MARKETS AND SOCIAL POLICY

With regard to Enlargement and the creation of a single market, the Study Group articulated two interrelated goals, to enhance the freedom of movement of labor and, at the same time, to alleviate persisting fears of this freedom. While there will be weighty economic inequalities between new and old members, the EU together with all member states will have to counter these trends. The *Lisbon strategy* of the EU will make markets more flexible, but measures to educate the workforce and improve their skills will have to be taken by the member states themselves.

The group did not envisage a complete harmonization in this field, however it alluded to the usefulness of some kind of minimum EU legislation. However, there was agreement that there should not be a free market organization of the health care sector.

While these policies target the mainstream of both employed and unemployed, there is a group that the member states (as the main players in social welfare policy) will have to take care of: the "excluded" or disenfranchised. These people, often immigrants, minority groups, handicapped or homeless people, are integrated neither in the official economic nor the social security system. To them, the mainstream question of "how to get them back in a job?" does not apply, but rather the question of "how to get them back into 'normal life'?" There are people who have become disenfranchised in all member states but they are found in larger numbers in the accession countries with high natural unemployment. To fight this exclusion, governments should support charities as those institutions with the most direct contact to these groups. This could be more valuable than legislation that does not directly influence the social climate of a society.

However, the group found that many of the problems in the two sectors were interrelated. A distorted labor market with a high cost of labor produces unemployment; a lack of social provisions in some member states kept women out of work; whereas at the same time the

social sector, if properly funded, could create thousands of jobs given Europe's ageing population.

#### MONETARY AND FISCAL POLICY

Monetary and fiscal policy in the EU suffers from an inherent flaw, i.e. a monetary union on the one hand and decentralized macroeconomic policies on the other. All measures that could promote economic growth, like tax, labor market, and social systems, are taken at the national level. The EU budget, in contrast, is too small to have a macroeconomic impact. The question would then be whether a monetary union does not necessitate another form of union at the policy level.

The Stability Pact, on participant argued, may be good for certain countries that need this outside pressure to curb spending. At its present design, however, it has a pro-cyclical effect, i.e. does not allow for increased public spending in economic dire straits when such stimulus is really needed. Moreover, the debt level taken into account by the Pact (60 percent of a country's Gross Domestic Product (GDP)) does not inform about the "hidden debt" that all European countries are running. The obligations for pensions and social security that will eventually have to be paid run into trillions of Euros. The open question, still unanswered for some decades, is how to create incentives for counter-cyclical savings in boom times. After all, the problem facing countries in the Euro zone today is one of (sluggish) growth and not of stability.

#### MACROECONOMIC CONSEQUENCES FOR EUROPE AND FOR POLAND

Poland's GDP is low in comparison to the EU average, but the country yields growth rates that most present members can only dream of. This is one of the reasons why Poland, like the other accession countries, will provide a new dynamic to the European economy. Mostly young and creative entrepreneurs will characterize the economic side of Enlargement – this may then be the point where it is appropriate to speak of "New Europe."

In order to protect their own labor markets, some of the present member states have imposed restrictions on the movement of work force. These restrictions, which can last up to seven years, pose a significant barrier to the economic development of Poland and of Europe as a whole, one speaker claimed. However, another contradicted, they could also positively limit

the effects of a potential “brain drain” as the *Länder* of Eastern Germany have experienced it since 1990. Unemployment in Poland itself is presently 20 percent, up from around 10 percent in 1995. However, most of the unemployed can somehow sustain themselves through subsistence economy, and do not entirely rely on social welfare.

EU membership is expected to boost Polish GDP by 0,3% per year. Another expected medium-term consequence for Poland is a rise in market confidence, thus bringing more foreign direct investment (FDI) to the country. The overall level of investment contributing to the GDP should rise, as there will be more money (private savings, FDI as well as Community funds) to be invested. After all, modern technologies will gain more importance as Poland tries to compete with the more developed members of the internal market.

Potential risks lie within the mechanisms of the EU structural funds themselves, i.e. the fact that the receiving region has to co-finance with 20 percent the amount allocated. This will probably lead to higher budget deficits on the regional and national level. In some cases, EU financial resources might not even be spent due to a lack of co-financing capabilities from Polish institutions. Here, municipal elites would need to be trained in how to devise projects and apply for EU funds.

Poland and the other accession countries generally wish to enter the Euro zone as quickly as possible. In fact, these countries do not have an “opt in” option like Denmark or the UK, which means they will have to enter the European Monetary Union (EMU) as soon as their economies are able to do so. Before this will happen, public debts in most of these countries will have to be brought down. In addition, it will be difficult to determine the “right” exchange rate for the entry into the Euro zone.

The benefits of a Euro adoption are expected to greatly outweigh the cost of getting there. Moreover, to lessen efforts to fulfil the monetary criteria and to postpone the Euro adoption would mean to lose the incentives for reforms that are necessary anyway. Trying to fulfil these criteria as soon as possible also makes the (monetary and fiscal) future “more certain” and strengthens the investors’ confidence.

A general challenge will be that most negative consequences from enlargement will be visible instantly, whereas most positive outcomes will appear only in the long term. This is relevant in particular for any potential referendum on the Constitutional Treaty likely to take place some months after the actual accession. If the economy will have worsened visibly until then,

the popular vote might easily be a No – another potentially devastating result, from an integrationist point of view.

## **2. THE GLOBAL DIMENSION**

### **2.1. THE TRANSATLANTIC RELATIONSHIP**

Whether Enlargement will strengthen or weaken the EU and, thus, alter its position within the transatlantic community is difficult to say. However, what is certain is that there will be changes in EU-US relations. Until today, the EU has succeeded in matching the United States economically, especially in trade and competition policy. The saying “to be an economic giant, but a political dwarf” once referred to West Germany during the Cold War has also been applied to the EU as a whole. The accession of ten countries, most of them with higher than average GDP growth rates and with reform-experienced societies, will stimulate economic activity all over Europe. The EU could, thus, become an even more attractive trading partner for the United States.

#### THE EU AND THE UNITED STATES IN THE WORLD

At the same time, a reorientation in foreign policy seems very probable. Russia and (non-EU) Eastern Europe will become more prominent on the EU agenda. Poland in particular is an advocate of a new *Ostpolitik* of the European Union. It is in the Polish interest that the EU has good relations with the country’s immediate and close neighbors Ukraine, Russia, and even with Belarus. Some believe that these countries might eventually join the Union once Bulgaria, Romania, Turkey, and perhaps even the Balkans will have done so. The strategic culture of the accession countries, together with their traditional pro-US policy could therefore help to repair the strained transatlantic relationship.

An increasingly important question will be how the United States reacts to the evolving trilateral co-operation between the United Kingdom, France, and Germany? Some argued that this might in fact benefit transatlantic co-operation, drawing together elements from both the “Atlanticist” strand of British foreign policy and the “Europeanist” (in the sense of “Gaullist”) “counterweight attitude that French policy sometimes prefers. Germany would find itself in the balancing position that it had taken for some decades during the East-West conflict.

## THE SPECIAL ROLE OF POLAND

In addition to its contribution to a new *Ostpolitik* of the European Union, Poland will bring its expertise in dealing with the Union's "new neighbors" on the Eastern border, one speaker said. This expertise is built on intense historical ties, comparable to the relations of the United Kingdom with the United States, or of Portugal and Spain with Latin America. Furthermore, it would contribute to a European military force in co-operation with NATO, and work for a more effective Common Foreign and Security Policy (CFSP) of the Union. One specific mode of co-operation, comparable to the Benelux group, should come from the four Visegrad states, the same speaker proposed.

Adding on this image, one participant suggested that Poland would bring both a global and a "muscular" perspective into the EU: Global in terms of the "Eastern dimension" including its relations with Russia and its special ties to the United States. Muscular since the Polish engagement in Iraq, in turn, proved the country's robust approach to the use of force.

It was not only after the Iraq crisis and the coining of the phrase "New Europe" that Poland came to be seen as a country with a special relationship to the United States. It has traditionally, and like other countries gaining freedom from communist rule in 1989, been pro-American and "Atlanticist." However, a distinction into an "old" and "new" Europe seems out of place, not only because Poland and the other accession countries have a centuries-old European tradition. Moreover, Poland – with the accession of seven new members to the Atlantic Alliance in 1999 – became an "old member" of NATO, thus making any distinction between old and new truly irrelevant.

Even with its engagement in Iraq, where Poland displayed great military and diplomatic skills, the country was working for Europe as a whole: "We, the Polish, are in Iraq to make sure that you, the Americans, stay in Europe", one speaker quoted a remark made by one of his Polish interlocutors.

## 2.2. GLOBAL COMPETITION

Competitiveness has been something of a European catchword as of late. With the *Lisbon Strategy*, Europe is supposed to become the "most dynamic, knowledge-based economy in the world by 2010." It is, by now, widely acknowledged that the EU is lagging behind this goal, not least because the goals were set at the height of the economic boom of 2000 and are much

more difficult to attain in today's staggering economy. Nevertheless, EU and national politicians at least claim to follow the *Lisbon Strategy*. Corporations, in this respect, welcome the accession of ten new members as bringing new market opportunities – but are equally realistic about the challenges they face.

Social sustainability, then, is a code word for retaining, or maintaining, the social benefits that European citizens count on, while concurrently expanding the Union and increasing growth. One participant compared this to the idea of “having the cake and eating it too.” To have chosen the United States as their benchmark is, thus, somewhat unfortunate because the conditions are very different: To stay in the picture, the rule there is that there is a cake, but not everyone eats from it. Social and welfare benefits are less extensive (and, therefore, less expensive) in the United States. The American population is generally younger, and an influx of immigrants has historically contributed to productivity. The EU, in contrast, is ageing and struggles with significant integration problems.

#### COMPETITION AND SOCIAL SUSTAINABILITY IN AN ENLARGED EUROPE

To reconcile the two claims of competitiveness and social sustainability, economic growth is pivotal. However, the EU, as one participant stated, is presently in a “survival mode” and not in a “growth mode.” Growth rates for past three years averaged only 1.25 percent, compared with 2.7 percent for the second half of the nineties. The accession countries, though, had growth rates of an average 4 percent. The growth rate in productivity per person ranged from 0.5 to 1 percent, compared to a 2 percent growth in the United States. This gap is in part due to the low investment in information and communication technologies (ICT) in Europe – the level being so low because the benefit of ICT is to lay off workers, as one participant assumed. And, talking about the *sustainability* of economic growth, current investment in research and development (R&D) is only 1.9 of GDP, still far away from the 3 percent goal set in the *Lisbon Strategy*. Overall, the EU has a low “researchers per worker” ratio, also due to the fact that financing the European social systems literally takes money away from innovation investment.

Some potential answers to these challenges arose in the discussion. The main point was that, according to the *Lisbon strategy*, the EU was not on such a bad track. It would “only” have to stick to its word. The need to foster investment in future technologies such as ICT and, generally, in R&D is already something of a home truth. Transposition of EU decisions into

member states' laws is slow and thus creates a lack of consistency, legal uncertainty, and subsequent delays in investment decisions by companies. The Growth & Stability Pact of the Union may be debateable in terms of its economic wisdom. However, if it is in force, then member states should not go unpunished if they violate it.

In particular, the EU should fight Youth unemployment by investing in education in general. And, finally, such policy consistency should also be carried to the "outside world," i.e. of the voters: The first message is that there should be a message. Competitiveness has to be credible with voters, and it should be something people desire. Then they could hold politicians accountable, not only for their individual benefits like pensions, social security etc. but for the economy as a whole.

Yet, also with this seemingly "apolitical" question of economic growth, one cardinal issue came up again: The fundamental question of what the European Union wants to be, an economic junior partner, a mercantilist bloc, or a competitive global player? The "New European Deal" that one participant called for would need to be embedded into an overall goal formulation of where the Union is heading.

## **CONCLUSION**

The next (fifth) enlargement of the European Union is probably the greatest project (both in sheer size and in its consequences) that the continent has embarked upon in the last centuries. The 2004 enlargement finally *re-unites* Europe to a very large extent. However, this circumstance only underscores the need of both a common European vision of where the continent wants to go and clear objectives in the various policy fields that derive from this vision.

On May 1, the Union embarked on an unprecedented journey. The "EU-25" will be a huge learning process for all participants on both sides of the Atlantic, and the group will follow this process closely. In the end, it will be the way that this enlarged Union evolves that will decide not only about any further enlargements, but also about the future of Europe as a whole.