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NOTE

Policy Department
Structural and Cohesion Policies

THE RELATIONSHIP BETWEEN EUROPEAN MICRO-STATES AND THE EUROPEAN UNION

REGIONAL DEVELOPMENT

2008

EN

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Directorate General Internal Policies of the Union

Policy Department B: Structural and Cohesion Policies

REGIONAL DEVELOPMENT

THE RELATIONSHIP BETWEEN EUROPEAN MICRO-STATES AND THE EUROPEAN UNION

NOTE

Content:

This note examines the relationship between Andorra, Liechtenstein, Monaco, San Marino, the Vatican City and the European Union. It looks into the main features of each of the above-mentioned micro-states and evaluates the level of territorial cooperation with EU Member States where it exists.

IP/B/REGI/NT/2008_02 **31/03/2008**

PE 397247 **EN**

This note was requested by the European Parliament's Committee on Regional Development.

This paper is published in the following language:
- Original: EN

Author: Ms Ivana Katsarova
Policy Department Structural and Cohesion Policies
European Parliament
B-1047 Brussels
E-mail: ipoldepb@europarl.europa.eu

Manuscript completed in March 2008

This note is available on the Internet at:
http://www.europarl.europa.eu/activities/expert/eStudies.do?language=EN

Brussels, European Parliament, 2008.

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Introduction

Within Europe, there are a number of small, independent, internationally recognised states. Known collectively (because of their small territory and population) as the micro-states, they exist for various historical reasons but have a number of characteristics in common. While a "micro-state" is sometimes confused with a "micro-nation", the former are recognized as sovereign states whereas the latter are not. Special territories (dependencies) such as the Channel Islands without full sovereignty do not fall in this category (see Annex, A1).

The European micro-states are Andorra, Liechtenstein, Monaco, San Marino, and the Vatican City. All of them have close economic ties with particular Member States of the European Union (EU) [1] but none of them is part of the EU. With the notable exception of the Vatican City, the economies of the micro-states tend to rely on tourism and financial services.

The inherent disadvantages of micro-states are due to their restricted human and natural resources, their small territory and the resulting lack of international political weight. The limited possibilities of internal trade make micro-states' economies highly dependent on export and the inflow of foreign capital. Consequently, they are more exposed to external influences than those of larger countries. To offset these weaknesses, most micro-states rely on special economic measures - usually consisting of lowering taxes and encouraging financial investment.

Each of the micro-states has diplomatic relations with the European Community (EC), and most have gradually stepped up their contacts and collaboration with the EU. Although each has developed quite separate relations with the EU, these relationships have developed along similar lines. For example, all micro-states (with the exception of Andorra) have entered into monetary agreements with the EC. In most cases, formal relations with the EC began with the signing of customs and cooperation agreements, and more recently most of them have entered into agreements with the EC on the taxation of savings income of EU residents.

Synoptic table of main agreements between EU and micro-states

State	EEA	Schengen	Euro	Customs Union	VAT area
Andorra	No	Retains controls	Yes, no official agreement	Since 1991	No
Liechtenstein	Yes	Signatory	Uses CHF	None	No
Monaco	No	With France	Yes	Yes, through France	With France
San Marino	No	Open border	Yes	Since 2002	No
Vatican City	No	Open border	Yes	None	No

Source: Author's data processing

[1] Legally, each of the micro-states' formal relationships are with the European Community.

Cooperation between the EC and micro-states has started up on economic and financial grounds and has gradually spilled over other fields. Cooperation agreements have allowed for territorial cooperation to be stepped up in recent years mainly through INTERREG projects, even though generally speaking, it still remains timid. However, the potential for further development is substantial, most micro-states being situated at the heart of the EU founding Member States.

Micro-states are not entitled to the Structural Funds since they are earmarked for Member States only. However, according to Art. 21(3) of the European Regional Development Fund (ERDF) Regulation[2], in the context of cross-border, transnational and interregional cooperation, the ERDF can finance expenditure *"incurred in implementing operations or parts of operations on the territory of countries outside the EC up to a limit of 10% of the amount of its contribution to the operational programme concerned, where they are for the benefit of the regions of the Community"*.

This provision has contributed substantially to the development of joint projects of mutual interest. Where the non-member states have a relatively high standard of living (which is the case of micro-states), it is not to be expected that use of the 10% provision will be agreed on a large scale, but that negotiations would take place over specific contributions by the third country.

More substantial cooperation can be organised on the basis of specific agreements between the EU and third countries for the joint funding of cross-border projects, such as is already the case between France and Switzerland, and between Sweden and Norway. These possibilities are not yet activated between micro-states and the EU, but are evidently desirable initiatives.

In addition, micro-states can take part in existing regional cooperation networks, such as ESPON, for example.

In most cases, the micro-states are seeking to deepen their relations with the EU. This deepening of relations will, for the foreseeable future, take place in the context of the various existing bilateral agreements between each of the micro-states and the EC. Too small to support membership of the EU, the micro-states and the Union are more likely to explore in the long run the possibility of a special association governing EU-micro-states relations.

[2] Regulation (EC) N° 1080/2006

I. Andorra

Source: World Fact Book

1. General Situation

The Principality of Andorra, with the capital Andorra la Vella, is situated in the eastern Pyrenees Mountains bordered by France and Spain. The country, with a surface of 468 square kilometres has a population of 71 800 inhabitants (July 2007 estimation, World Fact Book) of which only approximately one third are Andorran nationals. The official language is Catalan.

Andorra has been a member of the United Nations[3] (UN) since 1993 as well as of the Council of Europe since 1994 and the Organisation for Security and Cooperation in Europe (OSCE) since 1996. In 1997, Andorra applied for membership of the World Trade Organisation (WTO). This application is still under review.

2. Political System

Andorra is still a co-principality with the President of France and the Bishop of Urgel, Spain, as co-princes, in a duumvirate. The politics of Andorra take place in a framework of a Parliamentary representative democracy, whereby the Prime Minister of Andorra is the head of Government. Executive power is exercised by the Government. Legislative power is vested in both the Government and Parliament. The judiciary is independent of the executive and the legislature.

[3] Proportionally, micro-states have a strong influence within the UN due to the one member one vote system.

The General Council consists of 28 Councillors of whom half are elected by their parishes to represent them and the other half through a national vote.

In 1993 Andorra became a Parliamentary Co-Principality with the adoption of the first written Constitution. The Co-Princes remain as joint Heads of State but the role has become mainly ceremonial. They have retained some measure of power as their consent is still needed for national and international laws to be implemented, as well as for Andorra joining any international organisation or signing any treaties.

3. Economy

Tourism, the mainstay of Andorra's tiny, well-to-do economy, accounts for more than 80% of its Gross Domestic Product (GDP). An estimated 11,6 million tourists visit Andorra annually, attracted by its duty-free status and by its summer and winter resorts. Andorra's comparative advantage has recently eroded as the economies of neighbouring France and Spain have been opened up, providing broader availability of goods and lower tariffs. The banking sector, with its partial "tax haven" status, also contributes substantially to the economy. Agricultural production is limited - only 2% of the land is arable - and most food has to be imported. The principal livestock activity is sheep raising. Manufacturing output consists mainly of cigarettes, cigars, and furniture.

Andorra is on the Organisation for Economic Cooperation and Development (OECD) list of uncooperative tax havens along with Liechtenstein and Monaco, the main points of criticism being the absence of tax information agreements, the application of the principle of dual incrimination to admit information exchange on tax matters, the reinforcement of bank secrecy and confidentiality provisions and the lack of domestic trust law.

Andorra is preparing several steps in the direction of reducing or in some cases eliminating Andorra’s fiscal "exceptions". There are continuing external pressures for a higher degree of conformity with European and international standards. However, it is unlikely that these pressures prevent Andorra from remaining a low tax jurisdiction.

Prior to 1999 Andorra used the French franc and the Spanish peseta, which have since been both replaced by the euro. Andorra is the only micro-state to use the euro without an official agreement.

4. Relations between Andorra and the EC

Prior to Spain's accession, Andorra had no formal relations with the EC. This was mainly because, without a Constitution, Andorra had no formal legal recognition. Whilst France's decision to become a founding member the EC had little impact on Andorra, Spain's accession in 1986 had major repercussions. In particular, Spain was Andorra's main trading partner and Spanish accession had the effect of rendering trade agreement with Andorra virtually obsolete.

4.1. Customs union agreement [4]

Andorra's formal legal links to the EC began in 1990 with a customs union agreement, signed in June 1990, effective from July 1991. As Andorra was not the recognised by the international community, the agreement took the form of an exchange of letters.

The agreement establishes a customs union for mainly industrial products and includes provisions applicable to agricultural products (which are not covered by the customs union). The practical result of this is that Andorra is treated as a member of the EC for trade in manufactured goods (for which no tariffs are applied) and as a non-EU member for trade in agricultural products.

In 1997, Andorra applied to join the WTO and notified the latter of the EC - Andorra customs union agreement, which was found to be contrary to WTO rules since it purported to exclude a complete area - agriculture - from its scope. The matter, which is still under review, may be resolved by including at least a percentage of agricultural products within the scope of the agreement.

4.2. Savings tax agreement

This agreement, signed in November 2004 and effective from July 2005 (and parallel agreements with Switzerland, Liechtenstein, Monaco and San Marino) provide for the adoption of equivalent measures to those set out in the Savings Tax Directive.

Under the agreement, Andorra has undertaken to apply a withholding tax to savings income in the form of interest payments made in Andorra to EU residents. In addition, the agreement provides for the exchange of information on request in cases of tax fraud and similar behaviour. The agreement is accompanied by a Memorandum of Understanding (MoU) in which Andorra undertakes, *inter alia*, to introduce tax fraud as a crime into its legislation during the first year of application of the agreement for cases falling within the framework of the agreement.

The Savings Tax Directive is scheduled to apply from 1 July 2005, but EU - Andorra Savings Tax Agreement will apply only if and when the same measures are adopted by the United States, Switzerland, Liechtenstein, Monaco, San Marino, the dependent and associated territories of the United Kingdom (see Annex A2) and the Netherlands and, of course, by the EU Member States. The ratification procedures were completed and the agreement entered into force on 1 June 2005.

4.3. Cooperation agreement

In November 2004, Andorra and the EC signed a Cooperation Agreement. Intended to complement the customs union agreement, it covers a wide range of issues among which environment, communication, information, culture and education, and social issues, transport, energy and regional and cross-border cooperation. The agreement does not cover the free movement of persons and capital nor the freedom to provide cross-border services. The

[4] A detailed list of all agreements signed between Andorra and the EC can be found in the Annex, A2.

European Commission rejected Andorra's 2002 initiative to include the monetary sector in the agreement.

The signature of the agreement was considerably delayed due to some tensions caused by the issue of tobacco smuggling. The issue began in 1996 when Andorra was identified as one of the principal sources of cigarettes smuggled into the EU. This resulted, according to estimates, in a loss to the EU (both in terms of own resources and national duties) of approximately 4 million euros in 1997. In March 1999 the Andorran Parliament adopted a bill amending the law on customs fraud to make smuggling (both into and out of the country) an offence and to fix penalties. Moreover, Parliament adopted a law concerning the control of sensitive goods and modifications of the Andorran penal code. This action was viewed positively by the EU and paved the way for a re-opening of the negotiations. The agreement entered into force in July 2005.

Under the agreement, the EC and Andorra undertake to cooperate on the broadest possible basis in a number of areas among which regional policy.

Art.7 of the agreement specifically provides to step up regional cooperation in line with EU policies on cross-border, transnational and interregional cooperation. To that end, EU and Andorra undertake to encourage the following courses of action:

- the study of a concerted approach to the development of the regions situated on the frontier between the EC and the Principality of Andorra with a view to promoting a policy on the Pyrenees comparable to that on the Alps;
- the possibility of taking part in future programmes of the INTERREG type on the same terms as other non-member states;
- the organisation of visits and exchanges of officials and experts, with a view to exploring the scope for cooperation;
- the cooperation in matters of mountain policy, drawing on the Community policy aimed at ensuring continued and sustainable agricultural land use, economic development and the preservation of the countryside.

In general the Cooperation Agreement, while functioning correctly from a formal and procedural standpoint, is considered to have been disappointing on the Andorran side. It established quite an extensive possible agenda, but with no directly operational or binding content. As a result, the different cooperation areas have seen little activity develop.

4.4. Territorial cooperation

Even though the Cooperation Agreement has seen few operational results so far, it has worked as a catalyst to Andorra's participation in the EU territorial cooperation initiative INTERREG. Andorra's participation has been further facilitated by its integration in the *Comunidad de Trabajo de los Pirineos*[5] (CTP). This body was set up in 1983, and currently has a secretariat (situated in Jaca, Spain) and four sectoral commissions:

i. Infrastructure and Transport,

ii. Training and Technological Development,

iii. Culture, Youth and Sport,

[5] For more information: www.ctp.org/

iv. Sustainable Development.

The CTP's domains of interest largely coincide with the sectoral chapters of the Cooperation Agreement. This suggests that in the course of the EU's current financial period 2007-2013 there could be activation of various chapters of the agreement through cross-border projects focusing on infrastructure, environment, culture, health, etc. In 2005 the CTP set up a Consortium with a legal personality and competence to manage projects that could be funded by the EU and the governments of participating parties (Andorra, French regions of Aquitaine, Midi-Pyrénées and Languedoc-Roussillon, Spanish regions of Aragon, Catalonia, Basque Country and Navarra). For the time being Andorra is not a member of this consortium for various legal reasons but a solution is currently being sought to allow this.

4.4.1. INTERREG III A France-Spain 2000-2006

Generally speaking, the aim of this programme is to support integrated regional development between the French and Spanish regions and to increase cross-border economic and social cooperation via jointly implemented policies and projects.

More specifically, it sets out to support the conduct of projects that will make it possible to pursue the three main objectives set by the programme:

- Increasing local cooperation.
- Developing networked territorial cooperation.
- Establishing networks on various spatial scales.

Most of the projects approved have been small-scale, and have been run by associations or foundations. Enterprises have played a part, with training projects in particular. The cooperation involved was mainly based locally or in the vicinity, and took place on a local or regional scale.

The cooperation with Andorra in this programme has been possible on a case-by-case basis at project level. The activities of the partners from Andorra were financed with own resources.

Two projects with partners from Andorra were approved.

A) Atlas, Pyrenean cross-border

Project leader:	INSEE Midi-Pyrenees (France)
Partners:	INSEE Aquitaine (France)
	Govern d'Andorra Ministeri de Finances i Interior servei d'Estudis (Andorra)
Total cost:	€480 000
Of which, ERDF:	€240 000

In 1999, the *Commissariat à l'Aménagement des Pyrénées* (Pyrenees Planning Commission) initiated an Atlas cross-border socio-economic project on the Pyrenees involving the statistical offices of all the French, Spanish and Andorran border regions. This first phase of the project received European funding (ERDF) under the Interreg II A France-Spain programme.

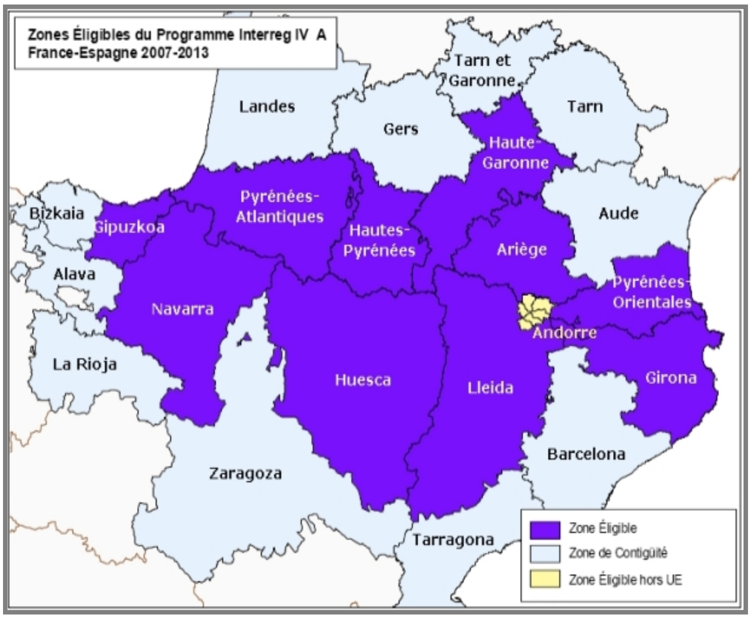
The second phase of the project should culminate in the establishment of a genuine common statistical instrument, which can be regarded as a cross-border statistical observatory with statistical indicators appropriate to the border zone and the massif.

B) ISARD

Project leader:	Institut Cartografic Catalunya (Spain)
Partners:	Bureau de Recherches Géologiques et Minières (France) Centre Scientifique et Technique du Bâtiment (France) Direccio General d'Emergencies i Seguretat Civil de la Generalitat de Catalunya (Spain) Ajuntament de Puigcerdà (Spain) Centre de Recerques en Ciènces de la Terra (Andorra)
Total cost:	€1 559 440
Of which, ERDF:	€699 051

The aim of the project is to obtain preventive and operating (cross-border zone) information on seismic risks, without any imbalance linked to the border effect, with efficient transmission to the rescue services and local crisis management services. It is also planned to create a trilingual (French, Spanish and Catalan) website containing information accessible to the populations on both sides of the border.

4.4.2. INTERREG IV A France-Spain-Andorra 2007-2013



Source: INTERREG IV A Programme

Following on from the INTERREG III A France-Spain programme 2000-2006, this programme has a total budget of 257 million euros, including 168 641 million euros of funding under EDRF, or twice the Community grant received in the preceding period, which was 84 30 million euros. Its overall objective is to strengthen economic and social integration in the cross-border zone between Spain and France.

The programme strategy is based on developing the complementary aspects of the two sides of the border by promoting a consolidation of mutual knowledge, existing links between the territories, a coming together of activities, pooling of resources and shared receptivity to the outside world. At the same time, this programme aims to serve as a means of disseminating knowledge and good practice, and to promote joint activities, the final outcome of which will be to step up cooperation and collaboration. It opens the way for projects that can capitalise on the actions taken in the preceding periods, in such a way that the results already obtained can be increased tenfold.

The programme's objectives are as follows:

- Increasing cross-border integration by making the most of complementary aspects of economic activities, innovation and human capital.
- Developing territories and the natural and cultural heritage in accordance with sustainable principles. Helping to protect and manage environmental resources.
- Helping to improve the quality of life of the populations through common strategies of territorial structuring and sustainable development.

Furthermore, the programme aims to promote closer links between the competent authorities of the participating countries and, more specifically, between their administrative procedures. As a corollary, it is to promote citizens' perception of the cross-border zone as a unique area. Another fundamental point addressed by this programme lies in overcoming the communication problems via a dual approach:

- Problems of physical communication between territories that are geographically close but isolated, owing to the lack or inadequacy of communication infrastructure.
- Communication problems associated with a lack of knowledge of French or Spanish. One of the programme's aims is to consolidate a better knowledge of the two languages, in particular by financing training projects.

The programme will be run by the Consortium of the *Comunidad de trabajo de los Pirineos*.

5. Issues under discussion

5.1. Monetary agreement

Andorra has never had its own currency. Nor has it had a monetary issuing authority or a monetary law. Prior to the adoption of the euro in France and Spain, Andorra used both French and Spanish pesetas, though these currencies did not have legal tender status. No monetary agreement was concluded between Andorra and either France of Spain on the use of their currencies in Andorra. Therefore, when both France and Spain began circulating euro banknotes and coins in January 2002, Andorra introduced the euro without the need for any intervention by the EU.

The signing of the EC - Andorra Savings Tax Agreement opened the way for negotiations by both sides on a monetary agreement for the use of the euro in Andorra. Negotiations officially started on 28 October 2004. Under the monetary agreement, Andorra is seeking to mint euro coins and use the euro as its official currency. The monetary agreement will include provisions concerning protection of the euro and money laundering. Negotiations are likely to take some time due to the fact that Andorra - unlike Monaco and San Marino - has never had a monetary agreement with an EU Member State.

5.2. Bilateral agreement on economic and fiscal cooperation

In addition to a future monetary agreement, the MoU annexed to the Savings Tax Agreement provides for the opening of bilateral negotiations between Andorra and each of the EU Member States to define the administrative procedure for the exchange of information on tax-related issues. The MoU further calls for similar parallel bilateral negotiations to broaden economic and fiscal cooperation. This, in turn, would help promote the integration of the Andorran economy into the EU economy. On the other hand, the aim of bilateral cooperation in the area of taxation would be to examine the possible removal or reduction of withholding taxes currently imposed by EU Member States on the provision of services and financial products from Andorra.

5.3. Free movement of Andorran citizens across external EU borders

As Andorra has no airport and is completely surrounded by EU Member States, Andorran citizens are forced to cross external EU borders frequently. Andorra has been concerned by its citizens encountering delays by being required to pass through the ‘rest of the world’ corridor at EU external border crossings, rather than being able to use the privileged corridor reserved for EU, EEA and Swiss citizens. In 2004 the EU agreed to meet Andorra’s concern, and now allows Andorran citizens to use EU corridors at external borders of the Member States provided the relevant provisions of the Schengen acquis are applied. However, any relaxation of border checks going beyond the above mentioned approach would have to be subject to the conclusion with Andorra of an agreement on the free movement of citizens, as is the case for the EEA countries and Switzerland.

II. Liechtenstein

Source: World Fact Book

1. General situation

Liechtenstein is the fourth largest of the five micro-states on the European mainland, situated between Austria and Switzerland. The country, with a surface of 160 square kilometres has a population of 34 250 inhabitants (July 2007 estimation, World Fact Book) of which 34% are foreigners, mainly Swiss and Austrians. The official language is German.

Of the five European micro-states, and making allowances for the unique role of the Vatican City, Liechtenstein seems the most favourably placed. Unlike the Vatican City and San Marino, it is not an enclave within another state.

Liechtenstein has been a member of the Council of Europe since 1978, the UN since 1990, the OSCE since 1975 and the WTO since 1994.

Liechtenstein's international behaviour has been in a certain sense a pioneer work for the other European micro-states, because it was the first European micro-state to enter actively into the Council of Europe and the UN. In general, its activities inspired confidence from the international community and influenced the behaviour of the international community towards micro-states in general.

2. Political system

Unlike Andorra, which has two co-sovereigns (the French President and the Spanish Bishop of Urgel) it has its own sovereign hereditary dynasty. Unlike Monaco, which is bound by treaty to have a French citizen as its Minister of State and whose future status depends in part on the survival of the House of Grimaldi, Liechtenstein's Government is elected and appointed from within the country.

Liechtenstein is a constitutional, hereditary monarchy on a democratic and parliamentary basis. The Cabinet is elected by the Parliament and confirmed by the monarch. Following legislative elections, the leader of the majority party in the Landtag is usually appointed the Head of Government by the monarch and the leader of the largest minority party in the Landtag is usually appointed the Deputy Head of Government by the monarch if there is a coalition Government.

The legislative branch consists of a unicameral Parliament or Landtag (25 seats). Members are elected by popular vote under proportional representation to serve four-year terms.

3. Economy

Liechtenstein's balanced and highly diverse economy puts it in a different league from all the other micro-states. In that respect, it is closer to its larger analogue the Grand Duchy of Luxembourg.

Despite its small territory and limited natural resources, Liechtenstein has developed into a prosperous, highly industrialized, free-enterprise economy with a vital financial service sector and living standards on a par with its large European neighbours. The Liechtenstein economy is widely diversified with a large number of small businesses. Low business taxes (the maximum tax rate is 20%) and easy incorporation rules have induced many holding or so-called letter box companies to establish nominal offices in Liechtenstein, providing 30% of state revenues.

The country has a customs union with Switzerland and uses the Swiss franc as its national currency.

Liechtenstein remains on the OECD list of un-cooperative tax havens along with Andorra and Monaco.

4. Relations between Liechtenstein and the EC[6]

EU's relations with Liechtenstein are based on the European Economic Area (EEA) Agreement, and there are very few issues that are not covered by this agreement.

One of the characteristics of the EEA agreement is the very limited access of the EEA/EFTA[7] countries (Liechtenstein, Iceland and Norway) to EU decision making, on the one hand, and their obligation to incorporate EC secondary law, on the other[8].
EEA/EFTA experts participate in expert committees[9] on an equal footing with EU experts. Due to the advisory status of these committees, no voting takes place. In addition, EEA/EFTA experts are granted *"as wide a participation as possible"* in comitology committees[10]. They are also involved in the preparatory work of these committees but do not have voting rights. Furthermore, representatives of the EEA/EFTA countries attend meetings of committees involved in the management and development of the EC programmes[11] (including framework programmes).

In the case of proposals which require the consent of the Council of the EU (with or without participation of the European Parliament), the European Commission transfers legislative proposals upon completion of the preliminary stage. At the same time, it has an obligation to submit copies of all proposals with EEA relevance to the EEA/EFTA states. At this stage, an information and consultation phase takes place, offering the EFTA countries a chance to express their views on the proposed legislation.

The above mentioned procedures facilitate access to the EU decision-making process, but at the same time pose challenges to the EEA/EFTA countries. Active participation obviously requires appropriate administrative capacity as well as trained and experienced staff.

In addition to its participation in the EEA, Liechtenstein has a customs and monetary union with Switzerland since 1924 and is strongly integrated in the Swiss economy.

4.1. The EEA Agreement

Currently 25 EU Member States (with the exception of Bulgaria and Romania) and the three EEA/EFTA countries are parts to this agreement. It aims at the realisation of the free movements of goods, persons, services and capital combined with enhanced cooperation in the so-called flanking and horizontal policies, such as research and development, statistics, education, social policy, the environment, consumer protection, tourism, small and medium-sized businesses, culture, information services, and the audio-visual sector.

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[6] A detailed list of all agreements signed between Liechtenstein and the EC can be found in the Annex, A3.
[7] The European Free Trade Association was founded in 1960 by Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the UK
[8] Bearing in mind the association status of the EEA, a clear distinction should be made between this arrangement and voluntary harmonisation, which is instrumental for European stabilisation and association agreements.
[9] Art.99 EEA
[10] Art.100 EEA
[11] Art. 81 EEA

In addition, according to Protocol 38a on the EEA financial mechanism,[12] the EFTA countries contribute to the reduction of economic and social disparities in the European Economic Area through the financing of grants to investment and development projects in the following priority sectors:

- protection of the environment, including the human environment, through, inter alia, reduction of pollution and promotion of renewable energy;
- promotion of sustainable development through improved resource use and management;
- conservation of European cultural heritage, including public transport, and urban renewal;
- human resource development through, inter alia, promotion of education and training, strengthening of administrative or public service capacities of local government or its institutions as well as the democratic processes, which support it;
- health and childcare.

Common tax policies and the common agricultural and fishing policies of the EU are not covered by the EEA Agreement. Since the EEA is not a customs union, trade policies vis-à-vis third States are excluded from the agreement.

4.2. Savings tax agreement

In December 2004, Liechtenstein signed an agreement on savings taxation. As in the case of Andorra, the central feature of the agreement is a provision concerning a withholding tax on the interest paid in Liechtenstein to EU residents. Likewise, the agreement is accompanied by a MoU concerning future cooperation between Liechtenstein and the EC, specifically in the area of financial services.

4.3. Territorial cooperation

Institutional cooperation in the Alps has a long history, first with the Working Communities and then, in the period 1997-1999, as a Joint Pilot Action Programme under Art.10 of the ERDF Regulation.

During the last programming period (2000-2006), the first transnational EU cooperation programme was launched in the Alps. The partners involved have been working mainly on the development and exchange of knowledge transfers. Stable partnerships and networks have been built, witnessing the strong commitment to achieve a sustainable development in the cooperation area.

Liechtenstein takes part in INTERREG III B and IV B Alpine Space Programmes respectively for 2000-2006 and 2007-2013. Its participation is financed by national funds.

In addition, Liechtenstein is a partner country in the ESPON 2013 programme[13].

[12] OJ 2004 L 130/14
[13] For a more detailed information visit: http://www.espon.eu/

4.3.1. INTERREG III B Alpine Space Programmes 2000-2006

Source: Alpine Space Operational Programme

Partners from 5 EU Member States (Austria, France, Germany, Italy and Slovenia) as well as from 2 non-EU Member States (Liechtenstein and Switzerland) take part in this programme which encourages innovative projects and networks based on transnational co-operation in the Alpine Area. The four main objectives of the Alpine Space Programme are:

- to establish the Alpine Space as a powerful area in the European network of development areas;
- to initialise and support sustainable development initiatives within the Alpine Space under consideration of the relationship between the alpine core region and the fringes of the Alps;
- to find efficient solutions in the domains of accessibility and transport by promoting sustainable modes of transport and communication;
- to safeguard the diversity of the natural and cultural heritage and to protect the population and infrastructure from natural hazards by the development of common tools, exchange of methods and information.

Nine projects with partners from Liechtenstein were approved. Here is a selection of the most interesting ones.

A) Network Enterprise Alps: Enhancing sustainable development, competitiveness and innovation through SME and cluster co-operation

Lead Partner:	Entwicklungsverein Natur- und Kulturerbe Vorarlberg
Partners:	Autonome Provinz Bozen - Innovation, Forschung und Entwicklung (Italy) Chambre de Commerce et d'Industrie Lyon (France) Energieagentur Obersteiermark (Austria) Fachhochschule Rosenheim (Germany) Posoški razvojni center (Slovenia) Regione Piemonte - Direzione Pianificazione e Gestione Urbanistica (Italy) Tiroler Zukunftsstiftung (Austria) CIPRA International (Liechtenstein) ITZ Innovations Transfer Zentralschweiz (Switzerland)
Total Budget:	2.380.000 €
ERDF:	1.165.000 €

The NENA project intends to establish an Alpine-wide network of and for SMEs which are committed to a sustainable development. More networking, a better market orientation, good strategies and the mobilisation of co-operation synergies within and between the different economic sectors are the main objects NENA aims to reach. On a long term, jobs will be saved and created in the participating SMEs. All three aspects of sustainable development - economic, social and ecological - will be enhanced. The exchange of know-how, the initiation of co-operations, the offer of training, the tearing down of language barriers as well as image enhancing measures for SMEs are the tasks of the future network. By involving partners from urban and rural areas, NENA will help to attenuate the increasing polarisation.

B) VIA ALPINA: promoting the natural and cultural heritage of the Alps on a network of hiking trails

Partners:	Deutscher Alpenverein (Germany) Österreichischer Alpenverein (Austria) Planinska Zveza Slovenije (Slovenia) Proplus d.o.o (Slovenia) Provincia Autonoma di Bolzano (Italy) Provincia Autonoma di Trento (Italy) Regione Autonoma Friuli-Venezia Giulia (Italy) Regione Autonoma Valle d'Aosta (Italy) Regione Liguria (Italy) Regione Lombardia (Italy) Regione Piemonte (Italy) Regione Veneto (Italy) Fürstentums Liechtenstein (Liechtenstein) Schweizer Wanderwege (Switzerland)
Total Budget:	2.488.085 €
ERDF:	948.599 €

The project aims at establishing Via Alpina as the first identified hiking route linking the eight Alpine countries: Italy, Austria, France, Switzerland, Germany, Slovenia, Liechtenstein and Monaco. The trail network links sites of high natural and cultural value throughout the Alps and emphasises the common Alpine identity. Multilingual tools are developed to insure its efficient promotion and provide the international public with an entry to each of the Alpine regions. Pilot projects are carried out to look into possible developments of sustainable tourism offers and trail management with a trans-national perspective. Via Alpina is a powerful instrument for sustainable development of the mountain regions, both as a tourism product with local economic impact and as a prestigious showcase for the Alpine environment.

C) Walser Alps: modernity and tradition in the heart of Europe. The Walser settlements area - a laboratory to experience a post-industrial sustainable Alpine society in a bottom-up process

Lead Partner:	Regione Autonoma Valle d'Aosta
Partners:	Commune de Vallorcine (France) Communità Montana Alta Valle del Lys (Italy) Provincia del Verbano - Cusio - Ossola-Settore V - Sviluppo Socio Culturale e Attività Turistiche (Austria) Provincia di Vercelli (Italy) Vorarlberger Walservereinigung (Austria) Comune di Bosco Gurin (Switzerland) Gemeinde Triesenberg (Liechtenstein) Internationale Vereinigung für Walsertum – IvfW (Switzerland) Joch - Susten - Grimselpass – Vereinigung (Switzerland) Walservereinigung Graubünden (Switzerland)
Total Budget:	1.161.973 €
ERDF:	399.853 €

The minority of Walser is dispersed over six countries in the heart of Europe. Most of them suffer under economic disadvantage, but have kept traditional rural knowledge. The Walser Alps project aims to experience - as a pilot action based on the Agenda 21 process[14] - the transfer from a pre-industrial to a sustainable competitive post-industrial society integrating youth. Landscape is the link between, on one hand, spatial development and, on the other hand, culture. Culture is a key feature for minorities to define and defend their characteristics, specificities and sustainability. Landscape is a concrete, appropriate medium to integrate youth. The method consists of confronting images to let the Walser population face the "mirror" of their own social features. Those experiences will serve for a spatial planning tool and for an exchange of best practice with other minorities.

4.3.2. INTERREG IV B Alpine Space Programmes 2007-2013

The Alpine Space Programme cooperation area brings together regions from Austria, France, Germany, Italy, Liechtenstein, Slovenia and Switzerland.

Its overall aim is to increase the competitiveness and the attractiveness of the cooperation area by supporting sustainable transnational projects fostering territorial development and cohesion. These projects involve key actors of the Alpine area and develop joint actions for shared solutions on specific issues. The programme priorities include three thematic categories:

- Competitiveness and attractiveness;
- Accessibility and connectivity;
- Environment and risk prevention.

[14] Agenda 21 is a programme run by the UN related to sustainable development. It is a comprehensive blueprint of action to be taken globally, nationally and locally by organisations of the UN, governments, and major groups in every area in which human behaviour impacts on the environment. The number 21 refers to the 21st century.

Clear contributions of the programme are expected to growth, employment and sustainable development with a strong focus on the cross cutting theme of innovation.

The first call for project proposals was closed on 21 of April 2008. 140 expressions of interest have been submitted to the Joint Technical Secretariat.

5. Issues under discussion

5.1. Steps towards joining the Schengen area

On 28 February 2008, the 27 EU Member States signed an agreement on the accession of the Principality of Liechtenstein to the Schengen area. The exact date of the accession has not yet been decided, but it will be closely linked to Switzerland's joining the area scheduled for November 2008, since the two countries share a border. Both will first have to undergo the Schengen evaluation which checks the effectiveness of security measures introduced when border controls are removed. Evaluation inspections will be carried out on external border controls, visas, data, protection, police cooperation and how well the Schengen Information System works in the two countries.

The agreement will at present go before the European Parliament, before being ratified by the Schengen area countries.

Liechtenstein's accession to the area could face at least one major problem. Germany[15] could make the Principality's accession to the border control-free area conditional on its making further efforts combating tax evasion. Improving judicial cooperation would, in the normal way of things, be required if Liechtenstein wanted to join the Schengen area. However, an exemption in the Schengen Association Agreement allows the Principality, like Switzerland, to retain banking secrecy in relation to direct taxation. Double criminality, defined by Article 51 of the Convention implementing the Schengen Agreement, means that mutual legal assistance not being granted if the facts leading to a request for rogatory letter from a requesting state are not punishable in the state addressed by a sentence of detention or a liberty restricting measure of a maximum of at least six months. Currently, tax evasion and avoidance are not subject to such sentences or measures under Liechtenstein law.

[15] German Chancellor Angela Merkel demanded definite commitments on tax fraud, with German tax authorities investigating a scandal involving hundreds of Germans who had concealed their wealth in the Principality.

III. Monaco

Source: World Fact Book

1. General Situation

The Principality of Monaco is located at the Mediterranean coast surrounded by French territory half way from Nice to the Italian border. With a surface of only 1,95 square kilometres and a population of 32 671 inhabitants (July 2007 estimation, World Fact Book), Monaco is the second smallest country in the world (after the Vatican).

Monaco has been member of the OSCE since 1973, as well as of the UN since 1993, and most recently of the Council of Europe since 2004.

2. Political System

The Principality of Monaco is a constitutional monarchy. The Prince outlines the legislative, judicial, and executive branches of the government, which consist of several administrative offices and a number of councils. Despite having relinquished some of his formerly absolute power, the Prince of Monaco remains Head of State and retains most of the country's governing power. However, the principality's judicial and legislative bodies may operate independent of his control.

Legislation is adopted by a unicameral small Parliament, the National Council (Conseil national). On the occasion of the elections in February 2003 the number of seats was expanded from 18 to 24 (16 members elected by list majority system, 8 members by proportional representation) to serve a five-year term.

3. Economy

The economic development of Monaco started with the access to the French railway system and the subsequent opening of the casino in 1856. At present tourism is one of the major economic activities in Monaco. The abolition of income tax in 1869 and the very low business taxes turned Monaco into an attractive place of residence for wealthy individuals and for foreign companies that have set up businesses and offices. The principality also is a major banking centre and has successfully sought to diversify into services and small, high-value-added, non-polluting industries (pharmaceuticals, cosmetics and medical devices).

Monaco is on the OECD list of uncooperative tax havens along with Andorra and Liechtenstein, the main point of criticism being the absence of information-sharing agreements with regulatory and fiscal authorities other than those of France.

The euro is the official currency of Monaco and since 1st January 2002 euro banknotes and coins are legal tender in Monaco, in accordance with the Monetary Agreement between the Community and Monaco (see below). The Agreement also entitles Monaco to issue a limited quantity of euro coins with its own national feature on one side of the coin.

4. Relations between Monaco and the EC[16]

Much of Monaco's relationship with the EU emanates from its special relations with France, with which it has had a customs union since 1963.

4.1. EU common customs territory

Monaco is an integral part of the Community customs territory (on the grounds of a Customs Convention signed with France in 1963) and applies directly most measures related to Value Added Tax (VAT) and excise duties, in particular those related to the free movement of goods within the Community.

The participation in the Community customs territory does not extend to the area of external trade. Preferential trade agreements concluded by the Community apply only to goods originating on the territory of the Community. Goods produced in Monaco may not claim Community origin and are generally not included in an extended application of the protocol of origin with the trade partners of the Community.

4.2. Schengen Agreement

Through its relationship with France, Monaco is also integrated into the Schengen area. However, Monaco is not a party to the Schengen Agreement. Monaco's seaport and heliport have been recognised as French entry points to the EU territory by a decision[17] of the Schengen Executive Committee. However, as the arrangement depends on the recognition by France of

[16] A detailed list of all agreements signed between Monaco and the EC can be found in the Annex, A4.
[17] Decision of the Executive Committee of 23 June 1998, SCH/Com-ex (98)19

the Monaco seaport and heliport as French entry points, Monaco could cease to be part of the Schengen area if France decided that Monaco was no longer to be regarded as a French entry point.

4.3. EC VAT provisions

EU VAT rules apply to Monaco on the basis of a prior Monaco-France agreement on VAT and excise duties. Consequently, the arrangement assimilates Monaco traders and business with French traders and business, thus preventing them from being treated as third countries.

4.4. Monetary Agreement

In December 2001, Monaco concluded a Monetary Agreement with France (acting on behalf of the Community). Prior to the introduction of the euro in the EU, Monaco had a monetary agreement with France. According to Declaration No. 6 of the Maastricht Treaty, this agreement remained valid until the introduction of the euro as the single currency in the EU. Accordingly, in December 1998, the Council adopted a decision[18] on the position to be taken regarding monetary relations with Monaco. This decision broadly provided that Monaco could use the euro as its official currency, grant legal status to euro banknotes and coins, issue euro coins subject to certain conditions. The coins minted by Monaco are deducted from the French quota allocated by the European Central Bank. Under the agreement, Monaco undertook to cooperate with the EU on measures against counterfeiting of euro banknotes and coins.

The agreement places an obligation on Monaco to adopt measures reflecting the relevant EC law and to take measures on the prevention of use of the financial system for the purpose of money laundering.

4.5. Cosmetics, pharmaceuticals and veterinary agreement

In December 2003 the Community concluded with Monaco an agreement regarding the application of Community legislation to pharmaceuticals, cosmetic products and medical devices. The agreement specifies that the relevant EC legislation applies in Monaco and that the French authorities can monitor the production in Monaco of those products against the particular standards outlined in the EU legislation. However, none of the other EU Member States is similarly obliged to recognise the production of Monegasque goods. The goods produced in Monaco are thus not assimilated to products of Community origin.

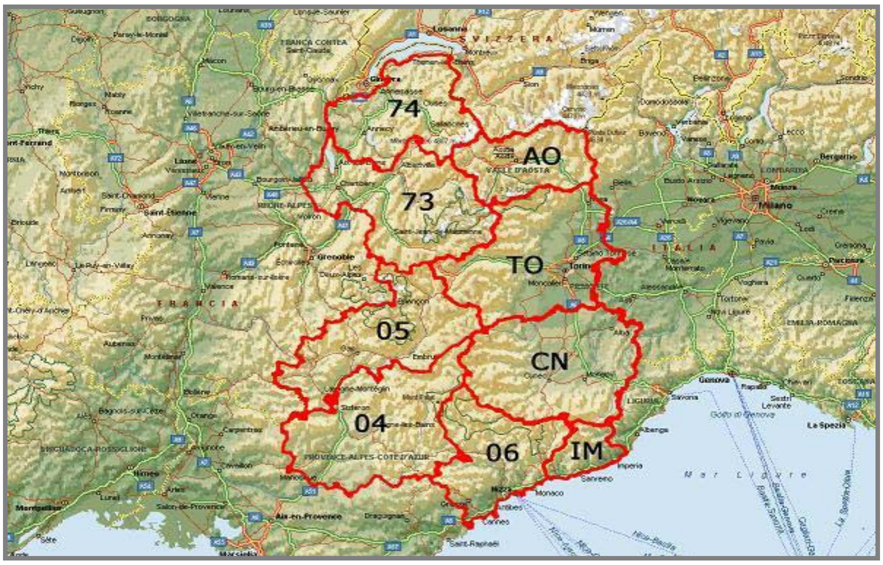
[18] Council decision of 31 December 1998 on the position to be taken by the Community regarding an agreement concerning the monetary relations with the Principality of Monaco (1999/96/EC), San Marino (1999/97/EC) and the Vatican City (1999/98/EC), OJ 1999 L 30/31-36

4.6. Savings tax agreement

In December 2004, Monaco signed an agreement on savings taxation. As in the case of Andorra, the central feature of the agreement is a provision for the imposition of a withholding tax on the interest paid in Monaco to EU residents. Likewise, the agreement is accompanied by a MoU concerning future cooperation between Monaco and the EC, specifically in the area of financial services.

4.7. Territorial cooperation

4.7.1. ALCOTRA Programme of cross-border cooperation between France and Italy 2007-2013



Source: Operational Programme ALCOTRA

NUTS 3 zones participating in the programme
For Italy: the Valle d'Aosta Region (AO), the Provinces of Turin (TO) and Cuneo (CN) (Piedmont Region), the Province of Imperia (IM) (Liguria Region); for France: the Departments of Haute Savoie (74) and Savoie (73) (Rhône-Alpes Region), the Departments of Hautes-Alpes (05), Alpes de Haute-Provence (04) and Alpes-Maritimes (06) (Provence-Alpes-Côte d'Azur Region).

The main aim of the ALCOTRA Programme of European territorial cooperation between France and Italy 2007-2013 is to carry out economic, social and environmental activities through common sustainable development strategies. It aims in particular to consolidate cross-border identity in the context of European citizenship, and has set itself the following objectives:

- to promote socio-economic integration in the cross-border zone.
- to develop common strategies to preserve and manage the biodiversity, natural resources and landscapes of the cross-border zone, and strategies for the prevention of natural and technological risks.
- to promote the zone's appeal by improving services and strengthening the identity of the cross-border communities.
- to support the development of genuine cooperation between territories and partners in the cross-border zone.

One of the aims of this new version of INTERREG would be to make full use of the ten years of past experience. Institutional learning, awareness of differences and the culture acquired through cooperation have culminated in an increase in the degree and intensity of the cooperation, facilitated by the joint management of the programme.

Monaco will take part in the programme, as a non-EU country. However, the Principality did not wish to have recourse to the ERDF funding provided for in Article 21(3) of Regulation (EC) N° 1080/2006, and will use its own funds to finance its participation.

The main areas of interest leading Monaco to participate in cross-border projects are transport, tourism, environmental protection, culture and health.

5. Additional issues characterising the EU-Monaco relationship

5.1. Access to the EU of Monaco UCITS[19] and insurance products

The MoU attached to the EC-Monaco Savings Tax agreement provides for the possibility of future negotiations between both parties on the access to the EU financial services market of certain Monegasque financial instruments, notably UCITS and insurance products. Any future agreement in this area however will have to comply with the WTO General Agreement on Trade in Services, which stipulates inter alia that trade agreements to which WTO members are party must cover a substantial part of trade.

5.2. Closer cooperation with the EU on research

Monaco is interested in developing closer ties with Europe in the area of research. Following Monaco's cooperation on the Savings Tax Directive, the EU approved Monaco's application to become a member of EUREKA[20], the pan-European research and development initiative. The EU is a full member of EUREKA and its support for Monaco's application carried considerable weight (implying at the same time that any lack of commitment regarding the Savings Tax Directive might lead to a reconsideration of that position). Monaco became the thirty-fifth member of EUREKA in March 1985. Created as an intergovernmental initiative in 1985, EUREKA aims to enhance European competitiveness through its support to businesses, research centres and universities who carry out pan-European projects to develop innovative products, processes and services.

[19] Undertakings for collective investment in transferable securities
[20] For more information visit: http://www.eureka.be/home.do

IV. San Marino

Source: World Fact Book

1. General Situation

The Republic of San Marino is located in the north-centre part of Italy, just 23 km from Rimini, the closest important Italian city in its vicinity located at the Adriatic Sea. With a surface of 61,2 square kilometres and a population of about 29 600 inhabitants (July 2007 estimation, World Fact Book), San Marino is the third smallest state in Europe (after the Vatican City and Monaco). The San Marinese account for 84% of the population. The official language is Italian.

San Marino is a member of the UN since 1992, as well as of the OSCE since 1973. It is also a member of the Council of Europe since 1988.

2. Political System

The executive branch is composed of a Secretary of State and 2 Co-Chiefs of State: 2 Captains Regent, elected by the Grand and General Council (Consiglio Grande e Generale) for a period of 6 months. They are chosen from opposing parties. This system has been in place since 1243.

The 10-member Congress of State is elected by the Great and General Council and exercises executive power.

The unicameral Grand and General Council has 60 seats. Its members are elected by popular vote to serve five-year terms.

3. Economy

The tourist sector contributes with over 50% to the GDP. In 2006, more than 2.1 million tourists visited San Marino. Key industries are banking, electronics and ceramics. Main agricultural products are wine and cheeses.

San Marino is the only European micro-state (apart from the Vatican City) which is not on the OECD's list of "uncooperative tax havens". Indeed San Marino has significant personal and corporate income taxes. Its recent reforms include strengthening the bank supervisory system and removing restrictions on the employment of non-resident workers.

4. Relations between San Marino and the EC[21]

Although official diplomatic relations between San Marino and the EC date from 1983, the relationship only formally got under way with the signing of a cooperation and customs agreement in December 1991. That agreement, however, took another decade to conclude and finally entered into force in May 2002.

4.1. Cooperation and customs union agreement

The agreement establishes a customs union between both parties for agricultural and industrial products. The provision relating to customs applied provisionally from 1991, but the agreement (both in relation to customs and cooperation) entered into force only in 2002 when all EU Member States had finally ratified it. It includes in particular the following areas:

- environment: environmental protection and improvement in order to resolve problems caused by the contamination of water, soil and air by erosion and deforestation ;
- tourism: supporting cooperation through operations such as exchanges of officials and experts on tourism, trainings in hotel management and administration;
- communications, information and culture: joint operations in these areas.

So far, as the agreement has been in force for a relatively short period, cooperation between San Marino and the EU has been rather limited.

The government of San Marino has expressed its disappointment that the areas opened for cooperation have not given greater results, which seems to correlate with Andorra's experience under its Cooperation Agreement of 2004.

4.2. Monetary agreement

San Marino signed a monetary agreement with the EC which entered into force in January 2002. Italy signed on behalf of the EC because of its close links with San Marino. Prior to this, San Marino had a monetary agreement with Italy. The agreement with the EC entitles San Marino, inter alia:

[21] A detailed list of all agreements signed between San Marino and the EC can be found in the Annex, A5.

- to use the euro as its official currency;
- to grant legal tender status to euro banknotes and coins;
- to issue euro collector coins and a limited quantity of euro coins with its own national sides.

4.3. Savings tax agreement

The EC concluded with San Marino an agreement on Savings Tax in December 2004. The agreement contains provisions similar to the Savings Tax Agreements signed by Switzerland, Liechtenstein and Monaco, namely payment of a withholding tax on the interest income on EU citizens, voluntary disclosure of information as an alternative to withholding tax, a clause providing for a regular review of the agreement and exchange of information on request in cases of fraud or comparable behaviour. The agreement is accompanied by a MoU concerning future cooperation with the EC.

5. Additional issues characterising the EU-San Marino relationship

5.1. Mutual recognition of prudential measures on financial services

The MoU attached to the Savings Tax Agreement highlights San Marino's wish to participate fully in the EU's financial services market. To this end, the MoU provides that San Marino and the EC will start on achieving mutual recognition of both parties' prudential measures and systems of financial services, including insurance. San Marino also undertakes to adopt and implement the relevant existing EC legislation in this sector.

5.2. Participation in EU research and development programmes

The MoU attached to the Savings Tax Agreement also opens the way for consultations between both sides on the possibilities for San Marino citizens and companies to take part in EC research and development programmes and activities.

5.3. Steps towards joining the EU

In August 2007, the foreign minister of San Marino, Mr Fiorenzo Stolfi, wrote to the Presidency of the Council of the EU to expressed San Marino's *"willingness to achieve increasing integration within the European Union and to further discuss the possibility of submitting its candidature for membership of the European Union"*. This initiative by San Marino, which seems to have come as a surprise to Brussels, will probably encourage Europe’s other micro-states to reflect on their own position in this regard.

V. Vatican City

Source: World Fact Book

1. General situation

The Vatican City, covering only 0,44 square kilometres in the heart of Rome, is the smallest state in the world. It has 820 inhabitants (July 2007 estimation, World Fact Book). The official language is Latin.

2. Political system

The Vatican City is the ecclesiastical, governmental and administrative capital of the Roman Catholic church, headed by the Pope who exercises supreme, legislative, executive and judicial power. The executive and legislative branches consist of a unicameral Pontifical Commission for the State of Vatican City appointed by the Pope.

The Vatican City's independence and sovereignty was recognised in agreements signed with Italy in 1929.

3. Economy

This unique, non-commercial economy is supported financially by an annual contribution (known as Peter's Pence) from Roman Catholic dioceses throughout the world; by the sale of postage stamps, coins, medals, and tourist mementos; by fees for admission to museums; and by the sale of publications. Investments and real estate income also account for a sizable portion of revenue.

4. Relations between the Vatican City and the EC[22]

The Vatican City does not belong to the Community's customs territory. The Vatican's customs rules are based on a 1930 agreement with Italy which exempts the Vatican from all Community duties and taxes. The small amount of goods originating in the Vatican and exported to Italy is exempt from duty and subject to a preferential arrangement.

The first Apostolic Nuncio was accredited to the European Communities in November 1970. This followed the Second Vatican Council in the late 1960s, which included a decision to develop relations with international institutions with the broad aim of promoting peace and progress.

The European Commission appointed the Head of Delegation to the United Nations in Rome as representative to the Holy See (the governing body of the Roman Catholic church) in 2006.

Unlike the other European micro-states, the Vatican City has not sought to broaden its relationship with the EU beyond a monetary agreement similar to those entered into by Monaco and San Marino.

4.1. Monetary agreement

Prior to the introduction of the euro, a monetary agreement already existed between Italy and the Vatican City. In view of the introduction of the euro, the EU Council of Ministers authorized Italy to negotiate a new monetary agreement with the Vatican City which was signed in 2000.

The maximum amount of coins which may be minted by the Vatican City, initially set at €670,000, was raised in 2004 to €1 million. On special occasions (anniversaries, vacancies of the papal throne, ecumenical councils), the Vatican City may mint up to an additional €300,000 per year. It may also continue to issue collectable coins of which the total amount must still be within the above ceilings, however.

5. Additional issues characterising the EU-Vatican City relationship

One of the main reasons why the Holy See has not sought to broaden its relations with the EU beyond a monetary agreement is because Italy is responsible for many matters touching on international relations with the Holy See, such as border controls, security and trade.

As regards future relations between the Holy See and the EU, the main focus will most probably be on spiritual matters and the promotion of human rights.

[22] A list of all agreements signed between the Vatican City and the EC can be found in the Annex, A6.

Conclusion

Generally, the micro-states recognise that it is not easy for them to remain outside the EU. There is the risk to become increasingly marginalised, particularly in an enlarged union of 27 Member States which looks set to expand even further. In addition, because of their location within Europe and associations with particular EU Member States, EU policy and legislation is increasingly impacting on the micro-states. That said, the impact of the last two enlargements (2004, 2007) has been quite limited for the time being, the only immediate consequence being the extension of some existing agreements to the new Member States.

Nevertheless, EU enlargements have partly influenced the stepping up of relations between the micro-states and the EU. Thus, in general, the micro-states have sought to develop and broaden their existing bilateral agreements with the EU, particularly in the context of their Cooperation agreements. For example, although the EC acquis as such does not apply to the micro-states, Andorra and San Marino have sought to deepen their relations with the EC in some areas such as environment, regional policy and tourism. The micro-states have also taken advantage of their negotiations with the EC on the Savings Tax Directive to step up discussions in other areas of interest to them, including the euro (Andorra) and financial services (Monaco).

Concerning the future, two options could be considered. One is that of full membership, which at present seems unlikely. Indeed, it would be quite difficult for micro-states because of their small size (and limited resources) to shoulder the administrative burden of full EU membership.

Membership of the EEA would be another option. It has the advantage of offering the benefits of EU internal market without taking on board the responsibilities of full EU membership. As with the first option, however, the micro-states would have great difficulty sustaining EEA membership on their own. Much of the administrative burden of Liechtenstein's membership of the organisation is currently supported by Switzerland.

From the broader perspective of European integration and its future, one may argue that the EEA serves as an example of integration circles in which different groups of countries engage in cooperation in more limited areas than others. In this sense, the EEA has a potential to serve as a model arrangement for future relations with some of the EU neighbours that, for a variety of political, geographical and legal reasons, still will not be able to benefit from EU membership in the decades to come.

However, with only three members, two of which (Norway and Iceland) are considering full EU membership, the EEA may have limited future.

The growing impact of EU policy on the micro-states and the inadequacy of the current arrangement involving sectoral agreements are pleading for the exploration of a new kind of association. However, these new ideas are unlikely to be fully explored in the near future for lack of resources and also because of other more pressing priorities for the EU in general. In the meantime, the current piecemeal relationship between the EU and Andorra, Monaco, Liechtenstein, San Marino and the Vatican City is set to continue.

Annex

A1. Synoptic table of various components of EU law applied in the EU Member States and their sovereign territories (dependencies)

Member States and Sovereign Territories	Application of EU Law	Enforceable in local courts	EURATOM	EU Citizenship	EU Election	Schengen Area	EU VAT Area	EU customs territory	Eurozone
Austria	Full	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Belgium	Full	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Bulgaria	Full	Yes	Yes	Yes	Yes	Set to implement later	Yes	Yes	No, BGN
Cyprus, except:	Full	Yes	Yes	Yes	Yes	Set to implement later	Yes	Yes	Yes
- Northern Cyprus	No	No	No	Yes	Yes	No	No	Unclear	No, TRY
- UN Buffer Zone	Unclear	?	?	Yes	Yes	?	?	?	Yes
Czech Republic	Full	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No, CZK
Denmark, except:	Full	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No, ERM II with DKK
- Faroe Islands	No	No	No	No	No	Partial	No	Partial	No, DKK
- Greenland	Minimal (OCT)	Yes	No	Yes	No	Partial	No	Partial	No, DKK
Estonia	Full	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No, ERM II with EEK
Finland, except:	Full	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

- Åland Islands	With exemptions	Yes	Yes	With exemptions	Yes	Yes	No	Yes	Yes
France (Metropolitan), except:	Full	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
- Clipperton Island	Unclear	Yes	Yes	Yes	No	No	No	?	No
- French Guyana	With exemptions	Yes	Yes	Yes	Yes	No	No	Yes	Yes
- Guadeloupe	With exemptions	Yes	Yes	Yes	Yes	No	No	Yes	Yes
- French Polynesia	Minimal (OCT)	Yes	Yes	Yes	Yes	No	No	Partial	No, XPF
- French Southern and Antarctic Lands[19]	Minimal (OCT)	Yes	Yes	Yes	No	No	No	No	Yes[20]
- Martinique	With exemptions	Yes	Yes	Yes	Yes	No	No	Yes	Yes
- Mayotte	Minimal (OCT)	Yes	Yes	Yes	Yes	No	No	Partial	Yes
- New Caledonia	Minimal (OCT)	Yes	Yes	Yes	Yes	No	No	Partial	No, XPF
- Réunion	With exemptions	Yes	Yes	Yes	Yes	No	No	Yes	Yes
- Saint Pierre and Miquelon	Minimal (OCT)	Yes	Yes	Yes	Yes	No	No	Partial	Yes
- Scattered Islands in the Indian Ocean	Unclear	?	Yes	Yes	No	No	No	?	No
- Wallis and Futuna	Minimal (OCT)	Yes	Yes	Yes	Yes	No	No	Partial	No, XPF
Germany, except:	Full	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
- Büsingen am Hochrhein	Yes	Yes	Yes	Yes	Yes	No	No	Partial	Yes

- Heligoland	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes
Greece, except:	Full	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
- Mount Athos	Yes	Yes	Yes	Yes	Yes	No	No	Yes	Yes
Hungary	Full	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No, HUF
Ireland	Full	Yes	Yes	Yes	Yes	Police and judicial cooperation only	Yes	Yes	Yes
Italy, except:	Full	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
- Campione d'Italia	Yes	Yes	Yes	Yes	Yes	No	No	Partial	No, CHF
- Livigno	Yes	Yes	Yes	Yes	Yes	Yes	No	Partial	Yes
Latvia	Full	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No, ERM II with LVL
Lithuania	Full	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No, ERM II with LTL
Luxembourg	Full	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Malta	Full	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Netherlands, except:	Full	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
- Aruba	Minimal (OCT)	No	No	Yes	Yes	No	No	Partial	No, AWG
- Netherlands Antilles	Minimal (OCT)	No	No	Yes	Yes	No	No	Partial	No, ANG
Poland	Full	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No, PLN
Portugal, except:	Full	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
- Azores	With exemptions	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

- Madeira	With exemptions	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Romania	Full	Yes	Yes	Yes	Yes	Set to implement later	Yes	Yes	No, RON
Slovakia	Full	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No, ERM II with SKK
Slovenia	Full	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Spain, except:	Full	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
- Canary Islands	With exemptions	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
- Ceuta	With exemptions	Yes	Yes	Yes	Yes	Yes	No	No	Yes
- Melilla	With exemptions	Yes	Yes	Yes	Yes	Yes	No	No	Yes
Sweden	Full	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No, SEK
United Kingdom, except:	Yes	Yes	Yes	Yes	Yes	Police and judicial cooperation only	Yes	Yes	No, GBP
- Akrotiri and Dhekelia	Minimal	Yes[21]	No	No	No	No	No	No	Unilaterally adopted
- Anguilla	Minimal (OCT)	No	No	Yes	No	No	No	Partial	No, XCD
- Bermuda	No	No	No	Yes	No	No	No	No	No, BMD
- British Antarctic Territory[19]	Minimal (OCT)	No	No	Yes	No	No	No	?	No, GBP[22]
- British Indian Ocean Territory	Minimal (OCT)	No	No	Limited	No	No	No	Partial	No, GBP, USD[23]
- British Virgin Islands	Minimal (OCT)	No	No	Yes	No	No	No	Partial	No, USD

- Cayman Islands	Minimal (OCT)	No	No	Yes	No	No	No	Partial	No, KYD
- Falkland Islands	Minimal (OCT)	No	No	Yes	No	No	No	Partial	No, FKP
- Gibraltar	With exemptions	Yes[24]	No	Yes[citation needed]	Yes	Police and judicial cooperation only	No	No	No, GIP
- Guernsey together with dependencies Alderney, Herm and Sark	Minimal	Yes[25]	No	Partial	No	No	No	Yes	No, GGP
- Jersey	Minimal	Yes[26]	No	Partial	No	No	No	Yes	No, JEP
- Isle of Man	Minimal	Yes[27]	No	Partial	No	No	Yes	Yes	No, IMP
- Montserrat	Minimal (OCT)	No	No	Yes	No	No	No	Partial	No, XCD
- Pitcairn Islands	Minimal (OCT)	Yes[28]	No	Yes	No	No	No	Partial	No, NZD
- Saint Helena together with dependencies Ascension Island and Tristan da Cunha	Minimal (OCT)	Yes[29]	No	Yes	No	No	No	Partial	No, SHP
- South Georgia and the South Sandwich Islands	Minimal (OCT)	No	No	Yes	No	No	No	Partial	No, GBP
- Turks and Caicos Islands	Minimal (OCT)	No	No	Yes	No	No	No	Partial	No, USD

Source: Author's data processing

A2. Agreements between Andorra and the European Community

Customs Union

Agreement in the form of an Exchange of Letters between the European Economic Community and the Principality of Andorra
Official Journal: L 374 of 31.12.1990, p. 14 - 32
Signature: 28/06/1990
Entry into force: 01/01/1991
Amended by:

- 2005/867/EC: Decision No 1/2005 of the EC-Andorra Joint Committee of 10 October 2005;
- 2004/699/EC: Decision No 1/2004 of the EC-Andorra Joint Committee of 29 April 2004 concerning the extension of the common communication network/common systems interface (CCN/CSI);
- 2003/747/EC: Decision No 2/2003 of the EC-Andorra Joint Committee of 8 October 2003 laying down rules to implement further the Protocol on veterinary matters supplementary to the Agreement in the form of an Exchange of Letters between the European Economic Community and the Principality of Andorra, signed in Brussels on 15 May 1997;
- 2003/692/EC: Decision No 1/2003 of the EC-Andorra Joint Committee of 3 September 2003 on the laws, regulations and administrative provisions necessary for the proper functioning of the Customs Union;
- Draft Decision of the EC-Andorra Joint Committee laying down rules to further implement the Protocol on Veterinary matters supplemental to the Agreement in the form of an Exchange of Letters between the European Economic Community and the Principality of Andorra, signed in Brussels on 15 May 1997 - Draft common position of the Community;
- Draft Decision of the EC-Andorra Joint Committee on the laws, regulations and administrative provisions necessary for the proper functioning of the Customs Union - Draft common position of the Community;
- 2002/76/EC: Decision No 1/2001 of the EC-Andorra Joint Committee of 13 December 2001 laying down rules to implement the Protocol on veterinary matters supplemental to the Agreement in the form of an Exchange of Letters between the European Economic Community and the Principality of Andorra, signed in Brussels on 15 May 1997;
- Council Regulation (EC) No 2302/2001 of 15 November 2001 on the detailed rules for applying Article 12(2) of the Agreement in the form of an Exchange of Letters between the European Economic Community and the Principality of Andorra;
- Decision No 2/1999 of the EC-Andorra Joint Committee of 22 December 1999 on the arrangements for implementing the Protocol signed in Brussels on 15 May 1997 on veterinary matters supplementary to the Agreement in the form of an Exchange of Letters between the European Economic Community and the Principality of Andorra;

- Draft Decision of the EC-Andorra Joint Committee laying down provisions to implement the Protocol on veterinary matters supplementary to the Agreement in the form of an exchange of letters between the European Economic Community and the Principality of Andorra, signed in Brussels on 15 May 1997 - Draft common position of the Community.

Cooperation Agreement

Cooperation Agreement between the European Community and the Principality of Andorra
Official Journal: L 135 of 28.05.2005, p. 14 - 18
Signature: 15/11/2004
Entry into force: 01/07/2005

Council Decision of 10 May 2005 on the conclusion of a Cooperation Agreement between the European Community and the Principality of Andorra
Official Journal: L 135 of 28.05.2005, p. 12 - 13

Agreement on Savings Taxation

Agreement between the European Community and the Principality of Andorra providing for measures equivalent to those laid down in Council Directive 2003/48/EC on taxation of savings income in the form of interest payments
Official Journal L 359 of 04.12.2004, p. 33 – 45
Signature: 15/11/2004
Entry into force: 01/07/2005

Memorandum of Understanding between the European Community and the Principality of Andorra
Official Journal: L 359 of 04.12.2004, p 46 – 53
Signature: 15/11/2004
Entry into force: 15/11/2004

A3. Agreements between Liechtenstein and the European Community

Agreement on the European Economic Area

Agreement on the European Economic Area
Official Journal L 1, 3.1.1994, p. 3; and EFTA States' official gazettes
Amended by:

- Protocol Adjusting the Agreement on the European Economic Area of 17 March 1993 (OJ L 1, 3.1.1994, p. 572; and EFTA States' official gazettes)
- EEA Council Decision No 1/95 of 10 March on the entry into force of the Agreement on the European Economic Area for the Principality of Liechtenstein (OJ L 86, 20.4.1995, p. 58; EEA Supplement No 14, 20.4.1995, p.1)
- Agreement on the participation of the Czech Republic, the Republic of Estonia, the Republic of Cyprus, the Republic of Latvia, the Republic of Lithuania, the Republic of Hungary, the Republic of Malta, the Republic of Poland, the Republic of Slovenia and the Slovak Republic in the European Economic Area of 14 October 2003 (OJ L 130, 29.4.2004, p. 11; EEA Supplement No 23, 29.4.2004, p. 1)

  Protocol 38a on the financial mechanism of this agreement establishes that EFTA States will contribute to the reduction of economic and social disparities in the European Economic Area through the financing of grants to investment and development projects in some priority sectors. The total amount of the financial contribution provided for has been of EUR 600 million. The funds were made available to the then new Member States and Cohesion countries (Czech Republic, Estonia, Greece, Spain, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Portugal, Slovenia and Slovakia).
- Agreement on the participation of Bulgaria and Romania in the European Economic Area of 25 July 2007 (OJ L [to be published]).

Agreement on Saving Taxation

Agreement between the European Community and the Principality of Liechtenstein providing for measures equivalent to those laid down in Council Directive 2003/48/EC on taxation of savings income in the form of interest payments
Official Journal L 379 of 24.12.2004, p. 84 - 95.
Signature: 07.12.2004
Entry into force: 01.07.2005

Council decision of 29 November 2004 on the signing of the Agreement between the European Community and the Principality of Liechtenstein providing for measures equivalent to those laid down in Council Directive 2003/48/EC on taxation of savings income in the form of interest payments and the approval and signing of the accompanying Memorandum of Understanding
Official Journal L379 of 24.12.2004, p. 83.

A4. Agreements between Monaco and the European Community

Monetary Agreement

Monetary Agreement between the Government of the French Republic, on behalf of the European Community, and the Government of His Serene Highness the Prince of Monaco
(2002/409/EC)
Official Journal : L 142 of 31.05.2002, p.59 - 73
Signature : in the form of exchange of letters
Entry into force : 26/12/2002

Commission Decision of 2 August 2006 updating the Annexes to the monetary agreement between the Government of the French Republic, on behalf of the European Community, and the Government of His Serene Highness the Prince of Monaco
(2006/558/EC)
Official Journal: L 219 of 10/08/2006, p. 23 - 27

Agreement on Pharmaceuticals, Cosmetic Products and Medical Devises

Agreement between the European Community and the Principality of Monaco on the application of certain Community acts on the territory of the Principality of Monaco (2003/885/EC)
Official Journal : L 332 of 19.12.2003, p.41 - 51
Signature : 04/12/2003
Entry into force : 01/05/2004

Council Decision of 17 November 2003 concerning the conclusion of the Agreement on the application of certain Community acts on the territory of the Principality of Monaco
Official Journal: L 332 of 19/12/2003, p. 41

Agreement on Saving Taxation

Agreement between the European Community and the Principality of Monaco providing for measures equivalent to those laid down in Council Directive 2003/48/EC on taxation of savings income in the form of interest payments
Official Journal : L 019 of 21.01.2005, p.53 - 67
L 110 of 30.04.2005, p.40- 41
Signature : 07/12/2004
Entry into force : 01/07/2005

Memorandum of Understanding between the European Community and the Principality of Monaco
Official Journal : L 019 of 21.01.2005, p.53 - 54
L 019 of 21.01.2005, p.68 - 69
Signature : 07/12/2004
Entry into force : 07/12/2004

A5. Agreements between San Marino and the European Community

Cooperation and Customs Union

Interim Trade and Customs Union Agreement between the European Economic Community and the Republic of San Marino
Signature: 27/11/1992
Entry into force: 01/12/1992

Agreement on Cooperation and Customs Union between the European Economic Community and the Republic of San Marino
Official Journal: L 84 of 28.3.2002, p. 43 – 52
Signature: 16/12/1991
Entry into force: 01/04/2002

Protocol to the Cooperation and Customs Union Agreement between the European Economic Community and the Republic of San Marino following the accession of the Republic of Austria, the Republic of Finland and the Kingdom of Sweden to the European Union
Signature: 30/10/1997
Entry into force: 01/04/2002

Council Decision of 28 February 2002 on the conclusion of an agreement on co-operation and customs union between the European Economic Community and the Republic of San Marino and of the Protocol thereto following the enlargement which took effect on 1 January 1995
Official Journal: L 84 of 28.3.2002, p. 41 – 42

Information relating to the entry into force of the Agreement on customs union and cooperation between the European Economic Community and the Republic of San Marino and of the Protocol to the Agreement on cooperation
Official Journal: L 84 of 28.3.2002, p 64

Protocol to the Agreement on Cooperation and Customs Union between the European Economic Community and the Republic of San Marino, regarding the participation, as contracting parties, of the Czech Republic, the Republic of Estonia, the Republic of Cyprus, the Republic of Latvia, the Republic of Lithuania, the Republic of Hungary, the Republic of Malta, the Republic of Poland, the Republic of Slovenia and the Slovak Republic, pursuant to their accession to the European Union
Official Journal: L 251 of 27/09/2005, p. 03 - 06

Monetary Agreement

Monetary Agreement between the Italian Republic, on behalf of the European Community, and the Republic of San Marino
Official Journal: C 209 of 27/7/2001, p. 1 – 4
Signature: 29/11/2000

Agreement on Saving Taxation

Agreement between the European Community and the Republic of San Marino providing for measures equivalent to those laid down in Council Directive 2003/48/EC on taxation of savings income in the form of interest payments
Official Journal: L 381 of 28.12.2004, p. 33 – 51
Signature: 07/12/2004
Entry into force: 01/06/2005

Memorandum of Understanding
Official Journal: L 381 of 28.12.2004, p. 45 - 51

A6. Agreements between the Vatican City and the European Community

Monetary Agreement

Monetary Agreement between the Italian Republic, on behalf of the European Community, and the Vatican City State and, on its behalf, the Holy See
Official Journal: C 299 of 25.10.2001, p. 1- 4.
Signature: 29.12.2000

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