

EU association agreement with Andorra and San Marino

OVERVIEW

There are a number of micro-states in western Europe that do not belong to the EU: the Holy See, the Principality of Andorra, the Principality of Liechtenstein, the Principality of Monaco and the Republic of San Marino. While they exhibit differences in terms of geography, population, language, and institutional and political structure, they have close relations with EU Member States based on shared history, and political and cultural affinities. Moreover, they are like-minded partners in foreign affairs.

Given a mutual interest in deepening cooperation, the EU and three of these states – the Principality of Andorra, the Principality of Monaco and the Republic of San Marino – have been engaged in dialogue since 2014. This culminated in December 2023 in the conclusion of negotiations on an association agreement with Andorra and San Marino.



Proposal for a Council decision on the conclusion, on behalf of the European Union, of the Agreement establishing an association between the European Union and the Principality of Andorra and the Republic of San Marino respectively

Committee responsible: Pending final decision on the referral
Rapporteur: Not yet appointed
2024/0101(NLE)



Introduction

Western Europe comprises several countries of small territorial extent that are not EU Member States: the Holy See, the Principality of Andorra, the Principality of Liechtenstein, the Principality of Monaco and the Republic of San Marino. On the basis of [Article 8](#) of the Treaty on European Union, the EU maintains relations with all of them. At the same time, differences exist regarding the extent and the institutional framework of these relations. For instance, on the one hand, Liechtenstein is a member of the [European Free Trade Association](#) (EFTA) and closely linked to the EU as part of the [European Economic Area](#) (EEA). On the other, EU relations with Andorra, Monaco and San Marino are governed by a number of bilateral agreements, covering selective areas of body of EU law (*acquis*) and policies.

Given a shared interest in deepening their cooperation, the EU and Andorra, Monaco and San Marino have been engaged in a dialogue since 2014. This dialogue culminated in December 2023 in the conclusion of negotiations on an association agreement with two of the three countries, namely Andorra and San Marino. Monaco decided on the basis of a legal and economic assessment [not to pursue](#) further negotiations.

Existing situation

Andorra, Monaco and San Marino have a number of similarities:

- they are independent states of small territorial size and population;
- they have EU Member States as their only neighbours, with which they have very close ties based on shared history and political and cultural affinities;
- they are the EU's close, like-minded partners in multilateral forums and, in the wake of Russia's invasion of Ukraine, they adopted sanctions against Russia;
- their economies rest principally on the financial services and tourism sectors (often in combination with retail services);
- they are members of the United Nations (UN), the Council of Europe, and the Organization for Security and Co-operation in Europe (OSCE).

At the same time, their official languages and their constitutional, legal and political systems differ.

Principality of Andorra

With a territory of 468 km² and a population of approximately 80 000, [Andorra](#) is located between France and Spain in the Pyrenees mountains. [Andorrans](#) (around 40 % of the population) lived for centuries under a unique *co-principality*, ruled by a French and a Spanish leader (from 1607 onwards, by the French head of state and the Spanish Bishop of Urgell). In 1993, this system was modified, with the titular heads of state retained but the government transformed into a parliamentary democracy. Since World War II, Andorra's economy has grown significantly, the main sectors being tourism, trade and finance. The official language is Catalan.

Table 1 – Andorra: Selected economic indicators

	2020	2021	2022	2023
Real gross domestic product change	-11.2	8.3	9.6	2.3
Unemployment rate (%)	2.9	2.9	2.1	1.7
Inflation rate (%)	0.1	1.7	6.2	5.8

Data source: [International Monetary Fund](#), 2023.

The EU and Andorra have entered a customs union agreement, in force since 1991. The agreement provides, among other things, that Andorran agricultural products entering the EU are free from import duties. In addition, it establishes a Joint Committee dealing with fiscal and trade issues, as well as a Customs Cooperation Committee. In 2005, the EU and Andorra concluded a cooperation agreement, complementary to the customs union agreement, which enlarges the scope of relations to various specific sectors (transport, education and the environment). That same year, the parties also reached an agreement on the taxation of savings income.

In 2011, the parties signed a monetary agreement, which allowed Andorra to introduce the euro as its official currency and to mint coins. In turn, Andorra commits to transposing the EU financial and banking *acquis* into national law.

Andorra and the EU do not engage in political dialogue. Similarly, Andorra does not participate in the Schengen area, although it coordinates its visa requirements with the Schengen area and accepts Schengen visas.

In 2010, the Andorran government produced a document announcing its desire for increased cooperation. In 2011, Andorra submitted a memorandum to the EU, detailing the areas in which it perceived obstacles to accessing the internal market.

Republic of San Marino

With 61.2 km² and a population of about 30 000, the Republic of [San Marino](#) is completely surrounded by Italy, with which it has historically developed close political, social and economic links. San Marino is a parliamentary democracy. It has a stable economy, mainly relying on tourism, industry and the financial sector. The official language is Italian.

Table 2 – San Marino: Selected economic indicators

	2020	2021	2022	2023
Real gross domestic product change	-6.8	14.2	5.0	2.2
Unemployment rate (%)	7.3	5.2	4.3	4.0
Inflation rate (%)	-0.1	2.1	5.3	5.9

Data source: [International Monetary Fund](#), 2023.

The EU and San Marino concluded a cooperation and customs union agreement (in force since April 2002). It establishes a customs union with San Marino covering all types of products, and provides for cooperation primarily in the fields of tourism, small and medium-sized enterprises and the environment, as well as for joint operations in communications, information and culture. Moreover, San Marino has signed a monetary convention with Italy (on behalf of the EU), covering the use of the euro as official currency and the minting of euro coins. In 2005, San Marino reached an agreement with the EU on the taxation of savings income.

Although San Marino is not part of the Schengen area, it has concluded several bilateral [agreements](#) with Italy, including one on the free movement of people, allowing San Marino nationals to work and reside in Italy. As a result, a pragmatic approach has been agreed between the EU and San Marino concerning the facilitation of San Marino nationals (Sammarinese) passing the EU's external borders.

Similar to Andorra, San Marino has shown a strong interest in, and commitment to, enhancing its integration with the EU. In 2011, San Marino submitted a memorandum to the EU, detailing the areas in which it perceived obstacles to accessing the internal market.¹

Principality of Monaco

With a territory of 2.02 km², surrounded by France, Monaco has a population of 39 000. The country is a constitutional monarchy, headed by a Prince. Its economy mainly relies on tourism and financial services, as well as on a number of small industries in areas such as cosmetics and pharmaceuticals. The official language is French.

Table 3 – Monaco: Selected economic indicators

	2020	2021	2022	2023
Real gross domestic product change	-13.0	21.9	11.1	n/a
Unemployment rate (%)	n/a	n/a	n/a	n/a
Inflation rate (%)	2.8	1.4	2.9	n/a

Data source: [World Bank](#), accessed in September 2024.

The EU has concluded an agreement on the application of certain acts on the territory of Monaco, in the areas of medicines for human and veterinary use, cosmetic products and medical devices. Similar to San Marino, Monaco has signed a monetary convention with France (on behalf of the EU), covering the use of the euro as official currency and the minting of euro coins. Furthermore, Monaco reached an agreement with the EU on the taxation of savings income. In addition to the above agreements, Monaco has concluded various economic agreements with France (e.g. in the areas of customs and insurance supervision), which oblige Monaco to apply the same rules as EU Member States. Lastly, although Monaco is not a party to the Schengen Agreement and not associated to the Schengen *acquis*, it participates in the Schengen area, through legal arrangements made with France prior to the Schengen *acquis* and a 1998 Decision of the Executive Committee created under the Convention Implementing the Schengen Agreement.

Preparation of the agreement

In 2010, the European Commission, acting on the basis of Declaration No 3 on Article 8 of the Treaty on European Union,² entered into dialogue with Andorra, Monaco and San Marino. The aim of the dialogue was to open negotiations on balanced agreements with those three countries that would allow them to participate as fully as possible in the EU's internal market, while taking account of their unique geographical, demographic and economic features and ensuring respect for their vital interests. Both Andorra and San Marino have expressed strong interest in deepening their relations with the EU.³

In December 2010, the Council of the European Union [requested](#) an assessment of the EU's relations with the Principality of Andorra, the Principality of Monaco and the Republic of San Marino. The Council noted that their current relations with the EU are 'extended but fragmented, with large parts of the *acquis* related to the internal market not introduced in their legislation and therefore not applicable'. It asked for an analysis to be made by mid-2011 on the possibilities and arrangements of their possible progressive integration to the EU internal market. The Hungarian Presidency adopted the [requested report](#) on 14 June 2011.

In the light of the assessment made and the interest expressed by the three countries in strengthening their relations with the EU, the Council invited the European External Action Service (EEAS) and the Commission to continue their analysis and reflections on the future development of EU relations with them. The Council further noted that 'this should include exploring further a possible new institutional framework for relations, taking into account the importance of a coherent approach for all three countries, while respecting the particularities of each country in accordance with the Union's declaration on Article 8 of the TEU'. Moreover, it asked that in the course of the analysis, due attention be given 'to the institutional, political and economic impact of a possible new framework, in particular in view of the need to ensure the integrity of the Internal Market'. The

Council tasked the EEAS and the Commission to present, before mid-2012, recommendations regarding possible further steps that might lead to a progressive integration of these countries into the internal market.

On 20 November 2012, the Commission adopted a [communication](#) on EU relations with the Principality of Andorra, the Principality of Monaco and the Republic of San Marino – options for closer integration with the EU. The communication summarised the similarities and differences between the three states, explained the problems they face in terms of the EU freedoms that make them want to pursue further integration, and presented five options for closer integration. These ranged from preserving the status quo to EU membership, and included sectoral agreements, a framework association agreement, and the participation of those countries in the European Economic Area. The communication was accompanied by a [staff working paper](#), which presented the obstacles that Andorra, Monaco and San Marino faced in accessing the EU internal market.⁴ On 20 December 2012, the Transport, Telecommunications and Energy [Council](#) considered that the most viable options for the closer integration of Andorra, Monaco and San Marino would be (i) the participation of these countries in the EEA or (ii) the negotiation of one or more framework association agreement(s) with these countries.

In November 2013, the Commission adopted a [report](#) on 'Relations with the Principality of Andorra, the Principality of Monaco and the Republic of San Marino: Options for their participation in the Internal Market'. On 6 December, on the basis of this report, the [Council](#) invited the Commission and the High Representative/Vice-President of the Commission (HR/VP) to submit, by the end of April 2014, a recommendation on opening negotiations with the three countries with a view to concluding one or more association agreements.

EU negotiation objectives

No publicly available Commission negotiating directives exist. In the above-mentioned 2013 [report](#), the Commission noted that in its December 2012 conclusions, the Council had retained two options that would grant the three countries access to the EU's internal market: (i) participation of these countries in the EEA; and (ii) the negotiation of one or several framework association agreements with these countries. After assessing the two options, the Commission considered that the negotiation of (one or several) association agreement(s) was the more viable of the two options. In addition, the Commission outlined four key principles that should constitute the basis for the negotiation of the association agreement(s): according to the Commission, the agreement should make reference to the values shared by the parties and their commitment to upholding them. Moreover, the agreement should preserve EU internal market principles. Another important principle was to respect and take into account the particular situation of small-sized countries. Furthermore, the Commission noted that it was important that the EU maintain a coherent approach to its relations with partners in its neighbourhood and, as such, that any agreement(s) with Andorra and San Marino take into account relevant developments in these relations. Lastly, in 2022, Maroš Šefčovič, Vice-President of the European Commission for Interinstitutional Relations and Foresight, presented a roadmap paving the way towards an association agreement with the three countries. The roadmap contained an ambitious programme, to be realised over an 18-month period.

Parliament's position

On 13 March 2019, the European Parliament adopted a [recommendation](#) to the Council, to the Commission and to the HR/VP on the association agreement between the EU and Andorra, Monaco and San Marino. Among other things, Parliament asked to inform transparently the citizens of those three countries about the agreements. It also called for the creation in each of the three states of an institutional framework through which to implement the association agreement. It further called to adjust the adoption and implementation requirements for the *acquis* to the dimensions and resources of those three states, and to provide the negotiating parties with all necessary institutional and policy-specific support.

On 24 January, 2023, the Committee on Foreign Affairs (AFET) held an exchange of views with Commission Vice-President Šefčovič on EU relations with Switzerland; Andorra, Monaco and San Marino; and Iceland, Liechtenstein and Norway.

Furthermore, in its 2023 annual [report](#) on the implementation of the common foreign and security policy, Parliament stressed the importance of advancing negotiations on association agreements with Andorra and San Marino.

Negotiation process and outcome

In December 2014, the Council gave the Commission and the EEAS [mandates](#) to open negotiations with Andorra, Monaco and San Marino. The negotiations were [formally launched](#) on 18 March 2015 in Brussels, in the presence of the then HR/VP, Federica Mogherini. The first round of negotiations took place in Brussels in May 2015.

On 1 January 2022, responsibility for the negotiations on the EU side was transferred from the EEAS to the European Commission's Secretariat-General.

On 21 June 2022, the [Council](#), under the French Presidency, welcomed the progress made on the common part of the [agreement](#), in particular in view of establishing a coherent, efficient and effective institutional framework. In addition, the Council welcomed the general progress made in the negotiations on the alignment on the relevant *acquis* by Andorra, Monaco and San Marino. It noted with satisfaction the strengthening of the three partners' administrative capacity and cooperation with Member States, and encouraged the Commission to work in a timely manner on possible ways forward for the supervision of financial services in view of a satisfactory solution to all parties. It stated that the EU was committed to stepping up the pace in the negotiations so as to finalise the negotiations by the end of 2023. In that context, it noted that the establishment of a roadmap leading to 2023 was a necessary step.

On 14 September 2023, following a year-long consultation, the Prince's Government and the European Commission decided to suspend the negotiations for Monaco. On 7 December 2023, negotiations were [completed](#), and an association agreement was agreed with Andorra and San Marino at the level of the chief negotiators. The negotiations were conducted in consultation with the Council's EFTA Working Party.

The European Parliament has been informed about the outcome of the negotiations. The text has been sent to the Council for translation and discussion. [As soon as](#) the Council gives its green light, the EU can sign the association agreement with Andorra and San Marino and then pass it to the European Parliament for consent. The lead committee is that for Foreign Affairs (AFET). After Parliament's consent, the Council can adopt a decision on its conclusion. Once Andorra and San Marino, as well as the EU, have completed their ratification procedures, the association agreement can enter into force.

The changes the agreements would bring

The [agreement](#) consists of a framework agreement, seven framework protocols, two associated state protocols and 25 technical annexes to each associated state protocol.

The **framework agreement** (FA) outlines the essential elements for the future association between the EU and Andorra and San Marino respectively. It provides for the participation of the two states in the EU's internal market and related horizontal and flanking policies, while also replacing the current customs unions between the two states and the EU. The FA also includes a framework for possible cooperation in policy areas outside the four freedoms – such as research and development (R&D), education, social policy, the environment, consumer protection, culture and regional cooperation. Moreover, it provides that the EU law principle of non-discrimination on grounds of nationality is respected by the two countries.

The **seven framework protocols** (FPs) seek to clarify and detail the FA's provisions. The first FP contains general rules, while the others cover aspects such as: (i) financial services; (ii) implementation of competition rules applicable to undertakings; (iii) organisation of cooperation in the field of statistics; (iv) status of the parliamentary association committee; (v) arbitration procedures; and (vi) existing agreements.

Two **associated state protocols** (SPs) contain strictly bilateral matters, such as provisions concerning customs cooperation. Each of these two SPs is accompanied by **25 annexes**. These comprise (i) the EU legal acts falling within the scope of the agreement; (ii) sectoral or specific adaptations to take account of the specificities of the two states; and (iii) transitional periods for the take-over, implementation and application of certain EU legal acts by the two countries.

[As with the EEA countries](#) Iceland, Liechtenstein and Norway, the association agreement will provide for the participation of Andorra and San Marino in the internal market under equal conditions of competition and respect of the same rules. The association agreement will also establish a framework to develop and promote dialogue and cooperation in areas of common interest such as R&D, education, social policy, the environment, consumer protection, culture and regional cooperation.

Immediate access to the EU's [financial services](#) was abandoned in favour of a more progressive access over 15 years, and will depend on a successful audit of the robustness of the associated states' regulatory and supervisory frameworks. Compliance with the anti-money-laundering *acquis* will be a pre-condition, and the [European supervisory authorities](#) will play a central role in the auditing process.

The association agreement will also establish an [institutional framework](#), which will include its consistent interpretation and application in line with the case law of the European Court of Justice (ECJ). Andorran and Sammarinese courts will be allowed to submit cases for preliminary reference to the ECJ. The agreement will also include a dispute settlement mechanism with the ECJ as the ultimate arbiter for disputes on the interpretation and application of the agreement.

In addition, the association agreement provides for 'dynamic' [regulatory alignment](#). This means that the two countries will be required to adopt automatically EU updates to the regulations or directives listed in the long text and annexes of the association treaty.

The two countries' particular situation, as well as their specificities, will be [reflected](#) in several adaptations and transitional periods for the implementation and application of parts of the EU *acquis*. For example, in a declaration annexed to the agreement, Andorra promises 'not to increase the price differentials for tobacco products (including taxes) that exist... in relation to the neighbouring Member State with the lowest prices'. Moreover, Andorra commits to integrating progressively (over 30 years) tobacco products into its customs union with the EU. In the case of road transport, a protocol provides for mutual recognition of vehicle standards and truck driver qualifications. Andorra and San Marino have exemptions from a number of EU provisions on transport policy, and a 2-year grace period in which to comply with several others.

At the finalisation of the agreement, European Commission Vice-President Šefčovič [said](#) that the agreement is 'similar to the Agreement on the European Economic Area (EEA)', and that it 'even went beyond that, making the Association Agreement with Andorra and San Marino the most comprehensive agreement the EU will have with any third country'.

Stakeholder views

In August 2023, *Politico* [reported](#) that the chairs of the European supervisory authorities (the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority) called for a 'cautious approach,' warning the three countries have 'historically maintained less rigorous financial regulations' and 'may be prone to money laundering and other illicit activities'.

SOURCES

European Parliament, [EU/Andorra and San Marino Association Agreement](#), Legislative Observatory (OEIL).

ENDNOTES

- ¹ Citizens and companies of Andorra and San Marino have limited access to the EU's internal market, with the most problematic areas being the free movement of people and services, and the freedom of establishment. Goods originating in the small-sized countries also encounter obstacles regarding the free movement of goods in so far as EU standards and regulations may prevent these goods from being sold on the EU market.
- ² 'The Union will take into account the particular situation of small-sized countries which maintain specific relations of proximity with it.'
- ³ In 2010, the Andorran government produced a document announcing its desire for increased cooperation. In 2011, Andorra and San Marino submitted separate memorandums to the EU, detailing the areas in which they perceived obstacles to accessing the internal market. In June 2012, Andorra adopted a revised law to open up further its economy to investment.
- ⁴ For example, they need a residence permit for stays in the EU Member States of over 3 months. Furthermore, the complexity of procedures to obtain a residence permit is an obstacle to obtaining employment in EU Member States.

DISCLAIMER AND COPYRIGHT

This document is prepared for, and addressed to, the Members and staff of the European Parliament as background material to assist them in their parliamentary work. The content of the document is the sole responsibility of its author(s) and any opinions expressed herein should not be taken to represent an official position of the Parliament.

Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy.

© European Union, 2024.

eprs@ep.europa.eu (contact)

www.eprs.ep.parl.union.eu (intranet)

www.europarl.europa.eu/thinktank (internet)

<http://epthinktank.eu> (blog)

First edition. The 'International Agreements in Progress' briefings are updated at key stages throughout the process, from initial discussions through to ratification.