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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

**Report on the functioning of the Monetary Agreements with Monaco, San Marino and
Vatican**

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1. INTRODUCTION

The Monetary Agreements were concluded between the European Community and Monaco, San Marino and Vatican in order to give legal continuity to the arrangements which existed between these countries on the one hand and France and Italy on the other before the introduction of the euro. The renegotiation of the existing Agreements in view of the introduction of the euro was envisaged by a declaration annexed to the Treaty of Maastricht¹.

Ten years after the euro replaced the legacy currencies of Italy and France used by Monaco, San Marino and Vatican, the Council invited the Commission to review the functioning of the Monetary Agreements². This Communication examines in detail the content of the Agreements, describes the strengths and weaknesses in their implementation and suggests amendments to the content of the three Agreements.

2. DESCRIPTION OF THE CONTENT OF THE AGREEMENTS

2.1. Common features of the Agreements

Since the national currencies of the euro-area Member States were replaced by the euro on 1 January 1999 and the competencies of the participating Member States in monetary and exchange rate matters were transferred to the Community, the Council decided that the existing arrangements which the euro-area Member States had with the third countries on monetary matters should be amended³. The new Agreement between the Community and the Principality of Monaco was negotiated by France (in association with the Commission and the European Central Bank (ECB))⁴, while the Agreements with the Republic of San Marino and the Vatican City were negotiated by Italy (in association with the Commission and the ECB)⁵.

¹ Declaration N° 6 concerning the monetary relations with San Marino, Vatican and Monaco.

² Council Conclusions on 'Common guidelines for the national sides and the issuance of euro coins intended for circulation', 2922nd ECOFIN Council meeting of 10 February 2009.

³ French francs had had the status of legal tender in Monaco since 1925. The Principality was using French franc banknotes and coins and was entitled to issue its own franc coins up to a certain ceiling (they were legal tender only within the territory of Monaco). The monetary links between Italy and San Marino were governed by the Friendship and Good-Neighbourhood Convention signed in 1939, and the Monetary Convention governing the monetary relations between Italy and the Vatican City State was signed in 1929. Both Conventions were renewable every ten years and entitled San Marino and Vatican to issue lira coins which had status of legal tender in Italy.

⁴ Monetary Agreement between the Government of the French Republic, on behalf of the Community, and the Government of His Serene Highness the Prince of Monaco (OJ L 142 of 31 May 2002).

⁵ Monetary Agreement between the Italian Republic, on behalf of the European Community, and the Republic of San Marino (OJ C 209 of 27.7.2001). Monetary Agreement between the Italian Republic, on behalf of the Community, and the Vatican City State and, on its behalf, the Holy See, (OJ C 299 of 25.10.2001).

The Monetary Agreements entitled Monaco, San Marino and Vatican to use the euro as their official currency and grant legal tender status to euro banknotes and coins.

As from 1 January 2002, the Principality of Monaco is entitled to issue euro coins with an annual volume of 1/500th of the quantity of coins minted in France. The Republic of San Marino is entitled to issue euro coins of a maximum annual face value of €1 994 000. The maximum annual face value of euro coins which can be issued by the Vatican was initially fixed at €670 000. Additionally, the Vatican City was given the right to issue extra coins in the years when the Holy See is vacant, in each Holy Jubilee Year and in the year of the opening of an Ecumenical Council, totalling on each occasion €201 000. The ceilings were amended by a Council decision of 7 October 2003 to €1 000 000 for an 'ordinary' maximum yearly issuance and an additional €300 000 in special circumstances. The ceilings of San Marino and Vatican are revised every two years to reflect the changes in Italy's consumer price index.

The annual volumes of Monaco's (San Marino's and Vatican's) euro coins are added to the volumes of coins issued by France (Italy) for the purpose of the ECB's approval of the issuance volume.

Euro circulation coins of Monaco, San Marino and Vatican shall be identical to euro circulation coins issued by the Member States of the euro area with respect to the face value, legal tender status, technical and design characteristics on the common sides and the common design characteristics on the national sides. The competent Community authorities shall be notified in advance of the design characteristics of the national sides. Monaco, San Marino and Vatican are also entitled to issue euro collector coins under the same rules as the Member States of the euro area, their value being counted within the limits of the countries' maximum yearly issuance. The Republic of San Marino may furthermore issue gold coins denominated in scudi⁶. Monaco, San Marino and Vatican are not entitled to issue euro banknotes and their collector coins are not legal tender outside their own territories.

All three countries undertook to take internal legal measures in order to apply to their respective territories the Community provisions concerning euro banknotes and coins and to cooperate closely with the European Community to combat counterfeiting of euro banknotes and coins.

2.2. Specific features of the Agreement with Monaco

In addition to the provisions described above, contained in all three Monetary Agreements, the Agreement with Monaco features some additional requirements.

The Agreement includes the explicit obligation of Monaco to implement Community legislation aimed at combating counterfeiting of euro banknotes and coins.

Credit institutions and other financial institutions carrying out activities in the Principality of Monaco may participate in the interbank settlement and payment and securities settlement system on the same terms as the relevant institutions established in France if they fulfil the conditions laid down for access to those systems. Monaco's credit institutions are subject to the same measures adopted by the Banque de France in implementation of the ECB provisions on monetary policy instruments and procedures.

⁶ A monetary unit used on the Apennine peninsula until the 19th century.

The Principality is responsible for making applicable legal provisions aimed at ensuring the protection and stability of the euro and the EC financial system in its territory. According to Article 11 of the Monetary Agreement, Community acts in the following domains shall apply in the territory of the Principality of Monaco: collection of statistical information by the ECB, minimum reserves held by credit institutions, penalties imposed on undertakings for failure to comply with ECB regulations and decisions, issuance of banknotes, market operations, instruments of monetary control, clearing and settlement systems. The Principality of Monaco shall also apply the measures adopted by France to implement Community acts concerning the prudential supervision of credit institutions and the prevention of systemic risks to payment and securities settlement systems. Furthermore, Monaco has to take measures equivalent in effect to the Community directives on money laundering and to legal acts governing investment services.

The Monetary Agreement with Monaco provides for a Joint Committee whose task is to facilitate the implementation and operation of the Agreement.

3. ASSESSMENT OF THE FUNCTIONING OF THE AGREEMENTS AND SUGGESTIONS FOR POSSIBLE DEVELOPMENTS OF THE CONTENT OF THE AGREEMENTS

3.1. Transposition of relevant EC legislation

The scope of the Community legislation to be transposed in the three States having signed a Monetary Agreement with the Community differs significantly from one agreement to another.

All three States undertook to take internal legal measures in order to apply to their respective territories the Community *provisions concerning euro banknotes and coins*. The provisions regarding the design and technical specifications of euro coins are generally well applied. Since the euro coins of Monaco, San Marino and Vatican are designed in cooperation with and produced by the certified euro area Mints (i.e. the national Mints of France and Italy), the application of the latest Community provisions is overall ensured. As far as the euro banknotes are concerned, no competent authority or follow-up procedure has been installed to verify that the applicable provisions (e.g. rules on exchange and withdrawal of euro banknotes) are implemented.

The signatories to the Monetary Agreements also committed themselves to cooperate closely with the Community in the domain of *combating counterfeiting of euro banknotes and coins*. The Agreement with Monaco goes further than the other two Agreements by specifying that the Principality should adopt the appropriate steps laid down in the Community legislation⁷ to prevent counterfeiting. The implementation of the Agreement with Monaco in the area of counterfeiting is regularly assessed and the list of legislative instruments to be adopted is updated during the Joint Committee meetings (see Section 3.2.). Although some shortcomings persist (e.g. lack of signature of an Agreement with Europol) there has been noticeable progress overall in this field.

⁷ Framework Decision of 29 May 2000 on increasing protection by criminal penalties and other sanctions (2000/383/JHA, OJ L 140, 14.6.2000) and Council Regulation laying down measures necessary for the protection of the euro against counterfeiting (1338/2001, OJ L 181, 4.7.2001).

The Agreements with San Marino and the Vatican do not entail any specific obligation to transpose EU legislation in the domain of protection of euro cash against counterfeiting and the ways of cooperation with the Community. According to Commission information, both countries have made some effort to bring their laws into line with the Community standards but since there is no follow-up mechanism in respect of these two Agreements similar to the one in place for Monaco, the Community is not regularly informed on the implementation of the Monetary Agreements carried out by San Marino and Vatican.

The Monetary Agreement with Monaco contains several additional elements, most of which already formed part of the earlier agreements with France. Unlike the Monetary Agreements with Vatican and San Marino, the Agreement with Monaco stipulates *the terms and conditions of access of credit institutions and other institutions authorised to carry out their activities on the territory of Monaco to the interbank settlement and payment and securities settlement system in the European Union*. The Agreements with the Vatican and San Marino specify that financial institutions located in these two States may have access to the payment system within the euro area under terms and conditions to be determined by the Banca d'Italia with the agreement of the European Central Bank. The Vatican and San Marino have so far not expressed interest in participating directly in the euro area payment systems, despite the existence of a significant financial sector in the latter (the banks operating in San Marino are, for the time being, accessing the payment systems via Italy's banks). Given the size of the banking sector in San Marino and its close interaction with the banks active in the euro area, it would be sensible to ask the Republic of San Marino to align its banking and financial sector legislation with that applicable in the euro-area Member States.

The obligations to transpose relevant EC legislation into the domestic legal order and/or to adopt equivalent measures are very unequal in the three countries which have signed a Monetary Agreement with the Community.

In order to ensure proper protection of euro banknotes and coins against counterfeiting, the implementation of the relevant EC legislation should be monitored in all three countries.

The banks and financial institutions of San Marino should be subject to the same rules as their counterparts in the euro area. San Marino should therefore be asked to transpose the relevant existing EC legislation in the domain of banking and finance and take on board all updates and new laws in this field. Provision could be made for a transition period of two years in view of both the complexity of this legislation and the limited administrative capacities of the Republic.

3.2. Follow-up mechanisms

The Monetary Agreements replaced the Conventions which existed between France and Italy on the one hand and Monaco, Vatican and San Marino on the other. They are no longer bilateral agreements, but Agreements between third countries and the European Community adopted on the basis of Article 111 of the Treaty. Monaco, Vatican and San Marino were given the right to issue coins which are legal tender for the 325 million inhabitants of the euro area. The Member States of the euro area have to observe strict rules whose implementation is closely monitored by the EU institutions. The latter should therefore have a proper role in following up the implementation of the Monetary Agreements.

The Monetary Agreement with Monaco provides for a Joint Committee whose task is to facilitate the implementation and operation of the Agreement. It is composed of representatives of the Principality of Monaco, France, the European Commission and the European Central Bank and holds meetings generally once a year. During the meetings, the parties discuss the progress in implementing the Agreement and possible amendments to the Annexes listing the legislation to be transposed. Cooperation in the fight against counterfeiting of euro banknotes and coins and in implementing relevant legislative measures is also regularly examined by the Committee.

In contrast with the procedure envisaged for the Agreement with Monaco, no provision is made for a follow-up procedure in the Agreements signed with San Marino and Vatican. In the absence of regular formal follow-up, San Marino and Vatican do not regularly report on the implementation of the Agreements. The compatibility of their legislation with the obligations which the Monetary Agreements entail has not been scrutinised, neither are they properly informed of developments in the fields covered by the latter.

With a view to preparing this Communication, the Commission and the ECB organised an informal meeting with representatives of the three States in March 2009. The dialogues with the representatives of Monaco and San Marino were constructive while the Vatican City was less open to an exchange of views and information.

The Agreements with Vatican and San Marino do not offer a platform for regular discussion on their functioning. In the absence of regular meetings, the authorities of San Marino and Vatican face difficulties in keeping track of newly adopted legislation in the fields covered by the Agreements and the Community institutions cannot properly monitor the implementation of the Agreements. The Commission therefore suggests creating two joint committees - similar to the one existing with the Principality of Monaco - with the Vatican City and the Republic of San Marino. The committees would bring together representatives of San Marino/Vatican, Italy, the Commission and the ECB and would meet at least once a year in order to monitor the progress in implementing the Agreements and possible amendments thereof.

3.3. Safeguard clause in case of a serious shortcoming in the implementation of the Agreements

By signing the Monetary Agreements with the Community, the three States made a number of commitments in exchange for the right to use the euro as their national currency and issue euro coins. While the EU has the possibility to launch an infringement procedure when a Member State fails to abide to its obligations, the present Agreements have not given the Community any leverage in the event that the country having signed an Agreement does not fulfil its obligations (besides the ultimate – and therefore unlikely – possibility to withdraw unilaterally from the Agreement).

The Commission suggests that the EU should be allowed to decide on a temporary suspension of the right to issue euro coins in the event of a persistent (e.g. lasting 2 years) and serious breach of the obligations which the Monetary Agreements entail. The temporary suspension of the right of issuance (e.g. for persistent failure to transpose relevant Community legislation) would be preceded by several warnings and exchanges of views.

3.4. Ceilings for the issuance of euro coins

Monaco, Vatican and San Marino are entitled to issue euro coins bearing the national sides of their countries and having legal tender status throughout the euro area.

For historical reasons, the ceilings for maximum yearly issuance were fixed in very different ways⁸. **Monaco** is authorised to issue a maximum of 1/500th of the quantity of coins minted in France (i.e. of euro coins with French national sides). In 2009, it was authorised to issue euro coins with a total face value of €21 094.

The ceilings of **San Marino and Vatican** consist of fixed amounts adapted every two years to take account of the changes in Italy's consumer price index. These two ceilings were based on the ceilings of issuance used in the pre-euro agreements with Italy and are not linked to any real variable, such as the number of inhabitants, GDP or euro coin issuance in the Member States of the euro area. For 2008 and 2009, they are set at € 183 112 for San Marino and € 074 000 for Vatican. The Vatican City State may issue additional volumes of euro circulation coins for special occasions (see Section 2.1.).

All three countries have so far strictly respected their ceilings of issuance.

The actual per capita figures suggest that the ceilings of issuance for the countries which have signed Monetary Agreements with the Community are generous. As of September 2008, the value of coins issued per inhabitant amounted to €7 028 in Vatican, €22 in San Marino and €190 in Monaco. During the same period (2002-2008), the average issuance in the euro-area Member States reached €63 per capita (for details see Annex I). Higher quotas of issuance than what would be proportional to their number of inhabitants can nevertheless be justified by the relatively higher demand for and absorption of these coins stemming from the coin collectors' market.

However, euro circulation coins are primarily a payment instrument: they should circulate freely in the market and be used for payments. Circulation coins absorbed by coin collectors do not serve their original purpose but are exclusively used as collectors' items.

With a view to allowing some circulation of their coins, the Commission suggests that the ceilings of issuance for the three countries which have signed a Monetary Agreement be increased. The new ceilings would be calculated according to a new uniform method granting equal treatment to all three countries. The original Monetary Agreements granted de facto much less favourable treatment to Monaco than to San Marino and Vatican. As a consequence, Monaco at present issues approximately one tenth of the number of coins issued by San Marino and one fifth of those issued by Vatican, although Monaco's population is the biggest among the three countries and its Monetary Agreement comprises the biggest number of obligations.

A new ceiling for a year (n) would be composed of a fixed and a variable part:

⁸ The Monetary Agreements incorporated the methodology which was used for fixing the ceilings of issuance in the Monetary Conventions existing before the introduction of the euro.

- (1) **The fixed part** should aim at covering the demand of coin collectors. According to common estimates, a total value of around € 100 000 should be sufficient to cover the demand of the collectors' market.⁹
- (2) **The variable part** would be based on the average per capita issuance in the euro area. The average number of coins per capita issued in (n-1) in the euro area would be multiplied by the number of inhabitants of a country having signed a Monetary Agreement.

A simulation of the 2009 ceilings calculated on the basis of this method can be seen in Table 1.

Table1: Ceilings of issuance calculated on the basis of a uniform method (2009 example)

Country	Population	Variable part (€3.61 per capita x population ¹⁰)	Fixed part (EUR)	Total new 2009 ceiling (fixed + variable) (EUR)	Total current 2009 ceiling (EUR)
Monaco	32 965	119 004	2 100 000	2 219 004	221 094
San Marino	30 324	109 470	2 100 000	2 209 470	2 183 112
Vatican	826	2 952	2 100 000	2 102 952	1 074 000

The new method would increase significantly the ceiling for the issuance of coins of Monaco: from approximately €220 000 to almost € 220 000. The ceiling of Vatican would almost double from € 074 000 to more than € 100 000.

The increase in the ceilings of issuance should, however, be conditional on compliance with the new 'Commission Recommendation on common guidelines for the national sides and the issuance of euro coins intended for circulation'¹¹, endorsed by the Council on 10 February 2009. Accordingly, all euro circulation coins should be put into circulation at face value with the exception of a minor proportion of issued coins which may be sold at a higher price if justified by reasons such as special quality or packaging. Both Monaco and San Marino respect this rule: Monaco distributes a majority of its coins mixed in coin rolls with the euro coins of other euro area countries to Monegasque banks. San Marino supplies some 70% of its coins to the banks on its territory without mixing them with other countries' euro coins. With a view to preventing massive purchases of San Marino coins in local banks by coin collectors, one possible solution would be to mix them with other countries' euro coins before supplying them to the banks. The biggest changes from the point of view of current practices will be required on the part of the Vatican City State, which issues virtually all its circulation coins in

⁹ San Marino has for instance concentrated on striking selected euro denomination coins with some success: these coins are now used at face value for transactions.

¹⁰ In 2008, the average net issuance in the euro area was €3.61 per capita.

¹¹ See footnote 2.

collectors' sets (in the euro area less than 1% of the coins are sold above face value in coin sets).

A new common method would also be applicable to any potential future monetary agreement¹².

The Commission suggests introducing a new method for calculating the ceilings of issuance, which would put all countries having signed a Monetary Agreement with the Community on an equal footing. The common method would ensure fair treatment and take into account the demand generated by coin collectors, with a view to ensuring some effective circulation of the euro circulation coins issued by these countries.

3.5. Rules for minting euro coins

The Monetary Agreement with Monaco reserves the right of the national Mint of France to produce the euro coins of Monaco, while the coins of Vatican and San Marino can only be minted by the Mint of Italy. This rule was introduced for historical reasons at a time when euro cash was not yet in circulation and nearly all the euro-area countries were minting euro coins only for their own needs, with very little cooperation in the production and management of stocks. The situation has now evolved, with a number of euro-area countries today having their coins minted in another euro-area country and some purchasing coins from foreign stocks. De facto, a large number of euro-area Mints have developed a wide and dynamic commercial activity of production of coins for other European and non-European countries¹³.

Although the existing arrangements of Monaco, San Marino and Vatican with the Mints of France and Italy seem to work well, there is today no reason from an EU law perspective to maintain a monopoly of certain national Mints for the production of the coins needed for implementing an agreement between the Community and a third country. Such a monopoly goes totally against the spirit of the Treaty and creates de facto discrimination between Member States, as the other Mints of the euro area are denied the legitimate right to make an offer for striking the coins needed by Monaco, Vatican and San Marino.

The euro-area Mints should be given the opportunity to make an offer to the three countries concerned for the production of their euro coins, and Monaco, Vatican and San Marino should be allowed to freely select the contractor of their choice from among them¹⁴.

¹² An agreement is being discussed with the Principality of Andorra.

¹³ 10 euro area Mints export coins.

¹⁴ The country whose Mint would produce euro coins for a country having signed a Monetary Agreement would add these coins to the volume of coins it plans to issue for its own use for the purpose of the ECB approval of the total volume of issuance, in line with the existing practice. The rights of issuance of the euro-area Member State in question would not be reduced, the volume of issuance having no *a priori* limit.

4. CONCLUSIONS

The Commission was invited by the Council to review the functioning of the existing Monetary Agreements. Following a detailed examination of the Agreements, the Commission suggests amending them with a view to including the following elements:

- (1) Ensuring a more level playing field as regards the obligations of the countries having signed the Monetary Agreements with the Community;**
- (2) Creating a proper follow-up mechanism for all three Agreements;**
- (3) Introducing a possibility to suspend the right to issue euro coins in the event of a serious and persistent breach of the obligations which the Agreement entails;**
- (4) Introducing a common method for calculating the ceilings of issuance of euro coins and revising them accordingly;**
- (5) Allowing the euro-area Mints to make an offer for the production of the coins of Monaco, Vatican and San Marino, and leaving it up to the latter to select freely their contractor from among them.**

A mandate to renegotiate the Monetary Agreement with Monaco could be given to the Commission and France in association with the ECB while the Monetary Agreements with San Marino and Vatican could be renegotiated by the Commission and Italy, in association with the ECB.

ANNEX I – Cumulative Coin Issuance end-2008¹⁵

Country	Population¹⁶	Number of issued coins (1000)	Number of issued coins per capita	Value of issued coins (1000 EUR)	Value of issued coins (EUR/head)
Monaco	32 965	7 439	226	6 285	190.66
San Marino	30 324	24 074	794	12 808	422.38
Vatican	826	5 461	6 611	5 806	7 028.77
Euro area	323 186 285	82 033 879	254	20 399 071	63.12
BE	10 741 048	3 227 578	300	1 168 911	108.83
DE	82 062 249	23 406 690	285	5 689 889	69.34
IE	4 517 758	4 096 719	907	697 268	154.34
EL	11 262 539	2 190 838	195	661 998	58.78
ES	45 853 045	14 198 243	310	3 419 593	74.58
FR	64 105 125	12 485 491	195	2 439 620	38.06
IT	60 090 430	11 526 576	192	3 635 354	60.50
CY	801 622	217 011	271	73 282	91.42
LU	491 702	513 019	1043	181 312	368.74
MT	412 614	110 173	267	31 244	75.72
NL	16 481 139	2 829 555	172	539 189	32.72
AT	8 356 707	3 918 946	469	959 720	114.84
PT	10 631 800	2 012 771	189	416 684	39.19
SI	2 053 393	159 550	78	39 906	19.43
FI	5 325 115	1 140 716	214	445 100	83.59

¹⁵ Sources: ECB (cumulative net issuance) for EU countries; relevant institutions in France and Italy for the three third countries.

¹⁶ Sources: Eurostat for EU countries; CIA fact book (July 2009 estimates) for the three third countries.