

AIR SERVICES AGREEMENT

between

THE GOVERNMENT OF ICELAND

and

THE GOVERNMENT OF THE REPUBLIC OF AZERBAIJAN

The Government of Iceland and the Government of the Republic of Azerbaijan (hereinafter referred to as the "Parties");

Being Contracting States to the Convention on International Civil Aviation opened for signature at Chicago on 7 December 1944;

Desiring to promote their mutual relations in the field of civil aviation and to conclude an agreement for the purpose of establishing air services between and beyond their respective territories;

Desiring to promote an international aviation system based on competition among airlines in the marketplace with minimum State interference and regulation;

Desiring to facilitate the expansion of international air service opportunities;

Desiring to ensure the highest degree of safety and security in international air services and reaffirming their grave concern about acts or threats against the security of aircraft, which jeopardize the safety of persons or property, adversely affect the operation of air services and undermine public confidence in the safety of civil aviation;

Have agreed as follows:

Article 1 Definitions

For the purposes of this Agreement, unless otherwise stated, the term:

1. "Aeronautical authorities" means, in the case of the Republic of Azerbaijan, the State Civil Aviation Administration, and any person authorized to perform any functions at present exercised by the said organization or similar functions and in the case of the Iceland, the Ministry of Communications, and any person authorized to perform any functions at present exercised by the said organization or similar functions.
2. "Agreement" means this Agreement, its Annexes, and any amendments thereto;
3. "Convention" means the Convention on International Civil Aviation, opened for signature at Chicago on 7 December 1944, and includes: any amendment that has entered into force under Article 94(a) of the Convention and has been ratified by both Parties, and any Annex or any amendment thereto adopted under Article 90 of the Convention, insofar as such Annexes or amendments are at any given time effective for both parties;



4. "Designated airline" means an airline designated and authorized in accordance with Article 3 of this Agreement;
5. "European Economic Area" means the enhanced free trade area established by the Agreement on the European Economic Area, done at Oporto on 2 May 1992, between the European Community and its Member States on the one hand and the EFTA States with the exclusion of Switzerland on the other hand. EFTA is an abbreviation for the European Free Trade Association of which Iceland is a Member State;
6. "Full cost" means the cost of providing service and a reasonable charge for administrative overhead;
7. "International air service" means an air service that passes through the air space over the territory of more than one State;
8. "Price" means any fare, rate or charge for the carriage of passengers (and their baggage) and/or cargo (excluding mail) in air service charged by airlines, including their agents, and the conditions governing the availability of such fare, rate or charge;
9. "Stop for non-traffic purposes", "airline", and "air service" have the meaning specified in Article 96 of the Convention, and
10. "User charges" means a charge/charges, imposed on airlines for the provision of airport, air navigation or aviation security facilities or services including related services and facilities.
11. "Territory" in relation to Parties has the meaning assigned to it in Article 2 of the Convention.

Article 2 Grant of Rights

- 1 Each Party grants the other Party's designated airlines the following rights for the conduct of international air services:
 - a. the right to fly across its territory without landing;
 - b. the right to make stops in its territory for non-traffic purposes; and
 - c. the rights otherwise specified in this Agreement.
- 2 Nothing in this Article shall be deemed to confer to the designated airline or airlines of one Party the right to take on board, in the territory of the other Party, passengers, their baggage, cargo, or mail carried for remuneration and destined for another point in the territory of that other Party.

Article 3 Designation and Authorization

1. Each Party shall have the right to designate an airline or airlines for the purpose of operating the agreed services on each of the routes specified in the Annexes and to withdraw or alter such designations. Such designations shall be made in writing and transmitted to the other Party through diplomatic channels.
2. Upon receipt of such a designation and of applications from the designated airline, in the form and manner prescribed for operating authorizations and technical permissions, the other Party shall grant the appropriate authorizations and permissions with minimum procedural delay, provided:
 - a. in the case of an airline designated by Iceland:
 - (i) it is established in the territory of Iceland in accordance with the Agreement on the European Economic Area or under the Agreement on the European Economic Area, and is licensed in accordance with national law or under European Community law adopted in accordance with the Agreement on the European Economic Area; and




- (ii) effective regulatory control of the airline is exercised and maintained by a State which is a Contracting Party to the Agreement on the European Economic Area or under the Agreement on the European Economic Area responsible for issuing its Air Operator's Certificate and the relevant aeronautical authority is clearly identified in the designation;
 - (iii) it is owned and shall continue to be owned directly or through majority ownership by Member States of the European Economic Area and/or nationals of the European Economic Area and shall at all times be effectively controlled by such states and/or such nationals.
- b. in the case of an airline designated by the Republic of Azerbaijan :
- (i) it is established in the territory of the Republic of Azerbaijan; and
 - (ii) the Republic of Azerbaijan has and maintains effective regulatory control of the airline; and
 - (iii) it is owned and shall continue to be owned directly or through majority ownership by the Republic of Azerbaijan and/or nationals of the Republic of Azerbaijan and shall at all times be effectively controlled by the Republic of Azerbaijan and/or its nationals.
- c. the designated airline is qualified to meet the conditions prescribed under the laws and regulations normally applied to the operation of international air services by the Party considering the application or applications.

Article 4

Revocation of Authorization

Either Party may revoke, suspend or limit the operating authorization or technical permissions of an airline designated by the other Party where:

- a. in the case of an airline designated by Iceland:
 - (i) it is not established in the territory of Iceland in accordance with the Agreement on the European Economic Area, and does not have a valid operating license in accordance with the European Economic Area or national law adopted in accordance with the Agreement on the European Economic Area; or
 - (ii) effective regulatory control of the airline is not exercised or not maintained by a State which is a Contracting Party to the Agreement on the European Economic Area responsible for issuing its Air Operators Certificate, or the relevant aeronautical authority is not clearly identified in the designation; or
 - (iii) it is not owned directly or through majority ownership by, or it is not effectively controlled by a Member State of the European Economic Area and/or nationals of Member States of the European Economic Area.
- b. in the case of an airline designated by the Republic of Azerbaijan:
 - (i) it is not established in the territory of the Republic of Azerbaijan; or
 - (ii) the Republic of Azerbaijan is not maintaining effective regulatory control of the airline; or
 - (iii) it is now owned, directly or through majority ownership, or it is not effectively controlled by the Republic of Azerbaijan and/or its nationals.
- c. that airline has failed to comply with the laws and regulations referred to in Article 7 of this Agreement.




Article 5

Application of Laws

1. While entering, within, or leaving the territory of one Party, its laws and regulations relating to the operation and navigation of aircraft shall be complied with by the other Party's airlines.
2. While entering, within, or leaving the territory of one Party, its laws and regulations relating to the admission to or departure from its territory of passengers, crew or cargo on aircraft (including regulations relating to entry, clearance, aviation security, immigration, passports, customs and quarantine or, in the case of mail, postal regulations) shall be complied with by, or on behalf of, such passengers, crew or cargo of the other Party's airlines.
3. Neither Party shall give preference to its own or any other airline over a designated airline of the other Party engaged in similar international air services in the application of its immigration, customs, quarantine and similar regulations.

Article 6

Recognition of Certificates

1. Each Party shall recognize as valid, for the purpose of operating the air services provided for in this Agreement, certificates of airworthiness, certificates of competency, and licenses issued or validated by the State responsible for the regulatory control of a designated airline and still in force, provided that the requirements for such certificates or licenses at least equal the minimum standards that may be established pursuant to the Convention.
2. Each Party reserves the right, however, to refuse to recognize as valid for the purpose of flight above or landing within its own territory, certificates of competency and licenses granted to or validated for its own nationals by the other Party.

Article 7

Safety

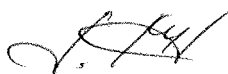
1. Either Party may request consultations concerning the safety standards maintained in respect of an airline designated by the other Party relating to aeronautical facilities, aircrews, aircraft, and operation of the designated airlines.
2. If, following such consultations, one Party finds that the other Party does not effectively maintain and administer safety standards in the areas referred to in paragraph 1 of this Article that meet the standards established at that time pursuant to the Convention, the other Party shall be informed of such findings and of the steps considered necessary to conform with the said standards. The other Party shall then take appropriate corrective action within an agreed time period.
3. Pursuant to Article 16 of the Convention, it is further agreed that, any aircraft operated by, or on behalf of an airline of one Party, on service to or from the territory of the other Party, may, while within the territory of the other Party be the subject of a search by the authorized representatives of the other Party, provided this does not cause unreasonable delay in the operation of the aircraft. Notwithstanding the obligations mentioned in Article 33 of the Convention, the purpose of this search is to verify the validity of the relevant aircraft documentation, the licensing of its crew, and that the aircraft equipment and the condition of the aircraft conform to the standards established at that time pursuant to the Convention.



4. When urgent action is essential to ensure the safety of an airline operation, each Party reserves the right to immediately suspend or vary the operating authorization of an airline or airlines of the other Party.
5. Any action by one Party in accordance with paragraph 4 of this Article shall be discontinued once the basis of the taking of that action ceases to exist.
6. With reference to paragraph 2 of this Article, if it is determined that one Party remains in non-compliance with the said standards when the agreed time period has lapsed, the Secretary-General of ICAO should be advised thereof. The latter should also be advised of the subsequent satisfactory resolution of the situation.
7. Where one Party has designated an airline whose regulatory control is exercised and maintained by a third State, the rights of the other Party under this Article shall apply equally in respect of the adoption, exercise or maintenance of safety standards by that third State and in respect of the operating authorization of that airline.

Article 8 **Aviation Security**

1. In accordance with their rights and obligations under international law, the Parties reaffirm that their obligation to each other to protect the security of civil aviation against acts of unlawful interference forms an integral part of this Agreement. Without limiting the generality of their rights and obligations under international law, the Parties shall in particular act in conformity with the provisions of the Convention on Offences and Certain Other Acts Committed on Board Aircraft, done at Tokyo on 14 September 1963, the Convention for the Suppression of Unlawful Seizure of Aircraft, done at The Hague on 16 December 1970, the Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation, done at Montreal on 23 September 1971, and its Protocol, done at Montreal on 24 February 1988, and the Convention on the Marking of Plastic Explosives for the Purpose of Detection, done at Montreal on 1 March 1991, and any other convention on aviation security to which both Parties become members.
2. Upon request the Parties shall provide each other with all necessary assistance to prevent acts of unlawful seizure of civil aircraft and other unlawful acts against the safety of such aircraft, of their passengers and crew, of airports and air navigation facilities, and address any other threat to the security of civil air navigation.
3. The Parties shall, in their mutual relations, act in conformity with all aviation security standards and appropriate recommended practices established by the International Civil Aviation Organization and designated as Annexes to the Convention; they shall require that operators of aircraft of their registry, operators of aircraft who have their principal place of business or permanent residence in their territory and the operators of airports in their territory act in conformity with such aviation security provisions.
4. Each Party agrees to observe the security provisions required by the other Party for entry into the territory of that other Party and to take adequate measures to protect aircraft and to inspect passengers, crew, and their baggage and carryon items, as well as cargo and aircraft stores, prior to and during boarding or loading. Each Party shall also give positive consideration to any request from the other Party for special security measures to meet a particular threat.
5. When an incident or threat of an incident of unlawful seizure of aircraft or other unlawful acts against the safety of passengers, crew, aircraft, airports or air navigation facilities occurs, the Parties shall assist each other by facilitating communications and other appropriate measures intended to terminate rapidly and safely such incident or threat.




6 When a Party has reasonable grounds to believe that the other Party has departed from the aviation security provisions of this Article, the aeronautical authorities of that Party may request immediate consultations with the aeronautical authorities of the other Party. Failure to reach a satisfactory agreement within fifteen (15) days from the date of such request shall constitute grounds to withhold, revoke, limit, or impose conditions on the operating authorization and technical permissions of an airline or airlines of that other Party'. When required by an emergency, a Party may take interim action prior to the expiry of fifteen (15) days.

Article 9 **Commercial Opportunities**

1. The airlines of each Party shall have the right to establish offices in the territory of the other Party for the promotion and sale of air services.
2. The designated airlines of each Party shall be entitled, in accordance with the laws and regulations of the other Party relating to entry, residence and employment, to bring in and maintain in the territory of the other Party managerial, sales, technical, operational and other specialist staff required for the provision of air services.
3. Any airline of each Party may engage in the sale of air services in the territory of the other Party directly and, at the airline's discretion, through its agents, except as may be specifically provided by the charter regulations of the country in which the charter originates that relate to the protection of passenger funds, passenger cancellation and refund rights. Each airline shall have the right to sell such transportation, and any person shall be free to purchase such transportation, in the currency of that territory.
4. Each airline shall have the right to convert and remit to its country, on demand, local revenues in excess of sums locally disbursed. Conversion and remittance shall be permitted promptly according to national tax and currency exchange regulations in respect thereof at the rate of exchange applicable to current transactions and remittance on the date the carrier makes the initial application for remittance.
5. The airlines of each Party shall be permitted to pay for local expenses, including purchases of fuel, in the territory of the other Party in local currency.
6. In operating or holding out the authorized services on the agreed routes, any designated airline of one Party may enter into co-operative marketing arrangements such as blocked-space, code-sharing or leasing arrangements, with an airline or airlines of either Party provided that all airlines in such arrangements:
 - 1) hold the appropriate authority and
 - 2) meet the requirements normally applied to such arrangements.

Article 10 **Customs Duties and Charges**

1. Each Party shall on the basis of reciprocity exempt a designated airline of the other Party to the fullest extent possible under its national law from customs duties and taxes on aircraft, fuel, lubricating oils, consumable technical supplies, spare parts including engines, regular aircraft equipment, aircraft stores (including but not limited to such items of food, beverages and liquor, tobacco and other products destined for sale or to be used solely in connection with the operation on servicing of aircraft) and other items, such as printed ticket stock, air waybills, any printed material which bears the insignia of the company printed thereon and usual publicity material distributed free of charge by that designated airline intended for use or used solely in connection with the operation or servicing of aircraft of the designated airline of such other Party operating the agreed services.




- 2 The exemptions granted by this Article shall apply to the items referred to in paragraph 1:
- a. introduced into the territory of the Party by or on behalf of the designated airline of the other Party;
 - b. retained on board aircraft of the designated airline of one Party upon arrival in or leaving the territory of the other Party; or
 - c. taken on board aircraft of the designated airline of one Party in the territory of the other Party and intended for use in operating the agreed services; whether or not such items are used or consumed wholly within the territory of the Party granting the exemption, provided the ownership of such items is not transferred in the territory of the said Party.
- 3 The regular airborne equipment, as well as the materials and supplies normally retained on board the aircraft of the designated airline of either Party, may be unloaded in the territory of the other Party only with the approval of the customs authorities of that territory. In such case, they may be placed under supervision of the said authorities up to such time as they are re-exported or otherwise disposed of in accordance with customs regulations.

Article 11 **User Charges**

1. User charges that may be imposed by the competent charging authorities or bodies of each Party on the airlines of the other Party shall be just, reasonable, not unjustly discriminatory, and equitably apportioned among categories of users. In any event, any such user charges shall be assessed on the airlines of the other Party on terms not less favourable than the most favourable terms available to any other airline at the time the charges are assessed.
2. User charges imposed on the airlines of the other Party may reflect, but shall not exceed, the full cost to the competent charging authorities or bodies of providing the appropriate airport, airport environmental, air navigation and aviation security facilities and services at the airport or within the airport system. Such full cost may include a reasonable return on assets, after depreciation. Facilities and services for which charges are made shall be provided on an efficient and economic basis.
3. Each Party shall encourage consultations between the competent charging authorities or bodies in its territory and the airlines using the services and facilities, and shall encourage the competent charging authorities or bodies and the airlines to exchange such information as may be necessary to permit an accurate review of the reasonableness of the charges in accordance with the principles of paragraphs 1 and 2 of this Article. Each Party shall encourage the competent charging authorities to provide users with reasonable notice of any proposal for changes in user charges to enable users to express their views before changes are made.
4. Neither party shall be held, in dispute resolution procedures pursuant to Article 16 of this Agreement, to be in breach of a provision of this Article, unless (i) it fails to undertake a review of the charge or practice that is the subject of complaint by the other Party within a reasonable amount of time; or (ii) following such a review it fails to take all steps within its power to remedy any charge or practice that is inconsistent with this Article.



Article 12

Taxation

- 1 Profits of designated airlines of Party from the international traffic shall be taxable only in the territory of that Party.
- 2 Where a special Agreement for avoidance of double taxation with respect to taxes on income and capital exists between the Parties, the provisions of the that Agreement shall prevail.

Article 13

Fair Competition

1. The designated airlines of the Parties shall be afforded fair and equal treatment in order that they may enjoy equal opportunities in the operation of the agreed services on the specified routes on non-discriminatory basis.
2. In operating the agreed services the designated airlines of each Party shall take into account the interests of the designated airlines of the other Party so as not to affect unduly the services which the latter provide on the whole or part of the same routes.
3. The agreed services provided by the designated airlines of the Parties shall have as their primary objective the provision, at a reasonable load factor, of capacity adequate to carry the current and reasonably anticipated requirements for carriage of passengers, cargo and mail between the territory of the Party designating the airline and the territory of the other Party.
4. Provision for the carriage of passengers, cargo and mail both taken on board and discharged at points on routes to be specified in the territories of states other than that designating the airline shall be agreed upon between the two Parties.
5. The capacity to be provided including the frequency of services and the type of aircraft to be used by the designated airlines of the Parties on the agreed services shall be agreed upon by the Aeronautical Authorities.
6. In case of disagreement between the Parties, the issues referred to in paragraph 5 above shall be settled in accordance with the provisions of Article 16 of this Agreement. Until such agreement has been reached, the capacity provided by the designated airlines shall remain unchanged.

Article 14

Pricing

- 1 Each Party shall allow prices for air services to be decided by each designated airline based on commercial considerations in the marketplace. Intervention by the Parties shall be limited to:
 - a. prevention of unreasonably discriminatory prices or practices;
 - b. protection of consumers from prices that are unreasonably high or restrictive due to the abuse of a dominant position; and
- 3 protection of airlines from prices that are artificially low due to direct or indirect governmental subsidy or support.



2. Each Party may require notification or filing with its aeronautical authorities of prices to be charged to or from its territory by airlines of the other Party. Notification or filing by the airlines of both Parties may be required no more than thirty (30) days before the proposed date of effectiveness. In individual cases, notification or filing may be permitted on shorter notice than normally required. Neither Party shall require the notification nor filing by airlines of the other Party of prices charged by charterers to the public, except as may be required on a nondiscriminatory basis for information purposes.

3. Notwithstanding paragraphs 1 and 2 of this Article, the prices to be charged by the designated airline of the Republic of Azerbaijan for carriage wholly within the European Economic Area shall be subject to the Agreement on the European Economic Area. However, each designated airline has the right to match any price offered in the marketplace.

Article 15

Intermodal Services

Notwithstanding any other provision of this Agreement, airlines and indirect providers of cargo transportation of both Parties shall be permitted, without restriction, to employ in connection with international air services any surface transportation for cargo to or from any points in the territories of the Parties or in third countries, including transport to and from all airports with customs facilities, and including, where applicable, the right to transport cargo in bond under applicable laws and regulations. Such cargo, whether moving by surface or by air, shall have access to airport customs processing and facilities with custom regulation compliance. Airlines may elect to perform their own surface transportation or to provide it through arrangements with other surface carriers, including surface transportation operated by other airlines and indirect providers of cargo air services. Such intermodal cargo services may be offered at a single, through price for the air and surface transportation combined, provided that shippers are not misled as to the facts concerning such transportation.

Article 16

Consultations and Settlement of Disputes

1. Either Party may at any time request consultations on the implementation, interpretation, application or amendment of this Agreement or compliance with this Agreement. Such consultations, which may be between aeronautical authorities, shall begin within a period of 60 days from the date the other Party receives a written request, unless otherwise agreed by the Parties.

2. If any dispute arises between the Parties relating to the interpretation or application of this Agreement, the Parties shall, in the first place, endeavour to settle it by negotiation.

3. If the Parties fail to reach a settlement by negotiation, they may agree to refer the dispute for decision to some person or body; if they do not so agree, the dispute shall, at the request of either Party, be submitted for decision to a tribunal of three arbitrators, one to be nominated by each Party and the third to be appointed by the two so nominated. Each of the Parties shall nominate an arbitrator within a period of sixty (60) days from the date of receipt by either Party from the other of a notice through diplomatic channels requesting arbitration of the dispute by such a tribunal, and the third arbitrator shall be appointed within a further period of sixty (60) days.



If either of the Parties fails to nominate an arbitrator within the period specified, the President of the Council of the International Civil Aviation Organization may at the request of either Party appoint an arbitrator or arbitrators as the case requires. In all cases, the third arbitrator shall be a national of a third State and shall act as President of the arbitral tribunal. The arbitral tribunal shall reach its decision by majority of votes. In all other respects the arbitral tribunal shall determine its own procedure.

4. The Parties undertake to comply with any decisions given under paragraph 3 of this Article.

5. If and for so long as either Party fails to comply with a decision given under paragraph 2 of this Article, the other Party may limit, suspend or revoke any rights or privileges which it has granted by virtue of this Agreement to the Party in defaults.

6. Each Party shall bear the expenses and remuneration necessary for its arbitrator; the fee for the third arbitrator and the expenses necessary for this one as well as those due to the activity of the arbitration shall be equally shared by the Parties.

Article 17

Amendments

1. If either Party considers it desirable to amend any provision of this Agreement, including the Annexes thereto, it may request consultations between the aeronautical authorities of both Parties in relation to the proposed amendment. Such consultations shall commence within a period of sixty days (60) from the date of receipt of the request. Any amendments so agreed shall enter into force in accordance with the provisions of Article 20 of this Agreement.

2. An amendment to the Annexes may be made by direct agreement between the aeronautical authorities of both Parties and shall enter into force in accordance with the provisions of Article 20 of this Agreement.

Article 18

Termination

1. Either Party may at any time give written notice to the other Party of its intention to terminate this Agreement, through diplomatic channels; such notice shall simultaneously be communicated to the International Civil Aviation Organization.

2. In such case the Agreement shall terminate twelve months after the date of receipt of the notice by the other Party, unless the notice to terminate is withdrawn by agreement before the expiry of this period. In the absence of acknowledgement of receipt by the other Party, notice shall be deemed to have been received fourteen (14) days after the receipt of the notice by the International Civil Aviation Organization.

Article 19

Registration with ICAO

This Agreement and any amendment thereto shall be registered upon its entry into force with the International Civil Aviation Organization.



Article 20
Entry into force

This Agreement shall enter into force on the date of the receipt, through diplomatic channels, of the latest written notification of the Parties confirming the completion of their relevant internal legal procedures required for the entry into force of this Agreement.

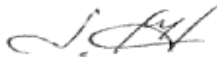
In witness thereof, the undersigned plenipotentiaries being duly authorized by their respective Governments have signed the present Agreement.

DONE, in duplicate at _____ this _____ day of _____ in the

Azerbaijani, Icelandic and English languages, all texts being equally authentic. In case of divergence of interpretation or application of this Agreement the English text shall prevail.

**For The Government of
The Republic of
Azerbaijan**

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**For The Government of
Iceland**

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