

**MEMORANDUM OF UNDERSTANDING
REGARDING CONSULTATION MEETING
BETWEEN THE AERONAUTICAL AUTHORITIES OF**

**THE FEDERATIVE REPUBLIC OF BRAZIL
AND
ICELAND**

Delegations representing the Aeronautical Authorities of the Federative Republic of Brazil ("Brazil") and of Iceland ("Iceland"), hereinafter referred as "Parties", met in Montego Bay, Jamaica, on the 1st of July 2010 to initial an Air Services Agreement between the two countries.

The list of the two delegations is attached to this Memorandum of Understanding as Appendix A.

As a result of the discussions conducted in a cordial and friendly atmosphere, the following agreements were reached.

Air Services Agreement

Both delegations agreed and initialed the text of an Air Services Agreement which is included as Attachment of this Memorandum of Understanding and will enter into force upon exchange of diplomatic notes indicating that all necessary internal procedures were concluded.

Administrative and Operational Provisions

Both delegations agreed that the following provisions are an integral part of this Memorandum of Understanding, and shall produce effects of administrative character from the date of its signature:

1. Capacity Entitlements

Each Party shall allow each designated airline to determine the frequency and capacity of the international air transportation it offers based on commercial considerations of the marketplace.

Neither Party shall unilaterally limit the volume of traffic, frequency, or regularity of service, or the aircraft type or types operated by the designated airlines of the other Party, except as may be required for customs, technical, operational, or environmental reasons under uniform conditions consistent with Article 15 of the Convention.

2. Route Schedule

Airlines of each Party shall, in accordance with the terms of their designation, be entitled to perform international air services between points on the following routes:

- a. Routes for the airline or airlines designated by the Government of Brazil:

BRAZILIAN ROUTES			
Points in Brazil	Any intermediate points	Points in Iceland	Any points beyond

- b. Routes for the airline or airlines designated by the Government of Iceland:

ICELANDIC ROUTES			
Points in Iceland	Any intermediate points	Points in Brazil	Any points beyond

3. Operational Flexibility

Each designated airline may on any or all flights and at its option:

- a. Operate flights in either or both directions;
- b. Combine different flight numbers within one aircraft operation;
- c. Serve behind, intermediate, and beyond points and points in the territory of the other Party on the routes in any combination and in any order, without cabotage rights;
- d. Omit stops at any point or points;
- e. Transfer traffic from any of its aircraft to any of its other aircraft at any point on the routes;
- f. Serve points behind any point in its territory with or without change of aircraft or flight number and may hold out and advertise such services to the public as through services;
- g. Make stopovers at any points whether within or outside the territory of either Party;
- h. Carry transit traffic through the other Party's territory;
- i. Combine traffic on the same aircraft regardless of where such traffic originates;

without directional or geographic limitation and without loss of any right to carry traffic otherwise permissible under this Agreement, provided that the service serves a point in the territory of the Party designating the airline.

4. Change of Gauge

On any segment or segments of the aforementioned routes, any designated airline may perform international air services without any limitation as to change, at any point on the route, in type or number of aircraft operated, provided that, in the outbound direction, the transportation beyond such point is a continuation of the transportation from the territory of the Party that has designated the airline and, in the inbound direction, the transportation to the territory of the Party that has designated the airline is a continuation of the transportation from beyond such point.



5. Traffic Rights

The exercise of fifth freedom traffic rights will be permitted on any points of the Route Schedule.

6. Pricing

Prices charged for air services operated under this Agreement may be freely established by the airlines and shall not be subject to approval.

Each Party may require notification to or filing with the authorities by the designated airlines of prices for transportation to and from its territory.

7. Non-Regular Flights

Each Party, in accordance with its laws and regulations, shall give favorable consideration to requests by the airlines of the other Party for non-regular passenger and cargo operations between their territories.

8. Additional Provisions

Both delegations agreed on the application of additional administrative and operational provisions which constitute Appendix B to this Memorandum of Understanding.

9. Other Matters

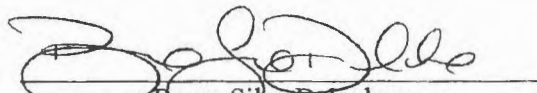
The Brazilian Delegation explained to the Icelandic Delegation the restrictions in force in Guarulhos International Airport, in accordance with a Resolution of the Civil Aviation Council of Brazil (CONAC), due to the current limitations of infrastructure capacity in that airport. It is expected that those restrictions may be withdrawn as soon as such capacity problems are solved. It was stressed that airlines applying for operation authorizations in that airport will be treated on a non discriminatory basis.

10. Entry into force

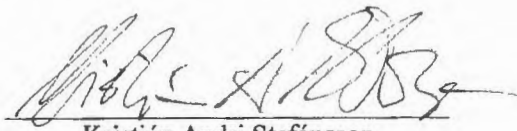
This Memorandum of Understanding shall take effect immediately upon its signature.

Done in Montego Bay, Jamaica, on the 1st of July 2010, in two originals in the English language.

For the Delegation of the
Federative Republic of Brazil


Bruno Silva Dalcolmo
Head of the Brazilian Delegation

For the Delegation of Iceland


Kristján Andri Stefánsson
Head of the Icelandic Delegation

BRAZILIAN DELEGATION

Head of Delegation

- | | | |
|----|----------------------|--|
| 1. | Bruno Silva Dalcolmo | Superintendent of International Relations
ANAC – National Civil Aviation Agency |
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Members

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| 2. | Roque Felizardo da Silva Neto | Manager, International Market Analysis
ANAC – National Civil Aviation Agency |
| 3. | Marcelo Marinho | Regulation Specialist
ANAC – National Civil Aviation Agency |
| 4. | Francisco Carvalho de Lima | Regulation Specialist
ANAC – National Civil Aviation Agency |
| 5. | Paulo Peixoto Bittar | Regulation Specialist
ANAC – National Civil Aviation Agency |
| 6. | Luiz Guilherme F. de Castro Jr | Representative of the Ministry of External
Relations |
| 7. | Alexandre Jorge de Lima | Representative of the Ministry of External
Relations |



AIR SERVICES AGREEMENT

BETWEEN

THE GOVERNMENT OF ICELAND

AND

THE GOVERNMENT OF THE
FEDERATIVE REPUBLIC OF BRAZIL

The Government of Iceland ("Iceland") and the Government of the Federative Republic of Brazil ("Brazil"), 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 government 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 I

Definitions

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

1. "Aeronautical authorities" means, in the case of Iceland, the Ministry of Transport, Communications and Local Government or any person or agency authorized to perform the functions exercised by the said authority, and in the case of Brazil, the civil aviation authority represented by the National Civil Aviation Agency (ANAC), or its successor;
2. "Agreement" means this Agreement, any annex to it, 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 plus a reasonable charge for administrative overhead;

7. "International air service" means an air service that passes through the airspace 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", "air service" and "territory" have the meaning specified in Articles 2 and 96 of the Convention;

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; and

11. "Capacity" means the amount(s) of services provided under the Agreement, usually measured in the number of flights (frequencies) or seats or tons of cargo offered in a market (city pair, or country-to-country) or on a route during a specific period, such as daily, weekly, seasonally or annually.

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;
- c) the right to make stops at the point(s) on the route(s) specified in the Route Schedule jointly agreed upon by the aeronautical authorities of both Parties for the purpose of taking on board and discharging international traffic in passengers, baggage, cargo or mail separately or in combination; and
- d) the rights otherwise specified in this Agreement.

2. The airlines of each Party, other than those designated under Article 3 of this Agreement shall also enjoy the rights specified in paragraphs 1 a) and b) of this Article.

3. Nothing in this Agreement 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 Route Schedule jointly agreed upon by the aeronautical authorities of both Parties 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, and has a valid Operating License in accordance with national law adopted in accordance with the Agreement on the European Economic Area;
- (ii) effective regulatory control of the airline is exercised and maintained by a Member State of the European Economic Area responsible for issuing its Air Operator's Certificate, and the relevant aeronautical authority is clearly identified in the designation; and
- (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 nationals.

b) in the case of an airline designated by Brazil:

- (i) it is established in the territory of Brazil and is licensed in accordance with the applicable law of Brazil;
 - (ii) effective regulatory control of the airline is exercised and maintained by Brazil; and
 - (iii) it is owned and shall continue to be owned directly or through majority ownership by Brazil and / or nationals of Brazil and shall at all times be effectively controlled by Brazil 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; and
- d) the provisions set forth in Article 7 (Safety) and Article 8 (Aviation Security) are being maintained and administered.

3. When an airline has been so designated and authorized, it may begin at any time to operate air services on the specified routes provided that the airline complies with all applicable provisions of this Agreement.

Article 4
Revocation of Authorization

1. Either Party may revoke, suspend or limit the operating authorization or technical permissions, granted in this Agreement to an airline designated by the other Party, or impose such conditions as it may deem necessary where:

- a) in the case of an airline designated by Iceland:
- (i) it is not established in the territory of Iceland under the Agreement on the European Economic Area, or does not have a valid Operating Licence in accordance with 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 Member State of the European Economic Area responsible for issuing its Air Operator's 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 Member States of the European Economic Area and/or nationals of the European Economic Area; or
 - (iv) it is already authorized to operate under a bilateral agreement between Brazil and a Member State of the European Economic Area and Brazil demonstrates that, by exercising traffic rights under this Agreement on a route that includes a point in that other State, it would be circumventing restrictions on traffic rights imposed by that other agreement; or
 - (v) it holds an Air Operators Certificate issued by a Member State of the European Economic Area and there is no bilateral air services agreement between Brazil and that State, and traffic rights to that State have been denied to the airline designated by Brazil; or
 - (vi) the airline has failed to comply with the laws and regulations normally and reasonably applied to the operation of international air transportation by Brazil.

In exercising its right under this paragraph, Brazil shall not discriminate between airlines designated by Member States of the European Economic Area on the grounds of nationality.

- b) in the case of an airline designated by Brazil:
- (i) it is not established in the territory of Brazil; or is not licensed in accordance with the applicable law of Brazil; or
 - (ii) effective regulatory control of the airline is not exercised or maintained by Brazil; or
 - (iii) it is not owned, directly or through majority ownership, or it is not effectively controlled by Brazil and / or its nationals; or
 - (iv) the airline has failed to comply with the laws and regulations normally and reasonably applied to the operation of international air transportation by Iceland.

c) in any case the standards set forth in this Agreement, specially in Articles 7 and 8, are not being maintained and administered.

2. Unless immediate revocation or suspension of the operating authorization mentioned in paragraph 1 of this Article, or imposition of the conditions therein, is essential to prevent further infringements of laws and regulations, such right shall be exercised only after consultations with the other Party.

3. This Article does not limit the rights of either Party to withhold, revoke, limit or impose conditions on the operating authorization or technical permission of an airline or airlines of the other Party in accordance with the provisions of Article 7 (Safety) and Article 8 (Aviation Security).

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.

4. Passengers, baggage, cargo and mail in direct transit shall be subject to no more than a simplified control. Baggage and cargo in direct transit shall be exempt from customs duties and other similar taxes.

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. If the privileges or conditions of the licenses or certificates referred to in paragraph 1 above, issued by the aeronautical authorities of one Party to any person or designated airline

or in respect of an aircraft used in the operation of the agreed services, should permit a difference from the minimum standards established under the Convention, and which difference has been filed with the International Civil Aviation Organization (ICAO), the other Party may request consultations between the aeronautical authorities with a view to clarifying the practice in question.

3. 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. Such consultations shall take place within thirty (30) days of that request.

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 withhold, revoke or limit the operating authorization or technical permission 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 the Protocol for the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation, Supplementary to the Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation, 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 civil aviation security to which both Parties become parties.

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, and 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 which have their principal place of business or permanent residence in their territory and operators of airports in their territory act in conformity with such aviation security provisions. Each Party shall advise the other Party of any difference between its national regulations and practices and the aviation security standards of the Annexes. Either Party may request immediate consultations with the other Party at any time to discuss any such differences.

4. Each Party agrees to observe the security provisions referred to in paragraph 3 above required by the other Party for entry into, departure from, or while within, the territory of that other Party and to take adequate measures to protect aircraft and to inspect passengers, crew, and their baggage and carry-on 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 civil 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. Each Party shall have the right, within sixty (60) days following notice, for its aeronautical authorities to conduct an assessment in the territory of the other Party of the security measures being carried out, or planned to be carried out, by aircraft operators in respect of flights arriving from, or departing to the territory of the first Party. The administrative arrangements for the conduct of such assessments shall be agreed between the aeronautical authorities and implemented without delay so as to ensure that assessments will be conducted expeditiously. All assessments shall be covered by a specific confidential agreement.

7. 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 consultations with the aeronautical authorities of the other Party. Such consultations shall start within fifteen (15) days of receipt of such a request from either 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, or to prevent further non-compliance with the provisions of this Article, the first 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. These staff requirements may, at the option of the designated airline or airlines of one Party, be satisfied by its own personnel or by using the services of any other organization, company or airline operating in the territory of the other Party and authorized to perform such services for other airlines.

4. The representatives and staff shall be subject to the laws and regulations in force of the other Party, and consistent with such laws and regulations:

- a) each Party shall, on the basis of reciprocity and with the minimum of delay, grant the necessary employment authorizations, visitor visas or other similar documents to the representatives and staff referred to in paragraph 2 of this Article; and
- b) both Parties shall facilitate and expedite the requirement of employment authorizations for personnel performing certain temporary duties not exceeding ninety (90) days.

5. Each designated airline shall have the right to perform its own ground-handling in the territory of the other Party ("self-handling") or, at its option, select among competing agents for such services in whole or in part. The rights shall be subject only to physical constraints resulting from considerations of airport safety. Where such considerations preclude self-handling, ground services shall be available on an equal basis to all airlines; charges shall be

based on the costs of services provided; and such services shall be comparable to the kind and quality of services as if self-handling were possible.

6. 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 or in freely convertible currencies.

7. Each airline shall have the right to convert and remit abroad, on demand, local revenues in excess of sums locally disbursed. Conversion and remittance shall be permitted promptly at the rate of exchange applicable to current transactions and remittance on the date the carrier makes the initial application for remittance.

8. The conversion and remittance of such revenues shall be permitted in conformity with the applicable laws and regulations without restrictions or taxation in respect thereof, being subject however to administrative or exchange charges normally made by banks for the carrying out of such conversion and remittance.

9. 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. At their discretion, the airlines of each Party may pay for such expenses in the territory of the other Party in freely convertible currencies according to local currency regulation.

10. The provisions of this Article do not exempt the airlines of both Parties of the duties, taxes and contributions they are subject to.

11. If there is a special agreement between the Parties to avoid double taxation, or a special agreement which regulates transferring of funds between the Parties, such agreements shall prevail.

12. 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

- a) an airline or airlines of either Party; and
- b) an airline or airlines of a third country;

provided that such a third country authorizes or allows comparable arrangements between the airlines of the other Party and other airlines on services to, from and via such a third country; 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, excise taxes, inspection fees and other national duties and charges 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 or 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.

4. The exemptions provided for by this Article shall also apply in situations where a designated airline of one Party has entered into arrangements with other airlines for the loan or transfer in the territory of the other Party of the items specified in paragraphs 1 and 2 of this Article, provided such other airlines similarly enjoy such exemptions from the other Party.

5. Nothing in this Agreement shall prevent either Party from imposing, on a non-discriminatory basis, taxes, levies, duties, fees or charges on fuel supplied in its territory for use in an aircraft of a designated air carrier of the other Party that operates between a point or points in the territory of the first Party and another point in the territory of that Party or a point in the territory of another European Union Member State or EEA EFTA State.

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 [16A] of this Agreement, to be in breach of a provision of this Article, unless a) 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 b) 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. Capital represented by aircraft operated in international air services by a designated airline shall be taxable only in the territory of the Party in which the place of effective management of the airline is situated.

2. Profits from the operation of the aircraft of a designated airline in international air services as well as goods and services supplied to it shall be taxable according to the law of each Party, which shall endeavor to conclude a special agreement for the avoidance of double taxation.

Article 12A Capacity

1. Each Party shall allow each designated airline to determine the frequency and capacity of the international air transportation it offers based on commercial considerations of the marketplace.

2. Neither Party shall unilaterally limit the volume of traffic, frequency, or regularity of service, or the aircraft type or types operated by the designated airlines of the other Party, except as may be required for customs, technical, operational, or environmental reasons under uniform conditions consistent with Article 15 of the Convention.

Article 13
Fair Competition

1. The Parties shall inform each other about their competition laws, policies and practices or changes thereto, and any particular objectives thereof, which could affect the operation of air transport services under this agreement and shall identify the authorities responsible for their implementation.

2. The Parties shall notify each other whenever they consider that there may be incompatibility between the application of their competition laws, policies and practices and the matters related to the operation of this Agreement.

3. Notwithstanding any other provision to the contrary, nothing in this Agreement shall (i) require or favour the adoption of agreements between undertakings, decisions by associations of undertakings or concerted practices that prevent or distort competition; (ii) reinforce the effects of any such agreement, decision or concerted practice; or (iii) delegate to private economic operators the responsibility for taking measures that prevent, distort or restrict competition.

Article 14
Pricing

1. Prices for air transportation services operated under this Agreement may be freely established by the airlines and shall not be subject to approval.

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 or filing by airlines of the other Party of prices charged by charterers to the public, except as may be required on a non-discriminatory basis for information purposes.

3. Notwithstanding paragraphs 1 and 2 of this Article, the prices to be charged by the designated airline of Brazil 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. 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 15A
Statistics

The aeronautical authorities of each Party shall provide or cause its designated airline or airlines to provide the aeronautical authorities of the other Party, upon request, periodic or other statements of statistics as may be reasonably required.

Article 15B
Approval of Schedules

1. Each Party may require the designated airline of each Party to submit its envisaged flight schedules for approval to the aeronautical authorities of the other Party at least forty-five (45) days prior to the operation of the agreed services. The same procedure shall apply to any modification thereof.

2. For supplementary flights which the designated airline of one Party wishes to operate on the agreed services outside the approved timetable, each Party may require that the airline request prior permission from the aeronautical authorities of the other Party. Such requests shall usually be submitted at least 15 (fifteen) days prior to the operation of such flights.

Article 15C
Environmental Protection

The Parties support the need to protect the environment by promoting the sustainable development of aviation. The Parties agree with regard to operations between their respective territories to comply with the ICAO Standards and Recommended Practices (SARPs) of Annex 16 and the existing ICAO policy and guidance on environmental protection.

Article 16
Consultations

1. In a spirit of close co-operation, either Party may, at any time, request consultations relating to this Agreement, its implementation and satisfactory compliance with the provisions of this Agreement.
2. Such consultations, which may be through discussion or by correspondence, shall begin within a period of 60 (sixty) days from the date the other Party receives a written request, unless otherwise agreed by the Parties.

Article 16A
Settlement of Disputes

1. If any dispute arises between the Parties relating to the interpretation or application of this Agreement, except those that may arise under Articles 7 (Safety) and 8 (Aviation Security), the Parties shall in the first place endeavour to settle it by consultation.
2. If the Parties fail to reach a settlement by negotiation, the dispute shall be settled through diplomatic channels.

Article 17
Amendments

1. If either Party considers it desirable to amend any provision of this Agreement, including any 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 (60) days from the date of receipt of the request. Any amendments so agreed shall enter into force when they have been confirmed by an exchange of diplomatic notes by both Parties.
2. An amendment to any Annexes may be made by direct agreement between the aeronautical authorities of both Parties and shall enter into force when it has been confirmed by an exchange of diplomatic notes.

Article 17A
Multilateral Agreements

If a multilateral agreement concerning air transport comes into force in respect of both Parties, the present Agreement shall be amended so as to conform with the provisions of that multilateral agreement.

Article 18
Termination

Either Party may, at any time, give notice in writing, through diplomatic channels, to the other Party of its decision to terminate this Agreement. Such notice shall be sent simultaneously to the International Civil Aviation Organization. This Agreement shall terminate at midnight at the place of receipt of the notice immediately before the first anniversary of the date of receipt of the notice by the other Party, unless the notice is withdrawn by agreement of the Parties before the end of this period. In the absence of acknowledgement of receipt by the other Party, the notice shall be deemed to have been received fourteen (14) days after the date it was received by the International Civil Aviation Organization.

Article 19
Registration with ICAO

This Agreement and all amendments thereto shall be registered upon their signature with the International Civil Aviation Organization.

Article 20
Entry into force

This Agreement shall enter into force on the date of the later note in an exchange of diplomatic notes between the Parties confirming that the internal procedures necessary for the entry into force of the Agreement have been completed.

IN WITNESS WHEREOF the undersigned, being duly authorized by their respective Governments, have signed this Agreement.

DONE at this day of , 20-- in duplicate, in the English and Portuguese languages, each text being equally authentic.

For the Government of
the Republic of Iceland

For the Government of
the Federative Republic of Brazil