

AGREED MINUTES

NEGOTIATION ON THE BILATERAL AIR SERVICES AGREEMENT BETWEEN ICELAND AND INDONESIA

1. A negotiation on the Air Services Agreement (ASA) between the Government of Iceland and the Government of Indonesia was held in Reykjavik on 15 -16 June 2006.
2. The Icelandic delegation was led by the Ambassador of Iceland to Indonesia, H.E. Mr. Olafur Egilsson, and the Indonesian Delegation was led by Mr. Santoso Eddy Wibowo, Director of Air Transport, DGCA. The Ambassador of Indonesia to Iceland, H.E. Mrs. Retno L.P Marsudi attended the meeting as an adviser to the Indonesian Delegation. The List of Delegations appears as Annex A.
3. The delegations agreed on most of the provisions of the draft ASA and initialled the agreed text. The text is subject to eventual additions, as may be agreed between the Parties before formal signing. The initialled ASA text appears as Annex B.
4. Further to the agreed text, the following subjects will be studied for eventual inclusion in the ASA:
 - In the absence of a bilateral agreement between Iceland and Indonesia on the avoidance of double taxation, the Icelandic delegation proposed temporary provisions for the ASA. Since the Indonesian delegation was not in the position to discuss this particular matter, it will consult with the relevant authorities in Indonesia. Therefore, the proposed text appears as Annex C to the Agreed Minutes, subject to further agreement of both Parties.
 - The Icelandic delegation proposed to include provisions on 'Intermodal Services'. The Indonesian delegation informed, that it is difficult for Indonesia to accept the proposal, since there is no such domestic regulation on that particular issue. Therefore, both delegations agreed to attach the Icelandic draft provisions on intermodal services as Annex D to the Agreed Minutes, pending eventual agreement on the issue.

The aforesaid pending matters will be dealt with between the Parties through diplomatic channels.

5. In addition, the delegations signed a MOU containing provisional arrangements on certain issues which shall enter into force with immediate effect, namely:
- a. 5th freedom traffic rights
 - b. Capacity/frequency:
 - Passenger services
 - All cargo services
 - Charter services (passenger and or cargo)
 - c. Suspension and revocation.

The signed MOU appears as Annex E.

6. The meeting was held in a cordial atmosphere. The Indonesian Delegation expressed its highest appreciation to the Icelandic Delegation for the excellent cooperation and arrangements of the meeting as well as generous hospitality accorded during its stay in Reykjavik.
7. The venue and date of signing of the ASA will be agreed upon through diplomatic channels.

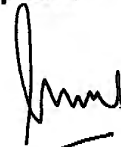
Reykjavik, 16 June 2006

**For the Delegation of
the Republic of Iceland**



Ambassador Olafur Egilsson

**For the Delegation of
the Republic of Indonesia**



Mr. Santoso Eddy Wibowo

MEMORANDUM OF UNDERSTANDING

During the negotiation between the Government of the Republic of Iceland and the Government of the Republic of Indonesia in Reykjavik on 15-16 June 2006, both delegations exchanged views and agreed on provisional arrangements on the following issues:

1. 5th freedom traffic rights

- a. The designated airlines of Iceland may at any time exercise 5th freedom traffic rights from 3 (three) points behind, to 3 (three) intermediate points to Jakarta, Batam and Denpasar and to 3 (three) points beyond, and vice versa.
- b. The designated airlines of Indonesia may at any time exercise 5th freedom traffic rights from 3 (three) points behind, to 3 (three) intermediate points to Reykjavik/Keflavik, Akureyri and Egilsstadir and to 3 (three) points beyond, and vice versa.

The points behind, intermediate points and points beyond are to be named by the Contracting Party designating the respective airline(s).

2. Capacity/Frequency

a. Passenger services

Both delegations decided that the designated airlines of each Contracting Party may operate scheduled services on the specified route(s) up to 11 (eleven) frequencies per week with full traffic rights.

b. All-Cargo services

The designated airlines of each Contracting Party shall be entitled to operate all-cargo scheduled services on the specified route(s) up to 11 (eleven) frequencies per week with full traffic rights.

c. **Charter Services (Passenger and/or Cargo)**

The designated airlines of each Contracting Party shall be entitled to operate charter passenger and/or cargo services up to 7 (seven) frequencies per week.

3. **Suspension and revocation**

Indonesia may, in the case of an airline designated by Iceland, revoke, suspend or limit the operating authorization or technical permissions, where :

- a. the airline is already authorized to operate under a bilateral agreement between Indonesia and another member state of the European Economic Area (EEA), and Indonesia can demonstrate that, by exercising traffic rights under Air Services Agreement between Iceland and Indonesia on a route that includes a point in that other Member State, it would be circumventing restrictions on the traffic rights imposed by that other agreement; or
- b. the airline designated holds an Air Operators Certificate issued by a member state of the EEA and there is no bilateral air services agreement between Indonesia and the respective member state, and that member state has denied traffic rights to an airline designated by Indonesia.

The provisions of this Memorandum of Understanding shall enter into force with immediate effect.

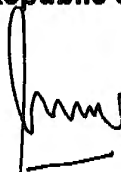
Done in Reykjavik on 16 June 2006

**For the Delegation of the Government
of the Republic of Iceland**



Ambassador Olafur Egilsson

**For the Delegation of the Government
of the Republic of Indonesia**



Mr. Santoso Eddy Wibowo

List of the Icelandic Delegation

1. **H.E. Mr. Olafur Egilsson**
Ambassador of Iceland to Indonesia
Head of the Delegation
2. **Ms. Ragnhildur Hjaltadottir**
Permanent Secretary, Ministry of Communications, Transport & Tourism
3. **Mr. Halldor S. Kristjansson**
Deputy Permanent Secretary, Ministry of Communications, Transport & Tourism
4. **Mr. Thorgeir Palsson**
Director General, Icelandic Civil Aviation Administration
5. **Ms. Astridur S. Thorsteinsson**
Senior Legal Adviser, Icelandic Civil Aviation Administration
6. **Mr. Hrafn Thorgeirsson**
Director Ground Operations, Icelandair
7. **Mr. Bjarki Sigfusson**
Director Operations, Bluebird Cargo
8. **Mr. Sveinn Zoega**
Key Account Manager, Air Atlanta

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List of the Indonesian Delegation

1. **Mrs. Retno L.P. Marsudi**
Ambassador of Indonesia to Iceland
Adviser
2. **Mr. Santoso Eddy Wibowo**
Head of Delegation
Director of Air Transportation
3. **Mr. Hemi Pamuraharjo**
Member
Official of the Directorate of Air Transportation
4. **Mr. Andi Ahmad Bastari**
Member
Official of the Ministry of Foreign Affairs
5. **Mr. Heru H. Subolo**
Member
First Secretary of the Embassy of Indonesia

AIR SERVICES AGREEMENT
BETWEEN
THE GOVERNMENT OF THE REPUBLIC OF ICELAND
AND
THE GOVERNMENT OF THE REPUBLIC OF INDONESIA

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AIR SERVICES AGREEMENT

BETWEEN

THE GOVERNMENT OF THE REPUBLIC OF ICELAND

AND

THE GOVERNMENT OF THE REPUBLIC OF INDONESIA

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

Being Parties to the Convention on International Civil Aviation, opened for signature at Chicago on the seventh day of December, 1944;

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

Taking into account the emerging of an international aviation system based on competition among airlines in the marketplace;

Desiring to facilitate the expansion of international air services 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 purpose of this Agreement, unless the context otherwise requires:

- a. The term "Aeronautical Authorities" means, in the case of the Republic of Iceland the Ministry of Communications and any person or agency authorized to perform the functions at present exercised by the said Authority, in the case of the Republic of Indonesia, the Ministry of Transportation and any person or body authorized to perform the functions at present exercised by the said Ministry or similar functions;



- b. The term "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 Annex adopted under Article 94(a) of the Convention and has been ratified by both Parties, and any Annex or any amendment thereto adopted under Articles 90 of the Convention, insofar as those amendments and Annexes have become effective for both Contracting Parties;
- c. The term "Territory", in the case of the Republic of Iceland has the meaning of the Article 2 of the Convention and, in the case of the Republic of Indonesia, the territory of the Republic of the Indonesia as defined in its laws, and part of continental shelf and adjacent seas over which the Republic of Indonesia has sovereignty, sovereign right or jurisdiction in accordance with 1982 UNCLOS;
- d. The term "Agreement" means this Agreement, its Annexes, and any amendments thereto;
- e. The term "European Economic Area" is an 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 exclusion of Switzerland on the other hand. EFTA is an abbreviation for the European Free Trade Area of which Iceland is a member;
- f. The term "Designated airline" means, an airline which has been designated and authorized in accordance with Article 3 of this Agreement;
- g. The term "Air service", "International air service", "Airline" and "Stop for non-traffic purposes" shall have the meaning respectively assigned to them in Article 96 of the Convention;
- h. The term "Agreed services" means scheduled air services on the routes specified in the Annex to this Agreement for the transport of passengers, cargo and mail, separately or in combination;
- i. The term "Specified Routes" means the routes established or to be established in the Annex to this Agreement;
- j. The term "Tariff" means the price to be charged for the carriage of passengers, baggage and cargo and the conditions under which those prices apply, including prices and conditions for agency and other auxiliary services performed by the carrier in connection with the air transportation but excluding remuneration and conditions for the carriage of mail;
- k. The term "Full cost" means the cost of providing services plus a reasonable charge for administrative overhead;

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- I. The term "user charge" means a charge imposed on airline(s) for the provision of airport, air navigation or aviation security facilities or services including related services and facilities;

It is understood that the titles given to the Articles of the present Agreement do in no way restrict or extend the meanings of any of the provisions of the present Agreement.

ARTICLE 2

GRANT OF RIGHTS

1. Each Contracting Party grants to the other Contracting Party the rights specified in the present Agreement for the purpose of establishing international schedule air services on the routes specified in the appropriate Section of the Annex thereto.
2. The airline of each Contracting Party shall enjoy the following privileges:
 - a. to fly without landing across the territory of the other Contracting Party;
 - b. to make stops in the said territory for non-traffic purposes; and
 - c. to make stops in the said territory at the points on the route(s) specified in the Route Schedule annexed to this Agreement for the purpose of taking on board and discharging international traffic in passengers, cargo and mail, separately or in combination.
3. Nothing in the provisions of paragraph (2) shall be deemed to confer on the airline of one Contracting Party the right to take on board, in the territory of the other Contracting Party, passengers, cargo or mail carried for remuneration or hire and destined for another point in the territory of the other Contracting Party.
4. Notwithstanding the provisions of paragraphs (1) and (2) of this Article, the operation of the agreed services in areas of hostilities or military occupation, or in areas affected thereby, shall, in accordance with Article 9 of the Convention, be subject to the approval of the competent military authorities.

ARTICLE 3

DESIGNATION AND AUTHORIZATIONS

1. Each Contracting Party shall have the right to designate through diplomatic channels to the other Contracting Party, one or more airlines for the purpose of operating the agreed services on the specified routes, and to withdraw or alter such designations.

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2. On receipt of such designation, the other Contracting Party shall grant the appropriate authorizations and permission with the minimum procedural delay, provided:
 - a) in the case of an airline designated by the Republic of Iceland :
 - i) it is established in the territory of the Republic of Iceland in accordance with 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 European Economic Area responsible for issuing its Air Operator's Certificate and the relevant aeronautical authority is clearly identified in the designation;
 - b) in the case of an airline designated by the Republic of Indonesia, its substantial ownership and effective control of that airline is vested in the Republic of Indonesia, nationals, or both; and is licensed in accordance with the applicable laws of Indonesia; and Indonesia has and maintains effective regulatory control of the airline;
 - c) the designated airline is qualified to meet the conditions prescribed under the laws and regulations normally applied in conformity with the provisions of the Convention to the operation of international air services by the Contracting Party receiving the designation.
3. On receipt of the operating authorization of paragraph 2, a designated airline may at any time begin to operate the agreed services for which it is so designated, provided that the airline complies with the applicable provisions of this Agreement.

ARTICLE 4

SUSPENSION AND REVOCATION

1. Each Contracting Party may revoke, suspend or limit the operating authorization or technical permissions of an airline by the other Contracting Party, where:
 - (a) in the case of an airline designated by the Republic of Iceland:
 - i. it is not established in the territory of the Republic 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;

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- 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 Operator's Certificate, or the relevant aeronautical authority is not clearly identified in the designation;
 - b) in the case of an airline designated by the Republic of Indonesia, the substantial ownership and effective control of that designated airline is not vested in the Republic of Indonesia, her nationals, or both; and is not licensed in accordance with the applicable laws of Indonesia; and Indonesia has not maintained effective regulatory control of the airline;
 - c) such airline is unable to prove that it is qualified to fulfill the conditions prescribed under the laws and regulations normally and reasonably applied in conformity with the Convention to the operation of international air services by the Contracting Party receiving the designation; or
 - d) the airline fails to comply with the laws and/or regulations of the Contracting Party granting these rights; or
 - e) the airline otherwise fails to operate in accordance with the conditions prescribed under the this Agreement.
2. Unless immediate revocation or suspension or imposition of the conditions mentioned in paragraph 1 of this Article is essential to prevent further infringements of laws and/or regulations, such right shall be exercised only after consultation with the other Contracting Party, in conformity with Article 16 of this Agreement.

ARTICLE 5

APPLICABILITY OF LAWS AND REGULATIONS

1. The laws, regulations and procedures of the Contracting Party relating to entering into, remaining in or departing from its territory of aircraft engaged in international air navigation or to the operation and navigation of such aircraft shall be complied with by the designated airline of the other Contracting Party upon entrance into, while within and departure from the said territory.
2. The laws and regulations of one Contracting Party respecting entry, clearance, staying or transit, emigration or immigration, passports, customs and quarantine, or in the case of mail, postal regulations, shall be complied with by the designated airline of the other Contracting Party and by or on behalf of its crews, passengers, cargo and mail upon transit of, admission to while within and departure from the territory of such Contracting Party.

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3. Passengers, baggage and cargo in direct transit across the territory of one Contracting Party and not leaving the area of the airport reserved for such purpose shall only be subject to a simplified control. Baggage and cargo in direct transit shall be exempt from customs duties and other similar taxes.
4. Neither Contracting Party shall give preference to its own or any other airline over a designated airline of the other Contracting Party engaged in similar international air services in the application of its immigration, customs, quarantine and similar regulations.

ARTICLE 6

RECOGNITION OF CERTIFICATES AND LICENSES

1. Certificates of airworthiness, certificates of competency and licenses issued or rendered valid by one Contracting Party, and still in force, shall be recognized as valid by the other Contracting Party for the purpose of operating services provided for in this Agreement, provided that the requirements under which such certificates or licenses were issued or rendered valid are equal to or above the minimum standards which are or may be established pursuant to the Convention. Each Contracting Party reserves the right, however to refuse to recognize for the purpose of flights above its own territory, certificates of competency and licenses granted to its own nationals or rendered valid for them by the other Contracting Party or by any other State.
2. If the privileges or conditions of the licenses or certificates referred to in paragraph (1) above, issued by the Aeronautical Authorities of one Contracting Party to any person or designated airline or in respect of an aircraft operating the agreed services on the specified routes would permit a difference from the standards established under the Convention, and which difference has been filed with the International Civil Aviation Organization, the Aeronautical Authorities of the other Contracting Party may request consultations in accordance with Article 16 of this Agreement with the Aeronautical Authorities of that Contracting Party with a view to satisfying themselves that the practice in question is acceptable to them. Failure to reach a satisfactory agreement will constitute grounds for the application of Article 4 of this Agreement.

ARTICLE 7

AVIATION SAFETY

1. Each Contracting Party may request consultations at any time concerning safety standards maintained in respect of an airline designated by the other Contracting Party in any area relating to aeronautical facilities, aircrew, aircraft or their operation adopted by the other Contracting Party. Such consultations shall take place within 30 days of that request.

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2. If, following such consultations, one Contracting Party finds that the other Contracting Party does not effectively maintain and administer safety standards in any such area that are at least equal to the minimum standards established at that time pursuant to the Chicago Convention, the first Contracting Party shall notify the other Contracting Party of those findings and the steps considered necessary to conform with those minimum standards and that other Contracting Party shall take appropriate corrective action. Failure by the other Contracting Party to take appropriate action within 60 days or such longer period as may be agreed shall be grounds for the application of Article 4 of this Agreement.
3. Notwithstanding the obligations mentioned in Article 33 of the Chicago Convention it is agreed that any aircraft operated by the airline or airlines of one Contracting Party on services to or from the territory of another Contracting Party may, while within the territory of the other Contracting Party, be made the subject of an examination by the authorized representatives of the other Contracting Party, on board and around the aircraft to check both the validity of the aircraft documents and those of its crew and the apparent condition of the aircraft and its equipment (in this Article called "ramp inspection"), provided this does not lead to unreasonable delay.
4. If any ramp inspection or series of ramp inspections gives rise to:
 - a) Serious concerns that an aircraft or the operation of an aircraft does not comply with the minimum standards established at that time pursuant to the Chicago Convention, or
 - b) Serious concerns that there is a lack of effective maintenance and administration of safety standards established at that time pursuant to the Chicago Convention.

the Contracting Party carrying out the inspection shall, for the purposes of Article 33 of the Chicago Convention, be free to conclude that the requirements under which the certificate or licenses in respect of that aircraft or in respect of the crew of that aircraft have been issued or rendered valid, or that the requirements under which that aircraft is operated, are not equal to or above the minimum standards established pursuant to the Chicago Convention.
5. In the event that access for the purpose of undertaking a ramp inspection of an aircraft operated by the airline or airlines of one Contracting Party in accordance with paragraph 3 above is denied by the representative of that airline or airlines, the other Contracting Party shall be free to infer that serious concerns of the type referred to in paragraph 4 above arise and draw the conclusions referred in that paragraph.

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6. Each Contracting Party reserves the right to suspend or vary the operating authorization of an airline or airlines of the other Contracting Party immediately in the event the first Contracting Party concludes, whether as a result of a ramp inspection, a series of ramp inspections, a denial of access for ramp inspection, consultation or otherwise, that immediate action is essential to the safety of an airline operation.
7. Any action by one Contracting Party in accordance with paragraphs 2 or 6 above shall be discontinued once the basis for the taking of that action ceases to exist.

ARTICLE 8

AVIATION SECURITY

1. Consistent with their rights and obligations under international law, the Contracting 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 Contracting Parties shall in particular act in conformity with the provisions of the Convention of Offences and Certain Other Acts Committed on Board Aircraft, signed at Tokyo on 14 September 1963, the Convention for the Suppression of Unlawful Seizure of Aircraft, signed at the Hague on 16 December 1970 and the Convention for the Suppression of Unlawful Acts Against the Safety of Civil Aviation, signed at Montreal on 23 September 1971, and all other international instruments in the same field which may be ratified in the future by the Contracting Parties.
2. The Contracting Parties shall provide upon request all necessary assistance to each other to prevent acts of unlawful seizure of civil aircraft and other unlawful acts against the safety of such aircraft, their passengers and crew, airports and air navigation facilities, and any other threat to the security of civil aviation.
3. The Contracting Parties shall, in their mutual relations, act in conformity with the aviation security provisions established by the International Civil Aviation Organization and designated as Annexes to the Convention on International Civil Aviation to the extent that such security provisions are applicable to the Contracting Parties; they shall require that operators of aircraft on their registry, or operators of aircraft who have their principal place of business or permanent residence in the territory of the Contracting Parties or, in the case of the Republic of Iceland, operators of aircraft which are established in its territory in accordance with the Agreement on the European Economic Area and have valid Operating Licenses in accordance with national law or under European Community law adopted in accordance with the Agreement on the European Economic Area, and the operators of airports in their territory act in conformity with such aviation security provisions. Accordingly each Contracting Party shall advise the other Contracting Party of any difference between its national regulations and practices and the aviation security standards of the Annexes

referred to above. Either Contracting Party may request immediate consultations with the other Contracting Party at any time to discuss any such differences.

4. Each Contracting Party agrees that its operators of aircraft may be required to observe, for departure from or while within the territory of the other Contracting Party, aviation security provisions in conformity with the law in force in that country, including, in the case of the Republic of Iceland, European Community law adopted in accordance with the Agreement on the European Economic Area. Each Contracting Party shall ensure that adequate measures are effectively applied within its territory to protect the aircraft and to screen passengers and their carry-on items and to carry out appropriate checks on crew, carry-on items, baggage, cargo and aircraft stores prior to and during boarding and loading. Each Contracting Party shall give positive consideration to any request from the other Contracting Party for reasonable 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 such aircraft, their passengers, crew, airports and air navigation facilities occurs, the Contracting Parties shall assist each other by facilitating communications and other appropriate measures intended to terminate rapidly and safely such incident or threat thereof.
6. When a Contracting Party has reasonable grounds to believe that the other Contracting Party has departed from the provisions of this Article, the first Contracting Party may request consultations. Such consultations shall start within fifteen (15) days of receipt of such a request from either Contracting Party. Failure to reach a satisfactory agreement within fifteen (15) days from the start of consultations shall constitute grounds for withholding, revoking, suspending or imposing conditions on the authorizations of the airline or airlines designated by the other Contracting Party. When justified by an emergency, or to prevent further non-compliance with the provisions of this Article, the first Contracting Party may take interim action at any time in accordance with Article 4 of this Agreement.

ARTICLE 9

COMMERCIAL OPPORTUNITIES

1. The designated airline of each Contracting Party shall have the right to establish offices in the territory of the other Contracting Party for the promotion and sale of air services.
2. The designated airline of each Contracting Party shall be entitled, in accordance with the laws and regulations of the other Contracting Party relating to entry, residence and employment, to bring in and maintain in the territory of the other Contracting Party managerial, sales, technical, operational and other special staff required for the provision of air services.

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3. The designated airline of each Contracting Party shall have the right to perform its own ground-handling in the territory of the other Contracting 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.
4. In case of nomination of a general agent or a general sales agent, this agent shall be appointed in accordance with the relevant applicable laws and regulations of each Contracting Party.
5. Each designated airline shall have the right to engage in the sale of air transportation in the territory of the other Contracting Party directly or through its agents and any person shall be able to purchase such transportation in accordance with the relevant applicable laws and regulations.
6. Each Contracting Party shall grant to the designated airline of the other Contracting Party, the right to transfer to its country on demand, in accordance with the foreign exchange regulations in force, the excess of receipts over expenditure achieved in connection with the carriage of passengers, cargo and mail on the agreed services in the territory of the other Contracting Party.
7. The airline(s) of each Contracting Party shall be permitted to pay for local expenses, including purchase of fuel, in the territory of the other Contracting Party in local currency. At their discretion, the airline(s) of each Contracting Party may pay for such expenses in the territory of the other Contracting Party in freely convertible currencies according to local currency regulations.
8. If one Contracting Party imposes restriction on the transfer of the excess of receipts achieved by the designated airline of the other Contracting Party, the other Contracting Party will also have the right to impose the same restrictions to the other Contracting Party's airline.
9. a) In operating or holding out the authorized services on the agreed routes, any designated airline of one Contracting Party may enter into co-operative marketing arrangements such as block-space, code-sharing or leasing arrangements, with
 - i) an airline or airlines of either Contracting Party; and
 - ii) an airline or airlines of a third country.

Provided that such third country authorized or allows comparable arrangements between the airlines of the other Contracting Party and other airlines on services to. From and via such third country; provided that all airlines in such arrangements 1) hold the appropriate authority and 2) meet the requirements normally applied to such arrangements.

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- b) Notwithstanding the provisions of subparagraph ii), if an airline of one Contracting Party holds out services between a point in the other Contracting Party's territory and a point in a third country by means of a code-share arrangement on any segment of that service with an airline of the third country, the first Contracting Party must authorize or allow any airline of the other Contracting Party to code-share with any airline on any segment of services between that third country and the other Contracting Party via a point or points in the territory of the first Contracting Party.
- c) For the purpose of calculating the capacity entitlement used in such code-sharing operations, the capacity used in code-sharing services is not counted against the capacity entitlement of the marketing airline(s).
- d) In respect of each ticket sold, the purchaser shall be informed, at the point of sale, of the name of airline which will operate on each sector of the service.
- e) The schedules of code-sharing services will be notified to the aeronautical authorities of both Contracting Parties at least thirty days before the proposed date of their introduction, unless a Contracting Party has waived this requirement.

ARTICLE 10

EXEMPTION FROM CUSTOMS AND OTHER DUTIES

1. Each Contracting Party shall on the basis of reciprocity exempt a designated airline of the other Contracting 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 as 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 Contracting Party operating the agreed services.
2. The exemptions granted by this article shall apply to the items referred to in paragraph 1 :
 - a) Introduction into the territory of the Contracting Party by or on behalf of the designated airline of the other Contracting Party;
 - b) Retained on board aircraft of the designated airline of one Contracting Party upon arrival in or leaving the territory of the other Contracting Party;
or

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- c) Taken on board aircraft of the designated airline of one Contracting Party in the territory of the other Contracting 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 Contracting Party granting the exemption, provided the ownership of such items is not transferred in the territory of the said Contracting 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 Contracting Party, may be unloaded in the territory of the other Contracting 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. Each of the Contracting Parties may impose or permit to be imposed just and reasonable charges for the use of airports and other facilities under its control.
2. Each of the Contracting Parties agree, however, that such charges shall not be higher than would be paid for the use of such airports and facilities by its national aircraft engaged in similar international service.
3. User charges imposed on the airlines of the other Contracting 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.
4. Each Contracting 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 paragraph 2 and 3. Each Contracting Party shall encourage the competent charging authorities to provide users with reasonable notice of any proposal for charges in user charges to enable users to express their views before changes are made.



5. Neither Contracting Party shall be held, in dispute resolution procedures pursuant to Article 17, 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 Contracting 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

To be retained for eventual provisions on avoidance of double taxation.

ARTICLE 13

CAPACITY REGULATION AND APPROVAL OF TIMETABLES

1. The designated airlines of the Contracting 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.
2. In operating the agreed services, the designated airline(s) of each Contracting Party shall take into account the interest of the airline(s) of the other Contracting Party so as not to affect unduly the services which the latter provides on the whole or part of the same route.
3. The agreed services provided by the designated airlines of the Contracting 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 Contracting Party designating the airline and the territory of the other Contracting 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 Contracting 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 Contracting Parties on the agreed services shall be agreed upon by the Aeronautical Authorities.
6. Any increase in the capacity to be provided or frequency of services to be operated by designated airline(s) of the other Contracting Party shall be agreed between the aeronautical authorities, on the basis of the estimated requirements of traffic between the territories of the two parties and any other traffic to be jointly agreed and determined. In case of disagreement between the Contracting Parties, the issues referred to in paragraph 3 above shall be settled in accordance with the provisions of Article 16 of this Agreement. Pending such

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agreement or settlement, the capacity and frequency entitlements already in force shall prevail.

7. The designated airline(s) of each Contracting Party shall submit for approval to the Aeronautical Authorities of the other Contracting Party not later than thirty days prior to the introduction of services on the specified routes the flight timetables. This shall, likewise, apply to later changes. In special cases, this time limit may be reduced subject to the approval of the said Authorities.

ARTICLE 14

TARIFFS

1. Each Contracting Party shall allow tariffs for air transportation to be established by each designated airline based upon 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
 - c. Protection of airlines from prices which are artificially low due to direct or indirect governmental subsidy or support.
2. Tariffs for international air transportation between the territories of the Contracting Parties shall be required to be notified or filed with its aeronautical authorities. Notification or Filing by the airlines of both Contracting Parties may be required no more than 30 days before the proposed date of effectiveness. In individual case, notification or filing may be permitted on shorter notice than normally required. The designated airlines of one Contracting Parties shall provide information on historical, existing, and proposed tariffs to the aeronautical authorities of the other Contracting Parties in a manner and format acceptable to those aeronautical authorities.
3. Neither Contracting Party shall require the notification or filing by airlines of the other Contracting Party of tariff charged by charterers to the public, except as may be required on a non-discriminatory basis for information purposes.
4. Neither Contracting Party shall take unilateral action to prevent the inauguration or continuation of a tariffs proposed to be charged or charged by (i) an airline of either Contracting Party for international air transportation between the territories of the Parties, or (ii) an airline of one Contracting Party for international air transportation between the territory of the other Contracting Party and any other country, including in both cases transportation on an interline or intraline basis. If either Contracting Party believes that any such tariffs is inconsistent with the considerations set forth in paragraph 1 of this Article, it shall request consultations and notify the other Contracting Party of the reasons for its dissatisfaction as soon as possible. These consultations shall be held not later

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than 30 days after receipt of the request, and the Parties shall cooperate in securing information necessary for reasoned resolution of the issue. If the Contracting Parties reach agreement with respect to a tariff for which a notice of dissatisfaction has been given, each Contracting Party shall use its best efforts to put that agreement into effect. Without such mutual agreement, the tariffs shall go into effect or continue in effect.

4. The tariffs established in accordance with the provisions of this Article shall remain in force until new tariffs have been established in accordance with the provisions of this Article.
5. The aeronautical authority of each Contracting Party shall exercise their best efforts to ensure that the designated airlines conform to the agreed tariffs filed with the aeronautical authorities of the Contracting Parties as well as with the laws or regulations in this regard.
6. Notwithstanding the provisions of this Article the tariffs to be charged by the designated airline(s) of Indonesia shall not be entitled to introduce new products or lower fares than the ones existing for identical products on air services for carriage wholly within the European Economic Area (EEA).
7. Notwithstanding the provisions of this Article the tariffs to be charged by the designated airline(s) of Iceland shall not be entitled to introduce new products or lower fares than the ones existing for identical products on air services for carriage traffic between Indonesia and other Association of the South East Asian Nations (ASEAN) countries.

ARTICLE 15

SUPPLY OF STATISTICS

The Aeronautical Authorities of either Contracting Party shall supply to the Aeronautical Authorities of the other Contracting Party, at their request, such information and statistics relating to the traffic carried on the agreed services by the designated airline of the first Contracting Party to and from the territory of the other Contracting Party as may normally be prepared and submitted by the designated airline to their National Aeronautical Authorities. Any relevant additional statistical traffic data which the Aeronautical Authorities of one Contracting Party may desire from the Aeronautical Authorities of the other Contracting Party shall, upon request, be subject of mutual discussion and agreement between the two Contracting Parties.

ARTICLE 16

CONSULTATIONS AND MODIFICATIONS

1. Each Contracting Party or its Aeronautical Authorities may at any time request consultations with the other Contracting Party or with its Aeronautical Authorities.

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2. Such consultations shall begin within a period of sixty (60) days from the date of receipt of the request, unless otherwise agreed by the Contracting Parties.
3. Any modification to the Agreement agreed by the Contracting Parties shall enter into force when it has been confirmed by the exchange of diplomatic notes.
4. Notwithstanding the provisions of paragraph (3), modifications to the route schedule annexed to this Agreement may be agreed directly between the Aeronautical Authorities of the Contracting Parties. They shall enter into force after having been confirmed by an exchange of diplomatic notes.

ARTICLE 17

SETTLEMENT OF DISPUTES

1. If any dispute arises between the Contracting Parties relating to the interpretation or application of this Agreement and its Annex, the Contracting Parties shall in the first place endeavor to settle it by negotiations.
2. If the Contracting Parties fail to reach a settlement pursuant to paragraph 1 above, the dispute may be referred to a Tribunal of three arbitrators. The Tribunal shall consist of one arbitrator nominated by each Contracting Party and the third to be agreed upon by the two so nominated. Each of the Contracting Parties shall nominate an arbitrator within a period of sixty (60) days from the date of receipt by either Contracting 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 Contracting Parties fails to nominate its arbitrator within the period specified, the President of the Council of the International Civil Aviation Organization may be requested by either Contracting Party to appoint an arbitrator or arbitrators as the case may require; provided that if the President of the Council of the International Civil Aviation Organization is a national of either Contracting Party, the senior Vice-President of the Council or if he is such a national, the Senior Member of the Council who is not such a national may be requested to make the appointments as the case may be. The third arbitrator, however, shall be a national of a third state and shall act as the President of the Tribunal and shall determine the place where arbitration will be held.
3. The Tribunal shall determine its own procedures.
4. The expenses of the Tribunal shall be shared equally between the Contracting Parties.
5. The Contracting Parties undertake to comply with any decision delivered in application of the present Article.

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6. If and so long as either Contracting Party or its designated airline fail to comply with a decision given under paragraph (2) of this Article, the other Contracting Party may limit, withhold or revoke any rights or privileges which it has granted by virtue of this Agreement.

ARTICLE 18

TERMINATION

1. Either Contracting Party may at any time give written notice through diplomatic channels to the other Contracting Party of its decision to terminate the present Agreement; such notice shall be simultaneously communicated to the International Civil Aviation Organization.
2. In such case the Agreement shall terminate twelve (12) months after the date of receipt of the notice by the other Contracting 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 Contracting 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

CONFORMITY WITH MULTILATERAL AGREEMENTS

In the event of the conclusion of a multilateral agreement concerning air transport by which both Contracting Parties become bound, the present Agreement shall be deemed to be amended so far as is necessary to conform with the provisions of that agreement.

ARTICLE 20

REGISTRATION WITH ICAO

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



ARTICLE 21

ENTRY INTO FORCE

This Agreement and its Annexes shall enter into force on the date of the later note in an exchange of diplomatic notes between the Contracting Parties confirming that each Contracting Party has completed the necessary internal procedures for the entry into force of this Agreement and its Annexes.

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

Done at this day of , 200- in duplicate, in the Icelandic, Bahasa Indonesia, and English languages, all three texts being equally authentic. In case of difference of interpretation the English text shall prevail.

**For the Government of
the Republic of Iceland**

**For the Government of
the Republic of Indonesia**

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ANNEX I
International Air Services

Section 1
Routes

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

From points behind Iceland via Iceland and intermediate points to points in Indonesia and beyond. Points to be named by the Contracting Party designating the respective airlines

- B. Routes for the airline or airlines designated by the Government of the Republic of Indonesia:

From points behind Indonesia via Indonesia and intermediate points to points in Iceland and beyond. Points to be named by the Contracting Party designating the respective airlines

Section 2
Operational Flexibility

Each designated airline may, on any or all flight and its option:

1. Operate flights in either or both directions;
2. Combine different flight numbers within one aircraft operation;
3. Serve behind, intermediate, and beyond points and points in the territories of the Contracting Parties on the routes in any combination and in any order;
4. Omit stops at any point or points;
5. Transfer traffic from any of its aircraft to any of its other aircraft at any point on the routes;
6. 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;

Without directional or geographical limitation and without loss of any right to carry traffic otherwise permissible under this Agreement.

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Section 3

Change of Gauge

On any segment or segments of the routes above, 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, with the exception of all-cargo services, in the outbound direction, the transportation beyond such point is a continuation of the transportation from the territory of the Contracting Party that has designated the airline and, in the inbound direction, the transportation to the territory of the Contracting Party that has designated the airline is a continuation of the transportation from beyond such point.

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ANNEX II Charter Operations

Section 1

Notwithstanding the Article 13 of this Agreement, the airlines of each Contracting Party designated under this Annex shall, in accordance with the terms of their designation, have the right to carry international charter traffic passengers (and their accompanying baggage) and/or cargo (including but not limited to, split and combination (passenger/cargo) charters) :

Between any point or points in the territory of the Contracting Party that has designated the airline and any points in the territory of the other Contracting Party; and

Between any point or points in the territory of the other Contracting Party and any point or points in a third country or countries, provided that such service constitutes part of a continuous operation, with or without a change of aircraft, that includes service to the homeland for the purpose of carrying local traffic between the homeland and the territory of the other Contracting Party.

In the performance of services covered by this Annex, airlines of each Contracting Party designated under this Annex shall also have the right: (1) to make stopovers at any points outside of the territory of either Contracting Party; (2) to carry transit traffic through the other Contracting Party's territory; (3) to combine on the same aircraft traffic originating in one Contracting Party's territory; and traffic originating in third countries.

Each Contracting Party shall extend favourable consideration to application by airlines of the other Contracting Party to carry traffic not covered by this Annex on the basis of comity and reciprocity.

Section 2

Any airlines designated by either Contracting Party performing international charter operations originating in the territory of either Contracting Party, whether on a one-way or round-trip basis, shall have the option of complying with the charter laws, regulations, and rules either of its homeland or of the other Contracting Party. If a Contracting Party applies different rules, regulations, terms, conditions, or limitation to one or more of its airlines, or to airlines of different countries, each designated airline shall be subject to the least restrictive of such criteria.

However, nothing contained in the above paragraph shall limit the rights of either Contracting Party to require airlines designated under this Annex by either Contracting Party to adhere to requirements relating to the protection of passenger funds and passenger cancellation and refund rights.

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Section 3

Except with respect to consumer protection rules referred to in the preceding paragraph above, neither Contracting Party shall require an airline designated under this Annex by the other Contracting Party, in respect of the carriage of traffic from the territory of that other Contracting Party or of a third country on a one-way or round-trip basis, to submit more than a declaration of conformity with the applicable laws, regulations and rules referred to under section 2 of this Annex or of a waiver of these laws, regulations, or rules granted by the applicable aeronautical authorities.

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AVOIDANCE OF DOUBLE TAXATION

1. Income and profits derived from the operation of aircraft in international traffic by an airline of one Contracting Party, including participation in a pool service, a joint air transport operation or an international operating agency, which are subject to tax in the area of that Contracting Party shall be exempt from income tax, profits tax and all other taxes on income and profits imposed in the area of the other Contracting Party.
2. Capital and assets of an airline of one Contracting Party relating to the operation of aircraft in international traffic shall be exempt from taxes on capital and assets imposed in the territory of the other Contracting Party.
3. Gains from the alienation of aircraft operated in international traffic and movable property pertaining to the operation of such aircraft which are received by an airline of one Contracting Party, the income and profits of which according to paragraph 1 are taxable only in the area of that Contracting Party, shall be exempt from any tax or gains imposed in the area of the other Contracting Party.
4. For the purposes of this Article:
 - a) the term "income and profits" includes revenues and gross receipts from the operation of aircraft for the carriage of persons, livestock, goods, mail or merchandise in international traffic including :
 - (i) The charter or rental of aircraft if such charter or rental is incidental to the operation of aircraft in international traffic;
 - (ii) The sale of tickets or similar documents, and the provision of services connected with such carriage, for the airline itself or for other airlines, but in the latter case only if such sales or provisions of service are incidental to the operation of aircraft in international traffic; and
 - (iii) Interest on funds directly connected with the operation of aircraft in international traffic;

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- b) the term "international traffic" means any carriage by an aircraft except when such carriage is solely between places in the area of the other Contracting Party;
- c) the term "competent authority" means, in the case of Indonesia, the ——— or his authorized representative, or any person or body authorized to perform any functions at present exercisable by the ————— or similar functions; and in the case of Iceland, the Minister of Finance or his authorized representative.
5. The competent authorities of the Parties shall, through consultation, endeavour to resolve by mutual agreement any disputes regarding the interpretation or application of this Article. Article 16 shall not apply to such disputes.
6. Notwithstanding Article 20, each Contracting Party shall in writing notify the other that the internal procedures necessary to implement this Article have been completed. The Article shall enter into force on the date of receipt of the latter of these notifications and shall thereupon have effect in respect of income, profits and gains arising on or after the first day of ————— and on capital and assets held.
7. Notwithstanding Article 18, this Article shall cease to have effect, in relation to income, profits and gains received as well as capital and assets held on or after the first day of January in the calendar year next following the expiry of six months after the date of receipt of such notice.
8. This Article shall cease to have effect in the event that an agreement for the avoidance of double taxation with respect to taxes on income, providing for similar exceptions to those stipulated in this Article, enters into force between the Parties.

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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.

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