

AGREED MINUTES

1. Delegations representing the Government of Canada and the Government of the Republic of Iceland met in Ottawa on 10-11 July 2007 to discuss air service relations.
2. The discussions took place in a cordial and constructive atmosphere that has been a long-standing characteristic of relations between the two countries. A list of the delegations is attached as Appendix A.
3. The delegations reached an agreement between the Government of Canada and the Government of the Republic of Iceland on Air Transport (the Agreement), that, upon entry into force, shall supercede, replace and terminate the Memorandum of Understanding between the Government of Canada and the Government of Iceland on Scheduled Air Services, signed on 2 February 2001. The Agreement is attached as Appendix B.
4. The Agreement shall come into force on the date of signature. The delegations recognized that completion of formalities related to the signing and entering into force of the Agreement could take some time. Delegations agreed to submit the ad referendum agreement to their respective government as soon as possible for approval to allow its early signing and ratification in conformity with the constitutional requirements of each Contracting Party. The Canadian delegation undertook to provide a French language version of the Agreement to the Icelandic authorities for their review. It was agreed that, in the interim, air services will be permitted to be operated and the provisions of the Agreement will be applied to the fullest extent possible, under national laws and regulations.
5. The Icelandic delegation, with reference to Article III (Designation) of the Agreement, formally advised that Icelandair ehf is designated to operate agreed services under the Agreement from today's date. The Canadian delegation advised that a Canadian carrier would not likely seek designation to serve Iceland for the foreseeable future.
6. While Icelandair is operating own-aircraft passenger-combination services to Halifax, and notwithstanding Annex II of the Agreement, it would not be the intention of the Government of Canada to require additional airlines designated by Iceland to operate own-aircraft passenger-combination scheduled air services to Halifax.
7. The Icelandic delegation explained that, as a member of the European Economic Area

(EEA), it is obliged to include certain standard provisions, in particular, on designation and revocation of EEA airlines and the establishment of prices (tariffs), in all of its bilateral agreements. It explained the meaning of these provisions and urged the Canadian delegation to accept them. The Canadian delegation, while taking note of the request of the Icelandic delegation, stated that it was not in a position to accept these provisions at this time. The Canadian delegation acknowledged that Canada would soon be entering air transport negotiations with the European Commission. The Canadian delegation agreed that, should an agreement be concluded between Canada and the European Union, the Government of Canada is prepared to discuss with the Government of the Republic of Iceland any necessary amendments to the Canada-Iceland bilateral air transport agreement.

8. The Canadian delegation indicated that it is the interest of the Government of Canada to preserve air services at Canadian cities. The Icelandic delegation indicated that Icelandair intends to operate year-round scheduled passenger-combination and all-cargo services to Atlantic Canada as of April, 2008.

9. The Canadian delegation sought clarification on a range of issues pertaining to bilateral air services. The Icelandic delegation indicated that it is not in the interest of the Icelandic government to subsidize its air carriers but rather to have in place a level competitive operating environment for Canadian and Icelandic air carriers. The Canadian delegation obtained clarification regarding the scrutinization by Icelandic authorities of air fares by designated airlines of Iceland when those airlines would be operating between Canada and Iceland on a single-track basis. The Canadian delegation outlined the expectations of the Government of Canada associated with concluding an open air services arrangement with Iceland, including that the primary focus of airlines should be to build bilateral air traffic and that air services should be operated for the benefit of the airlines of Canada and Iceland.

10. The delegations agreed that an on-going review by the authorities of both countries of the operation of air services and the competitive operating environment shall be established. The delegations further agreed that, if the expectations of the government of either country have not been met, the two governments undertake to discuss the continuing functioning of the Agreement.

11. Delegations confirmed their mutual awareness of the new security environment and heightened security oversight of international air services. Delegations noted that the operation of services to/from third countries could, in certain circumstances, require the imposition of special security measures and, in extreme situations, temporarily require curtailment of services in connection with the third country of concern. Such measures would be imposed on a basis of risk assessment.

12. The delegations recognize the importance of maintaining and developing tourist traffic between their countries. The aeronautical authorities of each Contracting Party shall, consistent with their respective laws and regulations, consider favourably and as quickly as practicable applications for non-scheduled/charter flights between Canada and Iceland by the air carriers of the other Contracting Party.

Done at Ottawa on the 11th of July 2007.

Head of the delegation of the
Government of Canada

A stylized, cursive signature in black ink, starting with a large 'N' and ending with a long, sweeping horizontal stroke.

Mr. Nadir Patel
Chief Air Negotiator
Government of Canada

Head of the delegation of the
Government of the Republic of Iceland

A cursive signature in black ink, featuring a large, stylized 'B' and 'J' at the beginning, followed by several loops and ending with a long, sweeping horizontal stroke.

Mr. Benedikt Jónsson
Chief Negotiator of Trade Agreements
Ministry for Foreign Affairs

APPENDIX A

Delegation list

Canada

GOVERNMENT REPRESENTATIVES

Mr. Nadir Patel
Chief Air Negotiator
Government of Canada

Mr. Don Park
Senior Policy Advisor
International Air Policy
Transport Canada

Mr. Carl Baker
Manager, International Agreements
Canadian Transportation Agency

Mrs. Josée De Menezes
Senior Trade Policy Analyst (Transport)
Department of Foreign Affairs and International Trade

INDUSTRY REPRESENTATIVES

Alain Boudreau
Director, International Regulatory Affairs & Facilitation
Air Canada

Mr. George Petsikas
Director, Government and Industry Affairs
Air Transat

Mr. Alexis Steinman
Legal Counsel
Air Transat

Mr. Lorne Mackenzie
Director, Regulatory Affairs
WestJet



OBSERVERS

Mr. Nuno Bellem
Senior Advisor
Licensing, Charters and Agreements Directorate
Canadian Transportation Agency

Ms. Cheryl Burrell
Analyst
Licensing, Charters and Agreements Directorate
Canadian Transportation Agency

Iceland

GOVERNMENT REPRESENTATIVES

Mr. Benedikt Jónsson
Chief Negotiator of Trade Agreements
Ministry for Foreign Affairs

Ambassador Markús Örn Antonsson
Embassy of Iceland in Canada

Ms. Ragnhildur Hjaltadóttir
Permanent Secretary
Ministry of Communications

Ms. Ástrídur Scheving Thorsteinsson
Chief Legal Adviser
Ministry of Communications

INDUSTRY REPRESENTATIVE

Mr. Gunnar Mar Sigurfinnsson
Senior VP of Sales and Marketing
Icelandair



**AGREEMENT BETWEEN THE GOVERNMENT OF CANADA
AND THE GOVERNMENT OF THE REPUBLIC OF ICELAND
ON AIR TRANSPORT**

<u>ARTICLE</u>	<u>TITLE</u>
I	Definitions
II	Grant of Rights
III	Designation
IV	Authorization
V	Withholding, Revocation and Limitation of Authorization
VI	Application of Laws
VII	Safety Standards, Certificates and Licences
VIII	Aviation Security
IX	Availability of Airports and Aviation Facilities and Services
X	Charges for Airports and Aviation Facilities and Services
XI	Capacity
XII	Statistics
XIII	Customs Duties and Other Charges
XIV	Tariffs
XV	Sales and Transfer of Funds
XVI	Airline Representatives
XVII	Ground Handling
XVIII	Smoking Ban
XIX	Applicability to Non-scheduled Flights
XX	Consultations
XXI	Modification of Agreement
XXII	Settlement of Disputes
XXIII	Termination
XXIV	Registration with ICAO
XXV	Multilateral Conventions
XXVI	Entry into Force
XXVII	Titles



**AGREEMENT BETWEEN THE GOVERNMENT OF CANADA
AND THE GOVERNMENT OF THE REPUBLIC OF ICELAND
ON AIR TRANSPORT**

The Government of Canada and the Government of the Republic of Iceland, hereinafter referred to as the Contracting Parties,

Being parties to the Convention on International Civil Aviation opened for signature at Chicago, on the 7th day of December, 1944,

Desiring to ensure the highest degree of safety and security in international air transportation,

Recognizing the importance of international air transportation in promoting trade, tourism and investment,

Desiring to promote their interests in respect of international air transportation,

Desiring to conclude an agreement on air transport, supplementary to the said Convention,

Have agreed as follows:



ARTICLE I
(Definitions)

For the purpose of this Agreement, unless otherwise stated:

- (a) "Aeronautical authorities" means, in the case of Canada, the Minister of Transport and the Canadian Transportation Agency and, in the case of the Republic of Iceland, the Ministry of Communications and the Civil Aviation Administration or, in both cases, any other authority or person empowered to perform the functions exercised by the said authorities;
- (b) "Agreed services" means scheduled air services on the routes specified in this Agreement for the transport of passengers and cargo, including mail, separately or in combination;
- (c) "Agreement" means this Agreement, any Annex attached thereto, and any amendments to the Agreement or to any Annex;
- (d) "Convention" means the Convention on International Civil Aviation opened for signature at Chicago on the seventh day of December 1944 and includes any Annex adopted under Article 90 of that Convention and any amendment of the Annexes or of the Convention under Articles 90 and 94 thereof so far as those Annexes and amendments have been adopted by both Contracting Parties;
- (e) "Designated airline" means an airline which has been designated and authorized in accordance with Articles III and IV of this Agreement;
- (f) "Territory " means for each Contracting Party, its land areas (mainland and islands), internal waters and territorial sea as determined by its domestic law, and includes the air space above these areas;
- (g) "Air services", "International air service", "Airline" and "Stop for non-traffic purposes" have the meaning respectively assigned to them in Articles 2 and 96 of the Convention.

ARTICLE II
(Grant of Rights)

1. Each Contracting Party grants to the other Contracting Party the following rights for the conduct of international air services by the airline or airlines designated by that other Contracting Party:

- (a) the right to fly without landing across its territory;
- (b) the right to land in its territory for non-traffic purposes; and
- (c) to the extent permitted in this Agreement, the right to make stops in its territory on the routes specified in this Agreement for the purpose of taking up and discharging international traffic in passengers and cargo, including mail, separately or in combination.



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

3. Nothing in paragraph 1 of this Article shall be deemed to confer on a designated airline of one Contracting Party the right of taking up, in the territory of the other Contracting Party, passengers and cargo, including mail, carried for remuneration or hire and destined for another point in the territory of that other Contracting Party.

ARTICLE III (Designation)

Each Contracting Party shall have the right to designate, by diplomatic note, an airline or airlines to operate the agreed services on the routes specified in this Agreement for that Contracting Party and to withdraw a designation or to substitute another airline for one previously designated.

ARTICLE IV (Authorization)

1. Following receipt of a notice of designation or of substitution pursuant to Article III of this Agreement, the aeronautical authorities of the other Contracting Party shall, consistent with the laws and regulations of that Contracting Party, issue without delay to the airline or airlines so designated the required authorizations to operate the agreed services for which that airline has been designated.

2. Upon receipt of such authorizations, the designated airline may begin at any time to operate the agreed services, in whole or in part, provided that the airline complies with the provisions of this Agreement.

ARTICLE V (Withholding, Revocation and Limitation of Authorization)

1. The aeronautical authorities of each Contracting Party shall have the right to withhold the authorizations referred to in Article IV of this Agreement with respect to an airline designated by the other Contracting Party, and to revoke, suspend or impose conditions on such authorizations, temporarily or permanently:

- (a) in the event of failure by such airline to qualify under the laws and regulations normally applied by the aeronautical authorities of the Contracting Party granting the rights;
- (b) in the event of failure by such airline to comply with the laws and regulations of the Contracting Party granting the rights;



- (c) in the event that they are not satisfied that substantial ownership and effective control of the airline are vested in the Contracting Party designating the airline or its nationals; and
- (d) in the event the airline otherwise fails to operate in accordance with the conditions prescribed under this Agreement.

2. Unless immediate action is essential to prevent infringement of the laws and regulations referred to above or unless safety or security requires action in accordance with the provisions of Articles VII or VIII, the rights enumerated in paragraph 1 of this Article shall be exercised only after consultations between the aeronautical authorities in conformity with Article XX of this Agreement.

ARTICLE VI (Application of Laws)

1. The laws, regulations and procedures of one Contracting Party relating to the admission to, remaining in, or departure 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 or airlines of the other Contracting Party upon entrance into, departure from and while within the said territory.

2. The laws and regulations of one Contracting Party relating to the admission to, remaining in, or departure from its territory of passengers, crew members and cargo including mail (such as regulations relating to entry, clearance, transit, aviation security, immigration, passports, customs and quarantine) shall be complied with by the designated airline or airlines of the other Contracting Party and by or on behalf of such passengers, crew members and cargo including mail, upon transit of, admission to, departure from and while within the said territory. In the application of such laws and regulations, a Contracting Party shall, under similar circumstances, accord to the designated airline or airlines of the other Contracting Party treatment no less favourable than that accorded to its own or any other airline engaged in similar international air services.

ARTICLE VII (Safety Standards, Certificates and Licences)

1. Certificates of airworthiness, certificates of competency and licences, issued or rendered valid by the aeronautical authorities of one Contracting Party and still in force, shall be recognized as valid by the aeronautical authorities of the other Contracting Party for the purpose of operating the agreed services provided that such certificates or licences were issued or rendered valid pursuant to, and in conformity with, the standards established under the Convention. The aeronautical authorities of each Contracting Party reserve the right, however, to refuse to recognize, for the purpose of flights above its own territory, certificates of competency and licences granted to its own nationals by the other Contracting Party.

2. If the privileges or conditions of the licences 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 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, the other Contracting Party may request consultations between the aeronautical authorities in conformity with Article XX of this Agreement with a view to clarifying the practice in question.

3. Consultations concerning the safety standards and requirements maintained and administered by the aeronautical authorities of the other Contracting Party relating to aeronautical facilities, crew members, aircraft, and operation of the designated airlines shall be held within fifteen (15) days of receipt of a request from either Contracting Party, or such other period as may be agreed. If, following such consultations, the aeronautical authorities of one Contracting Party find that the aeronautical authorities of the other Contracting Party do not effectively maintain and administer safety standards and requirements in these areas that are at least equal to the minimum standards which may be established pursuant to the Convention, the aeronautical authorities of the other Contracting Party shall be notified of such findings and the steps considered necessary to conform with these minimum standards. Failure to take appropriate corrective action within fifteen (15) days, or such other period as may be agreed, shall constitute grounds for withholding, revoking, suspending or imposing conditions on the authorizations of the airline or airlines designated by the other Contracting Party.

4. Pursuant to Article 16 of the Convention, any aircraft operated by, or on behalf of, the airline or airlines of one Contracting Party, may, while within the territory of the other Contracting Party, be the subject of an examination by the aeronautical authorities of the other Contracting Party, on board and around the aircraft to verify the validity of the relevant aircraft documents and those of its crew members and the apparent condition of the aircraft and its equipment (in this Article called "ramp inspection"), provided such ramp inspection does not cause an unreasonable delay in the operation of the aircraft.

5. If the aeronautical authorities of one Contracting Party, after carrying out a ramp inspection, find that:

- a) an aircraft or the operation of an aircraft does not comply with the minimum standards established at that time pursuant to the Convention; and/or
- b) there is a lack of effective maintenance and administration of safety standards established at that time pursuant to the Convention,

the aeronautical authorities of that Contracting Party may, for the purposes of Article 33 of the Convention and at their discretion, determine that the requirements under which the certificates or licences in respect of that aircraft or its crew members had 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 Convention. This same determination may be made in the case of denial of access for ramp inspection.

6. The aeronautical authorities of each Contracting Party shall have the right, without consultation, to withhold, revoke, suspend or impose conditions on the authorizations of an airline or airlines of the other Contracting Party in the event the aeronautical authorities of the first Contracting Party conclude that immediate action is essential to the safety of airline operations.



7. Any action by the aeronautical authorities of one Contracting Party in accordance with paragraphs 3 or 6 above shall be discontinued once the basis for the taking of that action ceases to exist.

ARTICLE VIII (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.

2. 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 on Offences and Certain Other Acts Committed on Board Aircraft, signed at Tokyo on September 14, 1963, the Convention for the Suppression of Unlawful Seizure of Aircraft, signed at The Hague on December 16, 1970, the Convention for the Suppression of Unlawful Acts Against the Safety of Civil Aviation, signed at Montreal on September 23, 1971, and the Protocol for the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation, signed at Montreal on 24 February 1988, the Convention on the Marking of Plastic Explosives for the Purpose of Detection, signed at Montreal on 1 March 1991 and any other multilateral agreement governing aviation security binding upon both Contracting Parties.

3. 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 members, airports and air navigation facilities, and any other threat to the security of civil aviation.

4. The Contracting Parties shall 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 of their registry, operators of aircraft who have their principal place of business or permanent residence in their territory, and the operators of airports in their territory act in conformity with such aviation security provisions. 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 in this paragraph. Either Contracting Party may request immediate consultations with the other Contracting Party at any time to discuss any such differences.

5. Each Contracting Party agrees that its operators of aircraft may be required to observe the aviation security provisions referred to in paragraph 4 above required by the other Contracting Party for entry into, departure from, or while within the territory of that other Contracting Party. Each Contracting Party shall ensure that adequate measures are effectively applied within its territory to protect the aircraft and to inspect passengers, crew members, carry-on items, baggage, cargo, mail and aircraft stores prior to and during boarding and loading.

6. Each Contracting Party shall, as far as may be practicable, meet any request from the



other Contracting Party for reasonable special security measures to meet a particular threat.

7. Each Contracting Party shall have the right, within sixty (60) days following notice (or such shorter period as may be agreed between the aeronautical authorities), for its aeronautical authorities to conduct an assessment in the territory of the other Contracting 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 Contracting 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.

8. 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 and crew members, airports or air navigation facilities occurs, the Contracting Parties shall assist each other by facilitating communications and taking other appropriate measures intended to terminate rapidly and safely such incident or threat thereof.

9. 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.

ARTICLE IX

(Availability of Airports and Aviation Facilities and Services)

Each Contracting Party shall ensure that airports, airways, air traffic control and air navigation services, aviation security, and other related facilities and services that are provided in the territory of one Contracting Party shall be available for use by the airlines of the other Contracting Party on terms no less favourable than the most favourable terms available to any other airline at the time arrangements for use are made.

ARTICLE X

(Charges for Airports and Aviation Facilities and Services)

1. For the purposes of this Article, "user charge" means a charge imposed on airlines for the provision of airport, air navigation, or aviation safety or security facilities or services including related services and facilities.

2. Each Contracting Party shall ensure that user charges that may be imposed by the competent charging authorities or bodies of each Contracting Party on the airlines of the other Contracting Party for the use of air navigation and air traffic control services shall be just, reasonable, and not unjustly discriminatory. In any event, any such user charges shall be



assessed on the airlines of the other Contracting Party on terms not less favourable than the most favourable terms available to any other airline.

3. Each Contracting Party shall ensure that user charges that may be imposed by the competent charging authorities or bodies of each Contracting Party on the airlines of the other Contracting Party for the use of airport, aviation security and related facilities and services 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 Contracting Party on terms not less favourable than the most favourable terms available to any other airline at the time the charges are assessed.

4. Each Contracting Party shall ensure that user charges imposed under paragraph 3 of this Article 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, and aviation security facilities and services at the airport or within the airport system. Such charges 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.

5. Each Contracting Party shall encourage consultations between the competent charging authorities or bodies in its territory and the airlines or their representative bodies using the services and facilities, and shall encourage the competent charging authorities or bodies and the airlines or their representative bodies 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 2, and 3 and 4 of this Article. Each Contracting 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.

6. Neither Contracting Party shall be held, in dispute resolution procedures pursuant to Article 22, 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 Contracting 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 XI **(Capacity)**

1. Each Contracting Party shall allow a fair and equal opportunity for the designated airlines of both Contracting Parties to operate the agreed services on the specified routes.

2. Each Contracting Party shall allow any designated airline of the other Contracting Party to determine the frequency and capacity of the agreed services it offers based on the airline's commercial considerations in the marketplace. Therefore, neither Contracting Party shall impose on the designated airline of the other Contracting Party any requirement with respect to capacity, frequency or traffic that, would be inconsistent with the purposes of this Agreement. Neither Contracting Party shall unilaterally limit the volume of traffic, frequency or regularity of service, or of the aircraft type or types operated by the designated airline of the other Contracting Party, except as may be required for customs and other government inspection services, technical, or operational reasons under uniform conditions consistent with Article 15 of



the Convention.

3. The aeronautical authorities of the Contracting Parties may require, for information purposes, the filing of schedules or timetables not later than ten (10) days, or such lesser period as those authorities may require, prior to the operation of new or revised services. If the aeronautical authorities of a Contracting Party require filings for information purposes, they shall minimize the administrative burden of filing requirements and procedures on the designated airlines of the other Contracting Party.

ARTICLE XII

(Statistics)

1. The aeronautical authorities of each Contracting Party shall provide, or shall cause their designated airlines to provide, the aeronautical authorities of the other Contracting Party, upon request, periodic or other statements of statistics as may be reasonably required for the purpose of reviewing the operation of the agreed services, including statistics showing the initial origins and final destinations of the traffic.

2. The aeronautical authorities of both Contracting Parties shall maintain close contact with respect to the implementation of paragraph 1 of this Article including procedures for the provision of statistical information.

ARTICLE XIII

(Customs Duties and Other Charges)

1. Each Contracting Party shall, to the fullest extent possible under its national law and on a basis of reciprocity, exempt the designated airline or airlines of the other Contracting Party from import restrictions, 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 liquor, tobacco and other products destined for sale to passengers in limited quantities during the flight) and other items intended for use or used solely in connection with the operation or servicing of aircraft of that airline as well as printed ticket stock, air waybills, any printed material which bears the insignia of the company printed thereon and usual publicity material distributed without charge by that airline.

2. The exemptions granted by this Article shall apply to the items referred to in paragraph 1 of this Article:

- (a) introduced into the territory of one Contracting Party by or on behalf of a designated airline of the other Contracting Party;
- (b) retained on board aircraft of a designated airline of one Contracting Party upon arriving in or leaving the territory of the other Contracting Party; and
- (c) taken on board aircraft of a designated airline of one Contracting Party in the territory of the other Contracting Party;

whether or not such items are used or consumed wholly within the territory of the Contracting Party granting the exemption, provided such items are not alienated 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 a 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 the supervision of the said authorities up to such time as they are re-exported or otherwise disposed of in accordance with Customs regulations.

4. Baggage and cargo in direct transit across the territory of either Contracting Party shall be exempt from customs duties and other similar charges.

ARTICLE XIV **(Tariffs)**

1. For purposes of this Article,

a) "Tariff" means a publication which includes all rates, fares, charges, conditions of carriage, classifications, rules, regulations, practices and services related thereto, for air transportation of passengers and their baggage and cargo but excluding remuneration and conditions for the carriage of mail;

b) "Price" means any fare, rate or charge contained in tariffs (including frequent flyer plans or other benefits provided in association with air transportation) for the carriage of passengers (including their baggage) and/or cargo (excluding mail) and the conditions directly governing the availability or applicability of such fare, rate or charge but excluding general terms and conditions of carriage;

c) "General Terms and Conditions of Carriage" means those terms and conditions contained in tariffs which are broadly applicable to the agreed services and not directly related to any price.

2. The primary consideration in the establishment of prices for transportation on the agreed services is market forces. The Contracting Parties shall permit the tariffs referred to in this Article to be developed by the designated airlines individually or, at the option of the airlines, through coordination with each other or with other airlines.

3. The Contracting Parties shall not require prices for transportation on the agreed services to be filed. The Contracting Parties may require designated airlines to provide immediate access, on request, to information on prices to the aeronautical authorities of the other Contracting Party in a manner and format acceptable to the aeronautical authorities.

4. The Contracting Parties shall permit (tacitly or explicitly) prices for the agreed services to come into and remain in effect unless the aeronautical authorities of both Contracting Parties are dissatisfied. Except as provided for in Paragraph 5 of this Article, neither Contracting Party shall take action to prevent the inauguration or continuation of a price proposed to be charged or charged by an airline of either Contracting Party for transportation on the agreed services. The primary objectives of any intervention by the aeronautical authorities shall be:

(a) prevention of unreasonably discriminatory prices or practices;



(b) protection of consumers from prices that are unreasonably high or restrictive because of the abuse of a dominant position;

(c) protection of airlines from prices to the extent that they are artificially low because of direct or indirect governmental subsidy or support; and

(d) protection of airlines from prices that are artificially low, where evidence exists as to an intent of eliminating competition.

5. In the event that the aeronautical authorities of one Contracting Party are dissatisfied with a price, they shall so notify the aeronautical authorities of the other Contracting Party and the airline concerned. The aeronautical authorities receiving the notice of dissatisfaction shall acknowledge the notice, including an indication of their agreement or disagreement with it, within ten (10) working days of receipt of the notice. The aeronautical authorities shall cooperate in securing information necessary for the consideration of a price on which a notice of dissatisfaction has been given. If the aeronautical authorities of the other Contracting Party have indicated their agreement with the notice of dissatisfaction, aeronautical authorities of both Contracting Parties shall take immediate action to ensure that the price is withdrawn and no longer charged.

6. The aeronautical authorities of either Contracting Party may request technical discussions on prices at any time. Unless otherwise agreed between aeronautical authorities, such discussions on prices shall take place no later than ten (10) working days following the receipt of a request.

7. The general terms and conditions of carriage shall be subject to each Contracting Party's national laws and regulations. Either Contracting Party may require notification to or filing with its aeronautical authorities of any such terms and conditions. If one Contracting Party takes action to disapprove any such term or condition of a designated airline, it shall inform the other Contracting Party promptly.

8. The Contracting Parties may require that the designated airlines shall make full information on prices and the general terms and conditions of carriage available to the general public.

ARTICLE XV

(Sales and Transfer of Funds)

1. Each designated airline shall have the right to engage in the sale of air transportation in the territory of the other Contracting Party directly and, at its discretion through its agents. Each designated airline shall have the right to sell transportation in the currency of that territory or, at its discretion, in freely convertible currencies of other countries, and any person shall be free to purchase such transportation in currencies accepted by that airline.

2. Each designated airline shall have the right to convert and remit abroad, on demand, funds obtained in the normal course of its operations. Conversion and remittance shall be permitted without restrictions at the foreign exchange market rates for current payments

prevailing at the time of submission of the request for transfer, and shall not be subject to any charges except normal service charges collected by banks for such transactions.

ARTICLE XVI
(Airline Representatives)

1. The designated airline or airlines of one Contracting Party shall be allowed, on the basis of reciprocity, to bring into and to maintain in the territory of the other Contracting Party their representatives and commercial, operational and technical staff as required in connection with the operation of the agreed services.
2. These staff requirements may, at the option of the designated airline or airlines of one Contracting 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 Contracting Party and authorized to perform such services for other airlines.
3. The representatives and staff shall be subject to the laws and regulations in force of the other Contracting Party, and consistent with such laws and regulations:
 - (a) each Contracting 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 1 of this Article; and
 - (b) both Contracting Parties shall facilitate and expedite the requirement of employment authorizations for personnel performing certain temporary duties not exceeding ninety (90) days.

ARTICLE XVII
(Ground Handling)

1. The designated airline or airlines of one Contracting Party shall be permitted, on the basis of reciprocity, to perform its own ground handling in the territory of the other Contracting Party and, at its option, to have ground handling services provided in whole or in part by any agent authorized by the competent authorities of the other Contracting Party to provide such services.
2. The designated airline or airlines of one Contracting Party shall also have the right to provide ground handling services for other airlines operating at the same airport in the territory of the other Contracting Party.
3. The exercise of the rights set forth in paragraphs 1 and 2 of this Article shall be subject only to physical or operational constraints resulting from considerations of airport safety or security. Any constraints shall be applied uniformly and on terms no less favourable than the most favourable terms available to any airline engaged in similar international air services at the time the constraints are imposed.



ARTICLE XVIII
(Smoking Ban)

1. Each Contracting Party shall prohibit or cause their airlines to prohibit smoking on all flights carrying passengers operated by its airlines between the territories of the Contracting Parties. This prohibition shall apply to all locations within the aircraft and shall be in effect from the time an aircraft commences enplanement of passengers to the time deplanement of passengers is completed.
2. Each Contracting Party shall take all measures that it considers reasonable to secure compliance by its airlines and by their passengers and crew members with the provisions of this Article, including the imposition of appropriate penalties for non-compliance.

ARTICLE XIX
(Applicability to Non-scheduled Flights)

1. The provisions set out in Articles VI (Application of Laws), VII (Safety Standards, Certificates and Licences), VIII (Aviation Security), IX (Availability of Airports and Aviation Facilities and Services), X (Charges for Airports and Aviation Facilities and Services), XII (Statistics), XIII (Customs Duties and Other Charges), XV (Sales and Transfer of Funds), XVI (Airline Representatives), XVII (Ground Handling), XVIII (Smoking Ban) and XX (Consultations) of this Agreement shall be applicable to non-scheduled flights operated by an air carrier of one Contracting Party into or from the territory of the other Contracting Party and to the air carrier operating such flights.
2. The provisions of paragraph 1 of this Article shall not affect national laws and regulations governing the authorization of non-scheduled flights or the conduct of air carriers or other parties involved in the organization of such operations.

ARTICLE XX
(Consultations)

1. Either Contracting Party may request consultations on the implementation, interpretation, application or amendment of this Agreement. Such consultations, which may be between aeronautical authorities and which may be through discussion or by correspondence, shall begin within a period of sixty (60) days from the date of receipt of a written request, unless otherwise agreed by the Contracting Parties.
2. In a spirit of close co-operation, the aeronautical authorities of the Contracting Parties may hold discussions with each other from time to time with a view to ensuring the proper implementation of, and satisfactory compliance with, the provisions of this Agreement. Such discussions shall begin within a period of sixty (60) days of the date of receipt of such a request, unless otherwise agreed by the Contracting Parties.



ARTICLE XXI
(Modification of Agreement)

Any modification to this Agreement agreed pursuant to consultations held in conformity with Article XX of this Agreement shall come into force definitively when it has been confirmed by an exchange of diplomatic notes.

ARTICLE XXII
(Settlement of Disputes)

1. If any dispute arises between the Contracting Parties relating to the interpretation or application of this Agreement, the Contracting Parties shall in the first place endeavour to settle it by consultations held in conformity with Article XX of this Agreement.
2. If the dispute is not resolved by consultations, the Contracting Parties may agree to refer the dispute for decision to some person or body, or either Contracting Party may submit the dispute for decision to a Tribunal of three arbitrators, one to be nominated by each Contracting Party and the third to be appointed by the two arbitrators. 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 and the third arbitrator shall be appointed within a further period of sixty (60) days. If either of the Contracting Parties fails to nominate an arbitrator within the period specified, or if the third arbitrator is not appointed 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 requires. If the President is of the same nationality as one of the Contracting Parties, the most senior vice-president who is not disqualified on that ground, shall make the appointment. In all cases the third arbitrator shall be a national of a third State, shall act as President of the Tribunal and shall determine the place where arbitration will be held.
3. The Contracting Parties undertake to comply with any decision given under paragraph 2 of this Article.
4. The expenses of the Tribunal shall be shared equally between the Contracting Parties.
5. If and so long as either Contracting Party fails to comply with any 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 to the Contracting Party in default or to the designated airline in default.



ARTICLE XXIII
(Termination)

Either Contracting Party may at any time from the entry into force of this Agreement give notice in writing through diplomatic channels to the other Contracting Party of its decision to terminate this Agreement. Such notice shall be communicated simultaneously to the International Civil Aviation Organization. The Agreement shall terminate one (1) year after the date of receipt of the notice by the other Contracting Party, unless the notice to terminate is withdrawn by mutual consent before the expiry of this period. In the absence of an acknowledgement of receipt by the other Contracting Party, the notice shall be deemed to have been received fourteen (14) days after the receipt of the notice by the International Civil Aviation Organization.

ARTICLE XXIV
(Registration with ICAO)

This Agreement and any amendment thereto shall be registered with the International Civil Aviation Organization.

ARTICLE XXV
(Multilateral Conventions)

If a general multilateral air convention comes into force, and to the extent that it is applicable to both Contracting Parties, the provisions of such convention shall prevail.

ARTICLE XXVI
(Entry into Force)

This Agreement shall enter into force on the date of signature. On the date of entry into force of this Agreement, the Memorandum of Understanding between the Government of Canada and the Government of Iceland on Scheduled Air Services, signed on 2 February 2001, shall terminate.



ARTICLE XXVII
(Titles)

Titles used in this Agreement are for reference purposes only.

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

DONE in duplicate at _____ on this ____ day of _____, 200__ in the English and French languages, each version being equally authentic.

For the Government of Canada

For the Government of the Republic of Iceland



Annex I

ROUTE SCHEDULE

The Contracting Parties agree that the designated airlines of each Contracting Party may operate the Routes set out in the applicable section of this annex, subject to the Notes specified.

SECTION I

The airlines designated by the Government of Canada shall be entitled to operate the agreed services in each or both directions between points on the following routes:

Points Behind Canada	Points in Canada	Intermediate Points	Points in Iceland	Points Beyond Iceland
Any point(s)	Any point(s)	Any point(s)	Any point(s)	Any point(s)

Notes:

1. Traffic may be picked up at Points in Canada and set down at Points in Iceland and vice versa. Traffic may be picked up at Points Behind Canada, at Intermediate Points, and at Points Beyond and set down at Points in Iceland and vice versa.
2. Transit and own stopover rights shall be available at Points in Canada at Intermediate Points, at Points in Iceland .
3. Each designated airline may, on any or all flights and at its option: i) serve Points in Iceland separately or in combination, ii) omit any Points Behind Canada, Intermediate Points and/or Points Beyond on any or all services, provided that , with the exception of all-cargo services, all services serve at least one of the Points in Canada, without directional or geographic limitation.
4. Different flight numbers may be combined within one aircraft operation. Points Behind Canada may be served with or without change of aircraft or flight number and the designated airlines of Canada may hold out and advertise such services to the public as through services.
5. The Contracting Parties require that the designated airlines of Canada notify the aeronautical authorities of Iceland of air services to be operated between third countries and Points in Iceland ninety (90) days in advance or such lesser period as may be authorised by the aeronautical authorities of Iceland and each of the points may be changed on ninety (90) days' notice to the aeronautical authorities of Iceland or such lesser period as may be authorised by the aeronautical authorities of Iceland.
6. (1) Subject to the regulatory requirements normally applied to such operations by the aeronautical authorities of Iceland , each designated airline of Canada may enter into cooperative arrangements for the purposes of:



(a) holding out the agreed services on the specified routes by code-sharing (i.e. selling transportation under its own code) on flights operated by any airlines of Canada, of Iceland, and/or of any third country; and/or a surface transportation provider of any country and/or

(b) carrying traffic under the code of any other airline where such other airline has been authorized by the aeronautical authorities of Iceland to sell transportation under its own code on flights operated by the designated airlines of Canada.

(2) The aeronautical authorities of Iceland may require all airlines involved in code-sharing arrangements shall to hold the appropriate underlying route authority.

(3) The aeronautical authorities of Iceland may require code-sharing services involving transportation between the Points in Iceland to be restricted to flights operated by airlines authorised by the aeronautical authorities of Iceland to provide services between the Points in Iceland and all transportation between the Points in Iceland under the code of the designated airline of Canada shall only be available as part of an international journey.

(4) The aeronautical authorities of Iceland shall not withhold permission for code-sharing services identified in Note 6 paragraph (1) (a) by the designated airlines of Canada on the basis that airlines operating the aircraft do not have the right from Iceland to carry traffic under the code of the airlines designated by Canada.

(5) The aeronautical authorities of both Contracting Parties may require all participants in such code-sharing arrangements to ensure that passengers are fully informed of the identity of the operator and the mode of transportation for each segment of the journey.

7. The Contracting Parties permit the designated airlines of Canada, at any points on the specified route and at its option, to transfer traffic between their own aircraft without any limitation as to type or number of aircraft, provided that, in the outbound direction, the transportation beyond such points is a continuation of the transportation from Canada and, in the inbound direction, the transportation to Canada is a continuation of the transportation from beyond such points and provided that all passenger and combination flights involved in the transfer originate or terminate in Canada. For the purpose of code-sharing services, airlines shall be permitted to transfer traffic between aircraft without limitation.

8. The aeronautical authorities of Iceland shall permit the designated airlines of Canada, when operating cargo services to or from Iceland:

(a) to employ without restriction in connection with the agreed services any surface transportation for cargo to or from any points in the territories of the Contracting 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.

(b) to have access to airport customs processing and facilities for cargo moving by surface or by air; and

(c) to elect to perform their own cargo surface transportation or to provide it through

arrangements with other surface carriers, including surface transportation operated by other airlines.

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.



SECTION II

The airline or airlines designated by the Government of Iceland shall be entitled to operate the agreed services in each or both directions between points on the following routes:

Points Behind Iceland	Points in Iceland	Intermediate Points	Points in Canada	Points beyond Canada
Any point(s)	Any point(s)	Any point(s)	Any point(s)	Any point(s)

Notes:

1. Traffic may be picked up at Points in Iceland and set down at Points in Canada and vice versa. Traffic may be picked up at Points Behind Iceland, at Intermediate Points, and at Points Beyond and set down at Points in Canada and vice versa.
2. Transit and own stopover rights shall be available at Points in Iceland, at Intermediate Points, at Points in Canada.
3. Each designated airline may, on any or all flights and at its option: i) serve Points in Canada separately or in combination, ii) omit any Points Behind Iceland, Intermediate Points and/or Points Beyond on any or all services, provided that , with the exception of all-cargo services, all services serve at least one of the Points in Iceland, without directional or geographic limitation.
4. Different flight numbers may be combined within one aircraft operation. Points Behind Iceland may be served with or without change of aircraft or flight number and the designated airlines of Iceland may hold out and advertise such services to the public as through services.
5. The Contracting Parties require that the designated airlines of Iceland notify the aeronautical authorities of Canada of air services to be operated between third countries and Points in Canada ninety (90) days in advance or such lesser period as may be authorised by the aeronautical authorities of Canada and each of the points may be changed on ninety (90) days' notice to the aeronautical authorities of Canada or such lesser period as may be authorised by the aeronautical authorities of Canada.
6. (1) Subject to the regulatory requirements normally applied to such operations by the aeronautical authorities of Canada, each designated airline of Iceland may enter into cooperative arrangements for the purposes of:
 - (a) holding out the agreed services on the specified routes by code-sharing (i.e. selling transportation under its own code) on flights operated by any airlines of Iceland, of Canada, and/or of any third country; and/or a surface transportation provider of any country and/or



(b) carrying traffic under the code of any other airline where such other airline has been authorized by the aeronautical authorities of Canada to sell transportation under its own code on flights operated by the designated airlines of Iceland.

(2) The aeronautical authorities of Canada may require all airlines involved in code-sharing arrangements shall hold the appropriate underlying route authority.

(3) The aeronautical authorities of Canada may require code-sharing services involving transportation between the Points in Canada to be restricted to flights operated by an airlines authorised by the aeronautical authorities of Canada to provide services between the Points in Canada and all transportation between the Points in Canada under the code of the designated airlines of Iceland shall only be available as part of an international journey.

(4) The aeronautical authorities of Canada shall not withhold permission for code-sharing services identified in Note 6 paragraph (1) (a) by the designated airlines of Iceland on the basis that airlines operating the aircraft do not have the right from Canada to carry traffic under the code of airlines designated by Iceland.

(5) The aeronautical authorities of both Contracting Parties may require all participants in such code-sharing arrangements to ensure that passengers are fully informed of the identity of the operator and the mode of transportation for each segment of the journey.

7. The Contracting Parties permit the designated airlines of Iceland, at any points on the specified route and at its option, to transfer traffic between their own aircraft without any limitation as to type or number of aircraft, provided that, in the outbound direction, the transportation beyond such points is a continuation of the transportation from Iceland and, in the inbound direction, the transportation to Iceland is a continuation of the transportation from beyond such points and provided that all passenger and combination flights involved in the transfer originate or terminate in Iceland. For the purpose of code-sharing services, airlines shall be permitted to transfer traffic between aircraft without limitation.

8. The aeronautical authorities of Canada shall permit the designated airlines of Iceland when operating cargo services to or from Canada:

(a) to employ without restriction in connection with the agreed services any surface transportation for cargo to or from any points in the territories of the Contracting 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.



(b) to have access to airport customs processing and facilities for cargo moving by surface or by air; and

(c) to elect to perform their own cargo surface transportation or to provide it through arrangements with other surface carriers, including surface transportation operated by other airlines.

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.

