

MEMORANDUM OF UNDERSTANDING
ON AIR SERVICES
BETWEEN
THE GOVERNMENT OF ICELAND
AND THE GOVERNMENT OF THE REPUBLIC OF PARAGUAY

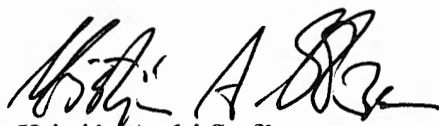
1. Delegations representing the Government of Iceland and the Government of the Republic of Paraguay met in Mumbai, India, during ICAO Air Services Negotiation Conference on 22 October 2011 in order to assess their bilateral air transport relations and to negotiate an Air Services Agreement (ASA). A list of the names of the members of both Delegations is attached as Attachment 1.
2. The discussions were conducted in a friendly and positive atmosphere and both Delegations stressed their interest in expanding mutual relations in the field of air transport. The Delegations discussed extensively the substance of a draft agreement and agreed on the text of an Air Services Agreement (ASA) between their respective Aeronautical Authorities. The text is attached as Attachment 2.
3. Both Delegations confirmed that, Designated Airlines of each Contracting Party are entitled to exercise third, fourth, fifth, sixth and seventh freedom traffic rights at all points (whether behind or intermediate or beyond points) of their own choice while operating any type of services (passenger and/or cargo, separately or in combination). Additionally, the Designated Airlines of both Contracting parties are entitled to exercise Cabotage services in the Contracting States in accordance with the national requirements.
4. Both Delegations agreed to make efforts to enhance the cooperation relating to human resource development, air transport, flight safety, aviation security, air traffic services and any others through direct communication between both Aeronautical Authorities.
5. Both Parties agreed to urge their competent authorities to conclude an agreement for avoidance of double taxation on revenue, capital and profits arising from their respective airlines activities and income in the territory of the other Contracting Party.
6. For better utilization of market access and serving the anticipated market demand between the two countries, both Delegations agreed to encourage the Designated airlines of each Contracting Party to enter into marketing alliances arrangements such as code-sharing arrangements in both passengers and cargo avenues.
7. Each Party will notify of their Designated airline(s) in due course.
8. In their effort to strengthen the relations between their respective Countries in the field of civil aviation, the Delegations agreed that, pending the signature and subsequent entry into force of the ASA, the Aeronautical Authorities of both Parties would apply from the date

hereof the provisional text as it stands in Attachment 2, with such modifications as may be agreed by the parties during the interim period.

9. Both Delegations agreed that the Agreement (ASA), initialled only in the English languages, shall be signed in Spanish, Icelandic and English languages.
10. The Air Services Agreement will be assigned upon receiving the approval of Governments of both contracting parties.
11. The venue and date of signing of the ASA will be agreed upon through diplomatic channels.

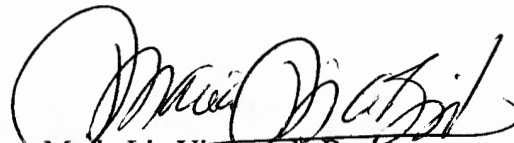
Signed in Mumbai, India on 22th October 2011

For the delegation of Iceland



Kristján Andri Stefánsson

For the delegation of the
Republic of Paraguay



Maria Liz Vivéros de Bazán

The list of the name of both delegations

Icelandic Delegation

Mr. Kristján Andri Stefánsson
Ambassador
Ministry for Foreign Affairs

Head of Delegation

Mr. Karl Alvarsson
Senior Legal Adviser,
Icelandic Civil Aviation Administration

Republic of Paraguay Delegation

Mrs. Maria Liz Viveros de Bazan
Air Transport Deputy Director
National Directorate of Civil Aeronautics - DINAC

Head of Delegation

Mr. Alvaro Emilio Rojas Cuenca
Air Transport Chief
Ministry of Foreign Affairs



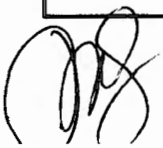
AIR SERVICES AGREEMENT

BETWEEN

THE GOVERNMENT OF ICELAND

AND

**THE GOVERNMENT OF
THE REPUBLIC OF PARAGUAY**

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

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

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

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

Desiring to foster and promote economic development through international air transport;

Recognising that efficient and competitive international air services enhance trade, the welfare of consumers, and economic growth;

Desiring to make it possible for airlines to offer the travelling and shipping public a variety of services options, and wishing to encourage individual airlines to develop and implement innovative and competitive prices; and

Desiring to facilitate the expansion of international air service opportunities;

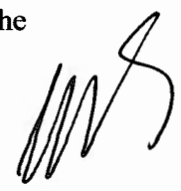
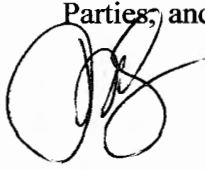
Desiring to ensure the highest degree of safety and security in international air services and reaffirming their grave concern about acts or threats against the security of aircraft, which jeopardize the safety of persons or property, adversely affect the operation of air services and undermine public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

Have agreed as follows:

Article 1 *Definitions*

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

1. "Aeronautical authorities" means, in the case of Iceland, the Ministry of Interior or any person or agency authorized to perform the functions exercised by the said authority, and in the case of Paraguay, the National Directorate of Civil Aeronautics - DINAC, or its successor;
2. "Agreement" means this Agreement, its Annexes, and any amendments thereto;
3. "Convention" means the Convention on International Civil Aviation, opened for signature at Chicago on 7 December 1944, and includes: any amendment that has entered into force under Article 94(a) of the Convention and has been ratified by both Parties, and any Annex or any amendment thereto adopted under Article 90 of the



Convention, insofar as such Annexes or amendments are at any given time effective for both Parties;

4. "Designated airline" means an airline designated and authorized in accordance with Article 3 of this Agreement;

5. "European Economic Area" means the enhanced free trade area established by the Agreement on the European Economic Area, done at Oporto on 2 May 1992, between the European Community and its Member States on the one hand and the EFTA States with the exclusion of Switzerland on the other hand. EFTA is an abbreviation for the European Free Trade Association of which Iceland is a Member State;

6. "Full cost" means the cost of providing service plus a reasonable charge for administrative overhead;

7. "International air service" means an air service that passes through the airspace over the territory of more than one State;

8. "LACAC" means the Latin American Civil Aviation Commission;

9. "Tariff" means any fare, rate or charge for the carriage of passengers (and their baggage) and/or cargo (excluding mail) in air service charged by airlines, including their agents, and the conditions governing the availability of such fare, rate or charge;

10. "Stop for non-traffic purposes", "airline", "air service" and "territory" have the meaning specified in Articles 2 and 96 of the Convention; and

11. "User charges" means a charge / charges imposed on airlines for the provision of airport, air navigation or aviation security facilities or services including related services and facilities.

Article 2

Grant of Rights

1. Each Party grants the other Party's designated airlines the following rights for the conduct of international air services:

- a) the right to fly across its territory without landing;
- b) the right to make stops in its territory for non-traffic purposes; and
- c) the rights otherwise specified in this Agreement.

Article 3

Designation and Authorization

(1) Each Contracting Party shall have the right to designate an airline or airlines for the purpose of operating the agreed services for such a Contracting Party and to withdraw the designation of any airline or to substitute another airline for one previously designated. Such designation shall be effected by virtue of written notification between the aeronautical authorities of both Contracting Parties.



- (2) The aeronautical authorities, which have received the notification of designation, shall, subject to the provisions of paragraph (3) and (4) of this Article, grant without delay to the designated airline of the other Contracting Party the necessary operating authorizations.
- (3) The aeronautical authorities of one Contracting Party may require the airline designated by the other Contracting Party to prove that it is qualified to fulfil the conditions prescribed under the laws and regulations applied to the operation of international air services by the said authorities in conformity with the provisions of the Convention.
- (4) The aeronautical authorities of each Contracting Party shall have the right to refuse to accept the designation of an airline and to refuse to grant the operating authorization referred to in paragraph (2) of this Article, or to impose such conditions as it may deem necessary for the exercise of the rights specified in Article 2 of this Agreement, whenever the Contracting Party has no proof that:
- (a) in the case of an airline designated by Iceland
- (i) it is established in the territory of Iceland in accordance with the Agreement on the European Economic Area, and has a valid Operating License in accordance with national law adopted in accordance with the Agreement on the European Economic Area; and
 - (ii) effective regulatory control of the airline is exercised and maintained by Member State of the European Economic Area responsible for issuing its Air Operator's Certificate, and the relevant aeronautical authority is clearly identified in the designation; and
 - (iii) it is owned and shall continue to be owned directly or through majority ownership by Member States of the European Economic Area and/or nationals of the European Economic Area and shall at all times be effectively controlled by such states and/or nationals in the case of an airline designated by the Republic of Paraguay.
- (b) in the case of an airline designated by the Republic of Paraguay
- (i) the airline is established in the territory of the Republic of Paraguay and has a valid Air Operator's Certificate in accordance with Paraguayan law; and
 - (ii) the Republic of Paraguay or another LACAC member State exercises and maintains effective regulatory control of the airline and is responsible for issuing its Air Operator's Certificate and the relevant aeronautical authorities are clearly identified in the designation.
- (5) When an airline has been designated and authorized in accordance with this Article, it may operate in whole or in part the agreed services for which it is designated, provided that the airline complies with the applicable provisions of this Agreement.

Article 4

Revocation of Authorization

- (1) The aeronautical authorities of each Contracting Party shall have the right to revoke an operating authorization or to suspend the exercise of the rights specified



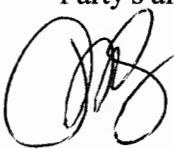
in Article 2 of this Agreement of the designated airline of the other Contracting Party or to impose such conditions, temporary or permanent, as it may deem necessary on the exercise of such rights, if:

- (a) in the case of an airline designated by Iceland
 - (i) it is not established in the territory of Iceland under the Treaty establishing the European Community or under the Agreement on the European Economic Area, or does not have a valid Operating Licence in accordance with European Community law or in accordance with national law adopted in accordance with the Agreement on the European Economic Area; or
 - (ii) effective regulatory control of the airline is not exercised or not maintained by the European Community Member State or the EEA EFTA State responsible for issuing its Air Operator's Certificate, or the relevant aeronautical authority is not clearly identified in the designation; or
 - (iii) it is not owned, directly or through majority ownership by, or it is not effectively controlled by a Member State of the European Economic Area and/or nationals of Member States of the European Economic Area; or
 - (iv) the airline has failed to comply with the laws and regulations of the Republic of Paraguay.
 - (b) in the case of an airline designated by the Republic of Paraguay
 - (i) the airline is not established in the territory of the Republic of Paraguay or does not have a valid Air Operator's Certificate in accordance with Paraguayan law; or
 - (ii) effective regulatory control of the airline is not exercised or not maintained by the Republic of Paraguay or by another LACAC Member State or the relevant aeronautical authorities are not clearly identified in the designation;
 - (c) an airline fails to prove before the aeronautical authorities of that Contracting Party granting those rights an ability to fulfil the conditions under the laws and regulations applied by these authorities in conformity with the provisions of the Convention; or
 - (d) an airline otherwise fails to operate the agreed services in accordance with the conditions prescribed by this Agreement.
- (2) Unless immediate action is essential to prevent further infringement of the laws and regulations referred to above, the rights enumerated in paragraph (1) of this Article shall be exercised only after consultations with the aeronautical authorities of the other Contracting Party. Unless otherwise agreed by the aeronautical authorities, such consultations between the aeronautical authorities of both Contracting Parties shall begin within a period of sixty (60) days from the date of request made by either aeronautical authorities.

Article 5

Application of Laws

1. While entering, within, or leaving the territory of one Party, its laws and regulations relating to the operation and navigation of aircraft shall be complied with by the other Party's airlines.



2. While entering, within, or leaving the territory of one Party, its laws and regulations relating to the admission to or departure from its territory of passengers, crew or cargo on aircraft (including regulations relating to entry, clearance, aviation security, immigration, passports, customs and quarantine or, in the case of mail, postal regulations) shall be complied with by, or on behalf of, such passengers, crew or cargo of the other Party's airlines.

3. Neither Party shall give preference to its own or any other airline over a designated airline of the other Party engaged in similar international air services in the application of its immigration, customs, quarantine and similar regulations.

Article 6

Recognition of Certificates

1. Each Party shall recognize as valid, for the purpose of operating the air services provided for in this Agreement, certificates of airworthiness, certificates of competency, and licenses issued or validated by the State responsible for the regulatory control of a designated airline and still in force, provided that the requirements for such certificates or licenses at least equal the minimum standards that may be established pursuant to the Convention.

2. Each Party reserves the right, however, to refuse to recognize as valid, for the purpose of flight above or landing within its own territory, certificates of competency and licenses granted to or validated for its own nationals by the other Party.

Article 7

Safety

1. Either Party may request consultations concerning the safety standards maintained in respect of an airline designated by the other Party relating to aeronautical facilities, aircrews, aircraft, and operation of the designated airlines.

2. If, following such consultations, one Party finds that the other Party does not effectively maintain and administer safety standards in the areas referred to in paragraph 1 of this Article that meet the standards established at that time pursuant to the Convention, the other Party shall be informed of such findings and of the steps considered necessary to conform with the said standards. The other Party shall then take appropriate corrective action within an agreed time period.

3. Pursuant to Article 16 of the Convention, it is further agreed that any aircraft operated by, or on behalf of, an airline of one Party, on service to or from the territory of the other Party, may, while within the territory of the other Party, be the subject of a search by the authorized representatives of the other Party, provided this does not cause unreasonable delay in the operation of the aircraft. Notwithstanding the obligations mentioned in Article 33 of the Convention, the purpose of this search is to verify the validity of the relevant aircraft documentation, the licensing of its crew, and that the aircraft equipment and the condition of the aircraft conform to the standards established at that time pursuant to the Convention.



4. When urgent action is essential to ensure the safety of an airline operation, each Party reserves the right to immediately withhold, revoke or limit the operating authorization or technical permission of an airline or airlines of the other Party.

5. Any action by one Party in accordance with paragraph 4 of this Article shall be discontinued once the basis of the taking of that action ceases to exist.

6. With reference to paragraph 2 of this Article, if it is determined that one Party remains in non-compliance with the said standards when the agreed time period has lapsed, the Secretary-General of ICAO should be advised thereof. The latter should also be advised of the subsequent satisfactory resolution of the situation.

7. Where one Party has designated an airline whose regulatory control is exercised and maintained by a third State, the rights of the other Party under this Article shall apply equally in respect of the adoption, exercise or maintenance of safety standards by that third State and in respect of the operating authorization of that airline.

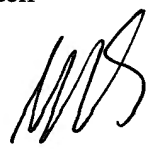
Article 8

Aviation Security

1. In accordance with their rights and obligations under international law, the Parties reaffirm that their obligation to each other to protect the security of civil aviation against acts of unlawful interference forms an integral part of this Agreement. Without limiting the generality of their rights and obligations under international law, the Parties shall in particular act in conformity with the provisions of the *Convention on Offences and Certain Other Acts Committed on Board Aircraft*, done at Tokyo on 14 September 1963, the *Convention for the Suppression of Unlawful Seizure of Aircraft*, done at The Hague on 16 December 1970, the *Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation*, done at Montreal on 23 September 1971, and the *Protocol for the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation, Supplementary to the Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation*, done at Montreal on 24 February 1988, and the *Convention on the Marking of Plastic Explosives for the Purpose of Detection*, done at Montreal on 1 March 1991, and any other convention on civil aviation security to which both Parties become parties.

2. Upon request the Parties shall provide each other with all necessary assistance to prevent acts of unlawful seizure of civil aircraft and other unlawful acts against the safety of such aircraft, of their passengers and crew, and of airports and air navigation facilities, and address any other threat to the security of civil air navigation.

3. The Parties shall, in their mutual relations, act in conformity with all aviation security standards and appropriate recommended practices established by the International Civil Aviation Organization and designated as Annexes to the Convention; they shall require that operators of aircraft of their registry, operators of aircraft which have their principal place of business or permanent residence in their territory and operators of airports in their territory act in conformity with such aviation security provisions.



4. Each Party agrees to observe the security provisions required by the other Party for entry into the territory of that other Party and to take adequate measures to protect aircraft and to inspect passengers, crew, and their baggage and carry-on items, as well as cargo and aircraft stores, prior to and during boarding or loading. Each Party shall also give positive consideration to any request from the other Party for special security measures to meet a particular threat.

5. When an incident or threat of an incident of unlawful seizure of aircraft or other unlawful acts against the safety of passengers, crew, aircraft, airports or air navigation facilities occurs, the Parties shall assist each other by facilitating communications and other appropriate measures intended to terminate rapidly and safely such incident or threat.

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

Article 9

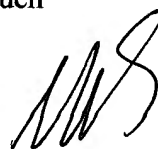
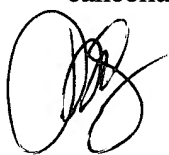
Commercial Opportunities

1. The airlines of each Party shall have the right to establish offices in the territory of the other Party for the promotion and sale of air services.

2. The designated airlines of each Party shall be entitled, in accordance with the laws and regulations of the other Party relating to entry, residence and employment, to bring in and maintain in the territory of the other Party managerial, sales, technical, operational and other specialist staff required for the provision of air services.

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

4. Any airline of each Party may engage in the sale of air services in the territory of the other Party directly and, at the airline's discretion, through its agents, except as may be specifically provided by the charter regulations of the country in which the charter originates that relate to the protection of passenger funds, passenger cancellation and refund rights. Each airline shall have the right to sell such



transportation, and any person shall be free to purchase such transportation, in the currency of that territory or in freely convertible currencies.

5. Each airline shall have the right to convert and remit to its country, on demand, local revenues in excess of sums locally disbursed. Conversion and remittance shall, in accordance with each Contracting Party's national laws and regulations be permitted promptly without restrictions or taxation in respect thereof at the rate of exchange applicable to current transactions and remittance on the date the carrier makes the initial application for remittance.

6. The airlines of each Party shall be permitted to pay for local expenses, including purchases of fuel, in the territory of the other Party in local currency. At their discretion, the airlines of each Party may pay for such expenses in the territory of the other Party in freely convertible currencies according to local currency regulation.

7. In operating or holding out the authorized services on the agreed routes, any designated airline of one Party may enter into co-operative marketing arrangements such as blocked-space, code-sharing or leasing arrangements, with

a) an airline or airlines of either Party; and

b) an airline or airlines of a third country,

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

Article 10

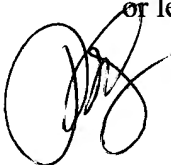
Customs Duties and Charges

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

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

a) introduced into the territory of the Party by or on behalf of the designated airline of the other Party;

b) retained on board aircraft of the designated airline of one Party upon arrival in or leaving the territory of the other Party; or



c) taken on board aircraft of the designated airline of one Party in the territory of the other Party and intended for use in operating the agreed services; whether or not such items are used or consumed wholly within the territory of the Party granting the exemption, provided the ownership of such items is not transferred in the territory of the said Party.

3. The regular airborne equipment, as well as the materials and supplies normally retained on board the aircraft of the designated airline of either Party, may be unloaded in the territory of the other Party only with the approval of the customs authorities of that territory. In such case, they may be placed under supervision of the said authorities up to such time as they are re-exported or otherwise disposed of in accordance with customs regulations.

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

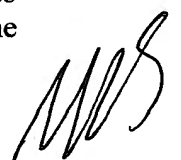
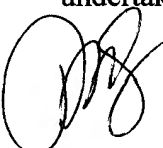
Article 11 *User Charges*

1. User charges that may be imposed by the competent charging authorities or bodies of each Party on the airlines of the other Party shall be just, reasonable, not unjustly discriminatory, and equitably apportioned among categories of users. In any event, any such user charges shall be assessed on the airlines of the other Party on terms not less favourable than the most favourable terms available to any other airline at the time the charges are assessed.

2. User charges imposed on the airlines of the other Party may reflect, but shall not exceed, the full cost to the competent charging authorities or bodies of providing the appropriate airport, airport environmental, air navigation and aviation security facilities and services at the airport or within the airport system. Such full cost may include a reasonable return on assets, after depreciation. Facilities and services for which charges are made shall be provided on an efficient and economic basis.

3. Each Party shall encourage consultations between the competent charging authorities or bodies in its territory and the airlines using the services and facilities, and shall encourage the competent charging authorities or bodies and the airlines to exchange such information as may be necessary to permit an accurate review of the reasonableness of the charges in accordance with the principles of paragraphs 1 and 2 of this Article. Each Party shall encourage the competent charging authorities to provide users with reasonable notice of any proposal for changes in user charges to enable users to express their views before changes are made.

4. Neither party shall be held, in dispute resolution procedures pursuant to Article 16 of this Agreement, to be in breach of a provision of this Article, unless a) it fails to undertake a review of the charge or practice that is the subject of complaint by the



other Party within a reasonable amount of time; or b) following such a review it fails to take all steps within its power to remedy any charge or practice that is inconsistent with this Article.

Article 12

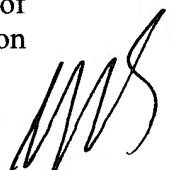
Fair Competition

1. Each Party shall allow a fair and equal opportunity for the designated airlines of both Parties to compete in providing the international air services governed by this Agreement.
2. Each Party shall allow each designated airline to determine the frequency and capacity of the international air services it offers based upon commercial considerations in the marketplace. Consistent with this right, neither Party shall unilaterally limit the volume of traffic, frequency or regularity of service, or the aircraft type or types operated by the designated airlines of the other Party, except as may be required for customs, technical, operational, or environmental reasons under uniform conditions consistent with Article 15 of the Convention.
3. Neither Party shall impose on the other Party's designated airlines a first-refusal requirement, uplift ratio, no-objection fee, or any other requirement with respect to capacity, frequency or traffic that would be inconsistent with the purposes of this Agreement.
4. Neither Party shall require the filing of schedules, programs for charter flights, or operational plans by airlines of the other Party for approval, except as may be required on a non-discriminatory basis to enforce the uniform conditions foreseen by paragraph 2 of this Article or as may be specifically authorized in an Annex to this Agreement. If a Party requires filings for information purposes, it shall minimize the administrative burdens of filing requirements and procedures on air services' intermediaries and on designated airlines of the other Party.

Article 13

Tariff

1. Each Party shall allow tariffs for air services to be decided by each designated airline based on commercial considerations in the marketplace. Intervention by the Parties shall be limited to:
 - a) prevention of unreasonably discriminatory prices or practices;
 - b) protection of consumers from prices that are unreasonably high or restrictive due to the abuse of a dominant position; and
 - c) protection of airlines from prices that are artificially low due to direct or indirect governmental subsidy or support.
2. Each Party may require notification or filing with its aeronautical authorities of tariffs to be charged to or from its territory by airlines of the other Party. Notification



or filing by the airlines of both Parties may be required no more than thirty (30) days before the proposed date of effectiveness. In individual cases, notification or filing may be permitted on shorter notice than normally required. Neither Party shall require the notification or filing by airlines of the other Party of tariffs charged by charterers to the public, except as may be required on a non-discriminatory basis for information purposes.

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

Article 14 *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 air services.

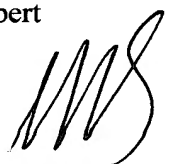
Article 15 *Consultations and Settlement of Disputes*

1. In a spirit of close co-operation, either Party may, at any time, request consultations relating to this Agreement, its implementation and satisfactory compliance with the provisions of this Agreement. If any dispute arises between the Parties relating to the interpretation or application of this Agreement, the Parties shall in the first place endeavour to settle it by consultation.

2. Any dispute which cannot be resolved by consultation may at the request of either Party of this Agreement be submitted to a mediator or a dispute settlement panel. Such a mediator or panel may be used for mediation, determination of the substance of the dispute or to recommend a remedy or resolution of the dispute.

3. The Parties shall agree in advance on the terms of reference of the mediator or of the panel, the guiding principles or criteria and the terms of access to the mediator or the panel. They shall also consider, if necessary, providing for an interim relief and the possibility for the participation of any third Party that may be directly affected by the dispute, bearing in mind the objective and need for a simple, responsive and expeditious process.

4. A mediator or the members of a panel may be appointed from a roster of suitably qualified aviation experts maintained by International Civil Aviation Organization (ICAO). The selection of the expert or experts shall be completed within fifteen (15) days of receipt of the request for submission to a mediator or to a panel. If the Parties fail to agree on the selection of an expert or experts, the selection may be referred to the President of the Council of International Civil Aviation Organization. Any expert



used for this mechanism should be adequately qualified in the general subject of the dispute.

5. A mediation should be completed within sixty (60) days of engagement of the mediator or the panel and any determination, including, if applicable, any recommendation, should be rendered within sixty (60) days of engagement of the mediator or the panel. The Parties may agree in advance that the mediator or the panel may grant interim relief to the complainant, if requested, in which case a determination shall be made initially.

6. The Parties shall co-operate in good faith to advance the mediation and to implement the decision or determination of the mediator or the panel, unless they otherwise agree in advance to be bound by the decision or determination. If the Parties agree in advance to request only a determination of the facts, they shall use those facts for resolution of the dispute.

7. The costs of this mechanism shall be estimated upon initiation and apportioned equally, but with the possibility of re-apportionment under the final decision.

8. The mechanism is without prejudice to the continuing use of the consultation process, the subsequent use of arbitration, or termination under Article 17.

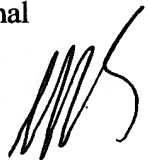
Article 16 *Amendments*

1. If either Party considers it desirable to amend any provision of this Agreement, including the Annexes thereto, it may request consultations between the aeronautical authorities of both Parties in relation to the proposed amendment. Such consultations shall commence within a period of sixty days (60) from the date of receipt of the request. Any amendments so agreed shall enter into force when they have been confirmed by an exchange of diplomatic notes by both Parties.

2. An amendment to the Annexes may be made by direct agreement between the aeronautical authorities of both Parties and shall enter into force when it has been confirmed by an exchange of diplomatic notes.

Article 17 *Termination*

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



Article 18
Registration with ICAO

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

Article 19
Entry into force

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

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

DONE at this day of , 20-- in duplicate, each in the Icelandic, Spanish and English languages, text being equally authentic. In case of divergence of interpretation, the English text shall prevail.

For the Government of
the Republic of Paraguay

For the Government of Iceland



ANNEX I
International Air Services

Section 1
Routes

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

- A. The Designated Airline or Airlines of Paraguay shall be entitled to operate scheduled international air services in both directions on the routes specified hereafter:

Points in Paraguay	Intermediate points	Points in Iceland	Points beyond
any point	any point	any point	any point

For all-cargo service or services, between Paraguay and any point or points.

- B. The Designated Airline or Airlines of the Iceland shall be entitled to operate scheduled international air services in both directions on the routes specified hereafter:

Points in Iceland	Intermediate points	Points in Paraguay	Points beyond
any point	any point	any point	any point

For all-cargo service or services, between Iceland and any point or points.

NOTE:

Designated airlines of both Contracting Parties are entitled to exercise full unrestricted third, fourth, fifth, sixth and seventh freedom traffic rights at all points (whether intermediate or beyond points) of their own choice while operating any type of services (passenger and/or cargo, separately or in combination). Cabotage is permitted.

Section 2
Operational Flexibility

Each designated airline may on any or all flights and at 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 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;
7. Make stopovers at any points whether within or outside the territory of either Party;
8. Carry transit traffic through the other Party's territory;
9. Combine traffic on the same aircraft regardless of where such traffic originates;

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

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Section 3
Change of Gauge

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

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ANNEX II

Charter Operations

Section 1

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

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

Between any point or points in the territory of the other Party and any point or points in a third country or countries, provided that, except with respect to cargo charters, 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 Party.

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

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

Section 2

Any airline designated by either Party performing international charter operations originating in the territory of either 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 Party. If a Party applies different rules, regulations, terms, conditions, or limitations 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.



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