

Memorandum of Understanding

Delegations representing the Government of Republic of Turkey and the Government of the Iceland met in Reykjavik, Iceland, on 25 and 26 of May 2009 in order to assess their bilateral air transport relations and to negotiate an Air Services Agreement.

A list of members of the two Delegations is attached as Appendix I.

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 following understanding was reached between the two Delegations:

1. The Delegations discussed extensively the substance of a draft agreement and agreed on the text of an Air Services Agreement (ASA) between their respective Governments. The text is attached as Appendix II.

The Delegations agreed to recommend to their respective Governments the formal signing and adoption of the Bilateral Air Services Agreement pending the completion of the internal requirements necessary for the entry into force of this Agreement. The Delegations agreed that Bilateral Air Services Agreement should have interim effect on an administrative basis from the date herein.

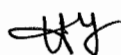
2. The Icelandic Delegation pointed out to its legal obligations as a member of European Economic Area (EEA) and the need to align the bilateral agreements with the relevant EEA legislation.

The Turkish Delegation stated that Turkey is determined to continue its EU accession process without delay and to consider aligning its relevant aviation regulations and bilateral air services agreements with the EU acquis in this field, and that an evaluation and consultation process has already been started with a view to exploring possible options which could also pave the way to negotiate and conclude the Horizontal Agreement with the European Commission.

In this context, the Turkish Delegation also informed about talks with the EU, in which it stated that certain political, commercial and legal concerns which are well known to the EU remain to be eliminated and underlined the requirement to address these concerns with the aim of finding satisfactory solutions on the basis of common interest and mutual understanding.

3. The Delegations agreed to recommend to their relevant authorities to enter into negotiations aimed at the conclusion of an Agreement for the Avoidance of Double Taxation. Notwithstanding the aforesaid, the delegations undertook to bring to the attention of their relevant authorities the draft text of an article relating to the Avoidance of Double Taxation, attached as Appendix III; a compilation of proposals made by both delegations for the inclusion in the ASA.

4. The Delegation of Iceland proposed an Article on intermodal services to be inserted into the ASA, attached as Appendix IV.



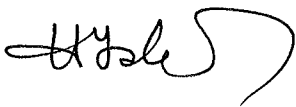
The Turkish Delegation welcomes this proposal and offers to contact the appropriate Turkish Authorities to determine the possibility to include the text into the ASA and to inform the Icelandic Delegation accordingly.

Should the provision be agreed, the new Article would be added to the agreed text as Article 14 (Intermodal Services) of the ASA before its signature, and numbering of the subsequent articles would change in sequence.

5. Capacity. The Delegations agreed that the designated airline(s) of each Party will be allowed to operate 7 frequencies for passenger and 7 frequencies for cargo operations per week in total on the specified routes using any type of aircraft.

Signed in Reykjavik on 26 May 2009.

For the Delegation of
the Government of the Republic of Turkey



Mr. Haydar YALCIN
Deputy Director General
Turkish DGCA
Ministry of Transport

For the Delegation of
the Government of Iceland



Mr. Einar GUNNARSSON
Director of International Trade Negotiations
Ministry for Foreign Affairs

List of participants

Delegation of Turkey:

Mr. **Haydar YALCIN**, Head of Delegation, Deputy Director General,
Directorate General of Civil Aviation

Mr. **Özcan BASOGLU**, Engineer, Acting Director for Bilateral Agreements,
Directorate General of Civil Aviation

Mr. **Nazif TIKENBATAR**, Acting Manager of International Relations,
Turkish Airlines

Delegation of Iceland:

Mr. **Einar Gunnarsson**, Head of Delegation, Chief Negotiator and Director, Department for
Trade Agreements, Directorate for External Trade and Economic Affairs, Ministry for
Foreign Affairs and External Trade

Mr. **Karl Alvarsson**, Director, Department of Transportation, Ministry of Communications

Ms. **Maria Erla Marelsdottir**, Counsellor, Department for Trade Agreements, Directorate
for External Trade and Economic Affairs, Ministry for Foreign Affairs and External Trade

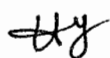
Ms. **Astridur Scheving Thorsteinsson**, Legal Adviser, Department of Transportation,
Ministry of Communications

Ms. **Johanna Helga Halldorsdottir**, Legal Adviser, Icelandic Civil Aviation Administration

Mr. **Arsaell Hardarson**, General Manager GSAs, Icelandair

Mr. **Hrafn Thorgeirsson**, Vice President Operations, Primera Air

Mr. **Sigfus Ólafsson**, Manager Marketing, Loftleidir Icelandic / Icelandair Group



AIR SERVICES AGREEMENT

BETWEEN

**THE GOVERNMENT OF THE REPUBLIC OF
TURKEY**

AND

THE GOVERNMENT OF ICELAND

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48

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

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

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

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

Desiring to facilitate the expansion of international air service opportunities;

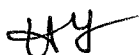
Desiring to ensure the highest degree of safety and security in international air services and reaffirming their grave concern about acts or threats against the security of aircraft, which jeopardize the safety of persons or property, adversely affect the operation of air services and undermine public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

Have agreed as follows:

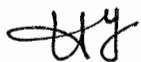
Article 1 *Definitions*

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

1. "Aeronautical Authorities" means, in the case of Iceland, the Ministry of Communications, and in the case of the Republic of Turkey, the Ministry of Transport and Communications, or in both cases any person or body authorised to exercise the functions presently assigned to the said authorities;
2. "Agreement" means this Agreement, its Annexes, and any amendments thereto;
3. "Agreed services" means, the international air services which can be operated, according to provisions of present Agreement on the specified routes;
4. "Annex" means, the Annex to this Agreement or as amended in accordance with the provisions of Article 19 (Consultations and Amendment) of this Agreement. The Annex forms an integral part of this Agreement and all references to the Agreement shall include the Annex except where explicitly agreed otherwise;
5. "Capacity" means, in relation to an aircraft, the payload of that aircraft available on the route or section of a route, in relation to a specified air service, the capacity of the aircraft used on such service multiplied by the frequency operated by such aircraft over a given period on a route or section of a route;



6. "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 of the Convention under Articles 90 and 94 thereof, so far as those annexes and amendments have become effective for or been ratified by both Parties;
7. "Designated airline" means, an airline designated and authorized in accordance with Article 3 of this Agreement;
8. "Full cost" means, the cost of providing service plus a reasonable charge for administrative overhead;
9. "ICAO" means, the International Civil Aviation Organization;
10. "International air service" means, an air service that passes through the airspace over the territory of more than one State;
11. "Marketing airline" means, an airline that offers air transportation on an aircraft operated by another airline, through code-sharing;
12. "Price" means, any fare, rate or charge for the carriage of passengers (and their baggage) and/or cargo (excluding mail) in air service charged by airlines, including their agents, and the conditions governing the availability of such fare, rate or charge;
13. "Regular equipment" means, articles, other than stores and spare parts of a removable nature, for use on board an aircraft during flight, including first aid and survival equipment
14. "Schedule" means, the schedule of the routes to operate air transportation services annexed to the present Agreement and any modifications thereto as agreed in accordance with the provisions of Article 19 of the present Agreement;
15. "Spare parts" means, articles of a repair or replacement nature for incorporation in an aircraft, including engines;
16. "Specified routes" means, the routes established or to be established in the Annex to this Agreement;
17. "Stop for non-traffic purposes", "airline", "air service" and "territory" have the meaning specified in Articles 2 and 96 of the Convention;
18. "Traffic" means, passengers, baggage, cargo and mail; and
19. "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.

2. Nothing in this Article shall be deemed to confer to the designated airline or airlines of one Party the right to take on board, in the territory of the other Party, passengers, their baggage, cargo, or mail carried for remuneration and destined for another point in the territory of that other Party.

Article 3
Designation and Authorization

1. Each Party shall have the right to designate one or more airlines for the purpose of operating the agreed services on the specified routes. Such designation shall be effected by virtue of a written notification through diplomatic channels.

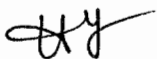
2. Upon receipt of such designation, the Aeronautical Authorities of other Party shall, subject to paragraphs (3) and (4) of this Article, grant without delay to the designated airline(s) the appropriate operating authorization.

3. The Aeronautical Authorities of one Party may require an airline(s) designated by the other Party to satisfy that it is (they are) qualified to fulfil the conditions prescribed under the laws and regulations normally and reasonably applied to the operations of international air services by such authorities in conformity with the provisions of the Convention.

4. Each Party shall have the right to refuse to grant the operating authorizations referred to in paragraph (2) of this Article, or to impose such conditions as it may deem necessary on the exercise by a designated airline of the rights specified in Article 2 (Grant of Rights) of this Agreement, in any case where the Party is not satisfied that:

- a. substantial ownership and effective control of that airline are vested in the Party designating the airline or in its nationals; and/ or
- b. the Government designating the airline is maintaining and administering the standards set forth in Article 7 (Aviation Safety) and Article 8 (Aviation Security) of this Agreement.

5. When an airline has been so designated and authorized, it may begin at any time to operate the agreed services, provided that a capacity agreed upon and a price established in accordance with the provisions of Article 15 (Capacity) and Article 16 (Pricing) of this Agreement is in force in respect of that service.



Article 4
Revocation of Authorization

1. Each Party shall have the right to revoke an operating authorization or to suspend the exercise of the rights specified in Article 2 (Grant of Rights) of this Agreement by an airline/s designated by the other Party, or to impose such conditions as it may deem necessary on the exercise of these rights:

- a. in any case where it is not satisfied that substantial ownership and effective control of that airline is vested in the Party designating the airline or in its nationals; or,
- b. in case of failure by that airline to comply with the laws or regulations of the Party granting the rights; or,
- c. in case that airline otherwise fails to operate in accordance with the conditions prescribed under this Agreement.

2. Unless immediate revocation, suspension or imposition of the conditions mentioned in paragraph (1) of this Article is essential to prevent further infringements of laws or regulations, such right shall be exercised only after consultations Aeronautical Authorities of the State of other Party. In such a case consultations shall begin within a period of sixty (60) days from the date of request made by either Party for consultations.

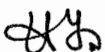
Article 5
Application of Laws

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, exit, clearance, aviation security, immigration, passports, currency, customs and quarantine or, in the case of mail, postal regulations) shall be complied with by, or on behalf of, such passengers, crew or cargo of the other Party's airlines.

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

4. Each Party shall, upon request of the other Party, supply the copies of the relevant laws, regulations and procedures referred to in this Agreement.



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 or any other state.

Article 7
Aviation Safety

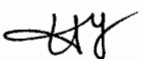
1. Either Party may request consultations concerning the safety standards maintained in respect of an airline designated by the other Party relating to aeronautical facilities, aircrews, aircraft, and operation of the designated airlines.

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. If any such ramp inspection or series of ramp inspections gives rise to:

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



the Party carrying out the inspection shall, for the purposes of Article 33 of the Convention, be free to conclude that the requirements under which the certificate or licenses in respect of that aircraft or in respect of the crew of that aircraft 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.

5. In the event that access for the purpose of undertaking a ramp inspection of an aircraft operated by the designated airline of a Party in accordance with paragraph (3) above is denied by the representative of that airline, the other Party shall be free to infer that serious concerns of the type referred to in paragraph (4) above arise and draw the conclusions referred in that paragraph.

6. Each Party reserves the right to suspend or vary the operating authorization of the airline of the other Party immediately in the case the first Party concludes, whether as a result of a ramp inspection, the denial of an access to a ramp inspection or a series of ramp inspection, consultation or otherwise, that immediate action is essential to the safety of an airline operation.

7. Any action by one Party in accordance with paragraphs (2) or (6) above shall be discontinued once the basis for the taking of that action ceases to exist.

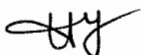
Article 8

Aviation Security

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

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

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



4. Each Party agrees to observe the security provisions required by the other Party for entry into the territory of that other Party and to take adequate measures to protect aircraft and to inspect passengers, crew, and their baggage and 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. Each party shall take such measures, as it may find practicable, to ensure that an aircraft subject to an act of unlawful seizure or other acts of unlawful interference, which has landed in the territory of the respective State is detained on the ground unless its departure is necessitated by the overriding duty to protect human life. Wherever practicable, such measures shall be taken on the basis of mutual consultations.

Article 9

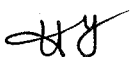
Commercial Opportunities

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. The designated airline or airlines of one Party shall be permitted, in accordance with the national laws and regulations of both Parties, on the basis of reciprocity, to perform its own specified ground handling services in the territory of the other Party and, at its option, to have ground handling services provided in whole or in part by any agent authorized, if required by national laws and regulations, by the competent authorities of the other Party to provide such services.

4. Any airline of each Party may engage in the sale of air services in the territory of the other Party 'through airlines' sales offices 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 subject to the national laws and regulations, 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 be made in accordance with the national laws and exchange regulations applicable.

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. The designated airline(s) of either Party may enter into marketing arrangements such as blocked space, code sharing or other commercial arrangements with:

- a. an airline or airlines of the same Party;
- b. an airline or airlines of other Party;
- c. an airline or airlines of a third country

provided that all airlines in the above arrangements hold the appropriate route and traffic rights ,and, in respect of each ticket sold, the purchaser is informed at the point of sale which airline will operate each sector of the service.

For third party code share arrangements all airlines in such arrangements are subject to the approval of the Aeronautical Authorities of both Parties. Should such a third party not authorized or allow comparable arrangements between the airlines of the other Party and other airlines on services to, from and via such third country, the Aeronautical Authorities of the concerned Party have the right not to accept such arrangements

It is the common understanding of both Parties that code-share services are not counted against the frequency entitlement of the marketing airline.

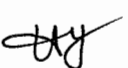
Article 10

Customs Duties and Charges

1. Aircraft operated on international air services by the designated airline of either Party, as well as their regular equipment, spare parts (including engines), supplies of fuels and lubricants (including hydraulic fluids), and aircraft stores (including food, beverages, liquor, tobacco and other products for sale to or use by passengers during flight) carried on board, such aircraft shall be exempt from all customs duties, inspection fees and other duties or taxes on arriving in the territory of the other Party, provided such equipment and supplies remain on board the aircraft until such time as they are re-exported or are used on board aircraft on the part of the journey to be performed over that territory.

2. The following items shall also be exempt from the same duties and taxes, in relation with the exception of charges corresponding to the service performed;

- a. aircraft stores taken on board in the territory of either Party, within limits fixed by the authorities of the said Party, and for use on board aircraft engaged in an international service of the Party,



- b. spare parts (including engines) and regular airborne equipment entered into the territory of either Party for the maintenance or repair of aircraft used on international services by the designated airline(s) of the other Party,
- c. fuel and lubricants (including hydraulic fluids) destined to supply aircraft operated on international services by the designated airline of the other Party, even when these supplies are to be used on the part of the journey to be performed over the territory of the Party in which they are taken on board,
- d. printed ticket stock, airway bills any printed material bearing insignia of a designated airline of a Party and usual publicity material distributed without charge by that designated airline intended for use in the operation of international services until such time as they are re-exported,

3. Materials referred to in paragraph (2) above shall be subject to supervision or control of customs authorities.

4. The regular airborne equipment, spare parts (including engines), aircraft stores and supplies of fuels and lubricants (including hydraulic fluids) as well as the materials and supplies retained on board the aircraft of either Party may be unloaded in the territory of the other Party only with the approval of the customs authorities of such territory. In such case, they shall 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 of that Party.

5. The fees corresponding to the services performed in relation to storage and customs clearance will be charged in accordance with the national laws and regulations of the States of the Parties.

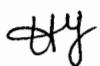
6. The exemptions provided for by this Article shall also apply in situations where a designated airline of one Party has entered into arrangement with others airlines for the loan or transfer in the territory of the other Party of the items specified in paragraphs 1 and 2 of this Article, provided such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

7. Nothing in this Agreement shall prevent either Party from imposing, on a non-discriminatory basis, taxes, levies, duties, fees or charges on fuel supplied in its territory for use in an aircraft of a designated air carrier of the other Party that operates between a point in the territory of the first Party and a third state.

Article 11

Direct Transit

Subject to the laws and regulations of each Party, passengers, baggage, cargo and mail in direct transit across the territory of one Party and not leaving the area of the airport reserved for such purpose shall only be subject to a very simplified control except in respect of security measures against violence, air piracy and smuggling of narcotics & psychotropic substances. Such baggage, cargo and mail shall be exempt from customs duties, exercise duties and similar duties, fees and charges not based on the cost of services provided on arrival.



Article 12
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.

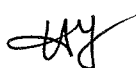
4. Neither party shall be held, in dispute resolution procedures pursuant to Article 20 of this Agreement, to be in breach of a provision of this Article, unless (i) it fails to undertake a review of the charge or practice that is the subject of complaint by the other Party within a reasonable amount of time; or (ii) following such a review it fails to take all steps within its power to remedy any charge or practice that is inconsistent with this Article.

[Article 13
Avoidance of Double Taxation]

Reserved

Article 14
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. Nothing in this Article prevents the application of provisions concerning the abuse of dominant position provided in the respective competition legislation of the Parties.



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

Article 15

Capacity

1. The designated airline(s) of each Party shall enjoy fair and equal opportunity for the operation of air services for the carriage of traffic between the territories of two Parties.

2. In the operation by the designated airline(s) of either Party of the specified air services, the interests of the airline of the other Party shall be taken into consideration so as not to affect unduly the services which the latter provides on all part of the same route.

3. The agreed services provided by the designated airlines of the Parties shall bear close relationship to the requirements of the public for transportation on the specified routes and shall have as their primary objective the provision, at a reasonable load factor, of capacity adequate to carry the current and reasonably anticipated requirements of passengers and cargo including mail between the territories of the Parties.

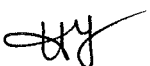
4. In the operation of the agreed services, the total capacity to be provided and the frequency of the services to be operated by the designated airlines of each Party shall be, at the outset, be mutually determined by the Aeronautical Authorities of the Parties before the services are inaugurated. Such capacity and frequency of services initially determined may be reviewed and revised from time to time by said authorities.

Article 16

Pricing

1. Each Party shall allow prices for air services to be decided by each designated airline based on commercial considerations in the marketplace. Intervention by the Parties shall be limited to:

- a) prevention of unreasonably discriminatory prices or practices;
- b) protection of consumers from prices that are unreasonably high or restrictive due to the abuse of a dominant position; and
- 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 prices to be charged to or from its territory by airlines of the other Party. Notification or filing by the airlines of both Parties may be required no more than thirty (30) days before the proposed date of effectiveness. In individual cases, notification or filing may be permitted on shorter notice than normally required. Neither Party shall require the notification nor filing by airlines of the other Party of prices charged by charterers to the public, except as may be required on a non-discriminatory basis for information purposes.

3. The prices established under paragraph (1) shall not be required to be filed by the designated airlines of one Party with the Aeronautical Authorities of the other Party for approval.

4. Neither Party shall allow its designated airline or airlines, in the establishment of prices, either in conjunction with any other airline or airlines or separately, to abuse market power in a way which has or is likely or intended to have the effect of severely weakening a competitor, being a designated airline of the other Party, or excluding such a competitor from a route.

5. The Parties agree that the following airline practices, in relation to the establishment of prices, may be regarded as possible unfair competitive practices which may merit closer examination:

- charging fares and rates on routes at levels which are, in the aggregate, insufficient to cover the costs of providing the services to which they relate;
- the practices in question are sustained rather than temporary;
- the practices in question have a serious economic effect on, or cause significant damage to, designated airline(s) of the other Party; and
- behaviour indicating an abuse of dominant position on the route.

6. Notwithstanding the foregoing, the designated airlines of one Party shall provide, on request, to the Aeronautical Authorities of the other Party the information relating to the establishment of prices, in a manner and format as specified by such authorities.

Article 17

Flight Schedule Submission

1. The designated airline(s) of each Party shall submit its envisaged flight schedules for approval to the Aeronautical Authorities of the other Party on each schedule period (summer and winter) at least thirty (30) days prior to the operation of the agreed services.

2. For supplementary flights which the designated airline of one Party wishes to operate on the agreed services outside the approved flight schedule, that airline has to request prior permission from the Aeronautical Authorities of the other Party. Such requests shall be submitted in accordance with the national laws and regulations of the Parties. The same procedure shall be applied to any modification thereof.



Article 18

Statistics

The Aeronautical Authorities of either Party shall supply to the Aeronautical Authorities of the other Party at their request, such periodic or other statements of statistics as may be reasonably required for the purpose of reviewing the capacity provided on the agreed services by the designated airlines of the first Party. Such statements shall include all information required to determine the amount of traffic carried by that airline on the agreed services and the origins and destinations of such traffic.

Article 19

Consultations and Amendments

1. In a spirit of close co-operation, the Aeronautical Authorities of the Parties shall consult each other from time to time with a view to the implementation, interpretation, application or amendment of this Agreement and the Annexes thereto.

2. Should one Party request consultations with a view to modify the present Agreement or its Annexes, such consultations shall begin at the earliest possible date but not later than sixty (60) days from the date the other Party receives the written request, unless otherwise agreed by the Parties. Such consultations may be conducted through discussion or by correspondence. Each Party shall prepare and present during such consultations relevant evidence in support of its position in order to facilitate rational and economic decisions to be taken.

3. If either of the Parties considers it desirable to amend any provision of this Agreement, such modification enters into force when the Parties will have notified to each other the fulfilment of their constitutional procedures.

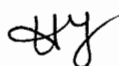
4. Amendments to the Annex I may be made by direct agreement between the Aeronautical Authorities of the Parties. They shall be applied provisionally from the date they have been agreed upon and enter into force when confirmed by an exchange of diplomatic notes.

Article 20

Settlement of Disputes

1. 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 their dispute by negotiations between Aeronautical Authorities of the States of both Parties.

2. If the said Aeronautical Authorities fail to reach a settlement by negotiation, the dispute shall be settled through diplomatic channels.



3. If the Parties fail to reach a settlement pursuant to paragraphs (1) and (2) above, either Party may in accordance with its relevant laws and regulations refer the dispute to an arbitral tribunal of three arbitrators, one to be named by each Party and the third arbitrator, who shall be the umpire, to be agreed upon by the two arbitrators so chosen, provided that such arbitrator shall not be a national of either Party and shall be a national of a State having diplomatic relations with each of the Parties at the time of appointment.

4. Each of the Parties shall nominate its arbitrator within a period of sixty (60) days from the date of receipt, through registered mail, of a notice of arbitration. The umpire shall be appointed within a further period of sixty (60) days following the appointment of the arbitrator by each of the Parties.

5. If a Party fails to nominate its arbitrator within the specified period or in case the chosen arbitrators fail to agree on the umpire within the mentioned period, each Party may request the President of the Council of ICAO to appoint the umpire or the arbitrator representing the failing party, as the case may require.

6. The Vice-President or a senior member of the council ICAO, not being a national of either of the Parties, as the case may be, shall replace the President of ICAO in its arbitral duties, as mentioned in paragraph (3) of this Article, in case of absence or incompetence of the latter.

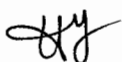
7. The arbitral tribunal shall determine its procedures and the place of arbitration subject to provisions agreed upon between the Parties.

8. The decisions of the arbitral tribunal shall be final and binding upon the Parties to the dispute.

9. If either Party or the designated airline of either Party fails to comply with the decision given under paragraph (2) of this Article, the other Party may limit, suspend or revoke any rights or privileges which have been granted by virtue of this Agreement to the Party in default.

10. Each Party shall bear the expenses of its own arbitrator. The expenses of the umpire, including his fees and any expenses incurred by ICAO in connection with the appointment of the umpire and/or the arbitrator of the failing Party as referred to in paragraph (3) of this Article shall be shared equally by the Parties.

11. Pending the submission to arbitration and there after until the arbitral tribunal publishes its award, the Parties shall, except in the event of termination, continue to perform all their obligations under this Agreement without prejudice to a final adjustment in accordance with the said award.



Article 21
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 22
Registration with ICAO

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

Article 23
Entry into force

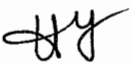
This Agreement shall enter into force on the date of the later note in an exchange of diplomatic notes between the Parties confirming that the internal procedures necessary for the entry into force of the Agreement have been completed.

In witness thereof, the undersigned plenipotentiaries, being duly authorized thereto by their respective Governments, have signed this Agreement and have affixed their seals thereto.

Done at ***** this ***** day of ***** the year ***** in duplicate, in the Turkish, Icelandic and English languages, all texts being equally authentic. In case of any divergence of implementation or interpretation, the English text shall prevail.

**FOR THE GOVERNMENT
OF THE REPUBLIC OF TURKEY**

**FOR THE GOVERNMENT
OF ICELAND**



ANNEX ROUTE SCHEDULE

1. The airlines designated by the Republic of Turkey shall be entitled to operate air services in both directions as follows:

From	Intermediate Points	To	Beyond Points
Points in Turkey	Any points (*)	3 points in Iceland	Any points (*)

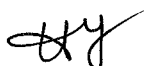
2. The airlines designated by the Government of Iceland shall be entitled to operate air services in both directions as follows:

From	Intermediate Points	To	Beyond Points
Points in Iceland	Any points (*)	3 points in Turkey	Any points (*)

Notes:

(*) The intermediate points and beyond points on the above routes, and 5th freedom traffic rights which may be exercised at such points by the designated airlines, shall be jointly determined between the Aeronautical Authorities of both Parties.

Intermediate and beyond points may be omitted by the designated airline(s) on any or all flights at their discretion provided that such services on this route shall start and terminate in the territory of the Party designating the airline.



Article 13

Avoidance of Double Taxation

1. Profits of an enterprise of a Contracting State derived from the other Contracting State from the operation of aircraft in international traffic, including participation in a pool, a joint business or international operating agency, shall be taxable only in the first-mentioned State.

2. Gains derived by an enterprise of a Contracting State from the alienation of aircraft operated in international traffic by that enterprise or movable property pertaining to the operation of such aircraft shall be only in that State.

3. In this Article:

(a) the term "enterprise of a Contracting State" means an enterprise carried on by a resident of a Contracting State,

(b) the term "international traffic" means any transport by an aircraft operated by an enterprise of a Contracting State, except when the aircraft is operated solely between places situated in the territory of the other Contracting State,

(c) the term "income and profits" includes revenues and gross receipts from the operation of aircraft for the carriage of persons, livestock, goods, mail or merchandise in international traffic including:

i. the charter or rental of aircraft if such charter or rental is incidental to the operation of aircraft in international traffic;

ii. the sale of tickets or similar documents, and the provision of services connected with such carriage, for the airline itself or for other airlines, but in the latter case only if such sales or provisions of service are incidental to the operation of aircraft in international traffic; and

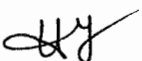
iii. interest on funds directly connected with the operation of aircraft in international traffic;

(d) the term "competent authority" means, in the case of ----- the -----
-----or his authorized representative, or any person or body authorized to perform any functions at present exercisable by the -----or similar functions; and in the case of Iceland, the Minister of Finance or his authorized representative.

4. Notwithstanding Article 20, each Party shall in writing notify the other when the internal procedures necessary to implement this Article have been completed. This Article shall enter into force on the date of receipt of the latter of these notifications and shall thereupon have effect in respect of income, profits and gains arising on or after the first day of ----- and on capital and assets held.

5. Notwithstanding Article 18, this Article shall cease to have effect, in relation to income, profits and gains received on or after the first day of January in the calendar year next following the expiry of six months after the date of receipt of such notice.

6. This Article shall cease to have effect in the event that an agreement for the avoidance of double taxation with respect to taxes on income, providing for similar exceptions to those stipulated in this Article, enters into force between the Parties.



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 to or from any points in the territories of the Parties or in third countries, including transport to and from all airports with customs facilities, and including, where applicable, the right to transport cargo in bond under applicable laws and regulations. Such cargo, whether moving by surface or by air, shall have access to airport customs processing and facilities. Airlines may elect to perform their own surface transportation or to provide it through arrangements with other surface carriers, including surface transportation operated by other airlines and indirect providers of cargo air services. Such intermodal cargo services may be offered at a single, through price for the air and surface transportation combined, provided that shippers are not misled as to the facts concerning such transportation.

