Agreement between the Government of Iceland, of the one part, and the Government of Denmark and the Home Government of the Faroe Islands, of the other part

The Government of Iceland, of the one part, and the Government of Denmark and the Home Government of the Faroe Islands, of the other part;

Hereinafter referred to as the CONTRACTING PARTIES;

WISHING to enhance the economic relations between Iceland and the Faroe Islands and to harmonize their economic development;

EMPHASIZING fair conditions for competition in a unified market without a customs union;

DETERMINED to extend their economic relations to generally all sectors of economic activity;

DETERMINED to develop and enhance their co-operation in other fields;

HAVE DECIDED to abolish all obstacles to economic relations between Iceland and the Faroe Islands within the substantive scope of this Agreement.

Article 1. Objective

The objective of this Agreement is the establishment of a single economic area covering the territories of Iceland and the Faroe Islands, where, within the substantive scope of this Agreement, any discrimination on the basis of nationality, place of establishment, or the place of origin of goods is prohibited.

Article 2. Territorial Scope

This Agreement applies to the territories of Iceland and the Faroe Islands. Any measures, which the Contracting Parties commit themselves to take under this Agreement, shall be limited to the territories of either Iceland or the Faroe Islands, and to their natural persons, as defined in Protocol 1, and to legal persons domiciled there. The provisions of this Agreement shall apply to movement between Iceland and the Faroe Islands of goods originating in the territories of Iceland or the Faroe Islands, and of services and capital provided by natural persons of either Iceland or the Faroe Islands, as defined in Protocol 1, or by legal persons domiciled in either Iceland or in the Faroe Islands.

Article 3. Substantive Scope

Unless otherwise stated therein, this Agreement applies to:

a) trade in goods;

b) trade in services;

c) movement of persons and right to residence;

d) movement of capital and investment;

e) right of establishment;

f) competition, state monopolies, state aid and public procurement;

g) cooperation in other areas, as provided for in Article 7.

Article 4. Most Favoured Nation Treatment

Within the scope of this Agreement, each Contracting Party shall accord to the natural and legal persons of the other Contracting Party, and goods originating within the territorial scope of this Agreement, treatment no less favourable than that they accord to natural and legal persons of any other country, and goods originating outside the territorial scope of this Agreement.

Article 5. National Treatment

1. Within the scope of this Agreement, A. any discrimination between Icelandic natural persons and Faroese natural persons on the basis of nationality, as defined in Protocol 1, is prohibited; B. any discrimination between legal persons domiciled within the territorial scope of the Agreement, on the basis of their place of establishment, is prohibited; C. any discrimination between goods originating within the territorial scope of the Agreement, on the basis of their place of origin, is prohibited.

2. In the application of the principle contained in paragraph 1, the Contracting Parties commit themselves, inter alia, to the following:

A. With respect to trade in goods:

i. Any discrimination regarding the treatment of goods, in law or in fact, on the basis of their origin, shall be prohibited.

ii. Quantitative restrictions, by any name or for any reason, and measures having equivalent effect shall be prohibited.

iii. Tariffs, by any name or for any reason, and measures having equivalent effect shall be prohibited.

iv. All goods, legally marketed anywhere within the territorial scope of the Agreement, shall be covered by the provisions of this Article, subject to the requirements of the protection of public morals and safety.

v. Protocol 2 to this Agreement contains the applicable rules of origin.

vi. Protocol 3 to this Agreement contains rules regarding cooperation between the Contracting Parties on customs matters and simplified customs procedures.

B. With respect to trade in services:

i. Any discrimination, in law or in fact, against a service provider of one Contracting Party operating in the territory of the other Contracting Party shall be prohibited.

ii. Without prejudice to the provision of (i) above, natural or legal persons of one Contracting Party operating in the territory of the other Contracting Party shall fulfill the same requirements as natural or legal persons of the latter Contracting Party, under the latter Contracting Party's national law.

C. With respect to movement of persons and right to residence:

i. Any discrimination, in law or in fact, regarding the right to residence or free movement of persons, shall be prohibited, as further stipulated in Protocol 4 to this Agreement.

ii. Access to schools, universities and other institutions of learning shall be granted without discrimination.

iii. A Contracting Party shall recognize, as if issued in its own territory, comparable diplomas and other evidence of professional qualifications obtained in the territory of the other Contracting Party. Recognition of such diplomas and evidence of qualifications shall in no event be less favourable than the recognition given to comparable diplomas and evidence of qualifications issued by a nonContracting Party to this Agreement.

iv. Three years of residence by Icelandic natural persons in the Faroe Islands and of Faroese natural persons in Iceland shall entail the right to stand for municipal election and cast a vote in municipal elections.

D. With respect to movement of capital and investment:

i. Any discrimination, in law or in fact, regarding the free movement of capital or investment, on the basis of the destination of the capital or the place of investment, anywhere within the territorial scope of this Agreement, shall be prohibited.

E. With respect to right of establishment:

i. Any discrimination, in law or in fact, as regards the right of establishment, shall be prohibited.

F. With respect to competition:

i. Any discrimination in rules on competition or their application shall be prohibited.

ii. In order to ensure free trade and fair conditions for competition in the economic area established by this Agreement, the competition authorities of the Contracting Parties shall cooperate, exchange information and consult each other on surveillance in general terms and, as the case may be, in individual cases.

iii. If a Contracting Party becomes aware of dumping of a specific product by an exporter of the other Contracting Party, as defined by the relevant provisions of the WTO agreements, the affected Contracting Party may take appropriate measures in accordance with Article VI of the GATT 1994. The affected Contracting Party shall notify the other Contracting Party in writing and allow for a 30 day period for consultations with a view to finding a mutually acceptable solution.

G. With respect to state monopolies:

i. In their operations, state monopolies of a Contracting Party shall not accord discriminatory treatment, in law or in fact.

H. With respect to state aid:

i. State aid or aid through state resources in any form whatsoever, directed at an economic activity wholly or partly within the territory of a Contracting Party, shall be granted in that territory without discrimination.

ii. If a Contracting Party finds that state aid or aid through state resources by the other Contracting Party distorts or threatens to distort competition by favouring certain undertakings or sectors, the former Contracting Party may bring the matter before the Joint Committee in accordance with Article 8.

I. With respect to public procurement:

i. Any discrimination relating to public procurement, in law or in fact, shall be prohibited.

J. With respect to trade in agricultural goods:

i. Where imports of specific agricultural products in chapters 1, 2, 4, 5, 12, 15, 16 and 21 in the Harmonized Commodity Description and Coding System from one Contracting Party are seriously detrimental to the production activity of that product in the other Contracting Party, the latter Contracting Party may unilaterally take appropriate and proportionate measures. Prior to taking such measures the Contracting Parties shall afford sufficient time for consultations in order to find solutions to remedy the situation.

ii. Where exceptional circumstances require urgent action, the Contracting Party of the importer may apply measures strictly necessary to remedy the situation at the earliest three days after having informed the Contracting Party of the exporter.

iii. Any measures shall immediately be notified, together with all the relevant information, to the Joint Committee in accordance with Article 8 and shall be the subject of periodical consultations within the Joint Committee, particularly with a view to their abolition as soon as circumstances permit.

Article 6. Exceptions from National Treatment

The following exceptions from the principle contained in Article 5, paragraph 1, shall apply: 1. All traded goods shall be subject to the veterinary and phytosanitary rules of the importing Contracting Party. Such rules shall not imply hindrances of the technical or procedural type to direct trade. Subject to their international treaty obligations on veterinary and phytosanitary matters, the Contracting Parties shall ensure that direct trade in products that are subject to sanitary and phytosanitary disciplines is facilitated and undertake to establish border inspection posts and other facilities necessary to enable direct trade in all products covered by this Agreement.

2. Iceland may continue to apply restrictions existing on the date of signature of this Agreement on foreign ownership and/or ownership by nonresidents as well as on establishment of nonnationals and nationals who do not have legal domicile in Iceland in the sectors of fisheries and fish processing.

3. The Faroe Islands may continue to apply restrictions existing on the date of signature of this Agreement on foreign ownership and/or ownership by nonresidents as well as on establishment of nonnationals and nationals who do not have legal domicile in the Faroe Islands in the fisheries sector.

4. The Faroe Islands may continue to apply provisions on licences according to Articles 10, 11 and 18 of the Hydrocarbon

Activities Act (No. 31, 16 March 1998). In this respect, the Faroese Act on Hydrocarbon Activities shall be interpreted so as to allow Icelandic legal persons established, and Icelandic natural persons domiciled in the Faroe Islands, to enjoy rights under that Act on a nondiscriminatory basis. In all other respects the general provisions of this Agreement apply to this area.

5. The provisions of this Agreement concerning investment shall not apply to investment by the governments or governmental bodies of the Contracting Parties.

Article 7. Co-operation In other Areas

1. Within the scope of this Agreement, the Contracting Parties will strengthen and broaden mutual cooperation in all relevant fields of common concern including the following:

• Culture, education, training, sport and youth

• Energy

• Environment

• Health services

• Human resource development in the public sector

• Research and technological development

• Resource management

• Telecommunications

• Tourism

• Transport

2. Provisions on cooperation pursuant to paragraph 1 will be set out by the Joint Committee in protocols to this Agreement to be introduced later.

Article 8. Joint Committee

1. A Joint Committee of the Contracting Parties is hereby established. It shall ensure the effective implementation and operation of this Agreement. To this end, it shall carry out exchanges of views and information.

2. The Joint Committee may, by consent, decide to amend Articles 5, 6 and 7 as well as the Protocols to this Agreement, or add protocols to this Agreement as provided for in Article 7, paragraph 2, with the aim of progressively liberalising trade or strengthening the cooperation of the Contracting Parties.

3. The Joint Committee shall adopt its own rules of procedure.

4. The Joint Committee shall meet in accordance with its rules of procedure, no less than annually, and at the request of either Contracting Party. 5. The Joint Committee may establish subsidiary bodies.

Article 9. Council

1. Members of Governments shall meet no less than annually.

2. A Council is hereby established. It shall, in particular, give political impetus for the implementation of this Agreement and guide the Joint Committee established thereunder in the performance of its work, as appropriate.

3. The Council shall assess the overall functioning and development of this Agreement. The Joint Committee may refer to the Council any issue giving rise to difficulty.

4. The Council shall adopt its own rules of procedure.

Article 10. Protocols

The Protocols to this Agreement shall constitute an integral part thereof.

Article 11. Accession

This Agreement may be extended to other Parties or parts of the Kingdom of Denmark on application, subject to agreement on the terms and conditions for such extension.

Article 12. Termination

1. Either Contracting Party may terminate this Agreement by a diplomatic note to the other Contracting Party. The Agreement shall expire on the first day of the month following that in which a twelve month period from the reception of the termination notification lapsed.

2. Advantages granted to investors or service providers of one Contracting Party by another Contracting Party pursuant to the terms of this Agreement, before the date of the termination notification, shall remain in force for a period not less than five years after its termination.

Article 13. Entry Into Force

1. This Agreement is subject to ratification, acceptance or approval by the Contracting Parties in conformity with their respective procedures.

2. The Agreement shall enter into force on the first day of the month following the deposit of the latter instrument of ratification, acceptance or approval with the depository, the Ministry for Foreign Affairs of Iceland.

3. The Agreement between the Government of Denmark and the Home Government of the Faroe Islands, of the one part, and the Government of Iceland, of the other part, on Free Trade between the Faroe Islands and Iceland, signed on 6 August 1992, shall cease to be in force on the entry into force of this Agreement, subject to the provisions of Protocol 2 to the present Agreement.

Section Conclusion

Done at Hoyvík on 31 August 2005, in the Icelandic, Faroese, Danish and English languages, all texts being equally authentic. In case of any discrepancies the English text shall prevail.

For the Government of Iceland

Davíð Oddsson

For the Government of Denmark and the Home Government of the Faroe Islands

Jóannes Eidesgaard

PROTOCOL 1

In the context of this Agreement an "Icelandic natural person" shall be defined as a person of Icelandic citizenship and a "Faroese natural person" as a person of Danish citizenship, domiciled or previously domiciled in the Faroe Islands.

PROTOCOL 4

The Contracting Parties undertake to facilitate the free movement of persons within the territorial scope of the Agreement. They are Parties to the following Nordic Conventions regarding a common Nordic labour market, social security and social assistance, which provide basic minimum principles in this regard:

Nordic Convention on a Common Nordic Labour Market, signed on 6 March 1982. The Convention came into force on 1 August 1983. It became applicable to the Faroe Islands on 1 April 1992.

Nordic Convention on Social Assistance and Social Services, signed on 14 June 1994. The Convention came into force on 1 October 1996 and became applicable to the Faroe Islands on the same date.

Nordic Convention on Social Security, signed on 18 August 2003. The Convention came into force on 1 September 2004.

The Nordic Countries have been informed of its applicability to the Faroe Islands, and it will become promulgated in the Faroe Islands in September 2005.

JOINT DECLARATION BY THE CONTRACTING PARTIES TO THE AGREEMENT BETWEEN THE GOVERNMENT OF ICELAND, OF THE ONE PART, AND THE GOVERNMENT OF DENMARK AND THE HOME GOVERNMENT OF THE FAROE ISLANDS, OF THE OTHER PART

In respect of goods covered, as regards Iceland, by Annex I to the Agreement on the European Economic Area Article 6(1) of the Agreement shall be interpreted so as to inter alia bestow upon the Contracting Parties a mutual obligation to grant the same rights as laid down in the Protocol on Veterinary Matters supplementary to the Agreement between the European Community, on the one part, and the Government of Denmark and the Home Government of the Faroe Islands, on the other part, of 8 December 1999, and Decision No 1/2001 of the EC-Faroe Islands Joint Committee of 31 January 2001 laying down the provisions to implement the Protocol on Veterinary Matters.

In respect of transfers

Each Contracting Party undertakes to create and maintain favourable conditions for investors of the other Contracting Party and to guarantee the free transfer of funds between the Contracting Parties in connection with investment and trade in goods and services.

In respect of Nordic conventions

The Contracting Parties agree that any rights and obligations accorded to them under conventions or agreements between the Nordic countries shall be regarded as minimum rights and obligations and no provisions in the Agreement shall diminish or reduce those rights and obligations.

In respect of voting rights

Bearing in mind the requirements of the Icelandic Constitution regarding the right to stand for election and cast a vote in elections to Alþingi, each Contracting Party shall undertake to explore the possibility of according natural persons of the other Contracting Party such right regarding the parliamentary elections to Alþingi in Iceland and Løgtingið in the Faroe Islands, with similar conditions as stated in Article 5 (2) C, iv of the Agreement.

In respect of the management of living marine resources

It is not the purpose of the Agreement to restrict in any way the management or exploitation by the Contracting Parties of their respective living marine resources. The Contracting Parties undertake to actively explore the possibility of enhanced co-operation on their respective regimes regarding management and exploitation of living marine resources according to Article 7 of the Agreement.

Without prejudice to the need for effective management of their fisheries resources, both Contracting Parties agree to identify ways to facilitate fish processing and trade in fish between the Faroe Islands and Iceland, with a view to removing any nuisances without delay.

Icelandic authorities will address this by finding a solution in the near future to the 10% surcharge of quota, when vessels fishing in Icelandic waters land their catch in the Faroe Islands.

Faroese authorities will address this by finding a solution in the near future to the 30% surcharge of days-at-sea, when Faroese vessels fishing in Faroese waters have landed more than 25% of their catch outside the Faroe Islands and land their catch in Iceland.

No new provisions that diminish the possibility of enhanced trade in fish and fish processing between the Faroe Islands and Iceland will be imposed after the date of signature of the Agreement.

In respect of rules of origin

Given the anticipated participation of the Faroe Islands in the Pan-Euro-Mediterranean System on Rules of Origin, the Contracting Parties have agreed to temporarily extend the application of the Rules of Origin laid down in Protocol 3 to the Agreement between the Government of Denmark and the Home Government of the Faroe Islands, of the one part, and the Government of Iceland, of the other part, on Free Trade between the Faroe Islands and Iceland, signed on 6 August 1992. Protocol 2 to the present Agreement shall be duly amended when the participation of the Faroe Islands in the Pan-Euro-Mediterranean System on Rules of Origin becomes effective.

Hoyvík, 31 August 2005.

For the Government of Iceland

Davíð Oddsson

For the Government of Denmark and the Home Government of the Faroe Islands

Jóannes Eidesgaard