

**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) co-operation 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 co-operation 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 non-Contracting 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 co-operate, 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 non-residents as well as on establishment of non-nationals 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 non-residents as well as on establishment of non-nationals 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 non-discriminatory 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 co-operation 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 co-operation 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 co-operation 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.

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 Denmark
and the Home Government of
the Faroe Islands

For the Government of Iceland
