

FREE TRADE AGREEMENT BETWEEN THE FAROE ISLANDS AND ICELAND

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

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,

HEREINAFTER referred to as the Contracting Parties,

RECALLING the status of the Faroe Islands as a self-governing part of Denmark;

CONSIDERING the fact that the Faroe Islands earlier were part of the European Free Trade Association (EFTA) through Denmark's membership of that Organization, but are not included in Denmark's membership of the European Communities;

CONSIDERING the vital importance for both the Faroe Islands and Iceland of fisheries, which constitute their essential economic activity, fish and fishery products being their main export articles;

DESIRING to consolidate and to extend the economic relations existing between the Faroe Islands and Iceland and to ensure, with due regard for fair conditions of competition, the harmonious development of their mutual trade in the context of European co-operation;

RESOLVED to this end to eliminate progressively the obstacles to substantially all their trade, in accordance with the provisions of the General Agreement on Tariffs and Trade concerning the establishment of free-trade areas;

DECLARING their readiness to examine, in the light of any relevant factor, and in particular of developments in European co-operation, the possibility of developing and deepening their relations in order to extend them to fields not covered by this Agreement;

HAVE DECIDED, in pursuit of these objectives and considering that no provisions of this Agreement may be interpreted as exempting the Contracting Parties from their obligations under other international agreements,

TO CONCLUDE THIS AGREEMENT:

Article 1

Objectives

The objectives of this Agreement are:

- (a) to promote, through the expansion of reciprocal trade, the harmonious development of economic relations between the Faroe Islands and Iceland and thus to foster the advance of economic activity, the improvement of living and employment conditions, and increased productivity and financial stability;
- (b) to provide fair conditions of competition for trade between the Faroe Islands and Iceland;
- (c) to contribute in this way, by the removal of barriers to trade, to the harmonious development and expansion of world trade.

Article 2

Scope

This Agreement shall apply:

- (a) to products falling within Chapters 25 to 97 of the Harmonized Commodity Description and Coding System excluding the products listed in Annex 1;
- (b) to fish and other marine products as provided for in Annex 2, originating in the Faroe Islands or Iceland.

Article 3

Rules of Origin and Administrative Co-operation

- 1. Annex 3 lays down the rules of origin.
- 2. Annex 4 refers to the rules and methods of administrative co-operation in customs matters.

Article 4

Prohibition and Abolition of Customs Duties and Charges having Equivalent Effect

- 1. No new customs duties on imports and exports or charges having equivalent effect shall be introduced in trade between the Faroe Islands and Iceland.
- 2. Customs duties on imports and exports and charges having equivalent effect shall be abolished upon the entry into force of this Agreement.
- 3. The provisions of paragraphs 1 and 2 shall apply also to import duties of a fiscal nature.

The Contracting Parties may replace an import duty of a fiscal nature or the fiscal element of an import duty by an internal tax.

4. The Faroe Islands may temporarily retain the import duties of a fiscal nature in existence on 1 February 1992, as mentioned in Annex 5, Part A.
5. Iceland will retain its system of import duties of a fiscal nature in existence on 1 February 1992 as mentioned in Annex 5, Part B.
6. The Contracting Parties shall abolish all import duties of a fiscal nature in connection with the implementation of the reforms described in Annex 5 and no later than 1 January 1993.

Article 5

Prohibition and Abolition of Quantitative Restrictions and
Measures having Equivalent Effect

1. No new quantitative restrictions on imports and exports or measures having equivalent effect shall be introduced in trade between the Faroe Islands and Iceland.
2. Quantitative restrictions on imports and exports and measures having equivalent effect shall be abolished upon the entry into force of this Agreement.
3. The provision of paragraphs 1 and 2 shall be subject to the special rules laid down in Annexes 2 and 6.

Article 6

Trade in Petroleum Products

The Contracting Parties reserve their rights to take special measures regarding trade in petroleum products.

Article 7

Trade in Agricultural Products

1. The Contracting Parties declare their readiness to foster, in so far as their agricultural policies allow, harmonious development of trade in agricultural products.
2. In pursuance of this objective, the Contracting Parties simultaneously conclude an Arrangement providing for measures to facilitate trade in agricultural products between the Faroe Islands and Iceland.
3. The Contracting Parties shall apply their regulations in veterinary, health and plant health matters in a non-discriminatory fashion and shall not introduce any new measures that have the effect of unduly obstructing trade.

Article 8

Customs Unions, Free-Trade Areas and Frontier Trade

This Agreement shall not prevent the maintenance or establishment of customs unions, free-trade areas or arrangements for frontier trade, to the extent that these do not negatively affect the trade regimes provided for by this Agreement, in particular the provisions concerning rules of origin.

Article 9

Internal Taxation

1. The Contracting Parties shall refrain from any measure or practice of an internal fiscal nature establishing, whether directly or indirectly, discrimination between products originating in the Faroe Islands and like products originating in Iceland.
2. Products originating in Iceland exported to the Faroe Islands or products originating in the Faroe Islands exported to Iceland may not benefit from repayment of internal taxation in excess of the amount of direct or indirect taxation imposed on them.

Article 10

Payments

Payments relating to trade and the transfer of such payments to the Faroe Islands or to Iceland, depending on where the creditor resides, shall be free from any restrictions.

Article 11

General Exceptions

This Agreement shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants and the environment; the protection of national treasures possessing artistic, historic or archaeological value; the protection of intellectual property; or rules relating to gold or silver: or conservation of exhaustible natural resources, if such measures are made effective in conjunction with restrictions on domestic production or consumption. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between the Contracting Parties.

Article 12

Security Exceptions

Nothing in this Agreement shall prevent a Contracting Party from taking any measures which it considers necessary:

- (a) to prevent the disclosure of information contrary to its essential security interests;
- (b) to the protection of its essential security interests or for the implementation of international obligations or national policies
 - (i) relating to the traffic in arms, ammunition and implements of war, provided that such measures do not impair the conditions of competition in respect of products not intended for specifically military purposes, and to traffic in other goods, materials and services as is carried on directly or indirectly for the purpose of supplying a military establishment; or

- (ii) relating to the non-proliferation of biological and chemical weapons, nuclear weapons or other nuclear explosive devices; or
- (iii) taken in time of war or other serious international tension.

Article 13

Fulfilment of Obligations

1. The Contracting Parties shall refrain from any measure likely to jeopardize the fulfilment of the objectives of this Agreement.
2. They shall take all general or specific measures to ensure the fulfilment of their obligations under this Agreement.

If either Contracting Party considers that the other Contracting Party has failed to fulfil an obligation under this Agreement, it may take appropriate measures under the conditions and in accordance with the procedure laid down in Article 23.

Article 14

Rules of Competition

1. The following are incompatible with the proper functioning of this Agreement in so far as they may affect trade between the Faroe Islands and Iceland:
 - (a) all agreements between undertakings, decisions by associations of undertakings and concerted practices between undertakings which have as their object or effect the prevention, restriction or distortion of competition as regards the production of, or trade in, goods;
 - (b) abuse by one or more undertakings of a dominant position in the territories of the Faroe Islands or of Iceland as a whole or in a substantial part thereof.
2. If a Contracting Party considers that a given practice is incompatible with the provisions of paragraph 1, it may take appropriate measures after consultations with the other Party or after thirty days following referral for such consultations.

Article 15

Public Monopolies

The Contracting Parties shall ensure that any public monopoly of a commercial character in the Faroe Islands and in Iceland be adjusted so that no discrimination regarding the conditions under which goods are procured and marketed will exist between residents of the Faroe Islands and of Iceland.

Article 16

Public Aid

1. Any aid granted by on Contracting Party or through public resources in any form which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall in so far as it may affect trade between the Faroe Islands and Iceland, be incompatible with the proper functioning of this Agreement.
2. Any practices contrary to paragraph 1 should be assessed on the basis of the criteria set out in Annex 7.
3. The Contracting Parties shall ensure transparency of public aid measures by exchanging information as provided for in paragraph 4 of Annex 7.
4. If a Contracting Party considers that a given practice is incompatible with the provisions of paragraph 1, it may take appropriate measures against this practice, which shall not be in excess of the injury caused by the practice, under the conditions and in accordance with the procedures laid down in Article 23.

Article 17

Protection of Intellectual Property

1. The Contracting Parties shall co-operate with the aim of gradually improving the non-discriminatory protection of intellectual property rights, including measures for the grant and enforcement of such rights. Rules between the Contracting Parties concerning the protection of intellectual property rights shall be elaborated. These rules shall ensure a level of protection similar to that prevailing in the member states of the European Communities and in the member states of the European Free Trade Association.
2. With respect to paragraph 1, intellectual property rights shall include, in particular, protection of copyrights, comprising computer programmes, data bases and neighbouring rights; trade marks; geographical indications; industrial design; patents; topographies of integrated circuits; as well as undisclosed information on know-how.

Article 18

Public Procurement

1. The Contracting Parties consider the effective liberalization of their respective public procurement markets as a desirable and important objective of this Agreement.
2. As of the entry into force of this Agreement, the Contracting Parties shall grant each others' companies access to contract award procedures on their respective public procurement markets according to the Agreement on Government Procurement of 12 April 1979, as amended by a Protocol of Amendments of 2 February 1987, negotiated under the auspices of the General Agreement on Tariffs and Trade.
3. The Contracting Parties shall progressively develop and adjust the rules, conditions and practices governing the participation in public procurement contracts awarded by public authorities and public undertakings, and by private undertakings which have been granted special or exclusive rights, so

as to ensure free access and transparency, and that there is no discrimination between potential suppliers from the Contracting Parties.

4. The Contracting Parties shall further recommend or agree, as appropriate, the practical modalities for this development, including i.a. scope, timetable and rules to be applied.

Article 19

Dumping

If one of the Contracting Parties finds that dumping within the meaning of Article VI of the General Agreement on Tariffs and Trade is taking place in trade with the other Contracting Party, it may take the appropriate measures against this practice in accordance with the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade and with the procedures laid down in Article 23.

Article 20

Emergency Action on Imports of Particular Products

Where any product is being imported in such increased quantities and under such conditions as to cause, or threaten to cause:

- (a) serious injury to domestic producers of like or directly competitive products in the Faroe Islands or in Iceland; or
- (b) serious disturbances in any sector of the economy or difficulties which could bring about serious deterioration in the economic situation of a region,

the Contracting Party concerned may take appropriate measures under the conditions and in accordance with the procedures laid down in Article 23.

Article 21

Re-export and Serious Shortage

Where compliance with the provisions of Articles 4 and 5 lead to

- (a) re-export towards a third country against which the exporting Contracting Party maintains, for the product concerned, quantitative export restrictions, export duties or measures or charges having equivalent effect; or
- (b) a serious shortage, or threat thereof, of a product essential to the exporting Contracting Party.

and where the situations referred to above give rise or are likely to give rise to major difficulties for the exporting Contracting Party, that Contracting Party may take appropriate measures under the conditions and in accordance with the procedures laid down in Article 23.

*Article 22*Balance of payments Difficulties

In case of serious balance of payments difficulties or imminent threat thereof for the Faroe Islands or Iceland the Contracting Party concerned may take appropriate measures under the conditions and in accordance with the procedures laid down in Article 23.

*Article 23*Procedures for the Application of Safeguard Measures

1. Before initiating the procedures for the application of safeguard measures set out in this Article, the Contracting Parties shall endeavour to solve any differences between them through direct consultations.
2. Without prejudice to paragraph 6 of this Article the Contracting Party which considers resorting to safeguard measures shall promptly notify the other Contracting Party thereof and supply all relevant information. Consultations between the Contracting Parties shall take place without delay with a view to finding a mutually acceptable solution.
3. For the application of paragraph 2 the following provisions apply:
 - (a) As regards Articles 16 (Public Aid), and 18 (Public Procurement), the Contracting Party concerned shall give to the other Contracting Party all the assistance required for the examination of the case and shall, where appropriate, eliminate the practice objected to. If the Contracting Party in question fails to put an end to the practice objected to within a period agreed upon between the Contracting Parties or in the absence of such an agreement, within three months of the matter being referred to it, the Contracting Party concerned may adopt the appropriate measures to deal with the difficulties resulting from the practice in question.
 - (b) As regards Articles 19 (Dumping), 20 (Emergency Action on Imports of Particular Products), and 21 (Re-export and Serious Shortage), the Contracting Parties shall examine the situation and may take any decision needed to put an end to the difficulties notified by the Contracting Party concerned. In the absence of such decisions within thirty days of the matter being raised, the Contracting Party concerned may adopt the measures necessary in order to remedy the situation.
 - (c) As regards Article 13 (Fulfilment of Obligations), the Contracting Party concerned may take appropriate measures after the consultations have been concluded or a period of three months has elapsed from the date of notification.
4. The safeguard measures taken shall be notified immediately to the other Contracting Party. They shall be restricted with regard to their extent and to their duration to what is strictly necessary in order to rectify the situation giving rise to their application and shall not be in excess of the injury caused by the practice or the difficulty in question. Priority shall be given to such measures as will least disturb the functioning of the Agreement.
5. The safeguard measures taken shall be the object of regular consultations between the Contracting Parties with a view to their relaxation, substitution or abolition as soon as possible.

6. Where exceptional circumstances requiring immediate action make prior examination impossible, the Contracting Party concerned may, in the cases of Articles 14 (Rules of Competition), 16 (Public Aid), 19 (Dumping), 20 (Emergency Action in Imports of Particular Products), and 21 (Re-export and Serious Shortage), apply forthwith the precautionary measures strictly necessary to remedy the situation. The measures shall be notified without delay, and consultations between the Contracting Parties shall take place as soon as possible.

Article 24

Consultation Mechanism

1. For the purpose of the proper implementation of this Agreement, the Contracting Parties shall, whenever necessary, exchange information and, at the request of either Contracting Party, hold consultations.

2. The Contracting Parties may decide that the implementation of this Agreement shall be supervised and administered by a Joint Committee consisting of representatives of the Contracting Parties. In that case, the following shall apply:

- (a) The exchange of information and the consultations referred to in paragraph 1, and especially the consultations and decisions referred to in Article 23, shall, when appropriate, take place in the Joint Committee.
- (b) The Joint Committee may take decisions in cases provided for in this Agreement. On other matters the Joint Committee may make recommendations.
- (c) For the purpose of the proper implementation of this Agreement the Joint Committee shall meet whenever necessary. Each Party to this Agreement may request that a meeting be held.
- (d) The Joint Committee shall act by common agreement.
- (e) The Joint Committee shall lay down its own rules of procedure.
- (f) The Joint Committee may decide to set up such sub-committees and working parties as it considers necessary to assist it in accomplishing its tasks.
- (g) The Joint Committee may decide to amend the Annexes.

Article 25

Evolutionary Clause

1. Where a Contracting Party considers that it would be useful in the interest of the Contracting Parties to develop the relations established by this Agreement by extending them to fields not covered thereby, it shall submit a reasoned request to the other Contracting Party.

2. Agreements resulting from the procedure referred to in paragraph 1 will be subject to ratification or approval by the Contracting Parties in accordance with their own procedures.

Article 26

Annexes

The Annexes to this Agreement are an integral part of it.

Article 27

Territorial Application

The Agreement shall apply, on the one hand, to the Faroe Islands, and, on the other hand, to the Republic of Iceland.

Article 28

Denunciation

Either Contracting Party may denounce this Agreement by notification to the other Contracting Party. The Agreement shall cease to be in force twelve months after the date of which such notification was received by the other Contracting Party.

Article 29

Entry into Force

This Agreement is drawn up in triplicate in the Danish, Faroese, and Icelandic languages, each of these texts being equally authentic.

This Agreement will be approved by the Contracting Parties in accordance with their own procedures. It shall enter into force on the first day of the month following the day on which the Contracting Parties have notified each other through diplomatic channels that their respective requirements for the entry into force of this Agreement have been fulfilled.

Pending the entry into force it shall apply provisionally from 1 September 1992.