

MEMORANDUM OF UNDERSTANDING

The Government of Canada and the Federal Executive Council of the Assembly of the Socialist Federal Republic of Yugoslavia have established the following understandings with respect to the Agreement on Air Transport between the Government of Canada and the Federal Executive Council of the Assembly of the Socialist Federal Republic of Yugoslavia:

1. Income or profits from the operation of aircraft in international traffic derived by an airline, which is resident for purposes of income taxation in the territory of one Contracting Party, shall, on the basis of reciprocity, be exempt from any income tax and all other taxes on profits imposed by the government of the other Contracting Party. In the event a comprehensive agreement is concluded between the two countries on avoidance of double taxation that also includes provision on the taxation of air transport, the two Contracting Parties shall consult with a view to determining the extent to which the above understanding is terminated, superseded, amended or supplemented by such comprehensive agreement.
2. The Contracting Parties have agreed as follows with respect to initial levels of frequency and capacity. Initial service shall be equivalent to three flights weekly of DC-10 type aircraft during the summer season (April 1 to October 31) and equivalent to two flights weekly of DC-10 type aircraft during the winter season (November 1 to March 31). Commencing April 1, 1985, frequencies may be increased by the equivalent of one flight weekly of DC-10 type aircraft over the initial levels of service in each of the summer and winter seasons until March 31, 1986 at which time service levels shall, unless otherwise agreed, revert to the initial levels. The Contracting Parties may, at any time, agree to different levels of service in accordance with the provisions of Article 9, paragraph 5 of the Agreement. The *status quo* for the purposes of that Article shall remain at three flights weekly in the summer season and two flights weekly in the winter season until such time as agreement is reached on different levels of service.

JAMES KELLEHER
For the Government of Canada

MUSTAFA PLJAKIC
*For the Federal Executive Council
of the Assembly of the Socialist
Federal Republic of Yugoslavia*