

AIR TRANSPORT AGREEMENT
BETWEEN
THE GOVERNMENT OF
THE UNITED STATES OF AMERICA
AND
THE GOVERNMENT OF
THE HUNGARIAN PEOPLE'S REPUBLIC

The Government of the United States of America and the Government of the Hungarian People's Republic (hereinafter Parties);

Desiring to facilitate the expansion of international air transport opportunities;

For the purpose of promoting air transport relations between the Hungarian People's Republic and the United States of America for their mutual benefit;

Desiring to make it possible for airlines to offer the traveling and shipping public a variety of service options;

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

Being parties to the Convention on International Civil Aviation opened for signature at Chicago on the seventh day of December, 1944;

Desiring to conclude a new agreement covering all forms of air transportation to replace the Air Transport Agreement concluded between them and signed at Washington, D.C. on the thirtieth day of May, 1972

Have agreed as follows:

ARTICLE 1

Definitions

For the purpose of this Agreement and its Annex unless the context otherwise requires:

(a) the term "Chicago 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 Article 90 and 94 thereof so far as those Annexes and amendments have become effective for or been ratified by both Parties;

(b) "Aeronautical authorities" means, in the case of the United States of America, the Department of Transportation or its successor agency, and in the case of the Hungarian People's Republic, the Ministry of Transport, Communication and Construction and any person or body authorized to perform the function of the aeronautical authority;

(c) "Agreement" means this Agreement, its Annex and any amendments thereto;

(d) "Annex" mean the Annex attached to this Agreement and any amendments thereto;

(e) "Air transportation" means any operation performed by aircraft for the public carriage of traffic in passengers, baggage, cargo and mail, separately or in combination for remuneration or hire;

- (f) "International air transportation" means air transportation which passes through the air space over the territory of more than one State;
- (g) "Stop for non-traffic purposes" means a landing for any purpose other than taking on or discharging passengers, baggage, cargo and/or mail in air transportation;
- (h) "Designated airline" means any airline which has been designated and authorized in accordance with Article 3 of this Agreement;
- (i) "Price" means any fare, rate or charge for the carriage of passengers (and their baggage) and/or cargo (excluding mail) in air transportation charged by airlines, including their agents, and the conditions governing the availability of such fare, rate or charge;
- (j) "Territory" in relation to a State means the land areas and territorial waters adjacent thereto under the sovereignty, jurisdiction, protection or trusteeship of that State;
- (k) "User charge" means a charge made to airlines for the provision of airport, air navigation or aviation security facilities and services.

ARTICLE 2

Grant of Rights

(1) Each Party grants to the other Party the following rights for the conduct of scheduled international air transportation by the airlines of the other Party:

(a) the right to fly across its territory without landing;

(b) the right to make stops in its territory for non-traffic purposes;

(c) the right to make stops in its territory at the points specified for that route in the Annex for the purpose of taking on and discharging international traffic in passengers, cargo and mail originating in or destined for the territory of the other party or of a third country;

(d) the rights otherwise specified in this Agreement.

(2) Nothing in this Agreement shall be deemed to grant the right for one Party's airlines to participate in air transportation between points in the territory of the other Party.

ARTICLE 3

Designation and Authorization

(1) Each Party shall have the right to designate one or more airlines as it wishes to conduct international air transportation in accordance with this Agreement and to withdraw or alter such designations. Such designations shall be transmitted to the other Party in writing through diplomatic channels, and shall identify whether the airline is authorized to conduct the type of air transportation specified in Part A or Part B of the Annex, or both.

(2) On receipt of such a designation, and of applications in the form and manner prescribed from the designated airline for operating authorizations and technical permissions, the other Party shall grant appropriate authorizations and permissions with minimum procedural delay, provided:

- (a) substantial ownership and effective control of that airline are vested in the Party designating the airline, nationals of that Party, or both;

- (b) the designated airline is qualified to meet the conditions prescribed under the laws and regulations normally applied to the operation of international air transportation by the Party considering the application or applications; and
- (c) the Party designating the airline is maintaining and administering the standards set forth in Article 6 (Safety) and Article 7 (Aviation Security).

ARTICLE 4

Revocation, Suspension of Rights and Imposition of Conditions

(1) Each Party shall have the right to revoke an operating authorization or to suspend the exercise of the rights specified in this Agreement by an airline 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 substantial ownership and effective control of that airline are not vested in the Party designating the airline or in nationals of such Party, or both;

(b) in the case of failure by that airline to comply with the laws or regulations referred to in Article 8 (Compliance with Laws and Regulations) of this Agreement;

or

(c) the other Party is not maintaining and administering the standards set forth in Article 6 (Safety).

(2) Unless immediate action is essential to prevent further non-compliance with subparagraphs (1)(b) or (1)(c) of this Article, the rights established by this Article shall be exercised only after consultation with the other Party.

(3) This Article does not limit the rights of either Party to suspend, limit or condition air services in accordance with the provisions of Article 7 (Aviation Security).

ARTICLE 5

Exemption from Customs Duties and other Charges

(1) On arriving in the territory of one party, aircraft operated in international air transportation by the designated airlines of the other Party, their regular equipment, ground equipment, fuel, lubricants, consumable technical supplies, spare parts (including engines), aircraft stores (including but not limited to such items as food, beverages and liquor, tobacco and other products destined for sale to or use by passengers in limited quantities during flight) and other items intended for or used solely in connection with the operations or servicing of aircraft engaged in international air transportation shall be exempt, on the basis of reciprocity, from all import restrictions, property taxes and capital levies, customs duties, excise taxes, inspection fees and similar fees and charges imposed by the national authorities, and not based on the cost of services, provided such equipment and supplies remain on board the aircraft.

(2) There shall also be exempt, on the basis of reciprocity, from the taxes, duties, fees and charges referred to in paragraph (1) of this Article:

(a) aircraft stores introduced into or supplied in the territory of one Party and taken on board, within reasonable limits, for use on outbound aircraft of a designated airline of the other Party engaged in international air transportation, even when these stores are to be used on a part of the journey performed over the territory of the Party in which they are taken on board;

(b) fuel, lubricants and consumable technical supplies introduced into or supplied in the territory of a Party for use in an aircraft of a designated airline of the other Party engaged in international air transportation, even when these supplies are to be used on a part of the journey performed over the territory of the party in which they are taken on board.

(3) Equipment and supplies referred to in paragraphs (1) and (2) of this Article may be required to be kept under the supervision or control of the appropriate authorities.

(4) Regular airborne equipment, spare parts, supplies of fuels and lubricants and aircraft stores retained on board the aircraft of either Party may be unloaded in the territory of the other Party exempt, on the basis of reciprocity, from all import restrictions, property taxes and capital levies, customs duties, excise taxes, inspection fees and similar fees and charges imposed by the national authorities and not based on the cost of services, only with the approval of the Customs authorities of that Party, who may require that these materials be placed under their supervision up to such time as they are re-exported or otherwise disposed of in accordance with Customs regulations.

(5) The exemptions provided by this Article shall also be available where the designated airlines of one Party have contracted with another airline, which similarly enjoys such exemptions from the other Party for the loan or transfer in the territory of the other Party of the items specified in this Article.

ARTICLE 6

Safety

(1) Each Party shall recognize as valid, for the purpose of operating the air transportation provided for in this Agreement, certificates of airworthiness, certificates of competency, and licenses issued or validated by the other Party and still in force, provided that the requirements for such certificates or licenses at least equal the minimum standards which may be established pursuant to the Chicago Convention.

Each Party may, however, refuse to recognize as valid for the purpose of flight above its own territory, certificates of competency and licenses granted to or validated for its own nationals by the other Party.

(2) Each Party may request consultations concerning the safety standards maintained by the other Party relating to aeronautical facilities, aircrew, aircraft, and operation of the designated airlines. If, following such consultations, one Party finds that the other Party does not effectively maintain and administer safety standards and requirements in these areas that at least equal the minimum standards which may be established pursuant to the Chicago Convention, the other Party shall be notified of such findings and the steps considered necessary to conform with these minimum standards; and the other Party shall take appropriate corrective action. Each Party reserves the right to withhold, revoke or limit the operating authorization or technical permission of an airline or airlines designated by the other Party in the event the other Party does not take such appropriate action within a reasonable time.

2.

ARTICLE 7

Aviation Security

(1) In accordance with their rights and obligations under international law, the Parties reaffirm that their obligation to protect, in their mutual relationship, the security of civil aviation against acts of unlawful interference forms an integral part of this Agreement.

(2) The Parties shall provide upon request all necessary assistance to each other to prevent acts of unlawful seizure of aircraft and other unlawful acts against the safety of passengers, crew, aircraft, airports and air navigation facilities and any other threat to aviation security.

(3) The Parties shall act in conformity with the provisions of the Convention on Offences and Certain Other Acts Committed on Board Aircraft, signed at Tokyo on 14 September 1963, the Convention for the Suppression of Unlawful Seizure of Aircraft, signed at the Hague on 16 December 1970 and the Convention for the Suppression of Unlawful Acts Against the Safety of Civil Aviation signed at Montreal on 23 September 1971.

(4) The Parties shall, in their mutual relations, act in conformity with the aviation security provisions established by the International Civil Aviation Organization and designated as Annexes to the Convention on International Civil Aviation; they shall require that operators of aircraft of their registry or operators 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.

(5) 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, their 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.

(6) 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 and 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 thereof.

(7) When a Party has reasonable grounds to believe that the other Party has departed from the aviation security provisions of this article, the aeronautical authorities of that Party may request immediate consultations with the aeronautical authorities of the other Party. Failure to reach a satisfactory agreement within 15 days from the date of such request will constitute grounds to withhold, revoke, limit or impose conditions on the operating authorization or technical permission of an airline or airlines of the other Party. When required by an emergency, a Party may take interim action prior to the expiry of 15 days.

ARTICLE 8

Compliance with Laws and Regulations

(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, clearance, aviation security, immigration, passports, 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.

ARTICLE 9

Pricing

(1) The Parties agree to a country of origin pricing regime as set forth in the provisions of this Article.

(2) Each Party shall allow prices for air transportation to be established by each designated airline based upon 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. If a Party believes that a price warrants intervention under the specific criteria described above, then it shall notify the other Party pursuant to the provisions set forth in paragraph (4). After compliance with the notification provisions of paragraph (4), a Party may take unilateral action to prevent the inauguration of such price, but only with respect to traffic where the first point on the itinerary (as evidenced by the document authorizing transportation by air) is in its own territory.

(3) Each Party may require filing with its aeronautical authorities of prices charged or proposed to be charged to or from its territory by designated airlines of the other Party. If a Party requires the filing of tariffs with its authorities, the designated airline(s) of the other Party will comply with the first Party's rules and regulations established for the filing of such tariffs, and will file tariffs for approval by the first Party's authorities for traffic originating in the first Party's territory. Filing by the airlines of both Parties may be required no more than 30 days before the proposed date of effectiveness. In individual cases, a Party may permit filing on shorter notice than normally required. If a Party permits an airline to file a price on short notice, the price shall become effective on the proposed date for traffic originating in the territory of that Party. Neither Party shall require the 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.

(4) If either Party believes that a price proposed by a designated airline of the other Party for international air transportation between the territories of the Parties, or by an airline of the other Party for international air transportation between the territory of the first Party and a third country, including in both cases transportation on an interline or intraline basis, is inconsistent with the considerations set forth in paragraph (2) of this Article, it shall notify the

other Party of the reasons for its dissatisfaction as soon as possible, but in no event later than 15 days after the filing date. Either Party may then request consultations, which shall be held as soon as possible, and in no event later than 30 days after receipt of a notice of dissatisfaction. The Parties shall cooperate in securing information necessary for reasoned resolution of the issue. If notification is not given as provided in this paragraph, the price shall be deemed to be approved and shall become effective on the proposed date.

(5) If the Parties reach agreement with respect to a price for which a notice of dissatisfaction has been given, each Party shall use its best efforts to put that agreement into effect. If a Party prevents a proposed price from becoming effective in accordance with the provisions of paragraphs (2) and (4), the comparable price previously in effect shall remain in effect.

(6) Notwithstanding paragraphs (2) and (4) of this Article, each Party shall allow:

(a) any airline of either Party or of a third country to meet any scheduled or charter price, including combinations of prices, charged in the marketplace for international air transportation between the territories of the Parties; and

(b) any airline of one Party to meet any scheduled or charter price, including combinations of prices, charged in the marketplace for international air transportation between the territory of the other Party and a third country.

As used herein the term "meet" means the right to continue or institute, on a timely basis, using such expedited procedures as may be necessary, an identical or similar price or such price through a combination of prices on a direct, interline or intraline basis, notwithstanding differences in conditions including, but not limited to, those relating to airports, routing, distance, timing, connections, aircraft type, aircraft configuration, or change of aircraft.

Article 10

Fair and Equal Opportunities

(1) Each Party shall allow a fair and equal opportunity for the designated airlines of both Parties to compete in the international air transportation covered by this Agreement.

(2) Each Party shall take all appropriate action within its jurisdiction to eliminate all forms of discrimination or unfair competitive practices adversely affecting the competitive position of the airlines of the other Party.

(3) The air services made available to the public by the designated airlines operating under this Agreement shall be closely related to the requirements of the public for such services.

(4) Air services provided by a designated airline under this Agreement shall retain as their primary objective the provision of capacity adequate to the traffic demands between the country of which such designated airline is a national and the countries of ultimate destination of the traffic. The right to embark or disembark on such air services international traffic

destined for and coming from third countries at a point or points on the routes specified in this Agreement shall be applied in accordance with the general principles of orderly development to which both Parties subscribe and shall be subject to the general principle that capacity should be related to:

- (a) traffic requirements between the country of origin and the countries of ultimate destination of the traffic;
- (b) the requirements of through airline operations; and
- (c) the traffic requirements of the area through which the designated airline passes, after taking account of local and regional services.

(5) Neither Party shall unilaterally limit the rights contained in this Agreement and Annex as regards the volume of traffic, frequency or regularity of service, or the aircraft type or types operated by the designated airlines of the other Party, provided that they are consistent with the Annex, and except as may be required for customs, technical, operational or environmental reasons under uniform conditions consistent with Article 15 of the Chicago Convention.

(6) 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 the capacity, frequency or traffic which would be inconsistent with the purposes of this Agreement.

(7) Neither Party shall require the filing of schedules, programs for charter flights, or operational plans by airlines of the other Party for approval, except as may be required on a non-discriminatory basis to enforce uniform conditions as foreseen by Paragraph (5) of this Article. If a Party requires filings, they shall be for information purposes provided that they are consistent with the rights specified in the Annex to this Agreement. In such instances, the Party shall minimize the administrative burdens of filing requirements and procedures on air transportation intermediaries and on designated airlines of the other Party.

ARTICLE 11

Commercial Opportunities

(1) The airlines of each Party may, with prior notification to the aeronautical authorities of the other Party, establish offices in the territory of the other Party for the promotion and sale of air transportation.

(2) In compliance with the laws and regulations of the other Party, each designated airline may engage in the sale of air transportation in the territory of the other Party.

(3) Each designated airline may convert and remit to its country, on demand, local revenues in excess of sums locally disbursed. Conversion and remittance shall be permitted immediately without delay and at the rate of exchange applicable to current transactions and remittance.

(4) The designated airlines of one Party may, in accordance with the laws and regulations of the other Party relating to entry, residence and employment, 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 transportation.

ARTICLE 12

User Charges

Each Party may impose or permit to be imposed just and reasonable charges for the use of airports and other facilities under its control. Such charges shall not be higher than the charges imposed for use by national aircraft engaged in similar international air transportation.

ARTICLE 13

Consultations

(1) In the spirit of close cooperation, the aeronautical authorities of the Parties shall consult each other from time to time with a view to ensuring the implementation of and compliance with, the provisions of this Agreement.

(2) Either Party may at any time request consultations on the interpretation, application, amendment or any dispute relative to this Agreement. Such consultation may be either oral or in writing and shall begin within a period of sixty (60) days from the date of receipt through diplomatic channels of the request, unless the aeronautical authorities of the Parties agree to an extension of this period.

ARTICLE 14

Settlement of Disputes

(1) Any dispute arising under this Agreement which is not resolved by a first round of formal consultations, except those which may arise under paragraph 4 of Article 9 (Pricing), may be referred by agreement of the Parties for decision to some person or body. If the Parties do not so agree, the dispute shall at the request of either Party be submitted to arbitration in accordance with the procedures set forth below.

(2) Arbitration shall be by a tribunal of three arbitrators to be constituted as follows:

(a) within 30 days after the receipt of a request for arbitration, each Party shall name one arbitrator.

Within 60 days after these two arbitrators have been named, they shall by agreement appoint a third arbitrator, who shall act as President of the arbitral tribunal;

(b) if either Party fails to name an arbitrator, or if the third arbitrator is not appointed in accordance with subparagraph (a) of this paragraph, either Party may request the President of the Council of the International Civil Aviation Organization to appoint the necessary arbitrator or arbitrators within 30 days. If the

President of the Council is of the same nationality as one of the Parties, the most senior Vice President who is not disqualified on that ground shall make the appointment.

(3) Except as otherwise agreed, the arbitral tribunal shall determine the limits of its jurisdiction in accordance with this Agreement and shall establish its own procedure. At the direction of the tribunal or at the request of either of the Parties, a conference to determine the precise issues to be arbitrated and the specific procedures to be followed shall be held no later than 15 days after the tribunal is fully constituted.

(4) Except as otherwise agreed, each Party shall submit a memorandum within 45 days of the time the tribunal is fully constituted. Replies shall be due 60 days later. The tribunal shall hold a hearing at the request of either Party or at its discretion within 15 days after replies are due.

(5) The tribunal shall attempt to render a written decision within 30 days after completion of the hearing or, if no hearing is held, after the date both replies are submitted. The decision of the majority of the tribunal shall prevail.

(6) The Parties may submit requests for clarification of the decision within 15 days after it is rendered and any clarification given shall be issued within 15 days of such request.

(7) Each Party shall, consistent with its national law, give full effect to any decision or award of the arbitral tribunal.

(8) The expenses of the arbitral tribunal, including the fees and expenses of the arbitrators, shall be shared equally by the Parties. Any expenses incurred by the President of the Council in connection with the procedures of paragraph (2)(b) of this Article shall be considered to be part of the expenses of the arbitral tribunal.

ARTICLE 15

Amendments

Amendments to this Agreement and its Annex may be effected by the agreement between the appropriate authorities of the Parties. Such amendments shall come into force when confirmed by an exchange of diplomatic notes.

ARTICLE 16

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 to the other Party) one year after 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, notice shall be deemed to have been received fourteen (14) days after the receipt of the notice by the International Civil Aviation Organization.

ARTICLE 17

Compliance with Multilateral Agreements

If a multilateral agreement, accepted by both Parties, concerning any matter covered by this Agreement enters into force, this Agreement shall be amended so as to conform with the provisions of the multilateral agreement.

ARTICLE 18

Registration with ICAO

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

ARTICLE 19

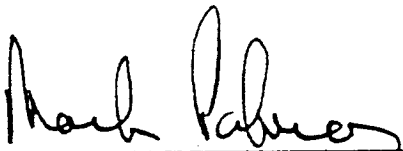
Entry into force

(1) This Agreement shall come into force provisionally on the date of its signature.

(2) This Agreement shall come into force definitively on the day when the Parties notify each other through diplomatic channels of the completion of their respective constitutional rules.

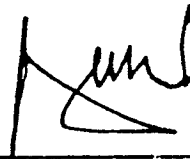
In witness whereof, the undersigned, being duly authorized by their respective Governments, have signed this Agreement.

Done in duplicate at Budapest in the Hungarian and the English languages, each of which shall be of equal authenticity, this 12th day of July, 1989.



For the Government of the
the United States of America

MARK PALMER



For the Government of
the Hungarian People's
Republic

ANDRAS JERSZI

ANNEX

A. Scheduled Air Service

Section 1

Airlines of one Party whose designation identifies Part A of this Annex shall, in accordance with the terms of their designation, be entitled to perform scheduled international air transportation (1) between points on the following routes, and (2) between points on such routes and points in third countries through points in the territory of the Party which has designated the airlines.

A. Routes for the airline or airlines designated by the Government of the United States:

From the United States of America via intermediate points listed in paragraph C to Budapest and beyond to points listed in paragraph C.

B. Routes for the airline or airlines designated by the Government of the Hungarian People's Republic:

From the Hungarian People's Republic via intermediate points listed in paragraph D to New York, Chicago and Los Angeles* and beyond to points listed in paragraph D.

* The right to serve Los Angeles is effective April 1, 1990 and such service may be provided only by means of a code share or blocked space arrangement and only on a U.S. airline.

C. An airline or airlines designated by the United States may operate via a total of seven intermediate and/or beyond points in Europe and/or Canada. Initially, five of these points are: Zurich, Frankfurt, Vienna, Bucharest, and Dubrovnik; two additional points may be named upon 30 days' advance notice to the other Party.

D. An airline or airlines designated by the Hungarian People's Republic may operate via a total of five intermediate and/or beyond points in Europe and/or Canada. Initially, two of these points are Zurich and Frankfurt; three other points may be named upon 30 days' advance notice to the other Party.

E. The Parties shall have the right to replace their intermediate and beyond points with other points in Europe and/or Canada at six month intervals with 30 days' advance notice to the other Party.

Section 2

Each designated airline may, on any or all flights and at its option, operate flights in either or both directions and without directional or geographic limitation, serve points on the routes in any order, and omit stops at any point or points outside the territory of the Party which has designated that airline without loss of any rights to carry traffic otherwise permissible under this Agreement.

Section 3

On any international segment or segments of the routes above, each designated airline may perform international air transportation without any limitation as to change, at any point on the route, in type or number of aircraft operated, provided that in the outbound direction the transportation beyond such point is a continuation of the transportation from the territory of the Party which has designated the airline and, in the inbound direction, the transportation to the territory of the Party which has designated the airline is a continuation of the transportation beyond such point.

B. Charter Air Services

Section 1

Airlines of one Party designated under Part B of this Annex shall, in accordance with the terms of their designation, be entitled to perform international charter air transportation of passengers (and their accompanying baggage) and/or cargo:

- (a) between any point or points in the territory of the Party which has designated the airline and any point or points in the territory of the other Party;
- (b) between any point or points in the territory of the other Party and any point or points in a third country or countries provided that such traffic is carried via the carrier's homeland and makes a stopover in the homeland for at least two consecutive nights.

In the performance of services covered by Part B of this Annex, airlines of one Party designated under this Part shall also have the right: (1) to make stopovers at any points whether within or outside the territory of either Party; (2) to carry transit traffic through the other Party's territory; and (3) to combine on the same aircraft traffic originating in one Party's territory with traffic that originated in the other Party's territory.

Each Party shall extend favorable consideration to applications by designated airlines of the other Party to carry traffic not covered by this Annex on the basis of comity and reciprocity.

Section 2

With regard to traffic originating in the territory of either Party, each designated airline performing air transportation under Part B of this Annex shall comply with such laws, regulations and rules of the Party in whose territory the traffic originates, whether on a one-way or roundtrip basis, as that Party now or hereafter specifies shall be applicable to such transportation. If one Party applies more restrictive rules, regulations, terms, conditions or limitations to one or more of its airlines, the designated airlines of the other Party shall be subject to the least restrictive of such rules, regulations, terms, conditions or limitations. Moreover, if either Party promulgates regulations or rules which apply different conditions to different countries, each Party shall apply the least restrictive of such regulations or rules to the designated airline(s) of the other Party.

Notwithstanding the above paragraph, nothing contained therein shall limit the rights of one Party to require the designated airline or airlines of the other Party to adhere to requirements relating to protection of passenger funds and passenger cancellation and refund rights, or adherence to requirements established in the interest of national security.

Section 3

Neither Party shall require a designated airline of the other Party, in respect of the carriage of traffic from the territory of that other Party on a one-way or roundtrip basis, to submit more than a declaration of conformity with the laws, regulations or rules of that other Party referred to under Section 2 of Part B of this Annex or a waiver of these regulations or rules granted by the aeronautical authorities of that other Party.

C. Commercial Opportunities

(1) Ground-handling. Each designated airline may perform its own ground-handling in the territory of the other Party ("self-handling") or, at its option, select among competing agents for such services. These rights shall be subject only to physical constraints resulting from considerations of airport safety. Where such considerations preclude self-handling, ground services shall be available on an equal basis to all airlines; charges shall be based on the costs of services provided; and such services shall be comparable to the kind and quality of services if self-handling were possible.

(2) Sale of Air Transportation. In the sale of air tickets, the designated airlines may engage in such sales in the territory of the other Party directly and, at the airline's discretion, through its agents duly authorized for such activity, except, in the case of charters, as may be specifically provided by the charter regulations of the country in which the charter originates. In the sale of cargo transport in Hungary, U.S. airlines are required to use the airway bill of MALEV so long as that requirement exists according to Hungarian law and regulation.

(3) The designated airlines of each Party will be able to enter into freely negotiated commercial arrangements regarding code-sharing, blocked space or similar arrangements with the designated airlines of the other Party, subject to approval on the bases of comity and reciprocity and consistency with this Agreement and its Annex as well as with applicable laws and regulations.

(4) Flight Routes. The flight routes of aircraft conducting scheduled and charter operations and the points at which they cross national boundaries will be established by each Party within its territory.

(5) Termination. This Annex will expire three years from the date of signing. The Parties shall consult no later than ninety days prior to the expiry of this Annex to consider an extension or amendment to this Annex. However, if one of the Parties notifies the other Party of its intent to terminate this Annex, such termination will occur ninety (90) days after the date of receipt of the notice of intent to terminate.

MEMORANDUM OF UNDERSTANDING

The Government of the United States of America and the Government of the Hungarian People's Republic have agreed to the following understandings with regard to the Air Transport Agreement signed simultaneously with this Memorandum:

1. In view of Hungary's regulatory procedures which do not provide for licencing per se of foreign airlines, but rather simply for seasonal approval of schedule filings, it was agreed that in applying sub-paragraph /b/ of paragraph /2/ of Article 3 of the Agreement, the aeronautical authorities of Hungary could require schedule filings by designated U.S. airlines consistent with Hungary's laws and regulations and with the provisions of the U.S. - Hungary Air Transport Agreement and its Annex.
2. In applying paragraph 2 of Article 11 as well as paragraph 2 of Part C of the Annex of the Agreement, the Parties shall assure that there shall be no discrimination in the rights granted to the airlines designated under the Agreement and Annex as regards the sale of passenger air transportation.
3. Hungarian residents are allowed to buy air tickets in Hungary either in Hungarian currency or any freely convertible currency and non-Hungarian residents may purchase air tickets in Hungary in any freely convertible currency regardless of which Party's airline is offering the service.
4. U.S. airlines have the right to contract with agents in Hungary for the sale of their passenger air transportation. The term "agents duly authorized for this activity" as used in paragraph

2 of Part C of the Annex to the Agreement means that the designated airlines of either Party may sell their international passenger air transportation in Hungary on their own ticket stock directly and/or through those agents who are IATA approved.

5. Except as provided in Section 1/b/ of Part B of the Annex, authorizations to carry fifth freedom charter traffic are not covered by this Annex and therefore are not a matter of entitlement. Such authorizations may be granted to the designated airlines of one Party by the aeronautical authorities of the other Party at the authorizing Party's own discretion and on the basis of comity and reciprocity. Such discretion will be exercised in light of the favorable consideration referred to in the final paragraph in Section 1 of Part B.

6. The right "to carry transit traffic through the other Party's territory" - in Part B of the Annex of the Agreement - means, for example,

- for U.S. airlines: - to carry passengers from the U.S. to Romania via Hungary together with passengers of Hungarian destination;

- to carry passengers from Romania to the U.S. via Hungary together with passengers of Hungarian origin;

- for Hungarian airlines: - to carry passengers from Hungary to Canada via the U.S. together with passengers of U.S. destination;

- to carry passengers from Canada to Hungary via the U.S. together with passengers of U.S. origin.

7. The Hungarian Delegation gave information that for the time being, self-ground handling by foreign carriers at the Budapest airport cannot be made possible without jeopardizing the safe operation of the airport owing to physical constraints, i.e. the lack of free capacity deriving from the present building arrangement.

Taking this into consideration, the Parties agreed as follows:

Each Party reserves the right to require a designated airline or airlines of the other Party to enter into a contract with a specified agent or agents for ground handling services in that first Party's territory in the event that:

/i/ domestic laws, regulations or considerations of airport management of the other Party preclude the authorization of competing agents from which an airline designated by the first Party may contract to perform ground handling services in whole or in part in that other Party's territory, and

/ii/ the airline designated by the first Party is being handled in an unreasonable and/or discriminatory manner.

The right stated above shall be exercised only after consultations with the other Party, unless immediate action is required under the domestic laws of the first Party.

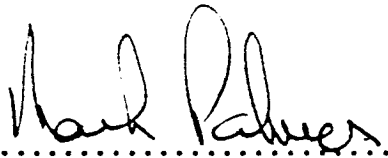
8. All ground handling rights currently enjoyed by Pan American in Hungary shall be permitted to continue without reduction, including Departure Control Systems /DCS/ in Terminal 1 which may be used for independent flights as well as joint service.

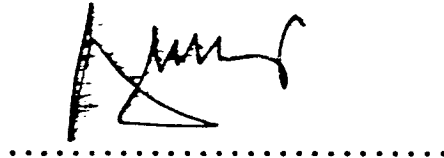
9. Provision of DCS units and related services by the designated U.S. airlines to MALÉV in Terminal 2 and for future terminals shall be a matter of commercial negotiation, freely entered into as between the supplier and the user. This provision shall not affect the current arrangement regarding Frankfurt flights.

This Memorandum of Understanding is an integral part of the Air Transport Agreement.

For the Government of the
United States of America

For the Government of the
Hungarian People's Republic


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Budapest
July 12th 1989