

Memorandum of Understanding

1. Delegations representing the Government of India and the Royal Government of Bhutan met in Thimphu on 5th and 6th July 2005 to discuss matters relating to the operation of air services between the two countries. The discussions were held in a cordial atmosphere reflecting the long-standing and close relations between the two countries. The composition of the two delegations is attached as Appendix A.
2. The Bhutanese delegation proposed to adopt and incorporate a clause on Aviation Safety in line with the resolutions of the 163rd session of ICAO held on 13 June 2001 urging all contracting states to incorporate this clause in their bilateral ASA. The Indian delegation expressed that while they agree in principle to the adoption of a clause on Aviation Safety as proposed by the Bhutanese delegation, it would be appropriate to review the entire ASA so that it would be in line with more recent ASAs that have been concluded by India with other countries. In this regard the Indian delegation presented to the Bhutanese delegation a draft copy of the proposed revised ASA. The Bhutanese delegation agreed to study the draft ASA and convey its views to the Government of India to enable the two countries to conclude a fresh ASA.
3. The Bhutanese side proposed certain amendments to Article VI of the ASA relating to exemption of charges/duties. The Indian side responded that the revised draft of ASA referred above could address this issue. In connection with the specific difficulty being faced by Druk Air in the transportation of heavy ground handling equipment to be used in Kolkata, it was suggested that the matter be taken up through diplomatic channels on a priority basis for seeking a one time exemption of import duties. The Indian delegation agreed to take up this matter with the Ministry of Finance, Government of India.


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4. Discussions were held on the open sky agreement proposed by the Bhutanese side. The Indian side informed that this was a policy issue to be considered by the Government of India. The Bhutanese side requested to keep the matter open to be taken at an appropriate time in future.

After due deliberations, it was agreed to increase traffic rights / capacity entitlements as under for the present keeping in view the current resources of Druk Air:

- Chennai and Mumbai shall be granted as additional points of call for the designated carriers of Bhutan under Route 1 of Section 2 of the Route Schedule with intermediate 5th freedom rights to Kathmandu and beyond 5th freedom rights to Singapore, Dhaka and Bangkok.
- New Routes 3 and 4 shall be established under Section 2 of the Route Schedule for the designated carriers of Bhutan.

The revised Section 1 and Section 2 of the Route Schedules for the designated airlines of India and Bhutan respectively are enclosed at Appendix B

It was agreed that the designated airlines of the Royal Government of Bhutan shall be entitled to operate on various Routes in Section 2 of the Route Schedule as detailed under:

On Route 1 - Maximum of 14 flights per week with beyond fifth freedom rights and 7 flights / week with intermediate 5th freedom rights.

On Route 2 - Maximum of 7 flights per week with beyond fifth freedom rights.



On Route 3 – Maximum of 14 flights per week with beyond fifth freedom rights.

On Route 4 - Maximum of 7 flights per week with beyond fifth freedom rights.

It was further agreed that the designated airline of Bhutan shall be entitled to operate a maximum of 7 flights per week to each destination in India except Gaya to which destination they shall be entitled to operate a maximum of 14 flights per week.

Reciprocally, the designated airlines of India shall also be entitled to operate up to 49 flights per week as per Section 1 of Route Schedule enclosed at Appendix B.

The above revisions shall come into force with immediate effect.

5. The Bhutanese delegation requested for elimination of passenger compensation on the 5th freedom sectors on the ground that the compensation was further increasing the losses of Druk Air. The Indian delegation explained that under its new policy the Government has done away with the requirement for any mandated Commercial Agreements between the designated carriers of India and the carrier of the other Party with respect to any fresh entitlements / additional frequencies on existing routes that may be exchanged, and that existing commercial agreements are proposed to be reviewed by the Government over a period of 5 years. As regards the commercial agreement between Druk Air and Indian Airlines covering the 5th freedom carriage of Druk Air under its existing rights, it was suggested that the two airlines should meet at the earliest to review the on-going commercial agreement due to expire on 31st July 2005.



6. The Bhutanese delegation requested for exempting Druk Air from being taxed in India under the Indian Law on its revenue generated in India until such time that an Agreement for Avoidance of Double Taxation is agreed and signed between the Royal Government of Bhutan and the Government of India. The Indian delegation took note of the request but expressed that the matter falls outside the jurisdiction of the Ministry of Civil Aviation.
7. Following up on the earlier request made through formal diplomatic channels, the Bhutanese delegation requested for the waiver of the outstanding invoices for Nu. 4.9 million (Rs. 4.9 million) towards Route Navigation Facility Charges (RNFC) raised on Druk Air by the Airports Authority of India pertaining to the period covering 1996-1999 on the ground that the invoices were received very late and that Druk Air had already finalized its Accounts for the period in question and in consideration of the special relations between the two countries. The Indian delegation stated that the matter has to be taken up by Airport Authority of India (AAI) with their Board of Directors before it can be referred to the Ministry of Civil Aviation for further decision. It was suggested that a detailed letter from the Bhutanese side with justification for the request would assist AAI to pursue the matter further.
8. With reference to feasibility study and establishment of a master Plan for the development of a new International Airport at Gelephu in Bhutan, the Bhutanese side proposed that the feasibility study should start as soon as possible and requested a team of experts from India be deputed to Bhutan to undertake the assignment. It was agreed that the Indian team could visit Bhutan starting from October 2005 after finalizing the terms and conditions based on the scope of the work to be proposed by the Bhutanese side.

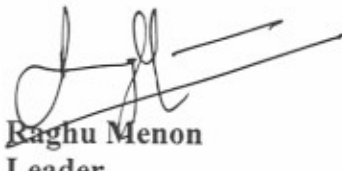


9. Both the delegations expressed the need to have more frequent bilateral meetings in the future and agreed to meet once a year.
10. This Memorandum of Understanding supersedes the Memorandum of Understanding done at New Delhi on 25th April, 1997 to the extent applicable.

Done at Thimphu, Bhutan on the 6th day of July 2005 in duplicate in English language.



Dasho Tashi Phuntsog
Leader
Delegation of the
Royal Government of Bhutan



Raghu Menon
Leader
Delegation of the
Government of India

Bhutanese Delegation

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| 1. | Dasho Tashi Phuntsog
Secretary
Ministry of Information & Communications | Leader |
| 2. | Mr. Phala Dorji
Director
Department of Civil Aviation | Member |
| 3. | Mr. Thuji Yonten
Dy. Chief of Airworthiness
Department of Civil Aviation | Member |
| 4. | Mr. Bhimlal Suberi
Deputy Director
Planning & Policy Division (PPD)
Ministry of Information and Communications | Member |
| 5. | Mr. Jamyang Chhophel
Airworthiness Officer
Department of Civil Aviation | Member |
| 6. | Mr. Rinchen Kuentsyl
Assistant Director
Department of Bilateral Affairs
Ministry of Foreign Affairs | Member |
| 7. | Mr. Sangey Tenzing
Managing Director
Druk Air Corporation | Member |
| 8. | Mr. Tshering Penjore
Manager, Marketing
Druk Air Corporation | Member |



Indian Delegation

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| 1. | Mr. Raghu Menon
Joint Secretary
Ministry of Civil Aviation | Leader |
| 2. | Mr. Satendra Singh
Director General of Civil Aviation | Member |
| 3. | Dr. Ketan Shukla
Cd'A, Embassy of India
Thimphu | Member |
| 4. | Mr. Achal K. Malhotra
Director (North)
Ministry of External Affairs | Member |
| 5. | Dr. T. V. Nagendra Prasad
First Secretary
Embassy of India
Thimphu | Member |
| 6. | Mr. K. Shyam Sundar
Dy. General Manager
Indian Airlines | Member |



SECTION 1ROUTES TO BE OPERATED IN BOTH DIRECTIONS BY THE
DESIGNATED AIRLINES OF THE GOVERNMENT OF INDIA

Points of Origin	Intermediate Points	Points in Bhutan	Points Beyond
<u>Route 1</u>			
Any Points in India	1 Point to be notified	Paro	4 Points to be notified

The intermediate and beyond points need not necessarily be served by the designated airlines.




SECTION 2ROUTES TO BE OPERATED IN BOTH DIRECTIONS BY THE
DESIGNATED AIRLINES OF THE ROYAL GOVERNMENT OF BHUTAN

Points of Origin	Intermediate Points	Points in India	Points Beyond
<u>Route 1</u>			
Any Points in Bhutan	Kathmandu	Chennai Delhi Mumbai	Singapore Dhaka Bangkok
<u>Route 2</u>			
Any points in Bhutan	Nil	Kolkata	Bangkok Yangon
<u>Route 3</u>			
Any points in Bhutan	Nil	Gaya	Bangkok Yangon
<u>Route 4</u>			
Any points in Bhutan	Nil	Guwahati	Bangkok

The intermediate and beyond points need not necessarily be served by the designated airlines.