No. 8660

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT and ICELAND

Guarantee Agreement—*Burfell Power Project* (with annexed Loan Regulations No. 4 and Loan Agreement between the Bank and Landsvirkjun). Signed at Washington, on 14 September 1966

Official text: English.

Registered by the International Bank for Reconstruction and Development on 23 June 1967.

BANQUE INTERNATIONALE POUR LA RECONSTRUCTION ET LE DÉVELOPPEMENT et ISLANDE

Contrat de garantie — *Projet relatif à l'énergie électrique de Burfell* (avec, en annexe, le Règlement n° 4 sur les emprunts et le Contrat d'emprunt entre la Banque et la Landsvirkjun). Signé à Washington, le 14 septembre 1966

Texte officiel anglais.

Enregistré par la Banque internationale pour la reconstruction et le développement le 23 juin 1967.

No. 8660. GUARANTEE AGREEMENT[1] *(BURFELL POWER PROJECT)* BETWEEN THE REPUBLIC OF ICELAND AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT. SIGNED AT WASHINGTON, ON 14 SEPTEMBER 1966

AGREEMENT, dated September 14, 1966, between REPUBLIC OF ICELAND (hereinafter called the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS by an agreement of even date herewith between the Bank and Landsvirkjun (hereinafter called the Borrower), which agreement and the schedules therein referred to are hereinafter called the Loan Agreement,[2] the Bank has agreed to make to the Borrower a loan in various currencies equivalent to eighteen million dollars ($18,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as hereinafter provided ; and

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borower, has agreed so to guarantee such obligations of the Borrower ;

NOW THEREFORE, it is hereby agreed as follows :

Article I

Section 1 01. The parties to this Guarantee Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961,[3] with the same force and effect as if they were fully set forth herein, subject, however, to the modification thereof set forth in Section 1.01 of the Loan Agreement (said Loan Regulations No. 4 as so modified, being hereinafter called the Loan Regulations).

Section 1.02. Wherever used in this Guarantee Agreement, unless the context shall otherwise require, the several terms defined in the Loan Agreement shall have the same meanings therein set forth.

[1] Came into force on 20 September 1966, upon notification by the Bank to the Government of Iceland

[2] See p. 234 of this volume

[3] See p. 232 of this volume.

Article II

Section 2.01. Without limitation or restriction upon any of the other covenants on its part in this Agreement contained, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and the interest and other charges on, the Loan, the principal of and interest on the Bonds, the premium, if any, on the prepayment of the Loan or the redemption of the Bonds, and the punctual performance of all the covenants and agreements of the Borrower, all as set forth in the Loan Agreement and in the Bonds.

Section 2.02. Without limitation or restriction upon the provisions of Section 2.01 of this Agreement, the Guarantor specifically undertakes, whenever there is reasonable cause to believe that the funds available to the Borrower will be inadequate to meet the estimated expenditures required for carrying out the Project, promptly to make arrangements, satisfactory to the Bank, to provide the Borrower or cause the Borrower to be provided with such funds as and when needed to meet such expenditures

Article III

Section 3.01. It is the mutual intention of the Guarantor and the Bank that no other external debt shall enjoy any priority over the Loan by way of a lien on governmental assets To that end, the Guarantor undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Guarantor as security for any external debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect ; provided, however, that the foregoing provisions of this Section shall not apply to : (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property , or (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

The term "assets of the Guarantor" as used in this Section includes assets of the Guarantor or of any of its political subdivisions or of any agency of the Guarantor or of any such political subdivision, including assets of Sedlabanki Islands (the Central Bank of Iceland) or any institution performing the functions of a central bank.

Section 3.02 (*a*) The Guarantor and the Bank shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan. On the part of the Guarantor, such information shall include information with respect to financial and economic conditions in the territories of the Guarantor and the international balance of payments position of the Guarantor

(*b*) The Guarantor and the Bank shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof. The Guarantor (i) shall furnish to the Bank all such information as the Bank shall reasonably request concerning the relations between the Guarantor, the Borrower and the Township, on the one hand, and Alusuisse and ISAL, on the other hand, and the exercise of their respective rights and the carrying out of their respective obligations under the Master Agreement and the Scheduled Contracts, and (ii) shall promptly inform the Bank of any failure by Alusuisse or ISAL to comply with their obligations under the Master Agreement or the Scheduled Contracts or any other condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the maintenance of the service thereof

(*c*) The Guarantor shall afford all reasonable opportunity for accredited representatives of the Bank to visit any part of the territories of the Guarantor for purposes related to the Loan

Section 3.03. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid without deduction for, and free from, any taxes imposed under the laws of the Guarantor or laws in effect in its territories , provided, however, that the provisions of this Section shall not apply to taxation of payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Guarantor

Section 3 04. This Guarantee Agreement, the Loan Agreement and the Bonds shall be free from any taxes that shall be imposed under the laws of the Guarantor or laws in effect in its territories on or in connection with the execution, issue, delivery or registration thereof.

Section 3.05. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid free from all restrictions imposed under the laws of the Guarantor or laws in effect in its territories.

Section 3 06 (*a*) Except as the Guarantor and the Bank shall otherwise agree, the Guarantor shall, to the extent that it has an interest therein and is obligated or entitled to do so, take all such reasonable action, including the exercise of any rights and remedies available to it, as shall be appropriate to maintain in full force and effect the Master Agreement, the Scheduled Contracts, the Partnership Agreement, the Purchase Agreements and the External Bonds, and to secure the prompt and diligent performance by the parties thereto of their respective obligations thereunder.

(*b*) The Guarantor and the Bank shall exchange views as to any arbitral or judicial proceeding contemplated or undertaken pursuant to any of the Master Agreement, the Scheduled Contracts, the Partnership Agreement, the Purchase Agreements and the External Bonds in which the Guarantor has an interest. The Guarantor shall promptly advise the Bank of any such proceeding contemplated or undertaken and shall give the Bank such information as the Bank shall reasonably request to enable the Bank if it so desires to make its views thereon known to the Guarantor and in any such proceeding.

Section 3 07 Any amounts received by the Guarantor from SKA under the Performance Guaranty Agreement shall be deposited and retained by the Guarantor in a special account and shall only be used for the purposes and in the manner as shall be agreed upon by the Guarantor and the Bank

Section 3 08 (*a*) The Guarantor and the Bank shall from time to time exchange views as to any notices to be given by the Guarantor pursuant to Sections 9.06 and 9.07 of the Master Agreement, and the Guarantor shall not give any such notice or consent without first consulting the Bank with respect thereto.

(*b*) The Guarantor shall not give any consent or agreement pursuant to Sections 22.01, 22.02, 24.03 and 29.02 of the Master Agreement unless the Bank shall so agree.

Section 3.09. The Guarantor shall promptly notify the Bank of the occurence of any event referred to in Section 10.02, Article 26, Section 35.03, Article 39, Section 41.02 (*a*), Article 42, and Section 43.03 of the Master Agreement.

Article IV

Section 4.01. The Guarantor shall endorse, in accordance with the provisions of the Loan Regulations, its guarantee on the Bonds to be executed and delivered by the Borrower. The Minister of Finance of the Guarantor and such person or persons as he shall appoint in writing are designated as the authorized representatives of the Guarantor for the purposes of Section 6.12 (*b*) of the Loan Regulations.

Article V

Section 5.01. The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations :

For the Guarantor :

Sedlabanki Islands
Rikisabyrgdasjodur
Austurstraeti 11
Reykjavik, Iceland