



UNIDROIT 1989
Study L - Doc. 40 Rev. 4
(English only)

INTERNATIONAL INSTITUTE FOR THE UNIFICATION OF PRIVATE LAW

WORKING GROUP FOR THE PREPARATION OF PRINCIPLES
FOR INTERNATIONAL COMMERCIAL CONTRACTS

PRINCIPLES FOR INTERNATIONAL COMMERCIAL CONTRACTS

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(Sixth consolidated version prepared by the Secretariat
on the basis of the drafts so far discussed by the Working Group)

Rome, November 1989

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CHAPTER 1

GENERAL PROVISIONS

[Article 1.1

(Application of the Principles)

- (1) These Principles are intended to lay down general rules for international commercial contracts.
- (2) For the purpose of these Principles:
 - (a) a contract is international whenever it involves a choice between the laws of different countries;
 - (b) a contract is of a commercial nature whenever it is made by both parties in the course of their trade or profession.
- (3) The Principles will apply when the parties have agreed that their contract be governed by them.
- (4) The Principles may be applied
 - (a) when the parties have agreed that their contract be governed by "general principles of law", the "lex mercatoria" or the like,
 - (b) when the parties have not chosen any system or rules of law to govern their contract.
- (5) These Principles may provide a solution to the issue raised where the system or rules of law applicable do not do so.]

[Article 1.2

(Mandatory rules of domestic law)

Nothing in these Principles shall restrict the application of the rules of the law of the forum in a situation when they are mandatory irrespective of the law otherwise applicable to the contract.]

[Article 1.3

(Party autonomy)

The parties may exclude or derogate from any of these Principles, except as otherwise provided in the Principles.]

[Article 1.4
(Interpretation of the Principles)

In the interpretation of these Principles, regard is to be had to the need to promote uniformity in their application and the observance of good faith in international trade.]

[Article 1.5
(Good faith and fair dealing)

(1) The formation, interpretation, performance and enforcement of a contract shall be in accordance with the principles of good faith and fair dealing in international trade.

(2) The parties may not exclude the rule laid down in paragraph 1.]

[Article 1.6
(Usages)

(1) The parties are bound by any usage to which they have agreed and by any practices which they have established between themselves.

(2) The parties are considered, unless otherwise agreed, to have impliedly made applicable to their contract or its formation a usage of which the parties knew or ought to have known and which in international trade is widely known to, and regularly observed by, parties to contracts of the type involved in the particular trade concerned.]

[Article 1.7
(Court and arbitral tribunal)

In these Principles "court" includes arbitration tribunal.]

CHAPTER 2

FORMATION

Article 2.1

(Definition of offer)

A proposal for concluding a contract constitutes an offer if it is sufficiently definite and indicates the intention of the offeror to be bound in case of acceptance.

Article 2.2

(Withdrawal of offer)

(1) An offer becomes effective when it reaches the offeree.

(2) An offer, even if it is irrevocable, may be withdrawn if the withdrawal reaches the offeree before or at the same time as the offer.

Article 2.3

(Revocation of offer)

(1) Until a contract is concluded an offer may be revoked if the revocation reaches the offeree before he has dispatched an acceptance.

(2) However, an offer cannot be revoked:

(a) if it indicates, whether by stating a fixed time for acceptance or otherwise, that it is irrevocable; or

(b) if it was reasonable for the offeree to rely on the offer as being irrevocable and the offeree has acted in reliance on the offer.

Article 2.4

(Rejection of offer)

An offer is terminated when a rejection reaches the offeror.

Article 2.5
(Mode of acceptance)

(1) A statement made by or other conduct of the offeree indicating assent to an offer is an acceptance. Silence or inactivity does not in itself amount to acceptance.

(2) An acceptance of an offer becomes effective at the moment the indication of assent reaches the offeror.

(3) However, if, by virtue of the offer or as a result of practices which the parties have established between themselves or of usage, the offeree may indicate assent by performing an act without notice to the offeror, the acceptance is effective at the moment the act is performed.

Article 2.6
(Time of acceptance)

An offer must be accepted within the time the offeror has fixed or, if no time is fixed, within a reasonable time, due account being taken of the circumstances of the transaction, including the rapidity of the means of communication employed by the offeror. An oral offer must be accepted immediately unless the circumstances indicate otherwise.

Article 2.7
(Acceptance within a fixed period of time)

(1) A period of time for acceptance fixed by the offeror in a telegram or a letter begins to run from the moment the telegram is handed in for dispatch or from the date shown on the letter or, if no such date is shown, from the date shown on the envelope. A period of time for acceptance fixed by the offeror by means of instantaneous communication begins to run from the moment that the offer reaches the offeree.

(2) Official holidays or non-business days occurring during the period for acceptance are included in calculating the period. However, if a notice of acceptance cannot be delivered at the address of the offeror on the last day of the period because that day falls on an official holiday or a non-business day at the place of business of the offeror, the period is extended until the first business day which follows.

Article 2.8

(Late acceptance. Delay in transmission)

(1) A late acceptance is nevertheless effective as an acceptance if without delay the offeror orally so informs the offeree or dispatches a notice to that effect.

(2) If a letter or other writing containing a late acceptance shows that it has been sent in such circumstances that if its transmission had been normal it would have reached the offeror in due time, the late acceptance is effective as an acceptance unless, without delay, the offeror orally informs the offeree that he considers his offer as having lapsed or dispatches a notice to that effect.

Article 2.9

(Withdrawal of acceptance)

An acceptance may be withdrawn if the withdrawal reaches the offeror before or at the same time as the acceptance would have become effective.

Article 2.10

(Modified acceptance)

(1) A reply to an offer which purports to be an acceptance but contains additions, limitations or other modifications is a rejection of the offer and constitutes a counter-offer.

(2) However, a reply to an offer which purports to be an acceptance but contains additional or different terms which do not materially alter the terms of the offer constitutes an acceptance, unless the offeror, without undue delay, objects orally to the discrepancy or dispatches a notice to that effect. If he does not so object, the terms of the contract are the terms of the offer with the modifications contained in the acceptance.

Article 2.11

(Writings in confirmation)

If a writing which is sent within a reasonable time after the conclusion of the contract and which purports to

be a confirmation of the contract contains additional or different terms, such terms will become part of the contract, unless they materially alter the contract or the recipient, without undue delay, orally objects to the discrepancy or dispatches a notice to that effect.

Article 2.12

(Conclusion of contract dependent on agreement
on specific matters or in a specific form)

Where one of the parties in the course of negotiations insists that a contract not be concluded until there is agreement on specific matters or in a specific form, the contract is not concluded before there is agreement on these matters or in that form.

Article 2.13

(Contract with terms deliberately left open)

(1) If the parties intended to conclude a contract, the fact that they have intentionally left a term to be agreed upon in further negotiations or to be determined by a third person does not prevent a contract from coming into existence.

(2) The existence of the contract is not affected by the fact that subsequently

(a) the parties reach no agreement on the term, or

(b) the third person does not determine the term,

provided that there is an alternative that is reasonable in all of the circumstances, including any intention of the parties.

Article 2.14

(Negotiations in bad faith)

(1) A party is free to negotiate and is not liable for failure to reach an agreement.

(2) However, a party who has negotiated or broken off negotiations in bad faith is liable for the losses caused to the other party.

(3) It is bad faith, in particular, for a party to enter into or continue negotiations knowing that he is not able or willing to make an agreement with the other party.

Article 2.15
(Duty of confidentiality)

If information is given as confidential by one party in the course of negotiations, the other party is under a duty not to disclose that information or use it improperly for his own purposes whether or not a contract is subsequently concluded. If appropriate, the remedy for breach may include compensation based on the benefit received by the other party.

Article 2.16
(Form of the contract)

(1) Nothing in these Principles requires a contract to be concluded in or evidenced by writing. It may be proved by any means, including witnesses.

(2) A contract in writing which contains a provision indicating that the writing completely embodies the terms on which the parties have agreed cannot be contradicted or supplemented by evidence of prior statements or agreements. However, such statements or agreements may be used to interpret the writing.

(3) A contract in writing which contains a provision requiring any modification or termination by agreement to be in writing may not be otherwise modified or terminated by agreement. However, a party may be precluded by his conduct from asserting such a provision to the extent that the other party has relied on that conduct.

Article 2.17
(Contracting under standard terms)

(1) Where one party or both parties use standard terms in concluding a contract, the general rules on formation apply, subject to Articles 2.18 - 2.20.

(2) Standard terms are provisions which are prepared in advance for general and repeated use by one party and which are actually used without negotiation with the other party.

Article 2.18
(Battle of forms)

If both parties use standard terms and they reach an agreement except on those terms, a contract is concluded on the basis of the agreed terms and any standard terms which are common in substance unless one party clearly indicates in advance or later, without undue delay, informs the other that he does not intend to be bound by such a contract.

Article 2.19
(Surprising provisions)

No provision contained in standard terms which by virtue of its content, language or presentation is of such a character that the other party could not reasonably have expected it, shall be effective, unless it has been expressly accepted by that party.

Article 2.20
(Conflict between standard terms
and individual provisions)

If there is a conflict between a standard term and another term [which is not a standard term] the other term prevails.

CHAPTER 3

SUBSTANTIVE VALIDITY

Article 3.1

(Validity of mere agreement)

A contract is concluded, modified or terminated by the mere agreement of the parties, without any further requirement such as bargain, exchange, delivery [or the existence of a cause].

Article 3.2

(Definition of mistake)

Mistake is an erroneous assumption relating to facts or to law existing when the contract was concluded.

Article 3.3

(Relevant Mistake)

(1) A party may only avoid a contract for mistake if when the contract was concluded the mistake was of such importance that a reasonable person in the same situation as the party in error would have contracted only on materially different terms or would not have contracted at all if the true state of affairs had been known, and

(a) the other party made the same mistake, or caused the mistake, or knew or ought to have known of the mistake and it was contrary to reasonable commercial standards of fair dealing to leave the mistaken party in error, or

(b) the other party has not at the time of avoidance acted in reliance on the contract.

(2) However, a party may not avoid the contract, if

(a) it committed the mistake with gross negligence, or

(b) the mistake relates to a matter in regard to which the risk of mistake was assumed or, taking into account all the relevant circumstances, should be borne by the mistaken party.

Article 3.4

(Error in expression or transmission)

An error occurring in the expression or transmission of a declaration is considered to be a mistake of the person from whom the declaration emanated.

Article 3.5

(Remedies for non-performance)

A party shall not be entitled to avoid the contract on the ground of mistake if the circumstances on which he relies afford, or could have afforded, him a remedy for non-performance.

Article 3.6

(Fraud)

A party may avoid the contract when he has been led to conclude it by the other party's fraudulent representation, including language or practices, or fraudulent non-disclosure of circumstances which according to reasonable commercial standards of fair dealing he should have disclosed.

Article 3.7

(Threat)

A party may avoid the contract when he has been led to conclude it by the other party's unjustified threat which, having due regard to the circumstances, is so imminent and serious as to leave him no reasonable alternative. In particular, a threat is unjustified if the act or omission with which the promisor has been threatened is wrongful in itself, or it is wrongful to use it as a means to obtain the promise.

Article 3.8

(Gross disparity)

(1) A party may avoid a contract or an individual term if at the time of the making of the contract the contract or

term unjustifiably gives the other party an excessive advantage. Regard is to be had to, among other things,

(a) the fact that the other party has taken unfair advantage of the avoiding party's dependence, economic distress or urgent needs, or of his improvidence, ignorance, inexperience or lack of bargaining skill, and

(b) the commercial setting and purpose of the contract.

(2) Upon the request of the party entitled to avoidance, a court may adapt the contract or term in order to bring it in accordance with reasonable commercial standards of fair dealing.

(3) A court may do so also upon the request of a party receiving a notice of avoidance providing that party informs the party who sent the notice promptly after receiving it and before that party has acted in reliance on it. The rules stated in Article 3.12(2), apply accordingly.

Article 3.9

(Initial impossibility)

(1) The mere fact that at the time of the conclusion of the contract the performance of the assumed obligation was impossible shall not affect the validity of the contract.

(2) The mere fact that at the time of the conclusion of the contract a party was not entitled to dispose of the assets to which the contract relates, shall not affect the validity of the contract.

Article 3.10

(Third persons)

(1) Where a fraud, a threat, a gross disparity or a party's mistake is imputable to, or is known or ought to be known by, a third person for whose acts the other party is responsible, the contract may be avoided under the same conditions as if it had been concluded by the other party himself.

(2) Where a fraud, a threat or a gross disparity is imputable to a third person for whose acts the other party is not responsible, the contract may be avoided if the other contracting party knew or ought to have known of the fraud, the threat or the disparity, or has not at the time of avoidance acted in reliance on the contract.

Article 3.11

(Confirmation)

If the party who is entitled to avoid the contract expressly or impliedly confirms the contract after the period of time for giving notice of avoidance has begun to run, avoidance of the contract is excluded.

Article 3.12

(Adaptation of contract)

(1) If a party is entitled to avoid the contract for mistake but the other party declares himself willing to perform or performs the contract as it was understood by the party entitled to avoid, the contract shall be considered to have been concluded as the latter understood it. The other party must make such a declaration or render such performance promptly after having been informed of the manner in which the party entitled to avoid had understood the contract and before that party has acted in reliance on a notice of avoidance.

(2) After such a declaration or performance the right to avoid is lost and any earlier notice of avoidance is ineffective.

Article 3.13

(Notice of avoidance)

Avoidance must be by notice which must reach the other party.

Article 3.14

(Time limits)

(1) Notice of avoidance must be given within a reasonable time, with due regard to the circumstances, after the avoiding party knew or could not have been unaware of the relevant facts and became capable of acting freely.

(2) Where an individual term of a contract may be avoided by a party under Article 3.8, the time-period runs from the moment that the term is asserted by the other party.

Article 3.15
(Partial avoidance)

If a ground of avoidance affects only individual terms of a contract, the effect of an avoidance is limited to those terms if, giving due consideration to all circumstances of the case, it is reasonable to uphold the remaining contract.

Article 3.16
(Retroactive effect of avoidance)

- (1) Avoidance shall take effect retroactively.
- (2) On avoidance either party may claim restitution of whatever it has supplied under the contract or the part of it avoided, provided that it concurrently makes restitution of whatever it has received under the contract or the part of it avoided, or, if it cannot make restitution in kind, it must make an allowance for what it has received.

Article 3.17
(Damages)

[Irrespective of whether or not the contract has been avoided, the party who knew or ought to have known of the ground for avoidance is liable for damages so as to put the other party into the same position it would have been in if it had not concluded the contract.]

Article 3.18
(Mandatory character of the provisions)

The provisions of this chapter are mandatory, except insofar as they relate or apply to mistake and to initial impossibility.

Article 3.19
(Questions not covered)

These Principles do not deal with an invalidity arising from

- (a) lack of capacity,
- (b) lack of authority, or
- (c) immorality or illegality.

Article 3.20
(Unilateral declarations)

Unless otherwise provided in these Principles, the provisions of this chapter apply by analogy to declarations which are addressed by one party to the other.

CHAPTER 4

INTERPRETATION

Article 4.1

(Intention of Parties)

(1) A contract shall be interpreted according to the intention common to the parties.

(2) Statements made by and other conduct of a party shall be interpreted according to his intention where the other party knew or could not have been unaware what that intention was.

Article 4.2

(Understanding of reasonable persons)

(1) If the common intention of the parties cannot be established, the contract shall be interpreted according to the meaning which reasonable persons of the same kind as the parties would give to it in the same circumstances.

(2) If the intention of the party who made the statements or engaged in the conduct was not known to, nor should have been known to, the other party, such statements or conduct shall be interpreted according to the understanding that a reasonable person of the same kind as the other party would have had in the same circumstances.

Article 4.3

(Relevant circumstances)

In interpreting a contract or statements made by and other conduct of a party due consideration shall be given to all relevant circumstances, including any preliminary negotiations between the parties, any practices which they have established between themselves, usages and any conduct of the parties subsequent to the conclusion of the contract.

Article 4.4

(Interpretation of commercial terms)

Subject to the provisions of Articles 4.1, 4.2 and 4.3, the expressions, provisions or terms of the contract shall be interpreted according to the meaning usually given to them in the trade concerned.

Article 4.5

(Interpretation of ambiguous terms)

(1) In the event of ambiguity, the terms of the contract shall be interpreted in such a way as to give them effect rather than to deprive them of effect.

(2) In the event of ambiguity, expressions capable of having more than one meaning shall be interpreted in a manner appropriate to the nature of the particular contract.

(3) Contract terms proposed by one of the parties shall, in case of ambiguity, be interpreted in favour of the other party.

Article 4.6

(Reference to the contract as a whole)

Each term of a contract shall be interpreted by reference to all the other terms of the contract, and in determining the meaning of the terms of the contract, reference shall be made to the contract as a whole.

CHAPTER 5

PERFORMANCE

SECTION 1: Performance in General

Article 5.1.1

(Express and implied obligations)

The contractual obligations of the parties may be express or implied.

Article 5.1.2

(Duty of diligence

Duty to achieve a specific result)

(1) To the extent that an obligation of a party involves a duty of diligence, that party is bound to observe the diligence observed by reasonable persons of the same kind under similar circumstances.

(2) To the extent that an obligation of a party involves a duty to achieve a specific result, that party is bound to achieve that result.

Article 5.1.3

(Determination of kind of duty involved)

In determining the extent to which an obligation of a party involves a duty of diligence in the performance of an activity or a duty to achieve a specific result, regard shall be had to the following circumstances, among others:

- (a) the way in which the obligation is expressed in the contract;
- (b) the contractual price and other terms of the contract;
- (c) the degree of risk normally involved in achieving the expected result;
- (d) the other party's ability to influence the performance of the obligation.

Article 5.1.4
(Cooperation between parties)

Each party shall cooperate with the other party, when such cooperation may reasonably be expected for the performance of that party's obligations.

Article 5.1.5
(Partial performance)

(1) The obligee may reject an offer to perform in part at the time performance is due unless he has no legitimate interest in doing so.

(2) Additional expenses caused to the obligee by partial performance are to be borne by the obligor without prejudice to any other remedy.

Article 5.1.6
(Time of performance)

A party must perform its obligations:

- (a) if a time is fixed by or determinable from the contract, at that time;
- (b) if a period of time is fixed by or determinable from the contract, at any time within that period unless circumstances indicate that the other party is to choose a time; or
- (c) in any other case, within a reasonable time after the conclusion of the contract.

Article 5.1.7
(Performance at one time or in instalments)

In cases under Article 5.6(b) or (c), a party must perform its obligations at one time, if that performance can be rendered at one time and the circumstances do not indicate otherwise.

Article 5.1.8
(Order of performance)

(1) To the extent that the parties' performances can be rendered simultaneously, the parties are bound to render them simultaneously unless the circumstances indicate otherwise.

(2) To the extent that the performance of only one party requires a period of time, that party is bound to render its performance first, unless the circumstances indicate otherwise.

Article 5.1.9
(Earlier performance)

(1) The obligee may reject an earlier performance unless he has no legitimate interest in doing so.

(2) A party's acceptance of an earlier performance does not affect the time for the performance of his own obligation if it has been fixed irrespective of the performance of the other party's obligations.

(3) Additional expenses caused to the other party by earlier performance are to be borne by the performing party, without prejudice to any other remedy.

Article 5.1.10
(Place of performance)

(1) If the place of performance is not fixed by nor determinable from the contract, a party is to perform:

- (a) a monetary obligation, at the creditor's place of business;
- (b) any other obligation, at its own place of business.

(2) A party must bear any increase in the expenses incidental to performance which is caused by a change in his place of business subsequent to the conclusion of the contract.

Article 5.1.11
(Price determination)

(1) If a contract does not fix or make provision for determining the price, the parties are considered, in the absence of any indication to the contrary, to have made reference to the price generally charged at the time of the conclusion of the contract for such performances under comparable circumstances in the trade concerned, or if no such price is available to a reasonable price.

(2) Where the price is to be determined by one party whose determination is manifestly unreasonable, then notwithstanding any provision to the contrary, a reasonable price shall be substituted.

(3) Where the price is to be fixed by a third person, and he cannot or will not do so, the price shall be a reasonable price.

(4) Where the price is to be fixed by reference to factors which do not exist or have ceased to exist or to be accessible, the nearest equivalent factor shall be treated as a substitute.

Article 5.1.12
(Determination of quality of performance)

If the quality of performance is not fixed by nor determinable from the contract, a party is bound to render a performance of a quality that is reasonable and not less than average in the circumstances.

Article 5.1.13
(Payment by cheque or other instruments)

(1) Payment can be made in any form used in the ordinary course of business at the place of payment.

(2) However, a creditor who accepts, either by virtue of paragraph (1) or voluntarily, a cheque, an other order to pay or a promise to pay, is presumed to do so only on condition that it will be honoured.

Article 5.1.14

(Payment by funds transfer)

(1) Unless the creditor has indicated a particular account, payment can be made by a transfer to any of the financial institutions in which the creditor has made it known he has an account.

(2) In case of payment by a transfer the obligation of the debtor is discharged when the transfer to the creditor's financial institution becomes effective.

[Article 5.1.15

(Currency of payment)

A monetary obligation due in a currency other than that of the place of payment may be paid in the currency of the place of payment according to the rate of exchange prevailing there at the date of maturity, unless

(a) that currency is not freely convertible;

(b) parties have agreed that payment should be made effectively in the currency of the contract.]

[Article 5.1.16

(Currency not specified)

If the contract does not indicate in which currency a monetary obligation is due, payment is to be made in the currency usually agreed between parties for such performances under comparable circumstances in the trade concerned.]

Article 5.1.17

(Taxes and duties)

Each party shall bear the cost of performance of its obligations.

Article 5.1.18
(Imputation of payments)

(1) A debtor owing several monetary obligations to the same creditor may specify at the time of payment the debt to which he intends the payment to be applied. However, the payment discharges first any expenses, then interests due and finally the principal.

(2) If the debtor does not make such a specification, the creditor may, within a reasonable time after payment, declare to the debtor the obligation to which he imputes the payment, provided that obligation is due and undisputed.

(3) In the absence of imputation under paragraphs (1) or (2), payment is imputed to that obligation which satisfies one of the following criteria in the sequence indicated:

- (a) an obligation which is due or which is the first to fall due;
- (b) an obligation for which the creditor has least security;
- (c) the obligation which is the most burdensome for the debtor;
- (d) the obligation which has arisen first.

If none of the preceding criteria applies, payment is imputed to all the obligations proportionally.

Article 5.1.19
(Imputation of non-monetary obligations)

Article 5.1.18 applies with appropriate adaptations to the imputation of performance of non-monetary obligations.

Article 5.1.20
(Application for public permission)

Where the law of a State requires a public permission affecting the validity of the contract or making its performance impossible and that law or the circumstances do not indicate otherwise

- (a) if only one party has his place of business in that State, that party shall take the measures necessary to obtain the permission; and

(b) in any other case the party whose performance requires permission shall take the necessary measures.

Article 5.1.21

(Procedure in applying for permission)

(1) The party required to take the measures necessary to obtain the permission shall do so without undue delay. He shall bear any expenses incurred.

(2) That party shall whenever appropriate give the other party notice of the grant or refusal of such permission without undue delay.

Article 5.1.22

(Permission neither granted nor refused)

(1) If, notwithstanding the fact that the party responsible took all measures required, permission was neither granted nor refused within an agreed period or, where no period has been agreed, within a reasonable time from the conclusion of the contract, either party is entitled to terminate the contract.

(2) Where the permission affects only some terms, paragraph (1) does not apply if, giving due consideration to all circumstances of the case, it is reasonable to uphold the contract even if the permission is refused.

Article 5.1.23

(Permission refused)

(1) The refusal of a permission affecting the validity of the contract renders the contract void. If the refusal affects the validity of only some terms, only such terms are void if, giving due consideration to all circumstances of the case, it is reasonable to uphold the remaining contract.

(2) Where the refusal of a permission makes the performance of the contract impossible in whole or in part, the rules on non-performance apply.

SECTION 2: Hardship

Article 5.2.1

(Pacta sunt servanda)

If the performance of a contract is rendered more onerous for one of the parties, he is nevertheless bound to fulfil his obligations, unless a case of hardship occurs.

Article 5.2.2

(Definition of hardship)

(1) There is a case of hardship where:

[(a) the occurrence of events fundamentally alters the equilibrium of the contract, thereby placing an excessive burden on one party, and]

(b) this occurrence of events arises or becomes known to the disadvantaged party after the conclusion of the contract and could not reasonably have been taken into account at the time of the conclusion of the contract, and

(c) these circumstances are beyond the control of the disadvantaged party and

(d) these circumstances are not the result of risks assumed by the disadvantaged party.

(2) A party is excluded from invoking a case of hardship in as far as this case arises after the relevant performance has been rendered.

Article 5.2.3

(Effects of hardship)

(1) In case of hardship the disadvantaged party is entitled to request renegotiations, provided he does so without undue delay. The request shall indicate the grounds on which it is based.

(2) On failure to open renegotiations according to paragraph (1), or in default of agreement within a reasonable period, either party may resort to the court.

(3) Upon request of either party the court may, after having ascertained the presuppositions for invoking a hardship case,

(a) either terminate the contract at a date and on terms to be fixed, or

(b) adapt the contract with a view to restoring the equilibrium of the contract before the hardship.

CHAPTER 6

NON-PERFORMANCE

SECTION 1: General Provisions

Article 6.1.1

(Definition)

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Article 6.1.2

(Cumulation of remedies)

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Article 6.1.3

(Exemptions)

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Article 6.1.4

(Right to withhold performance)

(....)

SECTION 2 : Specific Performance

Article 6.2.1

(Performance of monetary obligation)

If the debtor of an obligation to pay money does not make payment, the creditor may demand payment.

Article 6.2.2

(Performance of non-monetary obligation)

If a party who owes an obligation other than one to pay money does not perform, the other party may require performance, unless

- (a) performance is impossible in law or in fact; or
- (b) performance involves an unreasonable effort or expense; or
- (c) the obligee may reasonably obtain performance from another source; or
- (d) performance is of a personal character; or
- (e) the obligee does not require performance within a reasonable time after he has, or ought to have, become aware of the non-performance.

Article 6.2.3

(Reparation of defective performance)

A right to require performance includes in appropriate cases the right to require repair or replacement.

Article 6.2.4

(Judicial penalty)

(1) Where the court orders the obligor to perform, it may also direct that the obligor pay a penalty if he does not comply with the order.

(2) The penalty shall be paid to the obligee unless mandatory provisions of the law of the forum provide otherwise. Payment of the penalty to the obligee does not affect any claim for damages.

Article 6.2.5
(Unenforceable claim for specific performance)

If a claim or a court decision for specific performance cannot be enforced, the obligee is not precluded from invoking any other remedy for non-performance.

SECTION 3: Termination

Article 6.3.1

(The right to terminate the contract)

(1) A party may declare the contract terminated if the failure of the other party to perform an obligation under the contract amounts to a fundamental non-performance.

(2) In determining whether a failure to perform an obligation amounts to a fundamental non-performance, the following circumstances are significant

(a) whether the non-performance substantially deprives the aggrieved party of what he was entitled to expect under the contract unless the other party did not foresee and could not reasonably have foreseen such result;

(b) whether strict compliance with the obligation which has not been performed is of essence to the contract;

(c) whether the non-performance is intentional and gives the aggrieved party reason to believe that he cannot rely on the other party's future performance;

(d) the extent to which the defaulting party will suffer forfeiture if the contract is terminated.

Article 6.3.2

(Termination after notice fixing
additional period for performance)

(1) In case of delay in performance the aggrieved party may in a notice to the defaulting party fix an additional period of time for performance. When the delay does not amount to a fundamental non-performance under Article 6.3.1 the additional period, if not of reasonable length, shall be extended to a reasonable length.

(2) If a defaulting party fails to perform before the time allowed him under paragraph (1) has expired the aggrieved party may declare the contract terminated if he has not already provided for its termination in his notice to the defaulting party.

(3) Paragraph (2) does not apply when the obligation which has not been performed is only a minor part of the defaulting party's contractual obligation.

Article 6.3.3
(Notice of termination)

(1) A party will lose his right to declare the contract terminated for non-performance unless he gives notice of termination to the other party after he has or ought to have become aware of the non-performance.

(2) A party to whom performance has been offered late will lose any right he may have to declare the contract terminated unless he gives notice of termination to the other party after he has or ought to have become aware of the offer.

(3) Where no performance has been offered notice in accordance with paragraph (1) is required only when the aggrieved party has reason to believe that the defaulting party intends to offer performance.

(4) A notice by the aggrieved party under the preceding paragraphs must be given within reasonable time after that party has become or ought to have become aware of the non-performance (paragraph (1)) or the offer (paragraph (2)).

Article 6.3.4
(Anticipatory non-performance)

Where prior to the date for performance by one of the parties it is clear that there will be a fundamental non-performance by him, the other party may declare the contract terminated.

Article 6.3.5
(Adequate assurance of due performance)

A party who reasonably believes that there will be a fundamental non-performance by the other party may demand adequate assurance of due performance. Where this assurance is not provided within reasonable time the party demanding it may declare the contract terminated.

Article 6:3.6
(Termination excluded)

(1) A party who has received property loses the right to terminate the contract for non-performance if he is unable to make restitution of the property substantially in the same condition in which he received it.

(2) Paragraph (1) does not apply

(a) if the impossibility of making restitution of the property or part thereof substantially in the condition in which the party received it is not due to his act or omission; or

(b) if the property or part of it has perished or deteriorated as a result of a normal examination, or

(c) if the property has been consumed or transformed in the course of normal use by the party who received it before that party became aware or ought to have become aware that he was entitled to terminate the contract.

SECTION 4: Damages and exemption clauses

Article 6.4.1
(Right to damages)

Any non-performance gives the aggrieved party a right to damages [either exclusively or in conjunction with other remedies] except where the non-performance is excused under Article 6.1.3.

Article 6.4.2
(Formal notice of default)

(1) The right to damages for delay accrues on the day where the aggrieved party has given notice by any reasonable means of his demand for the immediate performance of the contract.

(2) No notice is required where a mandatory date has been fixed for the performance, or where it is certain that the contract will not be performed or if its performance will no longer benefit the aggrieved party.

[(3) If the aggrieved party gives the defaulting party a reasonable extension for his performance of the contract in accordance with Article 6.3.2(1), he does not thereby waive his right to claim damages for such delay pursuant to paragraph 1 of this Article.]

Article 6.4.3
(Full compensation)

(1) The aggrieved party is entitled to full compensation for harm sustained as a result of the non-performance. This harm includes both any loss which he suffered and any gain of which he was deprived, with the deduction of any cost or loss avoided by the aggrieved party.

[(2) Such loss may be non-pecuniary and includes, for instance, physical suffering or emotional distress.]

Article 6.4.4
(Certainty of damage)

(1) Compensation will be made only for harm [including future loss] that is established with a reasonable degree of probability.

(2) Compensation may be due for the loss of a chance insofar as it will probably occur.

(3) Where the amount cannot be established with a sufficient degree of probability, the assessment of damages will be at the discretion of the court.

Article 6.4.5
(Foreseeability of damage)

The defaulting party is liable only for loss which he foresaw or could reasonably have foreseen at the time of the conclusion of the contract would be likely to result from his non-performance, unless this non-performance is deliberate or reckless [grossly negligent].

Article 6.4.6
(Proof of loss in case of cover)

When, as a result of the breach, there has been a reasonable cover [transaction], the loss is presumed to be the difference between the price fixed by the contract and that of the cover. A greater or lesser loss has to be proved.

[Article 6.4.7
(Proof of loss by current price)

(1) When there has been no cover and the performance for which the defaulting party is liable has a current price, the loss is presumed to be the difference between the contract price and the current price, as of the time the contract could have been terminated.

(2) Current price under these Principles is the price generally charged for goods or services rendered and delivered in comparable circumstances.

(3) The current price is that of the place where the contract should have been performed or, for lack of a current price there, the current price of another place that appears reasonable to take as a reference, taking into account the difference in transport charges for the performance.

(4) A greater or lesser loss has to be proved.]

Article 6.4.8

(Non-performance due in part to the aggrieved party)

When the loss is due in part to the aggrieved party's act or omission, his award may be reduced to the extent this act or omission has contributed to the loss, taking into account the respective behaviour of the parties.

Article 6.4.9

(Mitigation of damage)

The defaulting party is not responsible for any increased damage if the aggrieved party could have avoided it by reasonable means.

Article 6.4.10

(Compensation for non-pecuniary loss)

Non-pecuniary loss may be compensated by an award for damages or by any other means.

Article 6.4.11

(Damages for failure to pay off a monetary debt)

(1) If a party does not pay off a monetary debt when it falls due, the aggrieved party may [without having to justify any loss] ask for interest upon that sum [from the date of maturity or notice, by application of Article 6.4.2].

(2) The rate of interest shall be the average bank short-term lending rate to prime borrowers prevailing for the currency of payment at the due place of payment; in the absence of such a rate, the rate fixed by the law of the State in which money the payment has to be made.

(3) The aggrieved party may nevertheless ask for additional damages if he proves that the non-payment caused him a greater loss.

Article 6.4.12

(Judicial determination of the terms and conditions of monetary redress)

(1) The court may order that damages be paid in lump sum or, according to circumstances, in instalments.

(2) When the court orders that damages be paid in instalments, it may index the payments.

Article 6.4.13

(Time at which damages are determined)

[Subject to Articles 6.4.6 and 6.4.7] the extent and the amount of damages are to be normally determined as of the date of the final judgment.

Article 6.4.14

(Loss evaluated in foreign currency)

A party is entitled to ask for damages either in the currency of the contract or in the currency in which the loss accrues [unless the circumstances, including exchange regulations, indicate otherwise].

Article 6.4.15

(Interest of damages)

Unless otherwise agreed, interest accrues on damages only after the suit is filed.

Article 6.4.16

(Exemption clauses)

The parties may agree in advance to limit or to exclude their liability for the non-performance of their obligations except where that clause relates to deliberate breach of the

contract by the defaulting party or by those for whom he is liable or is otherwise unconscionable [unreasonable].

Article 6.4.17

(Penalties and liquidated damages)

(1) The parties may agree in advance to the amount which will be due once the aggrieved party has established his right to recover damages.

(2) If this amount is manifestly excessive with respect to the actual damage, the court may reduce it; notwithstanding all contrary agreements.

(3) If the agreed sum is less than the actual damage, the article relating to clauses limiting liability shall apply.

SECTION 5: Restitution

Article 6.5.1

(Effects of termination in general)

(1) Termination of the contract releases both parties from their obligation to effect and to receive future performance, but, subject to Articles 6.5.2, does not affect the rights and liabilities that have accrued at the time of termination.

(2) Termination does not preclude a claim for damages for non-performance.

(3) The termination does not affect any provision in the contract for the settlement of disputes or any other term of the contract not inconsistent with its termination.

Article 6.5.2

(Restitution of money received)

On termination of the contract either party may claim restitution of whatever it has supplied, provided that it concurrently makes restitution of whatever it has received or, if it cannot make restitution in kind, it must make an allowance for what it has received.

