

# Principles of International Commercial Contracts, 1994 - UNIDROIT

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**Principles of International Commercial Contracts, 1994 - UNIDROIT** 1

**Preamble - Purpose of the Principles** 2

These Principles set forth general rules for international commercial contracts. 3

They shall be applied when the parties have agreed that their contract be governed by them. 4

They may be applied when the parties have agreed that their contracts be governed by general principles of law, the *lex mercatoria* or the like. 5

They may provide a solution to an issue raised when it proves impossible to establish the relevant rule of applicable law. 6

They may be used to interpret or supplement international uniform law instruments. 7

They may serve as a model for national and international legislators. 8

**Chapter 1 - General Provisions** 9

**Article 1.1 - Freedom of Contract** 10

The parties are free to enter into a contract and determine its content. 11

**Article 1.2 - No Form Required** 12

Nothing in these Principles requires a contract to be concluded in or evidenced by writing. It may be proved by any means, including witnesses. 13

**Article 1.3 - Binding Character of Contract** 14

A contract validly entered into is binding upon the parties. It can only be modified or terminated in accordance with its terms or by agreement or as otherwise provided in these Principles. 15

**Article 1.4 - Mandatory Rules** 16

Nothing in these Principles shall restrict the application of mandatory rules, whether of national, international or supranational origin, which are applicable in accordance with the relevant rules of private international law. 17

**Article 1.5 - Exclusion or Modification by the Parties** 18

The parties may exclude the application of these Principles or derogate from or vary the effect of any of their provisions, except as otherwise provided in the Principles. 19

**Article 1.6 - Interpretation and supplementation of the Principles** 20

(1) In the interpretation of these Principles, regard is to be had to their international character and to their purposes including the need to promote uniformity in their application. 21

(2) Issues within the scope of these Principles but not expressly settled by them are as far as possible to be settled in accordance with their underlying general principles. 22

**Article 1.7 - Good Faith and Fair Dealing** 23

(1) Each party must act in accordance with good faith and fair dealing in international 24

trade.

(2) The parties may not exclude or limit this duty.

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## Article 1.8 - Usages and Practices

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

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(2) The parties are bound by a usage that is widely known to and regularly observed in international trade by parties in the particular trade concerned except where the application of such usage would be unreasonable.

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## Article 1.9 - Notice

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(1) Where notice is required it may be given by any means appropriate to the circumstances.

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(2) A notice is effective when it reaches the person to whom it is given.

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(3) For the purpose of paragraph (2) a notice "reaches" a person when given to that person orally or delivered at that person's place of business or mailing address.

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(4) For the purpose of this article "notice" includes a declaration, demand, request or any other communication of intention.

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## Article 1.10 - Definitions

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In these Principles

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- "court" includes an arbitral tribunal;

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- where a party has more than one place of business the relevant "place of business" is that which has the closest relationship to the contract and its performance, having regard to the circumstances known to or contemplated by the parties at any time before or at the conclusion of the contract;

37

- "obligor" refers to the party who is to perform an obligation and "obligee" refers to the party who is entitled to performance of that obligation.

38

- "writing" means any mode of communication that preserves a record of the information contained therein and is capable of being reproduced in tangible form.

39

**Chapter 2 - Formation** 40

**Article 2.1 - Manner of Formation** 41

A contract may be concluded either by the acceptance of an offer or by conduct of the parties that is sufficient to show agreement. 42

**Article 2.2 - Definition of Offer** 43

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. 44

**Article 2.3 - Withdrawal of Offer** 45

(1) An offer becomes effective when it reaches the offeree. 46

(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. 47

**Article 2.4 - Revocation of Offer** 48

(1) Until a contract is concluded an offer may be revoked if the revocation reaches the offeree before it has dispatched an acceptance. 49

(2) However, an offer cannot be revoked 50

(a) if it indicates, whether by stating a fixed time for acceptance or otherwise, that it is irrevocable; or 51

(b) if it was reasonable for the offeree to rely on the offer as being irrevocable and the offeree has acted in reliance of the offer. 52

**Article 2.5 - Rejection of Offer** 53

An offer is terminated when a rejection reaches the offeror. 54

**Article 2.6 - Mode of Acceptance** 55

(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. 56

(2) An acceptance of an offer becomes effective when the indication of assent reaches the offeror. 57

(3) However, if, by virtue of the offer or as a result of practices which the parties have 58

established between themselves or of usage, the offeree may indicate assent by performing an act without notice to the offeror, the acceptance is effective when the act is performed.

## **Article 2.7 - Time of Acceptance**

59

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

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## **Article 2.8 - Acceptance Within a Fixed Period of Time**

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(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 offer reaches the offeree.

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(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.

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## **Article 2.9 - Late Acceptance. Delay in Transmission**

64

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

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(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 undue delay, the offeror informs the offeree that it considers the offer as having lapsed.

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## **Article 2.10 - Withdrawal of Acceptance**

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

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## **Article 2.11 - Modified Acceptance**

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(1) A reply to an offer which purports to be an acceptance but contains additions,

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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 to the discrepancy. If the offeror does not object, the terms of the contract are the terms of the offer with the modifications contained in the acceptance. 71

## **Article 2.12 - Writings in Confirmation** 72

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 become part of the contract, unless they materially alter the contract or the recipient, without undue delay, objects to the discrepancy. 73

## **Article 2.13 - Conclusion of Contract Dependent on Agreement on Specific Matters or in a Specific Form** 74

Where in the course of negotiations one of the parties insists that the contract is not concluded until there is agreement on specific matters or in a specific form, no contract is concluded before agreement is reached on those matters or in that form 75

## **Article 2.14 - Contract with Terms Deliberately Left Open** 76

(1) If the parties intend to conclude a contract, the fact that they intentionally leave 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. 77

(2) The existence of the contract is not affected by the fact that subsequently 78

(a) the parties reach no agreement on the terms; or 79

(b) the third person does not determine the term, provided that there is an alternative means of rendering the term definite that is reasonable in the circumstances, having regard to the intention of the parties. 80

## **Article 2.15 - Negotiations in Bad Faith** 81

(1) A party is free to negotiate and is not liable for failure to reach an agreement. 82

(2) However, a party who negotiates or breaks off negotiations in bad faith is liable for the losses caused to the other party. 83

(3) It is bad faith, in particular, for a party to enter into or continue negotiations when intending not to reach an agreement with the other party. 84

## Article 2.16 - Duty of Confidentiality

85

Where 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 to use it improperly for its own purposes, whether or not a contract is subsequently concluded. Where appropriate, the remedy for breach of that duty may include compensation based on the benefit received by the other party.

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## Article 2.17 - Merger Clause

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A contract in writing which contains a clause 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.

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## Article 2.18 - Written Modification Clause

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A contract in writing which contains a clause requiring any modification or termination by agreement to be in writing may not be otherwise modified or terminated. However, a party may be precluded by its conduct from asserting such a clause to the extent that the other party has acted in reliance on that conduct.

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## Article 2.19 - Contracting Under Standard Terms

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(1) Where one party or both parties use standard terms in concluding a contract, the general rules of formation apply, subject to Articles 2.20 - 2.22.

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(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.

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## Article 2.20 - Surprising Terms

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(1) No term contained in standard terms which is of such a character that the other party could not reasonably have expected it, is effective unless it has been expressly accepted by that party.

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(2) In determining whether a term is of such a character regard is to be had to its content, language and presentation.

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**Article 2.21 - Conflict Between Standard Terms and Non-Standard Terms**

97

In case of conflict between a standard term which is not a standard term the latter prevails.

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**Article 2.22 - Battle of Forms**

99

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

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**Chapter 3 - Validity** 101

**Article 3.1 - Matters Not Covered** 102

These Principles do not deal with invalidity arising from 103

(a) lack of capacity; 104

(b) lack of authority; 105

(c) immorality or illegality. 106

**Article 3.2 - Validity of Mere Agreement** 107

A contract is concluded, modified or terminated by the mere agreement of the parties, 108  
without any further requirements.

**Article 3.3 - Initial Impossibility** 109

(1) The mere fact that at the time of the conclusion of the contract the performance of 110  
the obligation assumed was impossible does 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 111  
entitled to dispose of the assets to which the contract relates does not affect the validity  
of the contract.

**Article 3.4 - Definition of Mistake** 112

Mistake is an erroneous assumption relating to facts or to law existing when the contract 113  
was concluded.

**Article 3.5 - Relevant Mistake** 114

(1) A party may only avoid the contract for mistake if, when the contract was concluded, 115  
the mistake was of such importance that a reasonable person in the same situation as  
the party would not have concluded it 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 116  
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 had not at the time of avoidance acted in reliance on the contract 117

(2) However, a party may not avoid the contract if 118

(a) it was grossly negligent in committing the mistake; or 119

(b) the mistake relates to a matter in regard to which the risk of mistake was assumed or, having regard to the circumstances, should be borne by the mistaken party. 120

### **Article 3.6 - Error in Expression or Transmission** 121

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. 122

### **Article 3.7 - Remedies for Non-Performance** 123

A party is not entitled to avoid the contract on the ground of mistake if the circumstances on which that party relies afford, or could have afforded, a remedy for non-performance. 124

### **Article 3.8 - Fraud** 125

A party may avoid the contract when it has been led to conclude the contract 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, the latter party should have disclosed. 126

### **Article 3.9 - Threat** 127

A party may avoid the contract when it has been led to conclude the contract by the other party's unjustified threat which, having regard to the circumstances, is so imminent and serious as to leave the first party no reasonable alternative. In particular, a threat is unjustified if the act or omission with which a party has been threatened is wrongful in itself, or is wrong to use it as a means to obtain the conclusion of the contract. 128

### **Article 3.10 - Gross Disparity** 129

(1) A party may avoid the contract or an individual term of it if, at the time of the conclusion of the contract, the contract term unjustifiably gave the other party an excessive advantage. Regard is to be had, among other factors, to 130

(a) the fact that the other party has taken unfair advantage of the first party's dependence, economic distress or urgent needs, or of its improvidence, ignorance, inexperience or lack of bargaining skill; and 131

(b) the nature and purpose of the contract. 132

(2) Upon the request of the party entitled to avoidance, a court may adapt the contract or term in order to make it accord with reasonable commercial standards of fair dealing. 133

(3) A court may also adapt the contract or term upon the request of the party receiving notice of avoidance, provided that that party informs the other party of its request promptly after receiving such notice and before the other party has acted in reliance on it. The provisions of Article 3.13(2) apply accordingly. 134

### **Article 3.11 - Third Persons** 135

(1) Where fraud, threat, 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 the behaviour or knowledge had been that of the party itself. 136

(2) Where fraud, threat or gross disparity is imputable to a third person for whose acts the other party is not responsible, the contract may be avoided if that party knew or ought to have known of the fraud, threat or disparity, or has not at the time of avoidance acted in reliance on the contract. 137

### **Article 3.12 - Confirmation** 138

If the party 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 contract is excluded. 139

### **Article 3.13 - Loss of Right to Avoid** 140

(1) If a party is entitled to avoid the contract for mistake but the other party declares itself willing to perform or performs the contract as it was understood by the party entitled to avoidance, the contract is considered to have been concluded as the latter party 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 avoidance had understood the contract and before that party has acted in reliance on a notice of avoidance. 141

(2) After such a declaration or performance the right to avoidance is lost and any earlier notice of avoidance is ineffective. 142

### **Article 3.14 - Notice of Avoidance** 143

The right of a party to avoid the contract is exercised by notice to the other party. 144

### **Article 3.15 - Time Limits** 145

(1) Notice of avoidance shall be given within a reasonable time, having regard to the 146

circumstances, after the avoiding party knew or could not have been unaware of the relevant facts or became capable of acting freely.

(2) Where an individual term of the contract may be avoided by a party under Article 3.10, the period of time for giving notice of avoidance begins to run when that term is asserted by the other party. 147

### **Article 3.16 - Partial Avoidance** 148

Where a ground of avoidance affects only individual terms of the contract, the effect of avoidance is limited to those terms unless, having regard to the circumstances, it is unreasonable to uphold the remaining contract. 149

### **Article 3.17 - Retroactive Effect of Avoidance** 150

(1) Avoidance takes effect retroactively. 151

(2) On avoidance either party may claim restitution of whatever is 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 makes an allowance for what it has received. 152

### **Article 3.18 - Damages** 153

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 in the same position in which it would have been if it had not concluded the contract. 154

### **Article 3.19 - Mandatory Character of the Provision** 155

The provisions of this Chapter are mandatory, except insofar as they relate to the binding force of mere agreement, initial impossibility or mistake. 156

### **Article 3.20 - Unilateral Declarations** 157

The provisions of this Chapter apply with appropriate adaptations to any communication of intention addressed by one party to the other. 158

**Chapter 4 - Interpretation** 159

**Article 4.1 - Intention of the Parties** 160

(1) A contract shall be interpreted according to the common intention of the parties. 161

(2) If such an intention cannot be established, the contract shall be interpreted according to the meaning that reasonable persons of the same kind as the parties would give to it in the same circumstances. 162

**Article 4.2 - Interpretation of Statements and Other Conduct** 163

(1) The statements and other conduct of a party shall be interpreted according to that party's intention if the other party knew or could not have been unaware of that intention. 164

(2) If the preceding paragraph is not applicable, such statements and other conduct shall be interpreted according to the meaning that a reasonable person of the same kind as the other party would give to it in the same circumstances. 165

**Article 4.3 - Relevant Circumstances** 166

In applying Articles 4.1 and 4.2, regard shall be had to all the circumstances, including 167

(a) preliminary negotiations between the parties; 168

(b) practices which the parties have established between themselves; 169

(c) the conduct of the parties subsequent to the conclusion of the contract; 170

(d) the nature and purpose of the contract; 171

(e) the meaning commonly given to terms and expressions in the trade concerned; 172

(f) usages. 173

**Article 4.4 - Reference to Contract or Statement as a Whole** 174

Terms and expressions shall be interpreted in the light of the whole contract or statement in which they appear. 175

**Article 4.5 - All Terms to be Given Effect** 176

Contract terms shall be interpreted so as to give effect to all the terms rather than to deprive some of them of effect. 177

**Article 4.6 - Contra Proferentem Rule** 178

If contract terms supplied by one party are unclear, an interpretation against that party is preferred. 179

**Article 4.7 - Linguistic Discrepancies** 180

Where a contract is drawn up in two or more language versions which are equally authoritative there is, in case of discrepancy between the versions, a preference for the interpretation according to a version in which the contract was originally drawn up. 181

**Article 4.8 - Supplying an Omitted Term** 182

(1) Where the parties to a contract have not agreed with respect to a term which is important for a determination of their rights and duties, a term which is appropriate in the circumstances shall be supplied. 183

(2) In determining what is an appropriate term regard shall be had, among other factors to 184

(a) the intention of the parties; 185

(b) the nature and purpose of the contract; 186

(c) good faith and fair dealing; 187

(d) reasonableness. 188

**Chapter 5 - Content** 189

**Article 5.1 - Express and Implied Obligations** 190

The contractual obligations of the parties may be express or implied. 191

**Article 5.2 - Implied Obligations** 192

Implied obligations stem from 193

(a) the nature and purpose of the contract; 194

(b) practices established between the parties and usages; 195

(c) good faith and fair dealing; 196

(d) reasonableness. 197

**Article 5.3 - Co-operation between the Parties** 198

Each party shall co-operate with the other party when such co-operation may reasonably be expected for the performance of that party's obligations. 199

**Article 5.4 - Duty to Achieve a Specific Result. Duty of Best Efforts** 200

(1) 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. 201

(2) To the extent that an obligation of a party involves a duty of best efforts in the performance of an activity, that party is bound to make such efforts as would be made by a reasonable person of the same kind in the same circumstances. 202

**Article 5.5 - Determination of Kind of Duty Involved** 203

In determining the extent to which an obligation of a party involves a duty of best efforts in the performance of an activity or duty to achieve a specific result, regard shall be had, among other factors, to 204

(a) the way in which the obligation is expressed in the contract; 205

(b) the contractual price and other terms of the contract; 206

(c) the degree of risk normally involved in achieving the expected result; 207

(d) the ability of the other party to influence the performance of the obligation. 208

## **Article 5.6 - Determination of Quality of Performance**

209

Where the quality of performance is neither 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.

210

## **Article 5.7 - Price Determination**

211

(1) Where 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 performance in comparable circumstances in the trade concerned or, if no such price is available, to a reasonable price.

212

(2) Where the price is to be determined by one party and that determination is manifestly unreasonable, a reasonable price shall be substituted notwithstanding any contract term to the contrary.

213

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

214

(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.

215

## **Article 5.8 - Contract for an Indefinite Period**

216

A contract for an indefinite period may be ended by either party by giving notice a reasonable time in advance.

217

## Chapter 6 - Performance

218

**Section 1 - Performance in General** 219

**Article 6.1.1 - Time of Performance** 220

A party must perform its obligations: 221

(a) if a time is fixed by or determinable from the contract, at that time; 222

(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; 223

(c) in any other case, within a reasonable time after the conclusion of the contract. 224

**Article 6.1.2 - Performance at one Time or in Instalments** 225

In cases under Article 6.1(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. 226

**Article 6.1.3 - Partial Performance** 227

(1) The obligee may reject an offer to perform in part at the time performance is due, whether or not such offer is coupled with an assurance as to the balance of the performance, unless the obligee has no legitimate interest in so doing. 228

(2) Additional expenses caused to the obligee by partial performance are to be borne by the obligor without prejudice to any other remedy. 229

**Article 6.1.4 - Order of Performance** 230

(1) To the extent that the performances of the parties can be rendered simultaneously, the parties are bound to render them simultaneously unless the circumstances indicate otherwise. 231

(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. 232

**Article 6.1.5 - Earlier Performance** 233

(1) The obligee may reject an earlier performance unless it has no legitimate interest in so doing. 234

(2) Acceptability by a party of an earlier performance does not affect the time for the performance of its own obligations if that time has been fixed irrespective of the performance of the other party's obligations. 235

(3) Additional expenses caused to the obligee by earlier performance are to be borne by the obligor, without prejudice to any other remedy. 236

### **Article 6.1.6 - Place of Performance** 237

(1) If the place of performance is neither fixed by, nor determinable from the contract, a party is to perform: 238

(a) a monetary obligation, at the obligee's place of business; 239

(b) any other obligation, at its own place of business. 240

(2) A party must bear any increase in the expenses incidental to performance which is caused by a change in its place of business subsequent to the conclusion of the contract. 241

### **Article 6.1.7 - Payment by Cheque or other Instrument** 242

(1) Payment may be made in any form used in the ordinary course of business at the place for payment. 243

(2) However, an obligee who accepts, either by virtue of paragraph (1) or voluntarily, a cheque, any other order to pay or a promise to pay, is presumed to do so only on condition that it will be honoured. 244

### **Article 6.1.8 - Payment by Funds Transfer** 245

(1) Unless the obligee has indicated a particular account, payment may be made by a transfer to any of the financial institutions in which the obligee has made it known that it has an account. 246

(2) In case of payment by a transfer of the obligation of the obligor is discharged when the transfer to the obligee's financial institution becomes effective. 247

### **Article 6.1.9 - Currency of Payment** 248

(1) If a monetary obligation is expressed in a currency other than that of the place of payment, it may be paid by the obligor in the currency of the place for payment unless 249

(a) the currency is freely convertible; or 250

(b) the parties have agreed that payment should be made only in the currency in which the monetary obligation is expressed. 251

(2) If it is impossible for the obligor to make payment in the currency in which the mon- 252

etary obligation is expressed, the obligee may require payment in the currency of the place for payment, even in the case referred to in paragraph (1)(b).

(3) Payment in the currency of the place for payment is to be made according to the applicable rate of exchange prevailing there when payment is due. 253

(4) However, if the obligor has not paid at the time when payment is due, the obligee may require payment according to the applicable rate of exchange prevailing either when payment is due or at the time of actual payment. 254

### **Article 6.1.10 - Currency Not Expressed** 255

Where a monetary obligation is not expressed in a particular currency, payment must be made in the currency of the place where payment is to be made. 256

### **Article 6.1.11 - Costs of Performance** 257

Each party shall bear the costs of performance of its obligations. 258

Each party shall bear the costs of performance of its obligations. 259

### **Article 6.1.12 - Imputation of Payments** 260

(1) An obligor owing several monetary obligations to the same obligee may specify at the time of payment the debt to which it intends the payment to be applied. However, the payment discharges first any expenses, then interest due and finally the principal. 261

(2) If the obligor makes no such specification, the obligee may, within a reasonable time after payment, declare to the obligor the obligation to which it imputes the payment, provided that the obligation is due and undisputed. 262

(3) In the absence of imputation under paragraphs (1) or (2), payment is imputed to that obligation which satisfies one of the following criteria and in the order indicated: 263

(a) an obligation which is due or which is the first to fall due; 264

(b) the obligation for which the obligee has least security; 265

(c) the obligation which is the most burdensome for the obligor; 266

(d) the obligation which has arisen first. 267

If none of the preceding criteria applies, payment is imputed to all the obligations proportionally. 268

**Article 6.1.13 - Imputation of Non-Monetary Obligations** 269

**Article 6.1.14 - Application for Public Permission** 270

Where the law of a State requires a public permission affecting the validity of the contract or its performance and neither that law nor the circumstances indicate otherwise 271

(a) if only one party has its place of business in that State, that party shall take the measures necessary to obtain the permission; 272

(b) in any other case the party whose performance requires permission shall take the necessary measures. 273

**Article 6.1.15 - Procedure in Applying for Permission** 274

(1) The party required to take the measures necessary to obtain the permission shall do so without undue delay and shall bear any expenses incurred. 275

(2) That party shall whenever appropriate give the other party notice of the grant or refusal of such permission without undue delay. 276

**Article 6.1.16 - Permission Neither Granted Nor Refused** 277

(1) If, notwithstanding the fact that the party responsible has taken all measures required, permission is 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. 278

(2) Where the permission affects some terms only, paragraph (1) does not apply if, having regard to the circumstances, it is reasonable to uphold the remaining contract even if the permission is refused. 279

**Article 6.1.17 - Permission Refused** 280

(1) The refusal of a permission affecting the validity of the contract renders the contract void. If the refusal affects the validity of some terms only, only such terms are void if, having regard to the circumstances, it is reasonable to uphold the remaining contract. 281

(2) Where the refusal of a permission renders the performance of the contract impossible in whole or in part, the rules on non-performance apply. 282

## Section 2 - Hardship

283

### Article 6.2.1 - Contract to be Observed

284

Where the performance of a contract becomes more onerous for one of the parties, that party is nevertheless bound to perform its obligations subject to the following provisions on hardship.

285

### Article 6.2.2 - Definition of Hardship

286

There is hardship where the occurrence of events fundamentally alters the equilibrium of the contract either because the cost of a party's performance has increased or because the value of the performance a party receives has diminished, and

287

(a) the events occur or become known to the disadvantaged party after the conclusion of the contract;

288

(b) the events could not reasonably have been taken into account by the disadvantaged party at the time of the conclusion of the contract;

289

(c) the events are beyond the control of the disadvantaged party; and

290

(d) the risk of the events was not assumed by the disadvantaged party.

291

### Article 6.2.3 - Effects of Hardship

292

(1) In case of hardship the disadvantaged party is entitled to request renegotiations. The request shall be made without undue delay and shall indicate the grounds on which it is based.

293

(2) The request for renegotiation does not itself entitle the disadvantaged party to withhold performance.

294

(3) Upon failure to reach agreement within a reasonable time either party may resort to the court.

295

(4) If the court finds hardship it may, if reasonable,

296

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

297

(b) adapt the contract with a view to restoring its equilibrium.

298

## Chapter 7 - Non-Performance

299

**Section 1 - Non-Performance in General** 300

**Article 7.1.1 - Non-Performance Defined** 301

Non-performance is failure by a party to perform any of its obligations under the contract, including defective performance or late performance. 302

**Article 7.1.2 - Interference by the Other Party** 303

A party may not rely on the non-performance of the other party to the extent that such non-performance was caused by the first party's act or omission or by another event as to which the first party bears the risk. 304

**Article 7.1.3 - Withholding Performance** 305

(1) Where the parties are to perform simultaneously, either party may withhold performance until the other party tenders performance. 306

(2) Where the parties are to perform consecutively, the party that is to perform later may withhold its performance until the first party has performed. 307

**Article 7.1.4 - Cure by Non-Performing Party** 308

(1) The non-performing party may, at its own expense, cure any non-performance, provided that 309

(a) without undue delay, it gives notice indicating the proposed manner and timing of the cure; 310

(b) cure is appropriate in the circumstances; 311

(c) the aggrieved party has no legitimate interest in refusing cure; and 312

(d) cure is effected promptly. 313

(2) The right to cure is not precluded by notice of termination. 314

(3) Upon effective notice of cure, rights of the aggrieved party that are inconsistent with the non-performing party's performances are suspended until the time for cure has expired. 315

(4) The aggrieved party may withhold performance pending cure. 316

(5) Notwithstanding cure, the aggrieved party retains the right to claim damages for delay as well as for any harm caused or not prevented by the cure. 317

## Article 7.1.5 - Additional Period for Performance

318

(1) In a case of non-performance the aggrieved party may by notice to the other party allow an additional period of time for performance.

319

(2) During the additional period the aggrieved party may withhold performance of its own reciprocal obligations and may claim damages but may not resort to any other remedy. If it receives notice from the other party that the latter will not perform within that period, or if upon expiry of that period due performance has not been made, the aggrieved party may resort to any of the remedies that may be available under this Chapter.

320

(3) Where in a case of delay in performance which is not fundamental the aggrieved party has given notice allowing an additional period of time of reasonable length, it may terminate the contract at the end of that period. If the additional period allowed is not of reasonable length it shall be extended to a reasonable length. The aggrieved party may in its notice provide that if the other party fails to perform within the period allowed by the notice the contract shall automatically terminate.

321

(4) Paragraph (3) does not apply where the obligation which has not been performed is only a minor part of the contractual obligation of the non-performing party.

322

## Article 7.1.6 - Exemption Clauses

323

A clause which limits or excludes one party's liability for non-performance or which permits one party to tender performance substantially different from what the other party reasonably expected may not be invoked if it would be grossly unfair to do so, having regard to the purpose of the contract.

324

## Article 7.1.7 - Force Majeure

325

(1) Non-performance by a party is excused if that party proves that the non-performance was due to an impediment beyond its control and that it could not reasonably be expected to have taken the impediment into account at the time of the conclusion of the contract or to have avoided or overcome it or its consequences.

326

(2) When the impediment is only temporary, the excuse shall have effect for such period as is reasonable having regard to the effect of the impediment on performance of the contract.

327

(3) The party who fails to perform must give notice to the other party of the impediment and its effect on its ability to perform. If the notice is not received by the other party within a reasonable time after the party who fails to perform knew or ought to have known of the impediment, it is liable for damages resulting from such non-receipt.

328

(4) Nothing in this article prevents a party from exercising a right to terminate the contract or to withhold performance or request interest on money due.

329

**Section 2 - Right to Performance** 330

**Article 7.2.1 - Performance of monetary Obligation** 331

Where a party who is obliged to pay money does not do so, the other may require payment. 332

**Article 7.2.2 - Performance of Non-Monetary Obligation** 333

Where a party who owes an obligation other than one to pay money does not perform, the other party may require performance, unless 334

(a) performance is impossible in law or fact; 335

(b) performance or, where relevant, enforcement is unreasonably burdensome or expensive; 336

(c) the party entitled to performance may reasonably obtain performance from another source; 337

(d) performance is of an exclusively personal character; or 338

(e) the party entitled to performance does not require performance within a reasonable time after it has, or ought to have, become aware of the non-performance. 339

**Article 7.2.3 - Repair and Replacement of Defective Performance** 340

The right to performance includes in appropriate cases the right to require repair, replacement, or other cure of defective performance. The provisions of Articles 7.2.1 and 7.2.2 apply accordingly. 341

**Article 7.2.4 - Judicial Penalty** 342

(1) Where the court orders a party to perform, it may also direct that this party pay a penalty if it does not comply with the order. 343

(2) The penalty shall be paid to the aggrieved party unless mandatory provisions of the law of the forum provide otherwise. Payment of the penalty to the aggrieved party does not exclude any claim for damages. 344

**Article 7.2.5 - Change of Remedy** 345

(1) An aggrieved party who has required performance of a non-monetary obligation and who has not received performance within a period fixed or otherwise within a reasonable period of time may invoke any other remedy. 346

(2) Where the decision of a court for performance of a non-monetary obligation cannot be enforced, the aggrieved party may invoke any other remedy. <sup>347</sup>

## Section 3 - Termination

348

### Article 7.3.1 - Right to Terminate the Contract

349

(1) A party may terminate the contract where the failure of the other party to perform an obligation under the contract amounts to a fundamental performance. 350

(2) In determining whether a failure to perform an obligation amounts to a fundamental non-performance regard shall be had, in particular, to whether 351

(a) the non-performance substantially deprives the aggrieved party of what it was entitled to expect under the contract unless the other party did not foresee and could not reasonably have foreseen such result; 352

(b) strict compliance with the obligation which has not been performed is of essence under the contract; 353

(c) the non-performance is intentional or reckless; 354

(d) the non-performance gives the aggrieved party reason to believe that it cannot rely on the other party's future performance; 355

(e) the non-performing party will suffer disproportionate loss as a result of the preparation or performance if the contract is terminated. 356

(3) In the case of delay the aggrieved party may also terminate the contract if the other party fails to perform before the time allowed under Article 7.1.5 has expired. 357

### Article 7.3.2 - Notice of Termination

358

(1) The right of a party to terminate the contract is exercised by notice to the other party. 359

(2) If performance has been offered late or otherwise does not conform to the contract the aggrieved party will lose its right to terminate the contract unless it gives notice to the other party within a reasonable time after it has or ought to have become aware of the non-conforming performance. 360

### Article 7.3.3 - Anticipatory Non-Performance

361

Where prior to the date for performance by one of the parties it is clear that there will be a fundamental non-performance by that party, the other party may terminate the contract. 362

### Article 7.3.4 - Adequate Assurance of Due Performance

363

A party who reasonably believes that there will be a fundamental non-performance by 364

the other party may demand adequate assurance of due performance and may meanwhile withhold its own performance. Where this assurance is not provided within a reasonable time the party demanding it may terminate the contract.

### **Article 7.3.5 - Effects of Termination in General**

365

(1) Termination of the contract releases both parties from their obligation to effect and to receive future performance.

366

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

367

(3) Termination does not affect any provision in the contract for the settlement of disputes or any other term of the contract which is to operate even after termination.

368

### **Article 7.3.6 - Restitution**

369

(1) On termination of contract either party may claim restitution of whatever it has supplied, provided that such party concurrently makes restitution of whatever it has received. If restitution in kind is not possible or appropriate allowance should be made in money whenever reasonable.

370

(2) However, if performance of the contract has extended over a period of time and the contract is divisible, such restitution can only be claimed for the period after termination has taken effect.

371

## **Section 4 - Damages**

372

### **Article 7.4.1 - Right to Damages**

373

Any non-performance gives the aggrieved party a right to damages either exclusively or in conjunction with any other remedies except where the non-performance is excused under these Principles.

374

### **Article 7.4.2 - Full Compensation**

375

(1) The aggrieved party is entitled to full compensation for harm sustained as a result of the non-performance. Such harm includes both any loss which it suffered and any gain of which it was deprived, taking into account any gain to the aggrieved party resulting from its avoidance of cost or harm.

376

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

377

### **Article 7.4.3 - Certainty of Harm**

378

(1) Compensation is due only for harm, including future harm, that is established with a reasonable degree of certainty.

379

(2) Compensation may be due for the loss of a chance in proportion to the stability of its occurrence.

380

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

381

### **Article 7.4.4 - Foreseeability of Harm**

382

The non-performing party is liable only for harm which it foresaw or could reasonably have foreseen at the time of the conclusion of the contract as being likely to result from its non-performance.

383

### **Article 7.4.5 - Proof of Harm in case of Replacement Transaction**

384

Where the aggrieved party has terminated the contract and has made a replacement transaction within a reasonable time and in a reasonable manner it may recover the difference between the contract price and the price of the replacement transaction as well as damages for any further harm.

385

### **Article 7.4.6 - Proof of Harm by Current Price**

386

(1) Where the aggrieved party has terminated the contract and has not made a replacement transaction but there is a current price for the performance contracted for, it may recover the difference between the contract price and the price current at the time the contract is terminated as well as damages for any further harm.

387

(2) Current price is the price generally charged for goods delivered or services rendered in comparable circumstances at the place where the contract should have been performed or, if there is no current price at that place, the current price at such other place that appears reasonable to take as a reference.

388

### **Article 7.4.7 - Harm Due in Part to Aggrieved Party**

389

Where the harm is due in part to an act or omission of the aggrieved party or to another event as to which that party bears the risk, the amount of damages shall be reduced to the extent that these factors have contributed to the harm, having regard to the conduct of the parties.

390

### **Article 7.4.8 - Mitigation of Harm**

391

(1) The non-performing party is not liable for harm suffered by the aggrieved party to the extent that the harm could have been reduced by the latter party's taking reasonable steps.

392

(2) The aggrieved party is entitled to recover any expenses reasonably incurred in attempting to reduce the harm.

393

### **Article 7.4.9 - Interest for Failure to Pay Money**

394

(1) If a party does not pay a sum of money when it falls due the aggrieved party is entitled to interest upon that sum from the time when payment is due to the time of payment whether or not the non-payment is excused.

395

(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 place for payment, or where no such rate exists at that place, then the same rate in the State of the currency of payment. In the absence of such a rate at either place the rate of interest shall be the appropriate rate fixed by the law of the State of the currency of payment.

396

(3) The aggrieved party is entitled to additional damages if the non-payment caused it a greater harm.

397

### **Article 7.4.10 - Interest on Damages**

398

Unless otherwise agreed, interest on damages for non-performance of non-monetary obligations accrues as from the time of non-performance.

399

### **Article 7.4.11 - Manner of Monetary Redress**

400

(1) Damages are to be paid in a lump sum. However, they may be payable in instalments where the nature of the harm makes this appropriate.

401

(2) Damages to be paid in instalments may be indexed.

402

### **Article 7.4.12 - Currency in which to Assess Damages**

403

Damages are to be assessed either in the currency in which the monetary obligation was expressed or in the currency in which the harm was suffered, whichever is more appropriate.

404

### **Article 7.4.13 - Agreed Payment for Non-Performance**

405

(1) Where the contract provides that a party who does not perform is to pay a specified sum to the aggrieved party for such non-performance, the aggrieved party is entitled to that sum irrespective of its actual harm.

406

(2) However, notwithstanding any agreement to the contrary the specified sum may be reduced to a reasonable amount where it is grossly excessive in relation to the harm resulting from the non-performance and to the other circumstances.

407

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