Uniform Rules for International Sales Transactions*

by
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I

Introduction

Sometime in the spring of 1984 the United States may ratify the U.N. Convention on Contracts for the International Sale of Goods ("CISG"). President Reagan sent the convention to the Senate in September, 1983, with the recommendation that the Senate give its advice and consent to ratification. Urged by the president to take prompt action, the Senate Foreign Relations Committee has tentatively scheduled hearings for March 8, 1984. If the committee reports favorably the full Senate is expected to consider the convention later in the spring of 1984.

Even if the United States ratifies the CISG it will not come into force immediately. Article 95 provides that the convention will come into force approximately one year after the tenth State adopts it. As of December 28, 1983 six States — Argentina, Egypt, France, Hungary, Lesotho and Syria — have ratified or acceded to CISG. A number of other States have expressed serious interest in the convention and "informed sources" suggest that the CISG will come into force in late 1984 or early 1985. Ratification by the United States would provide a substantial impetus to ratification or accession by other countries.

If the U.S. ratifies the CISG and it becomes effective there will be two bodies of sales law generally applicable in the United States: the Uniform Commercial Code (the "UCC") and the CISG. As will be explained in Section III below, the CISG provisions will govern the formation and the rights and obligations of parties to many, but not all, international sales contracts unless the parties agree to exclude it. Attorneys familiar with the UCC should have little difficulty adjusting to the CISG provisions because many of the basic concepts and specific rules of the two bodies of law are similar. For example, just as the UCC recognizes the principle of party autonomy, the CISG explicitly authorizes contract parties to modify or exclude its provisions. In many cases where the CISG will be applicable, therefore, it will be useful less because of its substantive provisions than because it will make it unnecessary to analyze conflict of laws problems or to apply the domestic sales law of foreign countries.

Given the potential impact of the CISG on import-export transactions, U.S. attorneys with clients engaged in international trade should begin to study its provisions. To help in this study the following brief commentary summarizes the principal provisions of the CISG and surveys the sources for more detailed research.

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3. CISG art. 95.

4. The following 21 States signed the convention by September 30, 1981: Austria, Chile, Czechoslovakia, Denmark, Finland, Federal Republic of Germany, France, German Democratic Republic, Ghana, Hungary, Italy, Lesotho, Netherlands, Norway, Peoples' Republic of China, Poland, Singapore, Sweden, United States of America, Venezuela, and Yugoslavia. States that did not sign by this date are free to accede to the convention at any time.

5. See, e.g., Sono, The U.N. Commission on International Trade Law and the Vienna Sales Convention, 18 Int'l Law. 5 (1964). As Secretary of UNCITRAL Professor Sono bases his prediction on extensive consultation with many national and international bodies.

6. UCC 1-102(3).

7. CISG art. 6
II

Background

A diplomatic conference meeting in Vienna adopted the text of the U.N. International Sales Convention in April 1980. The Vienna conference had before it a draft convention prepared by the U.N. Commission on International Trade Law ("UNCITRAL"). The UNCITRAL draft itself was an extensive revision of two uniform laws governing the formation and substance of international sales contracts (known by the acronyms "ULIS" and "ULF") which a 1964 diplomatic conference meeting at The Hague had approved. Although several countries have adopted ULIS and ULF the uniform laws have been criticized both for their substantive provisions (e.g., excessive sphere of application; key terms too abstract) and for the limited participation of non-European countries in their formulation. To encourage wider acceptance of uniform legal rules governing international sales contracts the U.N. Commission appointed a Working Group in 1969 to revise ULIS and ULF. After almost a decade of study the Working Group submitted redrafted texts. Based on the Working Group's reports the Commission itself approved a consolidated draft convention in 1978. The 1980 Vienna conference adopted the UNCITRAL draft with relatively few amendments.

III

Scope of the Convention

The 101 articles of the CISG are divided into four parts, the first three of which govern the sales contract between private parties. The two chapters of Part I (Arts. 1-13) define the sphere of application of the CISG and set out general rules of interpretation. Part II (Arts. 14-24) codifies the rules governing formation of the international sales contract, while the five chapters of Part III (Arts. 25-88) regulate the rights, obligations and remedies of the parties to these International Sales contracts. Convention defines the relation of the CISG to other international agreements, sets out the reservations States are permitted to make, and provides rules for implementation of the CISG.

Articles 1-6 are the most important provisions for determining the scope of the CISG. These articles fall into three categories: (1) a definition of which international sales transactions fall within the sphere of the CISG application; (2) a statement of the principle of party autonomy; and (3) rules excluding application of the CISG to specified transactions and issues. Apparently the draftsmen assumed that there is broad agreement on what constitute "contracts of sale" and "goods" because the convention does not define these terms except by negative implication from transactions which are excluded.

A. Sphere of Application

Sensitive to the criticism of the 1964 uniform laws for their "excessive" application, the draftsmen of the CISG require that there be a substantial relation between an international sales transaction and a State which ratifies or accedes to the CISG (a "Contracting State"). Article 1(1) defines the sphere of application of the CISG:

(1) This Convention applies to contracts of sale of goods between parties whose places of business are in different States:

(a) when the States are Contracting States; or

(b) when the rules of private international law lead to the application of the law of a Contracting State.

To avoid surprise, Article 1, Section 2 requires that both parties have notice that their businesses are in different countries. Article 10 provides some guidance as to where a place of business is deemed to be located, designating, for example, the place of business most closely associated with the contract and its performance as the relevant one where there are multiple places of business.9

An important limitation on Article 1, Section 1 is the reservation permitted Contracting States by Article 95. A State may declare at the time of ratification or accession that it will not be bound by Article 1, Section 1(b). The United States plans to make such a declaration, having concluded that the reservation will lead to more frequent application of the UCC when the seller and buyer are not both from Contracting States.10

Application of Article 1, Section 1 may be illustrated by the following examples.

Example 1. Seller (S) and Buyer (B) have their places of business in States X and Y respectively. Both X and Y are Contracting States. A dispute is brought before a forum in a Contracting State (X, Y, or some other Contracting State). The forum will apply the CISG to the dispute by virtue of Article 1, Section 1(a).

Example 2. S and B have their places of business in States X and Y respectively. X is a Contracting State but Y is not. A dispute is brought before a forum in a Contracting State. The forum will not apply the convention under Article 1, Section 1(a) but will apply it if the rules of private international law (conflict of laws rules) lead to the application of the law of a Contracting State (e.g., X). Unfortunately the CISG does not define the relevant rules of private international law and conflict of laws rules applied by different States are by no means uniform, although there is a trend outside the United States for these rules to lead to the law of the seller’s place of business. If this latter rule applied, the forum in this Example would apply the CISG to the dispute before it because S is located in X, a Contracting State.

Example 3. The same facts as in Example 2 except that the forum is in a non-Contracting State. The forum is not bound by treaty to apply the CISG but it probably will do so if its conflicts rules lead to the law of a Contracting State (e.g., X). There is some question as to whether the forum must consider the conflicts rules of the Contracting State, which might not be the same as those of the forum and therefore might lead to a non-Contracting State. It is unlikely that the forum will do so because there is a general reluctance to inquire into conflict of laws rules applied by other jurisdictions, as witnessed by general disapproval of the concept of renvoi. In any event, in many cases these different conflicts rules will lead to the law of the same jurisdiction.

Example 4. S and B have their places of business in States X and Y respectively. Both X and Y are Contracting States but X has made an Article 95 declaration. A dispute is brought before a forum in X. The forum will apply the CISG to the dispute by virtue of Article 1, Section 1(a) because S and B have their places of business in Contracting States. Having met the conditions of Article 1, Section 1(a), the forum need not consider Article 1, Section 1(b) and, therefore, the Article 95 declaration is irrelevant. On the same reasoning the CISG will also be applicable if the forum is in Y or any other Contracting State. In addition, a forum in a non-Contracting State will apply the CISG if its conflicts of law rules lead to the law of X, Y, or any other Contracting State).

Example 5. S and B have their places of business in States X and Y respectively. X is a Contracting State which has made an Article 95 declaration; Y is a non-Contracting State. A dispute is brought before a forum in X. The forum will not apply the CISG if its conflicts of law rules lead to

9. CISG art. 10(a)
the law of X, Y, or any other non-Contracting State. On the other hand, notwithstanding the Article 95 declaration, the forum will probably apply the CISG if its conflicts of law rules lead to the law of a Contracting State which has not made an Article 95 declaration. As in Example 3, there is a question whether the forum must consider the conflicts rules of that Contracting State. Given, however, the trend for conflicts of law rules to lead to the law of the seller’s place of business this last variation is unlikely to arise.

B. Party Autonomy

At the 1980 Vienna conference no State questioned the general principle that contract parties can agree to set aside some or all of the provisions of the CISG. Article 6 states: “The parties may exclude the application of this Convention or, subject to Article 12, derogate from or vary the effect of any of its provisions.”11 Article 6 means, for example, that the CISG does not limit in any way the rights of sellers to disclaim all implied warranties or to limit remedies for breach of express warranties.12

Whether the CISG may be excluded by implication is a question on which the commentators are divided. Several authors point to the omission in the CISG of an express statement in the 1964 uniform sales law13 which provides that exclusion may be either express or implied and they conclude that exclusion must be express.14 Professor John Honnold, on the other hand, argues that the drafting history of the U.N. convention shows that the draftsmen omitted the ULIS clause merely to prevent a forum from excluding the CISG on insubstantial evidence of the parties’ intent and he suggests that a forum should determine whether parties agreed to exclude the CISG by using the rules of interpretation set out in Articles 8 and 9, which do not require an agreement to be express.15 On balance, Professor Honnold appears to have the better argument although the obvious lesson is that parties should both exclude the convention expressly and specify the law which they want to govern their agreement.

This debate about implied exclusions is important when considering the effect of several clauses commonly found in international sales contracts. The most important of these clauses is a choice of law clause which specifies that “this agreement shall be governed by the law of [Texas].” If the United States ratifies the CISG it could be argued that the relevant law in [Texas] is the CISG. On the other hand, it is quite possible that the parties chose [Texas] law on the assumption that the UCC as enacted in [Texas] would govern their sales contract. As suggested above, it should be open to the parties to proffer evidence of their actual intent on exclusion. The same principle should apply if the parties agree on a forum selection clause (e.g., arbitration in New York) although it is more difficult to infer from this clause an intent to exclude the convention.

C. Excluded Transactions and Issues

Articles 2 through 5 exclude specified transactions and issues. The most important of these exclusions are:

1. sales to consumers, unless the seller does not have reason to know that the buyer is buying for personal, family or household use;16

2. whether a sales contract is valid;17

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11. Article 12, together with Article 96, permit a State to declare that it will not be bound by the provision of Article 11 of the CISG dispensing with formal writing requirements.
12. Cf. UCC 2-316.
13. ULIS art. 3
16. CISG art. 2(a).
17. CISG art. 4(a).
3. the effect of the contract on the claims of third parties to property interests in the goods sold;\textsuperscript{18} and

4. claims for death or personal injury caused by the goods sold.\textsuperscript{19}

In addition, Article 3 provides rules for determining whether the CISG governs transactions where a party provides a substantial part of the materials to be processed by the other party or where a party supplies the other both goods and services.

IV

General Provisions; Rules of Interpretation

(Part I of the CISG)

Chapter 2 of Part I (Arts. 7-13) sets out general rules for interpretation of the CISG and the parties’ contract. When analyzing the provisions of the CISG, Article 7(1) directs the reader to consider the international character of the CISG, the promotion of uniform application, and the need to observe good faith. If analysis reveals gaps in the rules of the CISG, the reader is to fill them “in conformity with the general principles on which it is based” and only if there are no relevant general principles is the reader to look to the national law applicable under the rules of private international law.\textsuperscript{20} Although the CISG itself does not spell out its general principles, Professor Honnold suggests that among these principles might be (1) a duty to compensate a party for expenses incurred in reliance on the representations of another party; (2) a duty to communicate information needed by the other party; and (3) a duty of a non-breaching party to mitigate the loss resulting from a breach of contract.\textsuperscript{21}

Application of the CISG’s rules on contract interpretation will be easier. Few of the rules will surprise a common law lawyer. Although directed to consider first a party’s subjective intent when interpreting his statements or conduct, if this intent cannot be found the party’s statements and conduct are to be interpreted according to the understanding that a reasonable person would have.\textsuperscript{22} In any event, parties are bound not only by their course of performance and course of dealing but also by regularly-observed trade usages about which they ought to have known.\textsuperscript{23}

V

Formation of the Contract\textsuperscript{24}

(Part II of the CISG)

The brief general rules of the CISG on contract formation resemble more closely the rules of the Restatement of Contracts than the flexible rules of the UCC. Whereas the Code encourages enforcement of agreements even if their terms cannot be determined with certainty,\textsuperscript{25} the CISG emphasizes the conceptual framework of offer and acceptance. As a result, a forum considering the parties’ communications in the light of the CISG will probably find an enforceable agreement less often than if it applied the UCC. An acceptance which makes almost any alteration to the terms of an

\textsuperscript{18} CISG art. 4(b); see also CISG arts. 41-43.
\textsuperscript{19} CISG art. 5.
\textsuperscript{20} CISG art. 7(2).
\textsuperscript{21} Honnold, supra note 15, at ¶99.
\textsuperscript{22} CISG art. 8.
\textsuperscript{23} CISG arts. 8(3) and 9; Cf. UCC 1-205 and UCC 2-208.
\textsuperscript{25} UCC 2-204.
offer, for example, will operate as a counter-offer rather than an acceptance. Given that the parties will frequently deal with each other from a distance and may bring disputes before a foreign forum the convention's greater formalism may protect parties from having a forum enforce a purported agreement on inadequate evidence. Oddly enough, however, the convention at the same time does not require evidence of an agreement to be embodied in a writing as there is no equivalent of a statute of frauds. The parties are free, of course, to stipulate that an agreement must be evidenced by a written document and that it may only be amended by a writing.

VI
Substantive Sales Provisions
(Part III of the CISG)

The five chapters of Part III spell out the seller's and buyer's obligations, a party's remedies if the other party breaches, and rules allocating risk of loss. The statement of obligations — to deliver goods and to transfer title; to accept delivery and to pay — provides no surprises. In particular, the seller's obligation to deliver conforming goods resembles in result the UCC's warranty system. Remedies for breach, on the other hand, differ somewhat from those found in the UCC and at common law, although in practice problems of breach will probably be resolved in much the same way. The risk of loss provisions allocate the risks in accordance with practical commercial concerns, such as who is in the best position to prevent the loss or to insure. Given the widespread use of generally-understood delivery terms such as FOB and CIF, however, the risk provisions of the CISG will frequently be displaced by the parties' agreement to these trade terms.

While the convention's damage formula and its provisions on anticipatory breach and installment contracts resemble in content and style the analogous provisions in the UCC, several of the remedial provisions of the CISG deserve special mention.

1. Notice of Non-Conformity
A buyer must notify his seller about any nonconformity within a reasonable time after the buyer discovered or should have discovered it and in any event no later than two years after the goods were handed over to the buyer. If he fails to notify the seller seasonably the buyer loses his right to rely on the nonconformity. These time periods may be varied by agreement and buyers may wish to do so especially when they buy complex equipment.

2. Specific Performance
Like most European legal systems, the convention assumes that specific performance rather than recovery of damages is the primary remedy available to the non-breaching party. Application of this principle is limited in several ways. Article 28 states that a forum does not have to order specific performance if it would not do so in similar cases governed by domestic law. Moreover, parties may exclude the remedy by an appropriate clause in their contract. In practice the remedy of specific performance will probably be of little interest to many parties: not only will it be difficult to enforce an order when the parties are in different countries but also non-breaching parties may be less than sanguine about obtaining adequate performance from a breaching party.

26. CISG art. 19; cf. UCC 2-207.
27. CISG arts. 11, 12 and 96; Cf. UCC 2-201.
28. CISG arts. 6 and 29; cf. UCC 2-209 (2). Article 92 of the convention authorizes a State to choose not to be bound by Part II. The United States does not plan to take this option.
30. CISG arts. 74-77.
31. CISG arts. 71-73.
32. See generally Farnsworth, Damages and Specific Relief, 27 Am. J. Comp. L. 247 (1979).
33. CISG art. 39; cf. UCC 2-607 (3).
34. CISG arts. 28, 46 and 62; cf. UCC 2-716.
3. Avoidance of Contract

Whereas the UCC states the “perfect tender rule” as its basic rule on rejection of a nonconforming tender, the convention provides that a contract may be “avoided” only if there has been a “fundamental breach” as defined in Article 25. Both the UCC and CISG qualify their basic rules. The CISG, like the UCC, authorizes a breaching party to cure both before and after performance is due. On the other hand, the CISG adopts a notice procedure (Nachfrist) unknown to the UCC. Under this procedure a party may notify a breaching party that he has additional time to perform and if he fails to perform in this additional time the non-breaching party may avoid the contract even if the breach is not fundamental. Even with these modifications it will probably be more difficult for a buyer to reject under the CISG than under the UCC although, as with other differences, the difference may be justified as necessary to limit opportunistic behavior.

4. Reduction of Price

When a seller makes a nonconforming tender, Article 50 provides the buyer with the self-help right to reduce the price “in the same proportion as the value that the goods actually delivered had at the time of the delivery bears to the value that conforming goods would have had at that time.” This article is derived from a traditional civil law remedy and, although the formula is different, in most cases it will operate much in the same way as the common law right to deduct damages from the price.

VII

Conclusions

The CISG has received widespread support and virtually no opposition. Among U.S. business organizations which urge ratification are the National Foreign Trade Council, the U.S. Council for International Business, and Business International. The American Arbitration Association recently has joined these other associations. In 1981 the American Bar Association adopted a resolution calling on the United States to sign and ratify the CISG. At the international level, the International Chamber of Commerce supports the convention and encourages its national affiliates to seek prompt ratification.

No doubt there are provisions in the CISG with which attorneys and academic lawyers will disagree. In some cases, for example, an article may embody a compromise formula or a newly-crafted concept which national courts will not understand. If they can agree on the applicable law business enterprises probably will continue to prefer a known national sales law to an untested international law. If, however, parties cannot agree on the applicable law the convention will be ready at hand and easier to apply than conflicts rules and foreign law. Indeed, the case for the convention may well rest on its role as a gap-filler, in which role it is a decided improvement over the present situation.

35. CISG arts. 24, 49, 64 and 81-83; cf. UCC 2-601, 2-608 and 2-612.
Appendix
Research Materials: 1980 Vienna Sales Convention

An attorney faced with a problem governed by CISG will have to become familiar with the following materials.

1. Official Text


The Vienna conference adopted the Final Act in the six official languages in which U.N. proceedings are published (Arabic, Chinese, English, French, Russian, Spanish). Each text is equally authentic. In addition, the German-speaking countries have agreed on a uniform German translation. Although ambiguities in the English text may be resolved by reference to these other texts, it may be even more likely that nuances in the other texts will themselves create ambiguities.


2. UNCITRAL Drafting History


Reports of UNCITRAL and its Working Group on Sales set out earlier draft provisions together with underlying considerations. These reports may be found in the Commission's Yearbook and its annual reports to the General Assembly. For a useful guide to these materials, see Honnold, The Draft Convention on Contracts for the International Sale of Goods: An Overview, 27 Am. J. Comp. L. 223-230 (1979).

Insight into the scope provisions of the 1980 convention may be found in the 1974 convention on the limitation period for international sales contracts, the first product of UNCITRAL. United Nations Conference on Prescription (Limitation) in the International Sale of Goods, Official Records, A/CONF.63/16 (1975) (U.N. Sales No. E.74.V.8). This prescription convention was amended by the 1980 Vienna conference in a Protocol attached to its Final Act. The 1974 convention is not yet in force.

3. The 1964 Uniform Laws

4. Commentaries

Although several delegations, including the U.S. delegation, urged the 1980 Vienna conference to provide for an official commentary, the conference did not accept this proposal. Several unofficial commentaries, however, have been published. At the request of UNCITRAL, the Secretariat did prepare a commentary to accompany the 1978 UNCITRAL text. This Commentary is published in the official records of the Vienna conference: Official Records 14-56. The U.S. State Department has also prepared a brief commentary which is reprinted in U.S. Senate Treaty Doc. No. 98-9, 98th Cong., 1st Sess. 1-18 (1983). Professor Honnold’s analysis of the convention appears in the form of a commentary. J. Honnold, Uniform Law for International Sales Under the 1980 United Nations Convention (1982). See also P. Schlechtriem, Einheitliches UN-Kaufrecht (Tubingen: J.C.B. Mohr, 1981).

5. Doctrinal works

Published analyses of CISG have proliferated in the last 18 months. The following selective bibliography, prepared as of January 1984, lists the more important English-language publications.

Books


Matthew-Bender will publish in 1984 the papers presented at a conference held at Columbia Law School in October 1983.

Symposia


Articles


