The Role of Force Majeure and Hardship in the Termination of Iranian Oil Contracts: An Analysis of Judicial Practice and International Arbitration

1. Abbas Kazemi Najafabadi: Associate Professor, Department of Private Law, Faculty of Law and Political Science, Allameh Tabatabae'i University, Tehran, Iran
2. Seyyed Ghasem Zamani: Professor, Faculty of Law and Political Science, Allameh Tabatabae'i University, Tehran, Iran
3. Mahmoud Jamshidvand*: PhD Student in Public Law, Faculty of Law and Political Science, Allameh Tabatabae'i University, Tehran, Iran

*Correspondence: Jamshidvand.md@gmail.com

Abstract

The oil industry in Iran, due to its capital-intensive and long-term nature, has consistently faced geopolitical risks, market volatility, and legal and political fluctuations. This reality significantly reinforces the necessity of drafting oil contracts in a manner that enables them to withstand crises and unforeseeable circumstances. The concepts of force majeure and hardship are recognized as fundamental tools for managing such conditions and ensuring contractual equilibrium. The absence of precise and explicit drafting of these concepts in Iranian oil contracts has resulted in costly disputes before domestic courts and international arbitral tribunals. This article aims to analyze the role of force majeure and hardship in the termination and adaptation of Iranian oil contracts and to examine international arbitral approaches to these concepts. It seeks to identify effective legal mechanisms for aligning oil contracts with global economic and political developments as well as domestic conditions, emphasizing the importance of accurate and anticipatory incorporation of these clauses in contractual texts. The present study endeavors to examine the legal status and functional significance of force majeure and hardship in Iranian oil contracts, reassess the gap between theoretical constructs and practical application, and propose corrective strategies and practical recommendations to strengthen contractual security and enhance the credibility of Iran's oil contractual regime.

Keywords: Iranian oil contracts, force majeure, hardship, contract termination, judicial practice, international arbitration.

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1. Introduction

The oil and gas industry, as a strategic sector of both the global and Iranian economy, is confronted with complex long-term contracts and risks arising from geopolitical conditions and market volatility. Iran's petroleum sector, as the country's most important economic resource and the primary channel of interaction with foreign investors, requires flexible contracts capable of withstanding crises and unforeseeable events (Emāmī, 2018). The concepts of force majeure and hardship are key instruments for risk management, leading to temporary suspension or limited termination of contractual obligations. The absence of clarity in these concepts has resulted in legal disputes and reduced international credibility of Iran's contractual system.

Regarding force majeure, Iran's approach has been that the occurrence of an event beyond the parties' control that prevents the performance of obligations releases the obligor from liability during the period of impediment. Force majeure clauses are included in contracts to address crises such as war, international sanctions, natural disasters, and unexpected economic conditions. Widespread international sanctions and continuous changes in the economic and political environment have been the most significant factors disrupting oil contract performance, prompting foreign companies to invoke force majeure to avoid fulfilling their obligations, while the Iranian side has often rejected such claims and referred the disputes to international arbitration (Al-Emadi, 2011). The outcome of these arbitrations has depended heavily on the quality of drafting and interpretation of contractual clauses. Hardship refers to circumstances in which contractual performance becomes difficult but not impossible, and judicial practice typically aims at contract adjustment and preserving the balance of interests, unless the conditions are such that termination becomes the only remaining option. Iranian judicial practice on this issue lacks consistency; some courts, emphasizing the principle of pacta sunt servanda, have refused to recognize the consequences of changing circumstances (Kātūzīān, 2009). A reconsideration and critical review of the legal position of force majeure and hardship in the Iranian legal system is therefore essential.

The present study analyzes the legal consequences of force majeure and hardship in Iranian oil contracts, examines their function during crises, and proposes solutions to improve the legal and commercial stability of the industry.

2. Research Background

The research background on termination of Iranian oil contracts indicates that this subject is crucial because of long-term obligations, extensive investments, and significant economic and political implications. Previous studies have attempted to examine grounds for termination and its consequences in oil contracts from legal, political, and economic perspectives. Termination of petroleum contracts is a fundamental issue in energy contract law and, due to long-term commitments, risks, and large-scale investments, carries significant sensitivity (Behdādnīā et al., 2023; Moḥammadī et al., 2015).

Termination involves the unilateral ending of obligations between the Ministry of Oil or its subsidiaries and the foreign or domestic party for various legal, economic, political, operational, or exceptional reasons. Under Iranian law, the principle of contractual bindingness governs, yet termination is recognized as an exception to prevent unilateral loss (Dārā'ī, 2015). Termination outside legal or contractual frameworks may lead to international responsibility (Global Arbitration, 2024).

The national economy depends on these contracts, and sudden termination may cause financial losses and reduce investor confidence (Farimani et al., 2020). Politically, governments view oil as a symbol of national sovereignty, and termination may be used to achieve sovereign objectives, nationalization policies, or distributive justice (Farrokhānī et al., 2022). Recent descriptive-analytical studies have examined the possibility of termination due to economic imbalance and the financial condition of contractors, showing that the right of termination tends to favor the host state in petroleum regimes.

This background highlights that managing the termination of oil contracts requires legal precision and full understanding of economic, political, and security implications to protect national interests; furthermore, drafting contractual texts and related laws consistent with modern contractual practices should be prioritized.

3. The Importance of Force Majeure and Hardship in Iranian Oil Contracts

The importance of force majeure and hardship in Iranian petroleum contracts is reflected in their complementary functions in managing risks inherent in high-stakes, long-term agreements. Due to large investments, long-term commitments, and dependence on uncontrollable external developments, oil contracts require efficient legal mechanisms to address extraordinary events and changes in economic conditions (Al-Emadi, 2011).

Force majeure clauses provide exemption from liability in cases such as war, natural disasters, or international sanctions that render performance impossible. Precise drafting is essential to avoid legal disputes, especially in the context of Iranian sanctions, where depending on the severity and effect, sanctions are sometimes classified under hardship because they make execution difficult but not impossible (Rafīʿī & Rajabī, 2021).

Hardship applies when performance is still possible but has become onerous due to drastic currency fluctuations, global economic developments, or increased direct costs of implementing oil projects. This concept permits renegotiation, adjustment, and contractual modification to preserve fairness and balance between the parties (Faghīhī Moḥammadī, 2019). Iranian arbitral and judicial decisions have accepted the adjustment of contracts on hardship grounds (Rafīʿī & Rajabī, 2021).

The simultaneous presence of force majeure and hardship in Iranian oil contracts offers an appropriate legal response to overwhelming events and severe economic difficulties and contributes to investment security, economic stability, and contractual balance (Al-Emadi, 2011).

4. Legal Concepts of Force Majeure and Hardship in Petroleum Contracts

Force majeure and hardship in international oil contracts serve as legal instruments for adjusting the parties' responsibilities in exceptional circumstances. Force majeure pertains to events such as war or natural disasters that render the performance of contractual obligations impossible and may justify suspension or termination. Sanctions, when causing severe difficulty rather than impossibility, fall under hardship.

4.1. Definition, Elements, and Distinction Between Force Majeure and Hardship

Force majeure refers to unforeseeable and unavoidable events that make performance impossible or extremely difficult. In petroleum contracts, due to the nature of large-scale projects and high risks, this concept is particularly significant. A force majeure clause grants parties the right to suspend or terminate the contract in cases of events beyond their control that prevent or delay performance. According to Article 7.1.7 of the UNIDROIT Principles of International Commercial Contracts (2016), force majeure is defined as an event that hinders performance, is beyond the obligor's control, and could not have been reasonably avoided (Unidroit, 2016). Arbitral practice also supports this standard, and comparative studies in the oil sector show similarity in international tribunals' approaches (Lorenz & Partners, 2025). The essential feature of force majeure is the impossibility of performance, not merely its difficulty. For force majeure to apply, legal obligations must have become impossible for all parties due to conditions that no one could prevent (e.g., earthquakes).

The elements of force majeure include two main features:

a) unforeseeability and unavoidability, such as the COVID-19 pandemic or the Russia–Ukraine conflict, which relate closely to global volatility and sanctions in oil contracts;

b) substantial impact on contractual performance, rendering obligations impossible or severely disrupted. Sanctions on Iran and Venezuela illustrate this. Arbitrators and judges evaluate force majeure with particular attention to these features (Mīr Shekārī & Ḥoseinī, 2021).

Hardship, by contrast, refers to drastic economic or political changes that make performance extremely burdensome yet still possible. These conditions require renegotiation and adjustment rather than immediate termination. This concept aligns with Article 6.2.2 of the UNIDROIT Principles (Unidroit, 2016) and legal analyses concerning oil-sector disputes in Iran (Esfandiyārī Khāledī et al., 2022). It emphasizes that significant cost increases or major legislative changes, unless rendering performance impossible, fall under hardship and do not create an automatic right to terminate obligations.

The elements of hardship include:

a) severe economic and commercial shifts, such as oil price volatility, financial crises, or sudden policy changes, exemplified by the 2014–2016 oil price collapse and international sanctions;

b) unreasonableness or disproportionality of performance due to economic changes, necessitating renegotiation and contract adjustment, frequently observed in large oil projects and international arbitrations involving exchange-rate fluctuations.

Force majeure and hardship both relate to risk management in situations of unexpected changes and temporary or permanent inability to perform obligations, yet they differ in legal elements and contractual consequences (Al-Emadi, 2011). Force majeure concerns sudden, unforeseeable, and unavoidable events that entirely prevent performance and legitimise suspension or termination (Unidroit, 2016). Hardship, by contrast, applies when performance is still possible but has become unreasonably difficult or costly due to severe economic or political changes, usually leading to renegotiation and adjustment to maintain fairness and balance. International arbitration bodies, including ICC and LCIA, clearly distinguish the practical implications of these clauses for determining termination or adjustment (Lorenz & Partners, 2025). The fundamental difference lies in the degree of impact: force majeure renders performance impossible, whereas hardship renders it onerous but still feasible. This distinction ensures equitable balance and contractual stability in the face of unforeseen economic and legal developments.

4.2. The Impact of the Two Concepts of Force Majeure and Hardship on Iranian Oil Contracts

The concepts of force majeure and hardship in Iranian oil contracts are crucial for managing risks arising from uncontrollable and sudden conditions. Force majeure, in situations such as sanctions or war that render performance completely impossible, leads to termination or suspension of the contract and has been recognized both as a trade usage and under the Oil Act (Article 31 of the Oil Act) (Al-Emadi, 2011; Emāmī, 2018; Farrokhānī et al., 2022). Proving force majeure requires prompt notification and efforts to mitigate its effects, which protects investors in times of crisis. By contrast, hardship makes performance difficult and costly but not impossible and results in contract adjustment through renegotiation. Although it has no independent codified status, it has been recognized in Iranian judicial practice and in recent instruments such as Article 39 of the 2024 Draft Commercial Code and the General Conditions of EPC Contracts under the label of “hardship conditions” (Epc Contract for Engineering & Construction, 2024; Karāylū, 2025; Rafīʿī & Rajabī, 2021).

A precise distinction between these two concepts in Iranian oil contracts is essential: force majeure is a definitive impediment to performance and a ground for exemption from liability, whereas hardship refers to difficult and costly but surmountable changes that require contractual adjustment. These concepts form part of a broader strategy to preserve stability, flexibility, and fairness in high-risk, long-term contracts and must be examined in depth in oil law research to prevent incomplete or distorted interpretations.

4.3. Judicial Practice of Iran on Force Majeure and Hardship

Iran’s practice regarding force majeure and hardship has been shaped by key cases that demonstrate the fine distinction between them. In the Iranian legal system, force majeure is recognized as a ground for exemption from contractual liability, and its realization requires an external, unforeseeable, and unavoidable event that makes performance temporarily or permanently impossible (Articles 227 and 229 of the Civil Code and Article 31 of the Oil Act).

Hardship, as an emerging and important doctrine in long-term and high-risk contracts, has especially been recognized after the adoption of Article 39 of the new Draft Commercial Code and is increasingly accepted as a basis for contract adjustment in the face of sanctions, currency fluctuations, and cost increases, while force majeure remains applicable to cases of absolute impediment to performance. Hardship preserves flexibility and continuity of the contract.

The Iranian legal system, in line with modern trends in international law and practical experience, has moved towards accepting and institutionalizing hardship as a doctrine distinct from force majeure; judicial practice emphasizes the need for immediate notification and efforts to mitigate the effects of force majeure and adopts a strict approach towards it, while in the case of hardship, it allows adjustment of conditions and continuation of the contract. A prominent example is the Consortium Agreement case, in which the international arbitral tribunal considered the nationalization of the Iranian oil industry to be a legitimate exercise of sovereignty and a force majeure event, and thus did not recognize any liability to pay compensation. This

award became a fundamental model in oil disputes and contractual conflicts in the energy sector; although hardship was not explicitly invoked in this case, the legal philosophy of contract adjustment in crisis conditions was examined under the rubric of force majeure. This practice illustrates the importance of precisely defining force majeure clauses and the criteria for proving them in order to avoid costly disputes and underlines the influence of such cases on drafting techniques in Iranian oil contracts.

4.4. Force Majeure and Hardship in the Mirror of Claims Brought Before the Judiciary

Force majeure and hardship are among the most important exculpatory contractual doctrines in oil-related disputes brought before Iranian courts and have undergone significant evolution in judicial practice. Force majeure requires conditions such as unforeseeability, being beyond the parties' control, and impossibility of performance, and judges insist on a strong evidentiary basis for its establishment. The Crescent case is a notable example in which the inadequate drafting of the clause relating to sanctions as force majeure created grounds for only partial acceptance of Iran's arguments in arbitration and court proceedings, providing a critical lesson on the need for precision and clarity in drafting contractual clauses. Likewise, in the Consortium case, the nationalization of oil was deemed a legitimate sovereign right and a force majeure event, and the award became a legal model.

Although hardship is not formally codified in Iranian law, in the context of disputes and oil contracts it is used to describe severe economic and political changes and the difficulty of performance, which lead to requests for financial adjustment or contract renegotiation. The importance of these doctrines is highlighted in managing the political, economic, and technical risks of the oil industry, and precise drafting of related clauses is essential to prevent costly litigation.

Force majeure and hardship are key doctrines in Iranian oil disputes whose principal difference lies in their nature and legal effect: force majeure is invoked when performance becomes completely impossible and typically leads to suspension or termination of the contract, whereas hardship applies when performance becomes difficult, costly, or inappropriate but still feasible, aiming at contract adjustment and preservation of economic balance. This distinction is especially important in long-term oil projects that are exposed to fluctuations due to political and economic developments. The burden of proof for force majeure is heavy and requires solid evidence, whereas hardship provides an opportunity for reconsideration and renegotiation. Accurate and transparent drafting of these clauses in contracts is therefore crucial to reducing expensive disputes.

Table 1. Comparative Analysis

Feature	Force Majeure	Hardship
Nature	Occurrence of a sudden, unforeseeable event that makes performance impossible	Fundamental change of circumstances that makes performance difficult and costly but still possible
Legal effect	Temporary suspension or permanent termination of the contract	Adjustment of obligations and continuation of the contract
Burden of proof	Very heavy; requires conclusive evidence and precise documentation	Less stringent; focused on changes in economic and operational conditions
Scope of application	All types of contracts	Mainly continuous and long-term contracts
Parties' objective	Exemption from performance of obligations	Adjustment of obligations in line with new circumstances
Long-term effects	Termination or interruption of the contractual relationship	Preservation of the contractual relationship with necessary amendments
Legal examples	Severe sanctions, unforeseeable natural disasters	Exchange-rate volatility, continuing political and economic changes
Judicial complexity	Challenges in proving the conditions of force majeure	Challenges in determining the extent of adjustment and renegotiation

The Crescent case, which concerned a gas sales contract between the National Iranian Oil Company and Crescent Petroleum of the United Arab Emirates, generated complex disputes before courts and international arbitral tribunals. In 2025, the international arbitral tribunal rejected Crescent's main claim and did not attribute full responsibility to Iran, which was a significant victory for Iran and demonstrated the importance of precision in contract drafting and in the formulation of legal defenses.

Iranian judicial practice has emphasized the accurate proof of force majeure conditions and has not accepted suspension of obligations without sufficient evidence. In the Crescent case, whose final domestic-related decision was issued in 2025, despite shortcomings in the force majeure clause, the Supreme Court of Appeal and specialized arbitral panels in Iran, while upholding contractual equilibrium and force majeure clauses, stated—pursuant to Article 219 of the Civil Procedure Code—that the mere

occurrence of a crisis does not necessarily extinguish obligations unless all conditions are fully established. This case showed that the Iranian legal system has the capacity to respond flexibly to complex oil disputes and that a scientific, well-structured legal strategy is effective in defending national commitments.

The establishment of specialized oil courts and tribunals has accelerated and professionalized judicial review and reduced costs. Although challenges such as the judgment of English courts ordering seizure of Iranian assets still exist, the Crescent case demonstrated that precision in contract wording and robust legal defense are the keys to managing complex oil disputes and safeguarding national interests.

The use of force majeure and hardship clauses, combined with the strengthening of specialized domestic judicial institutions, constitutes the most important instrument for protecting national interests in the oil and gas sector.

A clear and uniform judicial authority for establishing force majeure and hardship conditions has not yet fully emerged in Iranian courts, and divergence in decisions is largely due to the lack of precise and comprehensive statutory definitions; as a result, judges and legal experts often resort to trade usages and internal and foreign practices, not all of which are suited to Iran's specific conditions.

4.5. Legal Effects of Force Majeure and Hardship on the Termination of Iranian Oil Contracts in Judicial Practice

The legal effects of force majeure and hardship in Iranian oil contracts include temporary suspension of obligations, while if such conditions persist for more than 18 months, termination upon written notice becomes possible. Force majeure is an event beyond the parties' control that temporarily suspends the duty of performance; damages for incomplete performance are reassessed, and proportionate remuneration is usually granted to the contractor. Hardship, which gives rise to economic or sanctions-related difficulty, does not lead to automatic termination; termination requires proof of a drastic and sudden change of circumstances, which often results instead in contract adjustment and renegotiation. Judicial bodies accept force majeure on the basis of detailed documentation and generally prefer contract adjustment to preserve the parties' interests, unless performance has become impossible or manifestly unfair. Summarizing the text in this way, while preserving its substance and references, significantly reduces its volume.

5. Findings

5.1. Force Majeure and Hardship in International Arbitral Practice and Their Comparative Assessment with Iranian Judicial Practice

In private international law and arbitral practice, force majeure and hardship are defined separately, and detailed rules have been developed for suspension, adjustment, and termination of contracts. The Iranian legal system has accepted force majeure as an unforeseeable and unavoidable event that renders performance of obligations impossible and, in such cases, recognizes exemption from liability; however, hardship has been less frequently acknowledged as an independent legal basis and is more implicitly derived from Islamic jurisprudence and principles such as "hardship and undue difficulty" (ʿosr wa ḥaraj) (Kātūzīān, 2009; Sharīfī & Ṣafarī, 2013). A comparative examination of these concepts and their effects in Iranian oil contracts can provide a foundation for improving practice, drafting more coherent contracts, and reducing legal disputes. International customary rules and regional principles, with a more flexible approach, consider the occurrence of a serious, unforeseen difficulty sufficient to establish hardship and allow renegotiation or contract adjustment in order to preserve economic and legal equilibrium (Lorenz & Partners, 2025; Rafīʿī & Rajabī, 2021; Unidroit, 2016). It may therefore be inferred that the Iranian framework adopts a more restrictive position, limiting exemption to cases of impossibility, whereas the international approach prioritizes continuation of the contractual relationship based on fairness.

To avoid repetition and excessive elaboration, the differences between legal systems are summarized in the table below.

Table 2. Comparison of Legal Systems

Legal System	Force Majeure	Hardship	Legal Effects
Iranian domestic law	External, unforeseeable, and unavoidable event; only when performance becomes impossible	Often not recognized as fully valid; mere difficulty and high cost do not suffice for exemption	Exemption from liability; possibility of termination in cases of impossibility of performance

International custom and UNIDROIT	Unforeseeable event beyond the party's control; impossibility of performance is required	Anticipation of a fundamental change of circumstances; performance becomes very difficult and costly	Adjustment, renegotiation, continuation of obligations, or eventual termination
Regional rules	Similar to UNIDROIT; emphasis on neutrality and fairness, renegotiation, and preservation of justice	Flexible mechanisms including negotiation, arbitration, and contractual adjustment	Continuation of the contractual relationship with modification of contractual conditions

In the absence of publicly available full awards in Iranian oil cases, and relying mainly on reports, conferences, and partial information, the present study briefly examines these cases with regard to the force majeure and hardship clauses.

In the Iranian oil industry, four international cases appear to have played a significant and influential role in shaping legal and arbitral approaches to these two clauses: the Consortium case, the Crescent case, the Sedco case, and the contracts relating to gas import to Pakistan. Each of these cases demonstrates the importance of precise drafting of agreements, effective use of arbitral rules, and adopting a preventive approach in force majeure and hardship clauses to avoid entering into international legal and financial crises (Behdādnīā et al., 2023; Daadoush, 2024; Global Arbitration, 2024).

In the Consortium case, whose legal structure was based on multilateral contracts aimed at managing large-scale oil projects, preserving common interests, and allocating profits and losses, the consortium agreements constituted a paradigmatic example of international cooperation in the oil sector. In these agreements, replacing recourse to domestic courts with specialized international arbitration in the dispute resolution clauses played a key role in safeguarding interests and reducing costs. Experience has shown that, in this type of contract, careful drafting of force majeure and hardship clauses facilitates more flexible implementation and better risk management; in the absence of such careful drafting, legal and financial disputes can generate substantial costs for both parties (Behdādnīā et al., 2023). The Iranian Oil Consortium case (related to the period after the Revolution and the cancellation of previous oil contracts), which is one of the clearest examples of conflict between international contracts and national sovereignty, demonstrated that international arbitration, adopting a specialized approach and observing the principle of fairness, while granting limited recognition to force majeure claims arising from revolutionary developments, nevertheless emphasized the principle of full compensation for damages (Daadoush, 2024). Unlike the strict and narrow domestic Iranian approach, which focuses merely on termination or exemption from liability, this balance between preserving national sovereignty and contractual obligations creates a capacity for better crisis management in international arbitration.

The Crescent case, by contrast, illustrates and in a sense concretizes the shortcomings of the domestic Iranian legal approach when confronted with the complexities of international arbitration. Under the pressure of sanctions and technical difficulties, Iran relied on the force majeure clause to justify suspension of its gas export obligations; however, the weak, incomplete, and insufficiently clear drafting of the relevant clause in the contract resulted in the rejection of Iran's force majeure claim in international arbitration. Iran's defenses were not accepted, and it was ordered to pay substantial damages; this outcome shows that the traditional Iranian approach, rooted in Article 227 of the Civil Code and limited to impossibility, is not capable of adequately dealing with the complex legal issues arising from sanctions and the current conditions governing oil contracts, and it highlighted the lack of alignment between Iranian internal law and the specialized rules and practices of the oil industry in international arbitration (Āsāyesh, 2024; Global Arbitration, 2024; Mīr Shekārī & Ḥoseinī, 2021).

The Sedco case concerned the expropriation of the interests of the company "Sediran" by the Iranian government. The arbitral tribunal, without declaring the act unlawful, emphasized the principle of full compensation under international law and, by relying on its previous decisions, held that even lawful expropriation requires the payment of compensation. This case demonstrates the necessity of convergence and overlap between domestic law, specialized international arbitral structures, and international law and custom. Sedco underscores that the criterion in international arbitration is valuation and financial justice and that mere reliance on domestic legislation is insufficient to respond to disputes beyond the internal legal framework (Daadoush, 2024).

In the final example, concerning the contract for Iran's export of gas to Pakistan, Pakistan invoked the force majeure clause on the basis of economic and political difficulties, whereas Iran rejected this claim by arguing lack of proof and absence of clear contractual conditions. This case illustrates the importance of clear and reasoned drafting of force majeure and hardship clauses in contracts and emphasizes the need to prevent potential abuses. Accurate formulation of clauses serves as a safeguard for the legal and economic balance of the parties (Global Arbitration, 2024; Lorenz & Partners, 2025).

Overall, strengthening and reforming domestic regulations by incorporating specialized experience and international arbitral practice, drafting precise and unambiguous clauses, and providing specialized training to judges and legal practitioners will enhance legal security, reduce litigation risk, and protect national economic interests in oil contracts. These approaches not only prevent costly disputes but also build investor confidence and contribute to the sustainable growth of Iran's oil industry; to remain among the major players in this sector and to safeguard national interests, Iran has no choice but to align itself with international law and regional custom (Āsāyesh, 2024; Behdādnīā et al., 2023; Rafī'ī & Rajabī, 2021).

5.2. Comparative Analysis of International Arbitral Practice and Iranian Judicial Practice

As noted earlier, in international commerce force majeure and hardship are recognized as legal mechanisms for adjusting or exempting contractual obligations. In international arbitral practice, acceptance of force majeure is strict, and mere difficulty or higher costs are not considered sufficient grounds for non-performance. For example, in ICC awards related to COVID-19, force majeure has only been accepted where there was complete cessation of performance or a binding governmental order. Likewise, in hardship, emphasis is first placed on efforts to renegotiate and adjust the contract, and termination is only permitted if negotiations fail. Standard clauses in international contracts establish clear mechanisms for force majeure and hardship, and arbitrators are required to interpret them narrowly and in accordance with the contractual text; arbitrators act in an intermediary role and refrain from rewriting the contract (Global Arbitration, 2024; Lorenz & Partners, 2025; Unidroit, 2016).

In Iranian judicial practice, the definition of force majeure is similar and it is only accepted when the performance of the contract has become impossible (Article 227 of the Civil Code). In cases of hardship, efforts to adjust or suspend obligations rather than immediate termination have become more common, especially in recent doctrinal and case-law developments influenced by long-term, high-risk contracts (Kātūzīān, 2009; Sharīfī & Ṣafarī, 2013). International ICC practice and reported awards emphasize the need to prove a direct causal link between the event and non-performance.

The ICC arbitration rules provide a modern, highly structured system with a precise framework for handling disputes, and they occupy a prominent place in the development of international arbitral practice; by contrast, the Iranian Law on Commercial Arbitration of 1997 was drafted on the basis of the UNCITRAL Model Law. The main difference is that international arbitration operates under a rigorous framework for accepting these concepts, with arbitrators acting as neutral intermediaries, whereas Iranian judicial practice may involve extensive court intervention and attention to domestic and religious considerations, resulting in a more complex and less predictable process (Āsāyesh, 2024; Shāyegān Law, 2022).

5.3. The Role of Sanctions in the Interpretation and Application of Force Majeure and Hardship

The familiar term "sanctions" has a major impact on oil contracts, and legal scholarship is divided over whether sanctions should be treated as force majeure. Some regard sanctions as a manifestation of force majeure, while others, especially in short-term contracts, argue that sanctions are foreseeable and thus do not constitute force majeure. For example, Branch 32 of the Court of Appeal of Tehran Province (Judgment No. 9309970223201224) explicitly held that foreseeable economic sanctions cannot exempt the obligor from liability. By contrast, some other decisions, such as those of Branch 10 of the Court of Appeal and Branch 86 of the General Court, have in certain cases (for example, where sanctioned raw materials cannot be supplied) treated Western sanctions as force majeure (Bahādor & Rāstgūy Mashhūr, 2018; Ebrāhīmī & Ovyārḥosein, 2012; Mīr Shekārī & Ḥoseinī, 2021).

A review of case law shows that where sanctions were foreseeable or the contract was short-term, they could not be characterized as force majeure; conversely, hardship plays a more prominent role in oil contracts, and sanctions are more often treated as an instance of hardship (economic tension and increased cost) rather than force majeure (Dehqān & Amīnī, 2022; Sha'ārīān & et al., 2020). Although there are relatively few explicit awards in international arbitration or domestic courts specifically addressing hardship arising from sanctions, legal analyses and prominent sanctions-related cases tend to accept them predominantly under this heading.

In general, with respect to their impact on contractual obligations in the oil sector, sanctions fall into two categories: foreseeable sanctions (which are usually not considered force majeure) and unforeseeable sanctions (which may qualify as

force majeure), and they are more often recognized as a basis for hardship than for force majeure (Bahādor & Rāstgūy Mashhūr, 2018; Mīr Shekārī & Ḥoseinī, 2021).

6. Discussion and Conclusion

Global crises such as COVID-19, economic sanctions, and the Russia–Ukraine war have significantly influenced the understanding and interpretation of force majeure and hardship in oil contracts, highlighting the importance of these doctrines for contractual risk management. Force majeure refers to events that render contractual performance impossible, whereas hardship concerns situations in which performance remains possible but becomes excessively difficult or costly. In recent years, Iranian judicial practice has increasingly shown willingness to recognize hardship as an independent basis for contractual adjustment. The adoption of Article 39 of the new Draft Commercial Code and the explicit reference to "hardship conditions" in the General Conditions of EPC contracts confirm a legal trend aimed at maintaining contractual continuity and preserving equitable balance between the parties under uncertainty. Cases such as the Crescent dispute have demonstrated the critical role of precise contract drafting and robust legal defense.

However, the divergence of judicial opinions regarding whether sanctions constitute force majeure or hardship stems from the difficulty of distinguishing between the two doctrines, the long duration of oil contracts, and the absence of clear statutory definitions in Iranian law. Effective use of force majeure and hardship clauses, together with strengthening domestic judicial institutions, is essential for protecting national interests in the oil and gas sector and improving the legal environment governing these contracts.

To improve laws and legal approaches, several considerations must be addressed:

First, developing and clarifying criteria. Clear, consistent standards for identifying and applying force majeure and hardship should be established within Iranian legislation to prevent inconsistent judgments.

Second, contractual foresight. Precise and transparent drafting of force majeure and hardship clauses in oil contracts—along with predetermined procedures for dispute resolution—is necessary to avoid costly and complex litigation.

Third, strengthening specialized institutions. Enhancing specialized energy courts and contractual dispute resolution bodies within the National Iranian Oil Company would accelerate proceedings, improve expertise, and ensure accurate assessment of force majeure and hardship conditions.

Fourth, expanding legal expertise. Improving the capabilities of legal practitioners and judges in the oil and energy fields, and reinforcing expert systems, will better equip the legal system to address the complexities inherent in these contracts.

Ethical Considerations

All procedures performed in this study were under the ethical standards.

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Conflict of Interest

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