Discharge of Contract Lecture: DDE NALSAR

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Meaning

Discharge of contract refers to the termination or extinction of contractual obligations and rights arising from a valid contract. A contract is considered discharged when the parties have fulfilled their respective obligations, or when certain circumstances have arisen that render the contract void or inoperative.

Meaning

Performance: When both parties have fully performed their respective obligations under the contract, the contract is said to be discharged by performance.[Treitel, G. H. (2011). The Law of Contract (13th ed.). Sweet & Maxwell.]

Agreement: The parties may mutually agree to terminate or discharge the contract, either expressly or by implication.[Anson, W. R. (1998). Principles of the Law of Contract (27th ed.). Oxford University Press.]

Breach: If one party fails to perform their obligations under the contract, the other party may treat the contract as discharged and claim damages for the breach.[Poole, J. (2016). Textbook on Contract Law (14th ed.). Oxford University Press.]

Meaning

Frustration: A contract may be discharged by frustration when an event occurs that makes the performance of the contract impossible or radically different from what was originally contemplated by the parties, without the fault of either party.[Treitel, G. H. (2011). Frustration and Force Majeure (3rd ed.). Sweet & Maxwell.]

Operation of Law: A contract may be discharged by operation of law, such as in cases of bankruptcy, insolvency, or by virtue of a statutory provision.[Halsbury's Laws of England (5th ed., 2019). LexisNexis.]

Merger: When a contract is replaced by a new contract or a deed, the original contract is discharged by merger.[Anson, W. R. (1998). Principles of the Law of Contract (27th ed.). Oxford University Press.]

Lapse of Time: In certain cases, a contract may be discharged by the lapse of time, such as when a contract has a specified duration or when a reasonable time for performance has elapsed.[Treitel, G. H. (2011). The Law of Contract (13th ed.). Sweet & Maxwell.]

02
Discharge by performance

1. Complete Performance: Both parties must have carried out all their contractual duties and obligations precisely as stipulated in the contract. Even a slight deviation from the prescribed performance may not constitute a valid discharge by performance.
2. Proper Performance: The performance must be in accordance with the agreed-upon terms and conditions of the contract. Defective or substandard performance is generally not considered a valid discharge.
3. Timely Performance: The performance must be carried out within the specified time frame or deadline mentioned in the contract. Late performance may not qualify as a discharge unless the delay is excused or waived by the other party.
4. Acceptance of Performance: The performance by one party must be accepted by the other party. If the performance is rejected or deemed unsatisfactory by the receiving party, the contract may not be considered discharged.

CONTRACT ACT AND DISCHARGE

- Contract which must be performed Sec 37-39
- Contract which must be performed by whom Section 40-45
- Time and place for performance Section 46-50
- Performance of reciprocal promise Section 2f and Section 51-58
- Appropriation of payments Section 59-61
- Contract which need not be performed Section 62-67

How?
By whom?
Where?
When?
In what manner?

"DOCTRINE OF RECIPROCAL PROMISES" OR THE "DOCTRINE OF CONCURRENT CONDITIONS."

Conditional Performance
Order of Performance
Tender of Performance
Refusal to Perform
Breach and Remedies
Exceptions

Time is essence of contract meaning, implication

It indicates that the parties intend for the agreed-upon deadlines or timeframes to be strictly enforced. Failure to perform within the specified time period may constitute a breach of contract, allowing the non-breaching party to seek remedies or terminate the agreement.

Assignment of contract meaning and Indian law

Assignment of contract refers to the transfer of rights and obligations under a contract from one party (the assignor) to another party (the assignee). It allows the assignee to step into the shoes of the assignor and take over the contractual rights and obligations.

03

Discharge of contract by death and bankruptcy

The Insolvency and Bankruptcy Code, 2016 (IBC)

Discharge of contract By breach

04

- Anticipatory Breach
- Present Breach

05 Supervening impossibility of performance and discharge of contract

Supervening impossibility of performance refers to a situation where, after the formation of a contract, an unforeseen event or circumstance occurs that makes the performance of the contractual obligations impossible or radically different from what was originally contemplated by the parties. In such cases, the contract may be discharged due to the supervening impossibility of performance.

05

Supervening impossibility of performance and discharge of contract

1. Unforeseen event
2. Not due to the party's fault
3. Radical change in circumstances
4. Objective impossibility:
5. Continuing impossibility

The origin of the doctrine of frustration can be traced back to the principle of absolute liability forming the basis of contracts in England. It is usually believed by the courts that the parties to a contract must fulfil their obligations in any situation and are absolutely liable for the same. This theory of absolute liability was laid down by the court in the case of Paradine v. Jane (1647).

In order to rectify and avoid the deficiencies of the theory of absolute liability, the concept of doctrine of frustration was introduced. The court for the first time recognised this doctrine in the case of Atkinson v. Ritchie (1809) wherein it was held that loading of a British ship on a foreign port is impossible due to outbreak of war between the two countries and hence, the contract is frustrated.

However, this approach in Paradine v Jane proved too stringent and potentially unjust. The case of Taylor v. Caldwell brought about a significant shift in Indian Contract Act law by recognizing that contracts could be frustrated when performance was rendered impossible due to events beyond the parties' control. This ruling laid the groundwork for the modern Doctrine of Frustration.

Another big step was taken by the English courts in the development of the doctrine in the case of Krell v. Henry (1903). In this case, there was a contract to hire a flat for the coronation of King Edward VII but the coronation was cancelled. The court held that the plaintiff cannot claim the rent because the coronation was cancelled which was the foundation of the contract and hence, the contract stands frustrated. This case made the doctrine applicable to those contracts where the primary and commercial object of entering into a contract is destroyed.

The case of Satyabrata Ghose v. Mugneeram Bangur and Co. played a pivotal role in shaping the Doctrine of Frustration in Indian Contract Act. According to this judgment, the doctrine allows for the discharge of contractual obligations when performance becomes inherently impossible.

Further, in the case of Punj Sons Pvt. Ltd. v. Union of India (1986), the court held that the contract which required the supply of milk containers with tin coating, was frustrated because the tin ingots were unavailable. This clearly shows that restricting the scope of Section 56 and excluding cases of construction would be futile and defeat the whole purpose of the doctrine.

01

Impossibility of performance

02

Destruction of subject matter

03

Death or incapacity of a party

04

Frustration by legal or government intervention

05

Frustration due to a change of circumstances

06

The intervention of war

where there is no force majeure clause in a contract, the parties can avail the benefits of doctrine or frustration but the question to be considered is whether the doctrine applies to lease deeds as well. The Supreme Court has dealt with this issue in various cases where the contract dealt with rights and obligations of parties in a lease deed

The Supreme Court in the case of Raja Dhruv Dev Chand v. Raja Harmohinder Singh (1968), held that the doctrine is not applicable to lease deeds. This is because Section 108(B)(e) of the Transfer of Property Act, 1882 deals with such a situation in cases of lease deeds. It provides that if a leased property or a part of it is destroyed or is unfit for use due to fire, flood, violence or any other reason enumerated in the Section, the lease can be avoided at the option of lessee. This was reiterated by the Supreme Court in the case of Sushila Devi v. Hari Singh (1971) wherein the court held that the doctrine is only applicable to contracts and not lease deeds.