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In contracts involving two or more currencies, fluctuations in exchange rates may adversely affect the profitability of business transactions. Price terms which are based on the exchange rates prevailing when a contract is written may threaten ruin to one party if subsequent shifts in the exchange rate produce a divergence in nominal and effective prices. For example, if a domestic purchaser is required to pay a fixed price in the currency of a foreign seller and the relative value of the domestic currency declines, the purchaser will find it necessary to convert more of his assets into the foreign currency in order to obtain the goods. Although the nominal price remains the same, the purchaser's effective cost has increased, perhaps substantially. Consideration of potential exchange rate problems is a critical factor in contract negotiations because United States courts generally have refused to alter contract prices which have become financially oppressive to one party after a contract has been signed.

The holding in *Bernina Distributors, Inc. v. Bernina Sewing Machine Co.* is illustrative of the restrictive approach utilized by the courts in applying the doctrine of commercial impracticability, as formulated in section 2-615 of the Uniform Commercial Code. The *Bernina* decision was

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1 646 F.2d 434 (10th Cir. 1981).
2 *See* Eastern Air Lines, Inc. v. Gulf Oil Corp., 415 F. Supp. 429 (S.D. Fla. 1975), and Huffmire, *Section 2-615 and Corporate Accountability*, 13 U.C.C.L.J. 256, 256 (1980). In the *Eastern Air Lines* case, the court commented that "recent American cases . . . strictly construe the doctrine of commercial impracticability." 415 F. Supp. at 438. The *Eastern Air Lines* court rejected a commercial impracticability defense on grounds that the seller had not incurred significant hardship and that the energy crisis of the early 1970's, and the ensuing adverse effect on the oil market, was foreseeable. The court reached this conclusion even though the implementation of a two-tier price control system for oil by the U.S. government, which was a major cause of the failure of the contract terms to reflect increased oil prices, was "completely without precedent in the history of government price control action." Id. at 434.
3 *Utah Code Ann.* § 70A-2-615 (1980), "Excuse by Failure of Presupposed Conditions": Except so far as a seller may have assumed a greater obligation and subject to the preceding section on substituted performance:
   (a) Delay in delivery or non-delivery in whole or in part by a seller who complies with paragraphs (b) and (c) is not a breach of his duty under a contract for sale if performance as agreed has been made impracticable by the occurrence of a con-
the first United States case in which the claim of commercial impracticability was based on increased costs caused by fluctuations in exchange rates. While the *Bernina* court rejected the impracticability defense, a growing willingness by the judiciary to broaden the commercial impracticability concept coupled with a more incisive presentation of the exchange rate problem may eventually result in the recognition of extreme exchange rate fluctuations as a viable ground for a section 2-615 argument.

*Bernina* involved a dispute between an importer of Swiss-manufactured sewing machines (defendant) and a retail distributor (plaintiff). The importer paid his supplier, the manufacturer, in Swiss francs. Under the terms of a seven-year contract executed in 1971, increases in the importer's invoice costs, which included changes in the exchange rate between Swiss francs and United States dollars, were passed on in the same amount to the distributor. In 1973, unusual fluctuations in the exchange rate had doubled the importer's effective costs, which prompted him to charge higher prices than permitted by the pricing formula contained in the contract. The distributor brought suit to enjoin the importer from charging the excessive prices. The importer claimed that his performance should be excused because his effective rate of return had been reduced by one-half.

The difficulty encountered by the importer resulted from a contractual agreement to base prices upon a fixed profit system. As described in *Bernina*, the fixed profit device allowed no additional profit for cost increases to the importer, who was the middleman in the transaction.

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1. The exchange rate problem may be analogized to inflation in order to draw support from recent decisions involving section 2-615 and inflation. See, e.g., Aluminum Co. of America v. Essex Group, Inc., 499 F. Supp. 53 (W.D. Pa. 1980).
2. 646 F.2d at 437.
3. *Id.* at 437-38.
4. *Id.*
Rather, cost variations passed through to the distributor, without any adjustment in the importer's gross profit margins. As a consequence, the nominal amount of gross profit per unit remained constant, but the actual rate of profit earnings was inversely related to cost increases or decreases. Therefore, once a price for a specified good was established, the importer, who had elected the fixed profit method, assumed the risk of a diminishing profit rate. Conversely, if the importer's cost decreased, the importer benefited from a higher profit rate.

The Bernina court noted that the distributor had urged the importer to utilize a cost-plus price formula to protect against the contingency of exchange rate vacillations. Under the cost-plus method, the purchase price is derived "by providing for the payment of an amount equal to the costs of the seller or contractor to which is added a stated percentage as his profit." Thus, cost-plus pricing provides for a target rate of return and eliminates risks due to changes in costs of the seller. However, the seller must forego the opportunity to receive higher profits which are afforded upon decreases in costs when using a fixed profit system.

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9 Id. at 439. See infra text accompanying note 13. The importer's profit per unit remained constant, however, the percentage of profit per unit cost gradually decreased due to movements in the exchange rates.

10 646 F.2d at 440.

11 Id. at 440, 442.

12 A. KUMPH, BUSINESS LAW 7 of the glossary (9th ed. 1972).

13 The difference in the impact of the fixed profit and cost-plus formulas is compared in the following illustration. Assume that the initial exchange rate is $1.00=1f., the initial cost to wholesaler is $2.00, and the agreed rate of return is fifteen percent.

Cost-Plus

<table>
<thead>
<tr>
<th>Then $2.00 + 15% of $2</th>
<th>$2.30 price</th>
</tr>
</thead>
<tbody>
<tr>
<td>-2.00 cost</td>
<td>-2.00 cost</td>
</tr>
<tr>
<td>.30 profit</td>
<td>.30 profit</td>
</tr>
<tr>
<td>+ 2.00 cost</td>
<td>+ 2.00 cost</td>
</tr>
<tr>
<td>Recheck</td>
<td>.15 or 15%</td>
</tr>
</tbody>
</table>

Fixed Profit

<table>
<thead>
<tr>
<th>$2.00 + .30* = $2.30 price</th>
</tr>
</thead>
<tbody>
<tr>
<td>-2.00 cost</td>
</tr>
<tr>
<td>.30 profit</td>
</tr>
<tr>
<td>+ 2.00 cost</td>
</tr>
</tbody>
</table>

*30c is the nominal money amount required to produce a fifteen percent rate of return on goods costing $2.00 each at the time of contracting; therefore, initial price is established at $2.30.

Suppose the exchange rate becomes unfavorable to wholesaler and changes to $1.10 = 1f., a 100 percent devaluation of the dollar which increases costs by 20c.

<table>
<thead>
<tr>
<th>Then $2.20 + 15% of $2.20</th>
<th>$2.53 price</th>
</tr>
</thead>
<tbody>
<tr>
<td>-2.20 cost</td>
<td>-2.20 cost</td>
</tr>
<tr>
<td>.33 profit</td>
<td>.30 profit</td>
</tr>
<tr>
<td>+ 2.20 cost</td>
<td>+ 2.20 cost</td>
</tr>
<tr>
<td>Impact</td>
<td>.15 or 15%</td>
</tr>
</tbody>
</table>

Suppose the exchange rate becomes more unfavorable to wholesaler and changes to $2.00 = 1f., a 100 percent devaluation of the dollar which increases costs by $2.00.

<table>
<thead>
<tr>
<th>Then $4.00 + 15% of $4.00</th>
<th>$4.60 price</th>
</tr>
</thead>
<tbody>
<tr>
<td>-4.00 cost</td>
<td>-4.00 cost</td>
</tr>
<tr>
<td>.60 profit</td>
<td>.30 profit</td>
</tr>
<tr>
<td>+ 4.00 cost</td>
<td>+ 4.00 cost</td>
</tr>
<tr>
<td>Impact</td>
<td>.15 or 15%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>$2.30 + $2.00 = $4.30 price</th>
</tr>
</thead>
<tbody>
<tr>
<td>-4.00 cost</td>
</tr>
<tr>
<td>.30 profit</td>
</tr>
<tr>
<td>+ 4.00 cost</td>
</tr>
</tbody>
</table>

| Impact | .075 or 8% |
The distributor refused to absorb the importer's higher costs which resulted from using the fixed profit method of pricing and brought suit to enforce the sales agreement. The Tenth Circuit affirmed the trial court's denial of the defense of impracticability.\textsuperscript{14} In its analysis of section 2-615 of the Uniform Commercial Code, the court focused on two factors: foreseeability and the extent of the hardship incurred.

In examining foreseeability, the Tenth Circuit discussed the assignment of the risk of loss between the parties. The court found that the contractual fixed gross profit provision implied that the importer had assumed the risk that the return on his capital investment might be reduced by devaluations of the dollar.\textsuperscript{15} In addition to objective evidence of the foreseeability factor, the court considered a letter written during the contract negotiations by the importer to the distributor in which the importer expressed concerns about a recent seven percent devaluation of the dollar in relation to the Swiss franc. The court found, relying heavily upon the letter, that the importer had actual foreknowledge of the instability of exchange rates.\textsuperscript{16} Based on the finding that exchange rate fluctuation may be expressed or tacitly assigned; a finding of actual risk allocation presupposes foreseeability of the risk. Robberson Steel, Inc. v. J.D. Abrams, Inc., 582 S.W.2d 558, 562 (Tex. Civ. App. 1979). Furthermore, the promisor, seller, is presumed to bear the loss of any foreseeable risk, unless there is evidence to the contrary, because the promisor is believed to be in a position to protect himself from risks which he should have been aware of at the time of contracting, by an express term in the agreement. Eastern Air Lines, Inc. v. McDonnell Douglas Corp., 532 F.2d 957, 991-92 (5th Cir. 1976).

\textsuperscript{14} 646 F.2d at 444. The Bernina decision also dealt with the issues of open price term, Utah Code Ann. § 70A-2-305(1) (1980), and unconscionability, Utah Code Ann. § 70A-2-302 (1980). The court found that a method of determining the price was provided for in the contract, and therefore the court was not called upon to supply a reasonable price term. 646 F.2d at 439. The claim of unconscionability was also dismissed due to the absence of oppression in the contract terms under the circumstances existing at the time the contract was made and the lack of a significant imbalance in the relative bargaining strengths of the parties. \textit{Id.} at 440.

In interpreting some of the collateral terms of the contract, the trial court heard parol evidence as to the parties' intentions at the time of contracting; however, the Bernina court found that the trial court did not rely on the extrinsic evidence and furthermore, that the parties' intentions had been put in issue by the importer. \textit{Id.} at 441. The Bernina court, in construing the details of the contract, did find that the adjustment in price of new models introduced during the contract period was to be computed according to exchange rates prevailing at the time of introduction, and not as of the time of contracting. Otherwise, cost changes after introduction of a new model were not to affect the margins. \textit{Id.} at 443.

Finally, the distributor was found not to be in breach of contract for failing to take delivery of sewing machines from the importer's warehouse within the requisite six-month period because the importer did not give the distributor proper notice and an opportunity to withdraw the machines. Accordingly, the distributor was not liable to the importer for interest on the unclaimed machines. \textit{Id.} at 444.

\textsuperscript{15} \textit{Id.} at 439. Risk may be expressly or tacitly assigned; a finding of actual risk allocation presupposes foreseeability of the risk. Robberson Steel, Inc. v. J.D. Abrams, Inc., 582 S.W.2d 558, 562 (Tex. Civ. App. 1979). Furthermore, the promisor, seller, is presumed to bear the loss of any foreseeable risk, unless there is evidence to the contrary, because the promisor is believed to be in a position to protect himself from risks which he should have been aware of at the time of contracting, by an express term in the agreement. Eastern Air Lines, Inc. v. McDonnell Douglas Corp., 532 F.2d 957, 991-92 (5th Cir. 1976).

\textsuperscript{16} 646 F.2d at 439.
tuations were foreseeable, the court concluded that Comment 8 of section 2-615,\(^\text{17}\) as adopted by the controlling state law, supported the denial of relief to the importer.\(^\text{18}\)

With regard to the hardship incurred by the importer, the *Bernina* court relied on Comment 4 of section 2-615 of the Uniform Commercial Code,\(^\text{19}\) in determining that "cost increases alone, though great in extent, do not render a contract impracticable."\(^\text{20}\) Accordingly, the Tenth Circuit would not excuse performance under section 2-615 unless the party requesting relief could demonstrate that he could not perform under the contract without realizing a "severe and unreasonable" loss.\(^\text{21}\) Since the importer had not sustained a loss, but merely a lower rate of profit, the court refused to excuse the importer from performance under the contract terms.

The importance of risk allocation and foreseeability in applying section 2-615 became apparent in the earlier case of *Transatlantic Financing Corp. v. United States*.\(^\text{22}\) In *Transatlantic*, the Court of Appeals for the District of Columbia found that the risk of increased costs caused by the closing of the Suez Canal was assumed by the shipper. Facts indicating that the contract was silent as to such risks and that the canal closing itself was an unexpected contingency did not alter the assumption of risk.\(^\text{23}\) The *Transatlantic* court did not find an allocation of the risk of shipping by way of the Cape of Good Hope, the alternate route, from the express or implied terms of the contract. However, the foreseeability of some nonspecific risk did have probative value in assigning the actual risk incurred. Thus, by defining foreseeability to include risks generally

\(^{17}\) U.C.C. § 2-615 (1978), Official Comment 8:

The provisions of this section are made subject to assumption of greater liability by agreement and such agreement is to be found not only in the expressed terms of the contract but in the circumstances surrounding the contracting, in trade usage and the like. Thus the exemptions of this section do not apply when the contingency in question is sufficiently foreshadowed at the time of contracting to be included among the business risks which are fairly to be regarded as part of the dickered terms, either consciously or as a matter of reasonable, commercial interpretation from the circumstances.

\(^{18}\) 646 F.2d at 439.

\(^{19}\) U.C.C. § 2-615 (1978), Official Comment 4:

Increased cost alone does not excuse performance unless the rise in cost is due to some unforeseen contingency which alters the essential nature of the performance. Neither is a rise or a collapse in the market in itself a justification, for that is exactly the type of business risk which business contracts made at fixed prices are intended to cover. But a severe shortage of raw materials or of supplies due to a contingency such as war, embargo, local crop failure, unforeseen shutdown of major sources of supply or the like, which either causes a marked increase in cost or altogether prevents the seller from securing supplies necessary to his performance, is within the contemplation of this section.

\(^{20}\) 646 F.2d at 439.

\(^{21}\) Id. at 440 (citing Gulf Oil Corp. v. F.P.C., 563 F.2d 588, 600 (3d Cir. 1977)).

\(^{22}\) 363 F.2d 312 (D.C. Cir. 1966).

\(^{23}\) Id. at 315-19. The *Transatlantic* court, in its preliminary discussion of the issues, postulated that even the expectations of the parties as implied from the contract terms may not be controlling if the risk was foreseeable. *Id.* at 317.
related to the circumstances surrounding the contract negotiations, the court was able to find an assignment of the particular risk of the canal closure to the shipper. Furthermore, the court required a strict standard of proof in determining the degree of impracticability or hardship necessary to excuse performance in those cases in which risk had been allocated to the party asserting impracticability, either on the basis of the contract terms or foreseeability.\(^{24}\) In *Transatlantic*, an increase in costs of $43,972 above the contract price of $305,843 was held insufficient to invoke relief because of the foreseeability of abnormal risks flowing from the turbulent political conditions prevailing in the Middle East at the time of contracting.\(^ {25}\)

The broad definition of foreseeability invoked by the *Transatlantic* court, together with the utilization of foreseeability to assign risk, has made it a virtual certainty that risk will be assigned to the seller in actual practice.\(^ {26}\) In addition, whenever risk is allocated, a higher burden of proof is necessary to satisfy the hardship requirement. The stricter burden of proof raises the difficulty of establishing commercial impracticability to a level commensurate with the pre-Code impossibility standard.\(^ {27}\) As a consequence, the *Transatlantic* opinion has been criticized for injecting the common law doctrine of impossibility into section 2-615.\(^ {28}\) In addition, *Transatlantic*’s analysis of foreseeability has met with disapproval because it merged the elements of “the parties’ basic assumptions, impracticability, and the causal nexus between these two elements.”\(^ {29}\) However, the manner in which section 2-615 is drafted does

\(^{24}\) *Id.* at 319.

\(^{25}\) *Id.*


\(^{27}\) Black’s Law Dictionary 680 (rev. 5th ed. 1979) offers this definition of impossibility:

> As absolving party from liability for nonperformance, means not only strict impossibility, but impracticability because of extreme and unreasonable difficulty, expense, injury or loss involved. Total inability of party to perform for either subjective or objective reasons and under certain circumstances, though not all, such impossibility may be a defense.

\(^{28}\) See Comment, Contractual Flexibility in a Volatile Economy: Saving U.C.C. § 2-615 from the Common Law, 72 NW. U.L. REV. 1032 (1978). The *Transatlantic* approach contravenes “the Code’s express reason for adopting the test of commercial impracticability: that is ‘in order to call attention to the commercial character of the criterion chosen by this Article.’” *Id.* at 1044 (quoting U.C.C. 2-615, Comment 3). The author proposes that foreseeability should be discarded altogether in determining the actual assumptions of the parties. *Id.* at 1038 n.35. Cf. Hurst, Freedom of Contract in an Unstable Economy, 54 N.C.L. REV. 545, 575 (1976) (calling for replacement of the impracticability standard with impossibility and establishment of a rebuttable presumption that the seller assumed the risk of the occurrence of all contingencies affecting performance).

See also, e.g., Florida Power & Light Co. v. Westinghouse Electric Corp., 517 F. Supp. 440, 450 (E.D. Va. 1981) (“Commercial impracticability under the UCC is basically a codification of the common law doctrine of impossibility of performance . . . .”) However, note the statement in the opinion that “Common law impossibility, formerly a very harsh doctrine which permitted to require a showing of objective or scientific impossibility, has been moderated by case law to the point where it is equivalent to impracticability under the Code.” *Id.* at 451.

\(^{29}\) See Note, U.C.C. § 2-615: Defining Impracticability Due to Increased Expense, 32 U. FLA. L. REV. 516 (1980): The author concludes that “[i]f foreseeability and impracticability are corre-
not support the judicial practice of compounding the factors of impracticability and foreseeability. Instead, the determination that performance is impractical appears independent of the inquiry into the basic assumptions of the parties at the time the contract was made. The comments to section 2-615 discuss foreseeability and allocation of risks in relation to the parties' basic assumptions; however, the text of the statute requires only that the impracticability be caused by a "contingency the non-occurrence of which was a basic assumption" of the contract. Thus, while consideration of foreseeability and risk allocation may be called for under the circumstances of a particular case, the use of these factors to increase the burden of proving hardship defeats the original purpose of section 2-615, which was to replace the doctrine of impossibility with a sensible commercial standard. It has been suggested that the body of case law following Transatlantic has excessively utilized foreseeability, producing holdings "as harsh as the most technical of the early absolute impossibility cases."

The Bernina court relied on Iowa Electric Light & Power Co. v. Atlas Corp. in concluding that the importer had not sustained the burden of proof for a section 2-615 action. Interestingly, the opinion in Iowa Electric emphasized "the difference between commercial impracticability and physical impossibility in Transatlantic." By listing the elements of section 2-615 separately, the Iowa Electric court seemed prepared to analyze commercial impracticability under a less demanding standard than...
the common law impossibility standard. However, the court adhered to
the conventional approach of combining foreseeability, risk allocation,
and hardship in holding that inflation and expenditures required by fed-
eral environmental and occupational safety regulations, which increased
overall costs by fifty to fifty-eight percent, were foreseeable, and that
therefore the risk should be borne by the seller.\textsuperscript{37} Although the Iowa Electric
decision denied any excuse on grounds of impracticability under section
2-615, it indicated that a change in policy toward application of the
section might be appropriate:

\begin{quote}
The doctrine of impracticability has been narrowly construed
. . . . [F]ew courts have excused performance on [the basis of excessive
and unreasonable costs] alone . . . .

However the magnitude and impact of drastic cost increases in the
modern commercial context may call for a liberalization of the way
courts read \S\ 2-615 where performance makes little commercial sense
and there is adequate proof of actual costs brought about by the unfore-
seen contingency.\textsuperscript{38}
\end{quote}

Comment 6 of the Uniform Commercial Code, section 2-615,\textsuperscript{39}
supports the Iowa Electric court’s advancement of equitable principles in
resolving impracticability cases. Alternatively, in situations of unfore-
seen difficulties which do not rise to the level of impracticability under
section 2-615, the Iowa Electric opinion intimated that equitable adjust-
ment may be available under section 2-209.\textsuperscript{40}

In an unusual departure from the characteristic judicial restraint
regarding section 2-615, the court in Aluminum Co. of America v. Essex
Group, Inc.\textsuperscript{41} permitted modification of a contract price term. The AL-
COA court purportedly based its decision on prior case law; however, it
was able to distinguish the factual situation at issue from those of past
holdings which had denied relief.

\textsuperscript{37} \textit{Id.} at 134-35, 140.
\textsuperscript{38} \textit{Id.} at 134 n.7.
\textsuperscript{39} U.C.C. \S 2-615 (1978), Comment 6:

\begin{quote}
In situations in which neither sense nor justice is served by either answer
when the issue is posed in flat terms of “excuse” or “no excuse,” adjustment under
the various provisions of this Article is necessary, especially the sections on good
faith, on insecurity and assurance and on the reading of all provisions in the light
of their purposes, and the general policy of this Act to use equitable principles in
furtherance of commercial standards and good faith.
\end{quote}

\textsuperscript{40} 467 F. Supp. at 135-36 (quoting U.C.C. \S 2-209, Comment 2):

\begin{quote}
The test of “good faith” between merchants or as against merchants includes
“observance of reasonable commercial standards of fair dealing in the trade”
(Section 2-103), and may in some situations require an objectively demonstrable
reason for seeking a modification. But such matters as a market shift which
makes performance come to involve a loss may provide such a reason even though
there is no such unforeseen difficulty as would make out a legal excuse from per-
formance under Sections 2-615 and 2-616.
\end{quote}

\textit{See also} Huffmire, \textit{supra} note 2, at 261-64 for a discussion of other courts’ use of equitable princi-
pies to resolve impracticability cases.

\textsuperscript{41} 499 F. Supp. 53 (W.D. Pa. 1980).
In the *ALCOA* case, the contract price was calculated under an escalation clause linking ALCOA's non-labor production costs to the wholesale price index for industrial commodities. Historically, these two figures had moved congruently; however, subsequent acceleration in the general inflation rate caused a deviation between the figures which the *ALCOA* court determined to be so "extreme"\(^{42}\) that such a variation could not have been a basic assumption of the parties at the time of contracting. The *ALCOA* court found that there was a limit to the foreseeability of the inflation rate. Rates of inflation which exceeded this limit were "unforeseeable in a commercial sense," and the risk of such inflation was not expressly and could not be impliedly assigned to ALCOA.\(^{43}\) Since the possibility that the escalation clause would fail to serve its function due to exceptional inflation rates was not a basic assumption of the parties, the *ALCOA* court turned to the question of the impracticability requirement under 2-615.

The court referred to *Transatlantic* in evaluating the extent of hardship that ALCOA would be subjected to under the contract. After comparing the approximate $44,000 additional expense of Transatlantic with the $60,000,000 projected loss of ALCOA, the court had no difficulty finding that ALCOA's claim constituted impracticability.\(^{44}\)

The *ALCOA* court also cited *Publicker Industries, Inc. v. Union Carbide Corp.* \(^{45}\) for the proposition that a one hundred percent cost increase should be the minimum degree of hardship necessary under section 2-615.\(^{46}\) The natural gas supply contract in *Publicker Industries* contained an escalation clause; however, the clause provided for price adjustments based on the previous year's average cost, with the maximum amount of increase specified for each year of the contract.\(^{47}\) Due to actual price changes arising from the Middle East war in 1973, Union Carbide's cost of performance had doubled and it faced a potential loss of $5,800,000,000.\(^{48}\) However, the court in *Publicker Industries* did not find commercial impracticability and enforced the contract terms. The *ALCOA* court observed that the contract in *Publicker Industries* was executed after the sharp price increase which occurred in 1971, which supported the *Publicker Industries* finding that the seller had assumed the risk of inflation; however, the contract in *ALCOA* had been entered into prior to

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\(^{42}\) *Id.* at 72.

\(^{43}\) *Id.* at 76.

\(^{44}\) *Id.* at 74-75.


\(^{46}\) 499 F. Supp. at 74.

\(^{47}\) 17 U.C.C. Rep. Serv. at 990. In *Publicker Industries*, the contract price was to be adjusted by $.004 per gallon for each $.001 per pound increase or decrease from the base value in the average of the seller's cost for ethylene, the major cost element of ethanol, which was the subject of the contract. However, the increased price was not to exceed a specified price for any given year, as provided in a schedule contained in the contract.

\(^{48}\) *Id.* at 992.
The *ALCOA* court stressed that its application of section 2-615 to the facts in dispute conformed to precedent; however, it is doubtful that other courts will adopt the novel construction of *Transatlantic* contained in the dictum of *ALCOA*. Although the *ALCOA* court had found that the wide variation between the Wholesale Price Index-Industrial Commodities and ALCOA's labor costs were unforeseeable, the court stated that "foreseeability . . . would not preclude relief under the doctrine of impracticability." The court relied on *Transatlantic* as support for rejecting the requirement that a risk be unforeseeable: "Foreseeability or even recognition of a risk does not necessarily prove its allocation." The *ALCOA* court, concluding that the *Transatlantic* position was "more in keeping with the spirit and purpose of the Uniform Commercial Code than . . . the strict approach," declared that contracts should not be enforced if it would be "commercially senseless and unjust" to do so. Although *Transatlantic* does contain language which militates against assigning risk exclusively upon a finding of foreseeability, the *ALCOA* court's interpretation of *Transatlantic* is questionable because risk was allocated on the basis of foreseeability in *Transatlantic*. However, *ALCOA* illustrates the growing judicial awareness of the restrictive effect of foreseeability upon the application of section 2-615.

Some commentators urge that the impracticability provisions of section 2-615 be given a more relaxed reading in order to allow contract modification in a wider range of circumstances. This was the approach of the *Iowa Elec* and *ALCOA* courts. The *Bernina* holding does not represent a reversal in this trend, even though the court upheld the contract in question, because the terms of the contract were not so impracticable as to be within the reach of section 2-615.

In future cases, an attorney may contend that the *Bernina* court recognized that exchange rate variations may make a contract commercially impractical. One problem with such an argument is obviously the foreseeability of the rate fluctuations. In *Bernina*, the foreseeability of possible exchange rate movements at the time of contracting was

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49 499 F. Supp. at 74.
51 499 F. Supp. at 76.
52 Id. (quoting *Transatlantic*, 363 F.2d at 318).
53 Id. at 76.
54 See supra notes 28, 29, 33.
substantiated by the evidence presented. Developments in the case law, however, suggest two ways to offset the damaging effect of such evidence under section 2-615: a policy approach and a direct attack on foreseeability as a question of fact.

The first approach should consist of general policy arguments for liberalization of the commercial impracticability doctrine, stressing the language of the statute and the explanatory official comments. Also, citation of recent cases which reflect a favorable attitude toward deemphasis of foreseeability requirements will add to the persuasiveness and evidentiary weight of the policy arguments.57

The second approach to overcoming the difficulty of a section 2-615 defense should address the unforeseeability requirement established in prior case law. Borrowing the distinction regarding inflation made in ALCOA, it could be submitted that the "extreme"58 variations in exchange rates beyond the normal or predicted range were not foreseeable. The reference by the ALCOA court to a case involving an exchange rate problem strengthens the analogy to inflation.59 Once an outer limit to foreseeable exchange rate variations is ascertained, then extraordinary exchange rate fluctuations could be viewed as a "contingency the non-occurrence of which was a basic assumption on which the contract was made."60 Therefore, the variations in exchange rates could serve as a basis for excuse.

In order to apply the proposed analysis to Bernina, examination of the historical context in which the importer and distributor transacted is necessary. During the severe inflation of the 1960's, the U.S. trade payments deficits and the gold shortage caused a fundamental disequilibrium between the actual worth of U.S. currency and the official par value under the two-tier gold price system.61 In an attempt to relieve the pressure on the dollar, the convertibility feature of U.S. dollars into gold was suspended in 1971,62 accompanied by a devaluation of the dollar. In 1972 fixed exchange rates were imposed; however, by 1973 the dollar was devalued again and a system of floating exchange rates was implemented63 in which the relative "cost" of a national currency was determined by supply and demand, with management of sharp movements only by central banks through the International Monetary Fund.64
"volatility" of exchange rates has been attributed to the general instability of the international economic environment during this period, particularly the oil crisis and OPEC capital flows.65

Although not directly mentioned in the Bernina opinion, the impact of the transition to free floating exchange rates in 1973 was reflected in the importer's action of raising his prices above that allowable by the contract.66 This circumstance is not only significant with respect to the degree of change in connection with risk assumption, but it is arguably a qualitatively67 different risk which was only remotely foreseeable when the contract was executed in 1971. The "collapse"68 of the fixed par value order and resort to a floating exchange rate system could not have been envisioned at the time of contracting in Bernina. However, the abandonment of the gold standard and depreciation of the dollar in 1971 may fairly be said to have foreshadowed the later changes in economic conditions. Finally, it would constitute a dramatic break with precedent to hold that an increase in costs, even a two hundred percent increase, was sufficient hardship to excuse performance in the absence of any financial loss.69

In a future case involving excuse due to variations in the exchange rates, an attorney may use general policy arguments and the direct evidentiary approach to obtain a grant of relief under section 2-615. Signif-


For the remainder of the 1970's, the United States experienced continued inflation and increased trade deficits which resulted in a steady decline of the dollar. A retreat from free floating exchange rates occurred in 1978, when the United States announced a policy of intervention that would not permit the dollar to depreciate indefinitely. M. GILBERT, supra note 62, at 208-09 and 223-25. Currently, a fixed but adjustable peg system of controlling exchange rates exists, which depends primarily on the United States and the European Monetary System to provide for stabilization. 140 P. KORTEWEG, EXCHANGE-RATE POLICY, MONETARY POLICY, AND REAL EXCHANGE-RATE VARIABILITY 13-17 (1980).

66 See 646 F.2d at 437-38 and supra text accompanying note 7.

67 See Note, supra note 29, at 537-38, in which the distinction between quantity of hardship and quality of risk is examined. For example, the normal presumption which flows from long-term contracts that allocation of the risk of inflationary cost increases is borne by the seller should be "irrelevant" when cost increases result from some other cause. The author points out, however, that the reasoning in Maple Farms, Inc. v. City School District, 76 Misc. 2d 1080, 352 N.Y.S.2d 784 (Sup. Ct. 1974), that allocation of risk from one contingency includes risks from other contingencies, indicates that judicial recognition of different kinds of risk will not aid the seller. Thus, "[i]n lieu of definitive analysis, courts are inclined to construct a sliding scale between the degree of variance constituting impracticability and the quality of risks conceivably assumed." See Note, supra note 29, at 538.

But see Florida Power & Light Co., 517 F. Supp. at 454-55 (rejection of the distinction of risk in kind, based on general foreseeability):

Because the future is by definition unknowable, a rule holding the obligor to performance only where he foresees, but fails to guard against, the precise event that renders performance more difficult, would be meaningless. It may be enough that he is (or should be) aware of a certain trend, or that a given state of affairs is in flux, or that an assumption is more than usually uncertain.

(Emphasis in original).

68 O. EMMINGER, ON THE WAY TO A NEW INTERNATIONAL MONETARY ORDER 2-3 (1976).

69 See 646 F.2d at 440 and supra text accompanying notes 21 and 44-46.
icant factors might include differences in the parties' economic acumen and in the information available to them at the time of negotiating. Differences in the particular occurrence which caused the impracticability, and differences in the degree of impracticability could overcome the unforeseeability requirement.

The finding by the *Bernina* court that neither the unforeseeability nor the hardship requirement for commercial impracticability was satisfied would appear justifiable even under the more lenient standards of evaluation. However, despite the lack of success which the excuse of exchange rate fluctuations met in *Bernina*, the theory itself was not discredited. Therefore, if the trend toward affording a wider latitude for impracticability continues, a different factual setting may receive a more favorable determination under section 2-615.

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