



LAO PEOPLE'S DEMOCRATIC REPUBLIC  
PEACE INDEPENDENCE DEMOCRACY UNITY PROSPERITY

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National Assembly

No. 41/PO  
27 July 1990

**DECREE**  
*of the*  
**PRESIDENT**  
*of the*  
**LAO PEOPLE'S DEMOCRATIC REPUBLIC**

**On the Promulgation of the Contract Law**

Pursuant to the Resolution of the session of the National Assembly dated 2 December 1975 on the appointment of the President of the Lao PDR;

Pursuant to the Law on the People's Supreme Assembly of the Lao People's Democratic Republic, No. 04/PSA, dated 19 April 1988;

Pursuant to the Resolution of the 4<sup>th</sup> ordinary session of the People's Supreme Assembly 2<sup>nd</sup> legislature regarding the adoption of the Contract Law No 02/90/PSA dated 10 July 1990.

**The President of the Lao People's Democratic Republic  
Decrees That:**

**Article 1.** The Contract Law is hereby promulgated.

**Article 2.** This Decree enters into force on the date it is signed.

Vientiane, 27 July 1990

Acting President of the  
Lao People's Democratic Republic

*[Seal & Signature]*

Phoumy VONGVICHIT



LAO PEOPLE'S DEMOCRATIC REPUBLIC  
PEACE INDEPENDENCE DEMOCRACY UNITY PROSPERITY

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National Assembly

10 July 1990  
No.02/90

## THE CONTRACT LAW

### Part I General Provisions Chapter 1 General Principles

#### Article 1. Purpose and Function of Contracts

A contract is an agreement between organisations, between organisations and individuals, or between individuals, which [agreement] causes civil rights and obligations to arise, to be modified, or to be terminated.

A contract has the purpose and function of establishing asset-based relationships between various economic sectors<sup>1</sup> and the multi-sectoral economy, [in order] to enhance organisational and individual responsibility towards obligations, [in order to] improve and expand asset-based relationships in people's daily lives and the commodity-currency relationship of the national economic foundation.

#### Article 2. Parties to a Contract

A contract may be established between:

- State or collective organisations;
- State or collective organisations with other legal entities or individuals;
- and
- Legal entities or individuals.

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<sup>1</sup> The term "sector" is used in many older Lao laws to refer to the cluster of government ministries or agencies engaged in a particular activity.

## **Chapter 2**

### **Conditions and Contents of Contracts**

#### **Article 3. Contracting Parties**

Contracting parties comprise obligors and obligees.<sup>2</sup>

An obligor is a party who is obligated to perform a specific task for the benefit of an obligee, such as handing over assets, performing a job, making a payment, and others<sup>3</sup>, or [refraining from the] performance of a specific action.

An obligee is a party who has the right to demand that an obligor perform such obligations.

#### **Article 4. Types of Contracts**

A contract may be made by one, two, or multiple parties.<sup>4</sup>

A unilateral contract is one party's unilateral agreement that causes obligations to arise for that party without reciprocal performance, such as the handing over of assets.

A two-party or a multi-party contract is an agreement made between two or more parties which causes rights and obligations to arise between the contracting parties.

These civil contracts shall become economic contracts<sup>5</sup> if their subject matter is the undertaking of business.

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<sup>2</sup> The Lao language uses the terms “debtor” and “creditor” to describe obligors and obligees regardless of whether the obligation is a money debt. In this translation, the words “obligor” and “obligee” shall be used unless it is clear from the text that a more specific reference is required. In those cases, the translators have used the more specific English terms relating to the specific obligations intended and shall indicate this with footnotes.

<sup>3</sup> The Lao equivalent of “and others” or “etc.” is commonly used to end off lists and series of words. Where no more specific translation is possible, the translators have maintained the literal translations.

<sup>4</sup> Although the Contract Law in this Article mainly contemplates contracts among more than two parties, the rest of the law is drafted as if contracts are between two parties only. This stylistic convention is not intended to detract from the substance of this Article.

<sup>5</sup> Another common translation of this term is “commercial contracts”. Although the term is not used again in this law, the designation of a contract as commercial or economic may have consequences under other laws, such as whether disputes can be brought before specific tribunals or judicial bodies.

## **Article 5. Conditions of Contracts**

Proper contracts shall fulfill the following conditions:

- The contracting parties [must have made the contract] voluntarily;
- The contracting parties must have the capacity to act;
- The purpose of the contract<sup>6</sup> must be precise, exist and be legal;
- The basis for the contract<sup>7</sup> must be legal; [and]
- The form of the contract must comply with the provisions of the laws.

## **Article 6. Voluntary Act of Contracting Parties**

When contracting parties have assented to contract with one another, they shall be deemed to have [made the contract] voluntarily.

[The parties] shall not be deemed to have made the contract voluntarily if either party enters into a contract out of mistake, fraud, threats, or violence, or [if the contract] is not beneficial to one of the parties.

If the purpose [set out in] the contract is not consistent with what the parties [actually] agreed upon, such contract shall be deemed to have been made by mistake.

If one of the contracting parties has used trickery to mislead the other party into assenting to make a contract, the contract shall be deemed to have been made by fraud.

A contract shall be deemed to have been made under threat or violence when either contracting party assents to enter a contract due to fear of such acts endangering that party, [his]<sup>8</sup> family, property, or [his] relatives.

A contract shall be deemed to be not beneficial to one party when the benefits arising from that contract are unequal as between the contracting parties.

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<sup>6</sup> The “purpose” of a contract refers to the “objective” of such contract or the underlying transaction. For example, a non-existent “purpose” might refer to a lease agreement where the property does not actually exist.

<sup>7</sup> The term “basis” is used in the sense of “motive” or “reason”. For example, an illegal “basis” for entering a lease agreement (of an existing property) might be to evade taxes.

<sup>8</sup> The reader should note that the Lao language does not distinguish between genders in pronouns. In this translation, a reference to a gender is a reference to all genders, unless the context requires otherwise. The translators’ decision to use the male gender was made in the interests of simplicity and consistency.

## **Article 7. Capacity to Act**

The capacity to act is the capacity to act on one's own causing one's civil rights and obligations to arise.

A person shall be deemed to have the capacity to act provided that such person is at least eighteen years or older and is not mentally incompetent.

A person who has not yet reached the age of eighteen years old, but is legally married, shall be deemed to have the capacity to act.

An organisation shall be deemed to have the capacity to act provided that the organisation is acknowledged as having the status of a legal entity.

## **Article 8. Purpose of Contracts**

The purpose of a contract is the objective that the contracting parties wish to achieve.

Such purpose must be clear, [must] exist, and [must be] legal, or [must be a purpose] that does not [adversely] affect public order<sup>9</sup> and that is capable of being implemented.

## **Article 9. Basis for the Contract**

The basis for a contract is that which motivates the parties to enter into the contract and to exercise their rights and perform their obligations.

The basis for a contract must exist and be legal.

## **Article 10. Form of Contracts**

A contract must be made<sup>10</sup> in writing. A contract may be made orally if the value of the contract is five thousand kip or less, except for contracts in which an asset is borrowed for use.

A written contract must have a date and the signatures of the contracting parties. A contract may be either [written by] hand or typewritten, and make take [any one of] the following three forms:

- Contracts made in the presence of a government notary, or a village chief together with three witnesses;
- Contracts made among the contracting parties themselves and certified by a government notary or a village chief;

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<sup>9</sup> The literal translation of this term is “social order”.

<sup>10</sup> The terms “made”, “concluded” and “entered into” are used interchangeably to mean a “contract that has come into effect”. The translators have translated the literal terms used.

- Contracts made among only the parties themselves.

Contracts between State or collective organisations, and contracts between organisations and individuals must be made in writing.

#### **Article 11. Contents of Contracts**

The contents of the contracts are the agreed matters which are necessary [to be expressed in order to] enable the contracting parties to exercise their rights and perform their obligations toward one another.

Such agreed matters may comprise:

- The objective, price, period for performance, [method of] settlement, [and details of] delivery;
- The scope, quantity and quality of contractual obligations;
- The place for performance of contractual obligations and the duty to notify<sup>11</sup>;
- The consequences arising from the breach of contractual obligations, [and the] forum for resolving disputes;
- The conditions for modification and termination of contracts before their [natural] expiration.

The objective, price, and period for performance are necessary components of all types of contracts.

#### **Article 12. Offer and Acceptance of Contracts**

In an oral contract, where the offeror does not stipulate a period for acceptance, when the offeree receives the offer, the offeree may accept the offer at any time and place, and at that time and place, the contract shall be deemed to have been entered into.

In a written contract where the offeror has not stipulated a period for acceptance, the offeree must respond to the offeror within thirty days from the day the offer is received.

If the offeror stipulates a period for acceptance, the contract shall be deemed to have been entered into on the date that the acceptance reaches the offeror within the stipulated period of time, and the offeror does not have the right to withdraw [the offer].

If the acceptance is made within the stipulated period, but the acceptance reaches the hands of the offeror later than thirty days, in the event

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<sup>11</sup> The term “duty to notify” is the unqualified, literal translation. Readers may wish to refer to Article 22 for an example of notifications under contracts.

that the offeror [subsequently] accepts [the acceptance], that contract shall be deemed to have entered into.<sup>12</sup>

If the acceptance includes an addendum, deletions, or alterations, which are [subsequently] accepted by the offeror, the contract shall be deemed to have been entered into.

### **Chapter 3 Null Contracts**

#### **Article 13. Null Contracts**

A contract that is made [and] is inconsistent with the conditions provided in Article 5 of this law shall be deemed null.

A contract may be absolutely null or relatively null, in whole or in part.

#### **Article 14. Relatively Null and Absolutely Null Contracts**

1. A contract that is relatively null is a null contract that relates to the rights and interests of individuals only.

A contract that is relatively null is:

- a contract made under fraud or threats, or which is not beneficial to one party;
- a contract made by a person without the capacity to act;
- a contract made by an individual who is unconscious of [his acts];
- a contract made in bad faith by a representative [of a contracting party];
- a contract made by necessity in especially critical situations.

If a relatively null contract is agreed to or approved by the party whose rights and interests are [disadvantaged by any of the above situations], the contract shall be deemed to be valid.

2. An absolutely null contract is a null contract relating to the common rights and interests of the State or society.

An absolutely null contract is:

- A contract made that conflicts with State or public interests;

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<sup>12</sup> In Article 12, paragraph 4, the phrase “later than thirty days” does not specify the starting point from which such “thirty days” is counted nor does it specify whether the period referred to in this paragraph is a period set by an offeror or, possibly, the period of thirty days stipulated by this law for offers that do not stipulate a period. If one interprets the paragraph to mean “thirty days after the expiry of the stipulated period”, then Article 12 does not appear to address the situation where acceptance reaches the offeror within thirty days after expiration of the stipulated period for acceptance.

- A contract made by a legal entity that conflicts with the articles of association of such legal entity;
- A contract made in concealment;<sup>13</sup>[or]
- A contract made that violates the [legal requirements] as to the form of contracts.<sup>14</sup>

The contracting parties have no right whatsoever to agree upon or to approve an absolutely null contract.

#### **Article 15. Contracts Null in Whole or in Part**

In the event that the reason causing nullity is related to all parts of a contract, that contract shall be deemed to be wholly null and invalid.

If the reason causing nullity is related to any part of a contract, only that specific part of the contract shall be deemed null, while the remaining parts shall remain valid.

#### **Article 16. Invocation of Nullity**

A null contract may be nullified.<sup>15</sup>

If either contracting party knows that a concluded contract is null, that party must immediately notify the other party in order to invoke the nullity of such contract.

In the event that the other contracting party does not agree to nullify the contract, the notifying party shall apply to the court for nullification of the contract.

Parents or guardians of minors or those who are mentally incompetent have the right to request the nullification of [null] contracts.

Minors [or] those who are mentally incompetent have the right, within a period of three years after having reached their majority or after regaining the capacity to act, to invoke the nullity of contracts that they have made [while they were minors or in a state of mental incompetence]<sup>16</sup>.

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<sup>13</sup> This term refers to the civil law “counter letter” or “secret act” where the parties agree secretly to arrangements that contradict the apparent state of affairs, for example, where parties purportedly agree to transfer assets from one to the other but then secretly execute a second “contract” to transfer back the property.

<sup>14</sup> See Article 10.

<sup>15</sup> Common law lawyers may wish to note that the term “null” as used in this Chapter does not connote “automatically of no effect” in all cases, hence this is a somewhat awkward sentence. As ought to be clear from the context, the nullity must be invoked by specified persons in the specified manner in order to nullify the contract and thereby trigger the effected described in Article 17.

<sup>16</sup> For readability, the structure of this sentence has been modified.



For relatively null contracts, only the contracting parties may invoke such nullity. For absolutely null contracts, all those who have related interests have the right to invoke such nullity.

#### **Article 17. Consequences of Null Contracts**

When a contract has been acknowledged as null:

1. The assets applied by each contracting party [towards the performance of the contract] shall be returned to such party, in the following cases: a contract was made [and is] inconsistent with legal principles, a contract of a legal entity was made in conflict with the purpose or objectives of the activities of such legal entity, a contract was made by a minor, a contract was made by a person who is mentally incompetent, a contract was made by a person who is unconscious [of his acts] or a contract was made which is not beneficial to one party.
2. The applied assets must be returned to the damaged party in the case where the contract was made by fraud or threats. The applied assets of the other party shall be confiscated by the State.
3. In the case where a contract is made which conflicts with the interests of the State or society, all applied assets shall be confiscated in their entirety.

### **Chapter 4 Contract Performance**

#### **Article 18. Principles of Contract Performance**

Contracting parties must perform a concluded contract in good faith and completely within the period [for performance] and at the location specified by the contract or by the laws.

Contracting parties are forbidden to refuse performance of contractual obligations or to unilaterally alter the contents of a contract, except where allowed by the laws. Obligees have the right to reject incomplete performance of contractual obligations, unless otherwise stipulated by the contract or by the laws.

#### **Article 19. Period for the Performance of Contractual Obligations**

Contractual obligations must be performed within the stipulated period [for performance] and in accordance with the terms of the contract or the laws.

If the period for performance of contractual obligations is not provided for, the obligee has the right to demand performance and the obligor has the right to render performance at any time. In the event that the obligee demands performance, the obligor is obligated to perform such contractual obligations within fifteen days from the day the obligee makes the demand.

The obligor may perform its obligations before the period [for performance] if such performance does not conflict with the contract or with the laws and the obligee agrees.

## **Article 20. Location of Performance of Contractual Obligations**

Contractual obligations shall be performed at a location determined by the contract or by the laws. If such location is not so determined, contractual obligations shall be performed at the following locations:

1. The obligation to hand over a constructed building shall be performed at the construction site;
2. Financial obligations shall be performed at the address of the obligee at the time such obligations arise, with the only exception [being] financial obligations of State organisations, collectives, and social organisations.

If the obligee has moved to another address during the performance of obligations and has notified the obligor, the obligation shall then be performed at the obligee's new address, while all the expenses for the performance of such obligations shall be the burden of the obligee;

3. Other contractual obligations shall be performed at the obligor's address at the time that the contractual obligations arise. If the obligor is a legal entity, performance shall be at the offices of that legal entity.

## **Article 21. Settlements**

For settlements, the obligee [who has the right to receive settlement]<sup>17</sup> must issue a receipt on its own or in accordance with the obligor's request. This receipt must be made immediately or, at the latest, within two weeks after contractual obligations have been performed. [Legal] settlement shall [only be deemed to take place] after the receipt has been issued.

The receipt holder shall be considered to have received the money in the amount stipulated in the receipt, unless otherwise provided in the contract.

Settlements may be made in cash, transfer money<sup>18</sup>, checks, in kind or labour as agreed to by the obligee.

In the case of settlement by check, the date of settlement is the date the obligee receives the check. In settlements by transfer money, the date of settlement shall be deemed the date the obligee receives a credit notice [that such payment has been credited to the obligee's account]. For settlements

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<sup>17</sup> This reference is to the party or "creditor" who has the right to receive settlement, i.e., the obligee in respect of that right. Such obligee may well be the obligor in respect of other contractual obligations that accrue to the benefit of the other party.

<sup>18</sup> This appears to be a reference to electronic and wire transfers.

made by mail, the settlement date shall be the date the obligor transfers money or assets by post.

#### **Article 22. Notification of Difficulties in Contract Performance**

When difficulties arise in the performance of a contract, [and] despite having made its best efforts a contracting party cannot perform its contractual obligations in the regular manner, it must inform the other party of the cause of such difficulties within an appropriate time prior to the expiry of the period for performance.

Notification of such difficulties shall not constitute cause to release the obligor from its responsibilities. After such difficulties have ended, the obligor shall still have to perform its contractual obligations.

#### **Article 23. Enforceability of Contracts on Other Individuals**

An obligee has the right to transfer its rights to other individuals ([each] referred to as a new obligee) to demand assets from the relevant obligor.

The obligee must transfer documents relating to such demands for debts to the new obligee and must be liable to [him] if the transferred right does not exist.

In the event that an obligee dies, a successor to an inheritance has the right to demand assets from the relevant obligor.

An obligor also has the right to transfer [his] obligations to others ([each] referred to as a new obligor) to perform in [his] place, but the obligee must first agree [to such transfer]. In the event that an obligor dies, a successor to an inheritance shall perform the obligation in [his] place.

### **Chapter 5 Measures to Ensure Contract Performance**

#### **Article 24. Ensuring Contract Performance**

In ensuring reasonable contract performance, in order to meet the demands of obligees or to compensate for damages, which may arise subsequent to non-performance of a contract or unreasonable contract performance, the law allows the application of various measures, such as pledges, guarantees, and penalties.

#### **Article 25. Pledge**

A pledge is an agreement between contracting parties whereby one party (called the pledgor) deposits assets with another party (called the pledgee) to secure the repayment of debts, and the pledgor has the right to redeem [such assets] according to the time provided for in the loan contract.

If the pledgor does not redeem those assets according to the agreed time period, the pledged assets shall become the property of the pledgee. In the event that those pledged assets have a higher value than the debt, the pledgee may [keep the assets, subject to the obligation to pay back such difference in value,] or sell the assets. After deducting principal and interest, the balance of the money must be returned to the pledgor.<sup>19</sup>

If the amount of money from the sale of the pledged assets is insufficient to compensate the pledgee, the pledgee has the right to demand the shortfall from the pledgor.

#### **Article 26. Forms of Pledge and Assets that can be Pledged**

A pledge must be made in writing and may be made at the same time or after the loan contract. The pledge contract may be made in the loan contract or separately.

Pledged assets must belong to the pledgor. The person [delivering possession of the pledged asset] may be the pledgor himself or another individual.

#### **Article 27. Rights and Obligations of Pledgees and Pledgors**

In the event that pledged assets generate any benefit<sup>20</sup>, such benefit shall be the property of the pledgor. If the pledgee wishes to keep such benefit, he must settle payment [with the pledgor].<sup>21</sup>

The pledgee has the obligation to protect, but does not have the right to make use of, such assets during the period of the pledge, except in cases provided by the contract.

If pledged assets are destroyed or damaged due to the fault of the pledgee, [the pledgee] must be liable, except if such [loss or damage] occurred as a result of an accident or by force majeure.

In the event that the pledgee incurs expenses in protecting the pledged assets, [the pledgee] has the right to demand reimbursement of such expenses.

The pledgor has the right to redeem the pledged assets at the agreed upon time.

If the pledgor dies before the time scheduled for redemption of pledged assets, [his] successor has the right to redeem such pledged assets.

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<sup>19</sup> For readability, the structure of this paragraph has been modified.

<sup>20</sup> This term would include progeny of pledged livestock or fruits from pledged trees.

<sup>21</sup> This is a literal translation. One example would be where the pledgee keeps the physical/tangible benefit generated by the pledged asset and pays the pledgor its value.

## **Article 28. Priority of Debt Repayment**

Any obligee holding pledged assets shall have priority for debt repayment before other obligees who do not hold pledged assets.

Pledged assets are to be sold and [the proceeds therefrom] are to be applied first to fully repay the debt to the obligee who holds the pledged assets. The balance is to be applied to repay debts to other obligees.

## **Article 29. Guarantee by Assets**

A guarantee by assets is a security whereby the obligor does not deposit assets with an obligee, but instead only deposits documents of title relating to such assets with the obligee.

## **Article 30. Guarantee by an Individual or Legal Entity**

A guarantee by an individual or legal entity is a security whereby such individual or legal entity agrees to guarantee debt repayment in the place of an obligor when an obligor does not perform according to a loan contract.

In guaranteeing debt repayment of an obligor, a guarantor may guarantee all or part of the debt. Upon expiration of the period stipulated in the contract, the obligee must first demand repayment from the obligor. If the obligor does not repay the debt, the obligee may then demand such [debt] from the guarantor.

The guarantor must repay the debt on behalf of the obligor, fully or partially, as agreed to in the contract.<sup>22</sup>

In the repayment of a debt, a guarantor is only obligated to pay the principal; interest and others fees are to be borne by the obligor, unless otherwise agreed to in the contract.

In the event that an obligor is only able to partially repay a debt, the guarantor must repay the remaining balance. A guarantor who has paid a debt on behalf of the obligor becomes the obligee to that obligor, and has the right to demand repayment of the principal [he or she] has already paid, including interest.

The guarantor has the right to protect the obligor whom [he or she] has guaranteed. The obligor and the guarantor are obligated to inform one another regarding their [respective] debt repayments.

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<sup>22</sup> The original text does not specify whether “the contract” refers to the guarantee contract or the loan contract.

### **Article 31. Penalties**

A penalty is a measure applied against those who do not perform their contracts or who have rendered incomplete performance or untimely performance.

Penalties are to be applied according to specific regulations of relevant sectors or as agreed between the contracting parties agree in the case where that there are no specific regulations.

## **Chapter 6 Modification, Termination, and Expiration of Contracts**

### **Article 32. Modification or Termination of Contracts**

A contract can be modified or terminated if the contracting parties agree to [such modification or termination].

If there is a breach of contract, the disadvantaged party may modify or terminate the contract unilaterally.

Modification or termination of a written contract must be made in writing.

When a contract is terminated, all [reciprocal] obligations performed [by both parties as of such date] shall be considered as completed. If one party has already performed its obligations, the party with reciprocal obligations must make performance. [Reciprocal] obligations [which neither party has] yet performed are terminated.

### **Article 33. Expiration of a Contract**

A contract shall expire in the following cases:

- The contract is correctly and fully performed;
- Contracting parties have merged into one;
- Contracting parties agree;<sup>23</sup>
- The contract cannot be performed;
- Any of the contracting parties has died and no third person can continue performance; [or]
- A contracting party that is a legal entity has been dissolved or becomes bankrupt.

In the event that any legal entity is dissolved or becomes bankrupt, the party contracting with that legal entity has the right to demand expenses and

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<sup>23</sup> The translators believe that this may be a reference to the parties' agreed "expiration date" of the contract as set out in the contract, but there is insufficient textual evidence to depart from a literal translation.

[compensation for] damages from the person responsible for the assets of the dissolved or bankrupt legal entity.

## **Chapter 7 Dispute Settlement**

### **Article 34. Methods of Dispute Settlement**

In the performance of a contract, contracting parties may not be able to agree on certain matters. When a contracting party finds that it is disadvantaged by a contract, such as when the contract is null, [or] there is non-performance or incomplete performance, that party has the right to request the other party to remedy the problem. If the party so requested does not agree, the requesting party has the right to lodge a claim with the courts for settlement of the dispute. If such dispute is an economic dispute between organisations, or between organisations, economic units and foreign parties, the organisation [responsible for] economic arbitration shall settle such disputes.

### **Article 35. Limitation Period**

The limitation period for [bringing a claim under] a construction contract is ten years and three years for other contracts, such as loan and asset rental contracts.

The limitation period shall commence from the expiration of the term of the contract.<sup>24</sup>

The limitation period shall be tolled if:

- An accident or force majeure prevents the filing of a claim;
- The plaintiff or the defendant is attached to the armed forces and is sent to the front lines or is engaged in war.

After the period of tolling has ended, the limitation period shall resume.

The limitation period shall stop when there are definite acts of the litigants or the contracting parties [that] acknowledge the debt. In this case, the limitation period shall start all over again.

### **Article 36. Effect of a Breach of Contract**

A breach of contract means non-performance of contractual obligations, in whole or in part, or unreasonable performance of obligations by either contracting party, such as low quality performance of obligations, untimely performance, [or] performance not according to locations as specified by the contract.

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See Article 33 and footnote 23 relating to expiry when “parties agree”.

If either contracting party breaches a contract, that party must be liable to compensate [the other party] for damages which arise, except if the contract breach occurred as a result of an accident or force majeure such as lightning strikes, floods, earthquakes, etc.

**Part II**  
**Types of Contracts**  
**Chapter 1**  
**Sale-Purchase and Exchange Contracts**

**Article 37. Sale-Purchase Contracts**

A sale-purchase contract is an agreement between contracting parties whereby the seller must transfer assets to the ownership of the buyer, and the buyer must accept such assets and must pay an agreed price.

A seller may sell any asset that [he or she] owns.

In making a [sale-purchase] contract, the seller must inform the buyer regarding any other person's rights to the assets sold, such as whether such assets have been rented to [another person]. Failure to do so shall give the buyer the right to request termination of the contract and demand compensation for damages or a reduction of the sale price. If the assets sold to the buyer are confiscated by the decision of a court or of the organisation responsible for economic arbitration, the seller must compensate the buyer for damages.

When ownership rights pass to the buyer prior to the delivery of the assets, the seller still has the obligation to protect such assets from loss or damage until the buyer takes delivery.

The buyer becomes the owner of assets that [he or she] has purchased from the time that the buyer pays money to the seller and the seller delivers the assets to the buyer, or from the time that the buyer has paid money, whether or not the seller has transferred such assets, or from the time that the seller has transferred such assets, whether or not the buyer has paid money to the seller.

The buyer has the obligation to pay for and take delivery of assets sold as stipulated in the contract.

**Article 38. Quality of Assets Sold**

The quality of assets sold must conform to the contents of the contract. If the assets sold are not of the quality provided for in the contract, the seller must be liable for such assets.



In the event that the buyer knows that such assets are of poor quality, the buyer has the right to request an exchange of the assets sold for the same kind of assets which are of the [expected] quality or to request a price reduction or to terminate the contract while also demanding compensation for damages.

The buyer has the obligation to inspect the assets being purchased and must inform the seller urgently in the event that deficiencies are discovered in the assets being purchased. Otherwise, the buyer must be responsible for such deficiencies [himself].

### **Article 39. Credit Sales of Goods**

In the sale-purchase of goods, the seller may sell such [goods] on credit. The buyer acquires ownership rights to goods sold on credit from the day the seller transfers such goods [to the buyer], unless the laws or the contract provide otherwise.

If such goods<sup>25</sup> must be registered, the buyer's ownership rights shall arise from the date of registration.

The sale of goods on credit must be performed in conformity with prices agreed to on the date of sale. Any subsequent change to the price of goods sold on credit shall not change the agreed upon price.

### **Article 40. Purchase of Illegally Acquired Assets**

Where any individual buys assets in good faith at the then reasonable market price, and makes use of assets openly, continuously, and peacefully, the owner of the assets shall only be able to seek return of those assets when [he or she] compensates the buyer at the buyer's purchase price, but [he or she] shall have the right to subsequently sue the seller.

In the event that a buyer purchases assets in bad faith, the owner has the right to seek the return of those assets without any compensation to the buyer. The buyer may demand reimbursement of the purchase price of such assets from the seller, but [he or she] shall not have the right to file a claim in court.

### **Article 41. Delivery of Goods or Assets Sold**

A seller shall deliver goods or assets sold to the address of the buyer or to any other location as agreed.

A buyer has the obligation to accept the goods or assets delivered to [him]. Payment for transportation costs shall be subject to agreement between the contracting parties.

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<sup>25</sup> The Lao word in the original text is “asset”, but that term appears to be inconsistent with the context.

If a seller fails to deliver the goods or assets sold at the agreed upon time, the buyer may reject [delivery of] such goods or assets.

In the case where a buyer has paid delivery costs, the buyer may require the seller to pay interest according to the laws and according to the days of delay.

If a seller delivers goods or assets sold that are incomplete as to quantity, incomplete as a set<sup>26</sup>, [or] lacking in quality as agreed to [between buyer and seller], the buyer may refuse to accept and refuse to pay for such goods. If the buyer has already paid for the goods, the seller shall have to return the money and may have to compensate the buyer for damages.

#### **Article 42. Exchange Contract**

An exchange contract is an agreement between contracting parties whereby a party gives assets to another party and that party gives other assets in return.

An exchange contract shall be performed in accordance with the regulations governing sale-purchase contracts.

### **Chapter 2 Consignment Contracts**

#### **Article 43. Consignment Contracts**

A consignment contract is an agreement between contracting parties for the sale-purchase of assets which the seller has the right to purchase back within three years at the same price at which [he or she] sold such assets.

Upon the expiration of the three year period, the seller has the right to extend the term of the consignment, in the case where [such right to extend] was previously agreed upon while making the contract, but not to exceed one year.

At the expiration of the term, if the seller does not repurchase the assets, the buyer shall become the absolute owner of such assets.

#### **Article 44. Effect of a Consignment Contract**

If the consignment assets yield any benefit, the buyer who has already paid for them in their entirety shall be the owner of such benefit.<sup>27</sup> In the event that a buyer has not yet made full payment on such assets, the buyer may keep

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<sup>26</sup> The term “incomplete” as used here would refer to goods or assets that, for example, are not assembled.

<sup>27</sup> See footnote 21 regarding Article 27.

such benefit provided that [he or she] has paid interest to the seller based on the outstanding amount.<sup>28</sup>

#### **Article 45. Protection of Assets on Consignment**

A buyer must protect assets on consignment. A seller must reimburse a buyer for expenses that [he or she] incurs in protecting such assets. In the case where such expenses are minimal, they shall be borne by the buyer [himself]. A buyer may make use of such consigned assets.

If a seller repurchases the assets within [the stipulated] period of time, the buyer must return those assets in their original condition.

### **Chapter 3 Loan Contracts and Asset Borrowings**

#### **Article 46. Loan Contracts**

A loan contract is an agreement between contracting parties whereby the lender must transfer money or assets to become the property<sup>29</sup> of the borrower and the borrower must return the borrowed funds or assets in the same quantity and quality as that which was borrowed to the lender at the agreed time as stipulated in the contract.

If a time is not stipulated in the contract, performance shall be in accordance with the lender's offer, as provided for in Article 19 of this law.

A loan contract may specify the purpose for which the money or assets so loaned are used and the borrower must use such money or assets as stipulated in the contract.

Loans of money or assets may bear interest provided that such [interest obligation] is stipulated in a contract.

Interest on bank loans must conform to regulations of the lending bank.

When borrowing money from [persons] other than banks, computation of interest can exceed [the interest charged on] bank [loans], but by no more than three percent annually.<sup>30</sup>

In lending money, it is prohibited to include interest in the principal and interest cannot exceed principal.<sup>31</sup>

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<sup>28</sup> The term "outstanding amount" presumably refers to the "outstanding amount of purchase price" but it is not stated in the original text nor is it stated how "interest" might be determined.

<sup>29</sup> The Lao term is literally "property" or "ownership", even though the context of this Article is a lending.

<sup>30</sup> For readability, the structure of this sentence has been modified.

When repayment is due as stipulated in the contract, if a lender refuses to accept money or assets from the borrower, there shall be no further calculation of interest.

For loans from abroad, the interest calculation shall be based on the agreement between the contracting parties.

#### **Article 47. Spousal Liability for Debts**

A married couple [jointly] or either of them [individually] must be liable for loans of money or assets in the following cases:

- The husband and the wife have together borrowed money or assets;
- The husband or the wife alone borrows money or assets for family use; [or]
- The husband or the wife alone borrows money or assets for his personal interest. In the event that the [other spouse] pays [such] debt, [she or he] has the right to reimbursement upon division of matrimonial property.

#### **Article 48. Contracts for the Borrowing of Assets for Use**

A contract to borrow assets for use is an agreement between contracting parties whereby the lender has handed over assets to the borrower to use free-of-charge and the borrower must return them to their owner in their original condition at the agreed time.

In the event that the borrowed assets suffer loss or damage while being borrowed, the borrower must be liable, unless otherwise agreed in the contract.

If [a borrower] is unable to return the borrowed items to the owner, the borrower may compensate the owner with money or other assets as the lender may agree and at the then market price.

### **Chapter 4 Contract for Rental of Assets**

#### **Article 49. Contract for Rental of Assets**

A contract for the rental of assets is an agreement between contracting parties whereby the lessor hands over assets that belong to [him] to the lessee for temporary use and the lessee must pay rental at the agreed upon price and time.

A contract for the rental of assets may be made for an indefinite period. In this case, the lessor or the lessee has the right to terminate the contract at any time, but must notify the other contracting party three months in advance

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<sup>31</sup> It would appear that, technically, compounded interest is prohibited.

for immovable property, such as houses and buildings, and one month [in advance] for the lease of movable property, such as cars, boats, and animals.

Before transferring such rental assets, the lessor must notify the lessee of any defects or special characteristics of such assets.

In the event that the lessor fails to give notice regarding such defects or special characteristics, if loss or damage occurs from such [failure], the lessee shall not be liable [for such loss or damage].

#### **Article 50. Payment of Rental for Assets**

In the rental of assets, the lessee may pay rental on a daily, weekly, monthly, [or] annual basis or in advance. In the event that a lessee pays in advance, but the contract is terminated before its term, the lessor must return the remaining rental from any advance payment [to the lessee] and [the lessor] has the right to claim compensation from the lessee [if such lessee] has breached the contract.

In the event that a lessor breaches the [rental] contract, the lessee has the right to demand the return of the balance of the advance payment and compensation for damages from the lessor.

#### **Article 51. Use and Repair of Rental Assets**

The lessee must use assets rented in conformity with the contract and [normal] usage, manage and maintain them in reasonable condition, and return such assets to the lessor in their original condition after expiration of the contract. The lessee must be responsible for loss or damage arising from his wrongdoing.

During the use of rental assets, there may be repairs, which shall be borne by the lessor or the lessee.

Minor repairs, such as repairing keys, tarring [leakage repair], repair of tires, shall be borne by the lessee.

Major repairs, such as re-roofing and engine overhauls, shall be borne by the lessor.

#### **Article 52. Change of Ownership of Rental Assets**

In the event that the lessor transfers or sells rental assets to other persons, the rental contract shall remain effective for the new owner, but the lessor must first inform the new owner that the assets are being used by another person.

## **Chapter 5 Bailment**

### **Article 53. Bailment**

A bailment contract is an agreement between contracting parties whereby the bailor deposits assets with the bailee to protect and maintain [such assets] and the bailee must return those assets in their original condition upon demand.

A bailment may incur a fee or be free of charge, depending on the contracting parties' agreement or specific regulations.

In the event that a bailment has a time limit, the bailee does not have the right to return the bailed assets before the end of the term, except in necessary cases, whereas the bailor may demand return of the bailed assets before expiration of the term. Payments for bailments shall be calculated according to the actual duration of the bailment, unless otherwise stipulated in the contract.

If a bailment has no time limit, the bailor may demand the return of the bailed assets at any time and the bailee has the right to demand that the bailor take back his bailed assets at any reasonable time.

### **Article 54. Obligations of a Bailee**

The bailee has the obligation to protect the bailed assets from any loss, damage, or deterioration, and to return the bailed assets to the bailor in their original condition.

The bailee does not have the right to make use of or transfer such assets into the care of other persons to protect the bailed assets on his behalf, unless authorised by the owner of such assets. If the bailed assets yield any benefit, the benefit shall belong to the bailor.

If the bailed assets suffer loss, damage or deterioration, the bailee must immediately notify the bailor.

The bailee must be liable for such loss[, damage or deterioration], unless such loss[, damage or deterioration] arose due to an accident or force majeure.

### **Article 55. Obligations of a Bailor**

The bailor has the obligation to notify the bailee regarding defects or special characteristics of the bailed assets, [and] upon such [notification], the contracting parties are to jointly inspect the actual condition of the bailed assets.

If the bailor does not notify the bailee regarding the special characteristic of the bailed assets and [such failure] causes damage to the bailee or to the bailed assets, the bailor must be liable for damages that arise.

The bailor must accept [a return of] the bailed assets at the scheduled time and pay for the bailment if the parties have so agreed.

If the contracting parties agree to pay bailment fees from the date of signing the bailment contract, any delay in the handover of bailed assets shall be the responsibility of the bailor. Additionally, the bailor shall be liable for delays in accepting the return of the bailed assets.

When the bailee incurs expenses in protecting the bailed assets, the bailor must reimburse such expenses.

In the event that the bailed assets are of a fungible nature and are perishable and the bailor does not take back such assets on schedule, the bailee has the right to sell such assets and deduct bailment fees while any remaining amounts must be returned to the bailor.

## **Chapter 6**

### **Contract of Mandate**

#### **Article 56. Contract of Mandate**

A contract of mandate is an agreement between contracting parties whereby the mandatary must perform an act on behalf of and at the expense of a mandator. The mandator has the obligation to pay compensation to the mandatary if specified in the contract or in the laws.

The mandatary shall perform the acts according to the mandate only if he is provided with a power of attorney [to do so], except for performing any acts of minor importance.

A mandate to a mandatary is made in writing and must not exceed three years. If the term of the mandate is not specified in the mandate, the mandate shall be effective for a period of one year from the date of making the power of attorney.

Parents or guardians of minors, a husband or a wife, may act on behalf of one another without a power of attorney.

#### **Article 57. Obligations of Mandataries**

The mandatary has the obligation to execute the mandate by [himself] according to the mandator's instructions in good faith and in the same manner as if such were [his] own task. If the mandatary cannot perform [the mandate] by [himself] due to an accident or force majeure, [he] has the right to transfer the mandate to another person to perform the mandate in [his] place, but must notify the mandator immediately regarding that person's personality and

competence to seek approval from the mandator for such [transfer of mandate]. Otherwise, the mandatary shall be liable for any loss arising to the mandator due to that person's acts. The mandatary also has the obligation to immediately report and hand over to the mandator any assets, money, or documents acquired from the performance of the mandate.

In the event that the mandatary causes damage to the mandator in the performance of matters which have been assigned to [him], [he] is liable to compensate the mandator for damages.

#### **Article 58. Obligations of Mandators**

The mandator must ensure [the availability] of materials which are necessary to the mandatary's performance of the work, must acknowledge<sup>32</sup> the work performed by the mandatary within the scope of [his] mandate, must compensate the mandatary in the event that such [compensation] is stipulated in the contract and must acknowledge the mandatary's expenses incurred in the performance of the mandate. The mandator has the right to refuse any work implemented by the mandatary that does not conform to [his] instructions or which are beyond the scope of the mandate.

If the mandator refuses to acknowledge the work that the mandatary has performed in accordance with the mandate, as well as incurred expenses, the mandator is liable to compensate the mandatary for all damages.

### **Chapter 7 Service Contracts**

#### **Article 59. Service Contracts**

A service contract is an agreement between contracting parties whereby the service provider must serve, do, or create some thing according to the requirements of the service user who must pay for the services at the agreed upon price.

The service provider is obligated to hand over items that [he or she] has made or completed to the service user on schedule and must ensure quality.

In the event that the service provider makes or creates something that is of low quality, the service user may refuse such services. [In this case,] the service provider does not have the right to demand service fees and must compensate the service user for the cost of materials and equipment if such materials or equipment were supplied by the service user.

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<sup>32</sup> The term "acknowledge" appears to be used in the sense of "adopt" or "ratify" the acts of one's mandatory.



The service user is obligated to accept the service provider's completed [work or materials] and also pay service fees.<sup>33</sup>

If the service user supplied poor quality materials and equipment and the service provider has notified the service user of the defects in such materials and equipment, the service user shall be liable and shall pay for the service. In the event that a service user needs to change the service provider, [he or she] must pay the former service provider for the fully or partially completed [work or materials].

## **Chapter 8**

### **Construction Contracts**

#### **Article 60. Construction Contracts**

A construction contract is an agreement between contracting parties whereby a contractor must build a definite item<sup>34</sup> according to the project<sup>35</sup> of the project owner with materials and equipment provided by the project owner or by [himself]. The project owner must accept and pay for built items [that meet the specifications].

The contractor has the right to propose to the project owner that [he or she] is not capable of performing according to the project owner's instructions or not able to use [the project owner's] materials, equipment or means that are sub-standard.

If the project owner does not resolve [such matters] within an appropriate time, the contractor has the right to request termination of the contract and to demand compensation for damages.

In the event that materials, equipment or means belong to the project owner, the contractor must make proper use of [them]. If such use is improper, [the contractor] is liable. Additionally, the contractor is obligated to give an accounting of his use of such materials and equipment and must return remaining materials and equipment to the project owner.

The project owner has the right to inspect constructed items. If the items are not constructed [at all] or are not constructed according to the specifications in the contract, which causes the constructed item to be of sub-standard quality or [non-functional], the project owner has the right to demand remedy or repair within an appropriate period or to demand [compensation for] damages if the expenses of such repair involved [his] materials,

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<sup>33</sup> Although not stated explicitly, this paragraph appears to refer to the case where the service provider's work or materials meet the specifications.

<sup>34</sup> The term "definite" is used here to indicate that the project owner has defined specifications for the item.

<sup>35</sup> This is a literal translation. The meaning appears to be "project plans".

equipment or means. In special cases, the project owner may request the termination of the contract and demand compensation for damages.

Materials, equipment or means supplied by the project owner must be of [reasonable] quality, meet [reasonable] standards and be [delivered] on schedule.

#### **Article 61. Quality Assurance for Constructed Items**

The contractor must ensure that constructed items meet [all standards and requirements] according to construction regulations.

If, after the project owner accepts constructed items, there are still defects in their construction, the project owner has the right to demand that the contractor repair such [defects] without any [additional] repair costs [to the project owner] if the [warranty] period has not yet expired.

### **Chapter 9 Transportation Contracts**

#### **Article 62. Transportation Contracts**

A transportation contract is an agreement between contracting parties whereby a party is a carrier liable for transporting passengers, cargo, or goods to a destination or according to the other party's requirements.

Transportation may take place by surface, by water, or by air, and must be performed according to specific regulations.

The carrier has the obligation to safely transport passengers, to deliver assigned cargo or goods to their destination and to hand them over to recipients who have the right to receive such cargo or goods. Passenger and transport fees may be paid in advance or afterwards, as agreed.

If an accident occurs, the carrier must be liable for travellers who die or are injured, for damaged cargo or goods damaged during transportation, unless caused by an accident or force majeure.

### **Chapter 10 Partnership Contracts**

#### **Article 63. Partnership Contracts**

A partnership contract is an agreement between two or more persons whereby they agree to contribute their money or assets for investment to conduct business and for profit-sharing.

Partners may make any agreement in conformity with the regulations relating to partnership enterprises.

**Article 64. Duration of a Partnership Enterprise**

A partnership enterprise shall terminate as follows:

1. When the partnership contract expires;
2. In the event that the partnership contract does not specify a term, the partnership enterprise shall terminate when:
  - The capital of the partnership becomes less than the [amount] specified by the laws;
  - The partnership enterprise cannot continue its operations;
  - A partner dies without successors to inheritance to continue business operations.

**Article 65. Settlements**

When a partnership enterprise terminates, if there is no separate agreement in the contract, the distribution of profits or losses shall be in accordance with each person's partnership share.

Vientiane, dated 10 July 1990  
President of People's Supreme Court