

## WHAT HAPPENS IF MY BUSINESS CAN'T PERFORM ITS CONTRACT DUE TO THE CORONAVIRUS?

Many businesses are experiencing interruptions in their operations due to the coronavirus outbreak. These interruptions can be caused by business closures, quarantines, and restrictions on travel and large gatherings. In response to these interruptions, businesses may find themselves unable to perform their contractual obligations or have a vendor or customer that is no longer fulfilling its contractual obligations. Either way, it is important to determine whether nonperformance is excusable given the global pandemic.

Businesses concerned about meeting their contractual obligations due to the coronavirus should review their contracts to determine their options. For instance, many contracts contain a *force majeure* or "Act of God" clause, which may excuse a party's nonperformance when extraordinary events outside of the party's control prevent a party from fulfilling its contractual obligations. Each situation is unique and such a clause may apply for some businesses and not for others. It is important to note that the occurrence of an extraordinary event alone does not excuse performance. Rather, a party seeking to invoke a *force majeure* clause must also show its mitigation efforts and that the event made performance truly impossible. Because the coronavirus pandemic is an uncontrollable and extraordinary event that may prevent a party from performing under a contract, the coronavirus could be considered a *force majeure* event.

A party seeking to excuse its nonperformance based on the coronavirus should review the relevant contract's *force majeure* clause. After all, whether an event qualifies as a *force majeure* event depends on the specific language included in the *force majeure* clause itself. Many contracts will specifically define what constitutes a *force majeure* event. If the parties have defined a *force majeure* event as any event outside the parties' control, then courts may be more inclined to find that the clause encompasses the coronavirus pandemic. Further, courts may apply a *force majeure* clause that specifically lists "acts of government," "pandemics," or "quarantines."

It is important to note that a drop in a customer base alone may not result in the application of a *force majeure* clause. For example, in 2018, one federal district court concluded an egg buyer was not relieved of its obligation to purchase eggs because of a drop in demand under

Iowa law, but acknowledged a drop in supply due to an outbreak of avian flu might have constituted a *force majeure* event. *Rexing Quality Eggs v. Rembrandt Enterprises, Inc.*, 360 F. Supp. 3d 817 (S.D. Ind. 2018).

To reach this conclusion, the court applied the Restatement on Contracts, which is used by Wisconsin courts. Specifically, the court looked to the following guiding principal:

Where, after a contract is made, a party's performance is made impracticable without his fault by the occurrence of an event the non-occurrence of which was a basic assumption on which the contract was made, his duty to render that performance is discharged, unless the language or the circumstances indicate the contrary.

*Id.* at 841 (quoting Restatement (Second) of Contracts § 261 (1979)). The court held that “a change in purchaser demand—even a substantial change—is a foreseeable part of doing business.” *Id.*

Given the size and changing impact of the ongoing coronavirus outbreak, it is hard to predict how courts will apply this fact-specific analysis to the present situation. Ultimately, whether a viral outbreak like the coronavirus qualifies as a *force majeure* event will depend on how the contract is drafted and the particular facts of the situation. A party seeking to invoke a *force majeure* clause to excuse its nonperformance must be prepared to show its mitigation efforts. Therefore, documenting efforts to overcome the impacts of the coronavirus is key.

Contracts with *force majeure* clauses usually provide what remedies are available to the parties when the clause is invoked. Often, contracts allow for either party to terminate the agreement when one party seeks to invoke the *force majeure* clause. However, contracts may instead permit a party to delay performance until the *force majeure* event is resolved.

Common law remedies may also be available to parties whose contracts lack a *force majeure* clause. Specifically, parties seeking to excuse nonperformance may find relief under the doctrines of impossibility, impracticability, and frustration of purpose. However, whether and under what circumstances these doctrines apply depends on the applicable law in the relevant jurisdiction and the specific facts and circumstances causing the nonperformance.

Overall, businesses impacted by the coronavirus should review their contracts to assess what rights and remedies are available to them in the wake of the coronavirus outbreak. The attorneys at O'Neil Cannon have experience in contract disputes and would be happy to discuss your options with you.