
PART 2

LAW OF THE DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA ON EXTERNAL ECONOMIC CONTRACTS

Adopted by Decision No. 52 of the Standing Committee of the Supreme People's Assembly on February 22, 1995, amended by Decree No. 483 of the Presidium of the Supreme People's Assembly on February 26, 1999 and amended by Decree No. 2842 of the Presidium of the Supreme People's Assembly on August 19, 2008

Chapter 1 Fundamentals

Article 1 (Objective)

This Law is enacted for the purpose of providing strict guidelines for the conclusion and fulfillment of external economic contracts, thereby contributing to the protection of the rights and interests of contracting parties and the promotion of economic exchange and cooperation with foreign countries.

Article 2 (Classification of external economic contracts)

External economic contracts shall include contracts of trade, investment and service.

Article 3 (Parties to contract)

The party on the DPRK side to an external economic contract shall be the institutions, enterprises and organizations concerned.

Article 4 (Principle of conclusion and fulfillment of external economic contracts)

The State shall ensure that principles of equality, mutual benefit and credit are strictly adhered to in the conclusion and fulfillment of external economic contracts.

Article 5 (Respect for treaties and international practices)

The State shall respect and promote respect for the economic treaties concluded with foreign countries and international practices related thereto.

Article 6 (Conclusion of contracts, liabilities)

The State shall ensure that parties to external economic contracts enter into contracts within the capacity of enjoyment of rights, and the debtors are held liable for the debt incurred in the course of performance of the contract concerned.

Article 7 (Supervisory and control organ)

Conclusion and performance of external economic contracts shall be placed under supervision and control of the central foreign trade guidance organ.

Competent institutions may, depending on the object of contract, have the power to exercise supervision and control.

Article 8 (Object of regulation)

This Law regulates the procedures and methods of conclusion and fulfillment of external economic contracts.

Matters not covered by this Law shall be governed by the relevant law and regulations of the DPRK.

Chapter 2 Conclusion of External Economic Contracts

Article 9 (Range of contracts, credit reference)

The parties shall conclude contracts within the range of the approved business category, indices and quantity. In this case such credit standing of the other party as the registration of incorporation, assets and fulfillment guaranty shall be ascertained.

Article 10 (Conclusion of contracts in conformity with standard contract)

Contracts shall be concluded in conformity with the standard contract drawn up by the central foreign trade guidance organ. Where any part of the standard contract is to be modified or no written standard contract is available, the contents of the contract shall be determined through discussion of the parties concerned.

Article 11 (Obtaining approval for contracts)

Contracts relating to the establishment of a foreign-invested business in the territory of the DPRK, investment in foreign countries, large-sized transaction or a contract of national significance shall be concluded subject to the approval of the central foreign trade guidance organ or the competent institution. In this case a draft contract shall, prior to entering into a contract, be submitted to the central foreign trade guidance organ or the competent institution for approval.

Article 12 (Manner of conclusion)

Contracts shall be concluded by the parties.

In case of need, a contract may, without the attendance of the parties concerned, be concluded in such a way as one party making a suggestion and the other party accepting it.

Article 13 (Conclusion in writing)

Contracts shall be concluded in writing.

Contracts concluded by fax, e-mail or other means of communication shall have the same effect.

Article 14 (Validity)

A contract shall be effective where:

1. Parties thereto have signed it;
2. Conditions for effectuating the contract have been realized as stipulated in the contract; or
3. Approval of the competent institution has, if so required, been obtained.

Article 15 (Conclusion by authorization or entrust)

A contract may be concluded by authorization or entrust.

Article 16 (Appendix, invalidity of documents prepared before conclusion of contract)

Catalogues or technical data shall be attached to the written contract as an appendix.

Agreements or documents exchanged by post before the conclusion of the contract shall be invalid upon conclusion of the contract.

Article 17 (Signing)

Contracts shall be signed by representatives of the parties or their agents.

Article 18 (Ineffectuality)

A contract that is detrimental to national security or economic interests or concluded by deception or under coercion shall be ineffective.

Chapter 3 Fulfillment of External Economic Contracts

Article 19 (Term of fulfillment, contractual obligations)

Parties to a contract shall fulfill the obligations within the prescribed period of time.

A contract shall not be modified without the consent of the other party.

Article 20 (Rights of contracting parties)

Where one of the parties performs the contract otherwise than its provisions, the other party may challenge, demand a proper performance or withhold his own performance of the contractual obligations.

Article 21 (Suspension of performance due to force majeure)

In case of occurrence of such force majeure as natural calamity, blockade or acute infectious disease, the performance of the contract may be suspended in part or in whole. In this case the occurrence, details and scope of the afore-mentioned circumstance shall be notified to the other party, together with a notarial document.

The period during which performance of contract is suspended for the forgoing reasons shall be extended as much.

Article 22 (Suspension of performance due to default)

A party may suspend the performance of a contract in case the other party defaults on the contract or proves to be inefficient. In this case the other party shall be notified of the suspension.

Article 23 (Resuming suspended performance)

A party to a contract that has suspended the performance shall resume the performance of his contractual obligations if the unavoidable circumstance is remedied or the other party guarantees to perform his obligations under the contract.

Article 24 (Consent of other party)

A party that has defaulted on a contract should obtain the consent of the other party if he wishes to resume the performance of his contractual obligations.

Article 25 (Modification of term)

The term of contract performance may be extended or shortened by agreement between the parties concerned.

Chapter 4 Transfer, Modification or Revocation of External Economic Contracts

Article 26 (Transfer)

A party to a contract may, subject to the consent of the other party, transfer the whole or a part of his contractual rights and obligations to a third party.

The term to be transferred by a contract shall be the remaining term of the contract.

Article 27 (Modification)

The contents of a contract may be partially modified by agreement between the parties.

The modification shall include amendment, elimination or supplement.

Article 28 (Cancellation)

A contract may be cancelled in cases where:

1. Performance of a contract is totally impossible or impossible within the prescribed period of time;
2. A party to the contract has suspended the performance of his contractual obligations without any valid reason or has declared waiver;
3. Breach of a contract has led to a failure in the achievement of the aim of the contract or an incurrence of a great economic loss;
4. A party to a contract has failed to take remedies for his default within the period of time granted to that end;
5. Unavoidable circumstances survive the term of the contract; or
6. Causes for withdrawal stipulated in the contract have arisen.

Article 29 (Scope of cancellation)

A contract may be cancelled in part or in whole depending on the degree of the breach of the contract or failure in the performance thereof. In this case the other party shall be notified in advance.

Article 30 (Cancellation of contract)

The institution that has approved a contract may have the contract cancelled in case it has not been performed for more than 6 months from the date of effectuation.

Article 31 (Effect of provisions concerning indemnity, liquidation and settlement of dispute)

The effect of the provisions concerning indemnity, liquidation and settlement of a dispute shall survive the cancellation of the contract.

Article 32 (Manner and procedures for transfer, modification and cancellation)

Transfer, modification and cancellation of a contract shall be in writing.

In case a contract is to be transferred, modified or cancelled, approval thereof shall be obtained from the institution that approved the contract concerned.

Chapter 5 Liability for Default, Settlement of Disputes

Article 33 (Claims for and obligations of indemnity)

A party that has defaulted on a contract shall be liable for the consequences thereof.

A party that has suffered a loss shall be entitled to claim indemnity and the party that has inflicted the loss shall be liable to make compensation.

Article 34 (Penalty, compensation)

The party that has breached a contract shall pay penalty as prescribed in the contract or compensate for the damage inflicted.

Compensation for the damage may be made in the form of cash, property in kind or property right, by adjusting the price or remedying the damage at one's own expenses.

Article 35 (Term of claim for indemnity)

A claim for indemnity shall be made within the term prescribed in the contract.

Where the contract is silent on the term of claim for indemnity, a treaty concluded with the country concerned shall be referred to, and in case of the absence thereof, the claim shall be made within the period of civil prescription.

Article 36 (Term of claim for compensation for damage of guaranteed object)

Claims for compensation for damage of a guaranteed object under contract shall be made within the term of guarantee or within the period prescribed in the contract.

In case the damage discovered within the term of guarantee needs further ascertainment, the party concerned shall notify the other party of the fact before ascertaining the damage and claiming indemnity.

In case the period of ascertaining the damage exceeds the term of guarantee, the period of claim for damage shall be extended as long as the period of ascertainment.

Article 37 (Written claim)

A party to a contract shall present a written claim to the other party in order to be indemnified.

The written claim shall specify the reference number and the object of the contract, type and scope of damage, grounds for the claim and terms of the demand, accompanied by a written confirmation of the competent inspection organ or a notarial document.

Article 38 (Compensation, refusal)

Upon receipt of the claim for damage the party in question shall make compensation to the other party within the prescribed period of time, or send a notice of refusal.

The claim for damage may be refused in cases where the term of claim or period of civil prescription has expired, the grounds for the claim is not clear, the request to show the defective object has not been complied with or the object in question is disposed of without due consent.

Article 39 (Interest, arrears)

A contracting party shall pay interest or arrears depending on the number of the days delayed in case he fails to pay within the designated time limit the contract deposit, indemnity or penalty prescribed in the contract.

Article 40 (Exemption from liability for breach of contract)

Where unavoidable circumstances have caused failure in the performance of a contract in part or in whole or immunity from liability for certain cases is stipulated in a treaty concluded with the country concerned, the party in question shall be exempted from liability for the breach of the contract.

Article 41 (Obligation to prevent further damage, damage that cannot be indemnified)

Parties to a contract shall prevent damage or keep them from increasing.

Damage caused intentionally or by negligence shall not be indemnified.

Article 42 (Settlement of disputes)

Disputes concerning a contract shall be settled through consultation.

In case of failure in consultation, the disputes shall be settled through arbitration procedures of the DPRK.

Dispute may be referred to an arbitration organ of a third country subject to the agreement of the parties to the contract.