

# Termination Clauses:

**How to Protect Your Business  
When a Commercial Relationship  
Breaks Down**





A commercial contract is designed not only to establish rights and obligations, but also to provide a clear framework for managing the relationship when circumstances change. One of the most important mechanisms in this regard is the **termination clause**, which determines when and how a contractual relationship may come to an end.

Under Egyptian law, termination is closely connected to the rules governing rescission of bilateral contracts. Article 157 of the Egyptian Civil Code generally allows a contracting party, where the other party fails to perform its obligations, to demand performance or rescission, subject to the applicable legal requirements and, where appropriate, compensation. Article 158 also recognizes contractual provisions providing for automatic rescission upon non-performance, subject to the conditions established by law.

In international commercial practice, termination provisions are generally drafted in greater detail to distinguish between different grounds for ending a contractual relationship and to establish a predictable exit mechanism.

### **1. Termination for Cause: When a Breach Justifies Termination**

**Termination for Cause** allows a party to terminate the contract when a specified contractual or legal ground occurs. The most common ground is a **material breach** by the other party.

Depending on the nature of the agreement, termination for cause may arise from:

- A material failure to perform contractual obligations;
- Repeated or persistent breaches;



- Failure to remedy a breach within an agreed cure period;
- Insolvency or similar financial circumstances;
- Breaches of confidentiality, compliance, intellectual property, or other fundamental obligations.

Under Egyptian law, a party may seek rescission where the other party fails to perform its contractual obligations, subject to the requirements of Article 157 of the Civil Code. The parties may also agree on an express contractual termination or automatic rescission mechanism pursuant to Article 158.

From an international drafting perspective, a well-structured termination-for-cause provision should clearly identify the events triggering termination, whether the breach must be material, whether the defaulting party has an opportunity to cure the breach, and how termination notice must be delivered.

This is particularly important because vague expressions such as “serious breach” or “material default,” without further contractual guidance, may create uncertainty and ultimately become the subject of a dispute.

## **2. Termination for Convenience: The Right to Exit Without Default**

Unlike termination for cause, **Termination for Convenience** allows a party to terminate the contract **without establishing a breach or default by the other party**.

This mechanism is common in international commercial agreements, particularly long-term service agreements, supply arrangements, framework agreements, and other continuing commercial relationships.



Typically, the contract grants one or both parties the right to terminate by providing advance written notice, such as 30, 60, or 90 days. The terminating party is therefore exercising a contractual exit right rather than responding to a breach.

However, termination for convenience should not be treated as a simple right to walk away from the contract without consequences. A properly drafted clause should address matters such as:

- The applicable notice period;
- The required form and method of notice;
- Payment for goods or services already provided;
- Outstanding amounts and accrued rights;
- Treatment of ongoing orders or projects;
- Return of property and confidential information; and
- Obligations that survive termination.

The distinction between the two mechanisms is therefore fundamental:

**Termination for Cause** is based on a specified contractual or legal ground, typically a breach, while **Termination for Convenience** is based on an agreed contractual right to terminate without establishing fault.

The enforceability and consequences of either mechanism remain subject to the governing law, the wording of the contract, and any applicable mandatory legal provisions. Accordingly, parties should ensure that termination rights are expressly and carefully drafted rather than relying on assumptions.



### 3. What Should a Well-Drafted Termination Clause Cover?

A termination clause should do more than simply state that a party may terminate the agreement. It should establish a clear and commercially workable **exit mechanism**.

At a minimum, the clause should address:

**Trigger Events:** What circumstances give rise to a right of termination?

**Notice Requirements:** Who must provide notice, in what form, and through which communication method?

**Cure Period:** Where a breach can be remedied, how much time should the defaulting party have to do so?

**Effective Date:** When does termination become effective?

**Financial Consequences:** What happens to outstanding payments, accrued rights, refunds, or other financial obligations?

**Ongoing Performance:** How should unfinished work, outstanding orders, or projects be handled?

**Survival of Obligations:** Which provisions continue after termination, including confidentiality, intellectual property, indemnities, governing law, and dispute resolution?

These considerations become particularly important in cross-border transactions, where termination may lead to disputes concerning applicable law, jurisdiction, payment obligations, or enforcement.

A well-drafted termination clause should therefore distinguish between **termination for cause, termination for convenience, expiry, and**



**rescission**, while ensuring that the contractual mechanism is consistent with the applicable legal framework.

## Conclusion

Termination should never be treated as a mere boilerplate provision. It is a fundamental component of contractual risk management that determines how a business can exit a commercial relationship when performance fails or the relationship is no longer commercially viable.

Under Egyptian law, the rules governing rescission provide an important framework for dealing with contractual non-performance, while international commercial practice places significant emphasis on clearly defined termination rights, notice requirements, cure periods, and post-termination obligations.

The objective of a termination clause is therefore not simply to provide a right to end the contract, but to ensure that the exit process is **clear, enforceable, commercially practical, and aligned with the parties' intended allocation of risk**.

## How ICG Can Assist

**International Consultations Group (ICG)** provides professional legal drafting and advisory services relating to commercial contracts, helping companies and institutions structure their contractual relationships clearly and mitigate potential legal and commercial risks.

Our team can assist with the **drafting, review, and analysis of commercial contracts and arbitration agreements**, including arbitration clauses, dispute resolution provisions, and other contractual mechanisms relevant to domestic and international transactions.



## Contact Us

If you require specialized legal advice or assistance with **drafting or reviewing contracts, preparing arbitration agreements, or drafting dispute resolution provisions**, our team is ready to assist.

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Contact us today to discuss how we can assist you in structuring and reviewing your contractual arrangements and managing potential legal risks.