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Costs Outside the Scope of the Contract and the Challenges of Their Claims in Oil and Gas Contracting Agreements under Iranian Law

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ABSTRACT

Costs outside the scope of the contract constitute one of the most challenging issues in the law of oil and gas contracting agreements. Although these costs are not explicitly stipulated in the text of the contracts, the successful implementation of complex oil and gas projects cannot be achieved without incurring them. Using a descriptive–analytical method and relying on the doctrine of ancillary obligations, this article analyzes the legal nature of these costs and explains the foundations for obligating the employer to pay them. The findings indicate that, based on Articles 220 and 225 of the Iranian Civil Code, the Islamic jurisprudential rule of “permission for a thing is permission for its necessities,” and the principle of freedom of contract, costs outside the scope of the contract fall within the category of contractual ancillary obligations. Within the framework of the doctrine of contractual justice, the employer's obligation to pay these costs is a legal necessity. Finally, practical solutions are proposed for institutionalizing these costs through contractual clauses and alternative dispute resolution mechanisms.

Keywords: costs outside the scope of the contract; oil and gas contracts; ancillary obligations; Article 220 of the Civil Code; rule of implied permission.

Introduction

The oil and gas industry, as the driving force of Iran's economy and the holder of some of the world's largest hydrocarbon reserves, has long been the focal point for the conclusion of highly complex national and international contracting agreements. Over the past two decades, however, the imposition of certain sanctions has doubled this complexity and resulted in significant challenges for the country. Undoubtedly, Iran's unique and strategic position in possessing extensive oil and gas reserves has transformed the oil and gas industry—serving as the country's primary source of foreign exchange—into the largest and most influential sector impacting the national economy (1). Oil and gas contracts in Iran fall within the category of governmental contracts, and from this perspective, they



may be classified into administrative and non-administrative types. In the context of oil and gas contracts, they generally fall within the administrative category (2).

The nature of large-scale projects in this industry, accompanied by long implementation periods, has resulted in contractors encountering costs during the performance of their contractual obligations that are not expressly and clearly stipulated within the contract, despite the fact that the continuation and success of the project depend on incurring such costs (3).

Costs outside the scope of the contract usually include expenses arising from project modifications, force majeure conditions, the need for additional technical or operational activities, or fluctuations in the prices of materials and equipment. The legal framework governing oil and gas contracts in Iran requires these costs to be explicitly anticipated in the contractual instrument, with clearly defined procedures for their approval and payment, to prevent the emergence of legal disputes (4). Costs such as additional site mobilization resulting from expanded project scope, mandatory suspension of operations due to delays by the employer in delivering the worksite, adjustments in seasonal coefficients due to unforeseen economic developments, provision of technical and engineering facilities beyond the original framework, and expenses arising from changes in supervisory regulations are among the concrete examples of these challenges (5). The absence of a coherent and integrated legal framework for the analysis, identification, and enforcement of claims related to such costs has exposed contractors to serious risks during project execution.

Judicial and quasi-judicial practice in Iran has also lacked uniformity in dealing with these claims, and in many instances, conflicting decisions have been issued regarding these costs (6). In some cases, dispute-resolution bodies have invoked the principle of contractual necessity and adopted a restrictive interpretation of the contract, thereby deeming these costs non-recoverable; in other cases, by relying on the doctrine of ancillary obligations and principles of fairness, they have opened the path toward recognizing and compensating such expenses. Within the legal mechanisms governing oil and gas contracts—particularly in buy-back and EPC agreements—specific clauses are often dedicated to “off-contract costs,” “changes in contractual conditions,” or “price revision,” clarifying under what circumstances such costs may be claimed and paid. In the absence of such stipulations, off-contract costs are generally not paid by the employer unless supported by legal grounds or exceptional circumstances (7). The mechanism for paying off-contract costs usually involves obtaining formal approvals from the employer or the National Iranian Oil Company, cost ceilings, reimbursement based on project progress, and review of financial documentation. These mechanisms help mitigate financial risk for both contractor and employer and prevent the emergence of complex legal disputes (4).

This article poses the fundamental question: “On what legal grounds can the employer’s obligation to pay costs outside the scope of the contract in oil and gas agreements be justified?” It seeks to present a systematic and comprehensive analysis of the nature of such costs within the framework of the doctrine of ancillary obligations, Article 220 of the Iranian Civil Code, and the jurisprudential rule of “obligation to the ancillary requirements of the contract.” Additionally, this research aims to examine the challenges associated with claiming these costs before judicial and quasi-judicial bodies and to propose legislative and contractual solutions for institutionalizing claim mechanisms for such expenses.

Review of Theoretical Background Concerning Off-Contract Costs

The Ancillary Obligations Perspective in Contract Law

The doctrine of ancillary obligations, as one of the most robust foundations of contract law, plays a significant role in analyzing costs outside the scope of the contract in oil and gas agreements. According to this doctrine, the obligations arising from a contract are not limited to its explicit provisions; rather, they include all obligations that, by virtue of custom, law, or the inherent nature of the contract, must be fulfilled (6). This perspective reflects the commitments that arise by virtue of the primary obligation, aiming to ensure the correct and complete performance of the main contractual duties. In Iranian and French law, ancillary obligations take various forms: some, such as guarantee, assignment, and novation, result in the extinguishment of the principal obligation; others, like pledge and suretyship, serve as security to ensure performance. The most important foundation for defining ancillary obligations is the obligation imposed by law or custom, which is explicitly affirmed by Article 220 of the Iranian Civil Code. However, ancillary obligations deriving from custom are not necessarily binding and require explicit agreement between the parties. This distinction plays an important role in differentiating Iranian from French law. In legal doctrine, ancillary obligations are defined as obligations that, by virtue of law or custom and as a consequence of the contract, become enforceable (8). Given its relevance, this doctrine serves as a fundamental theoretical basis for the present study. The following sections examine its legal and jurisprudential foundations.

Legal Foundations of Off-Contract Costs

– Article 220 of the Iranian Civil Code

In analyzing the legal foundations of the doctrine of ancillary obligations within the Iranian legal system, Article 220 of the Civil Code constitutes a fundamental principle and serves as one of the key bases supporting the recognition of off-contract costs. Article 220 provides that parties are not only obligated to perform what is explicitly stipulated in the contract but are also bound by all consequences arising from the agreement by virtue of custom, usage, or law (9). This principle emphasizes that contracts operate not only through their explicit contents but also through their customary and legal implications. In other words, the performance of a contract is not confined to what the parties have expressly written; rather, its customary and legal effects are equally binding.

This provision reflects the doctrine of implied or ancillary obligations in contract law. Inspired by Article 1135 of the French Civil Code, it extends the scope of contractual obligations beyond the written text (10). Historically, the drafters of the Iranian Civil Code—particularly Seyyed Mohammad Fatemi Qomi and Seyyed Nasrollah Sadr—drew upon French law while adapting the rules to the jurisprudential foundations of Iranian law (10). Compared with Article 220, which refers to custom and law, the French provision explicitly mentions “equity.” In French law, equity is recognized as an independent source of ancillary obligations, whereas in Iranian law it primarily enters through custom and general legal principles (11). Therefore, Article 220 plays a key role in requiring the performance of all dimensions of a contract, including those derived from custom and usage, and serves as an essential provision safeguarding contractual legal security.

– Article 10 of the Iranian Civil Code

According to Article 10 of the Civil Code (1921), the principle of freedom of contract forms the cornerstone of contractual relations in Iran. This provision stipulates that private contracts concluded between parties are valid insofar as they are not contrary to law. Iranian courts have consistently upheld the parties’ contractual autonomy

under this principle, which forms the basis for incorporating off-contract costs into agreements, provided they do not violate mandatory rules (9). Article 10 recognizes the parties' freedom to structure their agreement—including the possibility of stipulating off-contract costs—which, once agreed upon, become binding and enforceable obligations.

This provision ensures that a contract is effective only between the parties and cannot be applied against third parties except where provided by law. It also plays a significant role in enhancing flexibility for modern and complex contracts, enabling the parties to introduce novel terms, special conditions, and extra-contractual obligations that help address issues arising from technological and economic changes. Nevertheless, this freedom is subject to mandatory rules, public order, and good morals. In this way, Article 10 not only constitutes the legal foundation of private contracts but also contributes to the broader regulation of economic and social relations (12).

Jurisprudential Foundations for the Acceptance of Off-Contract Costs

– The Islamic jurisprudential maxim of obligation to the ancillary requirements of the contract

The Islamic jurisprudential maxim of obligation to the ancillary requirements of the contract (qā'idat luzūm) is one of the fundamental maxims of Islamic law which establishes the principle that valid contracts are binding and enforceable unless a contrary religious or legal ground is established. According to this maxim, any contract that is properly concluded is binding between the parties, and its termination is only possible by mutual consent or on the basis of a legal cause. The basis of this maxim is the Qur'anic verse "O you who believe, fulfil your contracts," which emphasizes the obligation to honour contractual undertakings (11). In jurisprudential sources, this maxim is often encapsulated in the formula "the one who commits himself to a thing is committed to its requirements," and is recognized as a firmly established rule that operates across various chapters of fiqh, including transactions, worship, and adjudication (13). From a jurisprudential perspective, once a person concludes a contract, they are deemed to have accepted not only the express terms of the contract but also all of its logical and necessary implications. These implications may encompass matters that are not explicitly mentioned in the contract but without which the object and purpose of the contract cannot be realized (14). From a legal point of view, the maxim of necessity safeguards the stability of contractual commitments and prevents unilateral termination or avoidance of the contract without a legitimate legal ground. It mandates performance of the contract's express terms as well as all customary and legal accessories, thereby creating a general duty to perform the contract in all its dimensions (6). For example, in a construction contract, if performance of the main obligation necessarily entails ancillary expenditures, such costs are regarded as logical requirements of the contract. In Iranian civil law, this jurisprudential maxim is reflected in Article 220 of the Civil Code, which provides that contracts obligate the parties not only to what is expressly stipulated but also to all consequences that arise from the contract by virtue of custom or law (9). Some jurists maintain that the rule of obligation to the ancillary requirements of the contract even extends beyond Article 220, covering situations that may have no prior basis in custom but are logically required by the nature of the contract (15).

– The Islamic jurisprudential maxim "permission with respect to a thing implies permission with respect to its accessories"

The Islamic jurisprudential maxim "permission with respect to a thing implies permission with respect to its accessories" is one of the well-established and widely accepted rules in Imamiyyah jurisprudence, often formulated as "the one authorized in respect of a thing is authorized in respect of its requirements." Under this maxim, whenever

a person is authorized by another to perform a certain act, the permission extends to all acts that are necessary and customarily associated with the performance of that act (16). This maxim is also grounded in the prophetic tradition “the believers are bound by their stipulations” and has wide application in various jurisprudential fields, including commercial transactions, lease, agency, and financial dispositions. Accordingly, where one party (such as an employer) grants permission to another (such as a contractor) to carry out a given work, that permission covers all necessary, customary, and preliminary requirements of that work, unless there is an indication that the permission is limited and does not extend to certain requirements. In other words, permission for the principal act entails permission for the indispensable preliminaries and accessories of that act (17). Within the broader framework of the maxim of obligation to the ancillary requirements of the contract, classical jurisprudential works explain that the contract is deemed to be valid only when its customary and legal requirements are performed, and that the parties’ obligations extend to these necessary accessories as well (16).

This maxim rests on several foundational principles:

- The principle of the generality of permission: authorization in relation to a given act extends to all its aspects and dimensions.
- The principle of interpretability through indications: the default presumption is that permission includes all requirements unless there is an indication to the contrary.
- The rational principle: people of sound reason in their dealings and dispositions naturally presume that authorization covers the act together with its ordinary and necessary requirements (17).

The jurisprudential maxim “permission in respect of a thing is permission in respect of its accessories” can be applied only where certain conditions are met, which are formulated by jurists to preserve the balance of rights and obligations between parties and to prevent abuse of the maxim. To rely on this rule, several essential conditions must be satisfied: the authorization must be valid and legally effective; the alleged requirement must, from the standpoint of custom, constitute a logical and necessary accessory of the authorized matter; the requirement must have been unforeseeable at the time the permission was granted; and there must be no indication excluding that requirement from the scope of the original authorization (18). Collectively, these conditions provide a coherent framework for the fair application of the maxim. In the context of oil and gas construction and service contracts, when the employer authorizes the contractor to execute the project, this authorization extends to all necessary and customary acts and costs that are indispensable for the successful implementation of the project. For example, additional safety costs required under newly imposed standards or expenses arising from unforeseen technological changes at the time of contracting fall within the scope of this maxim and are thus treated as covered requirements of the original authorization (7).

General Conditions of Contract and Their Role in Off-Contract Costs

The General Conditions of Contract, drafted on the basis of resolutions adopted by the former Management and Planning Organization and pursuant to Article 14 of the National Audit Law, constitute one of the key sources that may be invoked in relation to claims for off-contract costs, particularly in the field of oil and gas projects. To create uniformity in the regulations governing such contracts and thereby enable more effective oversight, the government has, for many years, prepared model regulations and contractual frameworks for various types of construction and procurement contracts. As a rule, the general conditions applicable to public works contracts are approved by the government and the Council of Ministers, and the related standard contractual frameworks—often referred to as

“standard form contracts”—are communicated to all executive agencies. Although public works contracts may appear, at first glance, similar to adhesion contracts, their purpose and rationale differ from those concluded between private entities: whereas the primary aim of private contracts is the pursuit of private interests, the overriding objective in public works contracts is the protection of the public interest and the promotion of national welfare (19).

Although these regulations have an administrative character at first sight, judicial practice treats them as an inseparable part of public works contracts. Under the General Conditions of Contract published in Circular No. 4311 of the Management and Planning Organization and the related directive issued in 1999, Article 29 explicitly refers to the “aggregate increase or decrease,” thereby indicating that variations in price resulting from changes in quantities must be assessed with reference to the “initial contract price” (5). Accordingly, the principal legal basis for claiming off-contract costs in public works contracts is Article 29 of the General Conditions of Contract adopted in 1999, whose analysis and interpretation reveal that such costs have not been fully and systematically regulated therein and therefore enjoy only limited evidentiary weight in dispute resolution proceedings. In this respect, Article 29 is nonetheless one of the most important provisions dealing with “changes in quantities and prices,” which is directly relevant to variations and additional costs arising during contract execution (20).

From the standpoint of contracting practice, project implementation is invariably associated with unforeseen or additional costs that cannot be precisely estimated at the time of contract conclusion, such as increases in the price of materials, changes in technical specifications, or particular climatic and environmental conditions at the project site. Although such costs may not be explicitly mentioned in the contract documents, engineering practice and professional custom regard them as part of the ordinary requirements of project execution. Consequently, when a contractor is compelled to bear such expenses, their conduct remains within the scope of the original authorization granted by the employer. Legally, these costs are treated as customary effects of the contract and are therefore recoverable. This reading is fully consistent with the foundation laid down by Article 220 of the Civil Code, under which the parties are liable not only for their express obligations but also for all consequences arising from the contract by virtue of custom or law (9).

As previously noted, off-contract costs in construction contracts—and especially in the oil and gas sector, given the complexity and specific conditions of such projects—are of particular importance. To ensure transparency and the protection of the parties’ rights, these costs are supported and reinforced by a combination of the General Conditions of Contract, jurisprudential maxims, and statutory provisions. Taken together, these three normative layers provide a robust and coherent foundation for the recognition and enforcement of off-contract costs, prevent the acceptance of unjustified and unreasonable expenditures, and at the same time guarantee the protection of the parties’ rights and the efficient performance of contracts in the sensitive and complex domain of oil and gas (1, 2, 6).

Legal Challenges Concerning Off-Contract Costs

Off-contract costs are regarded as one of the fundamental challenges in construction and engineering contracts and have consistently been a source of dispute between employers and contractors. From a legal standpoint, this type of cost faces numerous obstacles and limitations. A significant part of these obstacles stems from a restrictive interpretation of the principles governing contracts; that is, employers and arbitral or judicial authorities often rely on the principle of the binding force of contracts (Article 219 of the Civil Code) and the rule “contracts follow

intentions" (al-'uqūd tābi'a lil-quṣūd), arguing that the terms of the contract must be implemented narrowly and strictly in accordance with what is expressly set out in the contractual documents, and that no cost outside this framework is recoverable.

On the other hand, administrative and financial regulations governing public construction projects generally adopt a specific and stringent framework for the payment of additional costs, allowing compensation only in situations such as the issuance of new work orders or the approval of contract amendments. As a result, even where cost increases arise from force majeure circumstances or customary conditions of project execution, the contractor faces serious legal and administrative difficulties in proving entitlement to additional payments.

In other words, this challenge originates in a tension between the express rules of the contract and the customary requirements of implementing construction projects. On the one hand, the contractual text defines the scope of obligations; on the other, the technical and operational realities of the project compel the contractor to incur costs that were not foreseeable at the time of contracting. This conflict underscores the need to reconsider how contractual obligations are interpreted and to recognize the role of engineering and economic custom in determining the scope of the parties' commitments. The legal challenges arising from this tension are examined below.

– The principle of the binding force of contracts

Pursuant to Article 167 of the Constitution of the Islamic Republic of Iran and Article 10 of the Civil Code, private contracts concluded between parties are valid and enforceable so long as they do not expressly contravene the law. Nevertheless, the payment of off-contract costs is often considered inconsistent with the principle of the binding force of contracts and with a restrictive interpretation of contractual clauses (8). In Iran's oil and gas industry, this principle is recognized as both a legal and economic necessity, ensuring that contractual obligations between the parties are effectively implemented. It states that any contract validly concluded is binding, and that termination or dissolution is possible only by mutual consent or on the basis of specific legal grounds. In oil and gas contracts, this principle provides stability and certainty in the implementation of large and complex projects and safeguards the national interest in managing hydrocarbon resources (11).

In specialized oil legislation, this principle is reaffirmed through numerous provisions that secure the parties' adherence to the contract. Oil and gas contracts—often concluded between the state and foreign companies—are drafted on the basis of the binding force of contracts and mutual obligation, given their national and economic sensitivity. This approach also accelerates the attraction of foreign investment and the transfer of advanced technology in this vital industry (21).

– Paragraph 3 of Article 14 of the Fourth Development Plan and Paragraph (a) of Article 125 of the Fifth Five-Year Development Plan

Paragraph 3 of Article 14 of the Fourth Development Plan emphasizes that cost recovery must be made from production generated by the same oil or gas field. It further provides that expenditures must be paid from predetermined and approved budgetary resources, and that recourse to expenses outside this framework is not permitted (4).

Similarly, Paragraph (a) of Article 125 of the Fifth Five-Year Development Plan of the Islamic Republic of Iran underscores the precise management of costs and their repayment from the income generated by the same project or oil field. This provision stresses financial transparency and strict control of expenditures in oil and gas contracts, preventing the emergence of unauthorized or off-framework costs. The mechanism established by this article is designed to safeguard public financial resources and to prevent excessive cost escalation, thereby playing a key

role in the financial management of oil projects. The law was adopted on December 20, 2015, and forms one of the central legal bases for regulating and controlling expenditure in this sector (4).

Taken together, these two provisions are among the main legal bases that comprehensively structure and restrict off-contract costs and the conditions for their recovery in Iran's oil and gas industry.

– The Law on the Implementation of the General Policies of Article 44 of the Constitution of Iran

The Law on the Implementation of the General Policies of Article 44 of the Constitution of the Islamic Republic of Iran, promulgated in 2005, establishes important legal and managerial frameworks for the supervision and control of expenditures and activities in the public sector, particularly in the oil and gas industry. One of its key features is the emphasis on forming “joint management working groups,” which are tasked with closely monitoring costs, projects, and the performance of various sectors. These working groups, composed of state and private-sector representatives, are created to ensure the economic justification of expenditures and to prevent the acceptance of unreasonable or off-contract costs (1).

This managerial mechanism plays a vital role in enhancing transparency, increasing efficiency, and preventing corruption and collusion. Given that a large portion of oil and gas projects are implemented by state-owned or semi-state-owned companies, the presence of the private sector and joint cost control within these working groups helps to block unauthorized and off-contract expenses. Moreover, under statutory and supervisory requirements, any expenditure must be supported by acceptable documentation and formal approvals; otherwise, it will be rejected. These regulations have improved accountability, ensured the fair implementation of contracts in the oil and gas sector, and protected the state's financial interests (22).

Empirical Background

In the context of oil and gas contracts, one of the core challenges is defining the scope and nature of off-contract costs—those not expressly anticipated in the contract text yet indispensable for the correct and continuous implementation of the project. In the Iranian oil and gas sector, the role of ancillary obligations and contractual requirements that go beyond the express provisions of the agreement has been highlighted as a safeguard for enforcing off-contract costs. Several studies have addressed this issue.

Shiravi (2022), through an analysis of upstream oil and gas contracts, argues that ancillary obligations arise not only from law and custom but also from the specific nature of these contracts and the practical necessities of project implementation. These ancillary obligations encompass costs that are essential for maintaining the continuity and quality of project execution and constitute a key legal tool for compelling the employer to pay off-contract costs (21). This perspective aligns with practical experience in oil and gas contracts, which are characterized by complex and changing conditions and which often contain contractual gaps.

In another study, Asa'di Nejad and colleagues (2022), examining adjustment and renegotiation in oil contracts, state that the doctrine of ancillary obligations can provide a legal basis for obligating the employer to pay necessary off-contract costs, particularly when incurring such expenses is unavoidable for achieving the main purpose of the contract (23). This view, in practice, makes it possible to rely on Article 10 of the Civil Code and the principle of freedom of contract to justify the payment of these costs (24).

A number of studies have focused on contract termination and ancillary obligations in oil contracts. For example, research on contractor claims and the legal foundations of such claims clarifies how, under certain circumstances, termination, variation, and supplementary obligations interact with contractors' financial entitlements (25, 26). These

analyses help readers understand, in light of the specific conditions of upstream oil contracts, the legal basis of termination and the management of potential costs. Given the technical nature of the subject matter and the use of applied examples from oil and gas law, these works constitute valuable and up-to-date resources for researchers in this field (7, 27).

Methodology

In this research, data were collected through the study of reliable library and electronic sources. The information obtained was extracted and organized using a systematic note-taking method. The research adopts a descriptive–analytical and, at the same time, comparative approach; that is, while describing the theoretical and legal foundations of oil and gas construction and service contracts, it also attempts to carry out a comparative analysis between the Iranian legal system and international practice in this field.

To develop an appropriate model for designing contractual conditions in oil and gas construction projects in Iran, the study employs an inductive method to derive concepts from texts and a deductive (inferential) method to explain and integrate the findings within a coherent theoretical framework. This approach makes it possible to analyze more deeply both the theoretical and practical dimensions of oil and gas contracts.

Application of Article 220 of the Civil Code to Off-Contract Costs

Article 220 of the Civil Code, by recognizing custom as a binding source alongside statute, creates a conceptual and functional bridge between Islamic jurisprudence and modern contract law. Inspired by Article 1135 of the French Civil Code, this provision, while preserving its connection to jurisprudential foundations, responds to the needs of a modern contractual system (9). Dr. Katouzian believes that Article 220 of the Civil Code “opens the doors of contract law to social and economic developments and prevents contractual rigidity.”

Article 220 of the Iranian Civil Code, by expanding the scope of obligations arising from a contract, provides the basis for a dynamic and flexible interpretation of contracts under changing economic and technical conditions and, particularly in the field of long-term oil and gas contracts, serves as an effective legal tool for supporting contractual balance and the fair allocation of risks (7). In analyzing this provision in relation to off-contract costs, it can be said that the Iranian legislator, influenced by Article 1135 of the French Civil Code, has sought to institutionalize a broader concept of contractual obligations in Iranian law. Put simply, the legislator intended to include obligations arising from the nature of the contract, the parties’ custom, and statutory regulations among the parties’ commitments, even where they are not expressly stipulated in the contractual text.

Article 220 of the Iranian Civil Code, by establishing a firm link between the foundations of Imamiyyah jurisprudence and the principles of modern contract law, has played an unparalleled role in the development and evolution of the law of obligations. Drawing on the rich capacities of Islamic jurisprudence on the one hand and on the achievements of advanced legal systems on the other, this provision has succeeded in building a conceptual bridge between tradition and modernity in the realm of contract law. It may be said that Article 220, in constructive interaction with other provisions of the Civil Code, such as Articles 225 (“the parties must perform the obligations they have undertaken under the contract,” which together with Article 220 forms an integrated system of contractual obligations), 234 (“where a term is stipulated that entails a result without which the contract would not be reasonably acceptable, that term is considered part of the contract,” thereby reinforcing the broad perspective of Article 220), and 358 (which, regarding *ujrat al-mithl*, provides that “whenever a person, by permission of the owner, derives

benefit from property, the owner is entitled to reasonable remuneration,” a rule consistent with the maxim “permission in respect of a thing implies permission in respect of its accessories”), creates a coherent network of contractual obligations that is grounded in jurisprudential rules such as “permission in respect of a thing implies permission in respect of its requirements,” while also addressing the complex needs of modern contracts (10, 28).

The successful application of this provision in complex contractual structures such as EPC, BOT, and buy-back contracts in the oil and gas industry testifies to the effectiveness of this hybrid approach. By recognizing custom as a binding source alongside statute, Article 220 not only prevents contractual rigidity and the imposition of unjust outcomes, but also, by adhering to the principle of freedom of contract, refrains from imposing obligations on the parties beyond their agreed framework. In practice, this article has become an effective legal instrument for realizing commutative justice and contractual adjustment in the face of unforeseen circumstances. Judges and arbitrators, relying on this provision, can preserve the economic balance of the contract in necessary cases without violating the principle of the binding force of contracts and can prevent the imposition of unfair losses on either party. Specifically, in the field of oil and gas contracts, Article 220, by recognizing ancillary obligations and necessary off-contract costs, provides an appropriate legal basis for the equitable allocation of project risks and, in this way, makes a significant contribution to the sustainable development of this strategic industry (1, 2). Ultimately, it should be emphasized that Article 220 of the Civil Code not only reflects the dynamism and flexibility of Iran’s legal system, but also constitutes a successful model of creatively combining the Islamic legal heritage with modern legal achievements—one that can serve as an inspiration for other legal systems.

Application of Article 10 of the Civil Code to Off-Contract Costs

In his work *Civil Law: Contracts*, Katouzian explains that Article 10 of the Civil Code is the principal guarantor of freedom of will and imposes no limitation on the parties other than statutory prohibitions and considerations of public order. This freedom of contract enables parties to create new obligations that may not fit within traditional nominate contracts but that are nonetheless legally valid and binding. In his view, this provision logically underpins the “charisma” of combination and diversity in contractual arrangements within the legal system. This principle has been one of the most important legal tools for concluding complex and modern oil and gas contracts and plays a decisive role in financial management and risk allocation in large-scale projects (11). Article 10 allows the parties to incorporate, by mutual agreement, any type of clause into their contract, including provisions relating to off-contract costs. For example, in oilfield construction contracts, the parties may, by relying on this provision, set mechanisms for the payment of unforeseen costs (such as sudden increases in the price of raw materials). Where the contract (or its annexes) contains a clause under which the parties agree that, under specific circumstances (such as variations in the scope of work, increases in material prices, or the occurrence of force majeure), additional costs shall be recoverable, Article 10 indirectly influences off-contract costs by validating such arrangements. Conversely, where there is no express or implied agreement regarding these costs, Article 10 alone cannot serve as the basis for claiming them, because it validates only “contracts” and not “matters outside the contract” (24).

In oil and gas contracts, Article 10 is used as the legal foundation for including special conditions; for instance, in EPC or joint venture contracts, items such as “unforeseen costs,” “management and study costs,” “payments outside the bill of quantities,” or even specific clauses on the resolution of financial disputes can be expressly included and rendered binding. This approach has also been recognized in judicial practice, and courts, where such clauses are clearly stipulated, have upheld them based on the principle of freedom of contract and Article 10 (20,

27). In this sense, Article 10 of the Civil Code allows the parties to incorporate any agreement—including off-contract costs—into the contract, provided that it is not contrary to mandatory rules; once so included, such costs become enforceable and recoverable.

In practice, although public works contracts are drafted on the basis of the General Conditions of Contract, where those conditions fail to provide clear solutions for certain operational or financial issues, the principle of freedom of will under Article 10 can serve as a legal basis for compensating additional or unforeseen costs. According to this principle, if the contractor undertakes actions during project execution that, although not specified in the original contract, are carried out at the request of, or with the knowledge and approval of, the employer, payment of the related costs can be justified within the framework of a supplementary or addendum agreement. Such an agreement is valid only if it does not conflict with mandatory rules or compulsory provisions of the public contract regime. Conversely, if the contractor incurs costs without authorization or without the employer's knowledge, reliance on Article 10 is not acceptable, because in that case the freedom of contract is restricted by public order and the binding regulations applicable to governmental contracts. Accordingly, Article 10 of the Civil Code plays a complementary and interpretive role in legitimizing off-contract costs, particularly where statutory provisions or the General Conditions of Contract are silent on the manner of compensating such costs. In this sense, Article 10 can be regarded as an instrument for interpreting the implied rights and obligations of the employer and contractor in relation to unapproved and unforeseen expenditures (12).

Application of the jurisprudential maxim “permission in respect of a thing” to Off-Contract Costs

The jurisprudential foundation of the maxim “permission in respect of a thing” in Imamiyyah sources is based on rational principles and the practice of reasonable people, and in the sphere of contemporary contracts this maxim, in light of Article 220, has taken on a binding legal form and acquired practical significance in complex contracting relationships such as EPC, BOT, and buy-back agreements. In applying this maxim to off-contract costs, it may be said that when the employer authorizes the contractor to execute the project, that permission extends to all necessary and customary actions and expenses upon which the successful completion of the project depends (13). From the perspective of Mohaghegh Damad and other jurists, in applying the jurisprudential maxim “permission in respect of a thing implies permission in respect of its accessories” to costs outside the scope of the contract, particular attention must be paid to the fact that, when the employer authorizes the contractor to implement the project in the context of a construction contract, this authorization implicitly covers all necessary and customary actions and expenditures required for the successful execution of the project within professional and technical standards (16). On this basis, a legal argument can be made that the grant of general permission to utilize the subject matter of the contract tacitly includes authorization for all customary acts without which the contractual purpose cannot be realized in a normal or reasonable manner.

More precisely, costs that, according to specialized contracting practice, are considered necessary for the proper execution of the project—even if they are not explicitly and clearly stipulated in the contract—fall under the maxim of permission in respect of a thing and, based on the doctrine of obligation to the ancillary requirements of the contract, are recoverable (14). This interpretation is fully consistent with the rationale of Article 220 of the Civil Code, which is influenced by firmly established jurisprudential rules. In other words, Article 220 can be regarded as the legal embodiment of the maxim “permission in respect of a thing” within the Iranian legal system. As noted earlier, under this provision, the parties are liable not only for their express obligations but also for all consequences that

arise from the contract by virtue of custom or law; accordingly, if the technical and economic custom governing contracting relationships considers additional costs resulting from changed circumstances to be a natural requirement of performance, the employer is also obliged to compensate them (16).

In fact, by recognizing custom as a binding source, Article 220 establishes a link between jurisprudence and positive law: jurisprudence provides the conceptual foundation of implied permission, and Article 220 institutionalizes this foundation as a legal obligation in contemporary contractual relations—including EPC and public works contracts. Thus, in Iranian law, it may be said that the employer's authorization to execute the project naturally and implicitly entails acceptance of responsibility for the necessary and customary costs arising from its implementation. This interpretation is not only consistent with jurisprudential rules and principles of economic fairness but also, in practical terms, prevents the abnormal transfer of risks to the contractor and the disruption of the contract's economic balance (1, 29).

Application of the Jurisprudential Maxim “Permission in Respect of a Thing” to Off-Contract Costs in Judicial Practice

The Islamic jurisprudential maxim “permission in respect of a thing implies permission in respect of its accessories” is one of the fundamental rules of Islamic law and has a significant impact on the legal analysis of implied obligations in construction and engineering contracts. Based on this maxim, when the employer authorizes the contractor to perform a certain act, that permission extends to the customary and necessary requirements for performing that act; in other words, consent to the performance of the work also entails implied consent to the reasonable and necessary costs associated with it. In the field of contracting, especially in oil and gas projects, this maxim can serve as a basis for recognizing and compensating costs that fall outside the express subject matter of the contract, since the nature of such projects is often such that technical and operational necessities compel the contractor to undertake measures not anticipated in the written contract but indispensable for achieving the contract's primary purpose. In judicial practice in Iran, this maxim has been applied in such a way that, where a person in possession of property has the owner's permission to act, the necessary costs and requirements of that act are deemed to have been implicitly accepted and are therefore admissible. In reality, this maxim provides a legal foundation for supporting costs that are outside the express subject of the contract (such as necessary expenditures for the proper implementation of the project). The approach reflected in the scholarly analysis shows that judicial authorities are gradually moving towards accepting the application of jurisprudential rules in the interpretation of contracts (28).

From a legal standpoint, the judiciary, in interpreting and applying contracts and adjudicating claims relating to unforeseen costs, also relies on this maxim and, where the necessity and logical connection of the costs to the subject matter of the contract are demonstrated, issues judgments requiring their reimbursement. This means that costs which constitute legitimate and necessary requirements of performing the contractual work, even if not expressly mentioned in the contract, are recoverable, and the right to claim them is affirmed by invoking the maxim of permission (15).

Accordingly, the maxim of permission in respect of a thing, in Iranian judicial practice and civil law, not only protects the right to lawful possession and use, but also provides the basis for recognizing and approving costs that lie outside the precise subject of the contract, provided they are claimed under specific conditions and supported by legal justification. Courts, in many cases, upon establishing the necessity, proportionality, and direct connection

of the expenditures incurred with the subject matter of the contract, have ordered the reimbursement of such costs, even where they were not expressly stipulated in the contract. This approach shows that the judiciary, by drawing on jurisprudential foundations such as the maxim of permission, seeks to uphold contractual justice and the balance of interests between the parties. Thus, in light of this maxim, costs that are logically and technically regarded as necessary requirements for the proper performance of the contract become recoverable and may be considered legitimate examples of “off-contract costs” consistent with the spirit of contract law and principles of fairness.

Application of the General Conditions of Contract to Off-Contract Costs

From the perspective of contracting practice, the implementation of any civil or industrial project is invariably associated with risks and unforeseeable costs. These expenditures may result from changes in the price of materials, climatic and environmental conditions at the project site, economic fluctuations, or revisions to technical specifications and instructions (7). At the time of contracting, precise estimation of such costs is usually impossible, yet professional and technical custom in the contracting industry treats them as part of the natural and unavoidable requirements of project implementation. Consequently, even if they are not expressly mentioned in the contract documents, bearing these costs is considered necessary for the effective and successful performance of contractual obligations. On this basis, when the contractor is compelled to incur such costs in the course of executing the project, they are, in fact, acting within the scope of the employer's original authorization. Permission to execute the project implicitly includes all preliminaries, tools, and necessary expenditures required to achieve that objective, because according to the jurisprudential maxim “permission in respect of a thing implies permission in respect of its accessories,” whenever one person authorizes another to perform an act, that authorization logically and customarily extends to all ordinary and necessary requirements of that act. Therefore, additional customary costs incurred during contract performance may, from a legal standpoint, be regarded as customary effects of the contract, arising from the employer's implied permission and thus recoverable.

This interpretation is also consistent with the foundation laid down in Article 220 of the Civil Code. Under this provision, the parties are bound not only by the express obligations set out in the contract but also by all consequences that arise from the contract by virtue of custom or law; accordingly, if the technical and economic custom governing contracting relationships considers additional costs resulting from changed circumstances to be a natural requirement of performance, the employer is legally obliged to compensate them (10). If the technical and economic custom governing contracting relations treats the assumption of such extra costs as a natural requirement of performance under changed circumstances, the employer is likewise bound to reimburse them. In fact, by recognizing custom as a binding source, Article 220 creates a link between the jurisprudential maxim of permission in respect of a thing and the modern contractual system; jurisprudence provides the conceptual basis of implied permission, and Article 220 institutionalizes this basis as a legal obligation in contemporary contractual relations, including EPC and public works contracts.

Review of Judicial Decisions on Off-Contract Costs

In the Iranian legal system, judicial and quasi-judicial practice concerning off-contract costs lacks uniformity, and two distinct approaches can be observed. This divergence originates in differing philosophical and theoretical premises on contract interpretation: one approach emphasizes the primacy of the parties' will, while the other

stresses commutative justice and fairness. In this section, however, a decision that affirms off-contract costs is highlighted as evidence of the legal validity of such expenditures in judicial practice.

The final judgment of Branch 62 of the Tehran Province Court of Appeal, No. 9509972130700161, dated May 2, 2016, holds that additional costs of performing a project awarded to a contractor, which have increased due to external factors beyond the contractor's control (such as a shift from daytime to nighttime working hours), are recoverable from the employer. These costs are treated as *ujrat al-mithl* (reasonable remuneration) under Article 336 of the Civil Code and may therefore be claimed. Article 336 provides that whenever a person, at the request of another, performs an act for which a remuneration is customarily payable, the performing party is entitled to such remuneration unless the intention to act gratuitously is proven. Accordingly, off-contract costs in oil and gas contracting may fall within this legal framework and be claimed. From a legal perspective, this ruling is also consistent with the principle of unjust enrichment and the rule of fairness, which preserve justice in contractual relations (30).

This judgment, firmly grounded in Article 336 of the Civil Code, is fully valid and consistent with legal principles and confirms that off-contract costs arising from unforeseen factors beyond the contractor's control may legitimately be claimed and are payable to the contractor as reasonable remuneration. This approach has been endorsed in Iranian judicial practice and reinforces contractors' rights when faced with additional costs (22).

Strategies for Institutionalizing Off-Contract Costs

Strategies for institutionalizing and recognizing off-contract costs in oil and gas contracts can, based on legal and jurisprudential foundations and international practice, be divided into four key areas.

– Harmonizing the Principle of Freedom of Contract with the Public Interest

In contracting within the oil and gas sector—where the public interests of the state are implicated under the sovereignty of the government—freedom of contract must not be exercised in such a way that public and social interests are disregarded. It is therefore necessary to incorporate clauses and rules into contracts that simultaneously emphasize the parties' freedom of will and safeguard the country's social and economic interests. This approach is consistent with the fundamental principles of contract law in common law systems, where the freedom of private contracts is balanced against considerations of fairness and social justice (31). It reflects the idea that, in oil and gas contracting, contractual freedom is not confined to the private interests of the parties but must align with the protection of public and economic interests. From a legal standpoint, this means that contractual clauses should be structured so that project implementation, in addition to respecting the rights of both contractor and employer, also takes into account broader social and economic effects. In other words, the parties' freedom of will must operate within a framework of rules that ensure a balance between private and public interests.

This perspective is also in harmony with the fundamental principles of contract law in common law systems, where private contractual autonomy is limited and balanced by considerations of fairness and social justice. Within this framework, oil and gas contracts can be drafted so that, while benefiting from flexibility and freedom of will, the obligations of contractor and employer regarding costs and actions that serve the public interest and advance national objectives are clearly defined and enforceable. This approach not only reduces the likelihood of disputes but also guarantees the continuity and stability of projects and their alignment with the country's developmental and economic policies.

– Contractual Modeling Based on International Standards (FIDIC)

Given the complexity of oil and gas projects, the use of the FIDIC contractual model—rooted in the common law tradition and judicial precedents of common-law jurisdictions—provides the possibility of drafting comprehensive provisions for recognizing and accepting costs that fall outside the primary scope of the contract. This model can help preserve the balance of interests between the contracting parties and ensure that costs arising from unforeseen circumstances are examined and compensated (27). The FIDIC contractual framework, owing to its reliance on customary practice and case law in common-law countries, enables the design of comprehensive and flexible clauses for identifying and accepting off-contract costs. By anticipating clear mechanisms for compensating additional costs resulting from economic, technical, or environmental changes, this model allows the parties to manage ancillary obligations and necessary expenditures for project implementation in a transparent and documented manner. From a legal standpoint, the use of FIDIC creates contractual equilibrium between the employer and the contractor and plays a preventive role in reducing disputes and claims arising from off-contract costs. Moreover, given the complex and long-term nature of oil and gas projects, this model can serve as a standard instrument for guaranteeing the reimbursement of unforeseen and necessary costs in both domestic and international contracts, ensuring that the rights of the parties are preserved while the project proceeds with stability and continuity.

– The Renegotiation Clause

Incorporating a renegotiation clause in oil and gas contracts provides the parties with the opportunity, in case of economic or technical changes that disrupt the contractual equilibrium, to renegotiate and reach a new agreement regarding off-contract costs. This clause is particularly effective due to the inherently subsequent nature of such costs, functioning as a mechanism for preserving balance and preventing disputes (23 2022 #319172). In practice, this clause creates contractual flexibility and allows the parties, when faced with unforeseen economic changes, inflation, fluctuations in the prices of goods and services, or technical modifications to the project, to revise the contract and reach a new agreement on off-contract expenses. From a legal perspective, the renegotiation clause serves as contractual and legal support for the principles of fairness and balance between the parties and can reduce litigation arising from unforeseen costs.

In addition, this clause—by emphasizing the subsequent and necessary nature of such costs—provides a framework for determining the methods and indicators for calculating expenses during renegotiation. In other words, the renegotiation clause is not merely a preventive tool but also creates a legal and contractual basis for the transparent and documented reimbursement of legitimate off-contract costs, thereby contributing to the continuity of project execution and the protection of both parties' interests.

– Acceptance of Costs Based on the Jurisprudential Rule “Permission in Respect of a Thing Implies Permission in Respect of Its Accessories”

In the jurisprudence of oil and gas contracts, the maxim “permission in respect of a thing implies permission in respect of its accessories” provides the basis for accepting off-contract costs. This maxim states that permission granted to perform the primary subject of the contract implicitly includes permission for all necessary and related requirements associated with that performance. Consequently, costs that are necessary for carrying out the primary contractual obligation and are incurred with the employer's express or implicit permission are admissible and recoverable (32).

In practice, this maxim serves as a foundation for defining ancillary obligations and secondary costs incurred by the contractor. This means that when the contractor undertakes actions necessary for the implementation of the

principal subject of the contract, any cost that is logically and technically essential for its execution—and without which the project cannot be completed properly—is deemed to fall within the employer's implicit consent. From a legal standpoint, this maxim enables reliance on off-contract costs, particularly in oil and gas contracting, where technical complexity and long project durations require flexibility and actions beyond the primary obligations.

Moreover, applying the maxim can serve as the foundation for including supplementary clauses and side agreements in contracting arrangements. For instance, the parties may, based on this rule, stipulate in the contract that necessary expenses associated with the requirements of project implementation— even if not expressly mentioned in the contract—shall be reimbursable. Such an approach not only offers legal protection to the contractor but also helps maintain the balance of interests between the parties and reduces disputes arising from ancillary costs.

Discussion and Conclusion

The analyses conducted in this article demonstrate that in oil and gas construction contracts, off-contract costs refer to expenses that are not expressly provided for in the written terms of the contract but are nonetheless essential for the proper and complete execution of the project. These costs often arise from technical complexities, unforeseen environmental conditions, or economic and market fluctuations, and without their consideration, the achievement of contractual objectives is jeopardized. Given the long duration and high technical level of oil and gas projects, such costs may emerge at various stages of the project, and their effective management plays a key role in ensuring project progress and success.

In the judicial and quasi-judicial practice of Iran, there is a clear duality in the treatment of off-contract costs. On one hand, some authorities, relying on the principle of contractual necessity and a strict interpretation of contractual terms, have deemed such costs non-recoverable. On the other hand, an opposing approach, grounded in the theory of ancillary obligations and principles of fairness, has opened the way for recognizing and compensating these costs. This view is based on the understanding that contracts are not limited to their explicit provisions but also encompass all ancillary obligations and logical consequences arising from the agreement. In Iranian law, jurisprudential doctrines and civil law principles—particularly the maxim that permission for an act implies permission for its necessary accessories—provide the foundation for the legitimacy and acceptance of off-contract expenses. Under this principle, authorization to perform the primary contractual subject implicitly includes permission for the essential measures and requirements associated with its execution. From a legal perspective, especially in oil and gas contracts, this principle enables contractors to claim necessary expenses and maintains a balance of rights between employer and contractor when confronting unforeseen costs.

Despite having a legal foundation, the recovery of off-contract costs faces numerous challenges. These include the need to prove the necessity and logical connection of such costs to the subject of the contract, limitations arising from general laws and governmental regulations, and the requirement to prove the employer's consent regarding the contractor's actions. Additionally, the subsequent and non-explicit nature of these costs increases disagreements between the parties in interpreting which expenses are recoverable and determining the appropriate level of compensation. Constraints imposed by public policy and the obligation to adhere to rules governing public contracts reduce the ability to rely solely on the principle of freedom of contract and thus complicate the claims process.

To manage and prevent disputes, oil and gas construction contracts may incorporate specific clauses to address off-contract costs. These may include provisions for price adjustment, good-faith proposals, renegotiation clauses, automatic or periodic price adjustments, and even the use of standardized contractual models such as FIDIC. These tools allow the parties, while maintaining contractual balance and respecting the principle of freedom of will, to identify and compensate necessary project expenses transparently and in a well-documented manner.

Overall, off-contract costs in oil and gas construction contracts in Iran are consistently associated with technical, financial, and legal complexities. The acceptance of such costs requires a precise interpretation of civil and jurisprudential principles, the identification of appropriate contractual mechanisms, and the preservation of balance between the parties' autonomy and the public interest. Proper drafting of clauses and compensation mechanisms not only enables the lawful recovery of necessary expenses but also contributes to project stability and continuity, reduces disputes, and ensures contractual fairness, playing a key role in the successful completion of strategic oil and gas projects.

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All authors equally contributed to this study.

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