

Development of International Law Concept of Commercial Usages in Latvia

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Abstract

Research background: This article analyses the legal framework of commercial usage, as well as its use in commercial transactions directly or as a tool for interpreting legal norms and contractual terms. Commercial usages play a vital role in the unification of private law; this unification is high priority. The harmonization of international private law, especially trade law (commercial law), is an objective of many international organizations of global importance. Thus, having established that commercial usages exist as the relevant legal framework, the correct use of this legal framework should be the current focus of legal and related research.

Purpose of the article: The purpose of this article is to provide a comprehensive analysis of the application of commercial usages by evaluating current effective legal documents and current legal practice, especially in Latvian court judgments to formulate an opinion on the application of commercial usages in Latvia. The research highlights the necessity for broader utilization of commercial usages to advance commercial law development and facilitate the international unification of legal regulations for commercial transactions. This, in turn, would contribute to enhancing cross-border legal predictability and enforcement.

Methods: The research is based on logical-analytical and descriptive scientific methods, incorporating historical and systemic approaches, as well as generalization of professional experience. The basis of the study is the analysis of various resources and legal acts, as well as observations.

Techniques for interpreting legal norms are based on grammatical, historical, systemic, and teleological methods.

Findings & Value added: This research underscores the significance of integrating commercial usages into legal frameworks to improve legal certainty in commercial transactions. It also offers recommendations for refining the definition of commercial usages in Latvian law to ensure consistency and foster unification with international standards.

Keywords

commercial usage • commercial transaction • international trade law

JEL codes

K12; K20; K22; K33.

Introduction

The broad unification of contract law on both international and European level could achieve a pivotal role in accelerating economic growth. The adoption of uniform principles fosters competition and facilitates cross-border transactions, allowing businesses to rely on their existing legal expertise and operational practices.

The development of the historical legal framework over the last century provides an idea of standard practices in international commercial transactions. The historical development of legal frameworks of international commercial law over the past century has contributed to the codification of commercial practices in international commercial transactions. This codification enhances the unification of laws governing commercial transactions and supports economic efficiency by providing a consistent framework. In this regard, instruments that promote such unification are essential.

Therefore, any instruments that would promote the international unification of commercial contract law should be developed. This unification certainly includes two main tasks – to assess the importance of commercial usages and to determine the system of application of these usages.¹

Among the key objectives of unifying commercial law are recognizing the significance of commercial usages and advancing their practical application. Latvian Commercial Law, starting in 2010, includes a dedicated section titled “Commercial Transactions,” which explicitly references commercial usages as a legal source for governing relationships in the commercial

¹ Király, Miklós. *The Unification of Contract Law and Commercial Usages*. 2022. <https://doi.org/10.26494/tclr220225>.

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sector. This article aims to analyse how these usages can be systematically utilized both internationally and in the Latvian legal context.

The results section of this article provides an overview of Latvian court practice in commercial disputes, referring to the relevant provisions of uniform legal instruments on usages, as well as a general review of some specific problems related to commercial usages and their use in commercial transactions.

In conclusion, a summary of the analysis and amendments to the Commercial Law of the Republic of Latvia are offered to promote the international unification of commercial law.

Literature review

The concept of commercial usage in private international law and its implementation

Commercial usages have long been recognized as integral to the development of international commercial law. Historically termed “trade usages” in international legal documents and scholarly literature, their application extends to governing trade transactions at both national and international levels.

Related to the use of terminology in the context of this article, it should first be mentioned that, taking into account that the historical² and still internationally used (UNCITRAL) designation of commercial law is “trade law”, the terms “trade usages” and “trade transactions” can be used with the same meaning in the literature.

Commercial usages are mentioned in several international legal documents. The provisions of several of these documents are related to usages, and therefore the concept of usages can be derived with some accuracy from their content and application practice.

The 1980 United Nations Convention on Contracts for the International Sale of Goods (CISG) highlights the role of usages in its Articles 8 and 9. Although the Convention states that it governs only the conclusion of a contract of sale and the rights and obligations of the buyer and seller arising from such a contract, and does not concern the validity of any usage (Article 4(a)), Article 8(3) of the Convention provides that in determining the intention or understanding of the parties, which would be reasonable, it is necessary to take into account all the relevant circumstances of the case, including negotiations, any practices established by the parties in their mutual relations, usage and any subsequent conduct of the parties. In turn, Article 9(1) of the said Convention provides that the parties are bound by any custom which they have agreed upon and by the practice which they have established in their mutual relations, but Article 9(2) of this Article provides that, in the absence of an agreement to the contrary, the parties shall be deemed to have intended to apply to their contract or the conclusion of the contract a usage of which they were aware or ought to have been aware, which is well known in international trade and which the parties have consistently observed in contracts of this type in the relevant trade area. This means that, in unifying commercial contracts for the sale of goods, the international legislator considered as a usage an “unwritten” rule of international law applicable to the legal relations of the parties in their commercial transaction, which the parties were aware or ought to have been aware of, which is well known in international trade and which the parties have consistently observed in contracts of this type in the relevant trade area.

Legal literature recognizes that commercial usages can determine the conduct of the parties in their commercial transaction and the content of this transaction itself, and they independently unify³, which can make it difficult to apply uniform norms established by the legislator.

Scholars also affirm that commercial usages contribute to shaping parties’ behaviour and contract terms. This role can complement legislative frameworks or even supersede statutory provisions when widely acknowledged by the contracting parties.

In jurisdictions following Romano-Germanic legal traditions, usages are often codified into either mandatory norms or default (dispositive) norms that apply when parties fail to address specific issues in their contracts., the legislator usually turns commercial usages into imperative legal norms – those that are mandatory, preventing the parties in their transaction from agreeing to the contrary, or into dispositive legal norms that operate in cases where the parties of the transaction have not independently clarified their rights and obligations and have not regulated their relations in the transaction document (Goode 1997). Commercial usages are part of a complex framework of various sources of transaction rules.⁴

2 Loebers, Augusts. *Tirdzniecības tiesību pārskats*. Rīga: Valtera un Rapas, 1926.

3 Cafaggi, Fabrizio. “The Many Features of Transnational Private Rule-Making: Unexplored Relationships between Custom, *Jura Mercatorum* and Global Private Regulation.” *University of Pennsylvania Journal of International Law* 36, no. 4 (2015): 875–938.

4 Mistelis, Loukas. “Is Harmonisation a Necessary Evil? The Future of Harmonisation and New Sources of International Trade Law.” In *Foundations and*

Prominent efforts to harmonize substantive law, such as UNIDROIT's Principles of International Commercial Contracts, further emphasize the legal significance of commercial usages in achieving unification. The International Chamber of Commerce's Incoterms® rules are a practical example, offering a standardized interpretation of trade obligations widely recognized in global commerce.

Discussions on efforts to unify substantive commercial contract law usually focus on the aforementioned Convention on Contracts for the International Sale of Goods, as well as relevant documents of the International Framework for the Unification of Private Law (UNIDROIT), in particular the International Principles of Commercial Contracts.^{5,6} The unification of private international law is the main objective of the independent intergovernmental organization UNIDROIT, specifying its objective as the study of the needs and methods for the modernization, harmonization and coordination of private and, in particular, commercial law between States and groups of States and the formulation of uniform legal instruments, principles and rules to achieve these objectives. Commercial usages are therefore certainly in the focus of UNIDROIT's attention.

In practice all cases, when determining the terms of delivery of goods, if the goods have to cross national borders, the Incoterms® rules issued by the International Chamber of Commerce are applicable in the relevant commercial transactions. This is a non-binding set of rules issued by the International Chamber of Commerce, which determines the obligations of the seller and the buyer regarding the delivery of goods in international transactions. The International Chamber of Commerce (ICC) is a private international organization that works to improve the legal framework of commercial activities and business practices. Accordingly, commercial usages are compiled through the activities of this private organization as legal instruments that facilitate the conclusion and conduct of a transaction. Incoterms® rules are essentially a compilation of alternative commercial usages related to the international delivery of goods.

The Principles of European Contract Law (PECL) are also crucial in this regard.

It is possible to define commercial usages by looking at several other legal sources.

In legal literature, commercial usages are usually described as usual practice in a transaction⁷. In individual documents this description also includes the previous practice of the parties to the specific transaction (for example, Article 9 of the above-mentioned Convention on Contracts for the International Sale of Goods).

The Unfair Commercial Practices Directive 2005/29/EC defines a "business-to-consumer commercial practice." According to the directive, it is any act, omission, conduct or statement made by a trader, a commercial communication, including advertising and marketing, which is directly related to the promotion, sale or supply of a product to consumers. From this definition, as well as the exceptions described in the directive and the above review, the concept of commercial usage as a usual commercial practice in transactions between traders can also be derived.

Thus, it can be assumed that a commercial usage is any presumed act, omission, conduct or statement of a merchant, commercial statement, including advertising and marketing, commercial communication, which is directly related to the conclusion or performance of a commercial transaction, including such that the merchant has previously used.

The application of commercial usages can be determined by law, as is the case in Latvia, where commercial usages in commercial transactions are mentioned in Article 391 of the Commercial Law. However, the content of this article creates some uncertainty about the content of commercial usages and, therefore, does not contribute to the widespread use of the concept of commercial usage in common.

Commercial usages may be applied by agreement of the parties to the transaction, as well as without stipulating it in law at all and without any agreement – guided by general principles of commercial law.

Looking in more detail at the application of usages in commercial transactions without express agreement of the parties, it can be concluded that several international documents refer to provisions that can be considered applicable without the agreement of the parties, considering the widely known content of the relevant document. The legal literature has expressed the opinion that to apply a usage that has not been expressly agreed upon by the parties, the usage must be widely known and regularly observed internationally in the relevant type of transactions, however, there is no generally accepted standard formula that would regulate the application without an express agreement of the parties.⁸

Perspectives of International Trade Law, 3–27. London: Sweet & Maxwell, 2001.

5 UNIDROIT. *UNIDROIT Principles of International Commercial Contracts*. Rome: UNIDROIT, 2016. <https://www.unidroit.org/english/principles/contracts/principles2016/principles2016-e.pdf>.

6 Vogenauer, Stefan, ed. *Commentary on the UNIDROIT Principles of International Commercial Contracts (UPICC)*. 2nd ed. Oxford: Oxford University Press, 2015.

7 Garner, Bryan A. *Dictionary of Modern Legal Usage*. New York: Oxford University Press, 1995.

8 Király, Miklós. *The Unification of Contract Law and Commercial Usages*. 2022. <https://doi.org/10.26494/tclr220225>.

Commercial usages for the interpretation of transaction documents and applicable legal provisions

Before World War II, Latvian “trade law” (now “commercial law”) was not separately codified. It was based on the application of general civil rules,

considering the specifics of commercial activity.

However, the provisions on commercial activity were realistic, as demonstrated by Augusts Loeber’s book “Trade Law,”⁹ which served as an essential guide for contemporary lawyers and other practitioners.

The Latvian Civil Law, which came into force in 1938, was intended as the primary source of civil law that generalised and systematised civil law rules.

Recognising that more specialised areas of commercial activity required different regulation, references were included in its text to future “trade laws,” indicating that more detailed provisions for commercial transactions would be regulated separately. However, work on these specialised “trade law” acts was interrupted by World War II and the subsequent annexation, so the planned codification was never completed.

When Latvia regained its independence in the 1990s, the Civil Law (1938) was renewed, because it seemed difficult to come up with something completely new. But the aforementioned “trade laws” were not adopted. Even when the Commercial Law came into force in 2002, not only usages, but also the regulation of commercial transactions was not included there. The Commercial Law was supplemented with Part D “Commercial Transactions” in 2010 only. This part is not extensive and also contains general provisions on usages, but with limited significance both in terms of definition and application.

So, there are no wide regulation on commercial transactions in Latvia.

In scenarios where neither statutory law nor explicit contractual terms address specific issues, commercial usages serve as interpretative tools. Their application allows for the determination of parties’ intentions and facilitates the interpretation of both contracts and legal norms. For instance, the Principles of European Contract Law (PECL) explicitly acknowledge usages’ interpretative role, provided they do not contradict mandatory provisions.

Commenting on Article 1:105 of the PECL, it is implicitly stated that usages and practices are valid only to the extent that they do not violate the mandatory provisions of the law applicable to the contract.¹⁰

Commercial usage can be used as a tool for determining reasonableness. The concept of reasonableness in law which is the measure by which to evaluate situations that are formally recognized as legal, but are nevertheless arbitrary,¹¹ is often used as an open concept in a legal provision that must be filled with content in the process of applying this legal provision.

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Latvian law already in the Civil Law defines reasonable conduct as the conduct of a “good and diligent householder”, through which forms of fault in civil law are assessed – this is taken over from Roman law, where the term “good father of the family” (Latin *bonus pater familias*) was used.¹⁴

It establishes benchmarks for evaluating conduct in specific contexts. By extension, commercial usages may fill interpretative gaps, offering practical clarity without conflicting with statutory rules.

Also in the Commercial Law, the legislator repeatedly uses the terms “reasonable term” or “reasonable time”, as well as “reasonable instructions”, etc., without precisely defining either the term or the rules for determining it, as well as without mentioning any special criteria.

9 Loebers, Augusts. *Tirdzniecības tiesību pārskats*. Rīga: Valtera un Rapas, 1926.

10 Lando, Ole, Antonius Prüm, Eric Clive, and Reinhard Zimmermann. *Principles of European Contract Law, Part III*. The Hague/London/Boston: Kluwer Law International, 2003.

11 Margene, Ozolniece. “Saprātīgums kā visu lietu mērs jurisprudencē.” *Jurista Vārds*, no. 29 (1347), July 16, 2024: 15–29.

12 Lando, Ole, Antonius Prüm, Eric Clive, and Reinhard Zimmermann. *Principles of European Contract Law, Part III*. The Hague/London/Boston: Kluwer Law International, 2003.

13 Margene, Ozolniece. “Saprātīgums kā visu lietu mērs jurisprudencē.” *Jurista Vārds*, no. 29 (1347), July 16, 2024: 15–29.

14 Kārklīņš, Jānis. “Vainas, prettiesiskas rīcības un atbildības ideja privāttiesībās.” *Juridiskā zinātne: Latvijas Universitātes žurnāls*, no. 8 (2015): 156.

Thus, the content of usages can also be used for the interpretation of legal norms, applying these norms to specific legal relationships - and not only in commercial transactions.

The role of usages as an interpretation tool is covered by several unified legal instruments^{15,16}

This article is devoted to the use of commercial usages in commercial transactions, therefore the review of the interpretation of legal norms in accordance with usages will be continued with respect to commercial transactions.

It is understandable that when interpreting legal norms, commercial usages cannot be used contrary to any specific instructions of the legislator in a legal norm that has binding force but can only lead the legislator to amend the existing legal regulation to one that is more consistent with practice, if there is a justification for this.

Commercial usages cannot change the legal relations of the parties to the transaction when mandatory legal norms must be applied.

Additionally, the issue of dispositive legal norms is worthy of attention, that is, those that the legislator calls for to be applied if the parties to the transaction have not independently agreed on the relevant regulation. Guided by the rules for the application of legal acts, here too, usage should have no normative priority, but only one that is based on the agreement of the parties.

Research methodology

This legal research is analytical and descriptive.

The research uses the standard doctrinal methodology of legal analysis. Its main objective is to critically evaluate Latvian laws, especially the Commercial Law and the Civil Law, comparing them with the relevant principles of international treaties. The comparative method is the main one and is supplemented using international legal frameworks to identify differences and possible solutions in the Latvian system. The research is based on the analysis of primary sources, supplemented by a review of scientific literature and legal doctrine of Latvia and international.

The basis of the research is the observance of various documents, opinions, opinions and legal norms in the law of Latvia and international: non-binding, as well as Observation.

Observational methods informed by the author's professional experience are incorporated, providing practical insights into the application of commercial usages. While subjective elements are acknowledged as a limitation, this approach offers valuable context and a nuanced understanding of the research subject.

Observation by using previous personal experience offers valuable insights into the research. Limitations and challenges are doing so. Still, as it stays in similar research, it is necessary to utilize the author's voice and consider less conventional ways of conducting legal research.

Content analysis has also been utilized to systematically examine legislative and judicial documents, focusing on the term "commercial usage" as it appears in laws and court judgments. This enables a comprehensive evaluation of its significance, legal interpretation, and practical application in both Latvian and broader international trade practices.

The grammatical, historical, systemic and teleological methods are used to translate legal norms.

Research results

Latvian legal regulation provides for the application of commercial usages in various contexts; however, its implementation remains inconsistent. For instance, Article 1652(3) of the Civil Law establishes that debtor default is determined automatically upon missing a deadline prescribed by law, contract, or usage. Despite this, court rulings rarely elaborate on the practical meaning or content of such usages.

Latvian courts exhibit cautious and inconsistent reliance on usages in commercial disputes. References to usages are often included in judicial reasoning without thorough examination of their content or applicability. This lack of precision limits their potential to foster legal certainty and unification in commercial law.

An analysis of broader legal frameworks highlights the significance of codifying commercial usages to achieve predictability and clarity. In jurisdictions where usages are embedded into statutory or judicial practices, such as through the PECL or Incoterms®, legal actors benefit from clear standards and expectations.

15 Berger, Klaus. "Force Majeure Clauses and Their Relationship with the Applicable Law, Trade Usages and General Principles of Law." In *Hardship and Force Majeure in International Commercial Contracts*, Dossier XVIII, 133–56. 2018.

16 Király, Miklós. *The Unification of Contract Law and Commercial Usages*. 2022. <https://doi.org/10.26494/tclr220225>.

Latvian legal regulation has historically provided for the possibility of applying usages to legal relations, without revealing both the meaning and content of the concept of usage. Thus, Article 1652, Paragraph 3 of the Civil Law stipulates that the debtor's default with all its consequences occurs automatically when he has missed the deadline set for performance either by law, by contract, or by usage. This article of the Civil Law is the most cited in court judgments regarding the debtor's default, however, without revealing the essence of the usage in any way.

The Civil Law, about the obligation to pay interest on late payment, also stipulates that interest must be paid, even without a specific agreement, based on the law, for goods that merchants or practitioners of other professions have issued on debt to persons outside their profession, from the time when, according to local usage, the sales invoices submitted to the buyer must be paid, unless otherwise agreed upon as to the time of payment (Article 1759, Clause 4 of the Civil Law).

Also, when talking about legal relations from an employment contract, Article 2186 of the Civil Law provides that the expenses necessary for work fall on the employer, unless otherwise agreed or local usage determines.

However, Article 391 of the Commercial Law is directly applicable to commercial transactions, stipulating: "When interpreting the expression of the will of a merchant, as well as the meaning and consequences of actions, the usages existing in commercial legal circulation in the relevant sector shall be taken into account in the legal relations between merchants." This article is mentioned in several judgments of the first and appellate instance, but its application to the facts established in the case is not clearly disclosed in substance.

In Latvian judicial practice, there are only a few judgments where courts refer to usages and Article 391 of the Commercial Law. Mostly, these references are only a summary of the position of the party to the case in the descriptive part – that is, in the judgment of the Riga Regional Court of February 21, 2017 in case C33542715, or a declarative statement, agreeing with the conclusions of the first instance court regarding the legal position of the party to the case – that is, in the judgment of the Riga Regional Court of October 16, 2017 in case C33540215; in the judgment of the Riga Regional Court of June 9, 2020 in case C29301719; in the judgment of the Riga Regional Court of September 9, 2021 in case C29301719; In the judgment of the Riga Regional Court of January 11, 2024, in case C68310220. In one case, the court considered the usage in construction transactions to be proven, based on the testimony of one witness, which would be quite doubtful - that is, the judgment of the Riga Regional Court of December 8, 2022, in case C68456921.

An analysis of the existence of the usage can be found in one case, however - that is, the judgment of the Riga Regional Court of January 18, 2021, in case C33601418. The court does not accept the plaintiff – merchant's opinion "that in accordance with Article 391 of the Commercial Law, the usages existing in the relevant sector of commercial law must be taken into account, according to which, when selling a product that is necessary for the buyer's commercial activities, the seller cannot hesitate and prepare the product for use for more than a year", indicating that "the Civil Court Panel is not aware of and the plaintiff has not proven such a usage existing in commercial law, therefore there is no reason to believe that the defendant would have missed the deadline set for performance according to usage."

Term "usage" is also mentioned in the Competition Law, the second part of Article 18 of which states that actions that result in a violation of regulatory enactments or fair business practices and that have resulted or could result in the prevention, restriction or distortion of competition shall be considered unfair competition. This article, although sometimes mentioned in court judgments and even in the compilation of the Supreme Court of the Republic of Latvia "Court Practice in Competition Cases, 2007–2018," has not seen any consideration by the court regarding the concept of usages.

Conclusions

At the international level, commercial usages play a dual role: they complement statutory norms and act as a harmonizing force in cross-border transactions. Institutions such as UNIDROIT and the International Chamber of Commerce have highlighted their importance in promoting legal consistency across jurisdictions. However, to maximize their utility in Latvia, further legislative and judicial clarification is required, ensuring that their application aligns with international standards while addressing local needs.

Based on the analysis of legal norms, judicial practices and international instruments, it becomes evident that the application of commercial usages in Latvia lacks clarity and consistency. Despite their recognition in Latvian law, particularly in the Civil Law and Commercial Law, the absence of a systematic approach to defining and applying commercial usages limits their potential to enhance legal certainty and contribute to the harmonization of trade law (commercial law).

To address these challenges, the following conclusions and recommendations are proposed.

Refinement of Legislative Definitions and Application

The concept of commercial usages should be explicitly defined within Latvian Commercial Law. This can be achieved by introducing a clear and comprehensive definition in Article 391 of the Commercial Law, emphasizing that commercial usages represent widely known, established, and consistently observed practices in relevant trade sectors.

According to Article 391 of the Commercial Law, the application of usages is clearly limited to the interpretation of contracts, which contradicts the broader and more practical function of usages, recognizing them as implicit rules that determine the obligations of the parties and fill in the gaps in the contract.

Since the current wording of Article 391 of the Commercial Law is significantly narrower than the international standard set out in Article 9 of the CISG, which accordingly means that Latvia does not have all possible instruments to address the problems of interpretation of rules related to commercial activities.

Therefore, it seems desirable for the Latvian legislator to expand also the scope of application of usages.

Judicial Application and Interpretation

Courts should adopt a more structured approach to evaluating and applying commercial usages in disputes. This includes developing guidelines for assessing evidence of usages, such as the frequency of their application in practice and their recognition by industry participants.

Promotion of International Unification

To align with international standards, Latvia should actively incorporate globally recognized instruments, such as the UNIDROIT Principles and the Incoterms®, into its legal framework. These instruments provide practical examples of codified commercial usages and facilitate cross-border legal harmonization.

Commercial usages can be used by agreement of the parties to the transaction or based on a reference to it in a legal act. If a commercial usage is indicated in a non-binding international legal act, although it shall be recognized as widely known the usage cannot be used contrary to a mandatory legal norm, as well as contrary to a dispositive legal norm, if the parties to the transaction have not reached an agreement on this.

Education and Awareness

Legal practitioners, businesses, and the judiciary should be educated about the significance and application of commercial usages. Training programs and industry consultations can help ensure that all stakeholders understand their role in promoting legal certainty and fostering international trade.

By implementing these recommendations, Latvia can enhance the practical relevance of commercial usages, strengthen their role in the legal regulation of commercial transactions, and contribute to the broader goal of harmonizing international trade law. In Latvia, by advancing and expanding the practice of using commercial usages and, thereby, promoting the international unification of commercial law, there would be grounds for making amendments to the Commercial Law by supplementing Article 391 with the following second part:

“Within the meaning of this law, a commercial usage is a widely known, customary, and regularly observed practice in transactions of the relevant type at the place of the transaction.

When interpreting the will, actions, and intentions of a merchant in commercial legal relations, such usages shall be applied, provided they do not contravene mandatory legal norms or agreements explicitly established by the parties.”

This revision enhances clarity by providing a comprehensive definition of commercial usages and ensuring their consistent application in commercial disputes.

Disclosure statement

No potential conflict of interest was reported by the author(s).

Declaration of generative AI in scientific writing (OBLIGATORY)

During the preparation of this work the author has not used any type of generative AI or AI-assisted technologies.

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