SAHARA ENERGY RESOURCE LIMITED v SOCIÉTÉ NATIONALE DE RAFFINAGE S.A.(SONARA) [2026] EWCA Civ 54

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The Decision

1. The Court of Appeal reaffirms the primacy of the wording of the document when interpreting a written contract.

3PB's analysis

2. Sahara had sold crude oil to Sonara, and Sonara had been late in making payment. Sahara had incurred a series of losses as a result, which included:

    a. Bank charges incurred by Sahara, defined by the parties and in the Court of Appeal's judgment as the claim for "**Incremental Interest**".

    b. Losses due to depreciation of the Euro against the US dollar during the period of delay in payment, defined as the claim for "**FX Differential**".

3. The parties entered into a written contract called the "**Joint Report**". The question for the Court was whether the Incremental Interest and FX Differential claims were governed by the Joint Report.

4. The Incremental Interest and FX Differential claims appeared in a table in the Joint Report titled "Undisputed Claims".

5. At first instance, Cockerill J held that there was no legally binding agreement in relation to the claims for Incremental Interest and FX Differential notwithstanding the use of the words "Undisputed Claims" in the Joint Report.

6. Part of Cockerill J's reasoning was that Clause 26 of the Joint Report read: "*the Parties will reconvene for … further negotiations on the Undisputed Claims*". The

Judge reasoned that the word "Undisputed" could not really mean "undisputed" but must have been intended to indicate some unagreed element which was subject to "further negotiations". The Judge bolstered this line of reasoning by reference to further "admissible background" which was said to show a lack of agreement between the parties on the "Undisputed" claims.

7. Lord Justice Snowden, giving judgment for the Court of Appeal, allowed the appeal on the basis that there was a binding agreement in respect of the claims for Incremental Interest and FX Differential that were included in the table of Undisputed Claims in the Joint Report.

8. The Court of Appeal emphasised that, once it was accepted that the Joint Report was a legally binding agreement, the question of whether it extended to the claims for Incremental Interest and the FX Differential was a question of interpretation of the agreement. *Citing Wood v Capita Insurance* [2017] AC 1173, the Court noted that its task is to ascertain objectively, with the benefit of the admissible background, the meaning of the words that the parties have used.

9. Citing Investors *Compensation Scheme v West Bromwich BS* [1998] 1 WLR 896 the Court noted that evidence of the negotiations and earlier drafts is not admissible as an aid to interpretation of the final agreement. It appears that Cockerill J may have been led astray in this regard by the fact that both parties had sought to rely upon prior negotiations and drafts.

10. The Court held that "Undisputed Claims" had an obvious natural meaning. The Court was not troubled by Clause 26, which it judged to be referring to future negotiations that might be required in relation to the proposals that Sonara was to make for flexible payment terms and which did not therefore require a strained reading of "undisputed".

11. On a separate ground of appeal, the Court of Appeal considered part of Clause 26 of the Joint Report which read as follows: "The Buyer shall indemnify and hold the Seller harmless from all losses, damages, costs and expenses…" Sahara had argued that the nonpayment of invoices by Sonara was an Event of Default (as defined at the start of Clause 26) which had caused Sahara to incur certain charges defined in the judgment as Penal Charges. On its plain wording, those charges were covered by this indemnity clause.

12. Cockerill J agreed that on a literal interpretation the indemnity clause did apply. However, other factors pointed against that conclusion. The Indemnity Clause appeared "buried" at the end of clause 26 and was not cross-referenced anywhere else in the contract. Furthermore, there were other clauses in the contract which addressed the risk of non-payment, such as through interest and adopting a wide reading of the Indemnity Clause would cut across those provisions.

13. Cockerill J therefore interpreted the Indemnity Clause as applying specifically to loss and damage resulting from the exercise of rights under Clause 26.

14. The Court of Appeal agreed, noting that "*It is trite law that in construing a particular clause of an agreement, the court does not have regard to the literal meaning of the words in isolation, but places the clause in the context of the agreement as a whole, and iteratively checks the possible rival meanings against the other provisions of the document.*"

Impact of the decision

15. The decision reaffirms existing interpretive principles rather than breaking new ground. The key takeaways for practitioners are:

    a. It may be possible for parties to lead a trial judge astray by mutual reliance on inadmissible evidence of prior negotiation, but that any judgment obtained thereby will be vulnerable on appeal.

    b. Clauses which appear very wide according to their literal wording may be interpreted as being narrower in scope when viewed against the rest of the contract.

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