

Indian Oil Corporation Ltd

Vs

Indian Carbon Ltd

Special Leave Petition (Civil) No. 4557 of 1988

(Sabyasachi Mukharji, S. Ranganathan JJ)

06.04.1988

JUDGMENT

SABYASACHI MUKHARJI, J. –

1. This petition under Article 136 of the Constitution challenges the judgment and order of the Division Bench of the High Court of Bombay dated March 21, 1988. The petitioner in this case on June 23, 1961, had agreed to sell to the predecessor of respondent raw petroleum coke. There was a second agreement on April 22, 1971. The said agreement was arrived at between the parties whereunder it was provided that in case the respondent failed to lift raw petroleum coke as agreed, the petitioner would have right to shift raw petroleum coke at the risk and expense of the respondent. There was a third agreement providing that in case of delay in payment, the respondent would pay interest at 4 per cent over the IOC bank borrowing rate, on the value of the stock not uplifted. It appears that on August 5, 1982, the respondent wrote a letter to the petitioner showing inability to pay the arrears of the price against delivery of raw petroleum coke. On October 4, 1982 there was a stock of about 13,760 MTS of salable raw petroleum coke lying at Gauhati Refinery. The petitioner on October 18, 1982 wrote to the respondent that unless the outstanding as on September 1, 1982 and interest were paid, the petitioner would not make further supplies. Thereafter the petitioner filed Suit No. 2187 of 1982 for payment and for attachment before judgment. On December 21, 1982, it appears that there was an order of attachment of stocks of raw petroleum coke to the extent of Rs. 6 crores of the respondent. The order was confirmed after notice. Respondent filed Appeal No. 858 of 1983. Thereafter respondent on October 20, 1983 filed an application for stay of the suit under Section 34 of the Arbitration Act, 1940 (hereinafter called 'the Act'). The petitioner on July 11, 1983 terminated the agreement with effect from August 31, 1983. The respondent thereafter filed Suit No. 122 of 1983 and applied for an order compelling the petitioner to make supplies. The learned District Judge passed an order on April 28, 1984 for restoration of supplies. On May 7, 1984 in petitioner's appeal viz., Civil Appeal No. 2476 of 1984, this Court stated the above order. On May 24, 1984 this Court's order set aside the order of the learned District judge dated April 28, 1984 and recorded the compromise terms. Pursuant to the compromise, all proceedings were withdrawn by the parties. On December 11, 1984 matter relating to the petitioner's claims in respect of interest on stocks held from October 1, 1982 onwards and expenses of shifting raw petroleum coke from October 1, 1982 up to August 31, 1983, were referred to arbitration of Shri A. K. Sarkar, a former Chief Justice of India. On August 21, 1986 an interim award was passed by the learned arbitrator. Interim award was filed in the High court of Bombay and the petitioner challenged the said award. The learned Single Judge of the High Court dismissed the petition challenging the interim award. The Division Bench of the High Court of Bombay upheld the order of the learned Single Judge. Hence this petition under Article 136 of the Constitution.

2. The main contention before us was that it was necessary in the present trend of law for the learned arbitrator to have given a reasoned award. The Arbitration Act, 1979 in England so enjoins. The arbitrator, according to the petitioner has failed to do so. Hence the award was bad and as such the decision of the High Court was wrong and leave should be granted from the said decision and the matter be referred to the Constitution Bench as several cases are pending on this point.

3. The learned Single Judge of the High Court in his decision had observed that the award was undoubtedly not an elaborately reasoned award setting out all the reasons which prompted the learned arbitrator to arrive at the conclusion he did reach, but it is was a speaking award. The learned Judge however, held that it was not necessary to examine this aspect since even if it was (sic not) a speaking order, it was not bad in law. It is true that the law as it stands up to date since the decision of *Champsey Bhara and Company v. Jivraj Balloo Spinning and Weaving Company Ltd.* [AIR 1923 PC 66] that it was not necessary that all awards should be speaking awards. See in this connection the observations of this Court in *Hindustan Steelworks Construction Ltd. v. C. Rajasekhar Rao* [(1987) 4 SCC 93].

4. Previously the law both in England and India was that an arbitrator's award might be set aside for error of law appearing on the face of it, though the jurisdiction was not lightly to be exercised. Since questions of law could always be dealt with by means of a special case this is one matter that could be taken into account when deciding whether the jurisdiction to aside an award on this ground should be exercised or not. The jurisdiction was one that existed at common law independently of statute. In order to be a ground for setting aside the award, an error in laws on the face of the award must be such that there could be found in the award, or in any document actually incorporated with it, some legal proposition which was the basis of the award and which was erroneous. See *Halsbury's Laws of England*, 4th edn., paragraph 623, page 334. The laws has undergone a sea change in England. It is obligatory in England now after the Arbitration Act, 1979, that the award should give reasons.

5. In the instant case, the arbitrator has set out the history in the interim award. The arbitrator has stated that the agreement dated April 22, 1970 provided that ICL will uplift all available coke produced at the Gauhati Refiner by which name also the Noonmati Refinery was called, the said upliftment being so regulated that the quantity uplifted every week was equivalent to the production of coke at the refinery in the previous week and that whereas it was thereby further provided that the upliftment by ICL shall also be as regulated that the accumulated quantity of coke in the refinery coke, yard does not fall below 2500 tonnes and does not exceed 4500 tonnes. The other history of the matter, it was recited that the order dated May 24, 1984 was passed by consent of the parties by this Court that the claim of the Indian Oil Corporation for interest on stocks said to have been held in the Gauhati Refinery from October 1, 1982 onwards and its claim for expenses of shifting the coke from October 1, 1982 up to August 31, 1983 would be referred to the arbitration of a retired judge of the Supreme Court mutually acceptable to the parties. Two preliminary issues, the arbitrator recorded were, namely, (1) Is the claimant entitled to charge any interest on unlifted stock of raw petroleum coke in view of its letter dated October 18, 1982 ? and (2) Is the claimant entitled to any shifting charges in view of its letter dated October 18, 1982 ? The gist of the letter dated October 18, 1982 is set out in the arbitration agreement. The arbitrator in his award proceeded to observe as follows :

And whereas it is not in dispute between the parties that since the said letter of October 18, 1982, IOC had not delivered or offered to deliver any raw petroleum coke for ICL.

Now, therefore, having heard counsel for the parties and perused the documents and statements filed by them, the dispatch and receipt of none of which is disputed, and having considered thereafter, I adjudge, hold and award as follows :

The letter dated October 18, 1982 is no bar to Indian Oil Corporation's claim for shifting charges and interest in respect of the period from October 1, 1982 to October 17, 1982.

Because of the said letter which has been admittedly acted upon by the Indian Oil Corporation Ltd. which had not delivered any coke to Indian Carbon Ltd. or made an offer to do so the Indian Oil Corporation Ltd. is not entitled to the interest claimed in respect of the period from October 18, 1982 onwards nor to shifting charges in respect of any shifting one on or after October 18, 1982.

6. The aforesaid grounds are the reasons of the arbitrator for making the award. The award is that the Indian Oil Corporation is not entitled to any interest nor any shifting charges. The reasons for the said conclusion are the aforesaid three factors mentioned by the arbitrator. How the arbitrator has drawn inference is apparent from the reasons. It is to be noted that this Court has been insisting on the arbitrators to give some indications to indicate how the mind of the arbitrator acts. This Court in the case of Siemens Engineering and Manufacturing Company of India Ltd. v. Union of India [1976 Supp SCR 489 : (1976) 2 SCC 981 : AIR 1976 SC 1785] was concerned with the decision of the Collector of Customs. This Court observed that where an authority makes an order in exercise of a quasi-judicial function, it must record its reasons in support of the order it makes. This Court observed further that every quasi-judicial order must be supported by reasons.

7. In Rohtas Industries Ltd. v. Rohtas Industries Staff Union [(1976) 3 SCR 12 : (1976) 2 SCC 82 : AIR 1976 SC 425] this Court was concerned with an award under Section 10-A of the Industrial Disputes Act, 1947. This Court observed that there was a need for a speaking order where considerable numbers are affected in their substantial rights. It was further reiterated that in such a situation a speaking order may well be a facet of natural justice or fair procedure. In Dewan Singh v. Champat Singh [(1970) 2 SCR 903 : (1969) 3 SCC 447 : AIR 1970 SC 967], this Court reiterated that it was an implied term of the arbitration agreement that the arbitrators must decide the dispute in accordance with the ordinary law and they cannot decide disputes on the basis of their personal knowledge. The proceedings, it was held, before the arbitrators were quasi-judicial proceedings and they must be conducted in accordance with the principles of natural justice. It was, therefore, obligatory to give reasons. As mentioned hereinbefore there has been since then trend that reasons should be stated in the award and the question whether the reasons are necessary in ordinary arbitration agreement between the parties has been referred to the Constitution Bench.

8. In this case, however, we are in agreement with the High Court of Bombay that reasons were stated in the award. We have set out hereinbefore the three grounds, namely, (1) The letter dated October 18, 1982 is no bar to Indian Oil Corporation's claim for shifting charges and interest in respect of the period from October 1, 1982 to October 17, 1982. (2) The inference drawn from the contents of the letter, and (3) Because of the said letter which has admittedly been acted upon by the Indian Oil Corporation Ltd., and which had not delivered any coke to the Indian Carbon Ltd. or made any offer to do so. For these reasons, the arbitrator held that the Indian Oil Corporation Ltd., is not entitled to interest claimed in respect of the period from October 18, 1982 onwards nor to shifting charges from October 18, 1982. These are the reasons for giving the award. No error of law was pointed out in those reasons. Indeed no proposition of law was stated in the aforesaid reasons, which could be objected to as an error of law. There was, however, no error of fact. It was a possible

view to take. It could not be urged that it was an impossible view to take. The arbitrator has made his mind known on the basis of which he has acted that, in our opinion, is sufficient to meet the requirements even if it be that reasons should be stated in the award. It is one thing to say that reasons should be stated and another thing to state that a detailed judgment to be given in support of an award. Even if it be held that it is obligatory to state the reasons, it is not obligatory to give detailed judgment. This question was considered by the Court of Appeal in England in *Bremer Handelsgesellschaft v. Westzucker* [(1981) 2 Lloyds LR 130]. There Lord Donaldson speaking for the court at pages 132 and 133 of the report observed as follows :

It is of the greatest importance that trade arbitrators working under the 1979 Act should realize that their whole approach should how be different. At the end of the hearing they will be in a position to give a decision and the reasons for that decision. They should do so at the earliest possible moment. The parties will have made their submissions as to what actually happened and what is the result in terms of their respective rights and liabilities. All this will be fresh in the arbitrators' minds and there will be no need for further written submissions by the parties. No particular form of award is required. Certainly no one wants a formal "Special Case". All that is necessary is that the arbitrators should set out what, on their view of the evidence, did or did not happen and should explain succinctly why, in the light of what happened, they have reached their decision and what that decision is. This is all that is meant by a "reasoned award."

For example, it may be convenient to begin by explaining briefly how the arbitration came about - "X sold to Y 200 tons of soya bean meal on the terms of GAFTA Contract 100 at US \$ Z per ton c.i.f. Bremen. X claimed damages for non-delivery and we were appointed arbitrators." The award could then briefly tell the factual story as the arbitrators saw it. Much would be common ground and would need no elaboration. But when the award comes to matters in controversy, it would be helpful if the arbitrators not only gave their view of what occurred, but also made it clear that they have considered any alternative version and have rejected it, e.g., "The shippers claimed that they shipped 100 tons at the end of June. We are not satisfied that this is so", or as the case may be, "We are satisfied that this was not the case". The arbitrators should end with their conclusion as to the resulting rights and liabilities of the parties. There is nothing about this which is remotely technical, difficult or time consuming.

It is sometimes said that this involves arbitrators in delivering judgments and that this is something which requires legal skills. This is something of a half truth. Much of the art of giving a judgment lies in telling a story logically, coherently and accurately. This is something which requires skill, but it is not legal skill and it is not necessarily advanced by legal training. It is certainly a judicial skill, but arbitrators for this purpose are judges and will have no difficulty in acquiring it. Where a 1979 Act award differs from a judgment is in a fact that the arbitrators will not be expected to analyse the law and the authorities. It will be quite sufficient that they should explain how they reached their conclusion, e.g., "We regarded the conduct of the buyers, we have described it, as constituting a repudiation of their obligations under the contract and subsequent conduct of the sellers, also as described, as amounting to an acceptance of that repudiatory conduct putting an end to the contract'. It can be left to others to argue that this is wrong in law and to a professional judge, if leave to appeal is given, to analyse the authorities. This is not to say that where arbitrators are content to set out their reasoning on questions of law in the same way as judges, this will be unwelcome to the courts. Far from it. The point which I am seeking to make is that a reasoned award, in accordance with the 1979 Act, is wholly different from an award in the form of a special case. It is not

technical, it is not difficult to draw and above all it is something which an and should be produced promptly and quickly at the conclusion of the hearing. That is the time when it is easiest to produce an award with all the issues in mind". See the observations in Russel on Arbitration, Twentieth Edition, page 291 - Reasons for the Award and the decision referred to therein.

9. In a case of this nature, issues are simple, points are fresh and facts are clear, the reasons given by the arbitrator, in our opinion, meet the requirements of a reasoned award. It is apparent that the arbitrator has not acted irrelevantly or unreasonably. Arbitration procedure should be quick and that quickness of the decision can always be ensured by insisting that short intelligible indications of the grounds should be available to find out the mind of the arbitrator for his action. This was possible in the instant case. In the instant case the arbitrator has spoke his mind, and he is clear as to how he acted and why he acted in that manner.

10. The purpose of Section 12 of the English Tribunal and Inquiries Act which required the statutory tribunal to furnish a statement of the reasons if requested to do so before it gave its decision was to enable a person whose property or whose interests were affected to know if the decision was against him what the reasons were. Justice R. S. Bachawat in his Law of Arbitration, First Edition 1983, pages 320 and 321 states that the provision was read as meaning that proper and adequate reasons must be given. The reasons that are set out must be reasons which will not only be intelligible but also deal with the substantial points that have been raised. When the arbitration clause required the arbitrator to give a reasoned award and the arbitrator does give his reasons in the award, the sufficiency of the reasons depend upon the facts of the particular case. He is not bound to give detailed reasons. The court does not sit in appeal over the award and review the reasons. The court can set aside the award only if it is apparent from the award that there is not evidence to support the conclusions or if the award is based upon any legal proposition which is erroneous.

11. Judged in that light, the award in question was unassailable in the instant case.

12. In the aforesaid view of the matter, we are of the opinion that the High Court was right in the view it took. The special leave petition fails and is accordingly dismissed.

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