

**SUPREME COURT OF INDIA**

Union of India

Vs.

Popular Builders, Calcutta

(S.N.Phukan, M.B.Shah and G.B.Pattanaik JJ.)

17.10.2000

**JUDGMENT:**

**PATTANAIAK,J.**

Leave Granted.

This appeal by the Union of India is directed against the judgment dated 28th of January, 1999 of the Division Bench of Calcutta High Court, dismissing the appeal of the Union of India, arising out of an arbitration proceeding. The undisputed facts are that the respondent had entered into an agreement with the appellant for construction of Annex Building to Telephone Bhawan at Calcutta. The agreement between the parties contained an arbitration clause therein. After the completion of work, the final bill was drawn and was sent to the respondent and he agreed to accept the final bill and in fact did receive the money under the final bill without any objection. But thereafter, he wrote a letter to the concerned Chief Engineer, indicating several items of claim and additional works which the respondent had executed pursuant to the directions of the appropriate authority and the said work had not been included in the final bill. He, therefore, requested the Chief Engineer, the authority under Clause 25 of the agreement to appoint an arbitrator and pursuant to the said request, the Chief Engineer by his letter dated 25.11.93 did appoint an arbitrator. Subsequently, the appointed arbitrator was changed. Pursuant to an order of the High Court and before the arbitrator, the respondent filed his claim on different heads. The Union of India-appellant herein, filed his

objection as well as filed a counter claim before the arbitrator. The learned Arbitrator ultimately passed an award and that award was filed before the High Court, for being made a rule of Court under Section 14 of the Arbitration Act, 1940. The Union of India filed an objection under Sections 30 and 33 for setting aside the award. The learned Single Judge considered the objections filed by the Union of India and rejecting the same, made the award a rule of Court. Against the aforesaid order of the learned Single Judge, an appeal was carried to the Division Bench under Section 39 of the Arbitration Act. The Division Bench having dismissed the Unions appeal by the impugned order, the present appeal has been preferred by the Union of India. From the judgment of the learned Single Judge, rejecting the objections of the Union of India as well as the impugned judgment of the Division Bench, it appears that the Union of India had urged the sole point of limitation and the same had been negated by the courts below and in our view rightly.

Mr. A. Subba Rao, the learned counsel for the Union of India however raised the question that the final bill having been accepted by the respondent-contractor, without any objection, there did not subsist any arbitrable dispute to be referred to arbitration, invoking Clause 25 of the agreement and, therefore, the impugned award has to be set aside. In support of this contention, reliance has been placed on two decisions of this Court M/s. P.K. Ramaiah and Company vs. Chairman & Managing Director, National Thermal Power Corpn., 1994 Supp. (3) S.C.C. 126 as well as a three Judge Bench decision of this Court in Nathani Steels Ltd. vs.

Associated Constructions, 1995 Supp.(3) S.C.C. 324.

Mr. L. Nageswara Rao, appearing for the respondent- claimant on the other hand contended that this objection had not specifically been taken in the objection, that was filed under Sections 30 and 33 of the Arbitration Act, and therefore, the Union Government should not be permitted to take up this plea in this forum. He further contended that pursuant to the request made by the Contractor, the Chief Engineer himself having appointed an arbitrator on the ground that dispute subsists for arbitration and in the arbitration proceeding, the Union Government having fully participated and further, subsequent to the award, a rectification application having been filed by the Union Government and in that application also, only challenge being made on the quantum and not on the ground of absence of arbitrable disputes, it would not be appropriate for this Court to allow the Union Government to take this plea at this belated stage. He also contended that the two decisions referred to by the Union Government are prior the appointment of arbitrator and none of these decisions are applicable to the case in hand, where an award has been passed by the appointed arbitrator after due participation of Union Government in the arbitration proceedings.

Having considered the rival submissions at the Bar and on careful scrutiny of the objections filed by the Union Government under Sections 30 and 33 of the Arbitration Act, though we find sufficient force in the contention of Mr. Nageswara Rao, but the existence of a dispute being the condition precedent for appointment of an arbitrator under Clause 25 and in view of the two decisions of this Court and that the respondent-claimant did receive the final bill without any protest, we are not persuaded to outright reject the contention of Mr. Subba Rao, appearing for the Union Government. It transpires from the award itself that only as against claim item No. 2, the Union of India had

pleaded that the said claim cannot be entertained in view of the receipt of the final bill by the contractor without any protest, though the arbitrator had rejected the said plea of the Union of India. It is no doubt true as contended by Mr. Nageswara Rao that neither the judgment of the learned Single Judge nor the judgment of the Division Bench, which is under challenge in this appeal before this Court did indicate the fact that the Union of India had raised this contention before the aforesaid two forums below but notwithstanding the same when the existence of an arbitrable dispute is the condition precedent for exercise of power for appointment of an arbitrator under Clause 25 and since the final bill that was prepared by the appropriate authority was accepted by the respondent without any protest as is apparent from the letter of the claimant-contractor and the question had been raised before the arbitrator in respect of the claim item No. 2 by the Union of India, we think it appropriate to hold that so far as claim item No. 2 is concerned, the same could not have been a matter of reference of an arbitrable dispute and as such, the award of the arbitrator to that extent must be set aside. So far as the other claim items are concerned, the Union of India not having taken any objection to the same on the aforesaid score and that even the objection filed under Sections 30 and 33 of the Arbitration Act not being specific on that issue, we do not think it appropriate to allow the Union Government to raise that objection, so far as the other items of claim are concerned. Accordingly, the impugned award in respect of claim item No. 2 is set aside and the rest of the award amount, stand affirmed. The appeal is allowed in part.