

Kanpur Development Authority Vs U.P. Builders and Another

Court: Allahabad High Court

Date of Decision: March 3, 2011

Acts Referred: Arbitration and Conciliation Act, 1996 " Section 11, 11(1), 11(10), 11(2), 11(3)
Civil Procedure Code, 1908 (CPC) " Section 47

Citation: (2011) 4 ADJ 591 : AIR 2011 All 387 : (2011) 8 RCR(Civil) 2951

Hon'ble Judges: F.I. Rebello, C.J

Bench: Single Bench

Final Decision: Dismissed

Judgement

F.I. Rebello, C.J.

This is an application by the Petitioner for referring the dispute u/s 11 of the Arbitration and Conciliation Act, 1996

(hereinafter referred to as "the Act") and to appoint, preferably the Chief Engineer, Kanpur Development Authority as the Arbitrator.

2. There is an agreement between the Petitioner and opposite party No. 1 in which there is a clause, which reads as under:

Clause 24. Except where otherwise specified in the contract the decision of the Chief Engineer for the time being shall be final, conclusive and

binding on all parties to the contract upon all question relating to the meaning of the specifications designs, drawings and instructions hereinbefore

mentioned and as to the quality of workmanship or materials used on the work or as to any other question, claim, right, matter or thing whatsoever

in any way arising out or relating to the contract, designs, drawings specifications, estimates instructions, order or these conditions or otherwise

concerning the works, or the execution or failure to execute the same whether arising during the progress of the work or after the completion or

abandonment thereof the contract by the contractor, shall be final conclusive and binding on the contractor.

3. I do not propose to go into the controversy as to whether Clause 24 is a clause pertaining to arbitration as the Chief Justice, exercising

jurisdiction u/s 11 of the Act in several other cases between the Petitioner and the opposite parties, as set out in paragraph 10 of this petition, has

treated the said clause as an arbitration clause and has appointed the Chief Engineer, Kanpur Development Authority as the sole Arbitrator.

4. The Petitioner contends that opposite party No. 1 was allotted work for Rs. 28,61,709.80, out of which opposite party No. 1 claims to have

received the payment of Rs. 19,56,707.13. According to the Petitioner, opposite party No. 1 did not complete the entire work allotted to him.

The reasons need not be set out herein. Opposite party No. 1, however alleged that the work done by him for Rs. 2,83,278.54 have not been

entered into the Measurement Book. From the records, it appears that opposite party No. 1 served a notice dated 28.5.2002 on various officers

of the Petitioner. According to opposite party No. 1, it was in accordance with the agreed procedure for appointment of an Arbitrator. Opposite

party No. 1 thereafter proceeded to appoint opposite party No. 2, as the Arbitrator. In the communication of 28.5.2002, it was also mentioned

that opposite party No. 1 would file claim before the said Arbitrator. It is the case of the Petitioner that they had never given their consent for

appointing opposite party No. 2 as the sole Arbitrator. Moreover, in terms of the contract, there was no question of appointment of opposite party

No. 2, as the sole Arbitrator.

5. Opposite party No. 2 proceeded to assume jurisdiction as an Arbitrator and issued notice to the Petitioner. The Petitioner through their counsel

submitted an application on 2.9.2002 setting out therein that the Petitioner had never appointed opposite party No. 2 as the sole Arbitrator, nor

had the Petitioner consented to appointment of opposite party No. 2 as the sole Arbitrator and in terms of agreement between the parties,

opposite party No. 2 could not have been appointed as an Arbitrator. The Petitioner requested opposite party No. 2 to drop the alleged

arbitration proceedings. Against that, opposite party No. 1 requested opposite party No. 2 to dismiss the application of the Petitioner and to

proceed with the "arbitration proceedings. Opposite party No. 2 on 17.10.2002, dismissed the application of the Petitioner and fixed 25.10.2002

for hearing the matter. According to the Petitioner, opposite party No. 2 then proceeded with the arbitral proceedings. In these circumstances, the

Petitioner has prayed that the Chief Engineer, Kanpur Development Authority be appointed as the Arbitrator.

6. A reply has been filed on behalf of opposite party No. 1. It is contended that the Petitioner did not object to the appointment of opposite party

No. 2 as the Arbitrator, nor proposed any other name and as such, it is not open to the Petitioner to challenge the appointment of opposite party

No. 2 as an Arbitrator as they have waived their rights. The order dated 17.10.2002 dismissing the application/objection of the Petitioner has also

not been challenged by the Petitioner before a superior Court. It is also set out that Clause 24 of the agreement is not an arbitration clause. It may

be pointed out that opposite party No. 1 has moved u/s 11 of the Act in other applications based on the same clause has not referred to any other

clause in the agreement by which an Arbitrator could have been appointed.

7. Subsequent to this petition, an ex parte award came to be passed by opposite party No. 2 dated 13.12.2002. Opposite party No. 1 thereafter

applied for execution of the award, which the Petitioner contested by filing his objection u/s 47 of the CPC in Execution Case No. 69 of 2003.

Petitioner at the same time also challenged the award u/s 34 of the Act. Both these challenges were before the District Judge, Kanpur Nagar.

8. During the pendency of the proceedings, on behalf of the Petitioner, an additional affidavit has been filed. It is pointed out that the District Judge

in the execution proceedings, held that the award is null and void and un-executable. Further, the District Judge proceeded to hold that no findings

on objections u/s 34 of the Act are being recorded as the award has been declared null and void ab initio. Both proceedings, i.e. execution and

challenge to the award u/s 34 of the Act have been disposed of by that order. A finding has been recorded by the District Judge, that Clause 24 of

the agreement is an arbitration clause and as per this clause, the Chief Engineer of the Kanpur Development Authority could only have acted as the

Arbitrator. The said order is in revision before this Court.

9. The law as now declared is that if the parties have not agreed on a procedure for appointment of an Arbitrator/Arbitrators, then in terms of

Section 11(3) of the Act, in a case of arbitration by three arbitrators, each party shall appoint one Arbitrator and the two appointed Arbitrators,

shall appoint the third Arbitrator, who shall act as the presiding Arbitrator. u/s 11(4) of the Act, if the appointment procedure in Sub-section (3)

applies and the Arbitral Tribunal is not constituted as set out therein, the appointment shall be made, upon request of a party, by the Chief Justice

or any person or institution designated by him. u/s 11(5) in case of failure to agree on a procedure for appointing the arbitrator and arbitration is by

a sole arbitrator, if the parties fail to agree for appointment of Arbitrator, as set out therein, the appointment shall be made, upon request of a party,

by the Chief Justice or any person or institution designated by him. It would thus be clear that this is a procedural aspect in the matter of

constitution of Arbitral Tribunal. Section 11 of the Act is reproduced for appreciating the issue.

11. Appointment of arbitrators. - (1) A person of any nationality may be an arbitrator, unless otherwise agreed by the parties.

(2) Subject to Sub-section (6), the parties are free to agree on a procedure for appointing the arbitrator or arbitrators.

(3) Failing any agreement referred to in Sub-section (2), in an arbitration with three arbitrators, each party shall appoint one arbitrator, and the two

appointed arbitrators shall appoint the third arbitrator who shall act as the presiding arbitrator.

(4) If the appointment procedure in Sub-section (3) applies and -

(a) a party fails to appoint an arbitrator within thirty days from the receipt of a request to do so from the other party; or

(b) the two appointed arbitrators fail to agree on the third arbitrator within thirty days from the date of their appointment, the appointment shall be

made, upon request of a party, by the Chief Justice or any person or institution designated by him.

(5) Failing any agreement referred to in Sub-section (2), in an arbitration with a sole arbitrator, if the parties fail to agree on the arbitrator within

thirty days from receipt of a request by one party from the other party to so agree the appointment shall be made, upon request of a party, by the

Chief Justice or any person or institution designated by him.

(6) Where, under an appointment procedure agreed upon by the parties, -

(a) a party fails to act as required under that procedure; or

(b) the parties, or the two appointed arbitrators, fail to reach an agreement expected of them under that procedure; or

(c) a person, including an institution, fails to perform any function entrusted to him or it under that procedure, a party may request the Chief Justice

or any person or institution designated by him to take the necessary measure, unless the agreement on the appointment procedure provides other

means for securing the appointment.

(7) A decision on a matter entrusted by Sub-section (4) or Sub-section (5) or Sub-section (6) to the Chief Justice or the person or institution

designated by him is final.

(8) The Chief Justice or the person or institution designated by him, in appointing an arbitrator, shall have due regard to -

(a) any qualifications required of the arbitrator by the agreement of the parties; and

(b) other considerations as are likely to secure the appointment of an independent and impartial arbitrator.

(9) In the case of appointment of sole or third arbitrator in an international commercial arbitration, the Chief Justice of India or the person or

institution designated by him may appoint an arbitrator of a nationality other than the nationalities of the parties where the parties belong to different

nationalities.

(10) The Chief Justice may make such scheme as he may deem appropriate for dealing with matters entrusted by Sub-section (4) or Sub-section

(5) or Sub-section (6) to him.

(11) Where more than one request has been made under Sub-section (4) or Sub-section (5) or Sub-section (6) to the Chief Justices of different

High Courts or their designates, the Chief Justice or his designate to whom the request has been first made under the relevant Sub-section shall

alone be competent to decide on the request.

(12) (a) Where the matters referred to in Sub-sections (4), (5), (6), (7), (8) and (10) arise in an international commercial arbitration, the reference

to "Chief Justice" in those Sub-sections shall be construed as a reference to the "Chief Justice of India.

(b) Where the matters referred to in Sub-sections (4), (5), (6), (7) (8) and (10) arise in any other arbitration, the reference to "Chief Justice" in

those Sub-sections shall be construed as a reference to the Chief Justice of the High Court within whose local limits the principal Civil Court

referred to in Clause (e) of Sub-section (1) of Section 2 is situate, and, where the High Court itself is the Court referred to in that clause, to the

Chief Justice of that High Court.

The section thus does not provide for removal of Arbitrator/Arbitrators. Could, therefore, the Chief Justice or his delegate remove the Arbitrator

even if wrongly nominated once he assumed jurisdiction or his appointment itself was a nullity at law.

10. When the petition was filed, according to the Petitioners' own case, opposite party No. 2 had been appointed as the sole Arbitrator by

opposite party No. 1. The Petitioner has come to this Court with the prayer to refer the matter in dispute preferably to the Chief Engineer, Kanpur

Development Authority when opposite party No. 2 had assumed jurisdiction. Thus admittedly, an Arbitrator had been appointed when the petition

was filed. Merely because the procedure followed was arbitrary or illegal or appointment of opposite party No. 2 was itself illegal, can the Chief

Justice or his nominee assume jurisdiction u/s 11 of the Act and is there power in the Chief Justice or his nominee to remove an Arbitrator, who is

appointed and has assumed office. Can a subsequent event of the Arbitrator passing an award and thereby ceasing to act as an Arbitrator or the

award being set aside, gives jurisdiction to the Chief Justice or his nominee to appoint another Arbitrator in the present application. It is in that

context, that I proceed to answer the issue.

11. The question, therefore, before me is whether it is open under Sections 11(4) or 11(5) of the Act to appoint a sole Arbitrator. Clause 24 of the

agreement, no doubt has made the Chief Engineer an authority to decide the disputes arising between the Petitioner and opposite party No. 1 and

his decision shall be final, conclusive and binding on the contractor. Such a clause normally is understood to mean excepted claims. This clause,

however, has been treated as an arbitration clause by both the parties. In the order passed in Arbitration Petition No. 28 of 1999, in an application

by Respondent No. 1, both the parties had agreed that the Chief Engineer, Kanpur Development Authority would be acting as the sole Arbitrator.

This order was passed on 16.8.2002. There is, therefore, an agreement between the parties, though may be in a different context, that the said

clause is a clause pertaining to arbitration.

12. In these circumstances, the question for my consideration is whether in this application, the Chief Engineer of the Petitioner should be

appointed as the sole Arbitrator. There is nothing on record to show that the Petitioners have invoked the arbitral clause or had given notice to

opposite party No. 1 to appoint an Arbitrator. Section 11(5) of the Act itself requires that in an arbitration with the sole Arbitrator, if the parties fail

to agree to appoint an Arbitrator within thirty days from receipt of a request by one party to the other party, the appointment shall be made, upon

request of a party, by the Chief Justice or any person or institution designated by him. There is no averment in the petition that the Petitioner had

given notice to opposite party No. 1 for appointment of Arbitrator and that opposite party No. 1 had not agreed to the appointment of the said

Arbitrator, though it may be pointed out that on the date of filing of the petition, opposite party No. 1 had already appointed opposite party No. 2,

as an Arbitrator. Thus the condition precedent for appointment of an arbitrator does not exist. As such the present application would not be

maintainable.

13. This petition would raise another issue, namely, whether opposite party No. 1 without consent of the Petitioner could have appointed opposite

party No. 2 as the sole Arbitrator in the absence of any clause other than Clause 24 of the agreement and an agreed arbitral procedure. If opposite

party No. 1 had made a demand for appointment of Arbitrator and on failure of consent by the Petitioner herein, as there was no arbitral

procedure, opposite party No. 1 could have applied u/s 11(5) of the Act, which opposite party No. 1 has failed to do. Opposite party No. 2 then

proceeded to pass an award. The Petitioner challenged the said award u/s 34 of the Act and had also filed their objection u/s 47 of CPC Instead

of deciding the challenge u/s 34 of the Act, the objections u/s 47 raised by the Petitioner to the appointment of opposite party No. 2 as an

Arbitrator were decided by the learned District Judge, who held that the Arbitrator could not have been appointed and consequently, the award

was a nullity at law. It is not necessary to further comment on that issue, as the matter is not directly in issue in this petition.

14. The arbitration petition when filed was not maintainable, as it was open to the Petitioner to proceed u/s 13 of the Act considering the grounds

available for challenge u/s 12 of the Act. The fact that subsequently during the pendency of the petition the arbitrator become functus officio

because of passing of the award or the award being set aside would not make the petition maintainable. Apart from that, as already pointed out,

there is nothing in Section 11(5) of the Act, which confers powers on the Chief Justice to exercise jurisdiction in a case where no request was

made by opposite party No. 1 for appointment of an Arbitrator.

15. Another question which arises for consideration is, what is the claim the Petitioner has against opposite party No. 1, to invoke the provision of

Section 11 of the Act, for appointment of an arbitrator. The entire application is based on the claim of opposite party No. 1 against the Petitioner.

Under Clause 24 of the agreement, it is the Petitioner, who had to appoint the arbitrator, as the arbitrator is the Chief Engineer of the Petitioner. If

the Petitioner failed to make the appointment for whatever reason, can the Petitioner move u/s 11 of the Act, because opposite party No. 1 named

an arbitrator. In my opinion, in such circumstances, the petition by the Petitioner is not maintainable. The Chief Justice can only exercise jurisdiction

u/s 11 of the Act, only in the circumstances set out therein. If Clause 24 of the agreement, is the procedure for appointment of a sole arbitrator, it is

opposite party No. 1, who could have applied u/s 11(6) of the Act and not the Petitioner. On this count also, the petition must fail.

16. For the aforesaid reasons, in my opinion, the present arbitration petition is not maintainable and consequently, it is dismissed. No order as to

costs.