
**VISHNU AGENCIES (PVT.) LTD. and Another Vs COMMERCIAL TAX
OFFICER and Others**

C.A. No. 724 of 1976

Court: Supreme Court of India

Date of Decision: Dec. 16, 1977

Acts Referred:

Constitution of India, 1950 " Article 32#Contract Act, 1872 " Section 10, 13, 14,
15#Essential Commodities Act, 1955 " Section 5, 6A, 7#Sales of Goods Act, 1930 " "
Section 4

Citation: (1978) 7 CTR 89(2)

Hon'ble Judges: Beg, C.J; Untwalia, J; Krishna Iyer, J; Kailasam, J; Hidayatullah, J; Fazal Ali,
J; Chandrachud, J; Bhagwati, J

Bench: Full Bench

Final Decision: Disposed Of

Judgement

Chandrachud, J. (In agreement with Bhagwati, Krishna Iyer, Untwalia, Fazal Ali & Kailasam, JJ.) - These appeals have been placed for bearing

before a seven-Judge Bench in order to set at rest, to the extent foreseeable, the controversy whether what is conveniently, though somewhat

namely called a "compulsory sale" is exigible to Sales-tax. When essential goods are in short supply, various types of Orders are issued under the

Essential Commodities Act, 1955, with a view to making the goods available to the consumer at a fair price. Such orders sometimes provide that a

person in need of an essential commodity like cement, cotton, coal or iron and steel must apply to the prescribed authority for a permit for

obtaining the commodity. Those wanting to engage in the business of supplying the commodity are also required to possess a dealers licence. The

permit-holder can obtain the supply of goods, to the extent of the quantity specified in the permit, from the named dealer only and at controlled

price. The dealer who is asked to supply the stated quantity to the particular permit-holder has no option but to supply the stated quantity of goods

at the controlled price. The question for our consideration, not easy to decide, is whether such transaction amounts to a sale in the language of the

law.

2. We will refer to facts of civil Appeal No. 724 of 1976, in which a company called M/s. Vishnu Agencies (Pvt.) Ltd., is the appellant. It carries

on business as an agent and distributor of cement in the State of West Bengal and is a registered dealer under the Bengal Finance (Sales Tax) Act,

1941, referred to hereinafter as the Bengal Sales Tax Act. Cement being a controlled commodity, its distribution is regulated by the West Bengal

Cement Control Act (26 of 1948), referred to hereinafter as the Cement Control Act, and by the Orders made under S. 3(2) of that Act. S. 3(1)

of the Cement control Act provides, inter alia, for regulation of production, supply and distribution of cement for ensuring equitable supply and

distribution thereof at a fair price. By the Cement Control Order, 1948 framed under the Cement Control Act, no sale or purchase of cement can

be made except in accordance with the conditions contained in the written order issued by the Director of Consumer Goods, West Bengal, or the

Regional Honorary Adviser to the Government of India at Calcutta or by the officers authorised by them, at prices not exceeding the notified price.

3. The appellant is a licensed stockist of cement and is permitted to stock cement in its godown, to be supplied to persons in whose favour

allotment orders are issued, at the price stipulated and in accordance with the conditions of permit issued by the authorised concerned. The

authorities designated under the Cement Control Order issue permits under which a specific quantity of cement is allotted to a named permit-

holder, to be delivered by a named dealer at the price mentioned in the permit. A permit is generally valid for 15 days and as soon as the price of

cement allotted in favour of an allottee is deposited with the dealer, he is bound to deliver to the former the specified quantity of cement at the

specified price.

4. A specimen order issued in favour of an allottee, under which the appellant had to supply 10 metric tons of cement at Rs. 144.58 per M.T.,

exclusive of sales tax, reads thus :

LICENCE FOR CEMENT

The quantities of cement detailed below are hereby allotted to M/s. Marble & Cement Products Co. Pvt. Ltd., 2, Brabourne Road, Calcutta-1, to

be supplied by M/s. Vishnu Agencies (Pvt.) Ltd. 3, Chittaranjan Avenue, Calcutta-13, on conditions detailed below. The price of material involved

must be deposited with the stockist within 15 days and the actual delivery must be taken within 15 days from the date of issue of the permit. The

licences is issued only for the purpose of manufacturing of mosaic tiles at 183, Netaji Subhas Road, Calcutta-40.

Under no circumstances will the validity of the permit be extended beyond the period of 15 days from the date of its issue.

Cement Total Tonnage

Country cement at Rs. 144.58 per M.T. Ton Cwt. 10 M/T (Ten M/T only).

exclusive of S.T.

5. The appellant supplied cement to various allottees from time to time in pursuance of the allotment orders issued by the appropriate authorities

and in accordance with the terms of the licence obtained by it for dealing in cement. The appellant was assessed to Sales-tax, by the first

respondent, the Commercial Tax Officer Sealdah Charge, in respect of these transactions. It paid the tax but discovered perusal of the decision of

this court New India Sugar Mills Ltd. vs. Commissioner of Sales Tax that the transactions were not exigible to sales tax. Pleading that payment was

made under a mistake of law it filed appeals against the orders of Assistant Commissioner No. 1 contended in appeals before the Assistant

Commissioner of Commercial Taxes that by virtue of the provisions of the Cement Control Act and the Cement Control Order, no volition or

bargaining power was left to it and since there was no element of mutual consent or agreement between it and the allottees, the transactions were

not sales within the meaning of the Sales Tax Act. The appellant further contended that if the transactions were treated as sales, the definition of

sale in the Sales Tax Act was ultra vires the legislative competency of the Provincial Legislature under the Government of India Act, 1935, and of

the state Legislature under the Constitution. The appellate authority rejected the first contention and upheld the assessments. It did not, as it could

not, go into the second contention regarding the legislative competence. The appellant adopted the statutory remedies open to it but since the

arrears of tax were mounting up and had already exceeded a sum of rupees eight lacs, it filed a writ petition in the Calcutta High Court praying that

the various assessment orders referred to in the petition be quashed and a writ of prohibition be issued directing the sales tax authorities to refrain

from making any further assessments for the purpose of sales tax on the transactions between the appellants and the allottees.

6. A learned single Judge of the High Court allowed the writ petition and issued a writ of mandamus restraining the respondents from imposing the

sales tax on the transaction between the appellant and the allottees. That judgment having been set aside in appeal by a Division Bench of the High

Court by its judgment dated December 13, 1974, the appellant has filed Appeal No. 724 of 1976 by special leave.

7. civil Appeals Nos. 2488 to 2497 of 1972 raise a similar question under the Andhra Pradesh Paddy Procurement (Levy) Orders, under which

paddy growers in the State are under an obligation to sell the paddy to licensed agents appointed by the State Government at the prices fixed by it.

The High Court of Andhra Pradesh by its judgment dated March 31, 1970, has taken the same view as the Calcutta High Court, namely, that the

transactions amount to sales and are taxable under the Sales Tax Act. Counsel appearing in the Andhra Pradesh appeals agree that the decision in

the Calcutta case will govern those appeals also.

8. Since the crux of the appellants contention is that the measures adopted to control the supply of cement leave no consensual option to the

parties to bargain, it is necessary first to notice the relevant provisions of law bearing on the matter. The West Bengal Cement Control Act (26 of

1948) was enacted in order to ""confer powers to control the production, supply and distribution of, and trade and commerce in, cement in West

Bengal"". S. 3(1) of the Act empowers the Provincial Government to provide, by Order in the official Gazette, for regulating the supply and

distribution of cement and trade and commerce therein. S. 3(2) provides by clauses (b) to (h) that an Order made under sub-S. (1) may provide

for regulating or controlling the prices at which cement may be purchased or sold and for prescribing the conditions of sale thereof; regulating by

licences, permits or otherwise, the storage, transport, movement, possession, distribution, disposal, acquisition, use or consumption of cement;

prohibiting the withholding from sale of cement ordinarily kept for sale; and for requiring any person holding stock of cement to sell the whole or

specified part of the stock at such prices and to such persons or classes of persons or in such circumstances, as may be specified in the Order. If

any person contravenes an order made under S. 3, he is punishable under S. 6 with imprisonment for a term which may extend to three years or

with fine or with both, and, if the order so provides, any court, trying such contravention, may direct that any property in respect of which the court

is satisfied that the order has been contravened shall be forfeited to the Government.

9. In exercise of the powers conferred by S. 3(1) read with clauses (b) to (h) of S. 3(2) of the Act, an Order which may conveniently be called the

Cement Control Order was promulgated by the Governor on August 18, 1948. The relevant clauses of that Order contain the following provisions

: By paragraph 1, no person shall after the commencement of the Order sell or store for sale any cement unless he holds a licence and except in

accordance with the conditions specified in such licence obtained from the Director of Consumer Goods, West Bengal, or any officer authorised

by him in writing in this behalf. By paragraph 2, no person shall dispose of or agree to dispose of any cement except in accordance with the

conditions contained in a written order of the Director of Consumer Goods, West Bengal, or the authorities specified in the paragraph. By

paragraph 3, no person shall acquire or agree to acquire any cement from any person except in accordance with the conditions contained in a

written order of the Director of Consumer Goods, West Bengal, or the authorities specified in the paragraph. By paragraph 4, no person shall sell

cement at a ""higher than notified price"". By paragraph 8, no person of stockist who has any stock of cement in his possession and to whom a

written order has been issued under paragraph 2 shall refuse to sell the same, ""at a price not exceeding the notified price"", and the seller shall

deliver the cement to the buyer ""within a reasonable time after the payment of price"". By paragraph 8A, every stockist or every person employed

by him shall, if so requested by the person acquiring cement from him under written order issued under paragraph 3, weight the cement in his

presence or in the presence of his authorised representative at the time of delivery.

10. We are not concerned with the amendments made by the Government of West Bengal to the Cement Control Order on December 30, 1965,

by which, inter alia, paragraph 2, 3, 4, 8 and 8A of that Order were deleted. The appeal from the decision of the Calcutta High Court is limited to

the transactions between the appellant and the and the allottees from the years 1957 to 1960.

11. As regards the batch of appeals from Andhra Pradesh, the levy of tax was challenged by three sets of persons, the procuring agents, the rice-

millers and the retailers with the difference that the procuring agent were assessed to purchase tax, while the others to sales tax under the Andhra

Pradesh General Sales Tax Act, 1957. By virtue of the provisions of the Andhra Pradesh Paddy Procurement (Levy) Orders, the paddy growers

can sell their paddy to licensed procuring agents appointed by the State Government only and at the prices fixed by the Government. The

agriculturist has the choice to select his own procuring agent but he cannot sell paddy to a private purchaser. The procuring agents in their turn have

to supply paddy to the rice millers at controlled prices. The millers, after converting paddy into rice, have to declare their stocks to the civil supplies

department. Pursuant to the orders issued by the department, the rice millers have to supply a requisite quantity of rice to the wholesale or retail

dealers at prices fixed by the department. Orders for such supply by the millers are passed by the authorities under the A.P. Procurement (Levy)

and Restriction on Sale Order, 1967. Under this Orders, every miller carrying on rice-milling operations is required to sell to the agent or officer

duly authorised by the Government the minimum quantities fixed by the Government at the notified price; and no miller or other person who gets his

paddy milled in any rice mill can move or otherwise disposed of the rice recovered by milling at such rice mill except in accordance with the

directions of the Collector. A breach of these provisions is liable to be punished under S. 7 of the Essential Commodities Act, 1955, and the goods

are liable to be forfeited under S. 6A of that Act. The A.P. sales tax authorities levied purchase tax on the purchase of paddy made by the

procuring agents from the agriculture and they levied sales tax on the transaction relating to the supply of rice by the millers to the wholesale and

retail dealers and on the sales made by the retailers to their customers. The case as regards the sales tax imposed on the transaction between the

retail dealers and the consumers stood on an altogether different footing, but the writ petitions filed by the procuring agents and rice milers raise

questions similar to those involved in the writ petition filed in the Calcutta High Court.

12. These then are the provisions of the respective Orders passed by the Government of West Bengal and Andhra Pradesh.

13. We may now notice the prosecutions of the Sales Tax Acts. Sec. 2(g) the Bengal Finance (Sales Tax) Act (6 of 1941) defines a "sale" to

mean "any transfer of property in goods for cash or deferred payment or other valuable consideration, including a transfer of property in goods

involved in the execution of a contract, but does not include a mortgage, hypothecation, charge or pledge". S. 2(i) provides that the word

turnover" used in relation to any period means "the aggregate of the sale prices or parts of sale prices receivable, or if a dealer so elects, actually

received by the dealer ...". By clause (h) of S. 2, "sale price" is defined to mean the amount payable to a dealer as valuable consideration for "the

sale of any goods". By S. 4(1), every dealer whose gross turnover during the year immediately preceding the commencement of the Act exceeded

the taxable quantum is liable to pay tax under the Act on all "sales" effected after the date notified by the State Government.

14. Sec. 2(n) of the Andhra Pradesh General Sales Tax Act, 1957, defines a "sale" as "every transfer of the property in goods by one person to

another in the course of trade of commerce, for cash, or for deferred payment, or for any other valuable consideration ...". S. 5 of that Act is the

charging section.

15. According to these definitions of "sale" in the West Bengal and Andhra Pradesh Sales Tax Acts, transactions between the appellants on the

one hand and the allottees or nominees on the other are patently sales because, indisputably, in one case the property in cement and in the other,

property in paddy and rice was transferred for cash consideration by the appellants; and in so far as the West Bengal case is concerned, property

in the goods did not pass to the transferees by way of mortgage hypothecation, charge or pledge. But that is over-simplification. To counteract

what appears on the surface plain enough, learned counsel for the appellants have advanced a twofold contention. They contend, in the first place,

that the word "sale" in the Sales Tax Acts passed by the Provincial or State Legislatures receive the same meaning as in the sale of Goods Act,

1930; or else, the definition of "sale" in these Sales Tax Acts will be beyond the legislative commencement of the Provincial and State Legislatures.

Secondly, the appellants contend that since under the Sale of Goods Act, there can be no sale without a contract of sale and since the parties in

these matters had no volition of their own but were compelled by law to supply and receive the goods at prices fixed under the Control Orders by

the prescribed authorities, the transactions between them are not sales properly so-called and, therefore, are not exigible to sales tax.

16. For examining the validity of the first contention, it is necessary to turn to the appropriate entries in the Legislative Lists of the Constitution

Acts, for the contention is founded on the premise that the word "sale" which occurs in those entries must receive the same meaning as in the Sale

of Goods Act, 1930, since the expression ""sale of goods"" was, at the time when the Government of India Act was enacted, a term of well-

recognised legal import in the general law relating to sale of goods and in the legislative practice to that topic both in England and in India. Entry 48

in the Provincial List, II, of the Seventh Schedule to the Government of India Act, 1935, relates to : ""Taxes on the sale of goods"". Entry 54 of List

II of the Seventh Schedule to the Constitution reads to say : ""Taxes on the sale or purchase of goods other than newspapers, subject to the

provisions of entry 92A of List I."" We are not concerned with entry 92A of the Union List but we may refer to it in order to complete the picture.

It refers to : ""Taxes on the sale or purchase of goods other than newspapers, where such sale or purchase takes place in the course of inter-State

trade or commerce.

17. The contention of the appellants that the expression ""sale of goods"" in entry 48 in the Provincial List of the Act of 1935 and in entry 54 in the

State List of the Constitution must receive the same meaning as in the Sale of Goods Act is repelled on behalf of the State Governments with the

arguments that constitutional provisions which confer legislature powers must receive a broad and liberal construction and, therefore, the

expression ""sale of goods"" in entry 48 and its successor, entry 54, should not be construed in the narrow sense in which that expression is used in

the Sale of Goods Act, 1930, but in a broad sense. The principle that in interpreting a constituent or organic statute, that construction most

beneficial to the widest possible amplitude of its powers must be adopted has been examined over the years by various courts, including this court,

and is too firmly established to merit reconsideration. Some of the leading cases on this point are the Privy Council decisions in British Coal

Corporation vs. King, Edwards vs. A. G. for Canada and James vs. Commonwealth of Australia the Australian decisions in Morgan vs. Deputy

Federal Commissioner of Land Tax, N.S.W., and Broken Hill South Ltd. vs. Commissioner of Taxation, N.S.W., the Federal Court decisions in

In re the Central Provinces and Berar Act No. 14 of 1938 and United Provinces vs. Atiq Begum, and the decisions of this court in Navinchandra

Mafatlal vs. Commissioner of income tax, Bombay City, and State of Madras vs. Gannon Dunkerley & Co. (Madras) Ltd. These decisions have

taken the view that a Constitution must not be construed in a narrow and pedantic sense, that a broad and liberal spirit should inspire those whose

duty is to interpret it, that a Constitution of a Government living and organic thing which of all instruments has the greatest claim to be construed ut

res magis valeat quam pereat that the legislature in selecting subjects of taxation is entitled to take things as it finds them is rerum natura and that it is

not proper that a court should deny to such a legislature the right of solving taxation problems unfettered by a priori legal categories which often

derive from the exercise of legislative power in the same constitutional unit.

18. On a careful examination of various decisions bearing on the point, this court speaking through Venkatarama Aiyar, J., in Gannon Dunkerley

upheld the contention of the State of Madras that the words ""sale of goods"" in entry 48 which occur in the Constitution Act and confer legislative

powers on the State Legislature in respect of a topic relating to taxation must be interpreted not in restricted but broad sense. But, as observed by

the learned Judge in that case, this conclusion opens up questions as to what sense is, whether popular or legal, and what its connotation is, either

in the one sense or the other. After considering text-book definitions contained in Blackstone, Benjamin on Sale, Halsburys Laws of England,

Chalmers Sale of Goods Act, Corpus Juris, Williston on Sales and the Concise Oxford Dictionary, the court held that expression ""sale of goods"" in

entry 48 cannot be construed in its popular sense and that it must be interpreted in its legal sense. Whereas in popular parlance a sale is said to

take place when the bargain is settled between the parties though proper in the goods may not pass at that stage, as where the contract relates to

future unascertained goods, the essence of ""sale"" in the legal sense in the transfer of the property in a thing from one person to another for a price.

19. The court then proceeded to determine the connotation of the expression ""sale of goods"" in the legal sense and held, having regard to the

evolution of the law relating to sale of goods, the scheme of the Indian Contract Act and the provisions the Sale of Goods Act, 1930, which

repealed Chapter VII of the Indian Contract relating to sale of goods, that according the law both of England and of India, in order to constitute a

sale it is necessary there should be an agreement between the parties for the purpose of transferring title to goods, which presupposes capacity

contract, that the contract must supported by valuable consideration that as a result of the transaction propose must actually pass in the goods.

Unless all these elements are present, there can be no sale.

20. Basing itself on this position court finally concluded in Gannon Dunkerley that the expression ""sale of goods"" was, at the time when the

Government of India Act was enacted, a term of well-recognised legal import in the general law relating to goods and in the legislative practice

relating to that topic both in England and in India and, therefore, that expression, occurring in entry 48, must be interpreted in the sense which it

bears in the Sale of Goods Act, 1930. In coming to this conclusion, the court relied upon the American decisions is United States vs. Wong Kim

Ark Carolina vs. United States and Ex Grossman, the Privy Council decision L Union St. Jacquess De Montreal vs. Be Lisle. Royal Bank of

Canada vs. Larue, Labour Relations Board of Saskatchewan vs. John East Iron Works Ltd., Croft vs. Dunphy and Wallace Brother and Co. Ltd.

vs. Commissioner of income tax, Bombay City and Bombay Suburban District; the decision of the Federal Court in In re the Central Provinces

and Berar Act No. 14 of 1938 and the decisions of this court in State of Bombay vs. F. N. Balsara and Sales Tax Officer, Pilibhit vs. Budh

Prakash Jai Prakash. In a nutshell, these decisions have taken the view that the Constitution must be interpreted in the light of the common law, the

principles and history of which were familiarly known to the framers of the Constitution, that the language of the Constitution cannot be understood

without reference to the common law, that to determine the extent of the grants of power, the court must place itself in the position of the men who

framed and adopted the Constitution and inquire what they must have understood to be the meaning and scope of those grants, that when a power

is conferred to legislate on a particular topic it is important, in determining the scope of the power, to have regard to what is ordinarily treated as

embraced within that topic in legislative practice and particularly in the legislative practice of the State which has conferred that power, that the

object of doing so is emphatically not to seek a pattern to which a due exercise of the power must conform, but to ascertain the general conception

involved in the words of the Act, and finally, that Parliament must be presumed to have had Indian legislature practice in mind and, unless the

context otherwise clearly requires, not to have conferred a legislative power intended to be interpreted in a sense not understood by those to

whom the Act was to apply.

21. The view expressed in Gannon Dunkerley that the words ""sale of goods"" in entry 48 must be interpreted in the sense which they bear in the

Sale of Goods Act, 1930, and that the meaning of those words should not be left to fluctuate with the definition of ""sale"" in laws relating to sales of

goods which might be in force for the time being may, with respect, bear further consideration but that may have to await a more suitable occasion.

It will then be necessary to examine whether the words ""sale of goods"" which occur in entry 48 should not be construed so as to extend the

competence of the legislature to enacting laws in respect of matters which might be unknown in 1935 when the Government of India Act was

passed but which may have come into existence later, as a result of a social and economic evolution. In Attorney-General vs. Edison Telephone

company of London, a question arose whether the Edison Telephone Company, London, infringed by installation of telephones, the exclusive

privilege of transmitting telegrams which was conferred upon the Postmaster-General under an Act of 1869. The decision depended on the

meaning of the word ""telegraph"" in the Acts of 1863 and 1869. The company contended that since telephones were unknown at the time when

those Acts were passed, the definition of ""telegraph"" could not comprehend ""telephones"". That contention was negatived by an English Court. In

Regulation and Control of Radio Communication in Canada, In re, a similar question arose as to whether ""broadcasting"" was covered by the

expression ""telegraph and other works and undertakings"" in S. 92(10)(a) of the Constitution Act of 1867. The Privy Council answered the

question in the affirmative and was apparently not impressed by the contention that broadcasting was not known as a means of communication at

the time when the Constitution Act was passed. These decisions proceed on the principle that if after the enactment of a legislation, new facts and

situations arise which could not have been in the contemplation of the legislature, statutory provisions can justifiably be applied to those facts and

situations so long as the words of the statute are in a broad sense capable of containing them. This principle, according to the view expressed in

Gannon Dunkerley, did not apply to the interpretation of entry 48, a view which, in our opinion, is capable of further scrutiny. It is, unnecessary in

these appeals to investigate the matter any further because, the position which emerges after putting on the words of entry 48 the same meaning

which those words bear in the Sale of Goods Act, 1930, is that, in order to constitute a sale, it is necessary that there should be an agreement

between the parties. In other words, the effect of the construction which the court put on the words of entry 48 in Gannon Dunkerley is that a sale

is necessarily a consensual transaction and, if the parties have no volition or option to bargain, there can be no sale. For the present purposes, this

view may be assumed to reflect the correct legal position but even so, the transactions which are the subject-matter of these appeals will amount to

sales.

22. Applying the ratio of Gannon Dunkerley, the true question for decision, therefore, is whether in the context of the Control Orders issued by the

Government of West Bengal for regulating the supply and distribution of cement, the transactions under which the appellant supplied cement to

persons who were issued permits by the authorities to obtain the commodity from the appellant, involved an element of volition or consensuality. If

they did, the transaction would amount to sales, but not otherwise. It is undeniable that under paragraph 2 of the West Bengal Order of 1948,

which we have for convenience designated as the Cement Control Order, no person can dispose of or agree to dispose of any cement except in

accordance with the conditions contained in a written order of the Director of consumer Goods or the authorities specified in that paragraph. That

is a limitation on the dealer's right to supply cement. Correspondingly by paragraph 3, no person can acquire or agree to acquire cement from any

person except in accordance with the conditions contained in a written order of the Director of consumer Goods or the authorities specified in that

paragraph. That is a limitation on the consumer's right to obtain cement. Paragraph 4 puts a restriction on the price which a dealer may charge for

the commodity by providing that no person shall sell cement at a price higher than the notified price. Paragraph 8 imposes on the dealer the

obligation to supply cement by providing that no person or stockist who has any stock of cement in his possession and to whom a written order

has been issued under paragraph 2 shall refuse to sell the same at a price not exceeding the notified price. A person who contravenes the

provisions of the Cement Control Order is punishable under s. 6 of the West Bengal Cement Control Act, 1948, with imprisonment for a term

which may extend to three years or with fine or with both.

23. These limitations on the normal right of dealers and consumers to supply and obtain the goods, the obligation imposed on the parties and the

penalties prescribed by the Control Order do not, in our opinion, militate against the position that eventually, the parties must be deemed to have

completed the transactions under an agreement by which one party bound itself to supply the stated quantity of goods to the other at a price not

higher than the notified price and the other party consented to accept the goods on the terms and conditions mentioned in the permit or its order of

allotment issued in its favour by the concerned authority. Offer and acceptance need not always be in the elementary form, nor indeed does the

Law of Contract or of Sale of Goods require that consent to a contract must be express. It is common place that offer and acceptance can be

spelt out from the conduct of the parties which covers not only their acts but omissions as well. Indeed, on occasion silence can be more eloquent

than the eloquence itself. Just as correspondence between the parties can constitute disclosure of an offer and acceptance, so can their conduct. This is

because, law does not require offer and acceptance to conform to any set pattern or formula.

24. In order, therefore, to determine whether there was any agreement consensuality between the parties, we have regard to their conduct at or

about time when the goods changed hands. In the first place, it is not obligatory on a trader to deal in cement nor on any case acquire it. The primary

fact, therefore, that the decision of the trader to deal in an essential commodity is volitional. Such volition carries with it the willingness to trade in the

commodity strictly on terms of the Control Orders. The consumer too, who is under no compulsion to acquire or possess cement, decides as a

matter of his volition to do so on the terms of the permit or the order of allotment issued in his favour brings the two parties together, one of whom is willing to

supply the commodity and the other to receive. When the allottee presents his permit to the dealer, he signifies his willingness to obtain the commodity

from the dealer on the terms stated in the permit. His conduct reflects his consent. And when, upon the presentation of the permit, the dealer acts

upon it, he impliedly agrees to supply the commodity to the allottee on the terms by which he has voluntarily bound himself to trade in the

commodity. His conduct too reflects his consent. Thus, though both parties are bound to comply with the legal requirements governing the

transaction, they agree as between themselves to enter into the transaction on statutory terms, one agreeing to supply the commodity to the other

on those terms and the other agreeing to accept it from him on the very terms. It is, therefore, not correct to say that the transactions between the

appellants and the allottees are not consensual. They, with their free consent, agreed to enter into the transactions.

25. We are also of the opinion that though the terms of the transaction are mostly predetermined by law it cannot be said that there is no area at all

in which there is no scope for the parties to bargain. The West Bengal Cement Control Act, 1948, empowers the Government by S. 3 to regulate

or control the prices at which cement may be purchased or sold. The Cement Control Order, 1948, provides by paragraph 4 that no person shall

sell cement at a "higher than notified price", leaving it open to the parties to charge and pay a price which is less than the notified price, the notified

price being the maximum price which may lawfully be charged. Paragraph 8 of the Order points in the same direction by providing that no dealer

who has a stock of cement in his possession shall refuse to sell the same "at a price not exceeding the notified price", leaving it open to him to

charge a lesser price, which the allottee would be only too agreeable to pay. Paragraph 8 further provides that the dealer shall deliver the cement

within a reasonable time" after the payment of price. Evidently within the bounds of reasonableness, it would be open to the parties to fix the time

of delivery. Paragraph 8A which confers on the allottee the right to ask for weighing of goods also shows that he may reject the goods on the

ground that they are short in weight just as indeed, he would have the undoubted right to reject them on the ground that they are not of the requisite

quality. The circumstance that in these areas, though minimal, the parties to the transactions have the freedom to bargain militates against the view

that the transactions are not consensual.

26. While on this aspect, we may usefully draw attention to two important decisions of this court the first, of which is *Indian Steel & Wire Products*

Ltd. vs. State of Madras. The appellant therein supplied certain steel products to various persons in Madras at the instance of the Steel Controller

exercising powers under the Iron and steel (Control of Production and Distribution) Order, 1941. The State of Madras assessed the turnover of

the appellant to sales tax upon which, the appellant contended that the deliveries of steel products were made under compulsion of law since it was

the Controller who determined the persons to whom the goods were to be supplied, the price at which they were to be supplied, the manner in

which they were to be transported and the mode in which the payment of the price was to be made. Since every facet of the transaction was

prescribed by the Controller, so it was argued, there was no agreement between the parties and, therefore, the transaction could not be considered

as a sale. Rejecting this contention, it was observed by Hegde, J., who spoke for the Constitution Bench, that though the controller fixed the base

price of the steel products and determined the buyers, the parties were still free to decide the order terms of the bargain, as for example, the time

and date of delivery and the time and mode of payment and, therefore, it could not be said that there was no agreement between the parties to sell

and buy the goods. It was held that though the area within which it was possible for the parties to bargain was greatly relieved on account of the

Iron and steel control order, it was not correct to contend that because law imposes, restriction on freedom of contract, there could be no contract

at all. ""So long mutual assent is not completely excluded in any dealing, in law it is a contract.

27. The second decision is reported in Andhra Sugars Ltd. vs. State of Andhra Pradesh. In that case, the occupier of a sugar factory had to buy

sugar-cane from cane-growers in conformity with the direction of the Cane commissioner issued under the Andhra Pradesh (Regulation of Supply

and Purchase) Act, 1961. Under S. 21 of that Act, sales and purchases of sugarcane were exempt from tax under the Andhra Pradesh General

Sales-tax Act, 1957, but under S. 21(1) of the Act of 1961, the State Government had power by notification to levy a tax ""on the purchase of

cane required for use, consumption or sale in a sugar factory"". Various sugar factories in the state filed writ petitions under Article 32 of the

constitution challenging the validity of S. 21 mainly on the ground that since they were compelled by to buy cane from the cane- from the cane-

growers, their purchases were not made under agreement and were not taxable under entry 54, List II, of the seventh schedule to the constitution,

having regard to the decision in Gannon Dunkerley. The writ petitions were decided by a constitution Bench of this court which delivery its

unanimous judgment through Bachawat, J. It is necessary in the first place to state that though it was argued on behalf of the State Government in

that case that the occupier of the factory had some option of not buying the sugar cane from the grower and had some freedom of bargaining about

the terms and conditions of the agreement, that point was not pursued any further and the writ petitions proceeded on the basis that there was no

option left for any bargain in the transaction. After referring to the definition of ""contract of sale of goods"" in S. 4(1) of the Indian sale of Goods

Act, 1930, and the relevant provisions of the Contract Act relating to offer and acceptance, the court observed that under S. 10 of the Contract

Act, all agreements are contracts if they are made by the free consent of the parties competent to contract for a lawful consideration and with a

lawful object, and are not by the Act expressly declared to be void. S. 13 of the contract Act defines ""consent"" and S. 14 says that consent is said

to be free when it is not caused by coercion, under influence, fraud, misrepresentation or mistake as defined in Ss. 15 to 22. In the background of

these provisions, the court observed that the cane-grower in the factory zone was free to make or not to make an offer of sale of cane to the

occupier of the factory. But if he made an offer, the occupier of the factory was bound to accept it and the consent of the occupier not being

caused by coercion, undue influence, fraud, misrepresentation or mistake was ""free consent"" as defined in S. 14 of the Contract Act, even though

he was obliged by law to enter into the agreement. ""The compulsion of law is not coercion as defined in S. 15 of the Act"" and ""in the eye of the

law, the agreement is freely made"". Since the parties were competent to contract, the agreement was made for lawful consideration and with a

lawful object, the agreement was not void under any provision of law and it was enforceable at law; the court held that the purchases of sugarcane

were taxable by the state Legislature under entry 54, List II, of the Seventh Schedule of the Constitution.

28. Strong reliance was placed by the factory owners in Andhra Sugars on the majority judgment of Kapur and Shah, JJ., in *New India Sugar*

Mills Ltd. vs. Commissioner of sales Tax, to which we must refer here. The "admitted course of dealing" between the parties in the case was that

the Governments of various consuming State used to intimate to the sugar controller of India, from time to time, their requirements of sugar and

similarly, the factory owners used to send to the sugar controller of India statements of stock was sugar held by them. On a consideration of the

request received from the State Government and the statements of stock received from the factories, the sugar controller used to make allotment of

sugar. The allotment order was addressed by the sugar controller to the factory owner direction him to supply sugar to the State Government in

question in accordance with the dispatch instruction receive from the competent officer of the State Government. A copy of the allotment order

was simultaneously sent to the State Government concerned, on receipt which the competent authority of the State Government sent to the factory

concern detailed instructions about the destination to which the sugar was to be despatch as also the quantities of sugar to despatched to each

place. The Madras Government which, under this arrangement received its quota of sugar from New India Sugar Mills, also laid down the

procedure of payment. The Patna High court having held that the supply of sugar by the mills to the province of Madras was liable to be taxed

under the Bihar sales Tax Act, 1947, the mills filed an appeal to this court which was decided by the Bench of three learned Judges. Kapur and

Shah, JJ., held that since the mills were compelled to carry out the direction of the controller and since they had no volition in the matter of supply

of sugar to the state of Madras, there was no offer by them to the State Government and no acceptance by the latter. Shah, J., speaking for the

majority, observed that a contract of sale between the seller and the buyer is a prerequisite to a sale and since there was no such contract, the

transaction in question which the Bihar sales tax authorities sought to was not exigible to sales tax.

29. Hidayatullah, J., who delivered a dissenting opinion, observed after reviewing the position both under the English and the Indian law, that

though it was true that consent makes a contract of sales, consent "may be express or implied and it cannot not be said that unless the offer and

acceptance are there in an elementary form, there can be taxable sale". Taking the view that on obtaining the necessary permit, the sugar mills on

the one hand and the Government of Madras on the order agreed to "sell" and "purchase" sugar could admit of no doubt, the learned Judge said

that when the Province of Madras after receiving the permit, telegraphed instruction to despatch sugar and the mills despatch it, "a contract

emerged and consent must be implied on both sides though not expressed antecedently to the permit". The controller brought the seller and the

purchaser together, gave them permission to supply and receive sugar leading thereby to be implied contract of sale between the parties." The

learned Judge accepted that there was annulment of compulsion in both selling and buying, perhaps more for the supplier than for the receiver, but,

according to him "a compelled sale is nevertheless a sale" and "sales often take place without volition of a party". The learned Judge summed up

the matter pithily thus : "So long as the parties made under controls at fixed price and accept there as any other law of the realm because they must,

the contract is at the fixed price both sides having or deemed to have agreed to such a price. Consent under the law of contract need not be

express, it can be implied The present is just another example of an implied contract with an implied offer and implied acceptance by the

parties". Adverting to the construction of the legislative entry 48 of list II, seventh schedule to the Government of India Act, 1935, the learned

Judge observed that the entry had to be interpreted in a liberal spirit and not cut down by narrow technical considerations. "The entry in other

words should not be shorn of all its content to leave a mere husk of legislative power. For the purposes of legislative such as on Sales-tax it is only

necessary to see whether there is a sale, express or implied The entry has its meaning and within its meaning there is a plenary power. If a sales

express or implied is found to exist then the tax must follow".

30. We are of the opinion that the true position in law is as is set out in the dissenting judgment of Hidayatullah, J., and that the view expressed by

Kapur and Shah, JJ., in the majority judgment, with deference, cannot be considered as good law. Bachawat, J., in Andhra Sugars case was, with

respect, right in cautioning that the majority judgment of Kapur and Shah, JJ., in New India Sugar Mills case should not be treated as an authority

for the proposition that there can be no contract of sale under compulsion of a statute". Rather than saying what, in view of the growing uncertainty

of the true legal position on the question, we are constrained to say namely, that the majority judgment in New India Sugar Mills case is not good

law. Bachawat, J. preferred to adopt the not unfamiliar manner of confining the majority decision to "the special facts of that case".

31. The majority judgment in New India Sugar Mills case is based predominantly on the decision of this court in Gannon Dunkerleys case to which

we have referred at length in another context. In fact, Shah J., observes at page 469 of the Reports 14 S.T.C. 324 after discussing the judgment in

Gannon Dunkerleys case that "the ratio decidendi of that decision must govern this case". The decision in Gannon Dunkerleys case really turned on

a different point, the question for consideration therein being whether the value of the materials used in the execution of building contracts could be

included within the taxable turnover of the company. It was contended on behalf of the company that the power of the Madras Legislature to

impose a tax on sales under entry 48, list II, of the seventh schedule of the Government of India Act. 1935, did not extend to imposing a tax on the

value of materials used in construction works, as there was no transaction of sale in respect of those goods, and that the provisions introduced in

the Madras general sales Tax Act, 1939, by Madras general sales Tax (Amendment) Act, 1947. Authorising the imposition of such tax were ultra

vires. Venkatarama Aiyar, J., posed the question thus : ""The sole question for determination in this appeal is whether the provisions of the Madras

general sales Tax Act are ultra vires, in so far as they seek to impose a tax on the supply of materials in execution of works contract it as a sale of

goods by the contractors"" The court accepted that building materials were ""foods"" and limited the inquiry to whether there was ""a sale of those

materials within the meaning of that word in entry 48"". Reference was then made to Benjamin on Sale in which it is said that in order to constitute a

sale"", four elements must concur : ""(1) Parties competent to contract; (2) mutual assent; (3) a thing the absolute or general property in which is

transferred from the seller to the buyer; and (4) a price in money paid or promised"" (vide 8th Edn., page 2). On the strength of this statement and

on a consideration of the provisions of the Contract Act and the Sale of Goods Act, 1930, it was concluded that ""according to the law both of

England and of India, in order to constitute a sale it is necessary that there should be an agreement between the parties for the purpose of

transferring title to goods"". The court then proceeded to examine the true nature of a building contract and held :-

It has been already stated that, both under the common law and the statute law relating to sale of goods in England and in India, to constitute a

transaction of sale there should be an agreement, express or implied, relating to goods to be completed by passing of title in those goods. It is of

the essence of this concept that both the agreement and the sale should relate to the same subject matter. Where the goods delivered under the

contract are not the goods contracted for, the purchaser has got a right to reject them, or to accept them and claim damages for breach of

warranty. Under the law, therefore, there cannot be an agreement relating to one kind of property and a sale as regards another. We are

accordingly of opinion that on the true interpretation of the expression sale of goods there must be an agreement between the parties for the sale of

the very goods in which eventually property passes. In a building contract, the agreement between the parties is that the contractor should

construct a building according to the specifications contained in the agreement, and in consideration therefore receive payment as provided therein,

and as will presently be shown there is in such an agreement neither contract to sell the materials used in the construction, nor does property pass

therein as movables. It is therefore impossible to maintain that there is implicit in a building contract a sale of materials as understood in law.

31. The final conclusion on the point involved in the appeal was express thus :-

To sum up, the expression sale goods in entry 48 is a nomen juris, in essential ingredients being an agreement to sell movables for a price and

proper passing therein pursuant to that agreement. In a building contract which as in the present case, one, entire an indivisible and that is its norm,

there no sale of goods, and it is not within competence of the Provincial Legislative under entry 48 to impose a tax on supply of the materials used

in such contract treating it as a sale.

32. Thus, the two reasons given the court in support of its conclusion was firstly, that a building contract there no agreement, express or implied, to

goods"" and secondly, that property in the building materials does not pass in the materials regarded as ""goods"" but it passes as part of immovable

property. In New India Sugar Mills case, the commodity with which the court was concerned was sugar and was delivered as sugar just as in the

instant case, the commodity with which we are concerned is cement which was delivered as cement. That meets the first reason in Gannon

Dunkerley case. As regards the second, it is quite clear that the tax was demanded after the commodity had changed hands or, putting it in the

words of the Sale of Goods law, after property in it had passed. With great respect, therefore, the majority in New India Sugar Mills case was in

error in saying that ""the ratio decidendi of that decision Gannon Dunkerley case must govern this case"". The question before us which was the very

question involved in New India Sugar Mills viz., whether a transaction effected in accordance with the obligatory terms of a statute can amount to a

sale"" did not arise in Gannon Dunkerley.

33. Just as the majority Judges in New India Sugar Mills applied to the case before them the ratio of Gannon Dunkerley, the court in the latter

applied the ratio of the House of Lords decision in Kirkness vs. John House and Co. Ltd. observing categorically that ""the decision in Kirkness

must be held to conclude the matter"". We think it necessary to lay particular emphasis on this aspect because it shows how the question for

decision in Gannon Dunkerley was basically different from the question in New India Sugar Mills or in the appeals before us. In Kirkness railway

wagons belonging to the respondent-company were then over by the Transport Commission compensation in exercise of the powers referred by

S. 29 of the Transport Act, and compensation was paid therefore. The question was whether this amount was liable to income tax on the footing of

sale of the wagons by the company. The case turned on behalf of the revenue was describe compulsory acquisition being treated a sale under the

English law, the taking over of the wagons and payment of compensation therefore must also be regarding on sale for purpose of income tax and,

therefore, the company was liable to a balancing charge under S. 17 of the Income Tax Act, 1945. The case turned on the meaning of the word

sale"" for the purposes of the excess profits tax legislation and the Income Tax Act, 1945 (8 & 9 Geo. 6, c. 32). Lord Morton in his dissenting

speech found it ""impossible to say that the only construction which can fairly be given to the word sold in S. 17(1)(a) of the Income Tax Act,

1945, is to limit it to a transaction in which the element of mutual assent is present"". But the majority of the House came to a different conclusion,

and held that the element of bargain was essential to constitute a sale, and to describe compulsory taking over of property as a sale was a misuse

of that word. We are not concerned in these appeals with ""compulsory acquisition"" of goods not indeed, was the court concerned with it in

Gannon Dunkerley. The majority in New India Sugar Mills was right in saying that the decision in Kirkness and ""observations made therein have

little relevance in determining the limits of the legislative power of the Provincial Legislature under the Government of India Act, 1935, and the

interpretation of statutes enacted in exercise of that power"". In fact, if we may say so with great respect, the observation in Gannon Dunkerley that

the decision in Kirkness concluded the question before the court seems to us somewhat wide of the mark. Since Kirkness involved an altogether

different point, we would have avoided referring to it but the reliance upon it in Gannon Dunkerley may lead to a misunderstanding regarding its

true ratio which needs to be clarified. Besides Kirkness has been referred to in various decisions and has been considered as an authority for

apparently conflicting propositions, which too made it necessary to understand the decision in a proper perspective.

34. It is not the decision in Kirkness case but another English decision which may with advantage be noticed. That is the decision of the Court of

Appeal in Ridge Nominees Ltd. vs. Inland Revenue Commissioners. The question in that case was whether a transfer of shares executed under S.

209 of the Companies Act, 1948, on behalf of a stockholder who declined to accept the offer of purchase was required to be stamped as a

transfer on sale. Under S. 209, the transferee-company was entitled in certain circumstances to give a notice to a dissenting shareholder that it

desired to acquire his shares. Upon such notice being given, the transferee-company became entitled to acquire the shares of the dissenting

shareholder at a particular price. If the dissenting shareholder did not transfer the shares, then sub-S. (3) provided for the execution of a transfer on

behalf of the shareholder by a person appointed by the transfer-company. In the First Schedule to the Stamp Act, 1891, was included the item

Conveyance or transfer on sale of any property ..."". In the light of this entry under which stamp duty was payable, the question which the court

had to consider was whether a transfer executed on behalf of a dissenting shareholder was a ""transfer on sale"". The answer depended upon

whether there could be a sale even though the essential element of mutual assent was totally absent. Lord Evershed, M.R., observed in his

judgment that what the Companies Act had done, by the machinery it had created, was that in truth it brought into being a transaction which ex

facie in all its essential characteristics and effect was a transfer on sale. Donovan, L.J., in his concurring judgment said that when the legislature by

S. 209 of the Companies Act empowered the transferee company to appoint an agent on behalf of a dissenting shareholder for the purpose of

executing a transfer of his shares against a price to be paid to the transferee-company and held in trust for the dissenting shareholder, it was clearly

ignoring his dissent and putting him in the same position as if he had assented. For the purpose of considering whether the transaction amounted to

a sale, one must, according to the learned Judge, regard the dissent of the shareholder as overridden by an assent which the statute imposed upon

him, fictional though it may be. Danckwerts, L.J., also, by a concurring judgment, said that a sale may not always require the consensual element

and that there may, in truth, be a compulsory sale of property in which the owner is compelled to part with his property for a price, against his will.

35. We will proceed to refer to the other decisions of this court bearing on the point under discussion. In *State of Rajasthan vs. Karam Chand*

Thappar & Bros. Ltd., the respondent-assessee which was registered as a dealer under the Rajasthan sales Tax Act, 1954, entered into a contract

with the Equitable Coal Company under which acquired monopoly rights to supply coal in Rajasthan as an agent of the coal company. The

respondent supplied coal to the State of Rajasthan under an agreement with it and that transaction was included the respondents turnover by the

Sales Tax Officer, Jaipur. The High Court Rajasthan allowed the respondents was petition against the order of assessment the ground, *inter alia*,

that the supply coal by the respondent to the State Rajasthan did not constitute sale as a supply was controlled by a statutory order namely, the

Colliery Control order, 1945. In appeal to this court by the State Rajasthan it was held that under Colliery Control Order, coal could supplied

under a contract and the effect the Control Order was only to supreme upon the agreement between the parties the rate fixed by the Control

Order. The four elements required to constitute a sale, namely, competency of parties, mutual assent of the parties, passing of property the goods

supplied to the purchaser lastly, payment or promise of payment price were all present to render the seller liable to sales tax. Shah, J., who spoke

for the Court relied upon the judgment *Indian Steel and Wire Products and Sugars* observing that in these two cases court had held that "when

goods, supplied which is controlled by statutory order delivered pursuant to a contract of the principle of the case in *New India Mills Ltd.* has no

application". The distinguished the decision in *New India Mills* on the ground that it was found a different principle since the condition requiring

mutual assent of the parties lacking in that case.

36. In *Chittar Mal Narain Das vs. C.S.T. 3*, the appellants who were dealers in foodgrains supplied to the Regioners Controller diverse quantities

of the compliance with the provisions of the U.P. Wheat Procurement (Levy) Orders. The High Court held in a made to it under the Sales Tax the

transaction amounted to and was exigible to sale tax. It to this court it was held by consisting of Shah and Hegde, JJ., that clause 3 of the U.P.

Procurement (Levy) Order, 1959, sets up a machinery for compulsory acquisition by the State Government of stocks of wheat belonging to the

licensed dealers, that the Order contains a bald injunction to supply wheat of the specified quantity day after day, that it did not envisage any

consensual arrangement and that the Order did not even require the State Government to enter into an informal contract with the supplier.

Delivering the judgment of the Bench, Shah, J., observed that the transaction in which an obligation to supply goods is imposed, and which does

not involve an obligation to enter into a contract, cannot be called a ""sale"", even if the person supplying goods is declared entitled to the value of

goods which is determined in the prescribed manner. It was observed that the decision in Indian Steel and Wire Products does not justify the view

that even if the liberty of contract in relation to the fundamentals of the transaction is completely excluded, a transaction of supply of goods

pursuant to directions issued under a Control Order may be regarded a sale. This decision is clearly distinguishable since the provisions of the

Wheat Procurement Order were construed by the court as being in the nature of compulsory acquisition of property, obliging the dealer to supply

wheat from day to day. Case of compulsory acquisition of property by the State stand on a different footing since there is no question in such cases

of offer and the acceptance nor of consent, whether expressed or implied.

37. We would, however, like to clarify that though compulsory acquisition of property would exclude the element of mutual assent which is vital to

a sale, the learned Judges were, with respect, not right in holding in Chittar Mal that even in respect of the place of delivery and the place of

payment of price, there could of a consensual arrangement, the transaction will not amount to a sale. The true position in law is as stated above,

namely, that so long as mutual assent, expressed or implied, is not totally excluded the transaction will amount to a sale. The ultimate decision in

Chittar Mal can be justified only in the view that clause 3 of the Wheat statement Order envisages compulsory acquisition of wheat by the State

Government from the licensed dealer. Viewed from this angle, we cannot endorse the courts criticism of the Full Bench decision of the Allahabad

High Court in Commissioner, Sales Tax, U.P. vs. Ram Bilas Ram Gopal, which held while construing clause 3 that so long as there was freedom to

bargain in some areas the transaction could amount to a sale though effected under compulsion of a statute. Looking at the scheme of the U.P.

Wheat Procurement Order, particularly clause 3 thereof, this court in Chittar Mal seems to have concluded that the transaction was, in truth and

substance, in the nature of compulsory acquisition, with no real freedom to bargain in any area. Shah, J., expressed the courts interpretation of

clause 3 in no uncertain terms by saying that ""it did not envisage any consensual arrangement.

38. In Salar Jung Sugar Mills Ltd. vs. State of Mysore, which was decided by a Bench of seven learned Judges, the Appellants were subjected to

levy of tax on purchase of sugarcane after the inclusion of sugarcane in the Third Schedule to the Mysore Sales Tax Act, 1957. They challenged

the levy on the ground that on account of the Central and State Control Orders applicable to the transactions, there was no mutual assent between

them and the growers of sugarcane in regard to supply of sugarcane by the latter and since there was no purchase and sale of sugarcane, they were

not dealers within the meaning of S. 2(k) of the Mysore Sales Tax Act. After referring to the cases which we have considered above, it was held

by the court that the decisions relating to ""compulsory sales"" establish that statutory orders regulating the supply and distribution of goods do not

absolutely impinge on the freedom of contract. In spite of the fact that under the relevant Control Orders the parties, the minimum price and the

minimum quantity of supply were determined or regulated, the court held that the Control Orders left to the parties the option in regard to a higher

quantity than was stipulated in the Orders, a higher price than the minimum as also the form and manner of payment. A factory could reject goods

after inspection which indicated not only freedom in the formation but also in the performance of the contract. A combination of all these factors,

according to Ray, J., who spoke for a unanimous court, indicated with unerring accuracy that the parties entered into agreement with mutual assent

and with volition for transfer of goods in consideration of price. The transactions were accordingly held as amounting to sales within the meaning of

S. 2(1) of the Mysore Sales-tax Act. In coming to this conclusion, the court relied on the statement in Benjamin on Sale, 8th Edn., page 68, that

though a contract of sale requires mutual assent, ""the assent need not as a general rule be express"" and that it may be implied from the language of

or conduct of parties and indeed it may even be inferred from the silence on the part of parties in certain cases. As an instance, the court referred

to the common case of a person buying rationed articles from a ration-shop. ""The parties, the price, the shop, the supply and the acceptance of

goods in accordance with the provisions of the Ration Order are all regulated."" All the same, aid the court, when the customer presents the ration-

card to the shopkeeper, the shopkeeper delivers the rationed articles, the customer accepts the articles and pays their price, ""there is indisputably a

sale"".

39. In State of Tamil Nadu vs. Cement Distributors Private Ltd, the principle question which arose for decision was whether producers who

supplied cement to the State Trading Corporation or its agents in gunny bags in pursuance of the directions given by the Government were liable to

pay sales tax on the turnover relating to the price of gunny bags. In some of the connected appeals the question also arose whether the selling

agents of the State Trading Corporation were liable to pay sales tax in respect of the price of the gunny bags in which they sold cement to the

consumers. As regards the question whether the transactions between producers and the State Trading Corporation in so far as the supply of

cement was concerned amounted to sales within the meaning of the Madras General Sales Tax Act, 1959, Hegde, J., who spoke for the three-

Judge Bench, observed that there was ""no dispute"" that those transactions could not amount to sales in view of the Cement Control Order, 1958.

On the question whether the gunny bags, in which the cement was supplied can be consider of to have been sold, it was observed that there was

no dispute"" that if the price gunny bags was held to have been which controlled, then the supply of gunny bags also could not be considered as

sales. The position was held to have been conclude by the decisions in New Indian Sugar Mill Ltd. and Chittar Mal Narain Das. The only question

which the court consider was whether, in fact, the price of gunny bags in which cement was supplied to the State Trading Corporation was

controlled by the Cement Control Order of 1958. On that question it was held that since the Central Government had fixed the actual price of the

gunny bags also, the supply gunny bags did not amount to sales. It the first place, the decision proceeds on concession insofar as the supply of

cement is concerned as is shown by the statement that there was ""no dispute"" that ""the same cannot be considered as sales"". As regard the other

question concerning gunny bags the Court did not allow the Advocate General of Tamil Nadu to contained that since under clause 6(4) of the

Cement Control Order the Central Government could fixed the maximum and not the actual price of gunny bags, there was scope for bargaining

between the parties. That question not having been raised in the High Court or in the appeal memo filed in this court and the Central Government

not having in its appearance in this court, permission was declined to raise the question. Thus decision is not an authority for the position for which

the appellant contends. Besides, the judgment rests partly on decision in New India Sugar Mills, we have dissented from, and partly Chittar Mal

which, by reason of ""compulsory acquisition"" inferred therein was distinguishable.

40. In Oil and Natural Gas Commission vs. State of Bihar, a three-Judge Bench speaking through Ray, C.J., held, following the judgment in Salar

Jung Sugar Mills Ltd. that the supplies of crude oil by the Oil and Natural Gas Commission to a refinery of the Indian Oil Corporation amount

sales, even though the supplies were pursuant to the directions and order Central Government and the Commission had no volition in the matter.

Law presumes assent of parties, it was observed, when there is transfer of goods from one party to another.

41. This resume of cases, long as it is, may yet bear highlighting the true principle underlying the decisions of this court which have taken the view

that a transaction which is effected in compliance with the obligatory terms of a statute may nevertheless be a sale in the eye of a law. The Indian

Contract Act which was passed in 1872 contained provisions in its seventh chapter compressing Ss. 76 to 123 relating to sale of goods which

were repeated on the enactment of a comprehensive law of sale of goods in 1930. The Contract Act drew inspiration from the English law of

contract which is almost entirely the creation of English courts and whose growth is marked by features which are peculiar to the social and

economic history of England. Historically, the English law of contract is largely founded upon the action on the case for assumpsit, where the

essence of the matter was the undertaking. The necessity for acceptance of the undertaking or the promise led the earlier writers on legal theories

to lay particular emphasis on the consensual nature of contractual obligations. It was out of the importance which political philosophers of the

eighteenth century gave to human liberty that the doctrine was evolved that every person should be free to pursue his own interest in the way he

thinks best and therefore law ought to give effect to the will of the parties as expressed in their agreement. Adam Smith in his famous work on "The

Wealth of Nations" propounded in 1776 the view that the freedom of contract must as far as possible be left unimpaired. Gradually, as would

appear from Friedmann's Statement in Law in a Changing Society (1959), Ch. 4, freedom of contract - the freedom to contract on whatever terms

might seem most advantageous to the individual - became a cornerstone of nineteenth century laissez faire economics. Champions of individualist

social philosophy who protested against legal and social restrictions in order to advance the policies of expansion and exploitation pursued by

industry and commerce won their battle and "freedom of contract was one of the trophies of victory" (see Anson's Law of Contract, 23rd Edn.,

page 3). The freedom and sanctity of contract thus became "the necessary instruments of laissez faire, and it was the function of the courts to foster

the one and to vindicate the other. Where a man sowed, there he should be able to reap" (see Cheshire and Fifoot's Law of Contract, 8th Edn.,

page 19). It is significant that the maxim itself - laissez faire, laissez passer - which derived from eighteenth century France - has been commonly

attributed to Gournay, at first a merchant and later one of the intendants of commerce and a friend of Turgot. Turgot attributes the phrase laissez

nous faire to another merchant, Legendre, who is said to have used it in impressing upon Colbert the desire on the part of the mercantile

community for non-interference by the State. When Colbert asked a meeting of French businessmen what the State might do to assist them,

Legendre pointedly replied, "laissez nous faire". The underlying assumption of the laissez faire doctrine turns on an optimistic view of the nature of the

universe and on the conception of a "natural order" or system of economic harmonies which will prevail and work out to mankind's advantage in the

absence of positive regulation (see International Encyclopedia of the Social Science 1968 Edn., edited by David L. Sills, Vol. 8 page 546, and

Encyclopaedia of the Social Sciences, edited by Edwin R.A. Seligman, Vol. IX, pages 15-16).

42. Towards the close of the nineteenth century it came to be realised that private enterprise, in order to be socially just, had to ensure economic

equality.

The very freedom of contract with its corollary, the freedom to compete, was merging into the freedom to compete, and in the last resort

competition and combination were incompatible. Individualism was yielding to monopoly, where strange things might well be done in the name of

liberty. The twentieth century has seen its progressive erosion on the one hand by opposed theory and on the other by conflicting practice. The

background of the law, social political and economic, has changed. Laissez faire as an ideal has been supplanted by social security; and social

security suggests status rather than contract. The State may thus compel persons to make contracts, as where, by a series of Road Traffic Acts

from 1930 to 1960, a motorist must insure against third-party risks; it may, as by the Rent Restriction Acts, prevent one party to a contract from

enforcing his rights under it; or it may empower a tribunal either to reduce or to increase the rent payable under a lease. In many instances a

statute prescribes the contents of the contract. The Moneylender, Act, 1927, dictates the terms of any loan caught by its provisions; the Carriage

of Goods by Sea Act, 1924, contains 6 pages of rules to be incorporated in every contract for the carriage of goods by sea from any port in Great

Britain or Northern Ireland to any other port; the Hire-Purchase Act, 1965, inserts into hire-purchase contracts a number of terms which the

parties are forbidden to exclude; successive Landlord and Tenant Acts from 1927 to 1954 contain provisions expressed to apply notwithstanding

and agreement to the contrary. The erosion of contract by statute continues briskly; and there are no immediate signs of a reaction"" (Cheshire and

Fifoots Law of Contract, 8th Edn., pages 21-22).

43. In the words of Anson :-

Freedom of contract is a reasonable social ideal only to the extent that equality of bargaining power between contracting parties can be assumed,

and no injury is done to the economic interests of the community at large. In the more complicated social and industrial conditions of a collectivist

society it has ceased to have much idealistic attraction. It is now realised that economic equality often does not exist in any real sense, and that

individual interests have to be made to subserve those of the community. Hence there was been a fundamental change both in our social outlook

and in the policy of the legislature towards contract, and the law today interferes at numerous points with the freedom of the parties to make what

contract they like ...

44. This intervention is especially necessary today when most contracts entered into by ordinary people are not the result of individual negotiation.

It is not possible for a private person to settle the terms of his agreement with the British Railway Board or with the local electricity authority. The

standard form contract is the rule. He must either accept the terms of this contract in toto or go without. Since however, it is not feasible to deprive

oneself of such necessary services, the individual is compelled to accept on those terms. In view of this fact, it is quite clear that freedom of

contract is now largely an illusion"" (Ansons Law of Contract, 23rd Edn., pages 3-4).

45. Anson is perhaps over-optimistic in saying that there has been a fundamental change in social outlook and in the legislative policy towards

contract. Anyway, with the high ideals of the preamble and the directive principles of our Constitution there has to be such a fundamental change in

judicial outlook. Instances given in Cheshire and Anson have their parallels in India too, wherein freedom of contract has largely become an

illusion. The policy of our Parliament in regard to contracts including those involved in sale of goods has still to reflect recognition of the necessity

for a change, which could be done by a suitable modification of the definition of "sale" of goods.

46. It all began with the reliance in Gannon Dunkerley on the statement in the 8th Edition (1950) of Benjamin on Sale that to constitute a valid sale

there must be a concurrence of four elements one of which is "mutual assent". The statement is a reproduction of what the celebrated author had

said in the 2nd and last edition prepared by himself in 1873. The majority judgment in New India Sugar Mills also derives sustenance from the

same passage in Benjamin's 8th edition. But as observed by Hidayatullah, J., his dissenting judgment in that case consent may be express or implied

and offer and acceptance need not be in elementary form. It is interesting that General Editor of the 1974 edition "Benjamin's Sale of Goods" says

in the face that the editors decided to produce entirely new work partly because commercial institutions, modes of transport and payment, forms

of contract, types of goods, market areas and marketing methods, and the extent of legislative and governmental regulation and intervention, had

changed considerably since 1868, when the 1st edition of the book was published. The formulations in Benjamin's 2nd edition relating to the

conditions of a valid "sale" of goods, which are reproduced in the 8th edition, evidently require modification in the light of regulatory measures of

social control. Hidayatullah, J., in his minority judgment referred to above, struck the new path; and Bachawat, J., who spoke for the court in

Andhra Sugar, went a step ahead by declaring that "the contract is a contract of sale and purchase of cane, though the buyer is obliged to give his

assent under compulsion of a statute". The concept of freedom of contract as observed by Hedge, J., in India Steel and Wire Products, has

undergone a great deal of change even in those countries where it was considered as one of the basic economic requirements of a democratic life.

Thus, in Ridge Nominees Ltd. 29, the Court of Appeal, while rejecting the argument that there was no sale because the essential element of mutual

assent was lacking, held that the dissent of the shareholder was overridden by an assent which the statute imposed on him, fictional though it may be,

that a sale may not always require the consensual element mentioned in Benjamin on Sale, 8th Edition, page 2, and that there may in truth be a

compulsory sale of property with which the owner is compelled to part for a price against his will, Decisions in cases of "compulsory acquisition",

where such acquisition is patent as in Kirkness or is inferred as in Chittar Mal fall in a separate and distinct class. The observations of Lord Reid in

Kirkness that ""sale"" is a nomen juris the name of a particular consensual contract -have therefore to be understood in the context in which they

were made, namely, the compulsory requisition cannot amount to sale. In Gannon Dunkerley, Venkatarama Aiyar, J., was influenced largely by

these observations and by the definition of ""sales"" in the Benjamins 8th edition. Gannon Dunkerley involved an altogether different point and is not

an authority for the proposition that there cannot at all be a contract of sale if the parties to a transaction are obliged to comply with the terms of a

statute. Since we are putting in a nutshell what we have discussed earlier, we would like to reiterate in the interest of uniformity and certainty of law

that with great deference, the majority decision in New India Sugar Mills is not good law. The true legal position is as is stated in the minority

judgment in that case and in India Steel and Wire Products, Andhra Sugars, Salar Jung Sugar Mills and Oil and Natural Gas Commission. To the

extent to which Cement Distributors Pvt. Ltd. is inconsistent with these judgment, it is also, with respect, not good law.

47. The conclusion which, therefore, emerges is that the transaction between the appellant, M/s. Vishnu Agencies (Pvt.) Ltd., and the allottees are

sales within the meaning of S. 2(g) of the Bengal Finance (Sales Tax) Act, 1941. For the same reason, transactions between the growers and

procuring agents as also those between the rice millers on the one hand and the wholesalers or retailers on the other are sales within the meaning of

S. 2 n) of the Andhra Pradesh General Sales Tax Act, 1957. The turnover is accordingly exigible to sales tax or purchase tax as the case may be.

48. The appeals are accordingly dismissed with costs, with one hearing fee.

Beg, C.J. - I am in general agreement with my learned brother Chandrachud, J., who has discussed all the authorities to admirably and

comprehensively. I, however, would like to add a few observations stating the general conclusion, as I see it, emerging from an application of

general principles and accumulation of case-law on the subject of what may be called ""statutory"" or ""compulsory"" sales. Are the sales at all so as to

be exigible to sales tax or purchase tax under the relevant statutory provisions ?

2. The term ""sale"" is defined as follows in Benjamin on Sale (Eighth Edn.) :-

To constitute a valid sale there must be a concurrence of the following elements, namely :

(1) parties competent to contract;

(2) mutual assent;

(3) a thing, the absolute or general property in which is transferred from the seller to the buyer; and

(4) a price in money paid or promised.

3. It is true that a considerable part of the field over which what are called ""sales"" take place under either regulatory orders or levy orders passed

or directions given under statutory provisions is restricted and controlled by these orders and directions. If, what is called a ""sale"" is, in substance,

mere obedience to a specific order, in which the so-called ""price"" is only a compensation for the compulsory passing of property in goods to which

an order relates, at an amount fixed by the authority making the order, the individual transaction may not be a ""sale"" although the compensation is

determined on some generally fixed principle and called ""price"". This was, for example, the position in *New India Sugar Mills vs. C.S.T., Bihar*.

That was a case of a delivery according to an order given by the Government which could amount to a compulsory levy by an executive order

although there was no legislative ""levy order"" involved in that case. On the other hand, in *Commissioner, Sales Tax, U.P. vs. Ram Bilas Ram Gopal*

the order under consideration was actually called a levy order, but the case was distinguishable from *New India Sugar Mills vs. C.S.T., Bihar*, on

facts. It was held in the case of *Ram Bilas* that the core of what is required for a ""sale"" was not destroyed by the so-called ""levy"" order which was

legislative. It is true that passages from the judgment of Pathak, J., in the case of *Ram Bilas Ram Gopal* were cited and specifically disapproved by

a Bench of this Court in *Chittar Mal Narain Das vs. C.S.T.* But, perhaps the view of this Court in *Chittar Mal Narain Das* goes too far in this

respect. It is not really the nomenclature of the order involved, but the substance of the transaction under consideration which matters in such

cases.

4. In the first type of cases mentioned above the substance of the concept of a sale, as found under our law itself disappears because the

transaction is nothing more than the execution of an order. Deprivation of property for a compensation, which may even be described as ""price"",

does not amount to a sale when all that is done is to carry out an order so that the transaction is substantially a compulsory acquisition. On the

other hand, a merely regulatory law, even if it circumscribes the area of free choice, does not take away the basic character or core of sale from

the transaction. Such a law, which governs a class, may oblige sellers to deal only with parties holding licences who may buy particular or allotted

quantities of goods at specified prices, but an essential element of choice is still left to the parties between whom agreements take place. The

agreement, despite considerable compulsive elements regulating or restricting the area of free choice, may still retain the basic character of a

transaction of sale. This was the position in *Indian Steel and Wire Products Ltd vs. State of Madras*, *Andhra Sugars Ltd. vs. State of Andhra*

Pradesh and *State of Rajasthan vs. Karam Chand Thappar*. There might be border-line cases in which it may be difficult to draw the line.

5. In the former type of cases, the binding character of the transaction arises from the order directed to particular parties asking them to deliver

specified goods and not from a general order or law applicable to a class. In the latter type of cases, the legal tie (*vinculum juris*) which binds the

parties to perform their obligations remains contractual. The regulatory law merely added other obligations, such as the one to enter into such a tie

between the parties indicated there. Although the regulation law might specify the terms, such as price or parties, the regulation is subsidiary to the

essential character of the transaction which is consensual and contractual. The basis a contract is : ""consensus ad idem"". The parties to the contract

must agree upon same thing in the same sense. Agreement on mutuality of consideration, ordinary arising from an offer and acceptance, imparts to

it enforceability in court of field of choice does not take away the contractor or essentially consensual binding core character of the transaction.

6. I may be forgiven for citing passage from my judgment in Commissioner of Sales Tax vs. Ram Bilas Ram Gopal indicate the setting of such

transactions.

It appears to me to be necessary to distinguish between a restriction in the area of choice of parties and the transaction itself in order to determine

the true character of the transaction. Limitation of the field of choice is a necessary concomitant of a controlled or mixed economy which ours is.

Absolute freedom of contract or unregulated operation of the laws of supply and demand, which an apotheosis of the laissez faire doctrine

demand, led really to a shrinking of the area of freedom in the economic sphere, producing gross inequalities in bargaining powers and recurrent

crises. therefore, a regulated or a socialistic economy seeks to regulate the play of forces operating on the economic arena so that economic

freedom of all concerned, including employers and employees, is preserved and so that the interests of consumers are also not sacrificed by any

exploitation of conditions in which there is scarcity of goods. I think that the regulation or restriction of the are of choice cannot be held to take

away the legal character of the transactions which take place within the legally restricted field. It is too late in the day, when so much of the nations

social and economic activities are guided and governed by control others, allotment orders, and statutory contracts, to contend that mere State

regulation of the economic sphere of life results in the destruction of the nature of the transactions which take place within that sphere.

7. In Roman Law the contract on sale was classed as a ""consensual"" contract. The consent could, no doubt, be expressed implied. I find that

Hidayatullah, J., in his very learned dissenting judgment in New India Sugar Mills case, where some Roman Law is referred to, thought that even in

a case of a specific order directing delivery of goods were could be an implied consent so as to constitute a sale. I find it, with great respect,

difficult to go so far as that. What could be implied, upon the facts of a particular case, must still be a consent to a proposal if the transaction is to

be construed as a ""sale"". Mere compliance with an order may imply an acceptance of an order but acceptance of a proposal to purchase or sell

are of a juristically different genus. It is, however, not necessary for us, in this case, to accept the correctness of the minority view of Hidayatullah,

J., in New India Sugar Mills case. The transaction before us are sales on an application of the ratio decidendi of Indian Steel and Wire Products

Ltds case and other cases decided on similar grounds.

8. The difficulty arises from the fact that, although the ingredients of a "sale", as defined in Benjamins treatise on "Sale", may seem to be satisfied

even if delivery of goods is in obedience to an order to deliver them for a consideration, fixed or to be fixed, if we stretch mutual assent to cover

assent resulting from orders given yet, it is difficult to see how such a transaction would be based on a contractual tie. According to S. 4(3) of out

Sale of Goods Act, a sale results only from a contract which presupposes a minimal area of freedom of choice where the ordinary mechanism of

proposal and acceptance operates.

9. For the reasons indicated above, while I agree with the answer given by my learned brother Chandrachud, J., to the question before us and also

practically with all the views expressed by my learned brother, yet, I hesitate to hold that the majority opinion expressed by Shah, J., in New India

Sugar Mills, case is erroneous. I think the case is distinguishable. This, however, makes no difference to the common conclusion reached by us on

the facts of the case before us.