



Shardul Amarchand Mangaldas

CENTURY of EXCELLENCE

Recognition and Enforcement of Arbitral Awards

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OVERVIEW



- Domestic and foreign awards;
- Construction and interpretation of Public policy;
- Limitation period for enforcement of award; and
- Issues and Challenges.





DOMESTIC AND FOREIGN AWARDS



Introduction



- Part I of the Arbitration and Conciliation Act, 1996 (the "Act") applies to domestic arbitrations/ awards.
- Part II of the Act applies to foreign arbitration/ awards.
- Part II is divided into two chapters:
 - Chapter I New York Convention Awards.
 - Chapter II Geneva Protocol and Convention Awards.



ENFORCEMENT OF AWARDS- PART I INTERNATIONAL ARBITRATION SEATED IN INDIA



- Awards passed in international arbitrations seated in India are domestic awards – Enforcement under Part I
- **Section 36** *Enforcement*
 - When the time for making an application to set aside an order as prescribed by Section 34 (3 months), has expired the award will be enforced under the CPC as if it were a decree of the Court.
 - The 2015 Amendment introduced in Section 36(2), a provision that where an application is filed under Section 34 to set aside the award no automatic stay separate application for stay to be moved Court's discretion is allowing stay.
 - Hindustan Construction Company v. UoI, 2019 SCC OnLine SC
 1520 un-amended Section 36 did not envisage automatic stay.

FOREIGN AWARDS- PART II



- Section 44 Defines a foreign award
- Section 46 An enforceable foreign award is binding on the persons who are parties to the same. Such persons may rely the award by way of defence, set off or otherwise in legal proceedings in India.
- Section 48- Provides for grounds under which enforcement may be refused
- Section 49 Enforcement of Foreign Awards Where a court is satisfied that a foreign award is enforceable, the award shall be deemed to be a decree of that court.



FOREIGN AWARD



Foreign Award (Sections 44 and 53)

- an arbitral award on differences arising out of a commercial legal relationships, under Indian law;
- made on or after October 11, 1960 (in case of award under New York Convention) and 28 July 1924 (in case of Geneva Protocol and Convention);
- in pursuance of an agreement in writing to which the New York Convention (or Geneva Protocol and Convention), apply; and
- in a territory notified by the Central Government as a reciprocating territory (currently 43 countries).

PROPER COURT FOR ENFORCEMENT OF FOREIGN AWARD



What is 'foreign award'?

- Award made pursuant to arbitration agreement in writing to which First Schedule applies
- Made in reciprocating territories

Where to file?

"Court" means <u>High Court</u> exercising original civil jurisdiction over the subject matter of the <u>arbitral award</u> and in other case in High Court having jurisdiction to hear appeal from decree of subordinate court. (S. 47)

➤ Read with the Commercial Courts Act, 2015, this means that all applications related to international commercial arbitrations will be heard by the Commercial Divisions of the High Courts

ENFORCEMENT OF FOREIGN AWARDS: NON-CONVENTION COUNTRIES



- Arbitration Agreement entered into prior to September 6, 2012:
 - Will be governed by law laid down *Bhatia International*, which held that awards that do not fall within the purview of Part II of the Act (convention awards), would then be covered by Part I (unless Part I was excluded).
 - Under Part I, an award is final and binding on parties and persons claiming under them and can be enforced as if it were a decree of the court.
- Arbitration Agreement entered post September 6, 2012:
 - Will be governed by BALCO, which held that Indian courts do not have jurisdiction over foreign seated arbitrations. There is no provision in the Act for enforcement of awards passed in non-convention countries (Part II only applies to Convention awards).
- Arbitrations commenced after 23 October 2015 (regardless of date of agreement)
 - Foreign awards arising out of such arbitrations will be governed by Part II only. These cannot be set aside in India





CONSTRUCTION AND INTERPRETATION OF PUBLIC POLICY





GROUNDS OF CHALLENGE

- A party was under some incapacity;
- Arbitration agreement is not valid;
- No proper notice of appointment of arbitrator or proceedings or otherwise unable to present its case;
- Award deals with dispute not contemplated by terms of submissions or beyond the scope of submission;
- Composition of tribunal or arbitration procedure is not in accordance with the agreement unless such agreement was not in consonance with Part I;
- The subject-matter of the dispute is not capable of settlement by arbitration under the law for the time being in force.
- Award is in conflict with public policy of India.





Renusagar Power Co. Ltd. v. General Electric Co., 1994 Supp (1) SCC 644 (in light of Section 48)

- In construing the expression "public policy" in the context of a foreign award, the Court held that an award contrary to
- (i) The fundamental policy of Indian law,
- (ii) The interest of India,
- (iii) Justice or morality,
- would be set aside on the ground that it would be contrary to the public policy of India.



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'PUBLIC POLICY' - SAW PIPES

ONGC v. Saw Pipes Ltd, (2003) 5 SCC 705 (in light of Section 34)

- The Court added yet another ground, namely, that of "patent illegality" to the three grounds mentioned in *Renusagar* in order to set aside an award under Section 34 of the 1996 Act. This ground was added in the following terms:
- "31. [Patent] Illegality must go to the root of the matter and if the illegality is of trivial nature it cannot be held that award is against the public policy. Award could also be set aside if it is so unfair and unreasonable that it shocks the conscience of the court. Such award is opposed to public policy and is required to be adjudged void."



'PUBLIC POLICY' - SAW PIPES



ONGC v. Saw Pipes Ltd, (2003) 5 SCC 705 (in light of Section 34)

- ONGC v. Saw Pipes had the unintended consequence that although the judgment was rendered in the context of a purely domestic award, had the unfortunate effect of being extended to apply equally to both awards arising out of international commercial arbitrations as well as foreign awards, given the statutory language of the Act.
- The amendment to Section 28(3) was proposed by the 246th Law Commission Report solely in order to remove the basis for the decision of the Supreme Court in *ONGC v. Saw Pipes Ltd.* and in order that any contravention of a term of the contract by the tribunal should not *ipso jure* result in rendering the award becoming capable of being set aside.



'PUBLIC POLICY' - R.S. SHARMA



DDA v. R.S. Sharma and Co., (2008) 13 SCC 80 (in light of Section 34)

- "21. From the above decisions, the following principles emerge:
- (a) An award, which is
- (i) contrary to substantive provisions of law; or
- (ii) the provisions of the Arbitration and Conciliation Act, 1996; or
- (iii) against the terms of the respective contract; or
- (iv) patently illegal; or
- (v) prejudicial to the rights of the parties;
- is open to interference by the court under Section 34(2) of the Act."





'Public Policy' – R.S. Sharma

DDA v. R.S. Sharma and Co., (2008) 13 SCC 80 (in light of Section 34)

- "(b) The award could be set aside if it is contrary to:
 - ✓ (a) fundamental policy of Indian law; or
 - ✓ (b) the interest of India; or
 - \checkmark (c) justice or morality.
- (c) The award could also be set aside if it is so unfair and unreasonable that it shocks the conscience of the court.
- (d) It is open to the court to consider whether the award is against the specific terms of contract and if so, interfere with it on the ground that it is patently illegal and opposed to the public policy of India."







• In *Shri Lal Mahal Ltd. v. Progetto Grano Spa*, (2014) 2 SCC 433, a three judge bench of the Supreme Court, overruled its earlier decision in *Phulchand Exports* and held that the wider meaning given to the term public policy under Section 34 is not applicable to Section 48(2)(b) and enforcement of Foreign Award could not be refused for grounds of patent illegality.





'Public Policy' – Western Geco

ONGC Ltd. v. Western Geco International Ltd., (2014) 9 SCC 263 (in light of Section 34)

- Meaning of Fundamental Policy: First Principle
- "The first and foremost is the principle...called a 'judicial approach' ... they cannot act in an arbitrary, capricious or whimsical manner. Judicial approach ensures that the authority acts bona fide and deals with the subject in a fair, reasonable and objective manner and that its decision is not actuated by any extraneous consideration."



'Public Policy' – Associate Builders



Associate Builders v. DDA, (2015) 3 SCC 49 (in light of Section 34)

- Explained First Principle in Western Geco as:
- "29. It is clear that the juristic principle of a "judicial approach" demands that a decision be fair, reasonable and objective. On the obverse side, anything arbitrary and whimsical would obviously not be a determination which would either be fair, reasonable or objective.."





'Public Policy' – Western Geco

ONGC Ltd. v. Western Geco International Ltd., (2014) 9 SCC 263 (in light of Section 34)

- Meaning of Fundamental Policy: Second Principle
- "Besides the celebrated audi alteram partem rule ... court must apply its mind to the attendant facts and circumstances... Non-application of mind is a defect that is fatal to any adjudication. Application of mind is best demonstrated by disclosure of the mind and disclosure of mind is best done by recording reasons in support of the decision which the court or authority is taking."

'Public Policy' – Associate Builders



Associate Builders v. DDA, (2015) 3 SCC 49 (in light of Section 34)

- Explained Second Principle in Western Geco as:
- "30. The audi alteram partem principle which undoubtedly is a fundamental juristic principle in Indian law is also contained in Sections 18 and 34(2)(a)(iii) of the Arbitration and Conciliation Act.."
- Section 18 The parties shall be treated with equality and each party shall be given a full opportunity to present his case.
- Section 34(2)(a)(iii) An arbitral award may be set aside by the court only if the party making the application furnishes proof that the party making the application was not given proper notice of the appointment of an arbitrator or of the arbitral proceedings or was otherwise unable to present his case.





ONGC Ltd. v. Western Geco International Ltd., (2014) 9 SCC 263 (in light of Section 34)

- Meaning of Fundamental Policy: Third Principle
- "39... salutary juristic fundamental in administrative law that a decision which is perverse or so irrational that no reasonable person would have arrived at the same will not be sustained in a court of law. Perversity or irrationality of decisions is tested on the touchstone of Wednesbury [Associated Provincial Picture Houses Ltd. v. Wednesbury Corpn., (1948) 1 KB 223: (1947) 2 All ER 680 (CA)] principle of reasonableness."

'Public Policy' – Associate Builders



Associate Builders v. DDA, (2015) 3 SCC 49 (in light of Section 34)

- Explained Third Principle in Western Geco as:
- "31. The third juristic principle is that a decision which is perverse or so irrational that no reasonable person would have arrived at the same is important and requires some degree of explanation. It is settled law that where:
- (i) a finding is based on no evidence, or
- (ii) an Arbitral Tribunal takes into account something irrelevant to the decision which it arrives at; or
- (iii) ignores vital evidence in arriving at its decision,
- such decision would necessarily be perverse".



'Public Policy'



Associate Builders v. Delhi Development Authority, (2015) 3 SCC 49:

• While discussing *Renusagar*, held that binding effect of the judgment of a superior court being disregarded would be equally violative of the fundamental policy of Indian Law.

GROUNDS FOR CHALLENGE (S. 34)



- Section 34(2)(b)(ii) Award is in conflict with the public policy of India.
- Explanation 1 added vide 2015 Amendment: Award is in conflict with 'Public Policy' only if:
 - ✓ it was induced by fraud or corruption or was in violation of S. 75 and 81
 - ✓ is in contravention with the fundamental policy of Indian law; or
 - ✓ is in conflict with the most basic notions of morality or justice.
- Explanation 2 added vide 2015 Amendment: Contravention of fundamental policy of Indian law shall not entail review on the merits of dispute.
- Same Explanations (1 and 2) added to Section 48.
- Section 34(2-A) added vide 2015 Amendment: Award other than one arising out of an ICA may be set aside on the grounds of 'patent illegality' appearing on the face of the award. Provided, this may not be done merely on grounds of erroneous application of law or by reapplication of evidence.





Scangyong Engineering & Construction v. NHAI, 2019 SCC OnLine SC 677 (in light of Sections 34 and 48)

- "26. **NOTE**: The proposed Explanation II is required to bring the standard for setting aside an award in conformity with the decision of the Supreme Court in Renusagar and Shri Lal Mahal, for awards in both domestic as well as international commercial arbitrations. Ground (c) reflects an internationally recognized formulation. Such a formulation further tightens the Renusagar test and ensures that "morality or justice" terms used in Renusagar cannot be used to widen the test.
- **NOTE**: The proposed S 34(2A) provides an additional, albeit carefully limited, ground for setting aside an award arising out of a domestic arbitration (and not an international commercial arbitration). The scope of review is based on the patent illegality standard set out by the Supreme Court in ONGC Ltd. v. Saw Pipes. The proviso creates exceptions for erroneous application of the law and reappreciation of evidence, which cannot be the basis for setting aside awards."





Scangyong Engineering & Construction v. NHAI, 2019 SCC OnLine SC 677 (in light of Sections 34 and 48)

- "35. What is clear, therefore, is that the expression "public policy of India", whether contained in Section 34 or in Section 48, would now mean the "fundamental policy of Indian law"... the fundamental policy of Indian law would be relegated to the "Renusagar" understanding of this expression. This would necessarily mean that the Western Geco (supra) expansion has been done away with.
- In short, Western Geco (supra), as explained in paragraphs 28 and 29 of Associate Builders (supra), would no longer obtain, as under the guise of interfering with an award on the ground that the arbitrator has not adopted a judicial approach, the Court's intervention would be on the merits of the award, which cannot be permitted post amendment. However, insofar as principles of natural justice are concerned, as contained in Sections 18 and 34(2)(a)(iii) of the 1996 Act, these continue to be grounds of challenge of an award, as is contained in paragraph 30 of Associate Builders (supra)..."



'Public Policy' - Ssangyong



Ssangyong Engineering & Construction v. NHAI, 2019 SCC OnLine SC 677 (in light of Sections 34 and 48)

- "36... Equally, the ground for interference on the basis that the award is in conflict with justice or morality is now to be understood as a conflict with the "most basic notions of morality or justice... such arbitral awards that shock the conscience of the court that can be set aside on this ground.
- ... 38. Insofar as domestic awards made in India are concerned, an additional ground is now available under sub-section (2A), added by the Amendment Act, 2015, to Section 34. Here, there must be patent illegality appearing on the face of the award, which refers to such illegality as goes to the root of the matter but which does not amount to mere erroneous application of the law..."

'PUBLIC POLICY' - SSANGYONG



Ssangyong Engineering & Construction v. NHAI, 2019 SCC OnLine SC 677 (in light of Sections 34 and 48)

- "39. Secondly, ... re-appreciation of evidence ... cannot be permitted under the ground of patent illegality appearing on the face of the award.
- 40. To elucidate ... a mere contravention of the substantive law of India, by itself, is no longer a ground available to set aside an arbitral award...
- If the arbitrator wanders outside the contract and deals with matters not allotted to him, he commits an error of jurisdiction. This ground of challenge will now fall within the new ground added under Section 34(2A)."





Scangyong Engineering & Construction v. NHAI, 2019 SCC OnLine SC 677 (in light of Sections 34 and 48)

• "70. The expression "most basic notions of ... justice" finds mention in Explanation 1 to sub-clause (iii) to Section 34(2)(b). Here again, what is referred to is, substantively or procedurally, some fundamental principle of justice which has been breached, and which shocks the conscience of the Court..." (e.g., a unilateral addition or alteration of a contract can never be foisted upon an unwilling party, nor can a party to the agreement be liable to perform a bargain not entered into with the other party.)





LIMITATION PERIOD FOR ENFORCEMENT OF AWARD

EXECUTION OF AWARD (S. 36)



- Where the limitation period for challenging the award under S. 34 has lapsed, the award will be enforced in accordance with the provisions of the CPC as if it were a decree of a Court (S. 36(1))
- No automatic stay upon challenge to the award anymore. As per S. 36(2), a separate application seeking a stay of the operation of the award has to be filed.
- ➤ While considering stay, Court may prescribe conditions as may be deemed fit (S. 36(3))
- Grounds for stay as per O 41 Rule 5
 - Substantial loss
 - No unreasonable delay
 - Security for performance under decree (mandatory)

EXECUTION OF AWARD (S. 36)



- M. Anasuya Devi & Anr. v. M. Manik Reddy & Ors (SC): The question as to whether the award has to be stamped or registered would only be relevant at the stage of enforcement under S. 36 and not at the stage of challenge under S. 34.
- Krishna Kumar Mundhra v. Narendra Kumar Anchalia (Cal HC): Questions already agitated in a petition under S. 34 cannot be re-agitated during execution proceedings under S. 36.

LIMITATION PERIOD FOR ENFORCEMENT OF DOMESTIC AWARD:

- Arbitral awards are deemed as decrees for the purposes of enforcement [*M/s Umesh Goel v. Himachal Pradesh Cooperative*, (2016) 11 SCC 313].
- ➤ The limitation period for enforcement of domestic an award is twelve years.

ENFORCEMENT OF FOREIGN AWARDS - LIMITATION

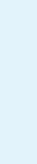


- Noy Vallesina Engineering Spa v. Jindal Drugs Ltd., 2006 SCC OnLine Bom 545: The foreign award is not deemed to be a decree of Court till Court records its satisfaction under S. 49. Period of limitation for filing enforcement application will be <u>3 years</u> (as per S. 137 of the Limitation Act, 1963). On recognizing the award as a decree, the limitation period for execution of such a decree would be twelve years therefrom.
- <u>M/s Compania Naviera v. Bharat Refineries Ltd</u>, AIR 2007 Mad 251: Since a foreign award is already stamped as a decree, the party holding such decree may enforce the same within <u>12 years</u> (as per S. 136 of the Limitation Act, 1963.
- <u>Imax Corporation v. E-City,</u> 2019 SCC OnLine Bom 2044: Present proceedings were composite proceedings for enforcement and execution, as envisaged in *Fuerst Day Lawson*. Such a combined petition would be subject to Article 136 of the Limitation Act, thereby having a limitation period of twelve years.





ISSUES AND CHALLENGES



INDIA'S INITIATIVE TOWARDS EMERGENCY ARBITRATION



- "Emergency Arbitration" is not recognised under the Act.
- Delhi International Arbitration Centre Rules, Part III includes
 "Emergency Arbitration". Rule 18A 'Emergency Arbitrator' provides
 for the appointment, procedure, time period and powers.
- Indian Council of Arbitration (ICA) Rules, under Rule 57(b), enumerates the provisions of EA and Emergency Arbitrator.
- Mumbai Centre for International Arbitration (Rules) 2016 Rule 3.

EMERGENCY AWARD: ENFORCEABILITY



HSBC PI Holdings (Mauritius) Ltd. v. Avitel Post Studioz Ltd & Ors., 2014 SCC OnLine Bom 102:

Parties reserved their right to seek interim reliefs before Indian courts.
Tribunal held hearing at Singapore and applied laws of Singapore to render
a jurisdictional award. Held - Jurisdictional award and interim award have
become final and conclusive on the issue of jurisdiction. High Court granted
interim measures in a similar vein as that of the emergency arbitrator.

Raffles Design International India Private Limited & Anr. v. Educomp Professional Education Limited & Ors., 2016 SCC OnLine Del 5521:

• Emergency award passed by the Arbitral Tribunal [under SIAC Rules] cannot be enforced under the Act and the only method for enforcing the same would be for the petitioner to file a suit.



EMERGENCY AWARD: RECOGNITION



• The Law Commission's 246th Report on amendments to the Arbitration and Conciliation Act, 1996, proposed an amendment to Section 2(d) of the Act.

"Section 2(d): "Arbitral tribunal" means a sole arbitrator or a panel of arbitrators and, in the case of an <u>arbitration conducted</u> under the rules of an institution providing for appointment of an emergency arbitrator, includes such emergency arbitrator."

- The 2015 Amendment did not incorporate provisions for EA.
- Srikrishna Committee Report recommendation.
- Arbitration and Conciliation (Amendment) Act, 2019.

AWARD SET ASIDE AT SEAT: ENFORCEABILITY



- Use of the word "may" in refusing enforcement of foreign award in Section 48(1)(e) of the Act *pari materia* with Article V(i)(e) of New York Convention.
- *Chromalloy Aeroservices v. Arab Republic of Egypt*, 939 F. Supp. 907 (US DC, District of Columbia, 1996);
- Société PT Putrabali Adyamulia v. Société Rena Holding et Société Moguntia Est Epices, Cour de Cassation, 29 June 2007 case 05-18.053 (France, Cour de cassation);
- Corporación Mexicana de Mantenimiento Integral v. PEMEX-Exploración Y Producción No.10 Civ. 206 (AKH), 2013 WL 4517225, (S.D.N.Y., August 27, 2013) (US District Court, S.D. New York);
- Société Hilmarton Ltd. v. Société Omnium de traitement et de valorisation (OTV) Cour de Cassation March 23, 1994 case 92-15.137 (France, Cour de cassation);
- Yukos Capital Sarl v. OJSC Rosneft Oil Co. (No 2), [2012] EWCA Civ 855 (Court of Appeal, England)





- Ssangyong Engineering and Construction Co. Ltd. v. National Highways Authority of India (NHAI), 2019 SCC OnLine SC 677.
- To do "complete justice" between the parties, the Court invoked its power under Article 142 of the Constitution to uphold the minority award of the tribunal, so as to avoid the matter being referred to arbitration afresh, which would defeat the Act's objective of speedy dispute resolution.
- However, Section 34 is an annulment procedure, under which an award can either be upheld or set aside.
- Further, the power under Article 142 only vests in the Supreme Court. Therefore, a High Court cannot set aside a majority award and give effect to a minority award, even though the objectives of the Act would equally be satisfied in that case.



SECTION 34 PETITION AGAINST FOREIGN AWARD



- It has been noticed that Section 34 petitions (under Part-1) are filed challenging a foreign award, which is not permissible under the Act.
- Mostly overlaps with a parallel enforcement proceeding under Sections 47, 48 and 49 of the Act.
- Two courts seized of similar issues mostly determination if award is in fact, foreign award or not.

CONFIDENTIALITY WHILE ENFORCING AWARD



- Section 42A of the Act: "Notwithstanding anything contained in any other law for the time being in force, the arbitrator, the arbitral institution and the parties to the arbitration agreement shall maintain confidentiality of all arbitral proceedings except award where its disclosure is necessary for the purpose of implementation and enforcement of award." (emphasis supplied)
- A high-level committee chaired by Mr. Justice B. N. Srikrishna (Retd.) had proposed the language anticipating the requirement of disclosure: (i) by legal duty; (ii) to protect or enforce a legal right; or (iii) to enforce or challenge an award before a Court or judicial authority.
- However, the only exception provided in Section 42A is limited to the
 disclosure of award for its implementation and enforcement. The natural
 corollary to this is that nothing that has transpired in an arbitration
 proceeding (including the pleadings filed, evidence led and arguments
 advanced etc.) can be relied upon in the Court proceedings.





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