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Supreme Court on Arbitral Power to Award Interest:

ONGC Ltd. v. G&T Beckfield Drilling Services Pvt. Ltd.[1]

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Introduction

The recent judgment of the Hon'ble Supreme Court of India in *Oil and Natural Gas Corporation Ltd. v. G&T Beckfield Drilling Services Pvt. Ltd.* (Civil Appeal No. 11324 of 2025, arising out of SLP (C) No. 18331 of 2019) provides authoritative clarity on the contentious issue of whether arbitral tribunals can award interest *pendente lite* when the underlying agreement contains a clause restricting interest on delayed or disputed payments. Delivered by a Bench comprising Justice Pamidighantam Sri Narasimha and Justice Manoj Misra, the ruling revisits the interpretation of Section 31(7) of the Arbitration and Conciliation Act, 1996[2] (hereinafter referred to as the "**Act**"), and harmonizes earlier conflicting precedents concerning the interplay between contractual stipulations and arbitral discretion on interest.

The case arose in the context of a commercial dispute between ONGC and G&T Beckfield Drilling Services over unpaid invoices for drilling services. The arbitral tribunal awarded the contractor a sum exceeding USD 6,56,000/- along with pendente lite and post-award interest. While the District Judge set aside the award, the Gauhati High Court reinstated it in its entirety. The matter ultimately reached the Supreme Court, where the only issue framed for consideration was whether the arbitral tribunal was justified in granting interest *pendente lite* despite Clause 18.1 of the contract, which prohibited ONGC from paying interest on delayed or disputed claims.

Factual Background

The arbitral tribunal's award dated 21.11.2004 directed ONGC to pay G&T Beckfield Drilling Services USD 6,56,272.34/-, together with interest at the rate of 12% per annum from 12.12.1998 (the date of filing of the statement of claim) until recovery. In addition, costs of Rs.5,00,000/- (Rupees Five Lakhs only) were awarded to the claimant. ONGC's counterclaims were dismissed.

ONGC challenged the award under Section 34 of the Arbitration and Conciliation Act, 1996. The District Judge, Sivasagar, set aside the award, holding that it lacked reasons in violation of Section 31(3) of the Act and that the arbitral tribunal failed to deal with

[1] 2025 INSC 1066

[2] Section 31. Form and contents of arbitral award. ---

(1) to (6) …

(7) (a) Unless otherwise agreed by the parties, where and in so far as an arbitral award is for the payment of money, the arbitral tribunal may include in the sum for which the award is made interest, at such rate as it deems reasonable, on the whole or any part of the money, for the whole or any part of the period between the date on which the cause of action arose and the date on which the award is made.

(b) A sum directed to be paid by an arbitral award shall, unless the award otherwise directs, carry interest at the rate of 18% per centum per annum from the date of the award to the date of payment.

jurisdictional objections raised under Section 16(2). On appeal, however, the Gauhati High Court reversed the District Judge and reinstated the arbitral award. Aggrieved thereby, ONGC approached the Supreme Court by way of Special Leave Petition. Importantly, the Court limited its notice to the question of interest, as ONGC had expressed willingness to satisfy the principal amount of the award.

The Core Issue

The Supreme Court crystallized the controversy into a narrow legal issue:

> *"Does Clause 18.1 of the agreement between ONGC and the contractor bar the arbitral tribunal from granting pendente lite interest on sums awarded?"*

Clause 18.1 stipulated that ONGC would remit payments within 30 days of receiving certified invoices, subject to the contractor furnishing proof of clearance of labour and material charges. It further provided that ONGC could withhold payment of disputed items until resolution but would pay undisputed amounts within the prescribed period. The crucial portion stated: *"No interest shall be payable by ONGC on any delayed payment / disputed claim."*

ONGC relied on this clause to argue that the arbitral tribunal was barred from awarding any form of interest before the date of the award. The contractor, however, contended that Clause 18.1 only prevented accrual of interest during ordinary delays or disputes over invoices, and did not exclude the arbitral tribunal's discretion to grant pendente lite interest once it found that ONGC had unjustifiably withheld payments.

Legal Framework on Interest in Arbitration

The Hon'ble Supreme Court's analysis revolved around Section 31(7) of the Arbitration and Conciliation Act, 1996, which deals with interest in arbitral awards. Sub-section (7)(a) empowers the tribunal to award interest for the pre-reference and pendente lite periods unless the parties have agreed otherwise. Sub-section (7)(b), on the other hand, mandates post-award interest at 18% per annum unless the tribunal specifies a different rate.

Jurisprudence under both the 1940 and 1996 Acts has consistently recognized that arbitral tribunals enjoy wide discretion to award interest, subject to contractual restrictions. In *Irrigation Deptt., State of Orissa v. G.C. Roy* (1992)[3], a Constitution Bench held that arbitrators could award pendente lite interest unless expressly barred by the agreement. Subsequent decisions, including *Union of India v. Ambica Construction*[4], *Reliance Cellulose Products Ltd. v. ONGC*[5], and *Sayeed Ahmed & Co. v. State of U.P.*[6],

[3] (1992) 1 SCC 508
[4] (2016) 6 SCC 36
[5] (2018) 9 SCC 266
[6] (2009) 12 SCC 26

refined the principle by distinguishing between general clauses excluding interest on delayed payments and explicit clauses barring all forms of interest.

The Court's Reasoning

The Supreme Court carefully examined the text and context of Clause 18.1. It held that the clause merely excluded ONGC's liability to pay interest on delayed or disputed invoices in the ordinary course of contract performance. It did not, however, expressly or impliedly prohibit the arbitral tribunal from exercising its statutory power to award pendente lite interest once the dispute had been referred for adjudication.

The Court contrasted Clause 18.1 with the much broader clauses in *Sayeed Ahmed & Co.*[7] and *Tehri Hydro Development Corporation v. Jaiprakash Associates Ltd.*[8], which categorically barred interest under "any circumstances whatsoever." In such cases, the tribunal's power was ousted by necessary implication. In contrast, Clause 18.1 lacked such comprehensive language and could not be stretched to deprive the tribunal of its jurisdiction to award pendente lite interest.

Further, the Court emphasized that post-award interest was statutorily governed under Section 31(7)(b) and could not be contracted out by the parties. The arbitral tribunal's award of 12% interest was also found reasonable, being lower than the statutory default rate of 18% prevailing at the relevant time.

Decision and Outcome

The Supreme Court ultimately dismissed ONGC's appeal, holding that Clause 18.1 did not bar the arbitral tribunal from awarding pendente lite interest. The Court confirmed that arbitral discretion to grant such interest subsists unless excluded by explicit or necessarily implied terms of the agreement. Since no such exclusion existed in the present case, the award of 12% interest from the date of filing of the statement of claim until realization was upheld.

Significance of the Judgment

This judgment holds considerable significance for arbitration jurisprudence in India. First, it reaffirms the principle that restrictions on arbitral power must be clearly spelled out in contractual language. A general clause excluding interest on delayed payments is insufficient to curtail the tribunal's discretion to award pendente lite interest. Second, it delineates the three stages of interest—pre-reference, pendente lite, and post-award—while underscoring that post-award interest remains beyond the reach of contractual exclusion. Finally, it provides much-needed clarity for commercial contracts, particularly

[7] Supra- Footnote 4
[8] (2012) 12 SCC 10

in sectors like oil and gas, construction, and infrastructure, where disputes over delayed payments and interest are frequent.

Conclusion

The Supreme Court's ruling in *ONGC Ltd. v. G&T Beckfield Drilling Services Pvt. Ltd.* strengthens the autonomy of arbitral tribunals while balancing contractual freedom. By holding that Clause 18.1 did not bar pendente lite interest, the Court has reinforced the principle that parties must employ clear and categorical language if they intend to curtail arbitral discretion. The judgment thus contributes to predictability and fairness in arbitral proceedings, while also safeguarding contractors from prolonged withholding of legitimate dues.

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