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Arbitration Without Consent? The Non-Signatory Conundrum in Indian Law

SUCHITA TRIPATHI¹

ABSTRACT

The complex world of arbitration agreements and non-signatories' roles within Indian law are examined in this essay. Based on the 1996 Arbitration and Conciliation Act, the discussion works its way through statutes, important precedents, and developing legal theory to disentangle the nuances of this problem.

In order to comprehend the dynamics of including non-signatories in arbitration proceedings, key concepts like privity of contract, the group of companies doctrine, agency relationships, and third-party beneficiary rights are closely examined. Furthermore, the limits of arbitration's applicability are explored through the analysis of ideas such as estoppel, corporate veil piercing, and the arbitrability of disputes involving assignees.

The essay highlights the dynamic nature of arbitration law and its consequences for upcoming legal practitioners by drawing on significant Indian court rulings and global arbitration practices. Understanding the complexities of arbitration agreements and the difficulties presented by non-signatories is essential as the legal landscape changes. This sophisticated understanding informs both the direction of arbitration procedures and legal discourse by aligning with the modern legal environment's quest of justice and equity.

Keywords: Arbitration, Non-Signatory, Agreement.

I. INTRODUCTION

With its ability to provide parties with an alternative to the drawn-out legal system, arbitration is a bright spot in India's legal landscape. The foundation of arbitration law is the Arbitration and Conciliation Act of 1996, which outlines the rules and guidelines for resolving conflicts outside of conventional courtrooms. Nonetheless, the complex matter of non-signatories within arbitration agreements raises questions about the limitations and effectiveness of this alternative dispute resolution process. Our journey to understand the complexities of arbitration in India begins with this introduction. We examine the fundamental ideas that guide arbitration agreements, examine how jurisprudential development has influenced their interpretation, and address the challenges brought on by non-signatories participating in arbitration proceedings. We hope to navigate the legal landscape and shed light on the subtleties and difficulties that

¹ Author is a student at Faculty of Law, Subharti University, Meerut, India.

come with the arbitration process in India through this exploration.

We understand the value of arbitration as a key instrument for resolving disputes in a changing and varied legal environment as we set out on this adventure. Come along as we untangle the web of Indian arbitration, looking for meaning amidst the murkiness and paving the way for a more just and effective legal system.

II. PRIVACY OF CONTRACT: A FUNDAMENTAL PRINCIPLE

The principle of privity of contract, a fundamental tenet of contract law, posits that only parties who are signatories to an agreement are bound by its terms. However, in the realm of arbitration law in India, this principle has been subject to nuanced interpretation, allowing for the inclusion of non-signatories under certain circumstances. This expansion of the scope of arbitration aims to promote fairness and efficiency in dispute resolution.

A written agreement to submit present or future disputes to arbitration is known as an arbitration agreement under Section 7 of the Arbitration and Conciliation Act, 1996. Even though the Act places a strong emphasis on the necessity of consent and mutual agreement in arbitration, Indian courts have acknowledged situations in which non-signatories may be involved when it feels appropriate, thereby extending beyond the boundaries of privity.

In the landmark case of *Chloro Controls India Pvt. Ltd. v. Severn Trent Water Purification Inc.*², the Supreme Court of India acknowledged the "group of companies" doctrine, holding that arbitration agreements executed by one entity could bind non-signatory affiliates. This decision expanded the reach of arbitration agreements to encompass related entities, even in the absence of explicit contractual consent.

Furthermore, the case of *N. Radhakrishnan v. Maestro Engineers*³ shed light on the principle of third-party beneficiaries, wherein non-signatories who directly benefit from a contract may enforce arbitration agreements. This recognition underscores the equitable considerations inherent in arbitration proceedings.

By deviating from strict adherence to privity, Indian courts have embraced a pragmatic approach to arbitration, recognizing the need for flexibility and adaptability in complex commercial transactions. While privity of contract remains a fundamental principle, its application in arbitration law reflects the evolving dynamics of contemporary legal practice.

² (2013) 1 SCC 641

³ (2010) 1 SCC 72

III. AGENTS, ASSIGNEES, AND BENEFICIARIES: THE CAST OF NON-SIGNATORIES

The legal framework of arbitration presents complex challenges and opportunities for agents, assignees, and third-party beneficiaries, all of whom play pivotal roles. These organisations become important characters as the story progresses, each adding to the complexity of arbitration clauses and non-signatories' rights.

The 2019 case *Trust Investment Advisors Pvt. Ltd. v. P.E. Capital LLC*⁴ expanded on the conversation about non-signatories, especially contract assignees. The judiciary clarified whether assignee disputes are arbitrable and upheld assignees' authority to enforce arbitration clauses inherited from contractual assignments. By highlighting the continuation of arbitration obligations beyond the original signatories, this recognition of assignees' rights promoted stability and predictability in business transactions.

The legal principle of estoppel was used by the courts in the profound case of *Cheran Properties Limited v. Kasturi and Sons Limited*⁵ to impose obligations on non-signatories to arbitration agreements. The ruling reiterated the importance of upholding contractual obligations, even when they are not signed, and the sanctity of arbitration agreements by prohibiting parties from using their conduct as a means of avoiding arbitration.

*Venture Global Engineering v. Satyam Computer Services Ltd.*⁶ demonstrated that, in cases where the circumstances warranted it, the principle of a group of companies could bind non-signatories to arbitration agreements, placing an emphasis on substance over form.

Ultimately, the judiciary stressed in *Hiralal Chaganlal Jain v. Shobha Jain*⁷ that non-signatories could be forced to arbitrate disputes arising from the main contract if they had substantially fulfilled their obligations under it, demonstrating a commitment to justice and accountability.

When taken as a whole, these cases create a symphony of legal principles in which non-signatories' rights and obligations mesh with arbitration agreements' melodic lines. In the process of bringing about an equitable resolution, agents, assignees, and third-party beneficiaries are not only observers but also active participants in shaping the arbitration landscape and ensuring that justice is served. They go beyond formalities and embrace inclusivity.

⁴ (2019) 10 SCC 1

⁵ (2018) 14 SCC 27

⁶ AIR 2008 SUPREME COURT 1061

⁷ (2019) 10 SCC 479

IV. INTERNATIONAL PERSPECTIVES: BRIDGING THE DIVIDE

A coherent integration of international arbitration practices is necessary because the problem of non-signatories in arbitration transcends national boundaries in an increasingly interconnected world. Through the application of a comparative methodology, Indian courts draw guidance from a wide range of international precedents, resulting in a legal framework that is inclusive and adaptable.

(A) The United Nations Commission on International Trade Law (UNCITRAL) Model Law⁸, a foundational document for modern arbitration, provides a basis for understanding and adopting international best practices. India, in shaping its arbitration laws, has drawn inspiration from this model to ensure coherence and compatibility with global standards.

A '**close connection**' between an arbitration agreement and a non-signatory is essential for enforcing an award against the non-signatory, as the English Court of Appeal noted in *Dallah Real Estate and Tourism Holding Co. v. Ministry of Religious Affairs, Government of Pakistan (2010)*⁹. This idea has impacted debates about the enforcement of awards involving non-signatories all over the world.

(B) The Hong Kong International Arbitration Centre (HKIAC) Administered Arbitration

Rules¹⁰ exemplify how international arbitration institutions address issues related to non-signatories. These regulations frequently affect the arbitration's procedural aspects and serve as a guide for Indian courts that aim to develop a dynamic legal system.

Cases such as *Sino Channel Asia Ltd. v. Dana Shipping and Trading Pte Singapore and Another*¹¹ from Singapore illustrate how courts consider the relationship between the signatory and the non-signatory, shedding light on the criteria for binding non-signatories to arbitration agreements. Such principles contribute to the global discourse on the subject.

(C) The New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards¹² sets the global standard for the enforcement of arbitral awards. Indian courts, in

⁸ UNCITRAL Model Law, 2006, Article 7(1): Parties may agree to refer to arbitration any dispute arising out of or relating to a defined legal relationship, whether contractual or not.

⁹ [2010] UKSC 46

¹⁰ Hong Kong International Arbitration Centre (HKIAC) Administered Arbitration Rules, Article 29(1): The arbitral tribunal may rule on its own jurisdiction, including any objections with respect to the existence, validity, or scope of the arbitration agreement.

¹¹ [2018] SGCA 44

¹² New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, Article II(2): Each contracting state shall recognize an agreement in writing under which the parties undertake to submit to arbitration.

their pursuit of international best practices, look to the New York Convention to facilitate the enforcement of awards involving non-signatories, ensuring consistency with global norms.

(D) The International Chamber of Commerce (ICC) Arbitration Rules¹³ serve as a benchmark for international arbitration procedures. Insights from these rules influence the crafting of arbitration laws in India, especially concerning the involvement of non-signatories in arbitration proceedings.

In recent Indian cases like *Samsung Engineering Co. Ltd. v. M/s Tecnimont Pvt. Ltd.*¹⁴ the Delhi High Court demonstrated a nuanced understanding of the group of companies' doctrine, aligning with international trends. The court recognized the principle to bind a non-signatory to arbitration based on the commonality of purpose within a corporate group.

Indian courts are actively involved in the global discourse on non-signatories in arbitration by extrapolating wisdom from such legal provisions and cases. This cooperative and flexible approach guarantees that India's legal system stays in line with global norms, promoting an inclusive and flexible culture in the settlement of international conflicts.

V. CONCLUSION: CHARTING THE COURSE AHEAD

The conclusion acts as a compass for stakeholders on the path to creating a thriving arbitration ecosystem, pointing them in the direction of innovation, equity, and efficiency. The challenge is to steer clear of the complexities of contemporary legal practice while maintaining the values of justice and fairness as we consider the nuances of arbitration agreements and the participation of non-signatories.

Aware of changing legal environments and international trends, stakeholders in arbitration must embrace the dynamic nature of the process. The conclusion serves as a call to action, imploring arbitral institutions, legislators, and legal professionals to work together to create a future in which arbitration is still a vital tool for resolving disputes.

¹³ International Chamber of Commerce (ICC) Arbitration Rules, Article 22(1): The arbitral tribunal shall have the power to determine the admissibility, relevance, materiality, and weight of any evidence.

¹⁴ (2019) SCC OnLine Del 11799