

THE INTERPLAY OF PUBLIC CONTRACT LAW: LESSONS FROM STATE OF WEST BENGAL V. RAJPATH CONTRACTORS

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INTRODUCTION

Judgments delivered in State of West Bengal vs. Rajpath Contractors and Engineers Ltd. on August 7, 2024, pose questions regarding disputes under a public works contract and legal and institutional obligations that provide a cover for public-private partnerships in the domain of infrastructure. This is one case that introduces various important issues regarding contract breach and unforeseen circumstances in the performance of the contract, as well as the application of arbitration clauses in public projects. The Supreme Court ruling gives quite insightful information on how the state authorities should respond in cases of contractual dispute and the role of arbitration in the resolution of such a dispute.

FACTS OF THE CASE

The West Bengal Government contracted with Rajpath Contractors and Engineers Ltd. to construct a major public infrastructure project. Under the contract, the contracting firm agreed to execute the job within the stipulated period, holding quality standards as well as other conditions incorporated in the contract. As in normal cases during the execution of the work, several issues cropped up regarding delay, cost overrun, and non-performance allegations.

The State of West Bengal contended that the work was not completed within the scheduled time and that the work done did not meet the expected standard. There were cost overruns towards rectification also. The government contended that the delays as well as the quality of work caused considerable inconvenience to the public. It submitted that the contractor was liable for damages under the terms of the contract. It therefore claimed monetary damages and equitable relief, including rescission of the contract with the consequent forfeiture of security deposits.¹

The Rajpath Contractors and Engineers Ltd. made some countering arguments against these allegations by the government, that the delays were the result of circumstances beyond its

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¹ Public Works Manual, Government of West Bengal, Chapter 7 (Termination of Contract and Penalty Clauses).

control, such as administrative inefficiency on the part of the government, lack of timely payment on behalf of the government, and problems associated with the acquisition of land. The contractor contended they have acted, under the circumstances, diligently to fulfil their duties, and delayed works cannot be exclusively laid at their door. They also filed claims for damages against the government for breach of contract regarding delay in payments and non-delivery of an open site for the construction process.²

LEGAL ISSUES

The majority of the key legal questions that emerge from this case include-

1. Do the actions of Rajpath Contractors and Engineers Ltd. fall within or exceed the contractual terms due to their failure to complete the work within the agreed time frame?
2. Whether the failure of the State of West Bengal not to make time payments or provide the necessary resources constitute a breach of contract?
3. Whether liability and compensation are applicable when delays are caused by both parties.
4. Whether the contractor is entitled to damages based on its allegations of a breach of contract by the State.³

ARGUMENTS OF BOTH PARTIES

● Arguments of the State of West Bengal:

In defence, the State of West Bengal urged that the contractor, Rajpath Contractors and Engineers Ltd., did not perform in accordance with the timelines agreed upon for the completion of the project, and forfeiture of the deposit is justified in the failure to adhere to prescribed timelines. The State interjected by emphasizing how crucial timely execution is in public infrastructure projects, averring that delay in their execution does not only mean foregone progress but additional costs incurred by delay and inconvenience to the public themselves. The State pleaded that, by the terms of the contract, it had a right to invoke penalty

² Indian Contract Act, 1872, Section 73 (Breach of Contract: Compensation for loss or damage caused by breach).

³ Indian Kanoon.

clauses when a contractor fails to perform as agreed. In addition, it argued that the State acted in terms of contractual provisions, which subjected it to penalties for such an occurrence, and strengthened its argument that the forfeiture was justified based on a contractor's negligence in not performing obligations in terms of the contract.

● Arguments of Rajpath Contractors and Engineers Ltd.

Rajpath Contractors and Engineers Ltd. responded with the plea that site-related difficulties and some extraneous factors alone were prima facie responsible for the delay in completing the project on time. The contractor also pointed out that all reasonable steps had been taken to avoid such delays and submitted that it was disproportionate and unjust to inflict penalties along with forfeiture of the security deposit. Rajpath contended that the contract presupposed a balanced review of circumstances causing the delay and that fault on both sides was noticeable in terms of the project's plight. He claimed that unilateral acts by the State, without proper assessment of circumstances, eroded fair and just principles of contractual relationships. Eventually, Rajpath demanded a refund (under Section 34 of the Arbitration Act) of the forfeited security deposit, underlining mutual compensation based on the shared liabilities in the project.

OBSERVATIONS OF THE COURT

The Supreme Court of India held the need to respect contracts paramount, especially in public infrastructure where timely completion and quality assurance are of utmost importance. However, it recognized that in certain situations, that is site-related difficulties, would defeat the contractor's ability to meet the deadline and held that such conditions must be gone through with great care before one penalizes or terminates a contract.

The Appellate Court pointed out that the right to termination of contract for failure to perform accrues to the state, but such termination is based upon the manifestation of a clear case of breach (Indian Contract Act, 1872, Section 73), and should be in compliance with the procedure laid down in the contract for termination (Section 2(h) of the Indian Contract Act of 1872). The Appellate Court decried the unilateral action of the state invoking a penalty clause without showing that all delays were the result of negligence on the part of the contractor.⁴⁵

⁴ United Nations Commission on International Trade Law (UNCITRAL) Model Law on International Commercial Arbitration, 1985 (revised in 2006)

⁵ <https://www.sci.gov.in/case-status-case-no>

JUDGEMENT

The Court reinstated the enforceability of the arbitration clause (the Arbitration Act), which thus shifted the resolution of the dispute to arbitration. This is because arbitration is a determinant mechanism in public works contract disputes that need to be expeditiously resolved with impartiality without resorting to long-winding litigations.

The case was remitted to arbitration by the Court, allowing the Rajpath Contractors to file a claim and be compensated. The state's decisions to withdraw the contract and not make any payments have been directed to be evaluated by the arbitration tribunal. They are to determine whether this stated termination is legitimate and if they must ensure some form of compensation for the contractor.

ANALYSIS

The decision in *State of West Bengal vs. Rajpath Contractors* is emphatically important because it underscores the complexity of public-private contracts, especially in the context of large infrastructure projects. This approach of the court reflects a growing trend towards shared responsibilities in contractual disputes, especially when delays or performance issues arise from factors beyond the control of either party.⁶

The judgment throws light upon the following critical points of contract law 1872:

There must be a principle of proportionality in awards: damages must be proportionate to the level of culpability. This is part and parcel of a more general principle in contract law, that damages are awarded to place the plaintiff in the position they would have been had the contract had been performed correctly, but not to give them an unjust gain.

Cooperation duty: "Judges set aside almost a day for argument on the cooperation duty because the court relied on paragraph 2.16 of the standard form contract which states that both parties are under a cooperation duty, that is, both parties must act in good faith to deliver the project. This court held that both parties to the contract failed to cooperate; hence, lack of cooperation on the parts of government and the contractor was part of the cause for delays and escalations of dispute."

⁶ *Kailash Nath Associates v. Delhi Development Authority*, (2015) 4 SCC 136 (Penalty clauses and their enforceability under Indian law).

Role of administrative delays in public projects: The case also throws light on specific problems inherent in governmental contracts. There, the bottlenecks created by administrative delays—for instance, delayed approvals or payments—can gravely hamper the contractor's chance of accomplishing the task within the stipulated time. The court takes notice of such realities and assumes a rather pragmatic recourse to resolve such disputes.

Premature termination of contracts: The court's disapproval of the premature termination of the contract by the State serves as a reminder that litigation should not come first. Parties must explore all avenues of negotiation and other mechanisms of dispute resolution before terminating their contractual ties, especially if time and public resources are involved, like in the case of public infrastructure projects.

CONCLUSION

In the case of the State of West Bengal vs. Rajpath Contractors and Engineers Ltd., state relations came into the light of significant complexities inherent in public contracts and how cooperation between government entities and private contractors would relieve the same. This judgment passed by the court was very fair and balanced. It accepted the lapses on both sides and enabled the parties to find a way out of the dispute.

It further buttresses the principles of proportionality, the duty to cooperate, and requirements for fair and timely performance by both parties. It also depicts how courts sometimes act as mediators in intricate disputes relating to complex contracts where they try to balance conflicting interests while displaying loyalty to a negotiated settlement rather than allowing the dispute to drag on into interminable litigation.

Clear communication as to the responsibilities and clear contractual obligations will be provided to parties in public infrastructure projects so that they are given attention to resolvable negotiations rather than trying the courts for costly delays and litigation.⁷⁸

⁷ Arbitration and Conciliation Act, 1996, Section 7 (Arbitration agreement).

⁸ ONGC Ltd. v. Saw Pipes Ltd. (2003) 5 SCC 705 (Arbitration and the role of courts in enforcing contractual terms).