



ARBITRATION AND CONCILIATION

Supreme Court Clarifies Arbitrator's Power to Award Pendente Lite Interest in ONGC v. G&T Beckfield Drilling

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Introduction

The question of whether an arbitral tribunal possesses the authority to award interest, particularly pendente lite interest, has consistently engaged the attention of Indian courts. While party autonomy underpins the contractual framework of arbitration, the statutory scheme equally empowers arbitrators to render awards that do justice to both parties. The decision of the Supreme Court in *Oil and Natural Gas Corporation Ltd. v. G&T Beckfield Drilling Services Pvt. Ltd.* (2025 INSC 1066) is a critical pronouncement on this aspect of law. The Court clarified that a general contractual stipulation against payment of interest on delayed or disputed payments cannot, without explicit or necessary implication, divest an arbitral tribunal of its authority to grant pendente lite interest. This judgment thus harmonizes contractual provisions with statutory arbitral powers and ensures equitable outcomes in commercial disputes.

Table of contents

- [Introduction](#)
- [Factual Background](#)
- [Issues Raised](#)
- [Contentions of the Parties](#)
- [Analysis](#)
- [Conclusion](#)

Factual Background

The dispute arose out of a contractual arrangement between Oil and Natural Gas Corporation Ltd. (ONGC) and G&T Beckfield Drilling Services Pvt. Ltd. for drilling services. Following disputes over unpaid invoices, the matter was referred to arbitration. On 21 November 2004, a three-member arbitral tribunal passed an award in favour of G&T Beckfield Drilling. The tribunal directed ONGC to pay an amount of USD 6,56,272.34 along with interest at 12% per annum from 12 December 1998, being the date of filing of the statement of claim, until realization. The tribunal also awarded ₹5 lakhs as costs of proceedings while dismissing ONGC's counterclaims. ONGC challenged the award before the District Judge under Section 34 of the Arbitration and Conciliation Act, 1996. The District Judge set aside the award on the ground that it lacked reasons and failed to properly deal with jurisdictional objections. On appeal, the Gauhati High Court restored the arbitral award in toto under Section 37 of the Act. ONGC then approached the Supreme Court, but the scope of challenge was limited only to the grant of interest.

Issues Raised

The principal issue before the Supreme Court was whether Clause 18.1 of the contract, which stated that no interest would be payable by ONGC on delayed payments or disputed claims, barred the arbitral tribunal from granting pendente lite interest. The Court was therefore required to interpret the scope of this clause in the context of Section 31(7) of the Arbitration and Conciliation Act, 1996 and determine whether the arbitral tribunal exceeded its jurisdiction by awarding interest.

Contentions of the Parties

(a) The appellant ONGC contended that Clause 18.1 of the contract expressly proscribed the payment of interest on any delayed or disputed payment. Since Section 31(7)(a) of the Act makes the arbitral tribunal's power to award interest subject to the parties' agreement, ONGC argued that the arbitral tribunal acted beyond its jurisdiction in awarding pendente lite interest. It was further submitted that any award contrary to the terms of the contract was vulnerable to challenge under Section 34 as being contrary to public policy.

(b) The respondent G&T Beckfield Drilling submitted that Clause 18.1 was never intended to bar pendente lite interest. The clause only regulated the manner in which ONGC would make payments during the contractual period and clarified that ONGC would not be liable to pay interest on invoices withheld during the operational phase. Once the matter was referred to arbitration and the tribunal held that the withholding of invoices was unjustified, the tribunal was well within its discretion to grant pendente lite interest. It was emphasized that the tribunal had exercised restraint by not awarding pre-reference interest and by limiting interest to the period commencing with the filing of the claim.

Judgment

The Supreme Court dismissed ONGC's appeal and upheld the arbitral award. The Court held that Clause 18.1 did not operate as a bar against the grant of pendente lite interest. It emphasized that an arbitral tribunal has jurisdiction to award interest for three stages: pre-reference, pendente lite, and post-award. While pre-reference and pendente lite interest may be curtailed by specific contractual provisions, post-award interest is a statutory entitlement under Section 31(7)(b) and cannot be contracted out. Upon examining Clause 18.1, the Court concluded that it merely barred ONGC from paying interest on delayed or disputed invoices during contract performance and could not be construed as excluding the tribunal's discretion to award pendente lite interest. The Court further noted that the 12% rate awarded was reasonable and in fact lower than the statutory rate of 18% under the law prevailing at the time. Accordingly, the Court found no error in the award of pendente lite interest and confirmed the arbitral award as upheld by the High Court.

Analysis

The judgment provides clarity on the interpretative approach to interest-proscribing clauses in commercial contracts. The Court drew a distinction between clauses that specifically prohibit interest "in any respect whatsoever" and those that merely bar interest on delayed or disputed invoices. The former can curtail arbitral power, as seen in cases such as *Sayed Ahmed & Co. v. State of U.P.* and *THDC v. Jaiprakash Associates Ltd.*, whereas the latter cannot be stretched to oust pendente lite interest. This approach is consistent with earlier rulings in *G.C. Roy* and *Ambica Construction*, which recognized that arbitral discretion to grant interest is preserved unless expressly excluded.

The judgment also strikes a balance between contractual freedom and equitable compensation. Contractors and service providers often face prolonged disputes leading to delayed recovery of legitimate dues. Denying pendente lite interest in the absence of a clear contractual bar would result in unjust enrichment of the employer. By allowing arbitral tribunals to award such interest, the Court ensures fairness while respecting party autonomy where explicitly agreed upon. Additionally, the Court's endorsement of the 12% rate as reasonable demonstrates judicial deference to the tribunal's discretion.

From a policy perspective, the ruling enhances commercial certainty. Businesses and public sector undertakings frequently incorporate standard clauses disclaiming liability for interest. The Court's insistence on strict wording to exclude pendente lite interest signals that generic language will not suffice. This compels greater precision in contract drafting and reduces ambiguity, thereby encouraging predictability in dispute resolution. Moreover, the decision underlines the statutory mandate of post-award interest, reinforcing that this entitlement remains unaffected by contractual provisions.

Conclusion

The Supreme Court's pronouncement in *ONGC v. G&T Beckfield Drilling* is a landmark in clarifying the contours of arbitral power to grant pendente lite interest. It underscores that while contractual stipulations are binding, their scope must be carefully interpreted in harmony with statutory provisions. A general denial of interest on delayed or disputed claims cannot, by itself, bar an arbitral tribunal from exercising its discretion to award pendente lite interest. The decision protects contractors from prolonged financial deprivation and ensures that arbitral justice is aligned with commercial fairness. This judgment will be an authoritative guide for arbitral tribunals, courts, and contracting parties in balancing party autonomy with equitable principles within the framework of arbitration law.

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