Liquidated Damages under the Indian Contract Act, 1872

What are Damages?

The claim for '*Damages*' is the most commonly availed remedy under the law of contract for any breach of the same. This is based upon Latin maxim of "*Ubi jus ibi remedium*" which means where there is right, there is remedy. As per Mulla, "*Damages are the pecuniary recompense given by the process of law to a person for the actionable wrong that another party has caused to him*".[1]

In simple terms, damages are defined as the monetary compensation awarded in a civil action to an affected party arising out of wrongful acts i.e. either breach of contract or *tortious wrong*, on the part of or caused by other party. For instance, when two persons agree to enter into and perform their mutual obligations in terms of an agreement, they tend to attain a particular position which rests upon the performance of the contract. Breach of such contract leads to the non-attainment of that position which the parties had expected to attain. Hence, the parties may suffer '*expectation losses*'. In case of breach, the defaulting party becomes obligated to either specifically perform the contract undertaken by him or to pay proportionate monetary compensation to the non-breaching party in order to restore their expected position as anticipated under the contract between parties. This monetary compensation covers the losses of the injured party and puts him in the post-contractual position.

Section 73 of the Indian Contract Act, 1872 ("**Act**") prescribes damages or compensation for loss in case of breach of contract to the aggrieved party by the defaulting party.[2]

What are Liquidated Damages?

Damages are said to be liquidated when they have been agreed and fixed by the parties while entering into the contract. Basically, it is the sum which one party agrees to pay to the other party on the default of one of the parties.[3] The damages prescribed under the contract are explicit when a specific amount payable in case of default has been provided under the contract. Damages are implied when the actual amount is not specified in the contract, but the principle governing the calculation of the damages to be paid in case of breach are settled and specifically set out in the contract. For instance, the difference between contract price and market price on the date of actual breach of contract is an implied term. Therefore, in case of such implied terms, damages are called '*pre-determinable damages*'. These stipulations reflect good business sense as they ensure a certain degree of security for due performance of the contract.

Liquidated Damages vs. Penalty

At times, parties name an exorbitant and unreasonable sum as damages payable in the event of breach of contract which may not be the actual pre-estimate of the likely loss. Such unreasonable and highly disproportionate sum in relation to the likely loss or damage is created *in terrorem* i.e. to create fear in the mind of parties with a view to discourage breach of contract, which then gives it the nature of penalty. However, any sum which is provided as penalty is never awarded as damages for breach of contract under the law of contract. The Indian Courts do not enforce such a clause containing an unconscionable sum of money.

Assessment of Damages

Section 74 of the Act clearly stipulates that in case of breach of contract, if a particular sum is stipulated in the contract as the amount to be paid in case of such breach, whether or not actual damage or loss is proved to have been caused, the aggrieved party is entitled to receive from the opposite party who has breached the contract, a reasonable compensation not exceeding the amount so named.[4]

The Hon'ble High Court of Delhi in the case of ***Vishal Engineers & Builders v. Indian Oil Corporation Limited***[5] discussed the law on this subject. The Court took into account the observations of the Hon'ble Supreme Court in ***ONGC v. Saw Pipes***[6] which suggested that the Court is competent to award reasonable compensation in case of a breach, even if no actual damage is *proved* to have been suffered in consequence of the breach of the contract. The underlying reason for the same is that in certain kind of contracts it would not be possible for the Court to assess compensation arising from the breach. The Court in *Vishal Engineers case* summarized the legal position as under:

"Where it is impossible to assess the compensation arising from breach and that factor is coupled with the parties having agreed to a pre-determined compensation amount not by way of penalty or unreasonable compensation, then that amount can be awarded as a genuine pre-estimate of the loss suffered by a party. It cannot be read to mean that even if no loss whatsoever is caused to a party, it can still recover amounts merely be reason of the opposite party being in breach."

Further, in ***Indian Oil Corporation v. Lloyds Steel Industries Limited***[7]**,** the Hon'ble High Court of Delhi while discussing the principle of *'reasonable compensation'* held that in a particular case where there is a clause of liquidated damages, the Court will award to the party aggrieved only reasonable compensation which would not exceed an amount of liquidated damages stipulated in the contract. But, in situations wherein no loss is suffered, the amount stipulated as liquidated damages cannot be awarded. For this purpose, as held in ***Fateh Chand v. Balkishan Das***[8], it is the duty of the Court to award compensation according to settled principles. Settled principles of law warrant not to award compensation where no loss is suffered, as one cannot compensate a person who has not suffered any loss or damage. There may be several cases where the actual loss suffered by the party is incapable of proof i.e. facts may be so complicated in a particular situation that it may be difficult for the aggrieved party to prove actual extent of the loss or damage. In such cases, Section 74 of the Act exempts the aggrieved party from such responsibility and enables such party to claim compensation notwithstanding any failure to prove the actual extent of the loss or damage provided the basic requirement for award of '*compensation*' i.e. the fact that the party actually suffered some loss or damage is established. [9] In such cases the burden of proof has been either lowered or taken away. However, that does not mean that damages would be awarded without there being any loss whatsoever.

Thus, Section 74 of the Act imposes a statutory duty upon the Courts, subject to the maximum amount so stipulated in the penalty clause, to never enforce the penalty clause *per se* and to award only reasonable compensation. Therefore, it is for the Courts to determine, whether the particular sum stipulated in the contract in case of breach is penalty or not. Apart from this limitation, it seems that the Courts of India have unqualified power to award damages depending upon the facts and circumstances of the case. Such power of the Court is also provided under the provisions of Specific Relief Act 1963 ("**SRA**"). The relief of damages to be granted by the Court under the provisions of the Act and SRA shall be governed by law as well as equity and shall constitute a discretionary power of the Court. However, such discretion is to be exercised guided by sound and settled principles of law.

1. II Pollock & Mulla, The Indian Contract and Specific Relief Acts 1157 (14th ed., 2016) [hereinafter Pollock & Mulla]
2. *Section 73*, The Indian Contract Act, 1872: *Compensation for loss or damage caused by breach of contract*: When a contract has been broken, the party who suffers by such breach is entitled to receive, from the party who has broken the contract, compensation for any loss or damage caused to him thereby, which naturally arose in the usual course of things from such breach, or which the parties knew, when they made the contract, to be likely to result from the breach of it.
3. Pollock & Mulla, *supra* note 1, at pp. 1175
4. *Section 74*, The Indian Contract Act, 1872: *Compensation for breach of contract where penalty stipulated for:* When a contract has been broken, if a sum is named in the contract as the amount to be paid in case of such breach, or if the contract contains any other stipulation by way of penalty, the party complaining of the breach is entitled, whether or not actual damage or loss is proved to have been caused thereby, to receive from the party who has broken the contract reasonable compensation not exceeding the amount so named or, as the case may be, the penalty stipulated for.
5. 2012(1) ARB LR 253 (Delhi) [hereinafter *Vishal Engineers case*]
6. (2003) 5 SCC 705
7. 2007 (4) ALR 84 (Delhi)
8. (1964) 1 SCR 515
9. *see also Engineers India Limited v. Tema India Limited 226 (2016) DLT 531*

TRADEMARK LICENSING IN INDIA – CONCEPT AND PRACTICE

Trademark licensing is when a trademark owner allows another party to use the mark without transferring ownership of the said trademark. Such a licensing arrangement can be in the form of franchising and/or merchandising. Licensing of a registered trademark does not confer any proprietary rights upon the licensee, but is merely a permission to use the marks.

Licensing has become a common practice among the owners of a trademark. The fundamental benefit of licensing is that it allows the owner of the mark to branch out his business by way of franchising and/or merchandising. Both the parties benefit from this arrangement. The owner gains from the consideration received by way of royalty on the sales of the product or services licensed and the licensee gains from the brand value of the trademark.

Essentials of Trademark Licensing

Like any other contractual arrangement; the licensor and licensee enter into a written license agreement which specifies the rights and obligations of both the parties. There are no statutory provisions prescribing the terms and conditions of the licensing agreement. However, the agreement must be submitted with the Registrar of Trade Marks in the form of an application, wherein the particulars of the user/licensee and owner/licensor are specified. The Registrar of Trade Marks once satisfied with the application made may then proceed with recording the proposed user/licensee in respect of the said goods and services.

Registering the license agreement under the Trademarks Act, 1999 ("TM Act")

Registering a person or an entity as the licensed user of the trademark with the Registrar of Trade Marks is not mandatory. Whilst the validity of the licensing arrangement will not be questioned merely because the licensee is not registered, however, an unregistered trade mark user has no right to proceed against any third party for infringement of the mark.

For recording the license agreement with the Registrar of Trademarks, an application is to be made within 6 (six) months from the date of entering such an agreement. For the purpose of registering a person as a registered user/licensee of a particular mark, the registered proprietor/licensor and the proposed user are required to jointly apply to the Registrar of Trademarks by way of Form TM-28 accompanied with:

- The agreement in writing or a duly authenticated copy thereof, entered into between the registered proprietor/licensor and the proposed user/ licensee with respect to the permitted use of the trademark.
- An affidavit made by the registered proprietor to the satisfaction of the Registrar of Trademarks specifying details such as:
  - Relationship between the registered proprietor and proposed user;
  - Goods and services in respect of which registration is proposed;
  - Conditions or restrictions relating to the use of mark, if any;
  - Duration of usage of the mark by the proposed user, if any.
- Power of attorney in favor of the Agents.
- Any other documents or evidence required by the Registrar of Trademarks.

Trademark Assignment

Assignment of trademarks refers to the process of assigning the rights in respect of the trademarks by one party (assignor) to the other (assignee). Assignment of trademark is covered under Section 45 of the TM Act, which requires the assignee of a trademark to apply for registering its name as the proprietor of the trade mark in respect of the goods or services in respect of which the assignment or transmission has effect, with the Registrar of Trademarks by way of prescribed forms TM-23 or TM-24 along with the requisite documents and fee. In case of unregistered trademark, in terms of the TM Act the trademark may be assigned or transmitted with or without goodwill of the business concerned.

Trademark Assignment & Licensing – A comparison

The differences between licensing and assignment are vital. Assignment is a form of permanent transfer, while a license is a temporary transfer. The strategic difference between the two is that the ownership of the mark is not transferred in a licensing agreement whereas; assignment of trademark is the transfer of proprietorship. Therefore, an assignment involves a change of ownership as the assignee becomes the owner of the trademark and possesses the associated rights, title etc. Assignment may be with or without goodwill; a partial or a complete assignment. Furthermore licenses are revocable in nature while assignments are not.

Claim over Goodwill – a Controversy

Though a license agreement proves to be beneficial for both the parties, the licensee is obliged either under contract or otherwise to spend a substantial amount on the mark for the purpose of marketing and advertisement. The licensee is required to maintain the standard of the mark and not compromise on the quality of the goods and services offered under the said mark. Therefore it can be observed that, if a particular mark is not well known in India, the licensee is then required to invest a considerable amount of money for advertising the said mark. This investment contributes towards the goodwill of the mark; however, once the license agreement stands terminated the licensee has no claim over the goodwill of the said mark.

Conclusion

Trademark licensing holds an important position as this practice allows the regulated exploitation of a trademark and creates synergies. It is most advantageous for foreign companies who aspire to find their own niche in India without having to compromise on their ownership over the same mark.