

(1976) 12 SC CK 0034
In the Supreme Court Of India
Case No : ?Appeal Civil 1221 of 1974

Murarilal Sarawagi and Others	Vs	APPELLANT
The State of Andhra Pradesh		RESPONDENT

Date of Decision : 15-12-1976

Acts Referred:

Central Sales Tax Act, 1956 — Section 5

Citation : AIR 1977 SC 247 : (1977) 1 SCC 639 : (1977) 2 SCR 441 : (1977) 39 STC 294 : (1977) 9 UJ 54

Hon'ble Judges : A. N. Ray, C.J;M. Hameedullah Beg, J;Jaswant Singh, J

Bench : Full Bench

Final Decision : Allowed

Judgement

A.N. Ray, C.J.—These six appeals are by special leave from the judgment dated 26 February, 1974 of the Andhra Pradesh High Court.

2. The principal question in these appeals is whether the appellants are the last purchasers of manganese ore within the State of Andhra Pradesh. The appellants contended before the Sales Tax authorities that their sales of manganese ore to the Mines and Minerals Trading Corporation in short called the M.M.T.C. were complete within the State of Andhra Pradesh. The appellants, therefore, contended that they were not the last purchasers but the M.M.T.C. was the last purchaser within the State, and therefore, the M.M.T.C. was liable to pay the tax.

3. The High Court came to the conclusion that the appellants were the last purchasers in the State. The High Court held that 'the contract between the appellants and the M.M.T.C. indicated that the appellants' contract of sale occasioned the export and that the contract of the appellants with the M.M.T.C. was integrally connected with the contract entered into by the M.M.T.C. with their foreign buyer. In short, the High Court held that there existed a bond bet when the contracts of sale entered into by the appellants with the M.M.T.C. and the actual exportation of the goods. The High Court held that these contracts were intrinsically linked and connected and the sales effected were held to be sales in

the course of export of manganese ore out of the territory of India.

4. The Constitution Bench of this Court in the recent decision in *Serajuddin and Others Vs. The State of Orissa*, held that manganese merchants who bought manganese from mines and thereafter sold the goods to the State Trading Corporation for short the S.T.C. could not be said on the terms and conditions of the contracts in that case to be exporters of the goods. The S.T.C. contracts with the manganese merchants and the S.T.C. contracts with the Foreign Buyers were held not to be integrated activities in the course of export. The crucial words in Section 5 of the Central Sales Tax Act 1956 are that a sale or purchase of goods shall be deemed to take place out of the territory of India only if the sale or purchase either occasions such export or is effected by a transfer of documents of title to the goods after the goods have crossed the customs frontiers of India. This Court found that the contracts between the manganese merchants and the S.T.C. on the one hand and the contracts between the S.T.C. and their foreign buyers on the other were two separate and independent contracts of sale. The S.T.C. entered into direct contract with their foreign buyers. The S.T.C. alone agreed to sell the goods to their foreign buyers. The S.T.C. was the exporter of goods. There was no privity of contract between the manganese merchants and the foreign buyers from the S.T.C. The privity of contract was between the S.T.C. and the foreign buyers. The immediate cause of the movement of goods and export was the contract between the foreign buyers who were the importers and the S.T.C. who was the exporter and shipper of the goods.

5. In *Serajuddin and Others Vs. The State of Orissa*, this Court referred to the rulings in *Coffee Board, Bangalore Vs. Joint Commercial Tax Officer, Madras and Another*, and *Binani Bros. (P) Ltd. Vs. Union of India (UOI) and Others*, as laying down the correct tests to find out the sale in the course of export. The tests are that there must be a single sale which itself causes the export or is in the progress or process of export. There is no room for two or more sales in the course of export. The only sale which can be said to cause the export is the sale which itself results in the movement of the goods from the exporter to the importer.

6. Counsel for the State submitted that there were six contracts and it has been the case of the appellants that the contracts were different, and therefore, there should be examination of five other contracts. It may be stated here that counsel for the State did not dispute that the decision in *Serajuddin's case (supra)* applied to one of the six contracts but he disputed the application of the ruling in *Serajuddin and Others Vs. The State of Orissa*, to the other five contracts. The reasons given by the Counsel for the State are these. Only one contract was referred to in the High Court. The case of the appellants has all along been that the Sales Tax Appellate authorities considered only one contract. The High Court also considered only one contract. In the SLP the appellants assailed the assumption made by the High Court to the effect that all contracts between the appellants and the M.M.T.C. were similar.

7. Counsel for the State put in the forefront the contention that the M.M.T.C. could not be the last purchaser of goods within the State of Andhra Pradesh because property in the goods passed from the appellants to the M.T.C. on board the ship. In aid of that contention reliance was placed on F.O.B. character of the contract between the appellant and the M.M.T.C. The position is identical in all the six contracts.

8. This Court in *Serajuddin's case* (supra) pointed out that mention of F.O.B. price in the contracts between the manganese merchants and the S.T.C. did not render these contracts F.O.B. contracts with the foreign buyers from the S.T.C. The reason is simple. The contracts between the S.T.C. and the foreign buyers are different contracts and it is the S.T.C. which entered into independent contracts with their foreign buyers on F.O.B. basis. Under the contracts between the manganese merchants and the S.T.C. the merchants were required to bring the goods F.O.B. to the ship named by the S.T.C.

9. It has to be appreciated that quite often merchants dealing in goods which are exported out of our country enter into what is called string contracts for purchase of the goods from the factory or the mines for sale to exporters for sale to foreign buyers. The Trading Corporation are often the only authorities allowed to export out of our country. These Corporations enter into direct contracts with their foreign buyers for export. The directions given by the Corporations to the merchants to place the goods on board the ship are pursuant to the contracts of sale between the merchants and the Corporation. These directions are not in the course of export, because the export sale is an independent one between the Corporation and their foreign buyers. The taking of the goods from the merchant's place to the ship is completely separate from the transit pursuant to the export sale (See *Serajuddin's case* at pp. 184-185).

10. In string contracts or chain contracts delivery is made by the original seller and so instant it is delivered in implement under each separate contract in the chain. In chain or string contracts starting between the mills or mines or factories and their immediate buyer and ending with the ultimate buyer through several intermediaries not only does the mill give and its immediate buyer take actual delivery but so instant each middleman gives and takes actual delivery. This process of delivery of possession goes all along the chain at the same moment when delivery is made to the steamer. See *Duni Chand Rataria Vs. Bhuwarka Brothers Ltd.*, .

11. In F.O.B. contracts the seller's duty is to place the goods "free on board" a ship to be named by the buyer. When the seller delivers the goods for loading on board he normally obtains a mate's receipt which he transmits to the buyer and the buyer exchanges this for the proper bill of lading. In this sort of F.O.B. contract the almost universal rule is that property and risk both pass on shipment as soon as the goods are over the ship's rail and if it should be material, the property and risk in each part of the cargo will pass as it crosses the ship's rail. The loading of the goods is an unconditional appropriation which

passes the property. This is not because of any peculiarity of F.O.B. contracts but because in this type of contract the seller's duty is to deliver the goods F.O.B. Once they are on board the seller has delivered them, to the buyer and it is natural that they should thereafter be at the buyer's risk.

12. Now a days a party which has contracted to sell goods to a foreign buyer may itself buy the goods F.O.B. Indian port from Indian seller in order to fulfil F.O.B. contract with a foreign buyer.

13. This Court in Serajuddin's case (supra) has laid down that the mere mention of F.O.B. price of F.O.B. delivery in a contract between a merchant and the S.T.C. which exports the goods under a separate contract with the foreign buyer to the latter will not make the two contracts either integrated or the contract between the merchant and the S.T.C. an F.O.B. contract. There cannot be two last purchasers in the sale of same goods within the same State. Similarly, there cannot be two exporters in respect of the same goods. After the decision of the Constitution Bench in Serajuddin's case (supra) the decision in National Tractors, Hubli Vs. Commissioner of Commercial Taxes, Bangalore, is on longer good law.

14. In the National Tractors, Hubli Vs. Commissioner of Commercial Taxes, Bangalore, which was a Three Judge Bench decision reliance was placed on the decision in B.K. Wadeyar Vs. Daulatram Rameshwarlal, . In Wadeyar's case (supra) this Court said that the normal presumption attaching to F.O.B. contracts is that property in the goods passes only when they are put on board the ship. B.K. Wadeyar Vs. Daulatram Rameshwarlal, was before the Central Sales Tax Act 1956. Further the Bill of Lading, the export licence and the export clause all showed that the export did not commence till the ship left the port.

15. In the National Tractors, Hubli Vs. Commissioner of Commercial Taxes, Bangalore, it was said that the purchase by the State Trading Corporation from the merchant was in the course of export by the S.T.C. to the foreign buyer and, therefore, the purchase by the merchant from the mine-owner was the last purchase in the State. The basis of the decision is that these were integrated F.O.B. contracts in the course of export.

16. The decision in National Tractors case (supra) made no reference to the decision of this Court in Coffee Board case (supra). The correct law is laid down by this Court in the Coffee Board, Bangalore Vs. Joint Commercial Tax Officer, Madras and Another, case and Serajuddin and Others Vs. The State of Orissa, . The law is this. It has to be found out whether the contracts between the merchants and the Corporation are integrated contracts in the course of export or they are different. If they are different contracts, as they are in the present case, the last purchaser with the State is the M.M.T.C.

17. For the Foreoging reasons the appeals are accepted. The judgment of the High Court is set aside. The parties will pay and bear their costs.