

**PUBLIC ACCOUNTS COMMITTEE  
(1974-75)**

(FIFTH LOK SABHA)

**HUNDRED AND SEVENTY-SECOND REPORT**

**REMISSIONS AND ABANDONMENT OF  
CUSTOMS REVENUE**

**Imports of Ethyl Alcohol**

[Paragraph No. 14(II) of the Report of the Comptroller and Auditor General of India for the year 1972-73, Union Government (Civil), Revenue Receipts, Volume I, Indirect Taxes relating to Customs duties].



**LOK SABHA SECRETARIAT  
NEW DELHI**

*April 30, 1975/Vaisakha 10, 1897 (S)*

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<u>Page</u>	<u>Para No.</u>	<u>Line No.</u>	<u>For</u>	<u>Read</u>
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46	2.1	8	enforced	endorsed
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44	2.51	18	delete the words	"furnished"
55	3.14	7	Minister	Ministry
72	4.1	9	25(8)	25(2)
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75	4.11	4	informed	informed that the revenue effect of this exemption calculated
119	4.1	10	22(b) and	22(6) as
122	4.5	16	effect	effect
125	4.11	4	informed	informed that the revenue effect of this exemption calculated
129	4.18	2	to satis- fied	to be satisfied

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12-7-1974 (FN)

12-7-1974 (AN)

14-9-1974 (AN)

21-11-1974

29-4-1975 (AN)

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**PUBLIC ACCOUNTS COMMITTEE**

**(1974-75)**

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**SECRETARIAT**

**Shri B.K. Mukherjee - Chief Legislative Committee Officer.**

**Shri N. Sunder Rajan - Senior Financial Committee Officer.**

## INTRODUCTION

1. I, the Chairman, of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Hundred and Seventy-Second Report of the Public Accounts Committee on paragraph 14(ii) (Remissions and Abandonment of Customs Revenue—Imports of Ethyl Alcohol) of the Report of the Comptroller and Auditor General of India for the year 1972-73, Union Government (Civil), Revenue Receipts, Vol. I, Indirect Taxes, relating to Customs Receipts.

2. The Report of the Comptroller and Auditor General of India for the year 1972-73 Union Government (Civil), Revenue Receipts, Vol. I, Indirect Taxes, relating to Customs Receipts was laid on the Table of the House on the 8th May, 1974. The Committee examined paragraph 14(ii) of the Audit Report relating to Remissions and Abandonment of Customs Revenue—Imports of Ethyl Alcohol at their sittings held on the 12th July, 1974 (FN), 12th July, 1974 (AN), 24th September, 1974 (AN) and 21st November, 1974. This Report was considered and finalised by the Committee at their sitting held on the 29th April, 1975 (AN). Minutes of the sittings form Part II\* of the Report.

3. A statement showing the summary of the main conclusions/recommendations of the Committee is appended to the Report (Appendix X). For facility of reference these have been printed in thick type in the body of the Report.

4. The Committee place on record their appreciation of the assistance rendered to them in the examination of the Audit Report by the Comptroller and Auditor General of India.

5. The Committee would also like to express their thanks to the officers of the Ministries of Finance (Department of Revenue and Insurance), Petroleum and Chemicals (Department of Fertilizers and Chemicals) and Commerce (State Trading Corporation) for the cooperation extended by them in giving information to the Committee.

JYOTIRMOY BOSU,  
*Chairman,*  
*Public Accounts Committee.*

NEW DELHI;  
April 30, 1975.

*Vaisakha 10, 1897 (S).*

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\*Not printed (One cyclostyled copy laid on the Table of the House and five copies placed in the Parliament Library).

## REPORT

### Remissions and Abandonment of Customs Revenue

#### *Audit Paragraph.*

1.1. During the year 1972-73, a total of 315 exemptions were issued under Section 25(2) of the Customs Act, 1962 by the Central Government, having revenue effect of Rs. 2,41,69,25,312.\* Of these in 148 cases\* involving exemptions in each case exceeding Rs. 10,000 the revenue foregone amounted to Rs. 2,41,65,05,019.\*

[Paragraph No. 14(ii) of the Report of the Comptroller and Auditor General of India for the year 1972-73, Union Government (Civil), Revenue Receipts—Volume I—Indirect Taxes].

1.2. The Audit paragraph lists out the amount granted as exemption from Customs Duty, under Section 25(2) of the Customs Act, 1962, in favour of individuals. Section 25(2) of the Act reads as follows:

“If the Central Government is satisfied that it is necessary in the public interest so to do, it may, by special order in each case, exempt from the payment of duty, under circumstances of an exceptional nature to be stated in such order, any goods on which duty is leviable.”

1.3. Compared to the net customs revenue of Rs. 857 crores realised during 1972-73, the exemptions from duty granted in individual cases amounting to Rs. 241.69 crores constitute a sizeable percentage (about 28 per cent) and the Committee were informed by Audit that out of the amount of Rs. 241.69 crores, Rs. 232.19 crores represented the duty foregone in respect of two cases of imports of ethyl alcohol covered by two exemption orders No. 248 dated 5th July 1972 and No. 727 dated 18th December 1972.

1.4. However, since the figures of exemptions from duty granted during 1972-73, furnished by the Ministry of Finance to Audit, were stated to be provisional, the Ministry were requested, on 30th May 1974, by the Committee to furnish the final figures of exemptions. Only an interim reply dated the 20th June 1974 was received from the Ministry requesting for extension of time for furnishing the requisite information, wherein the Ministry had stated:

“The final figures are under verification in consultation with the Collectors of Customs and the same will be furnished as early as possible.”

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\*Figures provisional.

1.5. Subsequently, during the course of oral evidence, the Committee desired to know how exemptions from duty amounting to Rs. 241.65 crores had been allowed only in 148 cases. The representative of the Central Board of Excise and Customs stated:—

“This figure of Rs. 241 crores is due to error in the calculation on the part of the Collector of Customs, Calcutta while reporting the extent of duty foregone in respect of certain imports of ethyl alcohol. He has calculated with reference to the duty on potable alcohol, whereas the duty lost should have been calculated at the rate for denatured alcohol, *i.e.*, industrial alcohol. There are two different rates. In the case of potable alcohol, the basic customs duty is Rs. 60 per litre. That is why we have not confirmed the figure. We are trying to get fuller details. The figure is about Rs. 1.57 crores against Rs. 241 crores.”

He also added later:—

“The figure was Rs. 1.74 crores.”

1.6. Since the reply to the Audit paragraph would have presumably been vetted at high level, the Committee desired to know whether the discrepancy in the paragraph had been examined and action taken to rectify the defective figures. The representative of the Central Board of Excise and Customs stated:—

“In the draft Audit para, the figures that were set out were the figures that were collected by the Collectors of Customs concerned, with regard to each one of the *ad hoc* exemptions that we had issued from time to time. In these *ad hoc* exemptions, we naturally do not indicate the loss that has actually been taken into account at the time of passing the order on our file.”

He further deposed:—

“I will try to explain how this happened. Now, this particular para did not come to us as a draft Audit para. The CAG's office wanted information from us about the number of *ad hoc* exemption orders issued and the extent of the duty foregone. This is a detailed information which we had to collect from the field formations. The information was furnished to the office of the C & AG along with a demi-official letter addressed by the Under Secretary concerned in reply to a telephone message received from the C & AG's office on the 3rd April. . . . The first figure was Rs. 241 crores odd; that is Rs. 241,69,25,312, and in respect of 148 cases, it was Rs. 241,65,05,019. This was



how this information was furnished and has formed the material for the particular para.”

The demi-official letter dated 3rd April, 1974 from the Under Secretary, Ministry of Finance (Department of Revenue and Insurance) to the C&AG's office and the subsequent Office Memorandum No. 467/15/73-Cus. V dated the 9th May, 1974 issued in this connection are reproduced in Appendix I.

1.7. The Committee desired to know the procedure followed by the Ministry of Finance in furnishing information desired by Audit and whether the Ministry had pointed out the discrepancy in figures before the Audit paragraph was finalised. The Director of Receipt Audit stated:—

“The procedure in relation to such statistical paragraphs is like this. Whenever we want information on arrears of taxes or exemptions issued, in order to have agreed figures, we ask the Ministry to collect and give them every year. It is the standard, agreed procedure. On that basis, on the 8th March, 1974, we addressed a letter to the Ministry. It was not a telephone conversation. The impression was created as if some *ad hoc* communication took place. It is incorrect. On the 8th March, 1974, we issued a letter to the Ministry asking them to submit the names of persons, the articles imported and the customs duty involved in each case in respect of the exemptions issued during the year 1972-73. In reply thereto, on the 15th March, 1974, their Under Secretary wrote a letter: ‘Kindly refer to your letter; the statement mentioned is being prepared and will be forwarded shortly’.

So, they had time to prepare and we find they were prepared. They did not send them to us, till the Audit para went to the press. Therefore, we reminded them on the telephone. The telephonic conversation is not the origin of the report. It is only a reminder. After being reminded on the 9th May 1974—it was not in April—they sent a letter saying ‘...The Under Secretary is directed to enclose herewith the statement showing the names, the articles imported, the customs duty involved...’ etc. Here is a statement running to several pages in which, at page 8, we get the complete details in respect of Alkali Chemical Corporation Rs. 50 lakhs, Rs. 27 lakhs and so on. The break-up is given for all these parties. In terms of this letter which has been sent to us after getting the time from us saying that it is being prepared, we can only conclude that this is the correct figure. Even then when they said further information was collected, we said ‘for that matter we treat

it as provisional'. Their statement now is that in view of the telephone conversation some hurried statement was being sent to us. No such impression emerges on our file."

The Chairman, Central Board of Excise and Customs added:—

"He (the Director of Receipt Audit) has summed up the position correctly. He is right in saying that this kind of data is collected every year in the form of statistical data. That is precisely what has happened. This particular Under Secretary treating that this was some statistical data decided to issue that letter without it having gone upwards as it ought to have gone. The sum total of the matter is: some figures came from the Collectors and they were treated as a statistical compilation and were sent by Under Secretary to Audit. We are sorry for it; we have already taken note of it."

1.8. In reply to a question whether the correctness of the figures reported to Audit on the basis of information received from the field formations are not checked by the Ministry on the basis of records maintained of exemptions given, since the Ministry, as the authority for granting exemptions, would be in possession of the revenue effect of such exemptions, the Chairman, Central Board of Excise and Customs stated:—

"...about the quantity, only the Customs Officers would know the figures."

1.9. In respect of the procedure followed for reporting the figures to Audit, the Ministry also stated in a written reply furnished to the Committee as follows:—

"Statements giving details of exemption orders and the duty foregone in respect of each case are submitted by the Collectors of Customs and Central Excise to the Ministry. The Ministry then collates all this information furnished by the Collectors and forwards a consolidated statement to the Audit. Entries in this statement are not checked for correctness while forwarding to the Audit. In fact, it is not feasible for the Ministry to check the correctness of the figures reported by the concerned Collectors as it would involve calling for a large number of documents and their scrutiny in respect of each and every entry in the statement. The Ministry assumes that the figures of revenue foregone have been correctly worked out by the concerned field formations and it forwards the figures to the Audit after consolidation. The above procedure was broadly followed in this case also. Suitable instructions are also being

issued to field formations so that they compute accurately the figures of revenue foregone.”

1.10. The Committee desired to know whether any action was taken to confirm or deny the figures included in the Audit Report when the Audit Report was presented and when this mistake came to the notice of the Ministry of Finance and the action taken thereafter. In a written reply furnished to the Committee, the Ministry of Finance stated:—

“The Audit Report was presented before the Lok Sabha on 8th May, 1974 and was received in the Ministry around the 23rd May, 1974.

After receipt of the Audit Report in the Ministry, para 14(ii) was examined. Out of the figures of Rs. 241.69 crores indicating the revenue foregone in respect of *ad hoc* exemption orders, Rs. 232.19 crores related to the two *ad hoc* exemption orders No. 248 dated 5th July, 1972 and 727 dated 18th December, 1972 on imports of Ethyl Alcohol for industrial use in West Bengal. As *prima facie* the revenue foregone as reported by the Custom House, Calcutta in respect of these two exemption orders appeared to be abnormal, the correctness of the figures reported was examined closely in consultation with the Collector of Customs, Calcutta.

It came to light that in reporting the figures, the Custom House concerned had calculated the extent of revenue foregone by applying the rate of duty applicable to undenatured spirit, like brandy, gin, whisky, etc. falling under item 22(4)(a) to the entire quantity of alcohol imported; certain calculation mistakes had also been made while reporting the figures. As considerable portion of the total quantity of imported alcohol had been denatured before release to the user industries, it appeared that the figure of revenue foregone, reported by Calcutta Custom House did not represent the correct position. As a result, time was taken to recheck the figures and verify several facts relevant to the determination of the amount of duty foregone and also in getting proper classification on various related issues. Enquiries had also to be made from the State Government to ascertain various details in respect of the imported alcohol which was denatured and cleared.”

1.11. As pointed out in paragraph 1.5 above, the representative of the Central Board of Excise and Customs had stated during evidence that the duty foregone on the imports of ethyl alcohol was about Rs. 1.57 crores. Since the difference between the figures in the Audit Report and those

furnished during evidence was considerable and the final figures had not been furnished by the Ministry either in reply to the advance questionnaire of the Committee or during earlier evidence, the Committee desired to know when this new fact came to the notice of the Ministry and why a confirmed reply had not been given earlier, if the Ministry had been certain of the immediate effect of the exemptions granted. The representative of the Central Board of Excise and Customs then stated:—

“The final report of the Collector is actually a telegram which has come to me just now.”

The contents of the telegram were asked to be read out fully by the Committee:—

“Telegram from the Collector of Customs, Calcutta, to the Deputy Secretary, Mr.....: ‘Refer your telex dated 8th July, 1974 issued from file No... etc. The amount of duty foregone calculated under item 22(6) plus regulatory duty on the entire quantity of ethyl alcohol imported under *ad hoc* exemption orders’—two orders—‘is Rs. 1.57,20,07,978’.”

The representative of the Central Board of Excise and Customs was also asked to read out the telex message in response to which this telegram was received. He stated:—

“The telex was issued to.....Collector, Customs, Calcutta. It reads like this: ‘Reference your number... regarding ethyl alcohol imported under *ad hoc* exemption orders in 1972-73. Please intimate the amount of duty foregone calculated under item 22(6) ICT plus regulatory duty on the entire quantity of ethyl alcohol imported under cover exemption under number 727/72 dated 18th December, 1972. Please intimate the figure by return telex positively’.”

Copies of all correspondence exchanged between the Central Board of Excise and Customs and the Collector of Customs, Calcutta in this regard, furnished by the Ministry of Finance to the Committee are reproduced in Appendix II.

1.12. Since the telegram from the Collector of Customs, Calcutta was stated to have been received only then (on 12th July, 1974), the Committee desired to know how the duty foregone was stated earlier to be Rs. 1.74 crores. The representative of the Central Board of Excise and Customs stated:—

“The amount of Rs. 1.74 crores, we had said was the duty foregone calculated at the time we had given the *ad hoc* exemptions.”

He clarified further:—

“The figure of Rs. 1.74 crores, I would clarify, was the duty foregone, that was set out in the summary put up by us while taking orders.”

1.13. The Committee desired to be furnished with the copies of the Ministry's notes relating to the grant of exemptions on ethyl alcohol imported in West Bengal during 1972-73. Copies of the relevant notes furnished to the Committee by the Ministry of Finance, relating to the issue of exemption notifications No. 248 dated 5th July, 1972 and No. 727 dated 18th December, 1972 are reproduced in Appendix III.

1.14. The Committee also desired to know the rates of customs duty on various kinds of alcohol. The Ministry of Finance stated in a written reply furnished to the Committee:—

“The alcohol falls under two item of the I.C.T. viz.

(i) item 22(4)(a) ICT and (ii) 22(6) ICT. The description of the tariff items and the rate of duty applicable during the relevant period of 1972-73 are reproduced below:—

Item	Name of Article	Nature of duty	Standard rate of duty	Preferential rate of duty if the article is the produce or manufacture of			Duration of protective rate of duty
				The United Kingdom	A British colony	Burma	
22(4)	Spirits (other than denatured spirit)  (a) Brandy, gin, whisky and other sorts of spirits not otherwise specified, including wines containing more than 42 per cent of proof spirit.	Revenue	Rs. 60.00 per litre or 200 per cent <i>ad valorem</i> whichever is higher	..	..	..	The rate at which excise duty is leviable at the place of importation.
22(6)	Denatured spirit	Revenue	60 per cent <i>ad valorem</i> .	..	..	..	Free ..

Undenatured spirit falls under item 22(4)(a) and denatured spirit falls under item 22(6) ICT.

In terms of exemption notification No. 84-Customs dated 5th September, 1970, Methyl Alcohol and Isoprophyl Alcohol when imported into India, are exempted from so much of the duty of customs including the additional duty, if any leviable thereon as in excess of 60 per cent *ad valorem*.

In terms of Notification No. 85-Customs dated 5th September, 1970, the Isoprophyl Alcohol when imported into India and used for industrial and research purposes is exempted from so much of the duty of Customs including additional duty, if any, leviable, as is in excess of 60 per cent *ad valorem* provided that either the process of manufacture of the produce in which the said alcohol is to be used is conducted in bond in accordance with such conditions as may be prescribed in this behalf by the Asstt. Collector of Customs, or the said alcohol on importation is stored in a bonded warehouse and issued from bond in such small quantities and subject to such conditions as may be decided by the said Asstt. Collector of Customs.

Goods falling under item 22(4) (a) of the ICT are assessable, in addition to Basic Duty specified above, to additional (c.v.) duty equal to Rs. 20 per litre.

Regulatory duty during 1972-73 was as follows:—

For undenatured alcohol falling under item 22(4) of ITC	1% <i>ad valorem</i>
For denatured alcohol falling under item 22(6) of ICT	5% <i>ad valorem</i> ."

1.15. The Committee drew the attention of the Ministry of Finance to the note dated 13th December, 1972 in file No. 355/95/72-Cus. I and desired to know why the commodity imported had been classified, in the subsequent paragraphs of the Note, as denatured spirit and the revenue effect of the exemptions from duty proposed computed under item 22(6) ICT, when it had been clearly stated in an earlier paragraph of the note that ethyl alcohol was classifiable under item 22(4) of the First Schedule to the Indian Tariff Act, 1974 and carried a duty at Rs. 60 per litre or 200 per cent *ad valorem*, whichever was higher, in addition to a regulatory duty at 10 per cent *ad valorem*. The representative of the Central Board of Excise and Customs stated:

"If you will be good enough to refer to para 4, towards the end of the note, I have sought to explain the rationale for calculating the duty to be foregone being related to the duty chargeable under 22(6). I have said that this proposal will involve a revenue loss of Rs. 58 lakhs calculated on the basis of the rate of duty leviable

for denatured spirit falling under 22(6). I have also stated that the duty leviable under 22(4) would be so high as to render the import highly prohibitive and not worthwhile, and that such a loss of revenue would be notional in character. That means the loss of revenue in terms of 22(4) would be of notional character."

The Finance Secretary added:—

"In fact, this was not the first import. Before this, since 1964 and 1968, import of alcohol had been taking place. In this respect, an argument was given that the cost of the imported alcohol was higher than the cost of the indigenous article. I do not want to go into its correctness because I am not competent to do so. If a duty was leviable, then it would have become prohibitively expensive. I would only suggest that there is a great difference between levying a duty of Rs. 60 per litre, which is the rate under 22(4), and one at 60 per cent *ad valorem* which would probably come to not more than 80 paise or so, even if it is under 22(6). What is being suggested is that there should be no duty at all."

1.16. The Committee desired to know why the revenue effect of the exemption, calculated under item 22(4) ICT had not been quantified, just as the quantification had been done under item 22(6) ICT, in the notes submitted for a decision. The Finance Secretary stated:—

"Because it would have been a totally unrealistic figure."

The representative of the Central Board of Excise and Customs stated further:—

"I have said that it is highly prohibitive because the rates are so obviously high. Apart from that, I have given the rationale."

The Committee felt that the position should have been made clear in the notes by quantifying the money value both under item 22(4) and 22(6) so as to put the whole thing objectively before the authority competent to decide on the exemptions and to enable him to make his judgement, since the mere word 'prohibitive' did not reveal much. The representative of the Board of Excise and Customs stated:—

"I have done it as objectively as I thought it necessary and appropriate."

1.17. The Committee enquired into the necessity for applying item 22(6) ICT in an arbitrary manner for imports of ethyl alcohol, when it had no relevance to the situation even the Government had to exempt it. The Chairman, Central Board of Excise and Customs stated:—

“The position is that import was for an industrial purpose. Let us, therefore, say that there is no exemption. If there is no exemption, what happens? Immediately Section 24 of the Customs Act comes into play, that even for ethyl alcohol, which falls under item 22(4), the importer has the right to denature it without coming to the Government at all—this is part of the Act as you have seen—and abide for the rules which are framed and then pay a duty which is equivalent to that provided in item 22(6). This is an inherent right. If the Government had not given this exemption, whatever they could collect, the duty, would have been equal to that provided in item 22(6). Now, once the Government steps in, what is the exemption we are giving? We are giving an exemption equal to that provided in item 22(6). This is all on the basis that the intended use is the industrial use. For industrial use, we have got to denature it. If you denature it, Section 24 comes into play. Once Section 24 comes into play, without any exemption, it will be assumed as if the whole thing had been denatured and you will be paying the lower rate of duty. Once the exemption has been given, the only subtle difference is, firstly, exemption has been given and secondly having regard to the various representations that were made with regard to the difficulties of denaturing before clearance, those conditions will operate. But the revenue foregone is that much of revenue which is equal to the duty leviable for alcohol for industrial use.”

He stated further:

“If you see para 2 of the note to which attention has been invited, ethyl alcohol is classifiable under 22(4). In fact, I think the note goes out of its way to bring it under 22(4); the the reason being that this ethyl alcohol is meant for industrial purposes and ethyl alcohol for industrial purposes is assessable under 22(6). The entire case is that the ethyl alcohol was for industrial purposes and ethyl alcohol for industrial purposes is assessable under 22(6). That is why the entire exercise as to how much revenue is foregone is related to that item. It has never been a point that they wanted to import alcohol for potable purposes.”



1.18. The attention of the Ministry was drawn by the Committee to the classification contained at page 312 of the Customs Tariff, Sixty First Issue, according to which ethyl alcohol is assessable under item 22(4) ICT. The Finance Secretary stated:

“I don't think it is being argued that ethyl alcohol does not come under 22(4); what has been said is that denatured spirit comes under 22(6).”

1.19. In reply to a question as to in what form the commodity touched the Indian shore, the representative of the Central Board of Excise and Customs stated:

“It came as ethyl alcohol.”

The Chairman, Central Board of Excise and Customs added:

“It is subject to the conditions imposed in the exemption notification which the Government of India issue. It is always subject to them.”

He stated further:

“The notification issued by the Government of India has the force of law and no officer of Customs can ignore that. Effect has to be given to that notification and the officers there do give effect to that.”

The Committee also desired to know the description of the commodity in the import licence. The representative of the Ministry of Petroleum and Chemicals stated:

“In the import licence it was ethyl alcohol.”

1.20. The Committee desired to know what would be the position adopted by the Customs authorities in the case of a passenger bringing in a bottle of whisky from abroad, adding a pinch of salt in the bottle subsequent to clearance by Customs and claiming a refund of duty on the ground that the whisky had been denatured. The Chairman, Central Board of Excise and Customs replied:

“If it had entered India denatured, no Customs Officer would have the authority to impose higher duty. The import duty becomes leviable as soon as the act of importation is complete. I agree that if there was no exemption notification that would have been done.”

1.21. Extracts from the Duty Foregone Register maintained by the Collector of Customs, Calcutta, containing the details of the bills of entry, description of the goods in the bills of entry, the quantity and value as recorded on the bills of entry, exemptions issued by the Government of India and the duty foregone, in respect of imports of ethyl alcohol during 1972-73 in West Bengal, were furnished to the Committee by Audit. These extracts are at Appendix IV. The Committee were also informed by Audit that in the licences, No. G|F|2021214|C|XX|42|H|33-34|SP dated 7th March, 1972 and No. G|F|2021216|C|XX|45|H|35-36|SP|CE.22 dated 21st October, 1972, issued for import of ethyl alcohol in the name of Commissioner of Excise, West Bengal, with letter of authority to Alkali Chemical Corporation, the commodity imported was described as synthetic ethyl alcohol'.

1.22. The Committee found from the Ministry's notings referred to in paragraph 1.13 above that while the first file had been finally disposed of at the level of the Finance Secretary, the second had been referred to the Minister concerned and, therefore, desired to know the reasons for not sending the first file to the Minister. The Finance Secretary stated:

"I would only submit that this was not the first or the second, it was one of a series of exemptions. In fact, it was given from onwards and it was, therefore, felt that no important question of policy or otherwise was involved and it depended upon the degree of responsibility that an individual officer might want to take or upon the instructions that he might have received from the Minister or upon his personal equation with the Minister. In this particular case, I do not think that there was any breach of the orders or otherwise which would require the approval of the Minister."

As regards the second note which was referred to the Minister, the witness stated:

"I would only submit that this, as I said, is based on the equation the individual officer has had with the Minister or his desire to take responsibility or not to take the responsibility or his desire to pass on the responsibility to the Minister and also a variety of circumstances. Mr. . . . . . felt that it was not necessary. So he did not send it to the Minister whereas Mr. . . . . . felt that it was necessary and he submitted it to the Minister. I do not think that one can impute any motives on this basis."

The witness was requested by the Committee to check up the files and make sure whether the first file actually went to the Minister or not. The Finance Secretary stated:

“As far as we can make out, it did not go to the Minister. I am told that it might have been put up with the second file. I cannot say.”

The representative of the Central Board of Excise and Customs added:

“When the first exemption was granted, the papers did not go to the Minister. When the second one went to the Minister, this was put up as one of the files referred to, along with the proposal.”

1.23. The Committee desired to know whether it would not have been proper to have informed the Minister of the loss of revenue, since the Ministry, according to their own calculations, were making an exemption involving more than a crore of rupees. The Finance Secretary stated:

“I tried to check up and see if there were any specific orders on this point, but I have not been able to find any. I have only found that where the expenditure involved or the expenditure proposal is over Rs. 1 crore, then it is normally submitted to the Minister.”

1.24. The following chronological table indicates the sequence of correspondence between the Central Board of Excise and Customs and the Collector of Customs, Calcutta on the question of calculation of duty on the alcohol imported in Calcutta:

- 3-6-1974—Telex issued to Collector, of Customs, Calcutta.
- 10-6-1974—Collector's reply dated 7th June, 1974 received.
- 22-6-1974—D.O. letter to Collector of Customs, Calcutta issued.
- 25.6.1974—Telex sent to Collector of Customs, Calcutta.
- 27-6-1974—Telex reminder sent to Collector of Customs, Calcutta.
- 1-7-1974—Collector's reply dated 27th June, 1974 received.
- 8-7-1974—Telex sent to Collector of Customs, Calcutta.
- 11-7-1974—Telegram from Collector of Customs, Calcutta received.

1.25. The Committee desired to know whether the Ministry, when the exemption notifications were issued under Section 25(2) of the Customs

Act, obtained from the lower formations information regarding (i) the actual import of the commodity and (ii) duty foregone after the import and, in case this had not been done, whether the Ministry had left it to the Collector who was the assessing authority to work out for his purposes the details of the duty foregone. The Ministry of Finance (Department of Revenue and Insurance), in a note furnished to the Committee, stated:

“Details regarding import of the commodity and the duty foregone after the imports were not obtained by the Ministry from the lower formations when the exemption orders were issued under section 25(2) of the Customs Act, 1962. Details of the duty foregone were to be calculated by the Custom House of the port through which import took place.”

1.26. The Committee asked whether it was not correct that, in the case of alcohol imports, the Collector had worked out the duty foregone on the basis of an assessment made by him with reference to the quantity imported and when this assessment worked out to Rs. 232 crores whether it was correct for the Ministry now to take the plea that the assessment was wrong. The Ministry of Finance (Department of Revenue and Insurance), in a note furnished to the Committee, stated:

“Assessment was made free of duty in terms of the *ad hoc* exemption orders. However, while calculating the amount of duty foregone, the Custom House worked out the duty amount on the basis of classification of the ethyl alcohol under item 22(4)(a) ICT which was incorrect or the reasons already stated. It may be pointed out that in respect of imports of ethyl alcohol made under similar circumstances, the Kandla Custom House had calculated the amount of duty foregone on the basis of classification under item 22(6) ICT.”

## 2. Imports of Ethyl Alcohol in West Bengal

2.1. The Committee desired to know the basis for permitting the two imports of ethyl alcohol in West Bengal and for granting the exemptions from Customs duty and whether any representation had been received in this regard. The Finance Secretary replied:

“The basis was two-fold. One was the request from the Government of West Bengal. The second was that there were recommendations from the Ministry of Petroleum and Chemicals. It is their duty to look into the requirement of raw material, etc. and it is hardly for us to do so. We are functioning at one stage removed.”

In reply to another question as to what exactly was the request of the West Bengal Government the representative of the Central Board of Excise and Customs stated:

"I will read out the letter addressed by Shri . . . . ., Special Secretary to the Government of West Bengal to the Secretary to the Government of India, Ministry of Petroleum and Chemicals. Subsequently it was followed up by a letter addressed to the Ministry of Finance also. That letter reads:

'I am directed to say that the Additional Commissioner of Excise, West Bengal and industrial consumers of this State met the Joint Secretary, Petroleum and Chemicals Ministry, Government of India on 25th February, 1972 at New Delhi. The delegates of the industrial consumers also met . . . . . Minister of Petroleum and Chemicals, Government of India. The Minister is reported to have passed order sanctioning initial import of 20,000 metric tonnes (25 million bulk litres approximately) of alcohol from abroad for West Bengal for industrial use here. The Additional Commissioner of Excise, West Bengal also discussed the matter with the Chief Controller of Imports and Exports, Government of India and with the Deputy Economic Adviser to the Government of India.'

We have drawn up a scheme in consultation with the various interests details of which are given below for your information and approval. The scheme is in line with the procedure followed in 1968 when similar imports were made.

Under the scheme the different consumers are classified as follows:

- (i) M/s. A.C.C.I. Ltd., Rishra may be allotted 18 million bulk litres.
- (ii) Groups II consumers which include M/s. Angelo Brothers, Hindustan Levers, Bengal Chemical, India Foils, East India Pharmaceuticals etc. may be allotted 4.5 million bulk litres.
- (iii) Rest of consumers, including supply to Government Hospital's and Defence Department may be allotted 2.5 million bulk litres.

All the industrial consumers agree that M/s. A.C.C.I. Ltd. be allowed by the State to import such alcohol and necessary import licence may be issued in their favour. M/s. A.C.C.I. agree to import such alcohol for themselves and for others also. They shall arrange for storing such alcohol at Budge Budge as was done on the previous occasion and shall arrange also for denaturation of rectified spirit for issue to such consumers who consume denatured spirit (ordinary and specially denatured). They should also take out necessary warehouse licence from us for underbond storage of alcohol.

I would now request you to kindly move the Government of India to approve of these arrangements. Foreign suppliers were contacted by M/s. A.C.C.I. Ltd. and we are informed that final acceptance of offer of import of 20,000 metric tonnes of alcohol has to be communicated to the selected supplier in USA. by M/s. ACCI. Ltd. at the latest by 10th March 1972. M/s. ACCI. Ltd. have, accordingly, sent an application in the proper form to Chief Controller of Imports and Exports, as copy of which has been enforced to you *vide* their letter No. ACCI/PL/71-72/2 dated 1st. March 1972.

In the year 1968 the State Government was permitted by Government of India to import from overseas substantial quantity of alcohol. As the alcohol was meant for industrial use the Government of India was pleased to exempt the same from customs duty in their Notification No. GSR. 1034 dated 5th June 1968. This year also the entire quantity of alcohol which is proposed to be imported from overseas is meant for industrial use. I would, in the circumstances, request that the Central Board of Excise and Customs under the Finance Ministry may kindly be moved to exempt the current import of alcohol from customs duty. Meanwhile, we may be allowed to go ahead with the arrangement for making import on the assumption that the entire import will be exempted from the customs duty'."

2.2. In reply to a question whether it was a normal practice to exempt from duty raw material required by an industry, the witness stated:

"The situation is like this. In a year when there is scarcity of ethyl alcohol because of low production of sugarcane in the country naturally import has to take place. The States and the industrial users would in a normal sugarcane season have their industrial alcohol requirement at a low price indigenously whereas if they had to import it from abroad they had to pay a normal higher price and duty for the portable alcohol it would be a totally uneconomic proposition. Even if he is charged duty for industrial alcohol the imported price was so high that it was uneconomic. Therefore, they came up with such a request in 1963 and exemption was given upto 1970. After that the concession lapsed. Then the availability similar situation of scarcity in 1972 when a similar request was revived and the same kind of exemption was given as explained."

2.3. A note furnished to the Committee by the Ministry of Finance (Department of Revenue & Insurance) containing particulars of the re-

quest for exemption received from the West Bengal Government and the action taken thereon is reproduced below:

“In 1972, ad hoc exemption orders No. 248 dated 5th July 1972 and 727 dated 18th. December 1972 were issued to cover imports of 20,000 metric tons and 10,000 metric tons of ethyl alcohol respectively in West Bengal. In respect of 20,000 metric tons of ethyl alcohol, the Secretary to the Government of West Bengal, Excise Department wrote on 3rd March, 1972 to the Secretary, Ministry of Petroleum and Chemicals to move the Ministry of Finance, Department of Revenue and Insurance for granting exemption of customs duty. The Deputy Commissioner of Excise, West Bengal also wrote to the Secretary, Ministry of Petroleum and Chemicals on 10th March, 1972, a copy of which along with a copy of their letter dated 3rd March, 1972 was for the first time endorsed also to the Ministry of Finance, Department of Revenue and Insurance.

On receipt of the above endorsement in the Ministry of Finance a reference was made to the Collectors of Customs, Bombay, Calcutta, Madras and Cochin, enquiring whether the earlier consignments of ethyl alcohol imported against the notification No. 88-Customs, dated 5th June, 1968, as amended subsequently (which was in force upto 31st May, 1970) had been properly accounted for in terms of the conditions stipulated in the said notification.

The Collectors of Customs replied in the affirmative and that in a consignment where a small portion was not accounted for, duty was recovered on that portion. Meanwhile, the Ministry of Petroleum and Chemicals were requested to furnish their comments on the request of the Government of West Bengal for exemption of customs duty on 20,000 tonnes of ethyl alcohol. In their O.M. No. 4/18/72-Ch.I, dated 16th June, 1972, the Ministry of Petroleum and Chemicals sent their recommendation for exemption of customs duty on the above quantity. Accordingly, an ad hoc exemption order No. 248, dated 5th July, 1972 was issued with the approval of the Finance Secretary.”

The Ministry also furnished, at the instance of the Committee, copies of all correspondence exchanged between the West Bengal Government and the Government of India relating to the exemption granted on imports of ethyl alcohol.

2.4. Another note furnished to the Committee in this regard by the Ministry of Petroleum and Chemicals is reproduced in Appendix V.

2.5. The Committee desired to know the total quantity of ethyl alcohol available in the country and the total quantity required for industrial purposes. The Ministry of Petroleum and Chemicals, in a written note furnished to the Committee, stated:

“The Central Government does not exercise control over distribution of alcohol to the consuming industries. Its distribution is done by the respective State Governments under their laws. The Central Government, however, uses its good offices for arranging inter-State allocations of alcohol from the surplus States to meet the needs of the deficit States. The alcohol year runs from 1st December to 30th November of the next year. At the beginning of each alcohol year, an estimate of expected production and demand of alcohol in the various States is made in consultation with the representatives of the State Governments. If during the course of the alcohol year significant change in the situation is found, the position is reviewed and revised estimates are arrived at. On the basis of such assessments made in the various years the estimated, expected production of alcohol was as follows:

Alcohol year	Production (in million litres)
1967-68	165.5
1968-69	25.0
1969-70	331.17
1970-71	320.52
1971-72	270.99
1972-73	319.20

As regards actual production the figures are maintained by the Directorate General of Technical Development regarding the distilleries registered with them. The total production of



alcohol in the various years from such distilleries was as follows:

Alcohol Year	Quantities (in million litres)
1967-68	153.71
1968-69	216.753
1969-70	246.732
1970-71	256.458
1971-72	213.823
1972-73	233.513

Since the Central Government is concerned mainly with arranging interstate allocations of alcohol from surplus States to the deficit States, no overall or detailed assessment of requirements of alcohol for industrial purposes for the country as a whole is usually made. The available information, however, indicates that in the alcohol year 1969-70 the country's requirement of alcohol for industrial purposes was estimated at 179.4 million litres and for the alcohol year 1973-74 at 264.4 million litres."

2.6. The Committee desired to know the quantum of foreign exchange allocation made for the import of ethyl alcohol during the period from 1968 to 1973. The Ministry of Finance, Department of Economic Affairs, stated in a note:

"With reference to the last sentence of the above point, namely 'What is the quantum of foreign exchange allocation made for the import of ethyl alcohol during the period from 1968 to 1973', the position is explained as under:

- (a) The Department do not maintain separately figures of commodity-wise allocations, except in the case of bulk commodities. It is, therefore, not possible to furnish exact information with regard to quantum of foreign exchange allocation made for the import of ethyl alcohol during the period from 1968 to 1973.
- (b) It is, however, added that the Monthly Statistics of Foreign Trade published by the Director General, Commercial Intelligence and Statistics, Calcutta, contain,

*inter alia*, the data relating to import of ethyl alcohol. The following table gives, in terms of the value, the position regarding import of alcohol during the past six years based on the aforesaid publications:

Year	(Rs. in lakhs)
1968-69	245.94
1969-70	7.04
1970-71	102.15
1971-72	Negligible
1972-73	248.56
1973-74	208.26''

2.7. The Committee found from the letter dated 3rd March, 1972 from the Special Secretary to the Government of West Bengal to the Ministry of Petroleum and Chemicals that the Additional Commissioner of Excise, West Bengal and the industrial consumers of the State had met the Joint Secretary, Ministry of Petroleum and Chemicals on 25th February, 1972 and that delegates of the industrial consumers had also met the then Minister of Petroleum and Chemicals. The Committee desired to be furnished with a copy of the minutes of this meeting. The Ministry of Petroleum and Chemicals informed the Committee in a written note as follows:

“It appears from a letter dated 3rd March, 1972 from Special Secretary to Government of West Bengal that the representatives of the Industry and the officials of the State Government met the Minister (Petroleum and Chemicals) sometime between 25th February, 1972 and 3rd March, 1972 but there is no other record or minutes of that meeting.”

The Committee asked how it was possible that no record had been kept of this meeting. The Joint Secretary, Ministry of Petroleum and Chemicals stated during evidence:

“If there is any formal meeting with the agenda, then the minutes are kept. Otherwise, for a short meeting in which some people explain to the Minister, then notes or records are not kept.”

The Committee asked who were the representatives of the industry who had met the Minister. The witness stated that the letter of the West Bengal Government did not give the detail as to who had met the Minister.

When the Committee asked whether the letter had been put up to Minister for confirmation of the minutes, he stated:

"It is mentioned here that 'the Minister is reported to have passed order for 20,000 metric tones'. Now, this order had already been passed by the Minister in the file on 26th February, 1972. Therefore, this did not raise a new question of decision or confirmation."

2.8. The Committee desired to know whether, before granting permission to import ethyl alcohol, the Ministry had checked up the contracts entered into by the party with the overseas suppliers in regard to (a) the price contracted for, (b) with whom the contracts were entered into and whether they were the associate concerns of the importers and (c) the international prices and whether these factors had been furnished to the Associate Finance before obtaining financial concurrence. The Ministry of Petroleum and Chemicals stated in a written note:

"The Ministry of Petroleum and Chemicals did not check up the contracts entered into by Alkali Chemical Corporation of India Ltd., with the overseas suppliers with regard to points raised in the question. However, the reasonableness of the price at which ACCI proposed to import ethyl alcohol was examined in the Ministry of Petroleum and Chemicals from time to time. For the first import of 20,000 tonnes, the ruling international price was about £40 per cent tone. For the second import of 10,000 tonnes the price was considered reasonable in view of S.T.C. having arranged imports a little earlier @ \$107 at Kandla. The C.I.F. price of \$107.5 per tonne ex-Budge Budge asked for by the Government of West Bengal was considered to be reasonable in view of the higher element of freight involved in delivery at Budge Budge. Associated Finance, Ministry of Finance (Department of Expenditure) was not consulted. They are consulted in case of expenditure from Central Government funds and in matters relating to release of foreign exchange for the Central Government's public undertakings."

2.9. Another note furnished by the Ministry of Petroleum and Chemicals, at the instance of the Committee indicating the basis on which the Ministry worked out the basis of alcohol-based industries in West Bengal for which permission to import was given is reproduced below:

"The availability of indigenous alcohol during the alcohol year 1971-72 (December, 1971 to November, 1972) was made

in December, 1971 at a meeting with the representatives of all major States. A plan was drawn up to meet their restricted requirements of 339.00 million litres. As per information furnished by the State Governments the expected production of alcohol was estimated at 303.7 million litres which along-with the carry over stock of 27.5 million litres gave a total availability of 331.2 million litres. Thus an overall deficit of about 8.00 million litres of alcohol was arrived at in December, 1971/January, 1972.

In so far as West Bengal was concerned, the following estimates were made:

Total Demand		55.00 million litres
<i>Total availability</i>		
Production	7.5	
Carry over	12.0	19.5 million litres
Deficit		35.5 million litres
Allocation made from U.P., Bihar and Maharashtra		20.00 million litres
Net deficit		15.5 million litres

Subsequently, on 11th February 1972, Shri... Additional Secretary, Department of Finance, Government of West Bengal met Shri ... Joint Secretary, Ministry of Petroleum and Chemicals and explained the difficulties faced by the various industries in the State in view of non-materialisation of supplies from surplus State as per inter-State allocations made in January 1972. The representative of ACCI, the largest consumer of alcohol in West Bengal, also called on Shri... in the same connection. The discussion with the representatives of State Government and ACCI revealed that there might be a serious crisis resulting in closure of factories in field of pharmaceuticals, paints etc. The matter was examined in detail in the Ministry of Petroleum and Chemicals and it was decided that import of 20,000 metric tonnes of alcohol be allowed for meeting the requirements of the industries in West Bengal. The Ministry of Finance (Department of Economic Affairs) was approached for release of foreign exchange of Rs. 150.00 lakhs @ of \$100 per metric tonne of alcohol. The proposal was also supported by the Ministry of Industrial Development (Economic Adviser Office). However, the Ministry of Finance (Department of Economic Affairs) agree on 5th March, 1972 to release import of 10,000 tonnes to meet the urgent requirements of alcohol based industries in West Bengal.

Immediately, thereafter, the Government of West Bengal represented that the 10,000 tonnes of alcohol allowed to be imported was grossly inadequate and that an import of irreducible minimum of 31.00 million litres of alcohol should be allowed. The above figure was arrived at by the State Government as follows:

*Requirement of alcohol for industrial and Pharmaceutical purposes*

(i) A.C.C.I.	36,000 M.L.
(ii) for other alcohol based industries	9,00 M.L.
(iii) Scientific, Hospitals, research and other household purpose	1,00 M.L.
<b>Total</b>	<b>46,00 M.L.</b>

*Deduct total allocations of indigenous alcohol made from*

U.P.	5.55
Bihar	6.45
Maharashtra	1.50
<b>Total</b>	<b>13.50</b>

Net requirement 32.50 M.L.

(The above figures do not take into account the requirements of country spirit for which 4.00 M.L. of rectified spirit preferably from U.P. and Bihar and 43,000 tonnes of molasses were necessary).

The requirement of alcohol by ACCI is known to this Ministry in relation to their capacity for the manufacture of polyethylene.

Licensed capacity of Polyethylene	10,000 tonnes/annum
Requirement of alcohol for 1 tonne of polyethylene	2,700 litres
Total requirement for Polyethylene	33.25 million litres
Production at licensed capacity plus 25 % additional production allowed.	

A.C.C.I. require 33.25 million litres of alcohol for polyethylene. Besides they also require alcohol for the manufacture of paints and pharmaceuticals. As such the State Government's estimate of A.C.C.I.'s requirements at 36 million litres was accepted.

The Ministry of Petroleum and Chemicals was therefore satisfied in regard to the requirement of A.C.C.I. which formed bulk of the requirement of West Bengal. In regard to other requirements the Ministry of Petroleum and Chemicals accepted the statement furnished by the State

**Government.** The Inter-State allocation of alcohol to West Bengal as in January, 1972 was as under:

From U.P.	2.50 million litres
Bihar	6.45 million litres
Maharashtra	11.00 million litres
	<u>19.95 million litres</u>

The allocations were subsequently revised in May, 1972 and West Bengal was allocated 9.90 million litres of alcohol from U.P., Bihar, Maharashtra and Pondicherry. Agreeing with the State Government that there was a likelihood of closure of most of the alcohol based industries and lay-off of workers, the Ministry of Petroleum and Chemicals recommended to the Ministry of Finance (Department of Economic Affairs) to increase the foreign exchange allotment to Rs. 150 lakhs to accommodate additional imports of 10,000 tonnes and this was agreed to by the Ministry of Finance on 15th March, 1972.

Subsequently, in a letter dated 10th October, 1972, the Government of West Bengal asked for permission for immediate import of 10,000 tonnes of alcohol for their next year's requirements. They estimated that out of their total requirements of 58 million litres of alcohol, after taking into account the production within the State as well quantities likely to be available from other States 40.00 million litres of alcohol would have to be imported in the next year for their use only. In this connection the State Government had further mentioned that at their instance M/s. ACCI who had initiated enquiries in the world market to locate alcohol at competitive prices had received a firm offer for 10,000 tonnes of alcohol at US \$107.5 C.I.F. ex-Budge Budge option for which was to be exercised by 16th October, 1972. As per preliminary estimates of alcohol it was found that in the alcohol producing States of Andhra Pradesh, Bihar, Gujarat, Mysore and West Bengal, as against the production of 76.9 million litres in the alcohol year 1971-72 the production in 1972-73 would be 70.7 million litres and that the trend indicated a reduction of 10 per cent in production level. In this context it was felt that fairly large imports of alcohol would have to be made for the alcohol year 1972-73. Considering the reasonableness of the offer obtained by ACCI and also with a view to ensure that the shortage in the availability of this basic raw material does not develop in the early months of the year 1972-73, the Ministry of Petroleum and Chemicals recommended to the Ministry of Finance, release of foreign exchange for the import of 10,000 tonnes of alcohol at \$107.5 per tonne for the State of West Bengal.

In fact further imports of alcohol had to be allowed for the alcohol year 1972-73 during the financial year 1973-74.

2.10. The Committee desired to know the quantity of ethyl alcohol available in the country, State-wise, during the period from 1968 to 1972 and which States were surplus and which deficit. The Ministry of Petroleum and Chemicals stated in a written note:

“The alcohol year runs from 1st December to 30th November of the next year. At the beginning of each alcohol year, an estimate of expected production and demand of alcohol in the various States is made in consultation with the representatives of the State Governments. On the basis of such assessments made in various years, the estimates expected production of alcohol was as follows:

Alcohol year	Production (million litres)
1967-68	165.00
1968-69	254.00
1969-70	331.17
1970-71	320.52
1971-72	270.99
1972-73	319.20

The States of Uttar Pradesh, Bihar, Maharashtra, Haryana, Karnataka and Tamil Nadu were usually the surplus States, while West Bengal, Assam, Andhra Pradesh, Rajasthan, Gujarat, Jammu and Kashmir, Madhya Pradesh and Kerala usually the deficit States.”

Statements showing the allotment of ethyl alcohol among the States so as to feed the alcohol-based industries in the States furnished by the Ministry, at the instance of the Committee, are reproduced in Appendix VI.

2.11. The Committee desired to know the total quantity of ethyl alcohol available in the country from 1963 to 1972. The Joint Secretary of the Ministry of Petroleum and Chemicals stated during evidence:

“These things are discussed at the beginning of each alcohol year, which starts from 1st December, with the representatives of the State on the basis of the sugarcane crop, as to what alcohol and molasses production can be expected. On that basis, these estimates are made at the beginning of each year, which I can read out to you.”

The Committee desired to know the actual production and the witness stated:

*"We have got the actuals. On the basis of the figures available with the DGTD, of the distilleries on DGTD's books, they are—*

Year	(figures in million litres)
1968	154.1
1969	222.4
1970	253.4
1971	254.1
1972	205.9
1973	235.4"

2.12. A note recorded by the Department of Economic Affairs of the Ministry of Finance on the indigenous production of ethyl alcohol is reproduced below:

"Enquiries made from DGTD reveal that indigenous production of Ethyl Alcohol is adequate for our internal requirements. This also seems to have been the view of the Tariff Commission which recently reported on the price structure of industrial alcohol."

When the attention of the witnesses was drawn by the Committee to this note during evidence, the Finance Secretary stated that he did not think that he had seen this note. The Joint Secretary, Ministry of Petroleum and Chemicals stated in this connection:

"The demand has been increasing over the years. It was adequate earlier, except in certain years when the sugarcane crop was bad. 1972 was a very poor year in this regard. The production was very low. 1973 was better; but still, the production was much less than the demand."

When the Committee pointed out that as compared with the production of 154.1 million litres in 1968, the production of ethyl alcohol in the country in 1971 was 254.1 million litres, the witness stated that 1970 and 1971 were better years. The Committee observed that the production in 1973 (235.4 million litres) was not bad either.



2.13. On the question of States deficit in ethyl alcohol, the witness stated:

*“The State having the highest deficit is West Bengal, whose own production is of the order of 2 million litres. Their demand has been of the order of 50 million, 60 million or 70 million litres during various years. The highest surplus State is U.P., usually. They have the largest available surplus.”*

When the Committee asked whether Uttar Pradesh was a surplus State in alcohol and whether they produced more than what they consumed, the witness replied that usually it was so. He added:

*“Their requirement was indicated at 56 million litres and the U.P. Government were in a position to allot them only 40 million litres. For the balance, an import of 10,000 tonnes was allowed. It would be about 12 million litres. Their licensed capacity was 30,000 tonnes which would be equal to 78 million litres. They can produce 3 or 4 thousand tonnes more. As against this total, their requirement will be for 56 million litres.”*

2.14. The Committee asked how the year 1972 compared with 1971 and 1973 in regard to the gap between demand and supply and whether the demands were artificially engineered. The Joint Secretary, Ministry of Petroleum and Chemicals stated that demands were usually inflated and added that the Ministry ignored about 10 per cent of the demand and do not meet it fully.

2.15. The Committee desired to know whether the import of denatured spirit as such would not have served the purpose instead of ethyl alcohol. The Joint Secretary, Ministry of Petroleum and Chemicals stated:

*“For different things or products the same denatured spirit cannot be used; sometimes it may be harmful. If beforehand you denature, sometimes it may create problems with some particular products. That is the point.”*

Even though different industries might require different denaturants, the Committee desired to know whether any study had been made to determine whether denatured spirit would not be useful for Alkali and Chemical Corporation, which manufactures polythene. The witness stated:

*“They use alcohol denatured with croton aldehyde. The A.C.C.I. Calcutta, which makes polythene, can use alcohol denatured*

croton aldehyde. Different industries will need different de-Hindustan Levers, Bengal Chemicals India Foils, East India alcohol etc. There are dozen different denaturants."

The Committee asked whether the needs of the industry, for which the exemption from customs duty had been sought, could not have been met by importing the alcohol in the denatured form. The witness stated:

"Except Drugs and pharmaceuticals, all of them are using denatured spirits. If you are importing for one particular industry you will know which would be the appropriate denaturant and there would be no trouble; but if you are importing for twenty different industries, the same denaturant cannot be used."

2.16. The Finance Secretary stated in this context:

"Actually, the West Bengal Government wanted this alcohol to be used for industrial purposes and also for the pharmaceutical industry. So far as the pharmaceutical industry is concerned, they could not have denatured alcohol in the normal way. Some of it had to be given in the form of alcohol as such."

When the Committee pointed out that the ICI concern also manufactures pharmaceuticals, the Finance Secretary stated:

"It is really the Alkali Chemical Corporation. This particular firm uses alcohol for the manufacture of certain plastics like polypropylene. That is purely for industrial use. Besides that, there are several other factories and establishments in West Bengal which use alcohol for pharmaceutical purposes. Therefore, all of it could not be denatured."

2.17. The Committee desired to know whether the Ministry had authorised importation of the alcohol by the Alkali Chemical Corporation or by the West Bengal Government in whose name the import licence was required to be issued. The Joint Secretary, Ministry of Petroleum and Chemicals stated that the imports were in the name of West Bengal Government with a letter of authority to Alkali Chemical Corporation.

2.18. The Committee enquired about the total quantity of ethyl alcohol imported during the years 1970-71, 1971-72 and 1972-73 and the parties in whose name the licences were issued. The witness stated:

"In 1970-71, no licence was issued for import of alcohol as far as I have been able to find. In 1971-72, a licence was issued

to West Bengal Government with a letter of authority of A.C.C.I. for a quantity of 20,000 tonnes. That was recommended in February, 1972 and that quantity was imported from July to December, 1972. On 18th October, 1972 a licence was issued to West Bengal Government with a letter of authority of A.C.C.I. for import of 10,000 tonnes of alcohol and in December, 1972 we recommended again for import of 15,000 tonnes of alcohol to the West Bengal Government with a letter of authority of A.C.C.I. Then in February, 1973, we again recommended to West Bengal Government with a letter of authority of A.C.C.I. for import of 10,000 tonnes of alcohol. In September, 1972, we recommended import of 10,000 tonnes of alcohol for M/s. Synthetics and Chemicals, Bareilly (U.P.) through S.T.C.”

2.19. The Committee asked whether Alkali Chemical Corporation had been allowed to import ethyl alcohol directly prior to 1972. The witness stated:

“In 1964, licence was given to them for 1500 tonnes of alcohol from Hungary which arrived in 1965 and in 1967, they were allowed import of 1.48 million litres. In 1968, they were given import licences for six million litres of which one million was on behalf of Messrs Hindustan Sugar Mills.”

2.20. The Committee desired to know the total quantity of ethyl alcohol imported in India from 1968 to 1973 and the particulars of the licensed importers, the parties who filed the bills of entry and took delivery of the goods, the total duty payable in the form in which they were imported and cleared and the duty actually paid. The Committee found from the information furnished by the Ministry that a total quantity of 1,07,345 metric tonnes of alcohol at a cost of Rs. 10.73 crores was imported during the period from January, 1968 to February, 1974.

2.21. The Committee desired to know the conditions imported for availing of this exemption. The Ministry of Finance (Department of Revenue and Insurance) stated in a note:

“The conditions imposed for availing of the exemption issued in respect of ethyl alcohol imported by the Government of West Bengal during 1972-73 are contained in the respective exemption orders themselves.”

2.22. A copy of the *Ad Hoc* Exemption Order No. 248 dated 5th July, 1972, exempting 20,000 metric tonnes of ethyl alcohol imported in West Bengal from the customs duty payable, furnished, at the instance

of the Committee, by the Ministry of Finance (Department of Revenue and Insurance) is reproduced below:

"To

The Collector of Customs,  
Calcutta.

Sir,

**SUBJECT:** *Exemption from duty—Import of Ethyl Alcohol for industrial use in West Bengal.*

I am directed to forward herewith a copy of letter dated the 10th March, 1972 from the Deputy Commissioner of Excise, Government of West Bengal, addressed to the Ministry of Petroleum and Chemicals and copy endorsed to this Ministry and to say that in exercise of the powers conferred by Section 25(2) of the Customs Act, 1962 (52 of 1962), read with sub-section 4 of Section 62 of the Finance Act, 1972 (16 of 1972), the Central Government being satisfied that it is necessary in the public interest so to do hereby exempts 20,000 metric tonnes of Ethyl Alcohol in question from the payment of the duty of customs and also the regulatory of customs leviable thereon subject to the production of Import Trade Control Licence in respect thereof, from the Chief Controller of Imports and Exports, New Delhi and subject to an undertaking being given that the alcohol would be used solely for industrial purposes in the State of West Bengal and to production of the following certificates to the effect that the said alcohol:

- (i) is already denatured to the satisfaction of the Government of West Bengal, or
- (ii) would move under bond to bonded warehouses under the control of the Commissioner of Excise, Government of West Bengal and that the use of the ethyl alcohol will be under his supervision.

Yours faithfully,

Sd/-

*Under Secretary to the Govt. of India."*

2.23. According to Section 24 of the Customs Act, where the goods are denatured or methylated, they should be chargeable to duty as applicable to goods generally imported in the denatured or methylated form. For availing of the provisions of Section, the importer should make a request in writing for the denaturation of the imported spirit. The Committee, therefore, pointed out that the duty can be allowed under ICT 22(6) only when it is denatured and not prior to that and that it was obligatory for the importer to make an application for the denaturing. The Finance Secretary stated in this connection:

“The exemption purports to be one under Section 25(2) and our special orders which have been issued are themselves the necessary safeguards. It is only in compliance of these orders that it has been done and they should be taken to supersede any other rule so far as this particular consignment is concerned.”

He added:

“I would only draw attention to Section 25(2) of the Customs Act which says that if the Central Government is satisfied that it is necessary in the public interest so to do, it may, by a special order, in each case, exempt from the payment of duty under circumstances of exceptional nature to be stated in such order, any goods on which such duty is leviable and I would refer you to the special order that was issued in pursuance of this. This is an *Ad Hoc* Exemption Order No. 727 dated 18th December, 1972 which starts off by saying ‘I am directed to forward herewith a copy of letter No. such and such from the Special Secretary to the Government of West Bengal, addressed to the Ministry of Petroleum and Chemicals, New Delhi and a copy endorsed to the Department and a copy of letter No. such and such from the Ministry of Petroleum and Chemicals on the subject noted above and to say that in exercise of the powers conferred by sub-section (2) of Section 25 of the Customs Act, 1962 read with sub-section (4) of Section 62 of the Finance Act, 1972, the Central Government being satisfied that it is necessary in the public interest so to do, hereby exempts 10,000 metric tonnes of Ethyl Alcohol in question, from the payment of the duty of customs and also the regulatory duty of customs leviable thereon subject to the production of Import Trade Control Licence in respect thereof, from the Chief Controller of Imports and Exports, New Delhi and subject to an undertaking being given that the alcohol would be used solely for industrial purposes

in the State of West Bengal and to the production of the following certificates to the effect that the said alcohol:

- (i) *is already denatured to the satisfaction of the Government of West Bengal; or*
- (ii) would move under bond to bonded warehouses under the control of the Commissioner of Excise, Government of West Bengal and that the use of the ethyl alcohol will be under his supervision.

This order is being issued in order to overcome the continuous shortage of alcohol within the country and also in order to ensure continued operations of the alcohol-based industries in the State."

2.24. The Committee drew the attention of the witness once again to Section 24 of the Customs Act and desired to know the authority under which duty could be calculated under ICT 22(6) on alcohol which was not denatured. The Finance Secretary stated:

"I would only submit that we are operating under two different Sections. Under Section 25(2), the Government has the authority given to it by Parliament to make exemptions, which it does and in doing so, it makes any addition which it deems fit and this has been done so. Now, Section 24 is a different issue. There, other rules can be framed with regard to the denaturing, etc. but it is the same Central Government which is acting. After all if the Central Government has power to frame rules, it has also power to change those rules and amend those rules and in doing so under Section 25(2), it has to exercise the power given to it by Parliament and it has laid down conditions separate from those in the specific orders concerning denaturation. In so far as these functions are concerned, I do not think there is any inconsistency whatsoever."

2.25. Drawing the attention of the witness to the Denaturation of Spirit Rules, 1972, which provide that an importer or his agent shall make a reference in writing to the proper officer of Customs for denaturation of imported spirit, the Committee pointed out that neither Section 24 nor the rules framed thereunder had been followed in this case, and asked whether a written application had been received by the proper officer of customs for denaturation. The Finance Secretary stated:

"These rules are not applicable to the present case. The question of denaturation arose only because it was linked with the question of exemption of duty."

2.26. The Committee pointed out that for the payment of duty under ICT 22(6), the alcohol had to be denatured to the satisfaction of the Customs authorities and desired to know the rules under which the powers had been delegated to the Government of West Bengal. The Finance Secretary stated:

“It is not a question of delegation. It is merely a case of exemption of duty. While exempting the duty, certain conditions are being laid down.”

He added:

“Parliament authorises Government to make certain rules and it is given certain powers and authority by statute. It has not been delegated. Under section 24, which is the general run of cases, it is open to the Government, as they have done to lay down rules for denaturing. But they did not operate under Section 24. My entire case is built on that. They operated under Section 25(2), which merely says, you can exempt duty. They have exempted duty, but in that process, they have laid down certain conditions and denaturisation is one of them.”

2.27. According to the exemption order issued under Section 25(2) of the Customs Act, the procedure adopted for denaturing was contrary to the procedure laid down in Section 24 and the rules framed thereunder. The Committee desired to know the authority under which the Ministry could deviate from the rules framed. The Finance Secretary stated:

“It is the same authority which is operating under Section 24 and under Section 25. The rules under Section 24 need not necessarily be applicable in a case under Section 25(2).”

2.28. When the Committee observed in this connection that Section 25 of the Act did not confer a blanket authority on the Ministry and that even in the implementation of the order under Section 25, certain rules and regulations had to be followed, the Finance Secretary stated:

“We would certainly agree with you, but my thesis throughout has been that all that has been done is to exempt a certain duty and in doing so, all that has been done is that certain conditions have been laid down. It is the fulfilment of these conditions which alone would entitle the party to some exemption from duty. Here, the responsibility has been laid fully and squarely upon the State Government and the basic assumption

is that the State Government—which was duly elected by the people and is an intrinsic part of the Constitution—will discharge its responsibility correctly and properly. What is more, I do not for a moment assume that the fulfilment of these conditions etc. should be made the responsibility of the Central Government. I see no reason to assume, *prima facie*, that our officers will be more efficient or better or more conscientious than the officers of the State Governments.”

2.29. The Committee desired to know whether there was any departure from the 1968 notification in which a general exemption from customs duty had been permitted in respect of ethyl alcohol imported for industrial uses and the conditions prescribed in the 1972 orders for imports in West Bengal. The Finance Secretary stated:

“The 1968 order imposes similar conditions. These were also imposed in 1972 order. The point which he made was that for the purposes of denaturing different denaturants have to be used. What is possible in the case may not be possible in another as the denaturant may re-act chemically in an undesirable manner. I would further submit, when the Government of West Bengal asked for this particular condition, they also had in mind use of alcohol for the chemical industry and obviously unless we want to kill people we are not going to allow denatured alcohol going into a pharmaceutical product. To that extent it may have been necessary also to ensure that a certain quantity which was not denatured as such moved under bond.”

2.30. A memorandum received from one Shri Chaudhury by the Chairman, Public Accounts Committee, had alleged that the ethyl alcohol imported in West Bengal had been diverted to distilleries for potable purposes. The Committee, therefore, desired to know how Government had ensured that the conditions imposed for importing the alcohol under exemption from duty had been observed by the importer and whether any violation of the conditions had come to notice. The Committee also asked whether the imported alcohol had been used exclusively for the purpose for which it had been imported. The Ministry of Finance (Department of Revenue and Insurance) informed the Committee in a note:

“These exemptions were granted subject to the condition that the Commissioner of Excise, West Bengal, where the goods were to be utilised, would ensure that the conditions are duly fulfilled. In this respect, as in the past years, the Ministry relied upon the State Government to ensure proper utilisation of the goods in terms of the exemption order.



It has come to light that out of the total quantity of alcohol (3,59,70,401 litres) imported in West Bengal in 1972-73 against the two *ad hoc* exemption orders No. 248 dated 5th July, 1972 and No. 727 dated 18th December, 1972, a quantity of 28,19,950 litres of alcohol had been utilised in the manufacture of potable liquor and another 50,000 litres had been issued for use in hospitals, defence and scientific establishments. As it appeared, *prima facie*, that such uses were not covered by the term 'industrial use', demand for duty in respect of these quantities has been raised by the Collector of Customs. The matter is pending decision before the Collector of Customs, Calcutta."

2.31. A list furnished to the Committee by the Ministry of Finance (Department of Revenue and Insurance) showing the details of the recipients of the alcohol in West Bengal, the uses to which the alcohol had been put and the quantity distributed is reproduced in Appendix VII.

2.32. The Committee desired to know how the diversion of the alcohol to the distilleries for potable use had taken place, how it had come to light and the action taken thereon by the Ministry. The Ministry of Finance (Department of Revenue and Insurance) stated in a written note:

"The circumstances in which the diversion of alcohol took place is explained in the D.O. letter No. 598-MT dated 31st July, 1973 from the Commissioner of Excise, West Bengal to Shri J. A. Chaudhury, Under Secretary, Ministry of Petroleum and Chemicals, a copy of which is enclosed for information of the Committee. (Reproduced in Appendix VIII).

The fact that a portion of the alcohol which was imported for industrial use in terms of the *ad hoc* exemption orders was diverted to the distilleries came to the notice of the Custom House, Calcutta through a pseudonymous complaint purported to have been written by one Shri S. Chaudhury.

On receipt of the complaint, the Custom House made enquiries and collected available information regarding diversion from the office of the Commissioner of Excise, West Bengal. Demands of duty were raised on the basis of this information. The Commissioner of Excise, West Bengal was also asked not to issue further quantity of imported alcohol to the distilleries."

2.33. Since there had been a misuse of the imported alcohol, the Committee asked whether the Ministry of Petroleum and Chemicals had been aware, while permitting the import of ethyl alcohol, that the West Bengal Government had no facility for storing or denaturing imported alcohol and, if so, how the Ministry was satisfied that the imported alcohol would be properly denatured and under proper safeguards. The Ministry of Petroleum and Chemicals stated in a written note:

“In their letter dated 21st February, 1972, the Government of West Bengal requested that they may be allowed to import 31 million litres of alcohol for meeting the requirements of consumers of that State. Subsequently, the representative of the State Government were informed by the Joint Secretary, during discussion in this Ministry that the State Government will have to decide the agency through whom imports shall be arranged.

The Government of West Bengal, *vide* their letter No. 22-Ex. dated 3rd March, 1972 submitted a package scheme for the import of alcohol required by the various consumers in that State. Under this scheme it was envisaged that:—

- (i) M/s. A.C.C.I. Rishra would be allotted 18 million bulk litres.
- (ii) Group II consumers which include M/s. Angele Brothers, Hindustan Levers, Bengal Chemicals India Foils, East India Pharmaceuticals etc. may be allotted 4.5 million bulk litres.
- (iii) Rest of consumers, including Government hospitals and Defence Department may be allotted 2.5 million bulk litres.
- (iv) The Import licence should be issued in favour of M/s. A.C.C.I., who had agreed to import such alcohol for themselves and others also and to make arrangements for storage of such alcohol at Budge Budge and also arrange for denaturation of the imported rectified spirit for issue to such consumers who consume denatured spirit.

M/s. A.C.C.I. had also agreed to take out necessary warehouse licence from the State Government for underbond storage of alcohol.

Import licences were issued by the office of the CCI&E in the name of Commissioner of Excise, Government of West Bengal with a letter of authority in favour of M/s. A.C.C.I. to effect imports.”

2.34. In reply to another question as to whether the Ministry had any machinery to watch that the raw materials which are allowed to be imported for a particular purpose are actually used for that purpose. The Joint Secretary, Ministry of Petroleum and Chemicals informed the Committee during evidence that this was watched by the Customs and excise authorities.

2.35. Explaining the safeguards that had been provided to prevent abuse of the imports, the Finance Secretary stated:

“The exemption notification is subject to the undertaking being given that the alcohol could be used for industrial purposes in the State of West Bengal and they will have to certify that the alcohol was denatured to the satisfaction of the Government of West Bengal. The other safeguard is that it would move under bond to bonded warehouses under the control of the Commissioner of Excise, Government of West Bengal and that the use of the ethyl alcohol will be under his supervision. These are the safeguards.”

2.36. About the arrangements for the storage of the alcohol in West Bengal, the Joint Secretary, Ministry of Petroleum and Chemicals stated during evidence:

“The West Bengal Government said that the ACCI would make arrangements for storage of alcohol at Budge Budge and arrange for denaturation of the imported rectified spirit and therefore we went ahead with the arrangement on that basis.”

2.37. The Committee desired to know the denaturing arrangements made by Alkali Chemical Corporation.

The witness stated:

“Denaturants for alcohol used by ACCI were injected into the receiving storage tank before unloading of imported alcohol.”

When the Committee asked whether this had been done invariably, he replied:

“This is injected into the receiving storage tank before unloading of imported alcohol from the ship into the said tank.”

In reply to another question whether the denaturing was done before unloading, the witness stated that the denaturants were injected into the tank before unloading and then alcohol poured into the tank from the ship.

2.38. If this was the position, the Committee asked how some quantity of ethyl alcohol had been diverted to the distilleries. The witness replied:

“Denaturants were injected into the tank before unloading and then alcohol, poured into the tank from the ship. . . . Denaturants were used for supplies to other consumers except for pharmaceutical industries before the supplies were effected from the Budge Budge storage yards.”

Since the Alkali Chemical Corporation had been allowed to import the alcohol on behalf of the West Bengal Government and they were supposed to undertake denaturation, the Committee asked whether the Ministry was aware that this had not been observed in all cases. The witness replied:

“This denaturation was under the supervision of West Bengal Excise and Customs authorities.”

When the Committee asked whether, as the facts had now developed, the Ministry conceded that in many cases, the alcohol was not denatured, the witness replied in the affirmative.

2.39. The Committee desired to know the circumstances under which the diversion had taken place and why the party entrusted with the task had shown neglect in this matter. The Finance Secretary stated:

“There are certain papers on our file which indicate clearly that the West Bengal Government did not hide anything. They have made it abundantly clear that what happened was that at one stage the industries were without alcohol and, to that extent, they gave a certain quantity of alcohol from their own stocks which was meant for potable purposes and for distilleries, in order to tide over the difficulty. Thereafter, when the industrial alcohol came in, they only replenished their stocks. We do not say that this was right; all that we say is that this is the explanation they offered. We shall be looking into it and, meanwhile, the Collector of Customs has put in a demand notice for about Rs. 22.98 crores.”

2.40. The Committee asked what steps had been taken, after giving the exemption, to ensure that the alcohol was not diverted for non-industrial purposes and whether action had been taken only after the receipt of Shri Chaudhuri's petition from the Chairman, Public Accounts Committee. The representative of the Central Board of Excise and Customs replied:

“The copies of the petition had already been received by the Collector of Customs himself and we had also sent it to the Collector of Customs, Calcutta for report.”

In reply to another question whether the Ministry pursued this matter of its own volition, the witness stated:

“Actually it is not the first time that we have given the exemption. I think it is going on for sometime now and we have relied on the checks and control exercised by the West Bengal Government.”

2.41. Since the West Bengal Government had stated that the alcohol had been diverted to the distilleries to replenish a loan taken earlier by the industries, the Committee asked whether the Government of India agreed with the action taken by the West Bengal Government. The witness stated:

“We have told the Collector of Customs, Calcutta that this is a matter which is pending before him and he has to decide quasi-judicially and therefore we have told him quite clearly that we are not going to give any directions and he has to decide the matter in the light of all the facts given and circumstances of the case and the submissions made by the parties against whom demands have been made.”

When the Committee pointed out in this connection that the licences are not issue by the Collector of Customs, the Chief Controller of Imports and Exports stated:

“The licence was issued subject to the condition that the imported alcohol will be released to the actual users against the orders issued by the Government of West Bengal. Release orders were issued by the Government of West Bengal. The licence was issued to the West Bengal Government and they said that they would supervise the utilisation.”

He added:

“As to whether it is for a particular purpose this alcohol was imported, I would say that the alcohol imported was industrial alcohol and the letter that came from the West Bengal Government indicated that it will be released for the purpose of industrial production.”

2.42. The Committee asked whether the West Bengal Government could claim the right to divert a part of the imported alcohol for non-industrial use. The Chairman, Central Board of Excise and Customs stated:

“I will attempt to answer as to how the Collector of Customs, Calcutta, comes into the picture. After it has come to his notice that certain diversions have taken place, he has issued demands

for additional duty at the rate of 22(4). Therefore, the party has to explain to him. He has become the adjudicator. It is in that capacity that the matter is before him. Now, he has asked the party whether they have got anything to say and after that he will pass the order. In that particular context, the matter is pending before the Collector of Customs."

In reply to another question whether the Government of India accepted the plea of replenishment, the Finance Secretary stated:

"I would submit one thing that the Central Government is not concerned with potable alcohol at all. The point made by the West Bengal Government is that they diverted stocks of potable alcohol for industrial purposes and they only replenished the stocks of potable alcohol when the industrial alcohol arrived."

2.43. When the Committee asked whether the Government of India agreed that the amount of duty on the alcohol diverted for potable purposes had to be recovered, the Finance Secretary stated that he would not like to hazard a guess as to what would happen. The Committee pointed out in this connection that a demand had been raised. The witness stated:

"It is not my intention. It is neither the Government's intention. It is the intention of the Collector of Customs, Calcutta."

He added:

"These are subject to various checks and they can go and appeal against this demand and various conditions would prevail then."

2.44. Referring to the written reply furnished by the Ministry in this regard, the Committee desired to know the circumstances under which the demand had been raised first against Alkali Chemical Corporation and how the West Bengal Government had been held as the importer. The representative of the Central Board of Excise and Customs stated:

"We have said that its use was not covered by the term of industrial use. The matter is pending for a decision before the Custom House, Calcutta. The Collector of Customs of Calcutta has taken a view that these uses of imported alcohol were not covered by the term of exemption order. Accordingly, in respect of these quantities, the demand for duty had been issued by the Customs House, Calcutta, against which a representation of the West Bengal Government was received by the Customs House and is under consideration. The matter is before the Collector of Customs."

The Committee asked what was the *locus standi* of the Government of West Bengal in the matter of preferring an appeal. The witness stated that they were the importers. Under the circumstances, the Committee asked against whom the demand had been raised. The witness stated:

“The demand had been raised against ACCI. Under the letter of authority, they had been appointed as agent duly authorised to perform the function of an agent of the West Bengal Government and therefore they filed a Bill of Entry. Copies of these demands were also endorsed to the Commissioner of Excise.”

The Chairman, Central Board of Excise and Customs stated in this connection:

“Most of this work is being done by a clearing agent, although the owner is different and therefore the agent becomes responsible. So, in this case, the owner has every right to step in.”

2.45. In reply to another question why the demand had not been raised against the West Bengal Government, the Chairman, Central Board of Excise and Customs stated that the demand was issued against the person who filed the bill of entry and a copy was endorsed to the owner. He added:

“In fact, on this general issue there was a tremendous agitation on their (clearing agents) side that this should not be done. We said that once they acted as an agent of the importer, they cannot escape this responsibility, because the agent has the full responsibility of the owner if he chooses to act on his behalf.”

The representative of the Central Board of Excise and Customs stated in this context:

“The fact is that the demand notice had been issued to Alkali and Chemicals, because on the Bill of Entry, the importer's name was written as Alkali and Chemicals. But, at the same time, a copy of the demand had been endorsed by the Collector of Customs, Calcutta to the West Bengal Government. This has a reference to the undertaking given by the licensee regarding the use of imported alcohol in terms of the *ad hoc* exemption order mentioned above.”

2.46. In his letter dated 31st July, 1973, the Commissioner of Excise, West Bengal, had, *inter alia*, stated that the notice which the local authorities had thought fit to issue without further consultation with him were ‘misconceived’. The Committee drew the attention of the Ministry to this letter and asked why an officer of the Government of West Bengal should

**find fault with the Customs official and write to the Government of India. The representative of the Central Board of Excise and Customs stated:**

**“We have decided to ignore that part of it and we have made it quite clear to the Collector of Customs, Calcutta that he has to decide the matter on merits.”**

**In reply to another question on the attitude taken by the Government of West Bengal in this matter, the witness stated:**

**“Here I must clarify the legal position. According to the interpretation of law under the Customs Act, both Alkali Chemicals and West Bengal Government could be considered as importers.”**

**2.47. The Committee desired to know whether the Collector of Customs, Calcutta had also made the Government of West Bengal a party. The witness stated:**

**“If your question was whether an identically framed demand letter was issued to the West Bengal Government, I would say, that was not done. Only the same demand made on ACCI was also endorsed to the West Bengal Government drawing their attention to the undertaking given by them.”**

**2.48. The Committee asked who was responsible for the omissions and commissions in this particular case. The Chairman, Central Board of Excise and Customs stated:**

**“The people who filed the bill of entry and signed the same and in this case, I am informed, they are A.C.C.I. The undertaking was given by the West Bengal Government.”**

**2.49. Clarifying the position in this regard, the Ministry of Finance (Department of Revenue and Insurance) stated as follows, in a note subsequently furnished to the Committee:**

**“Collector of Customs, Calcutta has reported that the West Bengal Government was the licence holder and the letters of authority were issued in favour of M/s. Alkali and Chemicals Corporation of India Limited. As such, the importations were arranged by M/s. ACCI Limited and the bills of entry were filed by them for the purpose of clearance of the consignments through Customs.**



*One of the conditions of the licence was as follows:*

*'(iv) the goods for the import of which the licence has been granted shall be the property of the licensee at the time of import and thereafter upto the time of clearance through Customs'.*

Further, it has been stated in the letter of authority that 'the person or concern in whose favour letter of authority is issued will act only as an agent of the licensee and the goods imported shall be the property of the licensee both at the time of clearance through the Customs and subsequently thereto'. Thus in terms of the licence and the letter of authority, the goods belonged to the licensee, namely Commissioner of Excise, West Bengal and M/s. ACCI Limited acted as a holder of letter of authority and arranged importations.

Since the bills of entry were filed by M/s. ACCI Limited and they acted as agent for import and clearing the goods through Customs the demand letters were issued to them, with copies to Commissioner of Excise, Government of West Bengal.

According to Section 2(26) of the Customs Act, 1962, 'importer' in relation to any goods at any time between their importation and the time when they are cleared for home consumption includes the owner or any person 'holding himself out to be the importer. The Commissioner of Excise, West Bengal Government being the licensee in this case is the owner of the goods in terms of the licence and the letter of authority and is also 'importer' according to Section 2(26) of the Customs Act, 1962. The Government of West Bengal were, therefore, concerned with the importation and as a consequence had represented against the demands issued in this case.

Collector of Customs, Calcutta has intimated that the cases have not yet been adjudicated as a reference has been made by him to the Branch Secretariat of Ministry of Law and Justice and that further action will be taken on receipt of their advice."

2.50. The Committee desired to know whether there had been any further diversion of ethyl alcohol, in addition to the 28,69,950 litres, for potable purposes in West Bengal and, if so, whether demands for duty

had been raised in these cases also. The representative of the Central Board of Excise and Customs stated:

"We have sent several replies to questions asked by the Committee on the basis of information given to us in writing by the West Bengal Government and as verified by the Collector of Customs. On 19th the office of the Comptroller and Auditor General have enquired whether it is a fact that some more quantity than what we had set out in some of our replies was actually diverted for potable purposes. That letter was received on 20th and immediately we sent a telex to Calcutta Customs to check with the West Bengal Government. Now I had received a telephonic message before coming here, saying that it appears to be correct that there has been some more quantity diverted and some of the replies that we had sent might need factual correction. I am, however, awaiting a detailed report on this from the Collector of Customs, Calcutta.

2.51. A written note furnished subsequently furnished to the Committee in this regard is reproduced below:

"In addition to the diversion of 28,69,950 litres of ethyl alcohol imported during 1972-73 as already intimated to the Committee the Custom House, Calcutta has intimated that a further diversion of 2,94,050 litres of alcohol for manufacture of potable liquor has been reported. This additional quantity of 2,94,050 litres relates to the importations made during 1973-74, as reported by the Commissioner of Excise, West Bengal.

The Customs House, Calcutta has reported that duty, calculated on average basis, on 2,94,050 litres of alcohol (out of the alcohol imported during 1973-74 by the Government of West Bengal) worked out to Rs. 2,35,38,558.48 paise only under item 22(4) ICT.

Collector of Customs, Calcutta has reported that as a precautionary measure demands covering the entire quantity of ethyl alcohol imported in 1973-74 were issued by the Custom House and the aforesaid amount is included in these demand letters. This course was adopted because at that time the Custom House was not aware of the extent of diversion of ethyl alcohol for potable purposes out of the quantity imported in 1973-74."

2.52. When the Committee pointed out that this amounted to a grave gap causing unjustified burden on the foreign exchange besides resulting in loss of customs duty, the witness stated:

“If it is conceded that there was diversion of alcohol for uses not intended and all the other conclusions would automatically follow.”

2.53. Since violations of the terms of the exemption notification had come to notice, the Committee asked whether Government should not proceed against the defaulters under the provisions of the Customs Act by confiscation, etc. In a note furnished to the Committee, the Ministry of Finance (Department of Revenue and Insurance) stated:

“The Collector of Customs, Calcutta (who is the adjudicating authority) has reported that since the goods have already been released from the Customs control on the basis of the *ad hoc* exemption orders and have presumably been consumed, the question of confiscating the goods at this stage does not arise. However, the question of realisation of duty on the quantities of ethyl alcohol diverted for non-industrial purposes is under consideration.”

2.54. The imports of ethyl alcohol were meant for industrial purposes and the foreign exchange had also been released for a specific purpose. The Committee, therefore, enquired whether the diversions for non-industrial, potable purposes were not violations of the Import Control and Foreign Exchange Regulation Acts, and, if so, the Committee desired to know what action was proposed against the defaulters under these Acts. The Chief Controller of Imports and Exports stated in a note:

“Since the imports were intended for use as raw materials in the alcohol-based industries and not for potable use, any diversion of the imported synthetic ethyl alcohol for the purpose other than the one for which import was requested and allowed, would attract the penal provisions of the Imports (Control) Order, 1955 (as amended from time to time), issued in exercise of powers conferred under Sections 3 and 4 of the Imports and Exports (Control) Act, 1947, as the purpose for which requests for licences were submitted and licences had been issued would have been defeated. The action to be taken/proposed to be taken would depend on the declarations made in the applications as well as on the actual facts regarding diversion of the imported ethyl alcohol for non-industrial purposes as stated above, by the defaulters. For this purpose, various documents have to be examined and only on the basis

**of such an examination, it can be determined what action can be taken against the defaulters."**

**As regards violation of the Foreign Exchange Regulation Act, the Ministry of Finance (Department of Economic Affairs) stated in another note:**

**"On the general question raised by the Public Accounts Committee regarding possible violations of the Foreign Exchange Control Act, in a case like the one mentioned above, this Department sought the advice of the Reserve Bank of India. The R.B.I. have advised thus:**

**'Reference your telex No. 15 of 2nd January, 1975 in connection with a case pending before the Public Accounts Committee. Our Legal Department have opined that if the goods (same in quality and quantity etc.) for which payment has been made in foreign exchange have actually been imported into India, it cannot be said that the foreign exchange so acquired has been used for any purpose other than the purpose for which it has been released within the meaning of Sub-Section (3) of Section 8 of the Foreign Exchange Regulation Act, 1973. The fact that the goods so imported have been subsequently put to a different use would not alter the above position. Therefore, on the facts, the provisions of the F.E.R. Act, are not attracted. It may be added that the question of diverting imports to unauthorised uses could be a violation of import licensing and customs regulations'.**

**This Department agrees with the views expressed by the Reserve Bank of India."**

### **3. Imports by Synthetics and Chemicals**

**3.1. The Committee were also informed by Audit that apart from the imports by Alkali Chemical Corporation of India on behalf of the Government of West Bengal, an import of ethyl alcohol by Synthetics and Chemicals, Bareilly had also been permitted during 1972-73.**

**3.2. The Committee desired to know when Synthetics and Chemicals had approached the Ministry of Petroleum and Chemicals for permission to import ethyl alcohol. The Joint Secretary, Ministry of Petroleum and Chemicals stated that they came around April 1972. The Ministry also furnished, at the instance of the Committee, the correspondence relating**

to this import. A note furnished by the Ministry indicating the arguments advanced and reasons given by Synthetics and Chemicals for importing ethyl alcohol and obtaining exemption from Customs duty is reproduced below:

“The request for import of alcohol and for exemption from Custom Duty were contained in the Company’s letter of 18th April, 1972. In that letter M/s. Synthetics and Chemicals explained that for their production of 33,000 tonnes of synthetic rubber, they would need 16.9 million gallons of alcohol. They expected a portion of the alcohol requirement to be met by Butadiene available from NOCIL. The availability of Butadiene was indicated at 5500 metric tonnes equivalent to 4.4 million gallons of alcohol. After deducting the alcohol requirements of Butadiene and providing for safe minimum inventory (1.0 million gallons), the net requirement of alcohol was indicated as 13.5 million gallons (60.7 million litres). The availability of indigenous alcohol was expected to be 8.0 million gallons (36.0 million litres). A shortfall in the availability of alcohol to the extent of 5.5 million gallons (24.7 million litres) was estimated. For meeting the shortfall in the availability of indigenous alcohol the firm submitted an application for the import of 24.00 million litres (20,000 tonnes) of alcohol.

Drawing Government attention to the exemption of custom duty allowed on import of alcohol effected in 1967-68 M/s. Synthetics and Chemicals requested that exemption be allowed on the import of 20,000 tonnes to be imported. This letter in so far as it concerned the request for import of alcohol was disposed of at the level of Minister (Petroleum & Chemicals). Subsequently in their telegram dated 22-8-1972 and a letter of 25-9-1972, M/s. Synthetics and Chemicals reiterated their request for exemption of Custom Duty and/or any excise countervailing excise duties on the imported alcohol on the same basis as agreed to on previous imports. The argument advanced by the company was that the cost difference even without customs duty was as high as about three times the cost of indigenous alcohol, the delivered cost of industrial alcohol being Rs. 342.216/KL in 1972 as against the estimated delivered cost of imported alcohol at Rs. 906.28/KL at Bareilly. The request for exemption was recommended to the Ministry of Finance at the level of Joint Secretary.”

3.3. The Joint Secretary of the Ministry of Petroleum and Chemicals stated in this connection during evidence:

"Their requirement was indicated at 56 million litres and the UP Government were in a position to allot them only 40 million litres. For the balance, an import of 10,000 tonnes was allowed. It would be about 12 million litres. Their licensed capacity was 30,000 tonnes which would be equal to 78 million litres. They can produce 3 or 4 thousand tonnes more. As against this total, their requirement will be for 56 million liters."

3.4. The Committee asked whether the Ministry had satisfied itself about the claim made by Synthetics and Chemicals about the requirements of ethyl alcohol for production of synthetic rubber and whether the alcohol available in Uttar Pradesh, which was a surplus State for alcohol, was not adequate to meet the requirements of this factory. The Committee also desired to know the foreign exchange content of this import. The Ministry of Petroleum and Chemicals informed the Committee in a note as follows:

"The licensed capacity of M/s. Synthetics and Chemicals, Bareilly for manufacture of synthetic rubber is 30,000 tonnes per annum. On the basis of 2.2 kg. of alcohol for 1 kg. of synthetic rubber the total requirement of alcohol for capacity production of synthetic rubber is 66,000 tonnes.

Besides alcohol, Butadiene purchased from NOCIL is also used by this company in the manufacture of synthetic rubber. M/s. Synthetics and Chemicals obtained 6230 tonnes of Butadiene from NOCIL during 1972 which is equal to 17,562 tonnes of alcohol. After deducting the alcohol equivalent of 6230 tonnes of Butadiene the net requirement of alcohol was 48,438 tonnes equivalent to 58.12 million litres.

The availability position of Molasses/Alcohol in Uttar Pradesh during the alcohol year 1-12-1971 to 30-11-1972 was reviewed in a meeting held in the Ministry of Petroleum and Chemicals with the representatives of the Government of Uttar Pradesh (Excise Secretary and Excise Commissioner) on 14th August, 1972. The position revealed at the meeting was as under:

	1	2
Estimated production of molasses from 1-12-1971 to 30-11-1972	3.085 lakh tonnes	(excluding Nov., 1971 production of 0.264)
Carryover stock	.	1068 lakh tonnes
Total	.	4.153 lakh tonnes

1	2
Less 5 percent of operational loss . . . . .	0.208 lakh tonnes
Net availability of Molasses . . . . .	3.945 lakh tonnes.
Quantity reserved for small scale and other uses . . . . .	0.114 lakh tonnes.
Net quantity available for distillation . . . . .	3.831 lakh tonnes.
Production of alcohol @ 225 litres per tonne of molasses	86.209 million litres.
Carry over stock of alcohol . . . . .	11.164 million litres.
Total availability of alcohol . . . . .	97.373 million litres.

The representative of the Government of Uttar Pradesh stated at the above meeting that the quantity of alcohol that could be assured to M/s. Synthetics and Chemicals from Uttar Pradesh would be only 40.00 million litres as per utilisation pattern given below:

Purpose	Quantity in million litres
Potable use . . . . .	28.00
Somaya, Barabanki . . . . .	10.00
Other States . . . . .	11.00
Synthetics and Chemicals . . . . .	40.00
Opening stock for next year . . . . .	8.37
	93.37

It was also mentioned at the meeting by the officers of the Government of Uttar Pradesh that the position in the following year was also going to be critical, although production of sugarcane was expected to be better than previous year by 10 per cent; it was apprehended that due to diversion of sugarcane to 'gur' and 'khandsari' availability of sugarcane for sugar factories may be reduced thereby effecting adversely the production of molasses and consequently of alcohol. Government of India, before agreeing to any import of alcohol for Synthetics and Chemicals explored the possibility of getting inter-State allocations of alcohol for this company. Ultimately only 3.5 million litres of alcohol could be expected to be available from Maharashtra.

In view of the position stated above, the following decisions were taken:

1. M/s. Synthetics and Chemicals to get 43.5 million litres of alcohol (3.5 million litres from Maharashtra and 40.00 million litres from U.P. as against their requirements of 56.25 million litres during the year).
2. To meet the deficit, M/s. Synthetics and Chemicals be allowed to import 10,000 tonnes of alcohol so that their production of synthetic rubber is not adversely affected to an appreciable extent.

As per the above decision foreign exchange to the extent of 81.00 lakhs for importing 10,000 tonnes of alcohol by S.T.C. was released by the Ministry of Finance (Department of Economic Affairs) on 8-9-1972. Subsequently, the State Trading Corporation pointed out that the contract entered into with the foreign supplier provided for shipment of 10,000 metric tonnes, 5 per cent more or less at Master's option. The S.T.C. therefore desired that the value of the import licence be enhanced by Rs. 7,20,000 so as to cover a quantity of 10,500 metric tonnes. Accordingly a further allocation of Rs. 7.20 lakhs was agreed to by the Ministry of Finance (Department of Economic Affairs) on 4-10-1972 making a total of Rs. 88.20 lakhs."

3.5. An extract from a letter dated 25th September, 1972 from Synthetics and Chemicals Ltd. to the Ministry of Petroleum and Chemicals is reproduced below:

"You will notice from the enclosed data that the cost differences are as high as about three times the cost of indigenous alcohol and it is for this reason we had requested for this exemption. We may add that this was allowed to us during 1966-67 and 1967-68 for importing alcohol and also Government had allowed increase in the prices of our synthetic rubbers because of compulsory use of high cost alcohol. We understand that similar consideration has also been given to M/s. Alkali Chemical Corporation of India, Rishra on imported alcohol required for production of polyethylene which is a non-priority item as compared with synthetic rubber."

3.6. The Committee desired to know when and the port at which the import of ethyl alcohol was made by Synthetics and Chemicals. The Joint Secretary, Ministry of Petroleum and Chemicals stated that the import



had taken place at Kandla Port in December, 1972. Subsequently, the Ministry of Finance (Department of Revenue and Insurance) informed the Committee that the import had taken place on 27th December, 1972. The Committee asked how Kandla could be the nearest port to Bareilly. The Executive Director, State Trading Corporation stated:

“The reason was, there was a chartered vessel available which we got very cheap and the CIF price was very low. In Kandla port there is less possibility of demurrage. So, taking the totality of circumstances, we chose Kandla port. The ocean freight would have been higher if it is Calcutta.”

3.7. In reply to another question on the actual production of synthetic rubber by the company in 1972 as against the licensed capacity of 30,000 tonnes, the Joint Secretary, Ministry of Petroleum and Chemicals replied that it was 27,653 tonnes. The production during the other years furnished by him, at the instance of the Committee, was as follows:

1967	. . . . .	21,810	tons
1968	. . . . .	25,189	„
1969	. . . . .	24,590	„
1970	. . . . .	30,338	„
1971	. . . . .	33,024	„
1973	. . . . .	20,886	„

3.8. The Committee asked why the Ministry could not allocate the alcohol required by Synthetics and Chemicals from the local production of Uttar Pradesh instead of spending a foreign exchange of Rs. 88.20 lakhs for imports. The witness stated:

“The total availability of alcohol was indicated in the meeting held in August, 1972 in U.P. as 97.37 million litres including the carry over stock of 11.16 million litres. It was at that time that the representatives of the U.P. Government said that they would be able to give 40 million litres to Synthetics and Chemicals and indicated this as the use of the balance quantity available with them as 28 million litres potable use. 10 million litres for Somaya Chemicals at Barabanki and 8½ million litres was carry over for the next year.”

3.9. Since 8½ million litres of alcohol was carried over for next year, the Committee desired to know why this surplus could not be allotted to a person who was readily requiring it. The witness stated:

“5 to 10 per cent is the normal carry over and this stock remains in the tanks, all of which cannot be pulled out and then next year's allocation takes some time to move.”

He added that in the availability of 97.37 million litres also 11.16 million litres carried over from the previous year had been included.

3.10. When the Committee asked why import should be resorted to when some quantity was available, the witness stated that he understood that some quantity remained below in the tanks.

3.11. The Committee desired to know whether the Uttar Pradesh Government had expressed its inability to allocate alcohol to Synthetics and Chemicals. The Joint Secretary, Ministry of Petroleum and Chemicals stated:

“The review of the position in respect of U.P. took place in the room of Shri B. N. Tandon on 14-8-72 at 11.00 a.m. when Shri R. K. Kaul, Excise Secretary and Shri Sehgal, Excise Commissioner, U.P. were present. The officers of the U.P. reported that the availability of molasses/alcohol had turned out to be less than estimated earlier.”

The Committee asked who were the other persons present at this meeting, besides the officials of the State Government and the Central Government. The witness stated that the record did not show anything more. Subsequently, in a note furnished to the Committee in this regard, the Ministry of Petroleum and Chemicals stated:

“Minister of Petroleum and Chemicals had written to the Prime Minister on 30th May, 1972 and again on 4th July, 1972 regarding the difficult situation which was being faced owing to the shortage of molasses and alcohol. In his letter of 4th July, 1972, the Minister had requested the Prime Minister to advise the Chief Ministers of the concerned States to exercise austerity in the matter of non-essential use of alcohol to meet the requirements of alcohol-based industries.

The Prime Minister's Secretariat wanted to apprise themselves of the full details of the matter before any action was taken by them. It was also suggested by that Secretariat that since the officers of this Ministry were in touch with the officers of the concerned State Governments the matter may be discussed further with them. As a follow up on this, the officers of the Ministry of Petroleum and Chemicals reviewed the position regarding Maharashtra with the officers of the State Government at Bombay on 9th and 11th August, 1972. The meeting with U.P. officers was held at Delhi. The meeting was attended by excise Secretary and.....Excise Commissioner, U.P. and....Joint Secretary, Ministry of Petroleum and Chemicals and Shri....of the Prime Minister's Secretariat.

No agenda for the above meeting was drawn up nor were the minutes drafted for circulation. A resume of the discussion with the Maharashtra and U.P. officers was recorded in a note by Shri . . . on 14/16-8-72. In view of these discussions, the Minister's suggestion for the Prime Minister's intervention with the State Chief Ministers' was not pursued."

3.12. The Committee called for the file relating to this meeting which was made available. Extracts from a note recorded in this connection are reproduced below:

"A review of the position in respect of Uttar Pradesh took place in room of Shri B. N. Tandon today at 11 a.m. when Shri R. K. Kaul, Excise Secretary and Shri Sehgal, Excise Commissioner, U.P. were present. The officers of the U.P. Government reported that the availability of molasses/alcohol had turned out to be less than estimated earlier. The statistical picture presented by them was as follows:

Production of molasses from 1-12-71 to 30-11-72		3·c85 lakh tonnes (excluding Nov. 1971 production of 0·264)
Carry-over stock	.	1·068 lakh tonnes
Total	.	4·153 lakh tonnes
Less 5 percent operating loss	.	0·208 lakh tonnes
Net availability of molasses	.	3·945 lakh tonnes
Quantity reserved for small scale and other uses	.	0·114 lakh tonnes
Net quantity available for distillation	.	3·831 lakh tonnes
Production of alcohol @ 225 litres per tonne of molasses		86·209 million litres
Carry-over stock of alcohol	.	11·164 million litres
Total availability of alcohol	.	97·373 million litres

The representatives of U.P. Government stated that this was 3—4 million litres less than what had been assumed/estimated by the Government of India. They further pointed out that in order to keep a reasonable quantity as opening stock for the next year (which is all the more necessary considering the fact that the sugarcane crop in the field is expected to be only 10 per cent better than last year and that there is uncertainty as to the quantity of cane that may be available to sugar factories after apprehended diversion for 'gur' and 'khandsari', the quantity of alcohol which can be assured to Synthetics and Chemicals is only 40 million litres as against 50-51 million litres expected by the Government of India. The

following estimate of utilisation of available alcohol (97.373 million litres) was given:

	million litres
Potable use . . . . .	28·000
Somaya, Barabanki . . . . .	10·000
Other States . . . . .	11·000
Synthetics and Chemicals . . . . .	40·000
Opening stock for the next year . . . . .	8·373
TOTAL . . . . .	97·373

The officers of U.P. Government stated that the position next year too was going to be critical, first, because production of sugarcane was expected to be better than last only by 10 per cent and, secondly, because year it was apprehended that, due to diversion of sugarcane to 'gur' and 'khandsari', available sugarcane for sugar factories may be reduced thereby affecting adversely the production of molasses and consequently of alcohol.

#### *Conclusion.*

The obvious conclusions which emerge from the above are:

- (a) Synthetics and Chemicals are not expected to get more than 43½ million litres of alcohol (3½ from Maharashtra and 40 from U.P.) as against their requirement of 56.25 million litres during the year.
- (b) To meet the deficit, they should be allowed to import 10,000 tonnes of alcohol so that their production of synthetic rubber is not adversely affected to an appreciable extent.
- (c) Considering the prospect of another bad year, we should assess by October, 1972 the quantum of import necessary to keep industrial units using alcohol adequately supplied with raw material. This should be done in consultation with the major cane-producing States. We should ask them right now to give us their first forecast of cane production, molasses production etc.

After the above conclusions are approved, a reference will be made to the Ministry of Finance to approve the proposal for import of alcohol made."

3.13. The Committee found from a letter dated 25th April, 1972 from Alkali Chemical Corporation of India addressed to the Excise Commissioner, West Bengal and copy marked to the Ministry of Petroleum and Chemicals that in April 1972, the distilleries in Uttar Pradesh held adequate stocks of alcohol, particularly distilleries in Eastern Uttar Pradesh. The relevant extract from the letter is reproduced below:

“We have very reliable information that the U.P. distilleries now hold adequate stocks of alcohol, particularly the Eastern, U.P. distilleries and some of them do not have any pending allocation with them at present and are capable of meeting our requirements of about 0.9 to 1.0 million gallons over the next 2 months provided released by U.P. Government.”

3.14. The Committee enquired from the Ministry what action was taken on this letter and, if, as stated in this letter, the Eastern U.P. distilleries held adequate stocks of alcohol and also had no pending allocations at that time, the justification for recommending imports in the case of Synthetics and Chemicals Ltd. The Ministry of Petroleum and Chemicals, in a note furnished to the Committee stated:

“The above letter was received in this Minister on 27-4-1972. Another copy of this letter was received through Government of West Bengal in the first week of May, 1972. The whole position regarding indigenous availability of alcohol in U.P. was reviewed in the meeting of the Working Committee of Central Molasses Board held in the Ministry of Petroleum and Chemicals on 20th May, 1972 which was attended by representatives of State Government of U.P. also. As a result of this review the inter-State allocations made in January, 1972 were revised. It emerged that in addition to the supplies of alcohol allocated from U.P., M/s. Synthetic and Chemicals required another six million litres from indigenous sources. This quantity of alcohol was allocated in favour of this unit from Maharashtra. The allocations were followed up with Maharashtra Government and ultimately imports had to be allowed for M/s. Synthetics and Chemicals.”

3.15. According to the Prospectus of Synthetics and Chemicals Ltd. the proposed location of the factory was centrally situated for obtaining alcohol from all centres of alcohol production within the State and that power alcohol, the base for synthetic rubber, was easily obtainable in large

quantities in Uttar Pradesh. Relevant extracts from the Prospectus are reproduced below:

*“Location:*

The Uttar Pradesh State Government and the Government of India had originally planned for a Synthetic Rubber Project to be located in U.P. based on the large availability of alcohol as a bye-product of the Sugar Industry. It is therefore intended to set up this Plant in Uttar Pradesh. A suitable site admeasuring approximately 1200 acres situate near Bareilly is available and steps are being taken to obtain the same with the assistance of the Uttar Pradesh Government. The proposed site has railway facilities and is centrally situated for obtaining alcohol from all Centres of alcohol production within the State.

The Government of India made it a condition that the manufacture of synthetic rubber should be based upon alcohol. Power alcohol is easily obtainable in large quantities in Uttar Pradesh.

Messrs Kilachand Devchand & Co. Private Ltd. as Promoters have initiated proceedings for acquiring a part of the land under the provisions of the Land Acquisition Act and to obtain the rest by purchase.

*Raw Materials:*

For production of synthetic rubbers and latices it is necessary to set up plants for styrene monomer and butadiene and therefore provision is made to manufacture styrene monomer and butadiene. The production of these intermediates viz. styrene and butadiene would require about 14,000,000 gallons of alcohol. Arrangements have been discussed with the Government of U.P. for obtaining the required quantities of alcohol at reasonable prices. The other principal raw material viz. Benzene required for production of Styrene will be available from the steel plants and steps are being taken to arrange for Benzene supply at reasonable price on long term basis. Except for a few special Chemicals which will have to be presently imported, most of the other chemicals are available in the country.”

3.16. When the attention of the witness was drawn to the Prospectus of the company, the Joint Secretary, Ministry of Petroleum and Chemicals stated:

“One of the considerations in permitting the setting up of the unit was that surplus alcohol in the northern region—in Bihar and Punjab—could be utilised by this unit.”

3.17. The Committee asked whether it was not a fact that prior to 1972-73, Synthetics and Chemicals Ltd. were utilising only U.P. alcohol or other indigenous alcohol and that there was no import. The witness replied:

“The imported alcohol utilised by the Synthetics and Chemicals Ltd. in 1967 was 21.43 million litres and in 1968, 35.37 million litres. Then, in 1969 it was 54,000 litres.”

3.18. When the Committee pointed out that there was no need for the import of alcohol at least so far as Synthetics and Chemicals were concerned and that the import and the foreign exchange spent thereon was unjustified, resulting also in loss of Customs duty, the witness stated:

“The assessment of availability of alcohol in the alcohol year 1972-73 showed that there will be a deficit of 55,000 tonnes and in 1971-72 the deficit was estimated at about 36 million litres.”

3.19. In their application for permission to import alcohol, Synthetics and Chemicals had stated that the imports were being negotiated with M/s. Bay Bridge Co., U.K., who were the business associates of Synthetics and Chemicals Ltd. The Committee desired to know whether, being aware of this connection, the Ministry took care to check the prices of imported alcohol from the business associates before allocating foreign exchange. The Joint Secretary, Ministry of Petroleum and Chemicals stated:

“It was understood that M/s. Bay Bridge Company were business associates of the Kilachand group. That is why the imports were decided to be done through STC.”

He added that the ultimate suppliers were M/s. Soeficia of France. The representative of the State Trading Corporation confirmed that so far as the STC was aware, M/s. Soeficia had no connection with M/s. Bay Bridge Company. The witness also added that the State Trading Corporation had invited global tenders and enquires had been sent to all.

3.20. The Committee desired to know whether it was the policy of Government that the import of alcohol should be canalised and, therefore, the import on behalf of Synthetics and Chemicals Ltd. had been canalised through STC. If this was the reason, the Committee also asked why the imports in West Bengal had not been canalised through STC. The Ministry of Petroleum and Chemicals informed the Committee in a note as follows:

“Prior to the financial year 1974-75 alcohol was not a canalised item under the Import Control Policy. There was, however, no bar on import of this item through S.T.C.

**M/s. Synthetic and Chemicals** who applied for import of alcohol in April, 1972 obtained quotations from **M/s. Baybridge, U.K.** and **M/s. Indian Molasses Co.** for the import of alcohol at the following rates:

**M/s. Baybridge**—\$ 111.30 per M. Ton CIF Kandla.

**M/s. Indian Molasses Co.**—\$ 111.50 per M. Ton CIF Kandla.

It was understood that **M/s. Baybridge Co.** were the business associates of **M/s. Kilachand** group, which own **M/s. Synthetics and Chemicals, Bareilly**. **M/s. Kilachand** group is one of the large Houses. It was felt that with more strenuous efforts they could have secured a lower price. In March, 1972 A.C.C.I. had been allowed import of 20,000 tonnes of alcohol @ \$ 100 per tonne. On a suggestion from D.G.T.D. whether it would not be desirable to import alcohol through **STC**, the **STC** was contacted who informed this Ministry that the Corporation would be in a position to secure imported alcohol. It was accordingly decided to entrust the import through **S.T.C.** subject to the condition that the import would be on a global tendering basis in consultation with **M/s. Synthetic and Chemicals** and a ceiling rate of \$ 111 per tonne was imposed. The import of alcohol by the Government of West Bengal through **ACCI** was allowed as the prices were reasonable.”

3.21. Since it had been stated in the written reply of the Ministry that it had been decided to entrust the import to **STC**, subject to the condition that the import would be on a global tender basis, in consultation with **Synthetics and Chemicals Ltd.**, the Committee desired to know the precise reasons for the need for finalising the global tenders, in consultation with the firm. The Joint Secretary, Ministry of Petroleum & Chemicals stated.

“This is according to the decision taken in the file. I will read out the relevant portion. . . . This is given in the note of the Ministry of Finance (Department of Economic Affairs). I will read out the paragraph.

“Now the Department of Economic Affairs have agreed to the import of 10,000 tonnes of industrial alcohol. The import will be financed under the **I.D.A.** industrial import credit and will have to be made by **STC**. The import will be on global tender basis in consultation with **Synthetics and Chemicals Ltd.**.”

The Committee asked why a global tender should be floated in consultation with a private firm. The witness replied that he could not throw more light on this point.



3.22. The Committee asked whether the witness could cite any instance that a private sector company should supervise the purchasing by the State Trading Corporation. The witness stated that he could not cite any instance.

3.23. The Ministry of Petroleum & Chemicals stated subsequently in a written note:

"The note by the Ministry of Finance (Department of Economic Affairs) has been recorded on 8th September, 1972 in the file of the Ministry of Petroleum and Chemicals when the matter was referred to that Department for release of foreign exchange for the import of 10,000 tonnes of industrial alcohol. The note reads as below:

"The Department of Economic Affairs agree to the import of 10,000 tonnes of Industrial alcohol. The import will be financed under the IDA Industrial Imports credit and will have to be made by STC. The import will be on a global tendering basis in consultation with Synthetics and Chemicals Ltd. STC will have to be told to strictly observe IDA.

A copy of the Order issued in this connection is placed below':

Mention was made earlier of the decision communicated by the Ministry of Finance in the above note. Ministry of Finance had recorded the above note in consultation with the Economic Adviser. Since this was a completely new item for the STC to handle and there could arise problems of specifications, phasing of deliveries/utilisation, it was stipulated that STC consult M/s. Synthetics and Chemicals so that the imports were as per the technical specifications and delivery schedule required by the party. There is nothing unusual about this stipulation as the canalising agencies generally consult the actual users in regard to these matters except where the imports are of generic items required by a large number of actual users."

3.24. In respect of imports in West Bengal, a question had been asked by the Committee as to why it was not possible to import denatured spirit as such instead of ethyl alcohol and denaturing it subsequently. It was then stated that for different products, the same denatured spirit cannot be used and that different denaturants would be necessary for different industries. It was also stated that there would be no problems if the import was meant only for one particular industry, as it would then be possible to know which would be the appropriate denaturant. In the light of this, the Committee desired to know why Synthetics and Chemicals Ltd. were allowed to

import undenatured alcohol, when the alcohol was specifically required for the manufacture of synthetic rubber and the denaturant could have been specified in this case. The Ministry of Petroleum and Chemicals stated in a note:

“When import of ethyl alcohol was recommended in favour of M/s. Synthetic and Chemicals Ltd., by the Ministry of Petroleum and Chemicals, it was not examined whether the alcohol should be denatured before importation.”

3.25. A copy of the *ad hoc* exemption order No. 4 dated 4th January, 1973, exempting the imported alcohol in this case from the payment of customs duty, is reproduced below:

“To

The Collector of Central Excise, Ahmedabad.

Sir,

Sub: Exemption—Import duty—alcohol for producing synthetic rubber.

I am directed to say that in exercise of the powers conferred by sub-section (2) of Section 25 of the Customs Act, 1962 (52 of 1962), read with sub-section (4) of Section 62 of the Finance Act, 1972 (16 of 1972), the Central Government being satisfied that it is necessary in the public interest so to do, hereby exempts a quantity of 10,000 tonnes of alcohol imported by the State Trading Corporation for supply to M/s. Synthetic and Chemicals Ltd. for use in the manufacture of synthetic rubber in their factory at Bareilly (U.P.) from the payment of duty of customs and also the regulatory duty of customs leviable thereon, subject to the production of Import Trade Central Licence in respect thereof, from the Chief Controller of Imports and Exports, New Delhi and subject to an undertaking being given that the alcohol would be used solely for producing synthetic rubber in the State of U.P. and to the production of the following certificates to the effect that the said alcohol:

(i) is already denatured, *and*

(ii) would move under bond to bonded warehouses under the control of the Commissioner of Excise, Government of Uttar Pradesh and that the use of alcohol for the aforesaid purpose will be under his supervision.

This order is being issued in order that the prices of synthetic rubber produced out of imported ethyl alcohol are kept lower than those from natural rubber and thereby enable the rubber industry in the country to be developed on rational lines.

Yours faithfully,

Sd/-

Under Secretary to the Govt. of India"

Subsequently, at the request of Synthetics and Chemicals Ltd. and on the recommendation of the Ministry of Petroleum and Chemicals, the quantity of 10,000 tonnes was enhanced to 10,500 tonnes.

3.26 The Committee asked whether the Ministry of Petroleum and Chemicals have any machinery to ensure that the raw materials which are allowed to be imported for a particular purpose are actually used for that purpose. The Joint Secretary, Ministry of Petroleum and Chemicals stated that this was watched by the Customs and Excise authorities. The Finance Secretary stated in this connection:

"The exemption seems to have been given subject to the following conditions: Subject to the undertaking being given that the alcohol should be used solely for producing synthetic rubber in U.P. and the production of the following certificate to the effect that the said alcohol is (i) already denatured, and (ii) would move under bond to bonded warehouses under the control of the Commissioner of Excise, Government of Uttar Pradesh and that the use of alcohol for the aforesaid purpose will be under his supervision."

The Ministry of Finance (Department of Revenue and Insurance), in a note furnished to the Committee, stated in this connection:

"If duty relief in respect of any goods, allowed to be imported, is granted subject to the condition that they are to be used only for specific purposes, the Custom House takes a bond or an undertaking, where it is considered necessary, or where taking of such a bond or undertaking is prescribed in the exemption order itself, with a view to ensuring that the end-use conditions are fulfilled. A watch is kept on such cases with the help of a register and the bond or undertaking discharged on being satisfied regarding the end-use. Action in case of default can be taken against the importer in terms of the bond or undertaking without prejudice to any other action that may be taken under the law."

In reply to another question on who was responsible for the physical compliance part of it, the Joint Secretary, Ministry of Petroleum and Chemicals stated that it was the State Excise Department. He added:

“Denaturing has to be done at Kandla; that is the responsibility of customs. Further movement to Barcilly in bond is watched by the State excise authorities.”

3.27. The Committee desired to know the arrangements available at Kandla for denaturing the alcohol. The witness stated:

“The denaturation work at Kandla was supervised jointly by the Preventive Officer (Customs), Kandla and the Inspector of Prohibition and Excise there.”

As regards the arrangements at Kandla for denaturing, he stated that he did not have detailed information. The representative of the Central Board of Excise and Customs stated in this connection:

“According to the report that we have received from the officer-in-charge at Kandla, it appears that denaturation was done under the joint supervision of the customs and State excise authorities.”

He added that the work of denaturing had been left to the State authorities.

3.28. When the Committee asked whether it was the responsibility of the Government of Gujarat or the Government of Uttar Pradesh, the witness replied:

“If information is required in respect of alcohol denatured before clearance from the shore banks, then naturally it was the Gujarat State.”

3.29. The Committee desired to know how the denaturing was actually done, the arrangements available for denaturing, what exactly was the process gone through for the purpose and whether the alcohol had, in fact, been denatured before moving out of Kandla. The representative of the Central Board of Excise and Customs stated that the reports which he had confirmed that the alcohol was denatured. He added that if some doubt was entertained on this point, he would recheck and revert back.

3.30. When the Committee asked in this connection how it could be found out at this stage, the witness replied:

“We can verify whether it was denatured before it was removed. There must be some contemporaneous record either with the Customs or with the State authorities.”

Since denaturing was a technical job, the Committee asked whether the U.P. Government had been entrusted with the job of doing it. The witness replied:

“Denaturing is done both by the department of Customs and by the State Government. The use of denaturants may vary, depending upon the end-use.”

He added:

“If the Customs were to do it, there is certainly a procedure prescribed for it; and our Customs laboratories have got certain facilities. We do not have detailed information on the point *viz.* What are the arrangements available with the State excise authorities.”

3.31. Subsequently, in a note furnished to the Committee in this regard, the Ministry of Finance (Department of Revenue and Insurance) stated:

“The Assistant Collector of Customs, Kandla has reported that consignment of Ethyl Alcohol imported in 1972-73 was denatured under combined supervision of Customs, Superintendent Prohibition and Excise of Gujarat Government, surveyors Metchlf Hodginsons Pvt. Ltd. and Erichson Richards. It was denatured with 0.2 per cent crotonal dehyde in tanks. To ensure proper mixing a measured quantity of denaturant was introduced at the bottom of empty tank and alcohol pumped through the bottom inlet to ensure proper and continuous mixing.”

Copies of the telegram dated 30th August 1974 received in this connection by the Ministry from the Assistant Collector of Customs, Kandla, certificate dated 13th September 1973 of the Inspector of Prohibition and Excise, Kandla and the chemical analysis report, furnished to the Committee by the Ministry, are reproduced in Appendix IX.

3.32. The Committee desired to know what would have been the duty collected in the case of imports by Synthetics and Chemicals Ltd., under ICT 22(4), if there had been no exemption. The representative of the Central Board of Excise and Customs stated:

“If there would have been no exemption, there would have been no import.”

In a note furnished to the Committee subsequently, the Ministry of Finance (Department of Revenue and Insurance) stated:

“Duty on the quantity of ethyl alcohol imported by M/s. Synthetics and Chemicals, Bareilly in terms of *ad hoc* exemption orders No. 4 (F. No. 355/101/72-Cus. I) dated 4th January 1973 and No. 56 (F. No. 355/101/72 Cus. I) dated 24th January 1973 during 1972-73, if calculated under item 22(4) ICT comes to Rs. 102.94 crores (approximately). In calculating this amount, the quantity in litres taken into account has been obtained by converting the quantity in metric tonnes by the application of specific gravity of 0.816 to the ethyl alcohol. In this connection it may be mentioned that the entire quantity of alcohol was denatured before clearance through Customs.”

3.33. The Committee enquired from the Ministry of Railways (Railway Board) whether any indents had been placed by Synthetics and Chemicals Ltd. for tank wagons for the movement of alcohol from Kandla to Bareilly in 1972-73. The Railway Board informed the Committee that no indents for the movement of alcohol had been placed on the Railways by Synthetics and Chemicals in 1972-73. When this was pointed out to the Ministry of Finance by the Committee during evidence, the representative of the Central Board of Excise and Customs stated:

“During 1972-73, they may not have moved but subsequently they may have kept the alcohol in storage.”

3.34. The Committee asked whether the Ministry was aware that the alcohol had actually reached Bareilly and utilised for the purpose for which it had been imported. The Joint Secretary, Ministry of Petroleum and Chemicals stated:

“At a meeting held in October 1974, the Excise Commissioner, U.P. informed me that this alcohol had moved from Kandla to Bareilly over the period July to October 1974.”

The representative of the Central Board of Excise and Customs stated in this connection:

“The exemption order stipulates that. We have reports upto 26th September 1974. Out of 10,000 metric tonnes imported, 7193 metric tonnes have been received in Bareilly. For the balance, we do not have the official report. P&C Ministry keep a watch on it.”

3.35. Since it had been stated that the Ministry of Petroleum and Chemicals keep a watch on the movement of the alcohol from the port of import to its destination, the Committee desired to know the machinery available with the Ministry of Petroleum and Chemicals to verify or monitor the movement of imported commodities and how this was ensured in the case of imports by Synthetics and Chemicals Ltd. The Ministry of Petroleum and Chemicals stated in a note furnished to the Committee:

“The Ministry of Petroleum and Chemicals has no separate machinery to verify or monitor the movement of imported commodities. In the present case, this was looked after by the State Excise authorities at the despatch and destination points. At Kandla, the material was denatured, before despatch, under the supervision of State Excise Authorities. At the receiving end whole time excise staff of Government of Uttar Pradesh supervised alcohol receipts and issues.”

3.36. The import of ethyl alcohol by Synthetics and Chemicals Ltd., had been permitted on a plea of urgency created by the non-availability of indigenous alcohol. When the urgency was so great, the Committee asked how the alcohol could move only after two years. The Joint Secretary, Ministry of Petroleum and Chemicals stated:

“I am explaining the sequence of events. In 1971 the production was 33,000 tonnes and odd. In 1972 it could be only 27,653. That is because of inadequate availability of alcohol and the delay in arrival of this imported alcohol. The need for this alcohol when the import was allowed was there. By the time the alcohol arrived, the U.P. Government had imposed a vend fee on the indigenous alcohol at the rate of Re. 1/- per litre. In 1973, the production fell because of their factory being closed for a considerable period. That was the lowest production since 1967, the main reason being the loss of production due to the vend fee dispute which was resolved by the Allahabad High Court striking down this new levy on 24th March 1973.

Then there was 77 days strike of workmen who demanded revision of their agreement. Due to general shortage of wagons, coal and raw material, there was a partial lay-off between December 1972 and March 1973. From the first week of June 1973, the company faced labour trouble which necessitated curtailed production in the first instance and complete shut down later. Normal working was restored in August 1973.”

3.37. The witness had stated that one of the reasons for the non-movement of alcohol was the general shortage of wagons. When the Committee pointed out that this statement was inconsistent with what had been stated by the Railway Board, he stated that he could not say anything on that.

3.38. Another reason for the non-movement, according to the witness, was the imposition of a vend fee on indigenous alcohol by the U.P. Government, against which the firm had filed a case in the Allahabad High Court. Since this vend fee was leviable only on indigenous alcohol and the imported alcohol had also arrived by the time this fee was imposed, the Committee desired to know the justification for the alcohol moving to Bareilly only during July-October 1974. The Ministry of Petroleum and Chemicals stated in a note:

“M/s. Synthetics and Chemicals filed a writ petition against Government of U.P. in 1972 against the levy of higher rate of vend fee on indigenous alcohol imposed by the U.P. Government. This dispute was decided by the court in March 1973.

In the meantime, a quantity of 10,500 tonnes of imported alcohol reached Kandla Port on 29th December 1972. Necessary procedural formalities like furnishing bond agreement to the custom authorities in respect of the imported alcohol were finalised by the end of January 1973. Thereafter, the party could not get allocation of the necessary railway tankers for moving the imported alcohol from Kandla to their plant at Bareilly. After the dispute regarding vend fee was resolved, the availability of supplies of alcohol from U.P. distilleries to this unit became easy. Later on the plant remained shut down for a period of 77 days due to strike which was called off on 22nd August 1973. Thus one of the factors which contributed towards the loss of production of synthetic rubber during 1973 was also the shut down of the plant due to strike.

Towards the end of August 1973 the party represented that in view of the easy availability position of indigenous alcohol and the expected bumper sugarcane crop for 1974 and therefore of alcohol during 1974 they felt that the imported alcohol would be surplus to their requirements and should therefore be allowed to be re-exported. After taking into account the relevant factors, this representation was rejected in September 1973. In December 1973 the party again represented that it was not economical for them to use the



imported alcohol in their operations and that in view of this the imported alcohol should be diverted to other users. While examination of their representation was still going on, M/s. Synthetics and Chemicals informed in April 1974 that they were no longer interested in either exporting the imported alcohol or in diverting the same to any other use.

The above position brings out clearly the background against which the party started utilising the imported alcohol only by the second half of 1974."

3.39. The Committee called for the Ministry's file relating to the representation regarding re-export or diversion of this alcohol, which was made available.

3.40. The Committee asked whether anyone could believe that a commodity required so urgently for industrial use could be allowed to remain unused for such a long period. Since there was a question of demurrage also, the Committee desired to know what action had been taken by the Excise Officers. The Finance Secretary stated:

"As we have been saying, it is the responsibility of the State Government. In this case too, it was the responsibility of the Commissioner of Excise, Government of U.P."

He added:

"As I have been saying, the exemption of duty that is being granted is a conditional one. If they do not observe the conditions, the duty is chargeable and that is what has been done in the case of West Bengal."

3.41. The Ministry of Finance (Department of Revenue and Insurance) subsequently furnished to the Committee the correspondence exchanged between the Ministry and the Assistant Collector of Central Excise, Bareilly on the denaturing and movement of the alcohol from Kandla to Bareilly, details of the wagons, Railway Receipts and bonds executed by Synthetics and Chemicals Ltd., summary of the outturn report, etc. A statement showing the details of imported alcohol despatched

from Kandla and its receipt consignment-wise, forwarded to the Ministry by the Assistant Collector of Central Excise, Bareilly is reproduced below:

Date of Receipt	Excise Pass Ref.	No. of wagons	Quantity despatched	Quantity received
13-7-1974	1 to 25 7/7 and 8/7 . . . . .	25	8,79,144	8,75,180
1-8-1974	26 to 46 and 49 24/7 and 25/7 . . . . .	22	7,55,786	7,51,100
10-8-1974	47 & 48—25/7 50/72—1/8 . . . . .	27	9,49,204	9,49,622
27-8-1974	75—99 19/8 & 21/8 . . . . .	23	7,78,958	7,73,089
29-8-1974	100—123 22/8 & 23/8 . . . . .	19	6,71,672	6,73,581
1-9-1974	125—145 27/8 . . . . .	21	7,52,850	7,66,700
3-9-1974	114 124 147 23/8 27/8 . . . . .	3	1,06,400	1,05,075
7-9-1974	119 121 122 23/8 . . . . .	3	1,06,526	1,07,500
10-9-1974	148/166 31/8 146 27/8 . . . . .	20	7,20,920	7,24,800
11-9-1974	151—154 157 38/8 172—195 5/9 . . . . .	26	8,85,196	8,86,400
14-9-1974	84, 183, 196—215 7/9 . . . . .	22	7,70,762	7,75,76
16-9-1974	217—239 9/9 . . . . .	23	8,04,068	8,07,359
19-9-1974	186, 194 5/9 . 216 9/9 . . . . .	3	1,14,340	1,13,372
22-9-1974	240 -259 16/9 . . . . .	19	6,81,742	6,81,209
26-9-1974	260—283 19/9 . . . . .	23	7,77,654	7,76,800
1-10-1974	284—306 24/9 . . . . .	23	8,01,980	8,02,766
5-10-1974	248 17/9 . . . . .	1	32,820	33,300
6,10,1974	308—331 1/10 . . . . .	24	8,75,562	8,74,032
10-10-1974	332—253 104, 307 . . . . .	24	8,11,118	8,04,000
16-10-1974	356—369 9/10 . . . . .	13	4,49,900	4,46,825
19-10-1974	363, 366 9/10 370 10/10 . . . . .	3	1,07,526	1,05,592
22-10-1974	365 9/10 . . . . .	1	33,040	33,000
23-10-1974	371 17/10 . . . . .	37 drums	7,400	7,395
10-11-1974	368 9/10 . . . . . 89 19/8	2	73,782	72,900
Total . . . . .		370 Wagons and 37 drums Transit loss	1,29,47,460	129,47,350 104 litres

Quantity received in D.T.C. Kandla Storage tanks as states in the Certificate dated 13-9-1973 Inspector of Prohibition and Excise, I C DTC, Kandla . . . . . 128,94,353 litres

Quantity despatched from Kandla to Bareilly as per the above statement—*vide* Excise Passes No. 1 dated 8-7-1974 to 371 dated 17-10-1974 . . . . . 129, 47, 460 litres  
Storage gain . . . . . 53,107 or 0.4%

3.42. As regards the condition stipulated in the exemption order that the alcohol imported in Kandla should be 'already denatured', the Executive Director of the State Trading Corporation stated:

"On receipt of this order, we immediately wrote to the Government that a suitable bond should be taken from Synthetics and Chemicals to guarantee this because it will be impossible for STC to fulfil all the conditions laid down in the exemption certificate. Our responsibility was over when we bought the goods and handed over the documents on the high seas."

The Committee asked who was the importer in this case and who had to execute the bond. The witness replied that the STC was the importer with a letter of authority to Synthetics and Chemicals Ltd., and that normally the bond is to be executed by the importer. In reply to another question on what were the abnormal conditions that prevailed in this case, the witness stated:

"We were not equipped to fulfil this condition. So we approached the Ministry."

He added:

"From the Ministry of Finance, vide their letter dated 27th January, we got clearance that the bond should be given by the Synthetics and Chemicals."

A note subsequently furnished by the State Trading Corporation in this regard is reproduced below:

"An L/A was issued by the CCI&E in favour of M/s. Synthetics and Chemicals Ltd., in respect of this import so as to enable them to clear the consignment without any difficulty. STC had, therefore, requested Secretary, Ministry of Petroleum and Chemicals/Ministry of Finance to advise the Collector of Central Excise, Ahmedabad to accept the necessary bond from M/s. Synthetics and Chemicals Ltd. Accordingly, Ministry of Finance instructed Assistant Collector of Customs, Kandla vide their Office Memorandum No. F. No. 355/101/72-Cus. I dated 27th January 1973 to accept bond from M/s. Synthetics and Chemicals Ltd."

3.43. The Committee desired to know how it had been ensured that the alcohol had not been diverted, the Executive Director, State Trading Corporation stated:

"It was our limited responsibility to import alcohol at the right price, of the right quality and at the right time and hand it

over to Synthetics and Chemicals on the understanding that they give a bond where all the conditions will be fulfilled under the supervision of the various Government authorities.”

When the Committee asked whether, as a public sector undertaking, the State Trading Corporation absolved itself of all responsibility to ensure that things were done properly, the witness stated:

“If we do not have the machinery to fulfil that function, we must admit it.”

3.44. The Committee asked why the alcohol had been sold by the State Trading Corporation to Synthetics and Chemicals on the high seas. The witness stated that normally the STC sold their cargo on the high seas. The Committee desired to know the rationale and justification for such a practice, which deprived the State Governments of their sales tax and the level at which this decision had been taken. In a note, the State Trading Corporation informed the Committee as follows:

“In the case of items import of which is canalised through STC, by and large it is the Corporation’s endeavour to see that raw materials are made available to the actual users at prices which are not higher than the prices at which they would be available if import licences were granted directly to them. High sea sales are therefore made of the raw materials wherever it is feasible. Where possible the Corporation also tries to import raw materials under an individual bill of lading for quantity sufficient enough to be separately shipped in identifiable lots and offer such quantities to individual Release Order holders while the consignments are under voyage on high seas. This enables the Release Order holders also to utilise their own storage facilities, if available minimises discharge time and assures supply of raw materials at competitive costs with the incidence of handling/storage charges, taxes etc. being kept to the minimum. Sale of goods on high seas basis is covered by Section 5 of the Central Sales Tax Act, 1956 and clause 5(2) of the Import (Control) Order 1955, as amended from time to time. The decision to allow high sea sales was taken by the Committee of Management of the State Trading Corporation.”

3.45. According to the information furnished by the Ministry of Finance (Department of Revenue and Insurance) to the Committee, a total quantity of 1,07,345 metric tonnes of alcohol at a cost of Rs. 10.73 crores had been imported during the period from January, 1968 to February, 1974. The Committee desired to know the total duty foregone, under

22(4) ICT by the exemptions allowed in respect of the 1,07,345 metric tonnes on which Rs. 10.73 crores had been spent in foreign exchange. The Ministry of Finance (Department of Revenue and Insurance) stated in a note:

“The amount of duty on 1,07,340.628 tonnes (4.372 m/t imported at Madras and Calcutta in denatured condition excluded) of ethyl alcohol when calculated under item 22(4) ICT will come to Rs. 1015.49 crores. In this calculation the quantity of alcohol in tonnes imported at Kandla has been converted to litres by applying the specific gravity of alcohol at 0.816. Further, while applying the rate of duty of Rs. 44/- per litre of the strength of London proof under item 22(4) ICT as in force prior to 1st March, 1968, the conversion factor adopted is 1 litre=1.6651 litres of the strength of the London proof, which is the conversion factor applicable to ethyl alcohol of specific gravity of 0.816.”

3.46. The Committee also found that a quantity of 16,864 metric tonnes of alcohol had been imported in Calcutta between April, 1973 and February, 1974 and asked whether this quantity was also exempted from Customs duty and if so, the duty foregone. The Ministry of Finance (Department of Revenue and Insurance) stated in a written note:

“The quantity of 16,864 metric tonnes of alcohol imported through Calcutta during 1973-74 was also exempt from Customs duty. The amount of duty foregone on this quantity works out to Rs. 1.46 crores calculated under item 22(6) ICT.”

## CONCLUSIONS AND RECOMMENDATIONS

4.1. The Committee find from the Audit paragraph that during the year 1972-73 a total of 315 exemptions were issued under Section 25(2) of the Customs Act, 1962, having a revenue effect of Rs. 241.69 crores. This works out to about 28 per cent of the net customs revenue of Rs. 857 crores realised during 1972-73. Out of an amount of Rs. 241.69 crores, as much as Rs. 232.19 crores represent customs duty foregone in respect of only 2 cases of imports of ethyl alcohol in West Bengal. In computing the total amount of duty foregone as a result of exemptions under Section 25(8), in another case of import of ethyl alcohol at Kandla, the duty on ethyl alcohol had been calculated under item 22(b) ICT and intimated by the Ministry, while ethyl alcohol is correctly classifiable under item 22(4) ICT. If this is also correctly calculated accordingly, the total customs duty foregone during 1972-73 actually works out to Rs. 344.08 crores and this represents about 40 per cent of the net customs revenue of Rs. 857 crores.

4.2. The Ministry of Finance (Department of Revenue and Insurance) have, however, contended that the revenue effect of the two exemptions relating to imports of ethyl alcohol in West Bengal is only Rs. 1.57 crores. In support of this, the Ministry have stated that ethyl alcohol meant for industrial use is assessable to duty under item 22(6) ICT. The Committee, however, find that according to the Indian Customs Tariff ethyl alcohol is assessable under item 22(4) ICT and denatured spirit is assessable under 22(6) ICT. The Customs Tariff does not also make any distinction between ethyl alcohol meant for industrial uses and for other uses. In the case of imports in West Bengal, the commodity was, admittedly, described as ethyl alcohol in the import licence and the commodity touched the Indian shore as ethyl alcohol.

Since the import duty becomes leviable as soon as the act of importation is complete, the Committee feel that the ethyl alcohol should have been assessable to duty only under item 22(4) ICT.

4.3. The Committee are unable to accept the plea of the Ministry that as conditions for denaturing the ethyl alcohol had been specified in the exemption orders themselves customs duty foregone will have to be assessed as though the alcohol had been denatured. According to Section 24 of the Customs Act where the goods are denatured or methylated, they

should be chargeable to duty as applicable to goods generally imported in the denatured or methylated form. It is only when Section 24 of the Customs Act comes into play that an importer of ethyl alcohol can claim the benefit of the lower rates of duty under item 22(6) of the ICT as applicable to denatured spirit. For availing of the provisions of this Section, it is also necessary for the importer to make a request in writing for the denaturation of the imported spirit. The denaturation of the spirit will also have to be done according to the provisions of the Denaturation of Spirit Rules, 1972. The Committee find that in the case of imports of ethyl alcohol into West Bengal neither Section 24 of the Customs Act nor the rules framed thereunder had been followed. The Finance Secretary has also stated during evidence that Section 24 of the Act and the rules framed thereunder are not applicable to this case and that the exemption from duty is subject to the conditions prescribed in the exemption orders and denaturation is one of these conditions.

4.4. It would, therefore, appear that while granting the exemption from customs duty the correct facts and the legal position had not been properly appreciated. Even though the note submitted by the Central Board of Excise and Customs to the Minister in this regard had clearly stated that ethyl alcohol was classifiable under item 22(4) ICT, no attempts had been made to quantify the revenue effect of the exemption under item 22(4) ICT. On the other hand the revenue effect of the exemption has been sought to be calculated under item 22(6) ICT when it had no relevance at all to the situation when Government had to exempt the alcohol from payment of customs duty. The Committee feel that the position should have been made amply clear in the notes by quantifying the revenue effect under item 22(4) ICT, i.e., prior to denaturation so as to present the case objectively before the authority competent to take a decision whether duty should be exempted.

4.5. Even accepting, without conceding, that the revenue effect of the exemptions should have been calculated under item 22(6), as contended by the Ministry, the Committee find that while calculating the revenue effect of the exemption the Central Board of Excise and Customs had not taken into account the fact that out of approximately 25 million bulk litres of alcohol initially proposed to be imported from abroad for West Bengal, 2.5 million bulk litres were to be allotted to Government hospitals, the Defence Department and other consumers and some quantity was to be allotted to various pharmaceutical firms. It has also been accepted that so far as the pharmaceutical industry is concerned, it would require ethyl alcohol as such and not in the denatured form. At the time of granting the exemption the Central Board of Excise and Customs was also aware that some quantity of alcohol was proposed to be issued by the West

Bengal Government to the pharmaceutical firms, hospitals, defence establishments etc. Therefore, it only stands to reason that while calculating the revenue effect of the exemption the duty that would be foregone on quantities of alcohol which would be utilised in the undenatured form should have been correctly calculated under item 22(4) ICT. This was not done. Under the circumstances, the Committee are unable to accept the contention of the Ministry of Finance that the revenue effect of the two exemptions relating to the import of ethyl alcohol in West Bengal was only Rs. 1.57 crores.

4.6. The Committee also find that the decision to grant the exemption in respect of the first import of ethyl alcohol during 1972-73 had been taken by the Finance Secretary and orders for the grant of exemption from duty in respect of the second import had alone been passed by the Minister. The Committee have been informed that there are no specific orders regarding proposals which should be invariably submitted to the Minister concerned for approval. Since the Ministry, according to their own calculation, were allowing an exemption involving a revenue effect of more than a crore of rupees, the Committee are of the opinion that the specific approval of the Minister should have been obtained. The Committee understand that at present only cases where the expenditure involved or the expenditure proposal is over Rs. 1 crore are normally submitted to the Minister for approval. The Committee desire that a similar monetary limit for the grant of exemption from duty should also be prescribed.

4.7. The Committee are also concerned to note that in this case adequate steps had not been taken to ensure that the alcohol was not diverted for non-industrial uses and that there has been a considerable diffusion of responsibility. The Committee feel that as the agency entrusted with the collection of customs duty the Ministry and the Central Board of Excise and Customs should have exercised greater care and taken adequate steps to ensure that there was no misuse of the imported alcohol rather than depending entirely on the West Bengal Excise authorities.

4.8. It would be evident from the fact that out of alcohol imported in West Bengal during 1972-73, 28.20 lakh litres had been diverted for the manufacture of potable liquor, that in many cases the alcohol imported was not denatured as required in the orders granting exemption from customs duty. The Committee desire that the circumstances leading to the non-observance of the conditions of exemption by the West Bengal Government should be investigated immediately. The Committee are unable to accept the plea of replenishment put forth by the West Bengal Government for diverting the imported alcohol for potable purposes. Even assuming that such a diversion had been necessary the West Bengal



Government should have kept the Central Government informed and obtained their approval before permitting the diversion and not done it suo moto. The fact of diversion of the alcohol came to the notice of the Custom House, Calcutta only through a complaint by one Shri S. Chaudhuri. This would indicate how inadequate the checks and safeguards prescribed were. What is even more surprising to the Committee is the fact that the West Bengal Government as the importer of the ethyl alcohol should have protested against the demand for duty raised by the Collector of Customs, Calcutta and considered it 'mis-conceived'.

4.9. The Committee have been informed that in respect of diversions relating to the imports during 1972-73, a demand for duty of Rs. 22.98 crores has been raised by the Collector of Customs, Calcutta against Alkali Chemical Corporation, who had filed the bill of entry on behalf of Government of West Bengal, the licence holder. In addition, the duty payable on a further quantity of 2.94 lakh litres of alcohol imported during 1973-74 and diverted for the manufacture of potable liquor works out to Rs. 2.35 crores and a demand has been raised in this case also. The Committee have been informed that these cases of diversion will have to be adjudicated by the Collector of Customs, Calcutta. The Committee would like to know urgently whether the duty has since been recovered in respect of diversion during 1972-73 and 1973-74.

4.10. The Committee have also been informed by the Chief Controller of Imports and Exports that since the imports were intended for use as raw materials in the alcohol-based industries synthetic ethyl alcohol for purposes other than the one for which import was requested and allowed would attract the penal provision of the Imports (Control) Order, 1955. Apparently no action has so far been taken for this violation. The Committee desire that this should be examined immediately and appropriate action taken against the defaulters.

4.11. The import of ethyl alcohol allowed during 1972-73 for the manufacture of synthetic rubber by Synthetics and Chemicals Ltd. and the exemption of customs duty thereon cause greater concern to the Committee. The Committee have been informed under item 22(4) ICT, works out to as much as Rs. 102.94 crores and an amount of Rs. 88.20 lakhs had been allocated in foreign exchange for the import. Even though the imports had been permitted on a plea of urgency to meet the raw material requirements of the factory, the Committee are amazed to find that the alcohol actually moved from the port of import, Kandla, to Bareilly only during July to October, 1974—more than 18 months after the actual import into India. What is even more surprising is the fact that after having imported the alcohol Synthetics and Chemicals Ltd. represented for its re-export or diversion to other uses.

4.12. The Committee are unable to accept the reasons advanced by the Ministry of Petroleum and Chemicals for the delay in the movement of alcohol from Kandla to Bareilly. It has been stated that one of the reasons for the non-movement of alcohol was the general shortage of wagons. The Committee, however, were astonished when they were informed by the Railway Board that no indents for tank wagons for the movement of alcohol from Kandla to Bareilly had been placed on the Railways by Synthetics and Chemicals Ltd. in 1972-73. The statement by the Ministry of Petroleum and Chemicals, therefore, sounds baseless in the light of what has been stated by the Railway Board. The imported alcohol must have found its way into uses other than what was stipulated.

4.13. Another reason for the non-movement of alcohol, according to the Ministry of Petroleum and Chemicals, was the imposition of a vend fee on indigenous alcohol by the U.P. Government against which the firm filed a case in the Allahabad High Court. Since the vend fee was leviable only on indigenous alcohol and the imported alcohol had also arrived by the time the fee was imposed, the Committee find no justification for the delay in the movement of alcohol to Bareilly. In view of the dispute over indigenous alcohol Synthetics and Chemicals Ltd. should have been all the more anxious to move the imported alcohol so as to ensure that the production of synthetic rubber did not suffer. That this was not at all done would indicate that the import licence had been obtained more for speculative gains than to meet any valid requirements. Otherwise the Committee are unable to understand the reasons for Synthetics and Chemicals wanting to re-export the alcohol or divert it to other uses.

4.14. The Committee also find that while permitting the import of ethyl alcohol by Synthetics and Chemicals a quantity of 8½ million litres of alcohol available indigenously in Uttar Pradesh had been retained as carry-over stock for the next year which proves that there was no real shortage. The Committee are unable to appreciate the rationale for resorting to costly imports when this quantity was available indigenously. This needs to be explained.

4.15. The Committee also find from a letter dated 25th April, 1972 from Alkali Chemical Corporation that the eastern U.P. distilleries held adequate stocks of alcohol, at the time the application for import was made by Synthetics and Chemicals and that some of them did not have any pending allocation with them. Under the circumstances it is not clear to the Committee whether the import on behalf of Synthetics and Chemicals was at all justified.

4.16. The Committee also note from the statement of details of imported alcohol despatched from Kandla to Bareilly that at the Kandla

end there was a storage gain of 53,107 litres. It is further seen from the consignment-wise despatches from Kandla to Bareilly that there are wide variations between the quantity despatched from Kandla and the quantity received at Bareilly. While the Committee can understand transit losses due to evaporation, spillage etc., they, however, find it difficult to accept how the quantity received at Bareilly in respect of individual consignments could be more than the quantity despatched from Kandla. For instance, in one case the difference between the quantity despatched and the quantity received is as high as nearly 14,000 litres. All these are indeed mysterious. It is also significant to note that these details had been furnished by the Assistant Collector of Central Excise, Bareilly only on 26th November, 1974, i.e., when the case was under scrutiny by the Committee. Till the Committee raised this point, the Central Board of Excise and Customs were not aware when and whether the alcohol had moved from Kandla to Bareilly. The Committee would not, therefore, accept the data furnished at their face value and are inclined to believe that there is more to it in this transaction than what meets the eye.

4.17. If at all the import by Synthetics and Chemicals was justified, the Committee are unable to understand why the firm was allowed to import un-denatured alcohol instead of denatured alcohol, when this alcohol was specifically required for the manufacture of synthetic rubber and the denaturant could have been specified in this case. The Committee are surprised to find that while recommending import of ethyl alcohol the Ministry of Petroleum and Chemicals had not examined whether the alcohol should be denatured before importation. The Committee are firmly of the view that this should have been done to prevent the misuse of the alcohol after importation. The Committee desire that responsibility for this should be fixed for action under advice to the Committee.

4.18. After an examination of the various facts brought out in this case, the Committee would like to be satisfied that the alcohol which moved from Kandla to Bareilly during July to October, 1974, was in fact the alcohol that was imported in December, 1972. The Committee consider this important in view of the fact that the alcohol had been stored at Kandla by the Distillers Trading Corporation. In these circumstances, the Committee recommend that this case should be immediately handed over to the C.B.I. for a thorough and detailed investigation with a view to ensure that there has been no black-marketing or misuse of the imported alcohol. The Committee desire that the investigation by the C.B.I. should be completed expeditiously and appropriate action taken against the importers if there have been violations of the Import Control Act and the Customs Act. The results of the investigation by the C.B.I. should also be intimated to the Committee as early as possible.

4.19. The Committee also find that the State Trading Corporation, who had handled the import of ethyl alcohol on behalf of Synthetics and Chemicals, had handed over the alcohol on the high seas. As this deprived the State Governments of the sales tax which would otherwise be due to them, the Committee desire that the justification for such a practice should be gone into and the unhealthy practice discontinued forthwith.

4.20. The Committee have been informed that during the period January, 1968 to February, 1974, a total quantity of 1.07 lakh metric tonnes of ethyl alcohol had been imported from abroad. The duty payable on these imports calculated under item 22(4) ICT works out to Rs. 1015.49 crores. That such a staggeringly large sum of customs revenue should have been foregone during a short span of 6 years would indicate that at present the executive enjoys the unfettered right to grant exemptions from duty. The Committee feel that the existing position in regard to grant of exemptions by the executive through notifications or ad hoc special orders leaves a lot to be desired. It is necessary to bear in mind that the power given by Parliament to the executive to allow exemptions from duty is only a form of delegated or subordinate legislation and this power should not be so freely and widely used so as to vitiate the intentions of the Legislature. In paragraph 1.25 of their 111th Report (Fourth Lok Sabha), the Committee had earlier recommended that all exemptions involving a cent per cent relief from duty should have the prior approval of Parliament. Having regard to the points now brought to light in this case and also having regard to the administrative considerations the Committee would suggest that individual exemptions under Section 25(2) of the Customs Act in which the revenue foregone exceeds Rs. 10 crores in each individual case should be given only with the prior approval of Parliament.

NEW DELHI;  
*April 30th, 1975*  
Vaisakha 10, 1897 (S).

JOYTIRMOY BOSU,  
*Chairman,*  
*Public Accounts Committee.*

## APPENDIX I(A)

(Para 1.6)

*Copy of D.O. letter dated 3-4-1974 from Ministry of Finance to Audit.*

Apropose your telephone message, dated the 2nd April, 1974 regarding the amount of Customs duty foregone in connection with the *ad hoc* exemption orders under section 25(2) of the Customs Act, 1962 during the year 1972-73. The required information is as under:—

- |   |                    |
|---|--------------------|
| (1) Total number of Exemption Orders  | Rs. 305            |
| (2) Amount of Customs duty foregone   | Rs. 2,41,69,25,312 |
| (3) Out of S. No. I, No. of Exemption Orders where duty foregone is of the order of Rs. 10,000 and above in each case | 14F                |
| (4) Customs duty foregone in respect of S. No. 3  | Rs. 2,41,65,05,019 |

2. In addition to the above, there are ten more Exemption Orders. The amount of duty foregone in each of these cases is not known to the Ministry at the moment. The concerned Collectors of Customs have been requested to furnish the requisite information immediately. The same will be intimated to you as soon as received from them.

## APPENDIX I(B)

*Copy of O.M. dated 9-5-1974 from Ministry of Finance to Audit.*

**SUBJECT.—***Exemption from payment of Customs duty—Statement of exemptions issued under Section 25(2) of the Customs Act, 1962, during the year 1972-73.*

In continuation of this Ministry's D.O. Letter of even number dated 3-4-1974, the undersigned is directed to enclose herewith a statement showing the name of the persons, the articles imported and customs duty

involved in each case in respect of exemptions issued under Section 25(2) of the Customs Act, 1962, during the year 1972-73.

2. As intimated to the C&AG's Office on the phone information regarding the amount of duty foregone is not available with the Ministry in respect of 11 cases and not 10 cases as mentioned in the D.O. letter under reference. The total number of Exemption Orders in respect of which this information is available is 304 and not 305. This information is being furnished to the C&AG's office soon.

## APPENDIX II

(Para 1.11)

*Copy of Telex to Collector of Customs, Calcutta*

From

Mandal Finrev.

To

L. L. Customs Calcutta.

F. No. 369/4/74—Cus. I stop reference customs house letter C. No. VII—69/73 dated 15th November 1973 and statement enclosed therewith regarding amount of customs duty foregone. Under *ad hoc* exemptions (.) Customs duty shown in that statement against ethyl alcohol (Sl. No. 1 to 8) seems very high (.) Please re-check figures and confirm correctness (.) Furnish details of calculation showing quantity and value of import rates and amount of basic customs duty regulatory/Auxiliary duty of customs and countervailing duty(.).

As regards customs duty involved in Jumbo-Jet aircrafts imported by Air India (Searlial Nos. 101 and 102 of statement enclosed with customs house letter referred above) please indicate No. of Jumbo-Jet Aircrafts imported value of each Aircraft customs duty involved in each case (.)

Information required for P.A.C. meeting and should be furnished by 7th June.

---

*Not to be telexed.*

*New Delhi, the 3rd June 1974.*

Sd/-  
D. C. MANDAL,  
*Under Secretary.*

*Copy of the letter from the Collector of Customs, Calcutta No. VII—69/73 dated 7th June, 1974 addressed to the Deputy Secretary to the Government of India, Ministry of Finance (Deptt. of Revenue and Insurance).*

(Attention Shri D. C. Mandal, Under Secretary)

Sir,

Please refer to the Ministry's telex No. 85 dated 3-6-74 issued from file No. 369/4/74-Cus. I on the above subject.

Ethyl alcohol is mentioned in serial Nos. 2 to 9 in the statement forwarded to the Ministry in this office letter of even No. dated 15-11-73 and not at serial Nos. 1 to 8 as stated in the telex under reply.

The figures regarding ethyl alcohol have been rechecked and found correct except the figure at serial No. 3 in respect of duty involved. This was an error in calculation.

A detailed statement showing quantity, value of import, rate of duty and duty foregone is enclosed herewith.

It may also be mentioned in this connection that Jumbo-Jet Aircraft were not imported through this port. The enquiry therefore does not relate to this Customs House.

Sd/-

D. N. LAL,  
Collector.



Sl. No.	Name of the person/ instt.	Particulars of good	Purpose for which the goods imported	Qty. in M. Ton	Volume in Litres	Value of the goods	I.C.T. No. & rate of duty	Duty foregone
1	2	3	4	5	6	7	8	9
1	M/s. Alkali & Chemicals Corpn. of India Ltd., Calcutta.	Ethyl Alcohol	For Industrial use.	7678.196	9544060	Rs. 67,218.77	I.C.T. 22(4)@ Rs. 60/-per litre plus 10 RD	Rs. 57,33,20,821.88
2	"	"	"	1796.906	2232544	Rs. 15,84,382.81	"	Rs. 13,41,11,128.28
3	"	"	"	3694.064	4601356	Rs. 31,74,489.25	"	Rs. 27,63,98,808.93
4	"	"	"	14320.020	1785942	Rs. 11,59,122.23	"	Rs. 10,72,67,432.22
5	"	"	"	7297.422	8960489	Rs. 56,61,969.22	"	Rs. 53,81,94,536.92
6	"	"	"	1246.263	1530284	Rs. 9,65,250.50	"	Rs. 9,49,13,565.05
7	"	"	"	0.385	472.6	Rs. 298.23	"	Rs. 28,385.82
8	"	"	"	5732.838	7143723	Rs. 49,26,507.00	"	Rs. 42,91,16,090.70

S. NARAYANAN

DEPUTY SECRETARY.

F. No. 369/4/74-Cus. I

New Delhi, the 22-6-74.

Dear Shri Lal,

Please refer to your letter C. No. VII-69/73 dated June 7, 1974 regarding the revenue foregone on importation of ethyl alcohol by virtue of the exemption orders in question. It appears therefrom that the amount of duty foregone has been calculated at the rate applicable to item 22(4) ICT. When the *ad hoc* exemption orders were issued, this Ministry calculated the amount of revenue sacrifice at the rate of 60 per cent *ad valorem* under item 22(6) ICT. plus 5 per cent regulatory duty. This was done in view of the fact that the exemptions were granted on conditions that the imported alcohol would be used solely for industrial purposes and that the alcohol is either denatured before clearance to the satisfaction of the Government of West Bengal, or would move under bond to bonded warehouse under the control of the Commissioner of Excise, Government of West Bengal, and use of the alcohol will be under his supervision. The rate of duty on alcohol which has been denatured before clearance should appropriately be that applicable to item 22(6) of the ICT. Please intimate the amount of revenue foregone if it is calculated

2. Please also furnish information on the following points:— —

2. Please also furnish information on the following point:—

- (a) The quantity and value of ethyl alcohol imported against the exemption order, which was denatured before clearance;
- (b) The quantity and value of ethyl alcohol imported under the *ad hoc* exemption orders in question cleared with being denatured, but moved under bond to bonded warehouse under the control of the Commissioner of Excise Government of West Bengal and for use under his supervision;
- (c) Out of the above, the quantity and value of ethyl alcohol diverted for manufacture of potable liquor and for other non-industrial purposes.

3. If the importation took place in more than one consignment then the above information may be furnished giving break up consignment-wise. The dates of importation may also be indicated against each consignment.

4. The information is required immediately in connection with preparation of brief for the Public Accounts Committee, which is due to be

held very shortly. You are, therefore, requested to send the above information by hand of pilot immediately and the fact of despatch of the information may be intimated by telex.

Yours sincerely,

Sd/-

S. NARAYANAN,

Shri D. N. Lal,  
Collector of Customs, Calcutta.

From

To

Mandal Finrev  
Lal Customs Calcutta

F. No. 369/4/74-CUS. I. Please refer para 2(b) of Narayanan's D.D. of even number dated twenty second instant and intimate whether the quantity of ethyl alcohol which moved under bond to bond warehouse under control of commissioner or excise without being denatured before clearance from docks was actually denatured before issue to the industries from the bonned Warehouse UNDER supervision of excise Commissioner. Your C. No. VII-69/73 refer.

---

Not to be telexed

New Delhi,  
Dated 25-6-74.

Sd/-

D. C. MANDAL,  
*Under Secretary.*

From

Mandal Finrev New Delhi.

To

Lal Customs Calcutta.

F. N. 369/4/74-CUS. I. Please refer Shri Narayanan's D.O. of even number dated twentysecond June and my Telex of even number dated 25th instant regarding revenue foregone on ethyl alcohol and send your reply immediately. Customs House C. No. VII-69/73 refer.

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*Not to be Telexed.*

June 27, 1974.

Sd/- D. C. MANDAL,

*Under Secretary to the Govt. of India.*

*Copy of D.O. Letter No. C-VII-69/73 dated 27th June 1974 from Shri D. N. Lal Collector of Customs Calcutta, addressed to Shri S. Narayan Secretary Central Board of Excise and Customs, New Delhi.*

Please refer to your D.O. letter No. F. No. 369/4/74-CUS. I. dated 22nd June, 1974 and subsequent telex No. 830 dated 25-6-74, issued from the same file.

Ethyl Alcohol was imported in undenatured condition and, as such, it was covered by item No. 22(4) ICT. Therefore the amount of duty foregone was calculated under this item, taking into consideration the goods as they were at the point of importation. As the Board now desires to know the amount of duty foregone, if assessed under item No. 22(6) ICT, on the quantity which has been denatured before clearance the amount arrived at is furnished in the enclosed statement. The statement also shows the duty amount on the quantity which moved under bond to bonded warehouse under the control of the Commissioners of Excise, West Bengal calculated under item No. 22(4) ICT.

The information called for as per para 2 of the D.O. letter under reference has also been furnished in the said statement.

The additional information called for in the telex dated 25th June, 1974 regarding the quantity which has been denatured before issue to the industries out of the stocks moved under bond to bonded warehouse, under the control of the Commissioner of Excise, West Bengal is not available in the Custom House. A reference is being made to the Commissioner of Excise, West Bengal for the same which will be communicated to the Board as soon as receipt in this office.

Yours Sincerely,

Sd/- D. N. LAL,

Quantity and value diverted for manufacture of Potable liquor & other non industrial purpose

Quantity or Duty moved under Denature or Duty moved under Foreign Bond

B/E No.I.F.No. Quantity in M/T.

Vessels Name and Rot No.

Ad hoc Exemption order No.

248/72 F.No.355/22/72- Cus. I dt. 5-2-72 for 20,000 M/T	Stolt Alabtrass 432/72	(i) 98 of 28-7-72 (ii) 99 of 28-7-72 (iii) 42 of 10-8-72	7297.422 1246.263 0.385	Denatured Moved under Bond Sweeping (Denatured)	Rs. 367 Rs. 122519245.05 Rs. 193.85	1.569950 million litre e Rs. 990272.68 (assessable value)
—Do.—	Stolt Pacific 593/72	(i) 96 of 26-9-72 (ii) 97 of 26-9-72 (iii) 98 of 26-9-62	3694.064 5732.838 1432.020	Moved under Bond Denatured Denatured	Rs. 368425928.93 Rs. 3202229.62 Rs. 720929.45	
727/72 F.No. 355/95/72- Cus. I dt. 18-12-72 for 10,000 MT	Stolt Desaireec 833/72	(i) 1 of 1-1-73 (ii) 2 of 1-1-73	7678.196 1796.906	Denatured Moved under Bond	Rs. 4401942.20 Rs. 178762008.28	
216/73 F.No.355/95 72-Cus. I Dt.5-4-73 for 16,500 M/T	Stolt Landoff off 307/73	(i) 87 of 25-5-73 (ii) 88 of 25-5-73	4951.72 1612.452	Denatured Moved under bond	Rs. 3592984.08 Rs. 161365855.88	Nil
F.No.356/68/73- Cus. I Dt. 21-5-73 for 436.723 M/T (and balance from order No. No. 216/73	Stolt Albatross 420/73	(i) 127 of 28-7-73 (ii) 128 of 28-7-73	2370.367 7929.816	Moved under bond Denatured	Rs. 232459804.22 Rs. 7638512.48	Nil

**From**

**NARAYANAN FINREV NEW DELHI,**

**To**

**LAL CUSTOMS CALCUTTA.**

F. No. 369/4/74-Cus. I(.) Your C. No. VII-69|(3 regarding Ethyl Alcohol imported under ad hoc exemption orders in 1972-73. Please intimate the amount of duty foregone in calculated under item 22(6) ICT plus regulatory duty on the entire quantity of Ethyl alcohol imported under cover of ad hoc exemption order No. 248|72-(F. No. 355|22|72-Cus. I) dated 5-7-1972 and No. 727/72 (F. No. 355|95|72 Cus. I) dated 18-12-1974(.) Please intimate the figure by return telex positively.(.)

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*Not to be telexed.*

Sd|- S. NARAYANAN,

*Deputy Secretary to the Govt. of India.*

8-7-1974.

## APPENDIX III

(Para 1.13)

*Copies of Extracts of notings from File No. 355/22/72-Cus. I relating to grant of exemptions on Ethyl Alcohol imported in West Bengal during 1972-73.*

The Deputy Commissioner of Excise, Government of West Bengal has requested that exemption from payment of customs duty may be allowed on 20,000 metric tonnes of alcohol which is being imported for industrial use. He has cited the provisions of an earlier notification No. 88-Customs, dated 5th June, 1968 in support of his request. Ministry of Petroleum and Chemicals have supported the proposal strongly. They have stated that there is acute shortage of Alcohol on account of poor sugar crop during 1971-72. West Bengal which has a large capacity of industries manufacturing chemicals and drugs is worst hit as its internal production of alcohol is only 13 per cent. The net price of imported alcohol is of the order of 70 paise per litre whereas indigenous alcohol is available at 60 paise per litre. If Customs duties are levied in addition, the cost of alcohol would go up to more than a rupee per litre and the functioning of industries based on alcohol at this price would not appear economically feasible. They have, therefore, recommended the proposal made by the Government of West Bengal.

2. Ethyl Alcohol is classifiable under item 22(4) of the First Schedule to the Indian Tariff Act, 1934, and carry a rate of duty at Rs. 60 per litre or 200 per cent ad valorem whichever is higher. Besides, a regulatory duty @ 10 per cent ad valorem, is also leviable.

3. It may be stated that Ethyl alcohol was earlier exempted from payment of customs duty under notification No. 88-Customs, dated 5th June, 1968 subject to the production of following certificates from the Commissioner of Excise of the State in which the imported alcohol was to be used.

- (i) That the said alcohol is already denatured or
- (ii) That the said alcohol would move under bond to bonded warehouses under the control of the Commissioner of Excise and that the use of the alcohol will be under his supervision.

The exemption was continued upto 31st May, 1970. But on review in 1970, the Department of Chemicals reported that sugar season for 1969-70 and 1970-71 was good and that there may not be a need to import alcohol for a year or two. In these circumstances, this concession was allowed to lapse.

4. The administrative Ministry—Ministry of Petroleum and Chemicals have supported the proposal of the State Government of West Bengal for duty exemption on Ethyl Alcohol needed to be imported for industrial use. The import being of specific quantity, i.e. 20,000 metric tonnes, no general exemption as in the case of earlier notification No. 88-Cus, dated 5th June, 1968 appears called for. We may, grant an ad hoc exemption exempting Ethyl Alcohol imported into India for industrial use from the whole of the duty of customs leviable thereon under the Indian Tariff Act, 1934 as well as from the regulatory duty of customs. To ensure that there is no diversion, the same conditions as were prescribed in 1968 may also be stipulated now.

5. The revenue loss will be of the order of Rs. 1.16 crores. This has been calculated on the basis of the rate of duty levied for denatured spirit falling under item 22(6) ICI carrying a duty of 60 per cent *ad valorem* and 5 per cent *ad valorem* regulatory duty. The above basis is adopted for the reason that the Ethyl alcohol to be imported may be denatured or it would move under bond and its use for industrial purposes under the supervision of the Commissioner of State Excise. Also duty, if leviable under item 22(4) would be so high as would make imports highly prohibitive and hence not worthwhile. The loss would therefore, be notional.

6. Approval of the proposal in para 4 is solicited.

Sd/- 29.6.72.

US (Cus-K)

Sd/- D. KRISHNAMURTI  
30-6-72

DS(Cus)

Sd/- J. DATTA  
1.7.72

M(T)

Sd/- K. NARASIMHAN  
2.7.72

F.S.

Sd/- D. D. PANDE  
3.7.72

\* \* \* \*



(Extracts of notings from file No. 355/95/72-Cus.1)

The Ministry of Petroleum and Chemicals have, in their O.M. dated 29th November, 1972, requested for exemption from the payment of duty of customs as well as regulatory duty of customs leviable on 10,000 tonnes of Ethyl Alcohol, proposed to be imported from abroad by the Government of West Bengal. That Ministry have stated that this import has become necessary to ensure continued operations of the alcohol based industries in that State in the context of the continued shortage of alcohol within the country. They have justified the proposal on the ground that the CIF price of alcohol imported at Calcutta would be about 67 paise per litre, and with the addition of 10 paise per litre as import pass fee chargeable thereon by the West Bengal Government the total cost at 77 paise per litre is clearly higher as against the indigenous price of 60 paise per litre inclusive of excise duties of the exporting states, transporting charges etc. Even without import duty, the imported alcohol would be 28 per cent costlier than the indigenous alcohol, and if duty were also to be added, the price would go up to Rs. 1.10 per litre which would be approximately 83 per cent higher than the price for the indigenous alcohol. That Ministry have invited our attention to the *ad hoc* exemption granted in respect of an earlier import of 20,000M. tonnes of Ethyl Alcohol.

2. Ethyl Alcohol is classifiable under item 22(4) of the First Schedule to the Indian Tariff Act, 1934, and carry a rate of duty at Rs. 60 per litre or 200 per cent *ad valorem* whichever is higher. Besides, a regulatory duty of customs at the rate of 10 per cent *ad valorem* is also leviable.

3. Till May, 1970, Ethyl Alcohol imported for industrial purposes was exempt from customs duty, vide notification No. 88-Customs dated 5th June, 1968 subject to the production of the following certificates from the Commissioner of Excise of the State in which the imported alcohol was to be used:—

- (i) That the said alcohol is already denatured, or
- (ii) That the said alcohol would move under bond to bonded warehouses under the control of the Commissioner of Excise and that the use of the alcohol will be under his supervision.

This concession valid upto 31st May, 1970 was allowed to lapse, as the Department of Chemicals had then reported that sugar season for 1969-70 and 197-71 was good that there was not any need to import alcohol for a year or two. In view of the poor sugar crop in 1971-72 and consequently, acute shortage of alcohol, it became necessary for the Government of West Bengal to arrange for imports of Ethyl Alcohol to

meet the requirements of the alcohol-based industries in that State. Accordingly, 20,000 M/Tonnes of Ethyl Alcohol was imported in July, 1972, and in respect of this quantity an *ad hoc* exemption order was issued on the basis of the recommendation of the Ministry of Petroleum and Chemicals. In this connection kind attention is invited to notes on note sheets 5-6 in F. No. 355/22/72-Cus. I and orders of F. S. thereon.

4. The Government of West Bengal, having found that the initial import of 20,000 M/Tonnes being insufficient, have now obtained permission from the administrative Ministry to the import of a further quantity of 10,000 M/Tonnes. It is in respect of this quantity that the Ministry of Petroleum and Chemicals have recommended the request of the Government of West Bengal for exemption from the payment of both basis and regulatory duty. It has also been explained that the CIF price at which this Ethyl Alcohol is being imported is at a level which will not permit any duty burden being borne by the product intended for use in the alcohol-based industries of the State. It is accordingly proposed that the duty of customs as well as the regulatory duty of customs leviable on the above-mentioned 10,000 M/Tonnes of Ethyl Alcohol being imported by the Government of West Bengal be exempted on an *ad hoc* basis in terms of section 25(2) of the Customs Act, 1962. This proposal will involve a revenue loss of the order of Rs. 58 lakhs calculated on the basis of the rate of duty levied for denatured spirit falling under item 22(6) ICT carrying a duty of 60 per cent *ad valorem* (basis) and 6 per cent (regulatory). This basis has been adopted for the reason that the Ethyl Alcohol to be imported may itself be denatured, or if not, it would move under bond, and its use for industrial purposes ensured under the supervision of the Commissioner of State Excise. It may be stated that duty, if leviable under item 22(4) would be so high as would render the imports highly prohibitive and not worthwhile. As such, the loss of revenue is only notional in character.

5. Approval is requested to the proposal contained in para 4 above.

Sd/- K. NARASIMHAN,

13-12-1972

F.S.

Sd/- M. R. YARDI

13-12-72

MRE

Sd/- K. R. GANESH

16-12-72

## APPENDIX IV

(Para 1-21 of the Report)

## Imports of Ethyl Alcohol in 1972-73

Sl. No.	B/E No. & Date	Description of goods	Quantity	Assessable Value	Ad hoc Exp. order	Duty foregone (Calculated @Rs.60 per litre + 10%RD)
1	2	3	4	5		6
1	98 IF dt. 28-7-72 Vessel-Stolt Albatross Rot. No. 439/72.	Undenatured synthetic Ethyl Alcohol (industrial) discharged at Budget Budge Burma Shell Installation into Tank No. BS 56. (Licence No. G/F/2021214/C/XX/42/4/33-34/SP OF-7-3-72 Letter of authority inform of MJS Alkali & Chemical Corpn. of India Ltd.)	7,297.422 MT (89,60,489 Litres)	Rs. 56,51,969.22	G.I.M.P. (Deptt. of Revenue & (Ins.) order F. No. 355/22/72 Cus-Idt. 5-7-72 & Commr. of Excise, W. Bengal Memo No. 764 dt.27-7-72	Rs. 53,81,94,536.92
2	99 IF dt. 28-7-72 Stolt Albatross 439/72	Undenatured Synthetic Ethyl Alcohol (Industrial) Minimum 95% by value Discharged at Budget Budge Burma Shell Installation Tank No. BS 46. Licence same as Sl. No. 1.	1,246.263 MT (15,30,284 Litres).	Rs. 9,65,250.50	Do.	Rs. 9,19,13,565.05
3	42 IF dt. 10-8-72 Stolt Albatross Rot No. 439/72.	Undenatured synthetic Ethyl Alcohol (Industrial) Licence same as Sl. No. 1	0.385 MT (472 Litres)	Rs. 298.23	Do. & Commr. of Excise W. Bengal Memo. No. 817 dt. 7-8-72	Rs. 28,385.82

4	96 IF dt. 26-9-72 Stolt Pacific Rot No. 593/72	Synthetic Ethyl Alcohol Minimum 95 degree. Pump in Tank No. BS 46 at Budge Budge Licence same as Sl. No. 1.	3,694.064 MT (4601356 Litres).	Rs. 31,74,489.25	Do.	and the certificate No. 1059 MT.	Rs. 27,63,98,808.93
5	97 IF dt. 26-9-72 Stolt Pacific Rot No. 593/72.	Synthetic Ethyl Alcohol Minimum 95 Degree Pump in Tank No. B. S. 49 at Budge Budge. Licence same as Sl. No. 1	5,732.838 MT. (7143723 litres)	Rs. 49,26,597.10	Do.		Rs. 42,91,16,030.70
6	98 IF dt. 26-9-72 Stolt Pacific Rot No. 592/72.	Undenatured Synthetic Ethyl Alcohol (minimum 95% by volume pump in Tank No. BS 56 at Budge Budge) Licence same as Sl. No. 1	1,432.020 MT (1785942 litres)	Rs. 11,09,122.23	Do.	and the certificate No. 1059 MT dt. 20-9-72 from the Commr. of Excise, W. Bengal.	Rs. 10,72,67,432.23
7	1 IF dt. 1-1-73 Stolt Desiree Rot No. 833/72	Undenatured synthetic Ethyl Alcohol (Industrial minimum 95% discharged at Budge Budge Hindusthan Oil Storage installation Tank No. BS 56). Licence:-G/F/2021216/C/XX/45 /H/35-36/SP-CE22 of 21-10-72	7,678.196 MT (9544060 Litres at 25 C.)	Rs. 67,72,218.77	F. No. 355/95/72-Cus.I dt. 18-12-72 and the certificate No. 1766 MT dt. 27-12-72 from the Commr. of Excise W. Bengal.		Rs. 57,33,20,821.88
8	2 IF dt. 1-1-73 Stolt Desiree Rot No. 833/72	Undenatured synthetic Ethyl Alcohol (Industrial minimum 95% discharged at Budge Budge Hindusthan Oil Storage installation Tank No. BS 46) Licence No:-G/F/2021216/C/XX /45/H/35-36/SP-CE 22 of 21-10-72.	1,796.906 MT (5090970 Litres at 23.5 C)	Rs. 15,84,882.81	Do.		Rs. 30,56,16,688.28
<b>TOTAL :</b>				28,878.094 MT. (386,57,296 Litres approximate)			Rs. 332,18,56,269.80

## APPENDIX V

(Para 2.4)

*Note received from the Ministry of Petroleum and Chemicals*

Copies of the correspondence exchanged between M/s. Alkali Chemical Corporation of India and the Ministry of Petroleum and Chemicals for import of ethyl alcohol during 1972 are enclosed.

Particulars of the imports of ethyl alcohol by/through the Alkali and Chemical Corporation of India Ltd. prior to the year 1972 are as under:—

Year	Quantity	Value	Remarks
1954	2 Million gallons	87.99 lakh	The licences were surrendered as the imports did not materialise.
1967	1.48 million gallons.	52.83 Lakh	..
1968	3.00 million gallons.	108.00 Lakh	
	2.00 ,,	72.00	Value increased to Rs. 73,60,000
	1.00 ,,	36.00	Imported on behalf of M/s Hindustan Sugar Mills, Ltd., Calcutta.

*List of correspondence between M/s. Alkali and Chemical Corporation of India Ltd., and Ministry of Petroleum and Chemicals regarding import of Alcohol during 1972.*

1. Letter dated 23-2-1972 from ACCI addressed to Ministry of P & C regarding Industrial Alcohol for Polyethylene Production at Rishra.

2. Letter No. PA 35.14, dated 16-5-1972 from ACCI addressed to Ministry of P & C requesting for exemption of customs duty on import of alcohol in West Bengal.

3. Express Telegram dated nil from ACCI addressed to Ministry of P & C giving information regarding availability of alcohol and molasses in U.P.

4. Telegram dated nil from ACCI addressed to Excise Commissioner, Bihar regarding supply of alcohol from Bihar.

5. Letter No. PA35.14 dated 25-4-72 from ACCI addressed to Excise Commissioner, West Bengal regarding additional allocation of alcohol from U.P.

6. Letter No. PA35.12DT. dated 8-6-62 from ACCI addressed to the Excise Commissioner U.P., requesting for supply of alcohol.

7. Letter No. PA35.14 dated 2-5-73 from ACCI to the Excise Commissioner, Government of West Bengal regarding their correspondence with the Dy. Director of Industries, Andhra Pradesh.

8. Letter from ACCI dated 4th May, 1973 addressed to Ministry of P&C regarding imports of alcohol.

9. Letter No. PA35.14 dated 7-5-1973 from ACCI addressed to the Excise Commissioner, West Bengal requesting for exemption of import duty on ethyl alcohol.

*Copy of M/s. the Alkali and Chemical Corporation of India Limited, Calcutta letter dated 23rd February, 1972 addressed to Shri S. D. Bhambri, Joint secretary, Ministry of Petroleum and Chemicals, New Delhi.*

*Industrial Alcohol for Polyethylene production at Rishra*

We refer to the discussions our Dr. S. Ganguly, General Manager, Plastics, had with you on the 11th February, regarding the grave situation facing continued production of Low Density Polyethylene at our plant in Rishra due to non-availability of Alcohol.

As you are aware ACCI's annual requirements for low density polyethylene production is 36 million litres.

In addition, other consumers in West Bengal will require about 22 million litres annually, thus making West Bengal's total annual requirements 58 million litres. Against these, you were good enough to make the allowing inter-state allocations to West Bengal in January, 1972.

U. P. . . . .	2.55	million litres
Bihar . . . . .	6.45	„ „
Maharashtra . . . . .	11.00	„ „

Unfortunately, however, both U.P. and Maharashtra, we understand, have informed the West Bengal Government of their inability to meet these allocations. Maharashtra have advised the West Bengal Government that they can only release 0.5 million litres against the allocation of 11 million litres and have made it clear that they cannot supply any further quantity during 1972. As regards Bihar, although the State Government are willing to release the allocation made on them, the Distilleries have not so far been able to supply any quantity.

Dr. Ganguly who has been in the U.K. since the 14th of this month has been exploring the possibility of locating Alcohol for imports. He has just sent us telex information to say that he has been successful in locating 20,000 tonnes of U.S. Ethyl Alcohol at the very attractive price around \$100 per metric ton c.i.f. Calcutta. *The deadline for the acceptance of this offer is 10th March, 1972.* He has also stated that the Russians are trying to buy this Alcohol, but if we can decide on this matter quickly and if Government can make available the foreign exchange, the deal can be finalised in our favour.

In view of the very bleak prospects of other States giving any substantial quantity of alcohol to West Bengal, and with a view to sustain continued industrial production in West Bengal including low density polyethylene which is already in short supply, we would submit that Government should immediately take advantage the availability of 20,000 tonnes for import and release the necessary foreign exchange for this purpose, bearing in mind that the deadline date of this offer is the 10th March and that the availability situation abroad is far from encouraging at present.

The additional factor in favour of immediately accepting this offer is the very attractive price at which this can be had at around US \$100 per metric ton c.i.f. against the last import of around \$ 135 per metric ton c.i.f. Such import of alcohol should be subject to exemption of payment of Customs Duty by the Ministry of Finance as was done on all previous occasions when alcohol was imported.

If Government can decide on the matter quickly, it is requested that a letter of intent is given to us immediately agreeing to the release of foreign exchange so that we can proceed with the formalities connected with signing an agreement for the supply of the alcohol with the foreign supplier. This is suggested as the actual issue of a licence may take some time and time is the essence in this matter if we have to take advantage of the very favourable offer we have in hand.

*Copy of M/s. the Alkali and chemical corporation of India, Ltd., Calcutta letter No. PA35.14 dated 16th May, 1972 addressed to Shri S. D. Bhambri, I.A.S. Joint Secretary, Ministry of Petroleum and chemicals, New Delhi.*

***Exemption from payment of customs duty on Import of Alcohol for West Bengal now Awaiting Shipments***

We take the opportunity of drawing your attention to the letter dated 10th March, 1972 addressed to you by the Deputy Commissioner of Excise, West Bengal, copy enclosed, and your copy of the letter No. 796-Excise dated 8-4-1972 issued to the Secretary, Government of India Ministry of Finance (Department of Revenue and Insurance), New Delhi, by Mr. T. Ghose, Special Secretary, West Bengal, copy also enclosed, requesting for exemption from payment of all sorts of customs duty on import of alcohol for West Bengal now awaiting shipments. We also enclose a copy of the Finance Ministry's Notification No. G.S.R. 1084, dated 5th June, 1968 granting similar exemption on the then import of alcohol for West Bengal consumers.

It is important that formal orders according the exemption are issued before the first shipment is effected. The ship, as per present indications, is scheduled to sail between the 15th and 20th May, 1972.

We shall be, therefore, extremely grateful if the required notification granting exemption from payment of all sorts of customs duty/levies on the import of alcohol now awaiting shipments, is issued immediately.

May we request you to treat this as most urgent.

*Copy of Express Telegram of M/s. The Alkali & Chemical Corporation of India Ltd., Calcutta Addressed to Shri S. D. Bhambri, Joint Secretary, Ministry of Petroleum and Chemicals, New Delhi.*

Reference Dr. Ganguly's recent discussions with Youdata collected on the availability of Alcohol and Molasses in U.P. summarised as under stop Molasses stock first November seventyone ten lac three thousand five hundred fortyfour quintals stop production of molasses during November March totals thirtytwo lac seventyseven thousand five hundred twenty quintals stop total availability inclusive of carry over stocks as on first November seventyone works out to fortytwo lacs eightyone thousand sixtyfour quintals equivalent to two hundred fourteen lacs five thousand three hundred twenty gallons Alcohol Minimum stop Alcohol carry over stock as on first December seventyone works out to thirtythree lacs fortyeight thousand two hundred eight gallons stop total Alcohol production during December to thirtyfirst March Ninetyeight lacs ninety six thousand eight



hundred sixteen gallons stop total availability of Alcohol till thirtyfirst March is one hundred thirtytwo lacs fortyfive thousand four gallons stop stock molasses as on first April seventytwo is twentyseven lacs fifteen thousand seven hundred twentysix quintals on first April seventytwo is equivalent to onehundred thirtyfive lacs seventyeight thousand six hundred thirty gallons Alcohol stop stocks of Alcohol on first April seventytwo is thirtyfive lacs twentytwo thousand seven hundred thirtyeight gallons stop therefore total availability of Alcohol in U.P. from first April seventytwo should be one hundred thirtyfive lacs seventyeight thousand six hundred thirtyeight gallons totalling one hundred seventyone lacs one thousand three hundred sixtyeight gallons stop synthetics already lifted four point eightsix million gallons and supply for Home Consumption exceeded two point threesix million gallons stop therefore even after meeting balance home consumption of about two point three million gallons and synthetics six point four million gallons three should be about eight million gallons available for further distribution stop assuming that hundred per cent molasses could not be converted into Alcohol and if it is reduced by fifteen per cent further availability should not be less than six million gallons stop endeavouring obtain similar figures from Bihar and Communicate to you as soon as possible stop detailed letter follows stop request ask U.P. excise secretary release West Bengal at least three million litres for our consumption pending arrival imported Alcohol stop understand reliably Excise Secretary U.P. may consider favourably if asked by you and West Bengal Government stop West Bengal Excise Commissioner has already formally requested you with copy to Excise Secretary U.P. for further Allocation to us.

ROYCHOWDHURY ACCI RISHRA

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*Copy of express telegram from M/s. the Alkali & Chemical Corporation of India Limited, Calcutta addressed to Shri R. Nath Excise Commissioner Bihar and copy to Shri S. D. Bhambri, Joint Secretary, Ministry of Petroleum and Chemicals, New Delhi.*

West Bengal Excise Commissioner issued Import Authorisation on twentyeight December seventvone for one million bulk litres of Alcohol from Bihar Distilleries and you very kindly issued export orders on twelfth January seventytwo for supplies from three distilleries in your state stop despite our repeated representations to you and the distilleries by letters and personal visits no supplies have yet been effected stop the West Bengal Excise Commissioner issued another Import Authorisation on thirteenth January for further one million bulk litres and we handed over to you on the fourteenth January seventytwo stop during writers visit to Patna in the middle of February you very kindly advised that distilliers:

will be instructed to effect supplies promptly stop the distillers allocated to us have taken no action so far and not a single consignment has yet been despatched by them and they have not even indicated any probable date of supply stop we request your immediate intervention and instructions to distillers to commence despatches forthwith stop our stocks are fast depleting and we apprehended crisis if supplies are not rushed from Bihar distilleries against definite allocations issued by P & C Ministry and confirmed by yourself and West Bengal Excise Commissioner stop your immediate action is very much requested.

### ROY CHOWDHURY ACCI RISHRA.

*Copy of M/s. The Alkali & Chemical Corporation of India Ltd. Calcutta No. PA 35.14 dated 25th April, 1972 to Excise Commissioner West Bengal Calcutta and copy to Shri S. D. Bhambri, Joint Secretary, Ministry of Petroleum and Chemicals, New Delhi.*

*Additional Allocation of Alcohol from UP to our Rishra Factory.*

We refer to our various recent discussions on our additional requirement of about 0.9 millions gallons of alcohol to sustain production of polythene at the all output rate pending arrival of the imported alcohol.

The first shipment of imported alcohol, earlier than the 3rd week of May, 1972, could not be organised despite relentless efforts by us through our General Manager's personal visit to U.K. and other European Countries twice and voluminous cable and telex, correspondence with the suppliers. We would, therefore, be requiring about 6 weeks' cover before imported alcohol is available for consumption at our Rishra factory.

We have moved out almost the total allocations obtained from U.P. and the insignificant balance will be moved out by end of this month. Bulk of the allocation from Maharashtra has already been moved out from the distillery by road and movement by Rail from the transshipment point at Ahmednagar has since commenced and we are confident, the entire allocation will be lifted and moved out latest by end of May, 1972. Release of 0.4 m.g. from Bihar has since been frozen by the Bihar Excise Commissioner and he is now only attaching priority to supplies required for potable liquor from Bihar against our allocation in foreseeable future.

We have very reliable information that the U.P. distilleries now hold adequate stocks of alcohol, particularly the Eastern U.P. distilleries and some of them do not have any pending allocation with them at present and are capable of meeting our requirements of about 0.9 to 1.0 million gallons over the next 2 months provided released by U.P. Government.

It is, therefore, important that our additional *ad hoc* requirement pending arrival of imported alcohol is very seriously considered and a special release from U.P. obtained. We shall be extremely grateful if you please recommend to the P & C Ministry, and the Government of U.P. for additional allocation of 0.9 to 1.00 mg. of alcohol to enable us to maintain the continuity of our production at the full output rate.

May we request you to treat this as most urgent and important.

*Copy of letter from M/s. The Alkali and Chemicals Corporation of India Limited, Calcutta addressed to the Excise Commissioner, Uttar Pradesh, Allahabad and copy to Shri S. D. Bhambri, Joint Secretary, Ministry of Petroleum and Chemicals, New Delhi.*

*Supply of 4.0 million litres of Alcohol.*

We refer to U.P. Government's letter No. 4749E/XIII-1972, dated 7th June, 1972, in reply to our letter of 7th June, 1972 copies of both the letters are enclosed for ready reference, releasing 4.0 million litres of alcohol to our Rishra factory from U.P. distilleries for supply by 31st July, 1972. We have been asked to contact you and obtain the required export orders.

We shall be most grateful if you please issue necessary export orders for 4.0 million litres enabling us to obtain the import permits from West Bengal Excise Commissioner accordingly. The distilleries may please be instructed to attach top priority to our requirements to ensure that the entire 4.0 million litres of alcohol are despatched from the U.P. distilleries to our Rishra factory before 31st July, 1972.

The Secretary, Excise, Mr. R. K. Kaul, and Mr. Sabbharwal, Deputy Excise Secretary, U.P. have advised us during our discussions with them on the 7th June, 1972 at Lucknow that initially we would be required to pay the existing export pass fee of 10 paise per litre and the pass fee so paid now on this supply will be refunded to us at the same rate of 10 paise per litre for the quantity returned by us after the expected arrival of imported alcohol in September this year. We have also suggested to the Secretary and the Deputy Secretary, Excise U.P. that the pass fee now payable by us on the alcohol released to our Rishra factory on loan may also be adjusted against the supplies allocated to us during the alcohol season 1972-73 commencing from 1st December, 1972. We confirm that the supply of alcohol released to us on loan will be returned to you as directed by you.

May we request you to issue the export order immediately valid till 31st July, 1972. The stocks of alcohol at our factory are now alarmingly low. It will greatly facilitate the movement of alcohol expeditiously and completion of the allocation by 31st July, 1972 if the export orders are issued in our favour on our traditional suppliers, e.g. Saraya Distillery Hindustan Sugar Mills Ltd., Narang Industries, Sir, Shadilal Distillery, Alcochem, Seohara and Modi Distillery.

*Copy of letter from M/s. The Alkali and Chemical Corporation of India Limited, Calcutta addressed to the Excise Commissioner, Government of West Bengal, Calcutta and copy to Joint Secretary, P & C Ministry, Government of India, New Delhi.*

*No. PA 35.14 dated 2nd May, 1973.*

We have received the following message from the Deputy Director of Industries, Andhra through our Hyderabad Office:

"Deputy Director of Industries, Mr. Nageswara Rao telephoned the undersigned on 24th April, 1973 at 4.15 p.m. ACCI Calcutta are importing under instructions from Petroleum and Chemical Ministry, 10,000 tonnes of alcohol from abroad. Out of which 4,000 tonnes are being allotted to Andhra Pradesh Government Director of Industries, Mr. N. Luther, wants to know immediately the rate per litre at which these 4,000 tonnes of alcohol will be supplied to Andhra Pradesh Government. They are already aware that the rate is 85 paise per litre CIF and 10 paise West Bengal Government taxes. If Andhra Pradesh Government wants to purchase alcohol from ACCI, what will be the cost per litre including handling charges, taxes if any. Further they want to know whether the imported Alcohol is Synthetic Alcohol or Natural Alcohol, which is potable. Mr. Luther wants the information urgently and requested us to send a telex to Head Office for him and to obtain the required information".

We have sent the following message in reply:

"Imported alcohol for Andhra Pradesh (.) Advise Mr. Luther Director of Industries Andhra Pradesh as follows quote CIF Calcutta price of consignment works to rupee one per litre and not eightyfive paise due to dollar devaluation on 15th February and subsequent currency fluctuations (.) Other fixed charges including port charges, octroi, handling, storage, Bank charges etc. works to roughly twentyfive paise per litre (.) We not aware what Excise Commissioner but you aware levy varies from denatured spirit to rectified spirit (.) Suggest this information obtained Direct Excise Commissioner West Bengal Government (.) Consignment

is synthetic repeat synthetic alcohol and Central Customs duty waiver obtained on condition material not to be repeat not be used for potable purposes(.) Would appreciate hearing early whether Industrial Consumers interested in lifting quantity earmarked for Andhra Pradesh (.) We have already established letter of credit for over rupees one hundred twentyone lacs and would appreciate receiving proportionate payment immediately for the quantity to be lifted".

We trust this meets with your approval.

*Copy of letter from M/s. Alkali and Chemical Corporation of India Limited dated 4th May, 1973 addressed to Under Secretary, Ministry of Petroleum and Chemicals, New Delhi.*

*Alcohol Imports*

With reference to the telephone conversation this morning, we have to advise you that the two consignments of synthetic alcohol—one of 6,500 tonnes and the other 10,000 tonnes—being imported on behalf of the Government of West Bengal, will both be shipped from US Ports. The 6,500 tonnes consignment is expected to arrive in the middle of May and 10,000 tonnes consignment towards the end of June.

*Copy of letter of M/s. Alkali and Chemical Corporation of India Limited No. PA 35.14 dated 7th May, 1973 addressed to the Excise Commissioner, West Bengal, Calcutta and copy endorsed to the Under Secretary, Ministry of Petroleum and Chemicals, New Delhi.*

*Exemption—Import Duty—Import of Ethyl Alcohol for industrial use in West Bengal.*

We refer to your Memo No. 62 M.T. dated 19th April, 1973 in connection with the *ad hoc* Exemption Order No. 216 issued by the Government of India, Ministry of Finance (Department of Revenue and Insurance), New Delhi, on the 5th April, 1973. The exemption order has been specially granted for only 16,500 Metric tons of Ethyl Alcohol. As you are aware, the contracts with the overseas-supplies stipulate that the actual despatched quantity may be 5 per cent and the purchaser will be required to accept such fluctuations. The conditions referred to above have also been communicated in our previous correspondence to you and the P & C Ministry, Government of India.

We have now received the details of the quantities loaded in the two shipments related to the above exemption order of the Government of India and we find that the total despatches work out to 16,936.723 tonnes

*i.e.* 436.73 tonnes in excess of the exempted quantity of 16,500 tonnes. The excess of 436.73 tonnes is well within the 5 per cent stipulations and we have no other alternative than accepting the increased quantity so shipped by the overseas suppliers in the course of loading operations and similar fluctuations are inevitable while bulk liquids are shipped. In the past also we were granted exemption for larger quantity but the actual shipments were due to operational reasons lower than the stipulated quantity in the contracts and exemption orders.

In the circumstances, we shall be grateful if you please request the Finance Ministry and the Ministry of Petroleum and Chemicals, Government of India, to increase the quantity of overseas alcohol from 16,500 metric tons to 16,930.723 tonnes in the *ad hoc* exemption order No. 216 referred to above, otherwise the Collector of Customs, Calcutta, may raise objections to the release of the shipments now afloat.

May we request you to treat this as most urgent and important.

## APPENDIX VI

(Para 2.10)

### *Inter-State Allocations of Industrial Alcohol during the Alcohol year 1968-69*

(Figures in Million Litres)

Name of State to which allocation made	SURPLUS STATES FROM WHICH ALLOCATIONS MADE						
	U.P.	Bihar	Mahara- shtra	Haryana	Mysore	Temil Nadu	A.P.
West Bengal	3.000	0.500	..			1.000	
Assam	0.450	..	..	..	..		..
Sikkim	0.150				..		..
Bhutan	0.080			..			
Delhi	0.600		..				..
Rajasthan		..	0.500		..	..	..
Nepal	0.005			..	..	..	..
Gujarat			0.500				..
Reserve	1.000						..
Orissa					..		..
Nagaland	0.130						..
Tripura	0.040				..		..
Manipur	0.030						..
Jammu & Kashmir			..	0.200			..
Pondicherry							..
Madhya Pradesh							0.500
Himachal Pradesh				0.130	..	..	
Chandigarh				0.050			..

*Inter-State Allocation of Industrial Alcohol during the Alcohol year  
1969-70*

(Figures in Million Litres)

Name of State to which allocation made	SURPLUS STATES FROM WHICH ALLOCATIONS MADE					
	U.P.	Bihar	Haryana	Maharashtra	Mysore	Tamil Nadu
West Bengal	31.500	10.800			..	2.250
Assam	1.350				..	..
Sikkim	0.405	0.405				
Bhutan	0.270	0.270	..			
Delhi	6.300			..		..
Rajasthan	1.125	..		..		
Nepal	0.455	0.125		..	..	..
Maharashtra	4.500		..	..	0.680	..
Madhya Pradesh	0.025		..	..		..
Gujarat	0.600			3.000	..	
Reserve	0.225	2.700	..			
Exports	16.875	4.500	3.000	..	4.500	
Orissa		0.045	..			..
Nagaland		0.058		..	..	..
Tripura		0.180		..	..	..
Manipur		0.135	..	..	..	..
Goa, Daman & Diu, Dadra & Nagar Haveli.			..	1.800	..	..
Jammu & Kashmir			6.565		..	..
Kerala				..	..	0.270
Pondicherry				..	..	0.120



*Inter-State Allocations of Industrial Alcohol during the Alcohol year  
1970-71*

(Figures in Million Litres)

Name of State to which allocation made	SURPLUS STATES FROM WHICH ALLOCATIONS MADE				
	U.P.	Bihar	Haryana	Maharashtra	Mysore
West Bengal	25.000	10.000			
Assam	1.000	..			..
Sikkim	0.405	0.405			..
Bhutan	0.270	0.270			..
Delhi	6.300		..		..
Rajasthan	1.000			3.000	
Nepal	0.023				..
Jammu & Kashmir	1.050			..	..
Reserved for DGS&D	1.500	1.500			..
Orissa		0.045			..
Nagaland		0.058			..
Manipur		0.135			..
Tripura		0.180		..	..
Gujarat				0.500	
Goa, Daman & Diu				0.426	
Himachal Pradesh			1.001		..
Chandigarh			0.030 0.3375		
Punjab			1.815		
Kerala			0.003		
Reserved for Export			0.154		6.564
Maharashtra					3.600
Andhra Pradesh					1.000

*Inter-State Allocations of Industrial Alcohol during the Alcohol year  
1971-72*

(Figures in Million Litres)

Name of State to which allocation made	SURPLUS STATES FROM WHICH ALLOCATIONS MADE					
	U.P.	Bihar	Haryana	Mahara- shtra	Mysore	Pondi- cherry
West Bengal . . .	5.50	1.50	..	2.50		0.40
Delhi . . . . .	5.80		..			
Sikkim . . . . .	0.50	0.30	..		..	
Nepal . . . . .	0.10		..	..		
Punjab . . . . .	0.55		1.30	..		
Defence & DGS&D	0.50		..	..		
Jammu & Kashmir .	1.00		0.50			
Bhutan . . . . .	..	0.90	..	..		
Assam . . . . .		1.20		..		
Manipur . . . . .	..	0.10				
Tripura		0.30				
Rajasthan . . . . .			2.00	0.50		..
Himachal Pradesh .			0.80	..		..
Chandigarh . . . .			0.30	..		..
Goa, Daman & Diu	..		..	0.40		..
Andhra Pradesh				1.50	..	..
U.P. (For Synthetic & Chemicals) . . .				6.00		..
ujarat				0.50		
Kerala . . . . .		..	..		0.50	..
Tamil Nadu (Chemi Plast ) . . . . .			..	..	2.50	..

*Inter-State Allocation of Industrial Alcohol during the Alcohol year  
1972-73*

(Figures in Million litres)

Name of State to which allocation made	SURPLUS STATES FROM WHICH ALLOCATION MADE				
	U.P.	Bihar	Haryana	Mahara- shtra	Mysore
Delhi	5.8		..		
Sikkim	0.9				..
Nepal	0.1	..	..	..	..
Bhutan	1.0	..	..	..	..
Assam	1.2		..	..	..
Rajasthan	1.3	..	1.0 1.5		..
Jammu & Kashmir	1.0				..
Himachal Pradesh	0.8	..	..	..	..
Punjab	1.8	..	..		..
Madhya Pradesh	1.0	..	..	..	
Defence DGS & D.	2.0	..	..	1.0	0.5
West Bengal	4.0 7.0 1.0	4.0	..	0.7	..
Manipur		0.1		..	..
Tripura	..	0.3	..	..	..
Chandigarh			0.3		..
Goa, Daman & Diu	..	..	..	0.3	..
Dadar & Nagar Haveli.	..		..	0.1	..
Andhra Pradesh	3.0	1.5	..	11.0	
Gujarat	..	..	..	0.6	
Kerala					1.8

## APPENDIX VII

(Para 2.31)

*List showing the recipients of Alcohol in West Bengal*

1	2	3	4
Name of the Industrial Unit	Purpose for which Alcohol used	Quantity allotted (Figures in million)	
1. M/s. A.C.C. I. Ltd.	Polythene	26.668	
2. M/s. Angelo Bros Ltd.	Shellac	.700	
3. M/s. Hindustan Lever Ltd.	Soaps	.650	
4. M/s. East Anglia Plastic Ltd.	Diethyl Pthalate	.200	
5. M/s. India Foils Ltd.	Foil Laminates	.300	
6. M/s. Acoto Chemicals (P) Ltd.	Ethyl Acetate	.150	
7. M/s. Gestetner Duplicators (P) Ltd.	Duplicating Stencils	.150	
8. M/s. Coates of India Ltd.	Printing Inks	.125	
9. M/s. Reckitt & Colman of India Ltd.	Dettol & Dettolin	.125	
10. M/s. Tata Ison Industries	Drugs	.100	
11. M/s. Waxpol Industries Ltd.	Hydraulic Brake Fluid	.095	
12. M/s. Paints India (P) Ltd.	N.C. Thinners	.050	
13. M/s. Hindustan Ind. Eqp. Co.	Do.	.025	
14. M/s. New Eastern Traders	Do.	.025	
15. M/s. D. N. Ghosh & Sons (P) Ltd.	Soaps	.025	
16. M/s. Eastern Warehouse and Chemicals	Ethyl Acetate	.025	
17. M/s. East India Ph. Works Ltd.	Drugs	.250	
18. M/s. Bengal Chemicals and Ph. Works Ltd.	Drugs	.150	
19. M/s. S. Bhattacharjee & Co.	Drugs	.350	
20. M/s. Bengal Immunity Co. Ltd.	Drugs	.035	
21. M/s. City Bonded Stores.	Drugs	.070	
22. M/s. Calcutta Warehouse	Do.	.080	
23. M/s. Bajaj International (P) Ltd.	Drugs and ordinary Denatured spirit.	.350	

1	2	3	4
24.	M/s. Standard Phs. Ltd.	Do.	· 750
25.	M/s. Calcutta Ch. Co. Ltd.	Do.	· 030
26.	M/s. A.C.C.I. Ltd., Paints Factory	Paints	· 175
27.	M/s. S. Bhattacharjee & Co.	For Hospital, Defence and the Scientific purposes.	· 050
28.	M/s. For use as ordinary Denatured Spirit.	Ordinary Denatured Spirit.	1· 400
29.	M/s. Carew & Co. Ltd.	Use by Distillery	1· 148
30.	M/s. Shaw Wallace & Co.	Do.	· 380300
31.	M/s. Serampore Distillery	Do.	· 365160
32.	M s. Eastern Distillery	Do.	· 426500
33.	M/s. West Bengal Spirit Warehouse.	Ordinary Dentured Spirit.	· 600

## APPENDIX VIII

(Para 2.32)

*Copy of D.O. letter dated 31-7-1973 from Commissioner of Excise, West Bengal to Ministry of Petroleum and Chemicals, New Delhi.*

Kindly refer to your D.O. No. 4(18)/72-Ch. I dated 20th June, 1973.

2. I have now gone through the copy of letter dated 10 May, 1973 from one S. Chowdhury of Sorampore to the address of the Hon'ble Minister of Petroleum and Chemicals and have made necessary enquiries.

The letter seems to be pseudonymous and the allegations made in it are malicious.

3. A copy of the letter was sent also to the Customs authorities in Calcutta and the Assistant Collector of Customs for Special Investigation Branch, Customs House Calcutta, called at the Excise Directorate on 31st May, 1973 and wanted to know how the overseas alcohol imported into West Bengal upto the end of May, 1973 was utilised. Details were furnished to him of how 43.90 million bulk litres of imported alcohol were allocated amongst the various consumers.

4. The Customs authorities have followed up these enquiries by two notices bearing the same number and date namely S. 21 Gr. I(P)/76/73A dated 26-6-73 calling upon M/s. Alkali & Chemical Corporation of India Ltd. to pay customs duty in respect of quantities of imported alcohol said to have not been used for industrial purpose as follow:

Quantity of alcohol said to have not been used for industrial purposes.	Amount of customs duty demanded
(1)	(2)
(1) 1.05 million bulk litres . . .	Rs. 10,31,55,230.40
(2) 1.07 million bulk litres . . .	Rs. 16,70,27,114.92

Copies of the notices are enclosed for your perusal.

Barring a little discrepancy, the quantities mentioned above seem to be the quantities that were released to our distilleries.

5. It may be recalled that as the last alcohol year opened in December, 1971, we saw that we were not in a position to meet, after meeting the demand of our distilleries, the demand for denatured spirit or of other industries from the allocations of indigenous alcohol that we received from your Ministry.

We were, however, expecting import from abroad to meet the bulk of our industrial requirement. Whatever alcohol we could have otherwise from local production and import from other states was therefore, mainly to be used by the distilleries which were also occasionally starving. Though we were formally allotted 13.80 millilitres from import from other States by your Ministry we actually get only 10.80 million. In view of the shortage of alcohol otherwise, major portion of this 10.80 million bulk litre was to have been allotted by us to our distilleries and only a small portion to the industry in view of the impending import from abroad for the industries. Since, however, the actual arrival of the stock from abroad took a long time and the industries could not be made to suffer for want of supplies on account of this with consequent lay off, industrial unrest etc., we had to advance a considerable extra quantity from the indigenous stock meant for the distilleries on a loan basis to other industries pending arrival of import from abroad on the clear understanding that on arrival of the imported stock from abroad the indigenous stock advanced by way of loan would be replenished and adjusted. This evidently had to be done only to save the situation and with no intent whatsoever to defraud the Government of India of taxes. We may mention that we had been moving the Government of India for imports well in time but the decision to import was taken at a much later date and the imports arrived after considerable time and hence we had to face the situation.

We could have well decided not to advance by way of loan any stock meant for distilleries to the industries in the hard times mentioned, but that would have led to a total dislocation in other industries though it might have saved us from the present embarrassing situation to tally due to misunderstanding on the part of Customs authorities. In spite of the heavy demand from distilleries we in the circumstances, thought it fit to allocate as much as 8.10 million bulk litres to industries out of our total allocation receipt out of 10.80 million bulk litres from indigenous sources. It was only from this extra advance accommodation that we had 2.85 million bulk litres replenished when the imported stock arrive from abroad. Compared with the quantity of nearly 44 million bulk litres of imported alcohol, this quantity is negligible.

6. The Government of India in the Ministry of Finance exempted imported alcohol from the payment of customs duty subject to an undertaking being given that the alcohol would be used solely for the industrial purposes in the State of West Bengal and to production of certificates to the effect that the said alcohol:

- (i) is already denatured to the satisfaction of the Government of West Bengal; or
- (ii) would have under bond to bonded warehouses under the control of the Commissioner of Excise, West Bengal and that the use of alcohol would be under his supervision.

I do not quite see why the local customs authorities should think that the above conditions have not been complied with. Obvious they have overlooked the fact that whatever imported alcohol has been transferred to the distilleries has been transferred by way of reimbursement of alcohol that was diverted earlier from the distilleries to other industries. It is needless to say that all overseas alcohol moved under bond to bonded warehouses under my control and it was used under my supervision.

In these circumstances I have no doubt that the notices refer to above, which the local customs authorities have thought fit to issue without further consultation with me are misconceived. As the entire background against which the Government of India permitted alcohol to be imported into West Bengal, free of customs duty, is known to your Ministry. I shall be grateful if your Ministry kindly explain the position to the appropriate authorities so that the notices are rescinded.

7. I am also keeping Mr. K. S. Tiwari of DGTD informed of this development.

With regards.



## APPENDIX X

(Para 3.31)

*Copy of Telegram dated 26th August, from Shri Poply Customs Kandla to Shri D. C. Mandal, Under Secretary, Cus. I.*

No. X 1910 DA 26 Kandla Port 31 141 Mandal Finrev New Delhi—

F. NO. S/26-24/73-A, RETEL F. NO. 369/4/74/CUS. I. DATED 28TH INSTT. ETHYL ALCOHOL IN QUESTION DENTTUREY DURING RECEIPT IN BULK IN SHORE TANK UNDER CUSTOMS SUPERVISION(.) BESIDES STATE PROHIBITION EXCISE SUPERVISION WAS ALSO THERE—POPLY CUSTOMS KANDLA—59 DA 26 MANDAL FINREV 26-24/73-A 369/74/CUS.I. 28TH.

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### CERTIFICATE COPY

This is to certify that 1,28,94,352.9 Bulk Litres=10444.772 metric tonnes of Ethyl Alcohol (Rectified Sprit) imported from Texas City ex-M.V. "STOLT EAGLE" on 6-1-1973 by M/s. Synthetics and Chemicals Ltd., Bombay was stored in D.T.C. Tanks 1 & 2, Atul Drug House Tanks 1 & 2 & Esso Tank 311 under our Seals. The Alcohol in question denatured with 0.2 per cent Crotonaldehyde in the tanks under Excise Supervision and the same was analysed by the Government Chemical Analyser and had certified to be properly denatured with 0.2 per cent Crotonaldehyde. Date 13-9-1973.

Sd./- Illegible

Inspector of Prob. & Excise

I/C. S.&C. Ltd.,

C/o. M/s. D. T. C. Ltd., Installation

Old Kandla (Distt. Kutch)

(SEAL)

(Inspector of Prob. & Excise

I/C M/s. S & C Ltd., Installation

Old Kandla).

**ANALYSIS REPORT**

(G.P.B.)-(J)O.43-50,000-6-67

**III**

*Form to be used by the Chemical Analyser when reporting the results of Analysis.*

Please always quote this office number in future reference. Railway Parcels should be prepaid and sent by "Street Delivery"

Report No. CAL/109/73/RE.

From

The Chemical Analyser to Government, Gujarat, Junagadh.

To

The Inspector of Prohibition & Excise,  
Kandla.

*Junagadh, 5-5-1973.*

Your Letter No. 16/73(7) Dated 19-1-73 advising one parcel per R.P.P. Stated by you to have been despatched on the 19-1-73 and which was received in this office on the 23-1-73.

---

*Mode in which parcel was found to be Packed on Receipt and Description on Seal*

The parcel consisted of a wooden box enclosed within a cloth cover which was unsealed. It contained five glass bottles out of which one glass bottle was received in broken condition.

---

*Copy of Label Attached to Parcel*

Labelled as per copy\_\_\_\_\_

---

Marked given by the Prohi. & Excise Inspector	Marked given by the Inspector Office :
---	--

---

No. 1 Sample drawn from DTC Tank No.1 The question does not arise since the sample was received in broken condition.

No. 2 Sample of D.T.C. Tank No. 2 A.

No. 3 " ADH " No. 1 B.

No. 4 " ADH " No.2 C.

No. mark " ESSO " No. 311 D.

---

**Description of Articles contained in Parcel.**

Each of the five glass bottles marked A to E Resp. contained quantity of liquid.

*Result of Chemical Analysis*

- I. Viscera will not be returned but destroyed after analysis.
- II. The exhibits other than viscera will be destroyed fortnight after the date of issue of the Chemical Analyser 'for port' if not requisitioned earlier through proper channel.

The sample marked in this Office.	Alcohol Strength D.S.	CROTONAL-DEHYDE
A	166.42%	Complies with the limit test.
B	166.19%	„
C	166.28%	„
D	166.46%	„
*E	166.06%	„

\*The fresh sample in lieu of the broken one was however received from Inspector of Prohibition & Excise, Kandla under his letter No. DSP 16/73, 1677 dated 12/13-2-73. The said sample was marked E in this office.

Sd./-  
(G. I. JOSHI)

*Asstt. Chemicals Analyser to Government Gujarat State, Junagadh.*

(G.P.B.)-(J)O.43-50,000-6-67

## III

*Form to be used by the Chemical Analyser when reporting the results of Analysis*

Please always quote this office number in future reference. Railway Parcels should be prepaid and sent by "Street Delivery"

Report No. CAL/133/73AL.

From

The Chemicals Analyser to Government, Gujarat, Junagadh.

To

The Sub-Inspector of Prohibition & Excise,  
I/c Synthetic & Chemicals Ltd.,  
D.T.C. Ltd., Kandla (Kutch).

*Junagadh, 18-5-1973.*

Your letter No. DSP 16/73(44), dated 5-2-73 advising one parcel per Con. R.A. Acharya, Stated by you to have been despatched on the 5-2-73 and which was received in this office on the 6-2-73.

*Mode in which parcel was Found to be packed on Receipt and Description on Seal*

The parcel consisted of a wooden box which was unsealed.

It contained a glass bottle which was illegibly sealed.

*Copy of Label Attached to Parcel*

Labelled as per copy forwarded\_\_\_\_\_

*Description of Articles Contained in Parcel*

The glass bottle contained a quantity of liquid said to be crotonaldehyde.

*Results of Chemical Analysis*

- I. Viscera will not be returned but destroyed after analysis.
- II. The exhibits other than viscera will be destroyed fortnight after the date of issue of the Chemical Analyser's report if not requisitioned earlier through proper channel.

Requirement as per Indian Standard Specification for Crotonaldehyde (Alcohol denaturants).

(i) Sp. gravity at 27° C is 0.869	0.872 Max.
(ii) Acidity (Calculated at acetic acid % by weight) 0.12	0.30 Max
(iii) Aldehyde contents (as crotonaldehyde % by weight) 87.2	85 (Min.)

Sd.|-

(G. I. JOSHI)

*Asstt. Chemical Analyser to Government Gujarat State, Junagadh.*

## APPENDIX XI

### *Summary of main Conclusion/Recommendations*

Sr. No.	Para No.	Ministry/Deptt. concerned	Conclusions/Recommendations
1	2	3	4

1. Min. of Fin. (Deptt. of Rev. & Ins.) 4.1  
 The Committee find from the Audit paragraph that during the year 1972-73 a total of 315 exemptions were issued under Section 25(2) of the

Customs Act, 1962, having a revenue effect of Rs. 241.69 crores. This works out to about 28 per cent of the net customs revenue of Rs. 857 crores realised during 1972-73. Out of an amount of Rs. 241.69 crores, as much as Rs. 232.19 crores represent customs duty foregone in respect of only 2 cases of imports of ethyl alcohol in West Bengal. In computing the total amount of duty foregone as a result of exemptions under Section 25(2), in another case of import of ethyl alcohol at Kandla, the duty on ethyl alcohol had been calculated under item 22(b) ICT and intimated by the Ministry, while ethyl alcohol is correctly classifiable under item 22(4)ICT. If this is also correctly calculated accordingly, the total customs duty foregone during 1972-73 actually works out to Rs. 344.08 crores and this represents about 40 per cent of the net customs revenue of Rs. 857 crores.

2. -do- 4.2  
 The Ministry of Finance (Department of Revenue and Insurance) have, however, contended that the revenue effect of the two exemptions relating



Section, it is also necessary for the importer to make a request in writing for the denaturation of the imported spirit. The denaturation of the spirit will also have to be done according to the provisions of the Denaturation of Spirit Rules, 1972. The Committee find that in the case of imports of ethyl alcohol into West Bengal neither Section 24 of the Customs Act nor the rules framed thereunder had been followed. The Finance Secretary has also stated during evidence that Section 24 of the Act and the rules framed thereunder are not applicable to this case and that the exemption from duty is subject to the conditions prescribed in the exemption orders and denaturation is one of these conditions.

It would, therefore, appear that while granting the exemption from customs duty the correct facts and the legal position had not been properly appreciated. Even though the note submitted by the Central Board of Excise and Customs to the Minister in this regard had clearly stated that ethyl alcohol was classifiable under item 22(4) ICT, no attempts had been made to quantify the revenue effect of the exemption under item 22(4) ICT. On the other hand the revenue effect of the exemption has been sought to be calculated under item 22(6) ICT when it had no relevance at all to the situation when Government had to exempt the alcohol from payment of customs duty. The Committee feel that the position should have been made amply clear in the notes by quantifying the revenue effect under item 22(4) ICT, i.e., prior to denaturation so as to present the case objectively before the authority competent to take a decision whether duty should be exempted.

3

2

4

Min. of Finance  
(Dept. of Rev. & Ins.)

5. 4.5

Even accepting, without conceding, that the revenue effect of the exemptions should have been calculated under item 22(6), as contended by the Ministry, the Committee find that while calculating the revenue effect of the exemption the Central Board of Excise and Customs had not taken into account the fact that out of approximately 25 million bulk litres of alcohol initially proposed to be imported from abroad for West Bengal, 2.5 million bulk litres were to be allotted to Government hospitals, the Defence Department and other consumers and some quantity was to be allotted to various pharmaceutical firms. It has also been accepted that so far as the pharmaceutical industry is concerned, it would require ethyl alcohol as such and not in the denatured form. At the time of granting the exemption the Central Board of Excise and Customs was also aware that some quantity of alcohol was proposed to be issued by the West Bengal Government to the pharmaceutical firms, hospitals, defence establishments etc. Therefore, it only stands to reason that while calculating the revenue effect of the exemption the duty that would be foregone on quantities of alcohol which would be utilised in the un-denatured form should have been correctly calculated under item 22(4) ICT. This was not done. Under the circumstances, the Committee are unable to accept the contention of the Ministry of Finance that the revenue effect of the two exemptions relating to the import of ethyl alcohol in West Bengal was only Rs. 1.57 crores.

-do-

6. 4.6

The Committee also find that the decision to grant the exemption in respect of the first import of ethyl alcohol during 1972-73 had been taken



by the Finance Secretary and orders for the grant of exemption from duty in respect of the second import had alone been passed by the Minister. The Committee have been informed that there are no specific orders regarding proposals which should be invariably submitted to the Minister concerned for approval. Since the Ministry, according to their own calculation, were allowing an exemption involving a revenue effect of more than a crore of rupees, the Committee are of the opinion that the specific approval of the Minister should have been obtained. The Committee understand that at present only cases where the expenditure involved or the expenditure proposal is over Rs. 1 crore are normally submitted to the Minister for approval. The Committee desire that a similar monetary limit for the grant of exemption from duty should also be prescribed.

-do-

4.7

7.

133

The Committee are also concerned to note that in this case adequate steps had not been taken to ensure that the alcohol was not diverted for non-industrial uses and that there has been a considerable diffusion of responsibility. The Committee feel that as the agency entrusted with the collection of customs duty the Ministry and the Central Board of Excise and Customs should have exercised greater care and taken adequate steps to ensure that there was no misuse of the imported alcohol rather than depending entirely on the West Bengal Excise authorities.

It would be evident from the fact that out of alcohol imported in West Bengal during 1972-73, 28.20 lakh litres had been diverted for the manufacture of potable liquor, that in many cases the alcohol imported was not denatured as required in the orders granting exemption from

4.8

8.

Min. of Finance  
(Deptt. of Rev. & Ins.)

5. 4.5 Min. of Finance (Dept. of Rev. & Ins.) Even accepting, without conceding, that the revenue effect of the exemptions should have been calculated under item 22(6), as contended by the Ministry, the Committee find that while calculating the revenue effect of the exemption the Central Board of Excise and Customs had not taken into account the fact that out of approximately 25 million bulk litres of alcohol initially proposed to be imported from abroad for West Bengal, 2.5 million bulk litres were to be allotted to Government hospitals, the Defence Department and other consumers and some quantity was to be allotted to various pharmaceutical firms. It has also been accepted that so far as the pharmaceutical industry is concerned, it would require ethyl alcohol as such and not in the denatured form. At the time of granting the exemption the Central Board of Excise and Customs was also aware that some quantity of alcohol was proposed to be issued by the West Bengal Government to the pharmaceutical firms, hospitals, defence establishments etc. Therefore, it only stands to reason that while calculating the revenue effect of the exemption the duty that would be foregone on quantities of alcohol which would be utilised in the un-denatured form should have been correctly calculated under item 22(4) ICT. This was not done. Under the circumstances, the Committee are unable to accept the contention of the Ministry of Finance that the revenue effect of the two exemptions relating to the import of ethyl alcohol in West Bengal was only Rs. 1.57 crores.
6. 4.6 -do- The Committee also find that the decision to grant the exemption in respect of the first import of ethyl alcohol during 1972-73 had been taken

by the Finance Secretary and orders for the grant of exemption from duty in respect of the second import had alone been passed by the Minister. The Committee have been informed that there are no specific orders regarding proposals which should be invariably submitted to the Minister concerned for approval. Since the Ministry, according to their own calculation, were allowing an exemption involving a revenue effect of more than a crore of rupees, the Committee are of the opinion that the specific approval of the Minister should have been obtained. The Committee understand that at present only cases where the expenditure involved or the expenditure proposal is over Rs. 1 crore are normally submitted to the Minister for approval. The Committee desire that a similar monetary limit for the grant of exemption from duty should also be prescribed.

-do-

7. 4.7

123

The Committee are also concerned to note that in this case adequate steps had not been taken to ensure that the alcohol was not diverted for non-industrial uses and that there has been a considerable diffusion of responsibility. The Committee feel that as the agency entrusted with the collection of customs duty the Ministry and the Central Board of Excise and Customs should have exercised greater care and taken adequate steps to ensure that there was no misuse of the imported alcohol rather than depending entirely on the West Bengal Excise authorities.

8. 4.8

Min. of Finance  
(Deptt. of Rev. & Ins.)  
It would be evident from the fact that out of alcohol imported in West Bengal during 1972-73, 28.20 lakh litres had been diverted for the manufacture of potable liquor, that in many cases the alcohol imported was not denatured as required in the orders granting exemption from

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customs duty. The Committee desire that the circumstances leading to the non-observance of the conditions of exemption by the West Bengal Government should be investigated immediately. The Committee are unable to accept the plea of replenishment put forth by the West Bengal Government for diverting the imported alcohol for potable purposes. Even assuming that such a diversion had been necessary the West Bengal Government should have kept the Central Government informed and obtained their approval before permitting the diversion and not done it *suo moto*. The fact of diversion of the alcohol came to the notice of the Customs House, Calcutta only through a complaint by one Shri S. Chaudhri. This would indicate how inadequate the checks and safeguards prescribed were. What is even more surprising to the Committee is the fact that the West Bengal Government as the importer of the ethyl alcohol should have protested against the demand for duty raised by the Collector of Customs, Calcutta and considered it 'mis-conceived'.

9.

4-9

-do-

The Committee have been informed that in respect of diversions relating to the imports during 1972-73, a demand for duty of Rs. 22.98 crores has been raised by the Collector of Customs, Calcutta against Alkali Chemical Corporation who had filed the bill of entry on behalf of Government of West Bengal, the licence holder. In addition, the duty payable on a further quantity of 2.94 lakh litres of alcohol imported during 1973-74 and diverted for the manufacture of potable liquor works out to Rs. 2.35 crores and a demand has been raised in this case also. The

Committee have been informed that these cases of diversion will have to be adjudicated by the Collector of Customs, Calcutta. The Committee would like to know urgently whether the duty has since been recovered in respect of diversion during 1972-73 and 1973-74.

The Committee have also been informed by the Chief Controller of Imports and Exports that since the imports were intended for use as raw materials in the alcohol-based industries and not for potable use, any diversion of the imported synthetic ethyl alcohol for purposes other than the one for which import was requested and allowed would attract the penal provision of the Import (Control) Order, 1955. Apparently no action has so far been taken for this violation. The Committee desire that this should be examined immediately and appropriate action taken against the defaulters.

The import of ethyl alcohol allowed during 1972-73 for the manufacture of synthetic rubber by Synthetics and Chemica's Ltd. and the exemption of customs duty thereon cause greater concern to the Committee. The Committee have been informed under item 22(4) ICT, works out to as much as Rs. 102.94 crores and an amount of Rs. 88.20 lakhs had been allocated in foreign exchange for the import. Even though the imports had been permitted on a plea of urgency to meet the raw material requirements of the factory, the Committee are amazed to find that the alcohol actually moved from the port of import, Kandla, to Bareilly only during July to October, 1974—more than 18 months after the actual import into India. What is even more surprising is the fact that after

Min. of Commerce

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10.

Min. of Finance  
(Dept. of Rev. & Ins.)  
Min. of Petroleum &  
Chemicals

4.11

11.

having imported the alcohol Synthetics and Chemicals Ltd. represented for its re-export or diversion to other uses.

12. 4.12 Min. of Finance  
(Deptt. of Rev. & Ins.)  
Min. of Petroleum &  
Chemicals
- The Committee are unable to accept the reasons advanced by the Ministry of Petroleum and Chemicals for the delay in the movement of alcohol from Kandla to Bareilly. It has been stated that one of the reasons for the non-movement of alcohol was the general shortage of wagons. The Committee, however, were astonished when they were informed by the Railway Board that no indentis for tank wagons for the movement of alcohol from Kandla to Bareilly had been placed on the Railways by Synthetics and Chemicals Ltd. in 1972-73. The statement by the Ministry of Petroleum and Chemicals, therefore, sounds baseless in the light of what has been stated by the Railway Board. The imported alcohol must have found its way into uses other than what was stipulated.

13. 4.13 -do-
- Another reason for the non-movement of alcohol according to the Ministry of Petroleum and Chemicals, was the imposition of a vend fee on indigenous alcohol by the U.P. Government against which the firm filed a case in the Allahabad High Court. Since the vend fee was leviable only on indigenous alcohol and the imported alcohol had also arrived by the time the fee was imposed, the Committee find no justification for the delay in the movement of alcohol to Bareilly. In view of the dispute over indigenous alcohol Synthetics and Chemicals Ltd. should have been all the more anxious to move the imported alcohol so as to ensure that

the production of synthetic rubber did not suffer. That this was not at all done would indicate that the import licence had been obtained more for speculative gains than to meet any valid requirements. Otherwise the Committee are unable to understand the reasons for Synthetics and Chemicals wanting to re-export the alcohol or divert it to other uses.

14. 4.14 -do- The Committee also find that while permitting the import of ethyl alcohol by Synthetics and Chemicals a quantity of 8½ million litres of alcohol available indigenously in Uttar Pradesh had been retained as carry-over stock for the next year which proves that there was no real shortage. The Committee are unable to appreciate the rationale for resorting to costly imports when this quantity was available indigenously. This needs to be explained.

15. 4.15 -do- The Committee also find from a letter dated 25th April, 1972 from Alkali Chemical Corporation that the eastern U.P. distilleries held adequate stocks of alcohol, at the time the application for import was made by Synthetics and Chemicals and that some of them did not have any pending allocation with them. Under the circumstances it is not clear to the Committee whether the import on behalf of Synthetics and Chemicals was at all justified.

16. 4.16 -do- The Committee also note from the statement of details of imported alcohol despatched from Kandla to Bareilly that at the Kandla end there was a storage gain of 53,107 litres. It is further seen from the consignments-wise despatches from Kandla to Bareilly that there are wide variations between the quantity despatched from Kandla and the quantity

received at Bareilly. While the Committee can understand transit losses due to evaporation, spillage etc., they, however, find it difficult to accept how the quantity received at Bareilly in respect of individual consignments could be more than the quantity despatched from Kandla. For instance, in one case the difference between the quantity despatched and the quantity received is as high as nearly 14,000 litres. All these are indeed mysterious. It is also significant to note that these details had been furnished by the Assistant Collector of Central Excise, Bareilly only on 26th November, 1974, i.e., when the case was under scrutiny by the Committee. Till the Committee raised this point, the Central Board of Excise and Customs were not aware when and whether the alcohol had moved from Kandla to Bareilly. The Committee would not, therefore, accept the data furnished at their face value and are inclined to believe that there is more to it in this transaction than what meets the eye.

Min. of Finance  
(Deptt. of Rev. & Ins.)  
Min. of Petroleum &  
Chemicals

4.17

17.

If at all the import by Synthetics and Chemicals was justified, the Committee are unable to understand why the firm was allowed to import un-denatured alcohol instead of denatured alcohol, when this alcohol was specifically required for the manufacture of synthetic rubber and the denatured could have been specified in this case. The Committee are surprised to find that while recommending import of ethyl alcohol the Ministry of Petroleum and Chemicals had not examined whether the alcohol should be denatured before importation. The Committee are firmly of the view that this should have been done to prevent the misuse



of the alcohol after importation. The Committee desire that the responsibility for this should be fixed for action under advice to the Committee.

18. 4 18 -do- After an examination of the various facts brought out in this case, the Committee would like to satisfied that the alcohol which moved from Kandla to Bareilly during July to October, 1974, was in fact the alcohol that was imported in December, 1972. The Committee consider this important in view of the fact that the alcohol had been stored at Kandla by the Distillers Trading Corporation. In these circumstances, the Committee recommend that this case should be immediately handed over to the C.B.I. for a thorough and detailed investigation with a view to ensure that there has been no black-marketing or misuse of the imported alcohol. The Committee desire that the investigation by the CBI should be completed expeditiously and appropriate action taken against the importers if there have been violations of the Import Control Act and the Customs Act. The results of the investigation by the CBI should also be intimated to the Committee as early as possible.

19. 4 19 Min of Commerce The Committee also find that the State Trading Corporation, who had handled the import of ethyl alcohol on behalf of Synthetics and Chemicals, had handed over the alcohol on the high seas. As this deprived the State Governments of the sales tax which would otherwise be due to them, the Committee desire that the justification for such a practice should be gone into and the unhealthy practice discontinued forthwith.

20. 4.20 Min. of Finance  
Deprt. of Rev. & Ins )

The Committee have been informed that during the period January, 1968 to February, 1974, a total quantity of 1.07 lakh metric tonnes of ethyl alcohol had been imported from abroad. The duty payable on these imports calculated under item 22(4) ICT works out to Rs. 1015.49 crores. That such a staggeringly large sum of customs revenue should have been foregone during a short span of 6 years would indicate that at present the executive enjoys the unfettered right to grant exemptions from duty. The Committee feel that the existing position in regard to grant of exemptions by the executive through notifications or *ad hoc* special orders leaves a lot to be desired. It is necessary to bear in mind that the power given by Parliament to the executive to allow exemptions from duty is only a form of delegated or subordinate legislation and this power should not be so freely and widely used so as to vitiate the intentions of the Legislature. In paragraph 1.25 of their 111th Report (Fourth Lok Sabha), the Committee had earlier recommended that all exemptions involving a cent per cent relief from duty should have the prior approval of Parliament. Having regard to the points now brought to light in this case and also having regard to the administrative considerations the Committee would suggest that individual exemptions under Section 25(2) of the Customs Act in which the revenue foregone exceeds Rs. 10 crores in each individual case should be given only with the prior approval of Parliament.