

UNION OF INDIA

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v.

PALIWAL ELECTRICALS (P) LTD. AND ANR.

MARCH 25, 1996

[B.P. JEEVAN REDDY AND SUHAS C. SEN, JJ.]

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Central Excise Rule, 1944 : Rule 8.

Excise—Specified goods—Exemption from duty to certain small scale industries—Notification for—Amendment of—Exclusion of benefit to small manufacturers who affixed brand name of other persons not eligible for exemption—Held not violative of Article 14—Object of exemption notification explained.

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Excise duty—Power of Government to exempt—Nature and character—Held in public interest—It is a potent power to regulate and manage the economy—Challenge to exemption power—Held heavy burden lies on the person who challenges it.

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In exercise of its power under Rule 8 of the Central Excise Rules, 1944, the Central Government issued a Notification No. 175 of 1986. Under this Notification exemption from excise duty was granted in favour of certain small scale industries manufacturing the goods specified in the schedule to the Notification provided their annual turnover did not exceed the limit prescribed. Subsequently this Notification was amended by Notification No. 223 inserting Para 7 and Explanation VIII therein. Para 7 provided that the benefit of Notification No. 175 shall not be available to a small manufacturer, who affixed the brand-name or trade-name (registered or not) of another person, who is not eligible for the grant of exemption under the said notification. Explanation VIII defined the expressions "brand-name or trade-name". The Allahabad High Court struck down para 7 of the Exemption Notification No. 175 of 1986 on the ground that it was violative of Article 14 of the Constitution of India. Against the decision of the High Court an appeal was preferred before this Court.

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Allowing the appeal, this Court

HELD : 1. The impugned judgment is unsustainable in law. It is

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A erroneous for the reason that it has not borne in mind the relevant consideration. The High Court erred in saying that the classification it brings about - assuming that it does so - is not reasonable or that it has no nexus with the object underlying the Notification. Not only is Para 7 consistent with the object underlying the Notification, it indeed promotes it. [854-G-H]

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Banner and Company v. Union of India, (1994) 70 ELT 181, disapproved.

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Bush (India) Ltd. v. Union of India & Ors., (1980) 6 ELT 258, *Bata (India) Ltd. v. Assistant Collector of Central Excise, Patna*, (1978) 2 ELT 211, *Bapalal and Co. v. Government of India & Ors.*, (1981) 8 ELT 581, *Carona Sahu Co. Ltd. v. Superintendent, Central Excise & Ors.*, (1981) 8 ELT 730 and *Joint Secretary to Government of India v. Food Specialities Ltd.*, (1985) 22 ELT 324 SC, distinguished.

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2. The object of the notification is self-evidence. It is to help the small manufactures to survive in the market which is dominated by brand-names/trade-names. Thus it serves the socio-economic objectives of helping the small manufacturer and increasing the industrial production. Explanation IV of the Notification is really clarificatory in nature. [849-C-E]

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Union of India & Ors. v. Cibatul Ltd., (1985) 22 ELT 302, referred to.

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3. The object underlying Para 7 is self-evident. If a small manufacturer who affixes the brand-name or trade-name of an 'ineligible manufacturer' (a convenient expression to denote a manufacturer outside the purview of Notification No. 175 of 1986 and who owns or is entitled to use a brand-name or trade-name), the very reason *d'etre* for granting the exemption disappears. By extending the benefit of exemption, the State is foregoing public revenue to which it is entitled under the Act. The loss to public revenue is supposed to be compensated by helping along the small manufacturers to survive in the market and continue to produce. Once the small manufacturer becomes one with his competitor, the need for supporting crutches disappears. There is no reason why in such a case the State should forego the revenue due to it under the Act.

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4. The power of exemption is a potent weapon in the hands of the Central Government to regulate and manage the economy and to achieve

the various social and economic objectives of the State. The exemption of power is conceived in public interest. A

Union of India & Ors. v. M/s. Jalyan Udyog & Anr., [1994] 1 SCC 319 and *Orient Weaving Mills v. Union of India*, AIR (1963) SC 98 = [1962] Supp. 3 SCR 481, referred to. B

Elèl Hotels and Investnebts Ltd. v. Union Of India., [1889] 3 SCC 698, *Sri Srinivasa Theatre v. Government if Tamil Nadu*, [1992] 2 SCC 643 and *Subhash Photographics v. Union of India*, [1993] Supp. 3 SCC 323 = JT (1993) 4 SC 116, cited. C

5. Generally speaking the Exemption Notification and the terms and conditions prescribed therein represent the policies of the government evolved to subserve public interest and public revenue. A heavy burden lies upon the person who challenges them on the ground of Article 14. Unless otherwise established the court must presume that the said amendment was found by the Central Government to be necessary for giving effect to its policy (underlying the notification) on the basis of the working of the said Notification and that such an amendment was found necessary to prevent persons from taking unfair advantage of the concession. In this case, the explanatory note appended to amending Notification says so in so many words. If necessary the Court could have called upon the Central Government to establish the reasons behind the amendment. (It did not think it fit to do so). It is equally necessary to bear in mind that in economic and taxation sphere, a large latitude should be allowed to the Legislature. [852-F-G] D E

R.K. Garg v. Union of India, [1982] 1 SCR 947; *P.J. Irani v. State of Madras*, AIR (1961) SC 1731 = [1962] 2 SCR 169; *Morey v. Doud*, [1957] 354 U.S. 457 and *New Oreleans v. Dukes*, [1976] 427 U.S. 297, referred to. F

Secy. of Agriculture v. Central Reig. Refining Co., (1950) 94 L. Ed. 381, cited. G

CIVIL APPELLATE JURISDICTION : Civil Appeal No. 693 of 1995.

From the Judgment and Order dated 22.7.94 of the Allahabad High Court in C.M.W.P. No. 1262 of 1987. H

A R.P. Srivastava and V.K. Verma for the Appellants.

The Judgment of the Court was delivered by

B.P. JEEVAN REDDY, J. The Allahabad High Court has struck down Para-7 of the Exemption Notification No. 175 of 1986 dated March 1, 1986 (which para was inserted by the Notification No. 223 of 1987) on the ground of violation of Article 14 of the Constitution of India. The decision under appeal is largely influenced by and follows the decision of a learned Single Judge of the Calcutta High Court in *Banner and Company v. Union of India*, (1994) 70 E.L.T. 181.

C Rule 8 of the Central Excise Rules empowers the Central Government to exempt, subject to such conditions as it may specify, any excisable goods from the whole or any part of duty leviable on such goods.

D By means of Notification No. 175 of 1986 issued under Rule 8 of Central Excise Rules, exemption from excise duty was granted in favour of certain small scale industries manufacturing the goods specified in the schedule to the Notification provided their annual turnover did not exceed the limit prescribed. The relevant portions of the Notification read :

E "3. Nothing contained in this notification shall apply if the aggregate value of clearances of all excisable goods for home consumption. --

(a) by a manufacturer, from one or more factories, or

F (b) from any factory, by one or more manufacturers, had exceeded rupees one hundred and fifty lakh in the preceding financial year.

G 4. The exemption contained in this notification shall be applicable only to a factory which is an undertaking registered with the Director of Industries in any State or the Development Commissioner (Small Scale Industries) as a small scale industry under the provisions of the Industries (Development and Regulations) Act, 1951 (65 of 1951)

H *Explanation IV.* for the purposes of this notification, where the specified goods manufactured by a manufacturer, are affixed with a brand name or trade name (registered or not) of another

manufacturer or trade, such specified goods shall not, merely by reason of that fact, be deemed to have been manufactured by such other manufacturer or trader." A

Explanation IV is of relevance. It provided that merely because the brand-name or trade-name of another manufacturer or trader was affixed to the goods manufactured by a 'small manufacturer' (to use a convenient expression denoting a manufacturer who is entitled to the benefit of the said Notification) such good shall not be deemed to be the goods manufactured by such *other* manufacturer or trader. B

The object of the notification is self-evidence. It is to help the small manufacturers to survive in the market which is dominated by brand-names/trade-names. It is a matter of common knowledge that people prefer well-known brand-names. They put them under an implicit faith that they are of reliable quality. In such a situation, a small manufacturer faces an uphill task in having his goods accepted in the market. If he prices his goods at the same level as the price of goods manufactured by a well-known brand-name, he stands no chance; he will be priced out of market in no time. It is precisely to enable him to survive in the market that the said exemption is granted. By virtue of exemption from duty, the small manufacturer would be able to sell his goods at a cheaper price thus making them attractive in the market - and - more competitive. The notification thus serves the socio-economic objectives of helping the small manufacturers and increasing the industrial production, so far as Explanation IV is concerned, it is really clarificatory in nature; it merely reiterates the principle of the decision of this Court in *Union of India & Ors. v. Cibatul Limited*, (1985) 22 E.L.T. 302. C
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On September 22, 1987, Notification No. 175 of 1986 was amended by Notification No. 223 inserting Para 7 and Explanation VII therein. The inserted provisions read as follows : F

"7. The exemption contained in this notification shall not apply to the specified goods where a manufacturer affixed the specified goods with a brand name or trade name (registered or not) of another person who is not eligible for the grant of exemption under this notification : G

Provided that nothing in this paragraph shall be applicable in H

A respect of the specified goods cleared for home consumption before the 1st day of October, 1987.

Explanation VIII. -- Brand name or trade name shall mean a brand name or trade name whether registered or not, that is to say a name or a mark, such as symbol, monogram, label, signature or invented word or writing which is used in relation to such specified goods for the purpose of indicating, or so as to indicate a connection in the course of trade between such specified goods and some person using 'such name or mark with or without any indication of the identity of that person.'

C Now, what does Para 7 provide and why? It provides that the benefit of Notification No. 175 shall not be available to a small manufacturer, who affixes the brand-name or trade-name (registered or not) of another person, who is not eligible for the grant of exemption under the said notification.

D Explanation VIII defines the expressions "brand-name or trade-name". The explanatory note appended to the notification states that "(T) his amendment seeks to deny small scale exemption in respect of specified goods affixed with the brand-name/trade-name of a person who is not eligible for the exemption under Notification No. 175/86-CE dated 1.8.86." The object underlying Para 7 is self-evident. If a small manufacturer

E who affixes the brand-name or trade-name of an 'ineligible manufacturer' (a convenient expression to denote a manufacturer outside the purview of Notification No. 175 of 1986 and who owns or entitled to use a brand-name or trade-name), the very *raison d'être* for granting the exemption disappears. The exemption is designed to enable the small manufacturer to

F survive in the market *in competition* with the ineligible manufacturer but if he joins, or identifies himself with, the ineligible manufacturer, his goods become one with the goods of such ineligible manufacturer. They become indistinguishable. In the market, they will all be understood as one and the same goods. They no longer need the benefit under the Notification. It

G must be remembered that by extending the benefit of exemption, the State is foregoing public revenue to which it is entitled under the Act. The loss to public revenue is supposed to be compensated by helping along the small manufacturers to survive in the market and continue to produce.

H Once he becomes one with his competitor, the need for supporting crutches disappears. There is no reason why in such a case the State should forego the revenue due to it under the Act. It is the insufficient apprecia-

tion of this basic aspect that has led both the Allahabad and Calcutta High Courts astray. But before we deal with their approach and reasoning, it would be appropriate to deal with the nature and character or the power of exemption under Rule 8 of the Central Excise Rules.

The power of exemption is a potent weapon in the hands of the Central Government to regulate and manage the economy and to achieve the various social and economic objectives of the State. As observed by this Court in *Union of India & Ors. v. M/s. Jalyan Udyog & Anr.*, [1994] 1 SCC 319 dealing with Section 25 of the Customs Act which is in *pari materia* with Rule 8 :

"It is a power given to the Central Government to be exercised in public interest. Such a provision has become a standard feature in several enactments and in particular, taxing enactments. It is equally well settled by now that the power of taxation can be used not merely for raising revenue but also to regulate the economy, to encourage or discourage as the situation may call for, the import and export of certain goods as also for serving the social objectives of the State (*Vide Elel Hotels and Investments Ltd. v. Union of India*, [1989] 3 SCC 698, *Sri Srinivasa Theatre v. Government of T.N.*, [1992] 2 SCC 643 and *Subhash Photographics v. Union of India*, [1993] Suppl. 3 SCC 323 = JT (1993) 4 SC 116. Since the Parliament cannot constantly monitor the needs of and the emerging trends in the economy and is in no position to engage itself in day-to-day regulation and adjustment of import-export trade accordingly, power is conferred upon the Central Government to provide for exemption from duty of goods, either wholly or partly, and with or without conditions, as may be called for in public interest. We see no warrant for reading any limitation into this power. If the public interest demands that the exemption should be absolute, the Central Government can do so. Similarly, if the public interest demands that the exemption should be granted only subject to certain conditions it can provide such conditions. Then again if the public interest demands that conditions specified should relate to a stage subsequent to the date of clearance it can do so. The guiding factor is the public interest."

Though Rule 8 does not use the expression "public interest" unlike

A Section 25 of the Customs Act, both the powers are conceived in public interest. See the Constitution Bench decision in *Orient Weaving Mills v. Union of India*, AIR (1963) SC 98 = [1962] Supp. 3 SCR 481 upholding the constitutional validity of Rule 8. It is observed therein :

B "The Act recognises and only gives effect to the well established principle that there must be a great deal of flexibility in the incidence of taxation of a particular kind. It must vary from time to time, as also in respect of goods produced by different process and different agencies..... It is a function of the State, in order to raise revenue for State purposes, to determine what kind of taxes shall be levied and in what manner. Its function, therefore, is to raise revenues for public purposes. The State naturally is interested in raising all the revenue necessary for public purposes, without sacrificing the legitimate interests of persons and groups, who deserve special treatment at the hands of the State for reasons, which the State may determine, entitling them to be placed in a special case."

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We are of the opinion that while examining the challenge to an Exemption Notification under the Central Excise Act, the observations in the decisions aforesaid should be kept in mind. It should also be remembered that generally speaking the Exemption Notification and the terms and conditions prescribed therein represent the policies of the government evolved to subserve public interest and public revenue. A very heavy burden lies upon the person who challenges them on the ground of Article 14. Unless otherwise established, the courts must presume that the said amendment was found by the Central Government to be necessary for giving effect to its policy (underlying the notification) on the basis of the working of the said Notification and that such an amendment was found necessary to prevent persons from taking unfair advantage of the concession. In fact, in this case, the explanatory note appended to amending Notification says so in so many words. If necessary, the Court could have called upon the Central Government to establish the reasons behind the amendment. (It did not think it fit to do so.) It is equally necessary to bear in mind, as pointed out repeatedly by this Court, that in economic and taxation sphere, a large latitude should be allowed to the legislature. The Courts should bear in mind the following observations made by a Constitution Bench of this Court in *R.K. Garg v. Union of India*, [1982] 1 SCR 947:

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"Another rule of equal importance is that laws relating to economic activities should be viewed with greater latitude than laws touching civil rights such as freedom of speech, religion etc. It has been said by no less a person than Holmes, J. that the legislature should be allowed some play in the joints, because it has to deal with complex problems which do not admit of solution through any doctrinaire or straight jacket formula and this is particularly true in case of legislation dealing with economic matters, where, having regard to the nature of the problems required to be dealt with greater play in the joints has to be allowed to the legislature. The Court should feel more inclined to give judicial deference to legislative judgment in the field of economic regulation than in other areas where fundamental human rights are involved. Nowhere has this admonition been more felicitously expressed than in *Morey v. Doud**, (1957) 354 US 457 where Frankfurter, J. said in his inimitable style :

'In the utilities, tax and economic regulation cases, there are good reasons for judicial self-restraint if not judicial deference to legislative judgment. The legislature after all has the affirmative responsibility. The courts have only the power to destroy, not to reconstruct. When these are added to the complexity of economic regulation, the uncertainty, the liability to error, the bewildering conflict of the experts, and the number of times the judges have been overruled by events-self-limitation can be seen to be the path of judicial wisdom and institutional prestige and stability.'

The court must always remember that 'legislation is directed to practical problems, that the economic mechanism is highly sensitive and complex, that many problems are singular and contingent, that laws are not abstract propositions and do not relate to abstract units and are not to be measured by abstract symmetry' that exact wisdom and nice adaptation of remedy are not always possible and that 'judgment is largely a prophecy based on meagre and

* It is true that *Mory v. Daud*, was overruled later by the United States Supreme Court in *New Orleans v. Dukes*, (1976) 427 US 297, but the said fact does not detract from the validity of the said rule stated in *Morey v. Daud*, nor does it in any manner affect the principle stated by this Court.

A uninterpreted experience'. Every legislation particularly in economic matters is essentially empiric and it is based on experimentation or what one may call trial and error method and therefore it cannot provide for all possible situations or anticipate all possible abuses. There may be crudities and inequities in complicated experimental economic legislation but on that account alone it cannot be struck down as invalid. The Courts cannot, as pointed out by the the United State Supreme Court in *Secy. of Agriculture v. Central Reig. Refining Co.*, (1950) 94 L. Ed. 381, be converted into tribunals for relief from such crudities and inequities. There may even be possibilities of abuse, but that too cannot of itself be a ground for invalidating the legislation, because it is not possible for any legislature to anticipate as if by some divine prescience, distortions and abuses of its legislation which may be made by those subject to its provisions and to provide against such distortions and abuses. Indeed, howsoever great may be the care bestowed on its framing, it is difficult to conceive of a legislation which is not capable of being abused by perverted human ingenuity. The Court must therefore adjudge the constitutionality of such legislation by the generality of its provisions and not by its crudities or inequities or possibilities of abuse come to light the legislature can always step in and enact suitable amendatory legislation. That is the essence of pragmatic approach which must guide and inspire the legislature in dealing with complex economic issues."

F The same principle should hold good in the matter of Exemption Notifications as well, for the said power is part and parcel of the enactment and is supposed to be employed to further the objects of enactment - subject, of course, to the condition that the Notification is not ultra vires the Act, and/or Article 14 of the Constitution of India. (See *P.J. Irani v. State of Madras*, AIR (1961) SC 1731 = [1962] 2 SCR 169.

G We are of the opinion that the judgment under appeal is erroneous for the reason that it has not borne in mind the aforementioned relevant consideration. It is equally in error in saying that the classification it brings about - assuming that it does so - is not reasonable or that it has no nexus with the object underlying the Notification. Not only is Para 7 consistent
H with the object underlying the Notification, it indeed promotes it, as

explained hereinbefore. We are constrained to say that the High Court has not bestowed the care and consideration which is expected of it before it strikes down such a Notification or, for that matter, any statutory provision. For the very reason, the decision of the learned Single Judge of the Calcutta High Court in *Banner & Co. v. Union of India*, (1994) 70 ELT 181 must also help to have been wrongly decided.

Before we conclude, we must deal with one more aspect. The decision under appeal quotes extensively from, and relies upon, the decision of the Calcutta High Court in *Banner and Company*. The Calcutta High Court relied upon the decisions of the High Courts in *Bush (India) Limited v. Union of India & Ors.*, (1980) 6 ELT 258, *Bata (India) Limited v. Assistant Collector of Central Excise, Patna*, (1978) 2 ELT 211, *Bapalal and Company v. Government of India & Ors.*, (1981) 8 ELT 581, *Carona Sahu Company Limited v. Superintendent, Central Excise & Ors.*, (1981) 8 ELT 730 besides the decisions of this Court in *Cibatul* (supra) and *Joint Secretary to Government of India v. Food Specialities Limited*, (1985) 22 ELT 324 SC. We may briefly refer to the said decisions and see whether any of them supports the decision arrived at by Calcutta and Allahabad High Courts.

Bush (India) Limited was concerned with the meaning and scope of the definition of "manufacture" in Section 2(f) and not with any Exemption Notification, much less with the Notifications concerned herein. The question there was whether merely by placing the Garrard Record Changer Decks on a wooden base with cover and selling it under the trade-name of 'Bush Auto-Changer', can it be regarded that a process of manufacture has taken place. It was held that mere placing of a ready-to-use article on a wooden base, with or without a cover, with a view to make it more saleable does not amount to process of manufacture within the meaning of Section 2(f). *Bata (India) Limited* merely says that just because 'Bata' places its brand-name on the footwear manufactured by another, Bata cannot be treated as manufacturer of the said goods. *Bapalal and Company* deals with Notification No. 119 of 1975 dealing with job works and the exemption granted to job workers. The decision in *Carona Sahu Company Limited* is similar to the decision in *Bata (India) Limited*. We are unable to see any relevance these decisions have on the question at issue herein. We have already referred to the ratio of *Cibatul*. *Food Specialities Limited* was a case where it manufactured certain goods whereupon it affixed the brand-

- A name of Nestle under an agreement with the latter and sold them to Nestle. The question was as to how to value the said goods. The Revenue contended that the value should be determined on the basis of wholesale price at which Nestle sold those goods. The plea was rejected by this Court holding that the wholesale price at which Food Specialities sold the said goods to Nestle should be the basis for determining the value.

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- For all the above reasons, we are of the opinion that the decision under appeal is unsustainable in law. For the same reasons, the decision of the Calcutta High Court in *Banner and Company* is also held to be wrongly decided. [We are, of course, not told whether any Letters Patent Appeal was preferred against the said judgment and if so, what was the result ?]

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The appeal is accordingly allowed. There shall be no order as to costs as respondents though served is not represented.

T.N.A.

Appeal allowed.