REPORT

OF

THE CENTRAL EXCISE

(SELF REMOVAL PROCEDURE)

REVIEW COMMITTEE

VOL. I

PROCEDURE

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SECTION I

BACKGROUND

CHAPTER I

INTRODUCTORY

In terms of the revenue it brings, Central Excise is the largest single tax levied in India. On the latest figures available (1973-74 Budget), it yields over Rs. 2,700 crores and constitutes nearly 54% of the tax revenue of the Union Government. The manner of its levy is, therefore, of considerable importance. Our Committee has been entrusted with the task of reviewing the relevant procedures with reference to intended objectives and actual operation. We have also been asked to examine the organisational and administrative set up of Central Excise. Our Report is submitted in two volumes. Volume I deals with Procedure and Volume II with Organisation. The terms of reference, the stages of our enquiry and the scheme of this Volume are explained in the present Chapter. We may begin with a very brief account, to be later elaborated, of the historical background of the enquiry in so far as it concerns procedure.

2. For a quarter of a century, from 1943 to 1968, the standard pattern of excise levy and collection was for the official concerned to assess duty, verify payment, and supervise clearance before the goods produced were allowed to be removed from the factory. In addition, a "gate pass" was prescribed in 1949. This had to accompany each consignment of goods. Each gate pass had to set out the relevant particulars and be countersigned by the assessing officer. Some years later, it was decided to make a selective start with a more flexible procedure. In 1956-57 and again in 1962, certain commodities were brought under what was termed an audit type of control. This enabled the goods to be cleared without the prior intervention of an excise officer for either assessment of duty or of countersignature of the gate pass. The adoption of this procedure was at the time, optional. Thereafter, on June 1, 1968, Government introduced what is known as the Self Removal Procedure (SRP). The new procedure was extended on a compulsory basis to some 59 commodities. Under this scheme, excisable goods produced by a manufacturer could be cleared by him after he had determined the duty liability himself, without a central excise officer having to be present for assessment or clearances. On August 1, 1969, the procedure was made applicable to all other excisable commodities as well, with the only exception of unmanufactured tobacco. Any new additions made from time to time to the list of excisable commodities also fall within the purview of SRP; but they are first placed under physical control for three to four months.

3. On May 28, 1971, when the budget of the Central Government for 1971-72 was presented to Parliament, the Finance Minister said that he proposed to set up a Committee to review the Self Removal Procedure with a view to suggesting improvements which could reduce the leakage of revenue. It was in pursuance of this statement that the Central Excise (Self Removal Procedure) Review Committee was set up under Government of India, Ministry of Finance (Department of Revenue & Insurance) Resolution F. No. A-11013/E/134/71-Ad.IV dated the 11th October, 1971. The initial composition of the Committee was as follows:—

(i)	Shri B. Venkatappiah, formerly Member, Planning Commission, and now Chairman, Rural Electrification Corporation Ltd.	*Chairman*
(ii)	Shri Bhaskar Mitter, formerly President, the Associated Chambers of Commerce and Industry of India	*Member*
(iii)	Shri G. B. Newalkar, Chairman, Maharashtra Small Scale Industries Development Corporation Ltd.	*Member*
(iv)	Shri K.B.K. Rao, Senior Economist, National Council of Applied Economic Research, New Delhi	*Member*
(v)	Shri S.P. Kampani, Member, Central Board of Excise & Customs and *ex-officio* Joint Secretary to the Government of India	*Member*
(vi)	Shri Lachman Dev, Indian Customs & Excise Service	*Secretary*

Shri S. P. Kampani's place has since been taken by Shri J. Banerjee who succeeded him as Member, Central Board of Excise & Customs and *ex officio* Joint Secretary to the Government of India.

4. The terms of reference of the Committee are reproduced below:—

(1) To review the working of the Self Removal Procedure Scheme in the Central Excise Department in all its aspects including and analysis of its merits and demerits *vis-a-vis* the previous system of physical control and particularly enquire:

(a) to what extent the Self Removal Procedure has achieved the objectives set out when the Scheme was introduced;

(b) whether the Self Removal Procedure has led to or afforded greater scope for, evasion of Central Excise duty and if so,

to assess the magnitude, of such evasion and also whether such evasion is confined to any particular industry/industries or any sector of the industry/industries and the causes thereof; and,

(c) to recommend changes considered necessary in existing Rules and/or procedures to plug the loopholes leading to evasion of duty.

(2) To examine whether there are any items in the Central Excise Tariff (excluding tobacco) which, having regard to the safety of revenue, are not suited to be cleared under the Self Removal Procedure in its present form and if so, to suggest modifications or alterations in the mode of assessment and collection of duty on such items and suitable Rules and/or procedure therefor.

(3) To examine the existing organisational and administrative set up of the Central Excise Department employed for levy and collection of Central Excise duties under the Self Removal Procedure, and to advise the Government in the light of the suggestions and recommendations made with reference to (1) and (2) above, on such reorganisation as may be considered necessary, keeping also in view the various agency functions (like those under the Customs, Gold Control and other Acts) which the Central Excise Department is at present entrusted with, and

(4) to make any other recommendations germane to the objectives of this investigation.

5. The Committee's terms of reference do not extend merely to a review of the working of SRP. They cover practically the entire gamut of the Excise Department's activities with which SRP is intertwined. The enquiry may be said to extend to excise procedures generally (with the exception of those pertaining to unmanufactured tobacco) and to the entire organisation concerned with the implementation of those procedures.

6. Soon after the Committee was appointed, a Press Note was issued inviting all interested parties to send their suggestions on matters covered by the Committee's terms of reference (Annexure 1). Copies of the Press Note were also sent to a large number of Associations. Federations and Chambers of Commerce.

7. Our first meeting was held in November, 1971. We considered the terms of reference, decided on future procedure and discussed the lines on which a detailed questionnaire might be formulated. The draft questionnaire was discussed in February and March, 1972, and issued early in April, 1972 (Annexure 2). It was largely devoted to procedure. A supplementary questionnaire on organisation was issued in July, 1972 (Annexure 3). The general questionnaire was issued to 1319 Chambers of Commerce and Trade Associations, 65 representatives of manufacturers, 311 Members of the Central Advisory Council and Regional Advisory Committees, and a large number of departmental officers, in addition to officers of the Central and State Governments. The supplementary questionnaire was sent to the Chairman and Members of the Central Board of Excise & Customs and to departmental officers in different parts of the country. The latter were requested to distribute copies among their staff. The dates for submission of replies to the two questionnaires were extended in response to requests received from several Chambers of Commerce, Trade Associations and other interests. In all we received 298 replies to the two questionnaires from various sectors of the industry and different individuals, official and non-official.

8. Between March and June, 1972, a large number of representations was received by the Committee from various interests connected with the match industry. Widespread evasion of excise duty was alleged as also prevalence of other abuses detrimental to the match industry as a whole. Other representations to the same effect were forwarded to us by the Ministry of Finance. Several delegations representing the match industry met the Chairman of the Committee and urged that the problems facing the industry required immediate attention. Accordingly, the Committee visited a number of important centres of the match industry, including Madurai, Sivakasi and Gudiyatham and studied the problem in some depth. A Special Report on the match industry was submitted to Government on July 12, 1973 (Appendix). Many of the recommendations made in this report were accepted by Government and have since been implemented.

9. The interval between the issue of the questionnaires and the receipt of replies was utilised by us to visit a number of representative industrial units in order to study at first hand the working of the self removal procedure. These visits were paid not only collectively by the Committee in a large number of cases but also individually by the Chairman and other Members as and when possible. During these visits we had the opportunity of detailed discussion and exchange of views with representatives of the industries and the departmental officers concerned. A list of the industrial units visited is annexed (Annexure 4).

10. We commenced recording oral evidence in January, 1973 and for this purpose visited Bangalore, Cochin, Calcutta, Bombay, Gauhati, Jorhat, Shillong, Madras, Hyderabad, Kanpur and Jaipur, in addition to Delhi. We held 68 sessions in all at these centres. Altogether, we interviewed representatives of 65 Chambers of

Commerce and Trade Associations, 32 individual manufacturers and 135 representatives of different professions, staff associations and officers connected in various capacities with the Central Excise Department. We also drew on the valuable experience of retired officers who had held different positions in the Department during the course of their service. A list is annexed (Annexure 5) of those who tendered evidence before the Committee at various places. The list includes names of officers with whom we had detailed, but informal, exchange of views. In addition to a large number of Collectorates, Divisional Offices and Range offices, we visited several institutions connected with Central Excise such as the Central Training Institute, the Central Revenues Control Laboratory and the Statistics and Intelligence Branch in Delhi.

11. While this part of our Report (Volume I on Procedure) is being submitted in September, 1973, we have sought and obtained Government's permission to submit the other part (Volume II on Organisation) by the end of December, 1973. These extensions of the period initially specified (viz., upto June 30, 1972) have been occasioned by the wide scope of the enquiry and the time necessarily taken by the various stages of the task of which we have given some indication above.

12. We would record our appreciation of the contribution made to our discussions by Shri S. P. Kampani, former Member of the Central Board of Excise & Customs who is no longer on the Committee. We benefited from his long experience of central excise in different parts of India and as Member of the Central Board of Excise & Customs.

13. Our thanks are due to Shri V. Gauri Shankar, Director of Receipt Audit, Office of the Comptroller & Auditor General, who, in response to a special invitation, attended many of our sessions from July, 1973, onwards and ably assisted us on several issues including in particular, those which concerned audit. While beholden to him for his advice, we need hardly add that we as a Committee are solely responsible for the views here expressed and that no part thereof carries any commitment on his part or that of audit.

14. We are grateful to the Finance Secretary (Shri M. R. Yardi) and to the Chairman and Members of the Central Board of Excise & Customs (Shri Jasjit Singh, Shri M. G. Abrol, Shri K. Narasimhan and Shri S. Venkatesan) who, along with their colleagues, not only lightened our task by wholehearted co-operation at all stages, but also enabled us to draw on their long and intimate experience of fiscal matters generally and excise administration in particular. Our thanks are also due to several other experienced administrators, serving or retired—some of them past Chairman and Members of the Board or ex-Collectors of Excise—who communicated their views to us personally or in writing.

15. Each of us individually and all of us as a Committee view with warm appreciation the part played by Shri Lachman Dev as Secretary. No choice could have been better, no association happier. It has been clear to us, as the enquiry progressed, that Shri Lachman Dev's knowledge of excise procedure is unrivalled and his understanding of the relevant problems both deep and sympathetic. The Committee and the Report have gained greatly by his assistance. On his part, this has meant long hours, hard work, and conscientious devotion to duty despite considerable strain.

16. On the secretariat of the Committee fell the arduous work of analysing voluminous data, preparing numerous notes, and handling a very large number of statements and documents. They performed the task with ability, thoroughness and promptness. Our thanks are due to each and every member of the staff for their individual effort no less than their efficient operation as a team. While it is not possible to name all of them, we would record our special appreciation of the valuable contribution made by Shri Lajja Ram and Shri B. Prasad, Assistant Secretaries, who are with us at the time of submission of this Report, and by Shri Gopal Prasad, also Assistant Secretary, who retired some months ago. We should also like to place on record our appreciation of the excellent work done by Research Officers S/ Shri S. D. Mathur, R. N. Johri, Saroop Singh and J. C. Kanwar, as also by Shri D. Mehta who left the Committee some time ago on promotion. Our special thanks and appreciation are due to Section Officer Shri Jagdish Raj and to the personal staff attached to the Chairman and the Secretary (namely, S/Shri M. M. Lala, M. R. Sharma and Chuni Lal). They worked cheerfully and hard and helped to ensure the smooth running of the organisation.

17. We must express our thanks to the Indian Statistical Institute for permitting Dr. S. D. Tendulkar of their Planning Unit to associate himself with some of the statistical exercises conducted by the Secretariat. We are thankful to Dr. Tendulkar for assisting us to formulate our views in the light of these exercises. The responsibility for the views is of course solely that of the Committee.

18. This Volume, as already stated, deals with Procedure. It is divided into three Sections. The first section traces the background of the enquiry and the evolution of different systems of excise levy and collection. It proceeds to give a descriptive account, first of the pre-SRP and SRP stages, and then of the tax structure itself in so far as it pertains to excise duties and exemptions therefrom. The second section which deals with Data and Evidence, is devoted to a detailed review of SRP both generally and in specific relation to commodities and producers. It closes with a Chapter

on Evasion. The third section outlines the broad framework of control envisaged by us and sets out our suggestions on various aspects of the procedural patterns we recommend for different sectors. In explanation of these recommendations we point out that the present need is for a SYSTEM OF SELECTIVE CONTROL which, without deviating from the essence of SRP, is so devised as to accommodate within its framework different patterns of control for different categories of industries. The concluding chapter of this section lays emphasis on two aspects. First, we point out that the patterns recommended should be viewed as parts of an integrated system and that, therefore, the framework of selective control should be considered in its entirety for purposes of implementation. Second, we urge that the reforms recommended in this Volume may be regarded as only the first step in the extremely important process of simplifying and rationalising not only excise procedures, but also the entire structure of excise taxation including tariff and exemptions.

CHAPTER 2

HISTORICAL

The principal task assigned to the Committee is to review the working of the Self Removal Procedure scheme in all its aspects, including an analysis of its merits and demerits *vis-a-vis* the previous system of physical control. In this context it would be worthwhile to recall the various stages through which the administration of excise levies in India has evolved in recent times. Briefly stated they are:

(1) the Pre-1943 stage when duty was collected largely in arreas (except for matches);

(2) the Physical Control stage which was introduced in 1943, and of which the essential ingredients were prior assessment of goods, prepayment of duty and physical supervision over clearances;

(3) the 1956-57 stage of peripatetic control and the audit type of control evolved in 1962; and

(4) the Self Removal Procedure (SRP) introduced in 1968.

2. The following paragraphs trace the evolution of excise procedures through these stages.

(1) Pre-1943 Stage

3. The duty on salt can be said to be the earliest modern excise levy in India. For many years, it was an important source of revenue to the Government. The levy and collection of duty on salt followed different patterns in different areas. But a certain degree of uniformity was achieved in 1870 when the rate of excise duty on salt was fixed at Rs. 2.50 per maund throughout India. The salt-producing Indian States (like Kathiawar, Cutch and Travancore-Cochin) continued, however, to have their own distinct systems of administration.

4. In 1894, a duty of excise was imposed on cotton yarn of counts above 20s. This was designed to improve the competitive position of lancashire cloth in the Indian market. Two years later this was replaced by a duty on mill-woven cloth. In 1917 duty was levied on motor spirit, followed five years later by duty on kerosene. The duty on cotton goods was abolished in 1925. In the thirties, duties of excise came to be extended to several other commodities including sugar, matches and steel ingots.

5. Until 1938, central excise duties were administered largely by the Provincial Governments, and the pattern of control differed from Province to Province. With the growth of industries and extension of the field of taxation, the need for a central organisation was felt and, in 1938, a department of Central Excise was created and added to the Salt Department.

6. The practice upto 1943 was that on each occasion when a commodity was brought under excise, the legislative Assembly would pass a self-contained piece of legislation under which separate rules could be framed for levy and collection in respect of that commodity. These measures took into account the special requirements of each levy and gave each commodity the treatment appropriate to it. The method of collection differed from commodity to commodity, but generally speaking duty was realised after the goods produced had been cleared. For motor spirit and kerosene, for example, duty was required to be paid within seven days of the close of the month, while in the case of sugar it had to be demanded by the Excise Officer on the basis of a return furnished by the manufacturer and was required to be paid before the close of the following month. The duty on tyres was worked out in the same way but was required to be paid within ten days of the service of the notice of demand. On steel ingots duty was recovered on the quantity produced and not on the quantity cleared. Collection of duty on matches was, however, regulated by a special procedure under which banderols had to be purchased from the treasuries on payment of duty and matches could be delivered from the factory only after the appropriate banderols had been affixed to them. The licensing of factories was also confined to matches, no licences or bonds etc. being prescribed for other manufacturers.

(2) Physical Control

7. The next stage was to consolidate the different laws made from time to time for individual commodities. This was done in the Central Excises and Salt Act, 1944. Certain general provisions were made applicable to all goods, while special provisions were retained in respect of some of the commodities. It was about this time that the concept of physical control, together with that of prepayment of duty, came to be introduced for the first time. Initially, the principle of prepayment was applied only to "unmanufactured tobacco" and "vegetable product" on which duty was imposed in 1943. Thereafter it was extended to all commodities. There were several factors which influenced the change. In the case of unmanufactured tobacco it was considered impracticable, in view of the nature of production and the pattern of distribution, to realise duty

after tobacco had been delivered for consumption. It was then felt that, if for a major revenue earner like tobacco it was necessary to insist on prepayment of duty there was no reason why collection in arrears should continue to apply to other commodities. Added to this was the experience with some of the sugar factories which had defaulted in payment of duty with the result that large amounts had gone into arrears. Moreover, since in theory and law the duty became payable as soon as the stage reached was that of production of excisable goods, it was felt that the system of payment of duty after removal of such goods unduly widened the interval between accrual of liability and actual payment. The "physical control" system thus became the general rule. It was reinforced in 1949 by the introduction of the "gate pass". This document. which had to accompany every consignment of excisable goods had in each case (other than exempted small units) to be countersigned by the appropriate officer of the Central Excise Department. The system of physical control also entailed various other checks including a survey of the producing unit and supervision over production, packing and storage.

8. So far as the Indian States (as distinct from British India) were concerned, the collection of duty on goods produced within their territories was managed by the States themselves. They had, however, been persuaded to follow more or less the same pattern and rates as obtained in British India. After Independence, the different systems of excise were progressively unified and the process was completed with the Federal Financial Integration of States in 1950 and the subsequent merger of the French and Portugues enclaves with the Union.

9. In 1954, when duty was imposed on rayon or artificial silk fabrics, it was realised that it would not be administratively feasible to bring under full physical control the large number of small individual units producing these fabrics. A year later, the same difficulty was felt in relation to cotton fabrics. This arose from the withdrawal of certain exemptions which till then had operated in favour of factories which confined themselves to weaving, i.e., which did not have spinning plants. As a result of the withdrawal, a number of relatively small weaving concerns (powerlooms) were brought within the purview of excise. This led to the introduction of a procedure whereby powerloom units could opt, as an alternative, for what is commonly known as the "compounded levy system". Under this system, the producer can discharge his duty liability by paying a lump sum amount determined with reference to the equipment installed or employed by him and the hours or shifts for which that equipment is employed over a given period. In subsequent years the scheme has been extended to several other fields of production.

10. The physical control system continued to hold the field for several years. It however came in for a good deal of criticism. For example, it was urged before the Taxation Enquiry Commission, 1954 (at a time when the number of excisable commodities was less than twenty), that physical controls interfered with the manufacturing processes, were an expensive mode of collection for the Government and were at the same time highly irritating to the producers. It was suggested that the procedures should be simplified with a view to duty being collected on the basis of audited accounts, subject to such conditions as the Government might lay down. Examining the question at some length, the Commission at that time observed (in volume II of their Report):

> "We are therefore unable to accept the argument that physical supervision by central excise officers is too expensive a mode of collection of duty on manufactured articles. We are of the opinion that the existing system is advantageous both to the manufacturers' interests and to the administration alike...".

(3) Audit Type of Control

11. Criticism, however, continued to be levelled against the physical control system. In 1956, some thirteen cement factories on the one side and the manufacturers of steel ingots on the other were exempted, as an experimental measure, from the operation of physical control so far as production and clearance were concerned; the principle of prepayment of duty was, however, not relaxed. The factories were required to make advance deposits of duty in a revolving 'account current" against which goods could be cleared. In addition to the annual accounts which had to be audited, special accounts were prescribed which were to be verified at weekly intervals by peripatetic teams of excise officers. However, in May, 1957, when duty rates on cement and steel were raised substantially from Rs. 5.00 and Rs. 4.00 per ton respectively to Rs. 20.00 and Rs. 40.00 per ton, the procedure was no longer considered appropriate and was withdrawn.

12. In their fifty-seventh report present to the second Lok Sabha on April 27, 1959, on the Central Excise Department, the Estimates Committee referred to "the possibility of adopting a simplified procedure of collecting duties", impliedly on the basis of returns furnished by the assessees. On this the Department made the following observations:

> "The question of simplified procedure for levy and collection of duties has been considered from time to time. Even the Taxation Enquiry Commission went into the matter but came to the conclusion that under the conditions existing in India, today, physical control seems inescapable. The goods

themselves form the principal security for the duty in respect of commodity taxation not only in this country but in many other countries. In fact, we had tried to introduce on an experimental basis, the simplified audit type of procedure in respect of cement and steel but we had to give it up because of increase in duties and the fear that the technique of audit was not yet appropriate for Indian conditions as they exist today. It is, however, believed that the evolution must be on the lines of control by audit type of checks but we cannot obviously proceed too fast both in the interest of revenue and consequential repercussions on manpower availability and employment potential".

On this reply the Estimates Committee observed:

"While the Committee recognise the need for taking reasonable precautions to safeguard revenue they are not satisfied that it is essential to maintain large establishment to exercise close physical supervision over various stages of production".

13. The question of replacing the orthodox physical type of control with control based on audit of returns submitted by assessees however, continued to be raised. In part, this was due to the administrative difficulties and demands for additional staff which arose as the coverage of excise expanded. The issue was taken up in the meeting of the Customs and Central Excise Advisory Council in September, 1961 and discussed in the Collectors' Conference held in November 1961, where the consensus of opinion was that for at least some of the selected industries the present system of physical control might be replaced by the audit type of control. It was felt that the industries selected for the purpose should answer the following requirements:

(i) their tariff structure should be comparatively simple, (e.g., specific rather than *ad valorem*) and there should be no exemptions or *ad hoc* concessions;

(ii) they should be well organised and comprise a small number of large units;

(iii) they should be units which maintain accounts of their own which are detailed and subject to audit; and

(iv) they should have well defined channels of supply.

14. Accordingly the Central Board of Revenue introduced in June, 1962, a procedure commonly known as the "audit type of control" under which manufacturers could deliver the excisable goods produced by them without the normal checks associated with the system of physical control. This was applied to manufacturers of (i) pig iron, steel ingots and iron and steel products, (ii) cement, (iii) motor vehicles other than trailers, (iv) internal combustion engines of automotive type and (v) tyres and tubes other than bicycle tyres and tubes. Within the general framework of the pattern of control envisaged, distinct procedures were laid down for these commodities having regard to the trade pratices in vogue, the accounts maintained and the production and other techniques followed by the industries concerned. It was at the same time stipulated that where a manufacturer governed by this procedure also produced other excisable goods (apart from the five listed above), such other goods would also be covered by the same procedure. The procedure was, however, optional and could be availed of only with the prior specific permission of the Collector. The salient features of the procedure were—

(i) that the producer would maintain a number of simplified records in lieu of the records prescribed under the standard procedure which, together with his own records and books of accounts, would be made available to central excise officers or audit parties for verification;

(ii) that the producer would always maintain in his account current an amount adequate to cover the duty liability on his clearance;

(iii) that all clearances, whether out of the factory or for use within the factory, would be covered by serially numbered gate passes, delivery notes and despatch advices; (these would be issued by the factory itself and no countersignature of the central excise officer would be necessary); and

(iv) that the producer would submit certain prescribed weekly and monthly returns for departmental checks.

15. Clearances for export, whether under claim for rebate of duty or under bond, and certain other operations were not however covered by the procedure mentioned above. Tyres and tubes and in certain cases motor vehicles, though liable to *ad valorem* rates of duty, were also included in the scheme but manufacturers were required to furnish price statements for approval of assessable values before they could avail themselves of the facility of taking clearances on their own. The commodities and number of units covered by the special procedure at the time of its introduction were: cement (33), pig iron and steel ingots (6), motor vehicles and internal combustion engines (13) and tyres and tubes (6). The physical control system continued to apply to all other excisable commodities.

16. The introduction of the audit type of control was welcomed by the Central Excise Reorganisation Committee. This Committee

had been set up in 1960 in pursuance of the recommendation of the Estimates Committee of the Parliament to examine generally the organisational set-up of the Central Excise Department and to review the Central Excise law and procedures. In its report submitted in 1963 the Committee also recommended extension of the audit type of control to all public sector undertakings and to those in the private sector whose production was normally assessable at uniform specific rates and whose methods of book keeping and accounting were found to be adequate and complete. The Committee went on to add that "in factories producing goods chargeable at different rates and in industries where the small scale sector has a fair share, such a system of assessment cannot be universally introduced".

17. No evaluation as such of the working of the audit type of control has come to our notice, but it appears from official records that "while no serious case of deliberate evasion of duties by the units covered by the scheme (of audit control) had come to notice, some of the manufacturers in the organised sector had been found reluctant to switch over to the new procedure because close scrutiny and supervision by central excise officers in their factories (under the system of physical control) served as a good moral check on the factories' own management and some of them seemed to welcome the presence of central excise officers as a sort of free watch and ward staff".

18. The audit type of control was the subject of a starred Parliament Question asked on August 10, 1966. It was stated in reply to the principal question and its supplementaries that "the Administration had not come across any cases of evasion of tax or leakage of goods by factories working under the audit type of control".

19. It would appear that it was in December, 1967, partly as a result of complaints from some quarters of inconvenience and harassment under the system of physical control, that the question of extending the audit type of control to other industries came to engage the serious attention of the Government. One of the issues raised in this context was whether it would not perhaps be worthwhile "to phase the change over with a view to better selection, training and deployment of staff entrusted with the new duties requiring a totally different approach and sufficient insight into account books". Apparently, it was not considered necessary to have any elaborate-phasing. The self removal procedure was introduced from June 1, 1968.

(4) Self Removal Procedure

20. In this speech delivered at the time of the presentation of the Budget for 1968-69, the Deputy Prime Minister and Minister of Finance made the following observatitons:

"For some time past I have been exercised over the administrative burden on the excise department and the complaints of abuse associated with the existing system of physical control. I have accordingly decided to extend the system of self-assessment by the manufacturers, to all manufacturers, big and small, making exception in respect of a few excisable commodities only which present complications in assessment or where there is substantial movement in bond. A large measure of trust will thus be placed in the manufacturers, their declarations and their accounts. Day to day verification of clearances by Central Excise officers will be dispensed with and replaced by periodical check of the self-assessed documents and accounts to ensure that the amounts due to Government have been properly assessed and paid. This change in procedure will, however, necessitate certain essential revenue safeguards. To this end, the penal provisions for unauthorised removal of the goods or other contraventions of the rules and regulations with intent to evade payment of duty are proposed to be made more stringent".

21. Unlike the audit type of control introduced in 1962, the new procedure—which came to be known as SRP—was obligatory for all producers of the excisable goods to which it was extended. There were at the time some 73 commodities included in the Central Excise Tariff and the new procedure was made applicable to 59 of them as from June 1, 1968 The major commodities left out were mineral oils, paints and varnishes, paper, cotton yarn, cotton fabrics and jute manufactures, and unmanufactured tobacco. In all cases, however, the following operations continued to be subject to the standard procedure of physical supervision and verification:

(i) removals for export, both under claim for rebate of duty and under bond;

(ii) removals, otherwise than for export, and receipts under bond;

(iii) removals for destruction of goods unfit for human consumption;

(iv) removals of unmanufactured tobacco for agricultural use without payment of duty from warehouses attached to cigarette factories;

(v) receipts of duty paid damaged goods for reprocessing or repairs; and

(vi) receipts of duty paid raw materials or components for use in the manufacture of finished goods subject to the assessee being given *pro forma* credit for the duty which had been paid.

22. We have already referred to the Deputy Prime Minister's statement of the objectives of SRP scheme. Since our terms of reference require us to enquire to what extent the Self

Removal Procedure has achieved the objectives set out when the scheme was introduced, a specific reference in this behalf was made by us to the Ministry of Finance in response to which we were informed that SRP was introduced (1) by way of reposing greater trust and confidence in producers of excisable goods, (2) to simplify excise formalities, (3) to lighten the administrative burden, as far as possible, both on the assessee and the Department, and (4) to reduce the areas of friction between the tax collector and the tax payer.

23. On August 1, 1969, the procedure was extended to the remaining commodities also with the exception of unmanufactured tobacco (though tobacco warehouses attached to cigarettes factories were also brought within the purview of SRP). Simultaneously, the particular operations mentioned in paragraph 21 which had continued to be subject to physical supervision, were also brought within the purview of SRP. In respect of goods added to the Central Excise Tariff Schedule after 1-8-1969, the policy followed has been that their production, clearances etc. in the initial stages are regulated by the system of physical control, but after a lapse of time they are notified as covered by the scheme of SRP.

CHAPTER 3

PHYSICAL CONTROL AND OTHER PRE-SRP PROCEDURES

A broad outline has been given in the preceding chapter of the excise procedures in vogue before the introduction of SRP.

2. With the consolidation in 1944 of separate enactments relating to levy and collection of central excise duties, the standard pattern of control which emerged was based *inter alia* on Rule 9 of the Central Excise Rules. This rule lays down that "no excisable goods shall be removed from any place where they are produced, cured or manufactured or any premises appurtenant thereto, which may be specified by the Collector in this behalf, whether for consumption, export, or manufacture of any other commodity in or outside such place, until the excise duty leviable thereon has been paid at such place and in such manner as is prescribed in these Rules or as the Collector may require and except on presentation of an application in the proper form and on obtaining the permission of the proper officer on the form....". Under Rule 47 a manufacturer is also obliged to provide a store-room or other place of storage at his premises for depositing goods made on the same premises without payment of duty. Accordingly, apart from licensing, execution of bonds, maintenance of accounts and submission of periodical returns, it was provided that no excisable goods could be cleared from a factory unless a central excise officer had inspected the goods, assessed them to duty and the duty so assessed had been paid. For purposes of assessment, an application in form A.R. 1 was required to be presented to the assessing officer by the producer. This document gave a full description of the goods intended to be cleared. The assessment memorandum was completed by the proper officer and was used as a treasury chalan for deposit of the duty under the appropriate head or heads of account. Where clearances were frequent, the producer was allowed to maintain an account current with the Department with enough credit in it to cover his liability on estimated clearances. This account was maintained by the Chief Accounts Officer and also the Central Excise Officer concerned. The rules also stipulated that goods could not be delivered from a factory or a warehouse before 6 O'clock in the forenoon or after 6 O'clock in the afternoon nor at any hour on Sunday/Holidays except by permission of the Collector, and under such conditions and on payment of such fees as the Board or the Collector might require.

3. In December, 1949, it was provided that all excisable goods cleared from a factory must be covered by a gate pass countersigned by the excise officer. For purposes of clearance, after the duty assessed had been paid into the treasury (or, in the event of the producer having been permitted to maintain an account current with the Department, when the account showed sufficient balance to meet the duty assessed), the central excise officer concerned visited the factory, verified the goods intended to be cleared and authorised their removal by countersigning the gate pass and making a debit entry in the account current where necessary. In some cases, the procedure outlined above was reversed in that certain producers who were permitted to avail themselves of the facility of maintaining an account current were allowed to remove goods on the basis of gate passes countersigned by the central excise officer, and to file a single consolidated application in form A.R. 1 at the end of the day. The formal assessment was then made and the total amount of duty payable was debited to the account current. In certain cases, particularly of clearances within exemption limits, the requirement of prior countersignature of the gate pass was waived. This broad scheme of control, with minor variations in documentation, also applied to clearances for export under claim for rebate of duty or under bond, clearances and receipts for rewarehousing, removal of goods for destruction or agricultural use, and receipt of duty paid goods for reprocessing or under schemes of *pro forma* credit. In short, the standard procedure required the physical presence of an excise officer to authorise delivery of excisable goods from a licensed premises under cover of a countersigned gate pass, and to verify receipt of duty paid goods and goods for rewarehousing.

4. The pattern of control laid down for unmanufactured products, including coffee, provided for licensing of all cultivators who were distinguished as curers, registration of crop, verification of produce, and its deposit into and removal from warehouses or bonded storerooms under physical supervision of central excise officers. The procedure regulating assessment and collection of duty was more or less similar to the one laid down for manufactured goods except that movement of goods on payment of duty or from one warehouse to another was covered by official transport permits issued by the Department for each individual consignment after physical inspection of goods: similarly, movement from a curer's premises to a bonded store room was covered by a transport certificate which could be issued by the licensee himself but of which a limited number of blank foils were supplied to him after authentication by a central excise officer who maintained a regular account of these forms.

5. The system of physical control as it applied to manufactured excises, also entailed certain other checks which can be categorised broadly as (i) checks at the filling, baling and packing stages, (ii) checks relating to goods in storage, (iii) survey of licensed premises including the testing of weighing machines for their accuracy, and (iv) scrutiny of accounts maintained by the producer, including accounts relating to raw materials, and their correlation with other accounts. Within this broad framework, detailed instructions were issued by the Department in regard to specific checks for

different commodities. All checks carried out were required to be mentioned in a Survey Book and the records verified were required to be initialled by the officer concerned.

6. All manufacturers were required to submit a monthly return of production and a quarterly return of material used in the manufacture of excisable and non-excisable goods. These returns were checked in the Range office and consolidated for statistical purposes.

7. The administrative machinery charged with the responsibility of enforcing the above system of control was based on the concept of a 'range' which was the lowest field formation covering a territorial jurisdiction. So far as factories producing manufactured goods were concerned, the principle observed generally was that at least one officer had to be in attendance at the factory whenever any operation connected with production, storage or delivery of goods was in progress. For this purpose, the factory concerned constituted a Range in itself and the Range Officer who was generally an Inspector was assisted by a number of Sub-Inspectors in addition to Sepoys who used to be posted at the gate round the clock. Office accommodation was provided by the producer on the factory premises itself and in a large number of cases residential accommodation was also provided on rent. In the case of small factories, where the posting of whole time staff was not considered economical, the work was entrusted to the staff posted in another factory or to the Range looking after excises on unmanufactured items, in the same jurisdiction. A number of Ranges were placed under a Superintendent of Central Excise whose jurisdiction was called a Circle. The Circle Officer was assisted by one or two Deputy Superintendents depending on the workload, and had a complement of ministerial staff. A number of such Circles was placed under a Divisional Officer called the Assistant Collector and a number of Divisions comprised a Collector's charge. All supervisory officers in the official hierarchy inspected the Range according to a certain frequency. In the course of these inspections it was primarily the Range officer who was called upon to produce the necessary records maintained by him and by the factory concerned and held accountable for any acts of omission or commission brought to light such as might be prejudicial to revenue.

8. With the levy of duty on tobacco, the activities of the department expanded considerably. As long as the number of units which produced manufactured goods was not large and the tariff structure was relatively simple, this did not present any serious difficulties. But when coverage expanded, the complexities increased in both tariff and procedures. This led to the evolution of the Multiple Officer Range (M.O.R.). In this pattern of organisation, the Inspector was placed along with three or four other Inspectors under a Deputy Superintendent. The latter, as head of the range or "Range Officer", allocated duties to the Inspectors on what amounted to a system of rotation. In course of time, Range Offices were shifted from the premises of the factories concerned to buildings rented by the Department. With further increases in work, visits to the producing units came to be confined largely to occasions when clearances were required. It came about that the prescribed checks were also exercised only on such occasions. Thus a daily survey of the licensed premises (which at first was supposed to be done separately for each working shift) gave place to a survey only at the time of the visit of the officer for clearance of goods, and where even this was not possible, to a survey only of the main divisions of the factory and the main exits. Day to day checking of production and other records was replaced by "stock challenges" from accounts and stocks. Likewise, supervision over packing, filling and baling operations acquired a sporadic character.

9. Originally, the procedures laid down for payment of duty envisaged payment (i) in cash, at a treasury or the Reserve Bank of India or the State Bank of India or what is known as a "departmental treasury", or (ii) by debit to the account current or (iii) by remittance to a treasury by means of special revenue money orders. In 1961, it was decided that a manufacturer of excisable goods whose estimated annual payment of excise duty was not less than Rs. 25,000 may be allowed to pay by cheque, subject to the prior approval of the Collector and the fulfilment of certain conditions including the furnishing of a bank guarantee or the deposit of sufficient security to cover the duty normally payable during a period of not less than seven days. The cheque was required to be drawn on one of the approved banks: it was accepted by the Range Officer who allowed the manufacturer to take clearance of excisable goods provided the maximum amount of duty on goods sought to be cleared did not exceed the amount of bank guarantee/security furnished by him. The condition regarding furnishing of a bank guarantee/security was waived in 1965, but it was stipulated that, before according permission to the assessee to avail himself of this facility, the Collector should verify his credit-worthiness by reference to his bankers. In 1968, it was decided that the facility to pay duty by cheque should be extended to manufacturers on the condition that cheques were drawn on an approved scheduled bank situated at the headquarters of the Collectorate concerned.

10. The facility to maintain an account current with the Department was also subject to the prior approval of the Collector. The account was required to be maintained both by the Chief Accounts Officer and the Range Officer. It was tallied at the close of each month and an abstract indicating credits and debits in the account was sent to the account holder for

confirmation and return. Originally a single account was maintained for each manufacturer, but in 1965, it was decided that where a licensee was paying duty on more than one commodity, a separate account current should be maintained for each such commodity. It was at the same time provided that each such account could now be maintained in duplicate by the Range Officer, with the original copy being sent to the Chief Accounts Officer at weekly intervals.

11. It was provided that where duties or other charges payable under the Central Excise law had been short levied or erroneously refunded through inadvertence, error, misconstruction etc. the payment of such amounts could be demanded within a period of three months of the original payment or refund. Similarly, applications for refund of amounts paid in excess could be entertained if they were made within three months of their payment.

12. The standard pattern of control as outlined above also provided for a system of provisional assessment of goods in all cases in which the proper officer was satisfied that a manufacturer was unable to produce any document or furnish any information necessary for assessment of duty on goods intended to be cleared by him or where such officer demed it neceassary to subject such goods to any chemical or other tests for the purpose of determining their correct classificatiton or for making such further enquiries as he considered necessary. Under the system of provisional assessment the manufacturer concerned was required to execute a bond in the proper form binding himself to pay the difference between the amount of duty provisionally assessed and the amount determined on finalisation of such assessment.

13. The peripatetic form of control which applied to certain factories in 1956-57 and the audit type of control which followed in 1962 have been referred to in the preceding Chapter. In a way these were precursors of SRP inasmuch as they embodied several of its essential features.

14. Schemes of compounded levy evolved in 1954 and 1955 for powerloom units and extended later to a number of other commodities had in some cases features which were in one sense akin to physical control: the procedures entailed sealing and unsealing of equipment with reference to which duty liability was fixed. The compounded levy schemes, together with these features, were however continued after the introduction of SRP.

CHAPTER 4

SELF REMOVAL PROCEDURE

In some of its broad features, SRP resembles the audit type of control introduced in 1962. The principal difference between the two procedures is that, while the audit type of control was applied selectively to a small number of industries and was optional in character, SRP was obligatory for all industries to which it was extended.

2. Under SRP every producer of excisable goods (except unmanufactured tobacco) is required to submit to the jurisdictional Superintendent or Assistant Collector for his approval, a classification list, in the prescribed form, of goods produced or warehoused by him and also a price list where goods are assessable at *ad valorem* rates. The classification list is expected to provide a detailed description of each and every item of goods produced for the purpose of their classification in terms of the tariff. Similarly, the price list which is required to be submitted in a form prescribed by the Collector is expected to show the price of each of such goods and discounts, if any, allowed in respect thereof to the buyers. After approval of these lists the duty liability of goods intended to be removed is determined by the producer himself. He is permitted to clear them on a gate pass which does not need to be countersigned by a central excise officer. Provisions restricting the removal of goods to certain hours and to days other than Sundays and holidays have also been withdrawn, except in respect of clearances required on the Budget day which are regulated by the standard procedure of physical control.

3. Where a producer disputes the rates of duty or the price approved by the proper officer, he can avail himself of the facility of provisional assessment of goods with the approval of the proper officer.

4. Every producer is required to maintain, separately for each commodity produced by him, an account current with the Department in which credits are taken on the basis of deposits made into a Government treasury under the appropriate head or heads of account or on the basis of cheques issued in favour of the department. On April 1, 1970, the maintenance of a separate commodity-wise account was dispensed with because such accounting did not appear to be essential for reconciliation by the Accountant General, but subsequently the Department reverted to the earlier position whereby a separate account has to be maintained for each commodity.

5. The duty due on each consignment of goods intended to be cleared by producer, as determined by the producer himself, is debited to the account current before such goods are cleared. In all cases where a producer had cleared more than 3000 consignments in the preceding year, he can be permitted by the Assistant Collector to make a consolidated debit entry in the account current at the end of the day. Duty due on goods consumed within the factory in a continuous process is also permitted to be paid by a consolidated entry at the end of the factory day on the basis of a gate pass prepared for the total quantity of the goods issued for such consumption.

6. The procedure permits an assessee to make an appropriate credit or debit entry in the account current, whenever he finds that there has been a mistake in calculating the balance in that account. Where, however, he has made a debit entry in the account in respect of a consignment intended to be cleared but decided not to clear the same, he is restrained from scoring out the debit entry already made or making a corresponding credit entry. In such cases he is required to prefer a formal claim to the proper officer through the monthly return and to wait for a specific authorisation from him before taking a credit of the amount claimed in the account.

7. The gate pass forms used by a producer are required to bear a printed serial number running for the whole year. They are required to be written out in triplicate. Mutilations, overwritings, corrections and erasures are expressly forbidden under the Rules. In the event of a mistake occurring in a gate pass, all copies are required to be cancelled and fresh ones made.

8. Retention of excisable goods inside the producing factory after payment of duty as well as re-entry of duty paid goods are permitted in certain circumstances. The permission is subject to such conditions as may be specified by the Collector. Where duty paid goods are returned to a factory for being remade, refined, reconditioned, etc. or where duty paid raw material or components are received under the *pro forma* credit scheme, the producer is required to inform proper officer within 24 hours of their receipt. The earlier procedure enjoined prior physical verification of such goods by the central excise officer. This has since ben dispensed with. In regard to destruction of waste material also, no physical supervision is now enjoined, but the assessee is required to inform the proper officer at least seven days in advance of the date of intended destruction to enable the officer to verify

such waste material and/or supervise destruction if he thinks fit.

9. The procedure for movement of excisable goods from one warehouse to another has also been modified under SRP. The principal modification is that transport of such goods is now required to be covered by a particular or general bond entered into by the consignor, whereas under the earlier procedure the bond could be executed by either the consignor or the consignee. Removal of goods under bond is not required to be physically supervised. So far as receipts are concerned, the consignee is required, within 24 hours of the receipt of goods, to inform the proper officer so as to enable the latter to verify the quantity received if he so desires. But the consignee is not restrained from taking the goods into use pending verification.

10. For export of goods under claim for rebate of duty or under bond, the earlier system under which such goods were examined and sealed by a central excise officer at source has been continued under SRP at the option of the exporter, but the owner of the goods has to pay the appropriate supervision charges at the prescribed rate in addition to the traveling expenses of the officer concerned. Alternatively he can clear the goods without prior examination, but he has to file an application in the proper form for endorsement by the Superintendent in charge of the Range before he can clear the goods under cover of a gate pass in the proper form. The gate pass does not require the countersignature of a central excise officer.

11. Producers are required to deliver to the Department a complete list of all accounts maintained by them in respect of raw materials and components production, storage, delivery or disposal of excisable goods and of all reports and returns prepared by them for their own use or for submission to any other authority. The procedure provides that where such accounts maintained by an assessee are considered by the Collector to be adequate for central excise purposes, they may be accepted in lieu of statutory records. But where such accounts are not considered to be adequate, the maintenance of statutory records is obligatory. These records are (i) a daily account of production and clearances in Form R.G. 1 which combines the earlier accounts of R.G. I and E.B. 4 relating to production and deposits in and removals from the bonded store room, (ii) an account current, and (iii) a raw material account in respect of such raw materials as are specified by the Department. In addition certain records pertaining to the earlier system of physical control have also to be maintained. These are records in respect of duty paid goods retained or received in a factory or those prescribed for a particular commodity or for a specific purpose. Besides the classification list and the price list, assessees are also required to submit a monthly return based on the R.G. 1 account, a quarterly return of raw material consumed, and certain other periodical returns.

12. Instructions issued immediately after the introduction of SRP stipulated that "it should not ordinarily be necessary for the Range staff to visit a factory except by surprise or for verification of any doubt or suspition arising in the course of checking the periodical returns or on receipt of any intelligence regarding loss of revenue". In 1969 it was reiterated that "under the SRP all visits by Central Excise officers to factories for making assessments, granting clearances either for home consumption or for exports, or for removals in bond or for destruction without payment of duty or for verifying excisable goods received for special industrial purposes etc. have been totally eliminated", and that "Central Excise staff will not ordinarily visit factories for checking returns and records in a routine manner". The Range staff is not, however, precluded altogether from pay visits to the producing factories. The instructions provide that the staff may visit a factory for the following purposes:

(i) removal for export whether under claim for rebate of duty or under bond in cases where the assessees intend to despatch goods under excise supervision on payment of appropriate charges;

(ii) supervision wherever required over processes like use of cotton seed oil in the manufacture of vegetable product and operations under other exemption schemes;

(iii) drawal of samples either on the specific request of the assessee concerned or where such samples are required to be drawn under specific instructions pertaining to a particular commodity;

(iv) removals for consumption in the country on the Budget day;

(v) supervision of destruction, verification of receipts of goods under bond or under claim for set off or *pro forma* credit etc.;

(vi) supervision over exempted factories to detect cases of unauthorised manufacture;

(vii) investigation of any discrepancy found in the monthly returns.

(viii) expediting approval of classification and price lists, if considered necessary; and

(ix) obtaining essential information about the technique of production of excisable goods or adequacy of maintenance of accounts of production and stock.

13. The administrative set up comprises (i) Assessment Ranges, (ii) Inspection Groups, (iii) Preventive Teams, and (iv) Internal Audit Parties, each group working more or less independently of the others. The assessment Range, which consists usually of a Superintendent and a number of Inspectors is concerned with the approval of classification and price lists. (The bulk of this work has since been transferred to the Assistant Collector who is in administrative control of several formations including Assessment Ranges). The Assessment Range is also concerned with the proper assessment of goods after the close of the month when the producer submits the prescribed monthly return accompanied by gate passes issued by him during the months as also a copy of the account current supported by treasury challans and other relevant documents. The return is first checked with reference to the approved classification and price lists and other documents received. The assessment is thereafter decided. Until this is done, the duty liability of the producer in respect of clearances already taken by him is not considered as discharged.

14. The Inspection Group is a separate unit. In constitution it is more or less similar to the Assessment Range. It works under the same Assistant Collector. This Group is required to carry out inspection of each factory at least once in six months, or at more frequent intervals if required by the Collector. It is expected in the course of these inspections to concentrate on accounts of production which are required to be cross checked with the accounts maintained by the producers on their own as well as the reports and returns, if any, submitted by them to other Government departments or to their own bankers or directors. The Inspection Groups are also expected to carry out several physical checks in relation to: (i) raw materials, by verification of stocks with the book balance on the first day of visit to the factory; (ii) finished goods and intermediate products, by conducting stock challenges both from the stock register and physical balance in stock; (iii) weighing and measuring machines, by checking their accuracy; (iv) containers or cases ready for packing at the time of the visit, by examining 10% of such cases or containers with packing slips prepared by the factory with a view to verifying their contents and variety and description of goods; and (v) goods lying in the finishing room which have been marked and labelled, by verifying whether they are correctly marked and labelled. The Superintendent in charge of the Inspection Group is required to make a full round of the licensed premises during each visit and see the various processes of manufacture and the goods under production to ensure that they have been correctly described in the classification list. In addition to a thorough half-yearly inspection of each factory, the Inspection Groups are required to pay one short surprise visit to each factory, once a year, for the purpose of stock challenge and authentication of records. In terms of the latest instructions, the Assistant Collector is required to head the Inspection Group in at least fifty inspections in the course of a year.

15. The Preventive Teams function mostly at the Divisional and Collectorate levels and are responsible for all types of preventive activity in the jurisdiction in which they operate, including gold control, control relating to goods notified under the Customs Act and other anti-smuggling activities.

16. The Internal Audit Parties which existed even prior to the introduction of SRP have been retained without any change. One of their main duties is to conduct test audits of the work of Inspection Groups. For this purpose, they visit only such factories as are named by the Collector

17. Deterrent penalties have been provided for removal of goods in contravention of the procedure laid down. They include confiscation of all excisable goods belonging to the manufacturer and also land, building, plant, machinery, materials, conveyance, animal or any other thing used in connection with the manufacture, storage, removal or disposal of such goods. The Collectors have also been delegated powers to nominate an officer not below the rank of an Assistant Collector to determine the normal production of a factory after taking into account such factors as the installed capacity, raw materials used, labour employed, and power consumed. If the recorded production of a factory falls below the norm and the shortfall cannot be satisfactorily explained, the officer concerned can assess duty to the best of his judgement.

18. The time bar for recovery of short levies or for refund of excess payments made has been extended from three months under the earlier system of control to one year under SRP.

19. Prior to 11th October, 1969, all duties or charges which had been short-levied or which were due to Government in cases in respect of which no specific provision existed in the Rules could be demanded by the proper officer under residuary powers for recovery of such duties or charges. The relevant rules have since been amended to provide that such sums can be demanded only by the Assistant Collector, after the person concerned has been given an opportunity to show cause why the amount specified should not be paid by him and after the representation, if any, made by him has been considered by the Assistant Collector.

CHAPTER 5

TAX STRUCTURE

In the scheme of distribution of legislative powers set out in the Indian Constitution, in so far as these have a bearing on commodity taxation, the Union List includes all duties of excise on tobacco and other goods manufactured or produced in India with the exception, broadly, of (a) alcoholic liquors for human consumption and (b) opium, Indian hemp and other narcotics drugs and narcotics, both of which groups are in the State List. To this, however, there is one important qualification, namely, that medicinal and toilet preparations are wholly within the Union List, notwithstanding that they may contain any of the substances, including alcohol, mentioned in (a) and (b). Taxes on the sale and purchase of goods are in the State List. But to the extent these transactions take place in the course of interstate trade, they figure in the Union List. This scheme of allocation in the Constitution Act of 1950, as later amended, follows the broad pattern of the Government of India Act, 1935.

2. Section 3 of the Central Excises and Salt Act, 1944, reads:—

"(1) There shall be levied and collected in such manner as may be prescribed duties of excise on all excisable goods other than salt which are produced or manufactured in India, and duty on salt manufactured in, or imported by land into any part of India as, and at the rates, set forth in the First Schedule.

(1A) The provisions of sub-section (1), shall apply in respect of all excisable goods other than salt which are produced or manufactured in India by, or on behalf of, Government, as they apply in respect of goods which are not produced or manufactured by Government.

(2) The Central Government may, by notification in the Official Gazette, fix, for the purpose of levying the said duties, tariff values of any articles enumerated, either specially or under general headings, in the First Schedule as chargeable with duty, *ad valorem* and may alter any tariff values for the time being in force.

(3) Different tariff values may be fixed for different classes or descriptions of the same article".

3. The term 'excisable goods' has been defined in the Act as "goods specified in the First Schedule as being subject to a duty of excise and includes salt".

4. The first Schedule is a substantive part of the Central Excises and Salt Act, 1944, parliament's approval to the rates of excise duties and/or to the restructuring of the tariff, including new levies or deletion of existing commodities from the Schedule, is accorded in its acceptance of the Finance Bill. The Finance Bill includes a declaration under the Provisional Collection of Taxes Act, 1931, which provides that the relevant clauses of the Bill shall have immediate effect. The rates approved by Parliament are known in common parlance as statutory or tariff rates. The Central Government, however, have the power to exempt, by notification in the official gazette, and subject to such conditions as may be specified in the notification, any excisable goods from the whole or any part of duty leviable on such goods. The Central Board of Excise and Customs also has powers to exempt, by special order in each case, and under circumstances of an exceptional nature, and excisable goods from payment of duty. In exercise of these powers effective rates of duty are determined and notified by the executive from time to time.

5. In addition to the duties levied under the Central Excises and Salt Act, 1944, which are commonly known as basic duties, the Central Excise Department also collects—

(i) Additional duties levied under the Additional Duties (Goods of Special Importance) Act, 1957, on Sugar, Textiles and Tobacco, *in lieu* of Sales Tax on these commodities. The additional duties accrue entirely to the States.

(ii) Additional duties levied under the Mineral Oils (Additional Duties of Excise & Customs) Act, 1958, with the specific object of mopping up profits accruing to oil companies on account of reduction in freight costs, etc.

(iii) Commodity cases on oil and oil seeds, copra, tea and cotton and handloom cess on cotton fabrics, woollen fabrics and rayon or art silk fabrics.

(iv) Auxiliary duties of excise which came into force in March, 1973 in replacement of certain regulatory duties till then in force.

6. The First Schedule, or the Central Excise Tariff as it is known, presently covers

some 123 commodities. Six of these, while brought within the list of excisable goods, are for operative purposes completely exempted from duty. For the remaining 117, duty rates differ from item to item and, where there is sub-division, from sub-item to sub-item. Averaged out for individual commodities, the duty ranges, in terms of percentage of value, from about 2% on vegetable non-essential oils to over 400% in the case of motor spirit. Consumer goods which are subjected to excise duties include, at one end, common necessities like kerosene, cloth, sugar and tobacco and, at the other, what in India are relative luxuries, such as refrigerators and air-conditioners. But consumer articles occupy only one part of a total range of excise taxation which extends to some of the tools and many of the materials of production no less than to the finished products. One consequence is that a larger number of excise levies are multipoint in character. In some cases, though not all, relief from the operation of this multiple levy is afforded through devices such as *pro forma* credit and set-off or facilities for in-bond movement of goods.

7. Broadly, duties of excise are either specific or *ad valorem* in character, though there are a number of variants: (1) *ad-valorem-cum-specific* as in the case of mineral turpentine oil, waxes, and rayon and art silk fabrics, (2) *specific-cum-ad valorem* as in the case of embroidery on cotton fabrics, instant tea and slotted angles and channel, or (3) *specific or ad valorem whichever is higher,* as in the case of several categories of motor vehicles. In certain cases, duties are specific for certain sub-items and *ad valorem* or a mixture of *ad valorem* or specific for others under the same item of the tariff. Some illustrations are as follows:—

(1) "Confectionary", under which boiled sweets and chocolates are charged at specific rates while cocoa powder and drinking chocolates are liable to *ad valorem* rates;

(2) "coffee", under which cured coffee is charged at specific rates while instant coffee carries in addition an *ad-valorem* rate;

(3) "petroleum products not otherwise specified" under which liquid petroleum gas carries a specific rate while other products are assessed on either *ad valorem,* or *ad valorem-cum-specific* rates;

(4) "cotton fabrics", under which the tariff structure is mostly specific, but certain specified varieties are assessed on *ad valorem* basis;

(5) "copper and copper alloys", under which pipes and tubes are charged on *ad valorem* basis, while other items carry specific rates;

(6) "zinc", in respect of which the same distinction is made as in the case of copper and copper alloys; and

(7) "wireless receiving sets", under which broadcast television receiver sets are assessable at 20% *ad valorem,* while the duty fixed for "others" is Rs. 300.00 per set.

8. The examples cited in the preceding paragraph relate to the excise tariff as fixed by statute. The same diversity on a much wider scale is discernible in notifications issued by Government from time to time. Different duty rates have been fixed on the basis of classifications or sub-classifications provided in the tariff schedule as approved by Parliament or by Government through notifications under which these classifications or sub-classifications have been further refined and enlarged. For the purpose of determining the liability of a product to duty, or the appropriate rate of duty applicable to it, it has to be studied and classified on the basis of the criteria laid down which, illustratively, include such factors as: sucrose content related to temperature, flashing point, flame height, viscosity, count, average count, denierage, diameter, sectional area, shape, circuit amperage, voltage, horse power, intended use commercial parlance, etc. etc. For purposes of assessment, value in the case of goods subject to *ad valorem* duties, and such physical factors as weight (in some cases sectional weight), volume, thickness, length, area, etc. in the case of specific duties have also to be taken into account. In certain cases, goods are accounted for or sold by the producers on the basis of weight, but duty rates or concessional duty slabs are based on volume: in such cases, quantities eligible for exemption of assessment have to be computed on the basis of notional conversion formulae.

9. In the case of *ad valorem* duties, the value of excisable goods has hitherto been determined in accordance with certain provisions of law which have undergone alterations by amending legislation (Act 22 of 1973) recently passed by Parliament. The new provisions are, at the time of submission of the Report, yet to come into force on a date to be notified by Government. The older (and still extent) provisions are contained in Section 4 of the Central Excises and Salt Act, 1944, which reads as follows:—

> "*Section* 4.—Determination of value for the purposes of duty—where under this Act, any article is chargeable with duty at a rate dependent on the value of the

article, such value shall be deemed to be—

(a) the wholesale cash price for which an article of the like kind and quality is sold or is capable of being sold at the time of the removal of the article chargeable with duty from the factory or any other premises of manufacture or production for delivery at the place of manufacture or production, or if a wholesale market does not exist for such article at such place, at the nearest place where such market exists, or

(b) where such price is not ascertainable, the price at which an article of the like kind and quality is sold or is capable of being sold by the manufacturer or producer, or his agent, at the time of the removal of the article chargeable with duty from such factory or other premises for delivery at the place of manufacture or production or if such article is not sold or is not capable of being sold at such place, at any other place nearest thereto—

Explanation.—In determining the price of any article under this section no abatement or deduction shall be allowed except in respect of trade discount and amount of duty payable at the time of the removal of the article chargeable with duty from the factory or other premises aforesaid".

10. Several difficulties have been experienced from time to time in the working of the provisions cited. By and large they relate to (i) admissibility of deductions on account of items such as equalised freight and post manufacturing expenses (e.g. on aftersales service) which are included in the price charged or invoiced, (ii) determination of value in the case of excisable components which do not by themselves command a price or a market, (iii) admissibility of discounts of different kinds, (iv) determination of value in the case of new products which enter the market for the first time, and (v) admissibility of prices charged by a producer from a sole distributor or distributors. According to the Statement of Objects and Reasons, the legislation newly passed proposes among other things and subject to certain exceptions "to suitably revise the valuation provision contained in section 4 of the Act, providing, as far as practicable, for assessment of excisable goods at the transaction value". The relevant provisions which, as already noted, will come into froce on a date to be notified by the Central Government, are quoted *in extenso* below because of their relevance to some of the issues later discussed in the Report:—

"4. (1) Where under this Act, the duty of excise is chargeable on any excisable goods with reference to value, such value shall, subject to the other provisions of this section, be deemed to be—

(a) the normal price thereof, that is to say, the price at which such goods are ordinarily sold by the assessee to a buyer in the course of wholesale trade for delivery at the time and place of removal, where the buyer is not a related person and the price is the sole consideration for the sale.

Provided that:—

(i) where, in accordance with the normal practice of the wholesale trade in such goods, such goods are sold by the assessee at different prices to different classes of buyers (not being related persons) each such price shall, subject to the existence of the other circumstances specified in clause (a), be deemed to be the normal price of such goods in relation to each such class of buyers;

(ii) where such goods are sold by the assessee in the course of wholesale trade for delivery at the time and place of removal at a price fixed under any law for the time being in force or at a price, being the maximum, fixed under any such law, then, notwithstanding anything contained in clause (iii) of this proviso, the price or the maximum price, as the case may be, so fixed, shall, in relation to the goods so sold, be deemed to be the normal price thereof;

(iii) where the assessee so arranges that the goods are generally not sold by him in the course of wholesale trade except to or through a related person, the normal price of the goods sold by the assessee to or through such related person shall be deemed to be the price at which they are ordinarily sold by the related person in the course of wholesale trade at the time of removal, to dealers (not being related persons) or where such goods are not sold to such dealers, to dealers, (being related persons) who sell such goods in retail;

(b) where the normal price of such goods is not ascertainable for the reason that such goods are not sold or for any other reason, the nearest ascertainable equivalent thereof determined in such manner as may be prescribed.

(2) where, in relation to any excisable goods the price thereof for delivery at the place of removal is not known and the value thereof is determined with reference to the price for delivery at a place other than the place of removal, the cost of transporation from the place of removal to the place of delivery shall be excluded from such price.

(3) The provisions of this section shall not apply in respect of any excisable goods for which a tariff value has been fixed under sub-section (2) of section 3.

(4) For the purposes of this section—

(a) "assessee" means the person who is liable to pay the duty of excise under this Act and includes his agent;

(b) "place of removal" means—

(i) a factory or any other place or premises of production or manufacturer of the excisable goods; or

(ii) a warehouse or any place or premises wherein the excisable goods have been permitted to be deposited without payment of duty,

from where such goods are removed;

(c) "related person" means a person who is so associated with the assessee that they have interest, directly or indirectly, in the business of each other and includes a holding company, a subsidiary company, a relative and a distributor of the assessee, and any sub-distributor of such distributor.

Explanation.—In this clause "holding company", "subsidiary company" and "relative" have the same meanings as in the Companies Act, 1956—

(d) "value" in relation to any excisable goods,—

(i) where the goods are delivered at the time of removal in a packed condition, includes the cost of such packing except the cost of packing which is of a durable nature and is returnable by the buyer to the assessee.

Explanation.—In this sub-clause "packing means the wrapper, container, bobbin, pirn, spool, reel or warp beam or any other thing in which or on which the excisable goods are wrapped, contained or wound;

(ii) does not include the amount of the duty of excise, sales tax and other taxes, if any, payable on such goods and, subject to such rules as may be made, the trade discount (such discount not being refundable on any account whatsoever) allowed in accordance with the normal practice of the wholesale trade at the time of removal in respect of such goods sold or contracted for sale;

(e) "wholesale trade" means sales to dealers, industrial consumers, Government, local authorities and other buyers, who or which purchase their requirements otherwise than in retail".

11. We have already referred to the provisions of Section 3 which empower Government to fix tariff values for goods chargeable to duty at *ad valorem* rates. Presently, there are some 88 commodities liable to *ad valorem* rates (including certain items attracting *ad valorem-cum-specific* duties) with an estimated revenue yield, in 1973-74, of Rs. 1255 crores (out of a total budgeted excise revenue of Rs. 2652 crores). Tariff values have been notified for 13 commodities out of the 88 mentioned above. The revenue yield of these 13 commodities is Rs. 290 crores.

12. Until recently tariff values, original or revised, were fixed on the basis of data collected by the Director of Inspection (Customs & Central Excise). He formulated tentative proposals and then referred them to the Economic Adviser in the Ministry of Industrial Development. The proposals of the Economic Adviser were scrutinised in the Ministry of Finance which after going into related questions notified tariff values. For purposes of collecting the necessary data, some important manufacturing and marketing centres were selected for each commodity in respect of which tariff values were intended to be notified; and Range Officers having jurisdiction over these selected centres were required to draw up a statement in the prescribed form, for the period May to July, indicating in addition to other particulars the quantity of the commodity cleared during that period, the total price charged (excluding duty and admissible discounts) and the average price per unit. Range officers were also required to submit a similar statement of "market value", or average sale price to the consumer, during the same period. It was with reference to this data received from the centres fixed that the Director of Inspection formulated his proposal regarding tariff values.

13. In response to a recommendation from the Public Accounts Committee and suggestions from other quarters regarding delays in fixation or revision of tariff values, the Ministry of Finance decided in 1970 that thenceforth the responsibility for determination of tariff values would be that of the Ministry of Finance (Department of Revenue & Insurance) who alone would handle this work. A separate cell under the Additional Director in charge of the Statistics & Intelligence Branch has recently been set up for working out the relevant details for fixation and revision of tariff values.

14. Apart from tariff values, several other expedients are employed from time to time to get over the difficulties of valuation experienced in relation to certain commodities or in particular situations. These include (i) acceptance of prices fixed by Government

from time to time under different enactments. (ii) operation on the basis of transacted prices indicated by the assessees, (iii) acceptance of rate contract prices as assessable values, and (iv) operation on the basis of the cost of production plus a reasonable margin of profit for commodities produced for captive consumption.

15. We have elsewhere referred to the compounded levy schemes evolved from time to time for a certain number of commodities. At present, these schemes apply to (1) khandsari sugar, (2) cotton yarn produced by a manufacturer who uses the whole or part of such yarn in the manufacturer of cotton fabrics in his own factory, (3) electric battery plates, (4) coarse grain plywood, (5) embroidery, (6) cotton fabrics processed (with stentering and mercerising machines) without the aid of power and (7) cotton fabrics produced on power looms. The basic consideration on which these schemes are extended to different industries would appear to be the prevalence in the industry concerned of a large sector of small producers whom it would be difficult to control under the normal procedure. Duty liability is fixed with reference to some identifiable equipment used by the producer, after taking into account the average production of the commodity concerned and other relevant factors. In the case of cotton yarn (as distinguished from the other items) the scheme of compounded levy has relevance to the organised sector of textile mills and not to the small sector. The scheme makes for administrative convenience in the collection of excise duty on yarn from composite mills. The amount so collected is about Rs. 20 crores. The other schemes of compounded levy, i.e., those designed for the small industries mentioned above, account in all for as small a revenue yield as Rs. two crores.

CHAPTER 6

EXEMPTIONS

We have referred to the power vested in Government to notify exemptions from excise duty. The exemption may cover whole or part of the duty otherwise payable. It may be subject to the fulfilment of conditions specified in the notification. The notification itself may, in relation to one or more commodities, be either general and unconditional or specific and conditional. Thus a general exemption notified may have the effect, in relation to whole commodities, of reducing to a lower level the tariff rate indicated in the statute. The exemption thus given may be total (as in the case of cycle parts) or partial (as in the case of sugar where the tariff rates of 30% of basic and 7½% additional have, by notification, been reduced to 24% and 6% respectively). The specific or conditional exemption has usually the effect of subjecting the same commodity to different rates of duty according as it is produced in the small sector of the industry or by one of the bigger units. The object which the exemption purports to subserve is generally stated in the notification itself or is discernible from the conditions to which the exemption is explicitly made subject.

2. Barring a few exceptions, the exemptions notified cover the entire gamut of Central Excise. We are told that there are nearly one thousand live notifications today (in addition to 59 which are described as otiose) by virtue of which duty reliefs are afforded. Occasionally a single notification covers a number of commodities and, within the same commodity, provides for several different rates of duty for different products falling under the same tariff item. It appears that some three hundred tariff rates have, as a result of the issue of notifications of exemption, been multiplied into more than two thousand effective rates. In relation to cotton fabrics, 69 such notifications have been issued and the number of effective rates amounts to more than three hundred as against seventeen tariff rates set out in the enactment.

3. There is miscellany of purposes expected to be served by individual exemptions. Some of the objectives are: promotion of exports, increase of production, conservation of resources, developement of backward areas, convenience of administration, support to programmes of public health and family planning and, not least, reduction of the cumulative impact of multi-point levies. But much more important and pervasive than any of these has been the objective of encouraging the establishment and growth of small scale industries in the country. This purpose underlies a wide range of exemptions. In seeking to give effect to it, however, so many different parameters and criteria have been used as to what is, and what is not, a small unit with reference to particular commodities, that a bewildering variety of exemptions has come into being all of which purport to help the small sector:—

(i) Total exemption in terms of the number of workers employed. (Examples: glass and glassware, chinaware and porcelainware, electric batteries, trailers and footwear).

(ii) Duty free slab relatable to the quantum of production in the financial year which is current. (Example: confectionery and chocolates).

(iii) Duty free slab relatable to the value of clearances in the financial year which is current, (Examples: prepared or preserved foods, biscuits, ready-made garments, mosaic tiles, motor starters, motor vehicle parts, metal containers, safes and strong boxes, roller bearings, welding electrodes, bolts and nuts, zip fasteners, playing cards, pistons and power driven pumps).

(iv) Duty free slab or duty rebate on the basis of production in any of the preceding twelve months or in the period covered by the preceding 12 months or, lastly in the preceding financial year. (Examples: sugar, cosmetics and toilet preparations and soap).

(v) Duty free slab on the basis of clearances in the preceding financial year. (Examples: tyres and steel furniture).

(vi) Partial exemption based on the weight of contents packed. (Examples: tea and optical bleaching agents).

(vii) Total exemption related to production with the aid of water power. (Examples: vegetable non-essential oils and woollen yarn).

(viii) Exemptions related to the amount of power used. (Example: footwear).

(ix) Preferential duty slabs for specified quantities. (Example: paper).

(x) Preferential duty on the basis of output for the financial year. (Examples: pigments, colours, paints and enamels).

(xi) Partial exemption on the basis of output in any of the preceding 12 months. (Example: electric motors).

(xii) Total exemption relatable to manufacture without the aid of power. (Examples: aerated waters, paints and varnishes, fertilisers, soap, organic surface active agents, jute manufacturers and metal containers).

(xiii) Partial exemption relatable to capital investment on plant and machinery. (Examples: wires and cables).

(xiv) Exemption based upon the value of the goods cleared. (Examples: cotton fabrics and footwear).

(xv) Partial exemption based upon clearances during the preceding financial year. (Examples: tyres for motor vehicles.)

4. There are several other forms of exemptions which do not relate directly to the small scale sector or to the purposes already mentioned. Broadly, they are related to:—

(1) the use of excisable goods within the factory of production:

Examples: pasteurised butter converted into ghee or cheese within the same factory, mineral oils utilised as fuel within the same premises, bauxite solvent oil used in the refinery of production as solvent, paints and varnishes used in the same factory in the production of other paints and varnishes, and rubber products used in the manufacture of new tyres;

OR

(2) the end use of the product:

Examples: coffee seeds for purposes of sowing, tea waste intended for use as manure, furnace oil produced wholly from indigenous crude for use as fuel in railway locomotive engines or for generating electrical energy by Government undertakings, acids consumed by ordnance factories, carbon dioxide intended for the *bona fide* use of hospitals, research laboratories, universities, fire service and defence establishments, ammonia used in the manufacture of fertilisers, explosives, pharmaceuticals etc., tyres specially designed for use on animal drawn vehicles, paper of certain specifications intended for use in the printing of newspapers, and jute manufacturers intended for test or research purposes.

5. The Central Excises and Salt Act requires that all rules made under the Act shall be laid, as soon as may be after they are made, before parliament while it is in session for a total period of thirty days. Since exemption notifications are technically not rules, they are not required to be placed before Parliament. The view has been expressed that this vitiates the concept of the executive's accountability to the legislature. Inasmuch as the Parliament has no information about the variations made from time to time in the rates approved by it or the amount of duty foregone by executive action. The Public Accounts Committee have criticised this along with certain other aspects of exemptions. In their Hundred and Eleventh Report, it was stated that "the Committee consider it extraordinary that delegated powers given to the executive should have been exercised to render the statutory tariff a nullity in a majority of cases". It must at the same time be added that, in practice, a large number of notifications issued form part of the Budget documents presented to Parliament which thus has the opportunity of seeing the changes or modifications proposed to be introduced by the executive through notifications. We also find that exempting notifications issued between the Budget sessions are laid before Parliament.

6. Attempts have been made from time to time to assess the quantum of excise revenue foregone as a result of duty exemptions. The Central Excise Reorganisation Committee had estimated that, without reckoning the loss through avoidance induced by the schemes then in force, the direct revenue sacrifice in exemptions in 1961-62 was of the order of Rs. 80 crores with reference to tariff rates and about Rs. 20 crores with reference to the effective rates of duty. Taking these figures as their basis S/Shri Lakdawala and Nambiar, in their study on "Commodity Taxation in India" (1972), estimated the current (presumably 1971-72) revenue loss with reference to standard rates at around Rs. 250 crores. It has however to be noted that a high rate of duty approved by Parliament is not necessarily the normal rate of duty it intends to come into force. This is particularly true of tariff items which cover a large variety of products which, in turn, have a wide range of prices. In such a case the relatively high level of the duty specified by statute is merely the maximum within which the executive, in its discretion, can fix different rates of duty for different products. It follows that while some of those rates are near, others may be much below, the statutory level. It would therefore not be appropriate to regard such exemptions as involving a direct revenue sacrifice.

7. Duty exemptions have been assailed on several grounds. One of the major points made is that they lead to fragmentation and pseudo fragmentation which involve manipulation of accounts and other malpractices. We reported on this phenomenon in connection with the small scale sector of the match industry. As pointed out in our Special Report

the number of producing units in this sector had increased from 1257 on 31-3-1968 to 1688 on 31-3-1974 without a corresponding increase in production or revenue. This would appear to be true of several other commodities as well. An example is steel furniture in which the number of units increased from 1065 as on 1-3-1969 to 1788 as on 31-3-1972, though production and clearances registered an increase of 13% to 14% only.

8. It has also been stated before us that, where duty is exempted upto certain levels of production or where rates of levy increase with higher output, duty exemptions have the effect of inhibiting or restricting production. This is said to be true largely of marginal units which stop short of the limit beyond which their production would begin to pay duty. This has the effect on the one hand of reducing the revenue yield and, on the other, of adding to idle capacity in a situation which demands maximum utilisation of installed capacity. It is alleged that many of these units do not really step down production. What is practised is systematic suppression of production throughout the year, so that by the end of the year the unit is still within the exemption limit or the preferential slab. Duty revenue is thus evaded.

9. It is claimed that fiscal preferences for different sectors within the same industry upset the economic equilibrium between them. Examples are cited of industries not subjected to excise duty and it is argued that, in many such industries, different sectors do co-exist and manage to find an internal equilibrium which is not really disturbed when a duty comes to be imposed. It is the exemptions, according to this view, which cause distorations. At the same time, those who benefit are not the genuinely small people.

10. We have referred to the Public Accounts Committee's criticism of the executives power to exempt. The Committee has also criticised exemptions from the administrative angle. Other important point made is that exemptions render assessment an unnecessarily elaborate and time-consuming process. In the effort to spell out criteria for admissibility of exemptions, numberous distinctions are introduced and the tariff gets complicated. Instances have been cited where exemption notifications have led to proceedings in courts of law and protracted delays in finalisation of assessments. Another point made is that the power to exempt has been utilised by the executive to extend substantial duty concessions. Attention is drawn to the fact that in 1967 alone, the Government/Board had issued 273 notifications covering 51 different excisable goods, including major revenue yielding commodities like sugar, tobacco, motor spirit etc. and that of the 273 exemption notifications, the number of notifications which gave total exemption from tariff was 128.

11. It is generally agreed that schemes of exemption provide considerable scope for evasion and avoidance of central excise duties. The evasion is facilitated by the withdrawal of physical controls under SRP. We deal at some length with these matters in Chapter 10 ("Evasion").

SECTION II

DATA AND EVIDENCE

CHAPTER 7

TAX BASE: DIVERSITY AND CATEGORIES

The broad tax structure and patterns of control have been referred to in the preceding Chapter. Mention has also been made of the diversities in tax rates, modes of levy, and schemes of duty exemptions.

2. As already stated, the present central excise tariff covers 123 excisable goods of which six are completely exempted from duty. The expansion in coverage of the tariff and increase in revenue realised from Central Excise duties are reflected in the following table:

Year	Number of commodities	Gross revenue from all Union taxes (Rs. crores)	Revenue from Union excise duties (Rs. crores)	Union excise revenue as percentage of gross Union tax revenue
1961-62	55	1050.95	489.31	46.6
1962-63	65	1281.43	598.83	46.8
1963-64	65	1630.26	729.58	44.8
1964-65	66	1820.68	801.51	44.02
1965-66	67	2060.67	897.92	43.6
1966-67	69	2306.50	1033.77	44.8
1967-68	69	2352.68	1148.25	48.8
1968-69	74	2509.84	1320.67	52.6
1969-70	80	2823.07	1524.31	53.9
1970-71	91	3206.80	1758.55	54.8
1971-72	116	3872.44	2061.10	53.2
1972-73 (Revised)	120	4537.79	2428.18	53.5
1973-74 (Revised)	123	5113.56	2741.25	53.6

Source:—Explanatory Memoranda on the Budget of the Central Government.

(The revenue figures given are net of refunds but include commodity cesses)

3. Excluding unmanufactured tobacco and commodity cesses on salt, coal, rubber and iron ore, which are not collected by the Excise Department though included in revenue from Union excise duties, the gross revenue from excise duties in 1973-74 is estimated to be Rs. 2652 crores. Table (1) appended to this chapter indicates the extent to which individual commodities have contributed to excise revenue for each year of a period of six years beginning from 1968-69. In this table the commodities are arranged in descending order of the revenue contribution they are estimated to make in 1973-74. It may be noted that the first 23 commodities (with a yield of more than Rs. 20 crores each) together account for Rs. 2229 crores or more than 84% of the total Budget realisation. If we proceed to include the next 17 items on list, we find that, between them, the first 40 commodities account for Rs. 2464 crores or as much as 92.89% of the total. The blance of 7.11% (or Rs. 188 crores) represents the total revenue contribution of no fewer than 77 commodities. Included in this number are 29 commodities which account individually for less than Rs. one crore and in the aggregate for Rs. 12.38 crores.

4. In 1963-64 there were 65 duty paying commodities (excluding unmanufactured tobacco) which yielded in that year a revenue of Rs. 662.77 crores. In the space of seven years, i.e., by 1970-71, the excise revenue increased to Rs. 1675.41 crores or by more than 150%. The increase of Rs. 1012.64 crores was broadly accounted for by the following factors:

		Rs. crores	
(i)	Growth in consumption or/and increase in prices where duties are *ad valorem*	477.16	(47.1%)
(ii)	Increase in duty rates	477.75	(47.2%)
(iii)	Extension of excise to new items	57.73	(5.7%)
	TOTAL	1012.64	(100.0%)

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5. The commodity-wise analysis may be taken a step further as in the unit-wise sub-categories of Table (2) appended to this Chapter. The table is based on data provided by Collectors in respect of factors falling indifferent duty revenue slabs. The information relates to 1971-72. The total commodity-wise figures as worked out on this data vary slightly in some instances from those set out in the relevant Budget documents or supplied by the Statistics and Intelligence Branch. But the differences are marginal and do not affect the validity of the following observations concerning the data set out in the statement:—

(i) The four highest revenue slabs, which comprise units yielding a revenue of more than Rs. one crore each, include only 1.5% of the total number of duty paying units (excluding powerlooms covered by the special procedure). In terms of revenue, however, they account for nearly 70% of the total realisation.

(ii) Factories falling in the lowest revenue slabs and yielding a revenue of less than Rs. one lakh each account for only Rs. 25.68 crores or 1.28% of the total revenue. But numerically they comprise as many as 18874 units or more than 78% of the total number of duty paying factories.

(iii) The rest of the duty paying units, which may be considered as the medium sector (with a revenue yield of between Rs. one lakh and one crore), account for 20 to 21% of the total number of units and for about 28 to 29% of the revenue.

6. It is noteworthy that the small units, though preponderant in number, yield only a very small fraction of the total revenue.

7. We refer in another Chapter to certain commodities in which, on the basis of available evidence, the extent of evasion must be held to be appreciably larger than in others. The interesting fact also emerges, as we shall later discuss, that these are by and large the very commodities which have a large or preponderant small scale sector.

8. Effective control of small units for purposes of levy and collection of duties, maintenance of proper records, submission of periodical returns and compliance with process of law has been a matter of considerable concern to the administration. In its search for more revenue the Government has sought to cover fresh commodities year after year. In that process, a widening range of small units—with an increasing proportion of dispersed units—has tended to be brought within the purview of exicise. The resulting administrative problems, as already explained, have been rendered even more difficult by the numerous categories of exemptions which it has been thought necessary to build into the duty liability of the small sector.

9. The view has been put forward that the definition of small scale industry adopted in 1966, for purposes of industrial policy (according to which all industrial units with a capital investment of not more than Rs. 7.5 lakhs, irrespective of the number of wrokers employed or other considerations are classed as small units) might also be adopted by the Central Excise Department. We find that this has indeed been done in the case of two commodities, namely, wireless receiving sets and wires and cables. At the same time, the criticism has been made that this definition is unsatisfactory in the context of excise levies, where relatively small capital investment and relatively large excisable production often go together.

10. For purposes of analysis, it would be also useful to consider a distinction on the basis of the organisational set up of the manufacturing concerns. They could, for example, be categorised as (a) factories or undertakings run by Government Departments like Railways, Defence, Posts & Telegraphs, or (b) other public sector undertakings under the Central or State Governments, or (c) large industrial houses in the corporate sector, or (d) private limited companies, or (e) proprietary and partnership concerns and so forth. Such a classification would be relevant, for example, to the view that in an accounts-based form of control like SRP, the procedure can be modulated to the standards of tax compliance, revenue potential, accounting techniques and other considerations pertinent to the category of unit concerned. We have had some data complied on this basis. Table (3) appended to this Chapter provides a break up of central excise revenue derived in 1970-71 and 1971-72 from the different categories indicated in the table.

TABLE (1)

Revenue from Excisable Commodities (other than unmanufactured tobacco) for 1968-69 *to* 1973-74.
(*Source*:—Explanatory Memorandum to the Annual Budget).

(*Rs. lakhs*)

Sl. No.	Tariff Item No.	Commodity	1968-69 (Actual)	1969-70 (Actual)	1970-71 (Actual)	1971-72 (Actual)	1972-73 (Actual)	1973-74 (Actual)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.	8	Refined Diesel Oil & Vaporising Oil.	20455(16.37)	22273(15.38)	23199(13.64)	26386(13.20)	29000(12.38)	32500(12.25)
2.	6	Motor Spirit	12656(10.13) 33111(26.50)	14376 (9.93) 36649(25.31)	17310(10.18) 40509(23.82)	21966(10.99) 48352(24.19)	24000(10.24) 53000(22.62)	27630(10.42) 60130(22.67)
3.	4II	Cigarettes	10739(8.60) 43850(35.10)	12598(8.69) 49247(34.00)	14802(8.71) 55311(32.53)	19309(9.65) 67661(33.84)	20470(8.74) 73470(31.36)	24000(9.05) 84130(31.72)
4.	26AA	Iron & Steel Products	6645(5.32) 50495(40.42)	6951(4.80) 56198(38.80)	6739(3.96) 62050(36.49)	8232(4.12) 75893(37.96)	14700(6.27) 88170(37.63)	18285(6.90) 102415(38.62)
5.	1	Sugar	6438(5.15) 56933(45.57)	10280(7.09) 66478(45.89)	13585(7.99) 75635(44.48)	16667(8.34) 92560(46.30)	17740(7.57) 105910(45.20)	18140(6.84) 120555(45.46)
6.	7	Kerosene Oil	7629(6.10) 64562(51.67)	9628(6.65) 76106(52.54)	12097(7.12) 87732(51.60)	12336(6.17) 104896(52.47)	14500(6.19) 120410(51.39)	15500(5.84) 136055(51.30)
7.	18	Rayon and Synthetic Fibre yarns	5986(4.79) 70548(56.46)	8210(5.67) 84316(58.21)	8873(5.22) 96605(56.82)	8988(4.49) 113884(56.96)	10100(4.31) 130510(55.70)	13400(5.05) 149455(56.35)
8.	19	Cotton Fabrics	7553(6.05) 78101(62.51)	7599(5.25) 91915(63.46)	7376(4.34) 103981(61.16)	8291(4.15) 122175(61.11)	8600 (3.67) 139110(59.37)	9020(3.40) 158475(59.75)
9.	16	Tyres & Tubes	4609(3.69) 82710(66.20)	5312(3.67) 97277(67.13)	5491(3.23) 109472(64.39)	6313(3.15) 128488(64.26)	7400(3.16) 146510(62.53)	8150(3.07) 166625(62.82)
10.	23	Cement	3496(2.80) 86206(69.00)	4257(2.94) 101484(70.07)	4407(2.59) 113879(66.98)	4874(2.44) 133362(66.70)	5600 (2.39) 152110(64.92)	6250 (2.36) 172875(65.18)
11.	27	Aluminium	1212(0.97) 87418(69.97)	1633(1.13) 103117(71.20)	3410(2.01) 117289(68.99)	3657(1.83) 137019(68.53)	5300(2.26) 157410(67.18)	6100 (2.30) 178975(67.48)
12.	11A	Petroleum Products NOS	662(0.53) 88080(70.50)	915(0.63) 104032(71.83)	1709(1.00) 11998(69.99)	2662(1.33) 139681(69.86)	4400(1.88) 161810(69.06)	4750(1.79) 83725(69.27)
13.	14HH	Fertilizers	86(0.07) 88166(70.57)	1685(1.16) 105717(72.99)	1808(1.06) 120806(71.05)	2106(1.05) 141787(70.91)	3800 (1.62) 165610(70.68)	4425(1.67) 188150(70.94)
14.	3	Tea	2689(2.15) 90855(72.72)	2510(1.73) 108227(74.72)	3883(2.28) 124689(73.33)	3565(1.78) 145352(72.69)	3375(1.44) 168985(72.12)	4320(1.63) 192470(72.57)
15.	34	M tor Vehicle	2550(2.06) 93405(74.78)	2389(1.65) 110616(76.37)	2794(1.64) 127483(74.97)	3561 1.78) 148913(74.47)	3695(1.58) 172680(73.70)	3950(1.49) 196420(74.06)
16.	15A	Plastics	1246(0.99) 9465!(75.77)	1855(1.28) 112471(77.65)	2375(1.40) 129858(76.37)	2839(1.42) 151752(75.89)	3500(1.49) 176180(75.19)	3870(1.46) 200290(75.52)
17.	17	Paper	2211(1.77) 96862(77.54)	2337(1.61) 114808(79.26)	2439(1.43) 132297(77.80)	2625(1.31) 154377(77.20)	3250(1.39) 179430(76.58)	3675(1.38) 203965(76.90)
18.	22A	Jute Manufactures	1480(1.18) 98342(78.72)	1967(1.36) 116775(80.62)	2135(1.26) 134492(79.06)	2728(1.36) 157105(78.56)	3383(1.44) 182813(78.02)	3650(1.88) 207615(78.28)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
19	18A	Cotton Yarn	3905(3.13) 102247(81.85)	3407(2.35) 120182(82.97)	3296(1.94) 137728(81.00)	3498(1.76) 160603(80.32)	3500(1.49) 186313(79.51)	3600(1.36) 211215(79.64
20.	22	Rayon & Artsilk Fabrics	482(0.38) 102729(82.23)	503((0.35) 120685(83.32)	2159(1 27) 139887(82.27)	2087(1.04) 162690(81.36)	3120(1.34) 189433(80.85)	3515(1.33) 214730(80.97)
21.	38	Matches	2761(2.21) 105490(84.44)	2737(1.89) 123422(85.21)	2849(1.68) 142736(83.95)	2947(1.48) 165637(82.81)	2800(1.19) 192233(82.04)	2900(1.09) 217630(82.06)
22.	10	Furnace Oil	2711(2.17) 108201(86.61)	2891(2.00) 126313(87.21)	3325(1.96) 146061(85.91)	3175((1.59) 168812(84.43)	2650(1.13) 194883(83.17)	2850(1.0) 220480(83.13)
23.	9	Diesel Oil N.O.S.	2282(1.83) 110483(88.44)	2409(1.66) 128722(88.87)	2256(1.33) 148317(87.24)	2187(1.09) 170999(85.52)	2200 (0.94) 197083(84.11)	2460(0.93) 222940)84.06)
24.	11	Asphalt Bitumen & Tar	486(0.39) 110969(88.83)	558(0.39) 129280(89.26)	922(0.54) 149239(87.78)	1251(0.63) 172250(86.15)	1760(0.75) 198843(84.86)	1930(0.73) 224870(84.79)
25.	29A	Refrigeration & Air-Condition Machinery	606(0.48) 111575(89.31)	752(0.52) 130032(89.78)	1220(0.72) 150459(88.50)	1535(0.77) 173785(86.92)	1550(0.66) 200393(85.52)	1860 (0.70) 226730(85.49)
26.	14E	P. or P. Medicines	1083(0.87) 112658(90.18)	1277(0.88) 131309(90.66)	1318(0.78) 151777(89.28)	1530(0.77) 175315(87.69)	1750(0.75) 202143(86.27)	1850(0.69) 228580(86.18)
27.	18E	Yarn all sorts N.E.S.	.. 112658(90.18)	.. 131309(90.66)	.. 511777(89.28)	50(0.03) 175365(87.72)	1500(0.64) 203643(86.91)	1655(0.62) 230235(86.80)
28.	11B	Blended or Compounded Lubricating oil & Greases	.. 112658(90.18)	.. 131309(90.66)	.. 151777(89.28)	793(0.39) 176158(88.11)	1200(0.51) 204843(87.42)	1635(0.62) 231870(87.42)
29.	13	Vegetable Products	895(0.72) 113553(90.90)	1049(0.72) 132358(91.38)	1379(0.81) 153156(90.09)	1337(0.67) 177495(88.78)	1500 (0.64) 206343(88.06)	1560(0.59) 233430(88.01)
30.	33B	Electric Wires & Cables	732(0.58) 114285(91.48)	761(0.53) 133119(91.91)	889(0.52) 154045(90.61)	1107(0.55) 178602(89.33)	1310(0.56) 207653(88.62)	1440(0.54) 234870(88.55)
31.	16A	Rubber Products	741(0.59) 115026(92.07)	735(0.51) 133854(92.42)	784(0.46) 154829(91.07)	1046(0.52) 179648(89.85)	1268(0.54) 208921(89.16)	1415(0.53) 236285(89.08)
32.	31	Electric Batteries	650(0.52) 115676(92.59)	708(0.49) 134562(92.91)	765(0.45) 155594(91.52)	988(0.49) 180636(90.34)	250(0.53) 210171(89.69)	1350(0.51) 237635(89.59)
33.	15	Soap	645(0.52) 116321(93.11)	781(0.54) 135343(93.45)	868(0.51) 156462(92.03)	1174(0.59) 181810)90.93)	1230(0.53) 211401(90.22)	1292(0.49) 238927(90.08)
34.	46	Metal Containers	.. 116321(93.11)	70(0.05) 135413(93.50)	970(0.57) 157432(92.60)	1056(0.53) 182866(91.46)	1150 (0.49) 212551(90.71)	1250(0.47) 240177(90.55)
35.	23A	Glass and Glassware	488(0.40) 116809(93.51)	546(0.38) 135959(93.88)	690(0.41) 158122(93.01)	914(0.46) 183780(91.92)	000(0.43) 213551(91.14)	1120(0.42 241297(90.97)
36.	30	Electric Motors	408(0.32) 117217(93.83)	526(0.36) 136485(94.24)	659(0.39) 158781(93.40)	660(0.33) 184410(92.25)	945(0.40) 214496(91.54)	1120(0.42) 242417(91.39)
37.	14	Paints and Varnishes	600(0.48) 117817(94.31)	614(0.42) 137099(94.66)	656(0.39) 159437(93.79)	721(0.36) 185161(92.61)	992(0.42) 215488(91.96)	1060(0.40) 243477(91.79)
38.	14D	Synthetic Organic Dyestuffs	431(0.35) 118248(94.66)	582(0.40) 137681(95.06)	611(0.36) 160048(94.15)	582(0.29) 185743(92.90)	960(0.41) 216448(92.37)	1037(0.39) 244514(92.18)
39.	26	Steel Ingots	72(0.06) 118920(94.72)	165(0.11) 137846(95.17)	145(0.08) 160193(94.23)	199(0.10) 185942(93.00)	540(0.23) 216988(92.60)	1005(0.38) 245519(92.56)
40.	26A	Copper and Copper Alloys	419(0.33) 118739(95.05)	416(0.29) 138262(95.46)	451(0.26) 160644(94.49)	559(0.28) 186501(93.28)	798(0.34) 217786(92.94)	875(0.33) 246394(92.89)

41.	1D	Aerated Waters	.. .. 118739(95.05)	24(0.02) 138286(95.48)	285(0.17) 160929(94.66)	329(0.17) 186830(93.45)	680(0.29) 218466(93.23)	745(0.28) 247139(93.17)
42.	14F	Cosmetics & Toilet Preparations	338(0.26) 119077(95.31)	401 (0.28) 138687(95.76)	406(0.24) 161335(94.90)	584(0.29) 187414(93.14)	612(0.26) 219078(93.49)	706(0.27) 247845(93.44)
43.	32	Electric bulbs & Tubes	284(0.23) 119361(95.54)	372 (0.26) 139059(96.02)	447(0.26) 161782(95.16)	589 (0.29) 188003(94.03)	640(0.27) 219718(93.76)	705(0 27) 248550(93 71)
44.	34A	Motor Vehicle Parts and Accessories	.. .. 119361(95.54)	.. .. 139059(96.02)	11(Neg) 161793(95.16)	175(0.09) 188178(94.12)	270(0.13) 219988(93.88)	660(0.25) 249210(93.96)
45.	35A	Wireless Receiving Sets	332(0.27) 119693(95.81)	391(0.27) 139450(96.29)	402(0.24) 162195(95.40)	458(0.23) 188536(94.35)	580(0.25) 220568(94.13)	625(0.23) 249835(94.19)
46.	21	Woollen Fabrics	339(0.27) 120032(96.08)	270(0.19) 139720(96.48)	347(0.21) 162542(95.61)	485(0.24) 189121(94.59)	527(0.23) 221095(94.36)	603(0.23) 250438(94.42)
47.	23B	Chinaware & Porcelainware	213(0.17) 120245(96.25)	234(0.16) 139954(96.64)	299(0.17) 162841(95.78)	430(0.22) 189551 (94.81)	550(0.23) 221645(94.59)	600(0.23) 251038(94.65)
48.	25	Iron in any crude form	444(0.36) 120689(96.61)	407(0.28) 140361(96.92)	431(0.25) 163272(96.03)	484(0.24) 190035(95.05)	550(0.23) 222195(94.82)	600(0.23) 251638(94.88)
49.	33	Electric Fans	223(0.18) 120912(96.79)	266(0.18) 140627(97.10)	372(0.22) 163644(96.25)	535(0.27) 190570(95.32)	559(0.23) 222745(95.05)	600 (0.23) 252238(95.11)
50.	1B	P. or P. Foods	5(Neg.) 120917(96.79)	82(0.06) 140709(97.16)	384(0.23) 164028(96.48)	518(0.26) 191088(95.58)	510(0.22) 223255(95.27)	560(0.21) 252798(95.32)
51.	1C	Food Products	.. .. 120917(96.79)	30(0.02) 140739(97.18)	440(0.26) 164468(96.74)	460(0.23) 191548(95.81)	520(0.22) 223775(95.49)	560(0.21) 253358(95.53)
52.	28	Tin Plates	187(0.15) 121104(96.94)	204(0.14) 140943(97.32)	257(0.15) 164725(96.89)	266(0.13) 191814(95.94)	455(0.19) 224230(95.68)	544(0.21) 253902(95.74)
53.	2	Coffee	381(0.30) 121485(97.24)	359(0.25) 141302(97.57)	341(0.20) 165066(97.09)	384(0.19) 192198(96.13)	440(0.19) 224670(95.87)	537(0.20) 254439(95.94)
54.	18B	Woollen yarn	438(0.35) 121923(97.59)	339(0.23) 141641(97.80)	330(0.19) 165396(97.28)	551 (0.27) 192749(96.40)	470(0.20) 25140(96.07)	520(0.19) 254959(96.13)
55.	14B	Caustic Soda & Caustic Potash	131(0.10) 122054(97.69)	180(0.12) 141821(97.92)	350(0.21) 165746(97.49)	398(0.20) 193147(96.60)	450(0.19) 225590(96.26)	510(0.19) 255469(96.32)
56.	14H	Gases.	106(0.08) 122160(97.77)	114(0.08) 141935(98.00)	111(0.07) 165857(97.56	349(0.17) 193496(96.77)	450(0.19) 226040(96.45)	500(0.19) 255969(96.51)
57.	43	Wool Tops.	Nil (0.10) 1221160(97.77)	142(0.10) 142077(98.10)	251 (0.15, 166108(97.71)	446(0.22) 193942(96.99)	450(0.19) 226490(96.64)	500(0.19) 256469(96.70)
58.	16B	Plywood.	203(0.16) 122363(97.93)	219(0.15) 142296(98.25)	271(0.16) 166379(97.87)	314(0.16) 194256(97.15)	340(0.15) 226830(96.79)	495(0.19) 256964(96.89)
59.	15AA	Organic Surface Active Agents.	68(0.06) 122431(97.99)	85(0 .06) 142381(98.31)	120(0.07) 166499(97.94)	318(0.16) 194574(97.31)	420(0.18) 227250(96.97)	470(0.18) 257434(97.07)
60.	26B	Zinc.	227(0.18) 122658(98.17)	144(0.10) 142525(98.41)	141(0.08) 166640(98.02)	131(0.07) 194705(97.38)	350(0.15) 227600(97.12)	406(0.15) 257840(97.22)
61.	40	Steel Furniture	224(0.18) 122882(98.35)	264(0.18) 142789(98.59)	303(0.18) 166943(98.20)	333(0.16) 195038(97.54)	330(0.14) 227930(97.26)	860(0.14) 258200(97.36)
62.	23C	Asbestos Cement Products	144(0.11) 123026(98.46)	193(0.13) 142982(98.72)	251(0.15) 167194(98.35)	271(0.14) 195309(97.68)	320(0.14) 228250(97.40)	352(0.13) 258552(97.49)
63.	49	Rolling Bearings	.. .. 123026(98.46)	.. .. 142982(98.72)	.. .. 167194(98.35)	213(0.11) 195522(97.79)	290(0.12) 228540(97.52)	320(0.12) 258872(97.61)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
64.	41	Crown Corks	108(0.09) 123134(98.55)	139(0.10) 143121(98.82)	146(0.08) 167340(98.43)	222(0.11) 195744(97.90)	270(0.12) 228810(97.64)	300(0.11) 259172(97.72)
65.	52	Bolts, Nuts & Screws	.. 123134(98.55)	.. 143121(98.82)	.. 167340(98.43)	199(0.10) 195943(98.00)	260(0.11) 229070(97.75)	286(0.11) 259458(97.83)
66.	14A	Soda Ash	79(0.07) 123213(98.62)	103(0.07) 143224(98.89)	197(0.11) 167537(98.54)	246(0 .12) 196189(98.12)	250(0.11) 229320(97.86)	285(0.11) 259743(97.94)
67.	14AA	Chemicals	.. 123213(98.62)	15(0.01) 143239(98.90)	119(0.07) 167656(98.61)	195(0.10) 196384(98.22)	260(0.11) 229580(97.97)	280(0.11) 260023(98.05)
68.	..	Misc.	145(0.12) 123358(98.74)	132(0.09) 143371(98.99)	290(0.17) 167946(98.78)	150(0.08) 196534(98.30)	250(0.11) 229830(98.08)	275(0.10) 260298(98.15)
69.	36	Footwear	214(0.17) 123572(98.91)	202(0.14) 143573(99.13)	206(0.12) 168152(98.90)	231(0.12) 196765(98.42)	250(0.11) 230080(98.19)	270(0.10) 260568(98.25)
70.	50	Welding Electrodes	.. 123572(98.91)	.. 143573(99.13)	.. 168152(98.90)	155(0.08) 196920(98.50)	210(0.09) 230290)98.28)	230(0.09) 260798(98.34)
71.	18D	Jute twist yarn thread rope and twine all sorts	.. 123572(98.91)	.. 143573(99.13)	.. 168152(98.90)	6(Neg.) 196926(98.50)	201(0.09) 230491(98.37)	222(0.08) 261010(98.42)
72.	30A	Power Driven Pumps	18(0.01) 123590(98.92)	34(0.02) 143607(99.15)	.. 168152(98.90)	6(Neg.) 196932(98.50)	200(0.09) 230691(98.46)	220(0.08) 261240(98.50)
73.	37	Cinematograph Films	139 (0.11) 123729(99.03)	139(0.10) 143746(99.25)	132(0.08) 168284(98.98)	148(0.08) 197080(98.58)	200(0.09) 230891(98.55)	220(0.08) 261460(98.58)
74.	33D	Office Machines	.. 123729(99.03)	.. 143746(99.25)	131(0.08) 168415(99.06)	184(0.09) 197264(98.67)	200 (0.09) 231091(98.64)	215(0.08) 261675(98.66)
75.	15B	Cellophane	140(0.12) 123869(99.15)	142(0.10) 143888(99.35)	158(0.09) 168573(99.15)	183(0.09) 187447(98.76)	190(0.08) 231281(98.72)	203(0.08) 261878(98.74)
76.	29	I.C. Engines	126(0.10) 123995(99.25)	140(0.10) 144028(99.45)	153(0.09) 168726(99.24)	166(0.08) 197613(98.84)	176(0.07) 231457(98.79)	200(0.08) 262078(98.82)
77.	14G	Acids	74(0.06) 124069(99.31)	107(0.07) 144135(99.52)	141(0.08) 168867(99.32)	145(0.07) 197758(98.91)	165(0.07) 231622(98.86)	185(0.07) 262263(98.89)
78.	14BB	Sodium Silicate	126(0.10) 124195(99.41)	169(0.12) 144304(99.64)	189(0.11) 169056(99.43)	162(0.08) 197920(98.99)	165(0.07) 231787(98.93)	175(0.07) 262438(98.96)
79.	33C	Domestic Electrical Appliances	1(Neg.) 124196(99.41)	41(0.03) 144345(99.67)	33(0.02) 169089(99.45)	49(0.03) 197969(99.02)	55(0.02) 231842(98.95)	150(0.06) 262588(99.02)
80.	51	Coated Abrassives & grinding wheels	.. 124196(99.41)	.. 144345(99.67)	.. 169089(99.45)	99(0.05) 198068(99.07)	125(0.05) 231967(99.00)	150 (0.06) 262738(99.08)
81.	42	Pilfer Proof Caps	5(Neg.) 124201(99.41)	58(0.04) 144403(99.71)	62(0.04) 169151(99.49)	124(0.06) 8192(99.13)	130(0.06) 232097(99.06)	140(0.05) 262878(99.13)
82.	1E	Glucose & Dextrose	.. 124201(99.41)	5(Neg.) 144408(99.71)	77(0.05) 169228(99.54)	85(0.04) 198277(99.17)	120(0.05) 232217(99.11)	130(0.05) 263008(99.18)
83.	12	V.N.E. Oils	103(0.08) 124304(99.49)	113(0.08) 144521(99.79)	121(0.07) 169349(99.61)	106(0.05) 198383(99.22)	115(0.05) 232332(99.16)	120(0.04) 263128(99.22)
84.	16AA	Synthetic Rubber	.. 124304(99.49)	1(Neg.) 144522(99.79)	85(0.05) 169434(99.66)	101(0.05) 198484(99.27)	100(0.04) 232432(99.20)	120(0.04) 263248(99.26)
85.	64	Carbon Black	.. 124304(99.49)	.. 144522(99.79)	.. 169434(99.66)	.. 198484(99.27)	.. 232432(99.20)	115(0.04) 263363(99.30)

86.	30B	Motor Starters	.. ..	.. ..	.. ..	66(0.03)	95(0.04)	110(0.04)
			124304(99.49)	144522(99.79)	169434(99.66)	198550(99.30)	232527(99.24)	263473(99.34)
87.	33E	Electric Supply Meters	.. ..	.. ..	.. ..	140(0.07)	90(0.04)	110(0.04)
			124304(99.49)	144522(99.79)	169434(99.66)	198690(99.37)	232617(99.28)	263583(99.38)
88.	11G	Calcined Petroleum Cokes	.. ..	.. ..	.. ..	83(0.04)	90(0.04)	100(0.04)
			124304(99.49)	144522(99.79)	169434(99.66)	198773(99.41)	232707(99.32)	263683(99.42)
89.	4II (4)	Smoking mixtures	.. ..	.. ..	.. ..	.. ..	.. ..	100(0.04)
			124304(99.49)	144522(99.79)	619434(99.66)	198773(99.41)	232707(99.32)	263783(99.46)
90.	..	Cess on Oil	59(0.05)	65(0.05)	77(0.04)	74(0.04)	95(0.04)	100(0.04)
			124363(99.54)	144587(99.84)	169511(99.70)	198847(99.45)	232802(99.36)	263883(99.50)
91.	..	Cess on Cotton	.. ..	.. ..	96(0.06)	97(0.05)	90(0.04)	95(0.04)
			124363(99.54)	144587(99.84)	169607(99.76)	198944(99.50)	232892(99.40)	263978(99.54)
92.	14DD	Optical Bleaching Agents	48(0.04)	.. ..	57(0.03)	62(0.03)	80(0.03)	88(0.03)
			124411(99.58)	144587(99.84)	169664(99.79)	199006(99.53)	232972(99.43)	264066(99.57)
93.	22D	Ready-made Garments	.. ..	.. ..	.. ..	44(0.02)	70(0.03)	85(0.03)
			124411(99.58)	144587(99.84)	169664(99.79)	199050(99.55)	233042(99.46)	264151(99.60)
94.	1A	Confectionery & Chocolates	112(0.09)	48(0.03)	66(0.04)	68(0.03)	72(0.03)	79(0.03)
			124523(99.67)	144635(99.87)	169730(99.83)	199118(99.58)	233114(99.49)	264280(99.63)
95.	63	Wire Ropes of Iron or Steel	.. ..	.. ..	.. ..	.. ..	.. ..	75(0.03)
			124523(99.67)	144635(99.87)	169730(99.83)	199118(99.58)	233114(99.49)	264305(99.66)
96.	37A	Gramophones & Parts	14(0.01)	13(0.01)	27(0.02)	36(0.02)	40(0.02)	64(0.02)
			124537(99.68)	144648(99.88)	169757(99.85)	199154(99.60)	233154(99.51)	2643699(9.68)
97.	14C	Glycerine]	17(0.01)	19(0.01)	19(0.01)	17(0.01)	20(0.02)	63(0.02)
			124554(99.69)	144667(99.89)	169776(99.86)	199171(99.61)	233174(99.52)	264432(99.70)
98.	55	Vacuum Flasks	.. ..	.. ..	.. ..	33(0.02)	50(0.02)	60(0.02)
			124554(99.69)	144667(99.89)	169776(99.86)	199204(99.63)	233224(99.54)	264492(99.72)
99.	62	Tool Tips	.. ..	.. ..	.. ..	.. ..	.. ..	60(0.02)
			124554(99.69)	144667(99.89)	169776(99.86)	199204(99.63)	233224(99.54)	264552(99.74)
100.	33AA	Certain parts of W.R. Sets	157 (0.13)	111(0.08)	160(0.09)	157(0.08)	50(0.02)	55(0 0.02)
			124711(99.82)	144778(99.97)	169936(99.95)	199361(99.71)	233274(99.56)	264607(99.76)
101.	65	Rubber Processing Chemicals	.. ..	.. ..	.. ..	.. ..	.. ..	50(0.02)
			124711(99.82)	144778(99.97)	169936(99.95)	199361(99.71)	233274(99.56)	264657(99.7)
102.	45	Safety Razor Blades	.. ..	.. ..	14(0.01)	23(0.01)	42(0.02)	48(0.02)
			124711(99.82)	144778(99.97)	169950(99.96)	199384(99.72)	233316(99.58)	264705(99.80)
103.	23D	Mosaic Tiles	.. ..	.. ..	.. ..	25(0.01)	40(0.02)	45(0.02)
			124711(99.82)	144778(99.97)	169950(99.96)	199409(99.73)	233356(99.60)	264750(99.82)
104.	53	Slides Zips	.. ..	.. ..	.. ..	30(0.02)	40(0.02)	45(0.02)
			124711(99.82)	144778(99.97)	169950(99.96)	199439(99.75)	233396(99.62)	264795(99.84)
105.	56	Playing Cards	.. ..	.. ..	.. ..	31(0.02)	40(0.02)	45(0.02)
			124711(99.82)	144778(99.97)	169950(99.96)	199470(99.77)	233436(99.64)	264840(99.86)
106.	48	Safes and Strong Boxes	.. ..	1(Neg.)	33(0.02)	35(0.02)	40(0.02)	44(0.02)
			124711(99.82)	144779(99.97)	169983(99.98)	199505(99.79)	233476(99.66)	264884(99.88)
107.	54	Pressure Cookers	.. ..	.. ..	.. ..	36(0.02)	40(0.02)	44(0.02)
			124711(99.82)	144779(99.97)	169983(99.98)	199541(99.81)	233516(99.68)	264928(99.90)
108.	60	Adhesive Tapes	.. ..	.. ..	.. ..	27(0.01)	40(0.02)	44(0.02)
			124711(99.82)	144779(99.97)	169983(99.98)	199568(99.82)	233556(99.70)	264972(99.92)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
109.	34B	Fork Lift Trucks and Platform Trucks	.. .. 124711(99.82)	.. .. 144779(99.97)	.. .. 169983(99.98)	19(0.01) 199587(99.83)	33(0.01) 233589(99.71)	40 (00.2) 265012(99.94)
100.	22C	Linoleum	.. .. 124711(99.82)	.. .. 144779(99.97)	.. .. 169983(99.98)	9(Neg.) 199596(99.83)	27(0.01) 233616(99.72)	32(0.01) 265044(99.95)
111.	57	Camphor	.. .. 124711(99.82)	.. .. 144779(99.97)	.. .. 169983(99.98)	19(0.01) 199615(99.84)	25(0.01) 233641(99.73)	30(0.01) 265074(99.96)
112.	58	Menthol	.. .. 124711(99.82)	.. .. 144779(99.97)	.. .. 169983(99.93)	17(0.01) 199632(99.85)	26 (0.01) 233667(99.74)	30(0.01) 265104(99.97)
113.	37B	Cinematograph Projectors & Parts	.. .. 124711(99.82)	.. .. 144779(99.97)	.. .. 169983(99.98)	16(0.01) 199648(99.86)	22(0.01) 233689(99.75)	25(0.01) 265129(99.98)
114.	59	Electric Insulation Tapes .	.. .. 124711(99.82)	.. .. 144779(99.97)	.. .. 169983(99.98)	9(Neg.) 199657(99.86)	16(0.01) 233705(99.76)	21(0.01) 265150(98.99)
115.	22E	Typewriter Ribbons . .	.. .. 124711(99.82)	.. .. 144779(99.97)	.. .. 169983(99.98)	12(0.01) 199669(99.87)	15(0.01) 233720(99.77)	18(0.01) 265168(100.00)
116.	27A	Lead Unwrought . . .	11(0.01) 124722(99.83)	10(0.01) 144789(99.98)	7(Neg.) 169990(99.98)	9(Neg.) 199678(99.87)	12(Neg.) 233732(99.77)	15(Neg.) 265183(100.00)
117.	37G	Photographic Cameras . .	.. .. 124722(99.83)	.. .. 144789(99.98)	.. .. 169990(99.98)	7(Neg.) 199685(99.87)	12(Neg.) 233744(99.77)	15(Neg.) 265198(100.00)
118.	47	Slotted angles and channels .	.. .. 124722(99.83)	1(Neg.) 144790(99.98)	8(Neg.) 169998(99.98)	10(0.01) 199695(99.88)	12(Neg.) 233756(99.77)	14(Neg.) 265212(100.00)
119.	..	Cess on Copra . . .	9(0.01) 124731(99.84)	9 (Neg.) 144799(99.98)	11(0.01) 170009(99.99)	10(0.01) 199705(99.89)	11(Neg.) 233767(99.77)	12(Neg.) 265224(100.00)
120.	22B	Textile Fabrics Impregnated .	199(0.01) 124930(100.00)	28(0.02) 144827(100.00)	10(0.01) 170019(100.00)	1(Neg.) 199706(99.89)	2(Neg.) 233769(99.77)	3(Neg.) 265227(100.00)
121.	39	Mechanical Lighters . .	1(Neg.) 124931(100.00)	1(Neg.) 144828(100.00)	1(Neg.) 170020(100.00)	1(Neg.) 199707(99.89)	1(Neg.) 233770(99.77)	(1 Neg.) 265228(100.00)
122.	1F	Maida	.. .. 124931(100.00)	.. .. 144828(100.00)	.. .. 170020(100.00)	11(0.01) 199718(99.90)	.. .. 233770(99.77)	.. .. 265228(100.00)
123.	61	Newspaper	.. ..	.. ..	.. ..	222(0.01)	550(0.023)	.. ..
		Total	124931(100.00)	144828(100.00)	170020(100.00)	199940(100.00)	234320(100.00)	265228(100.00)
		Refund	2018	2311	745	2493	3000	3500
		Net Revenue	122913	142517	169275	197447	231320	261728

Neg=Negligible

*Sanctioned budget estimate inclusive of additional taxation imposed during the year.

NOTES:—(1) Figures within brackets represent revenue derived or estimated as a percentage of the total revenue.

(2) Figures appearing in the second line against each commodity represent progressive totals of revenue up to and inclusive of that commodity.

TABLE 2

Classification of factories producing excisable goods in terms of Revenue realised during 1971-72

(Revenue in Rs. (000)

	Factories which paid an annual revenue of													
	More than Rs. 10 crores	More than Rs. 5 crores but less than Rs. 10 crores	More than Rs. 2 crores but less than Rs. 5 crores	More than Rs. 1 crore but less than Rs. 2 crores	More than Rs. 75 lakhs but less than Rs. 1 crore	More than Rs. 50 lakhs but less than Rs. 75 lakhs	More than Rs. 25 lakhs but less than Rs. 50 lakhs	More than Rs. 5 lakhs but less than Rs. 25 lakhs	More than Rs. 2 lakhs but less than Rs. 5 lakhs	More than Rs. 1 lakh but less than Rs. 2 lakhs	More than Rs. 50000 but less than Rs. 1 lakh	More than Rs. 5000 but less than Rs. 50000	Upto Rs. 25000	TOTAL
	No.	No.	No.	No.	No.	No.	No.	No.	No.	No.	No.	No.	No.	No.
	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue
(i)	A	B	C	D	E	F	G	H	I	J	K	L	M	N
Sugar—other than kandasari	..	..	8	50	35	53	50	18	4	1	..	..	4	223
	..	..	204652	652040	230381	326170	196015	31032	1319	165	..	..	11	169178
Sugar—Khandasari	..	..	..	..	..	..	..	1	2	5	5	84	1182	1279
	..	..	..	..	..	..	..	1225	605	835	300	2674	9137	14776
Confectionery	..	..	..	..	..	..	..	5	2	7	2	7	104	127
	..	..	..	..	..	..	..	4254	640	918	117	230	98	6257
Prepared or Preserved	..	..	..	..	1	..	4	13	20	11	27	24	306	406
	..	..	..	..	7970	..	12790	15612	8029	1657	2008	801	2991	51858
Food Products	..	..	..	..	2	..	3	11	3	10	18	9	78	134
	..	..	..	..	16667	..	11066	13642	1294	1387	1218	312	438	46024
Aerated Waters	..	..	..	..	..	..	2	18	15	6	19	12	18	90
	..	..	..	..	..	..	8101	17374	4467	892	1326	470	129	32759
Glucose & Dextrose	..	..	..	..	..	..	1	4	3	..	1	..	5	14
	..	..	..	..	..	..	2574	6117	946	..	98	..	18	9753
Coffee	..	..	..	..	..	..	1	17	3	1	2	..	3	27
	..		..	..	..	..	3550	19583	1153	119	149	..	3	24557

(1)	A	B	C	D	E	F	G	H	I	J	K	L	M	N
Tea . . .	..	..	1	1	3	1	1	133	348	240	204	148	899	1979
	..	..	22956	16291	27990	5965	2802	101035	106277	33460	14492	5326	3088	339682
Cigars and Cheroots .	..	..		..	..	..	..	..	..	..	..	..	39	39
	..	..	..	..	..	..	..	..	..	..	..	..	201	201
Cigarettes. . .	8	2	..	..	1	2	..	2	..	..	..	..	2	17
	1745741	160279	..	..	9251	13750	..	1658	..	..	..	..	8	1930687
Motor Spirits. . .	5	10	14	6	..	1	1	5	3	6	5	4	14	74
	891771	708302	479651	99991	..	6182	3807	5598	1311	818	352	142	54	2197989
Kerosene Oil . .	2	5	5	18	5	5	3	7	1	1	1	1	1	55
	300338	392021	181504	264943	44522	31426	10804	12718	374	112	70	135	14	1238881
Refined Diesel Oil & Vaporising Oil	8	8	17	9	1	3	1	3	1	..	2	1	..	54
	1456103	515833	498336	130596	9111	17272	2728	5125	376	..	149	43	..	2635672
Diesel Oil, N.O.S. .	..	..	..	11	4	3	4	16	2	2	..	2	..	44
	..	..	..	167108	34389	19221	13182	18911	547	314	..	77	..	253749
Furnace Oil	..	1	2	3	2	8	12	8	2	3	..	..	..	41
	..	56285	90492	39351	18668	54088	45712	9790	691	486	..	..	..	315563
Asphalt Bitumen & Tar	..	..	3	1	..	1	1	1	..	..	..	..		9
	..	..	101364	14426	..	6053	2632	556	..	..	..	..	..	125031
Petroleum Products NOS	..	1	4	2	1	1	2	3	3	..	..	1	2	20
	..	67941	127868	36054	8406	6900	7372	4032	1112	..	..	25	4	259714
Compounded Lubricating Oil and Greases	..	..	..	4	..	1	1	8	1	3	5	14	7	44
	..	..	..	56945	..	7124	2869	10381	473	447	334	501	67	79141
Calcined Petroleum coke	..	..	..	..	..	1	1	1	..	..	..	..	..	3
	..	..	..	..	..	5638	2506	514	..	..	..	..	..	86 58
Vegetable Non-essential Oil	..	..	..	..	..	..	..	5	10	23	22	11	47	118
								3760	2876	3083	1712	425	450	12306
	..	..	..	..	..	..	..	3660	2876	3083	1712	425	450	12306
Vegetable Products	..	..	..	2	..	2	13	33	11	5	..	..	4	70
	..	..	..	30677	..	12625	41255	43974	3207	728	..		49	132515
Paints and Varnishes .	..	..	..		..	2	5	18	29	35	43	70	787	989
	..	..	..	..	..	1278	20207	19338	9481	4926	3070	2413	3387	74100
Soda Ash . .	..	..	..	1	1	..	1	1	..	--	..	..		4
	--	--	--	10912	9015	--	3065	1594	--	--	--	--	--	24586

Chemicals	..	..	..	..	..	..	1	11	5	1	5	3	5	31
	..	..	..	..	..	..	3129	13124	1479	119	404	106	44	18405
Caustic Soda	..	..	..	..	..	1	3	13	10	..	2	..	..	29
	..	..	..	..	..	5254	9392	21353	3157	..	104	..	..	39300
Sodium Silicate	..	..	..	..	..	..	..	1	7	41	63	56	147	315
	..	..	..	..	..	..	..	583	1853	5604	4409	2061	1935	16445
Glycerine	..	..	..	..	..	..	..	..	2	3	2	2	13	22
	..	..	..	..	..	..	..	..	951	448	122	77	96	1694
Synthetic Organic Dyestuffs.	..	..	..	2	1	1	1	12	13	26	16	17	93	182
	..	..	..	22667	8064	7164	2888	9118	4423	3594	1295	648	700	60561
Synthetic Organic Products.	..	..	..	..	..	..	1	1	5	1	2	6	19	35
	..	..	..	..	..	..	3252	925	1401	132	147	209	119	6185
Patent or Proprietary Medicines	..	..	..	3	..	3	11	47	34	31	54	57	613	853
	..	..	..	34688	..	18273	34920	43287	10612	4337	3710	2109	3234	155170
Cosmetics & Toilet Preparations	..	..	..	1	..	1	1	23	17	7	12	17	347	426
	..	..	..	12389	..	5040	3501	29098	4889	966	845	584	1078	58390
Acids	..	..	..	..	..	..	..	8	11	13	12	6	54	104
	..	..	..	..	..	..	..	8515	2692	1794	849	228	139	14217
Gases	..	..	..	..	..	..	1	22	23	30	34	21	29	160
	..	..	..	..	..	..	2608	19444	6825	4508	2337	774	305	36801
Fertilizers	..	..	3	5	2	2	5	15	7	4	..	3	5	51
	..	..	81154	66707	17936	12211	17495	14886	2482	624	..	109	20	213624
Soap	..	..	2	2	..	..	4	7	6	11	1	10	18	61
	..	..	64027	23530	..	..	13804	11339	2229	1368	62	339	116	116814
Plastics	..	..	4	5	2	2	11	23	31	18	28	41	169	334
	..	..	104306	61484	17146	13903	39726	25662	11530	2431	2009	1450	1273	280920
Organic Surface Active Agents	..	..	..	..	1	1	2	5	6	3	7	4	41	70
	..	..	..	..	9396	7172	7968	4028	1662	513	455	170	221	31585
Cellophane	..	--	--	1	--	1	..	..	..	..	..	..	..	2
	..	..	..	12848	..	5459	..	..	..	..	..	..	..	18307
Tyres	2	5	1	..	..	..	3	2	1	..	..	3	10	27
	229139	369404	21544	..	..	..	9932	2160	241	..	..	98	45	632563

(i)	A	B	C	D	E	F	G	H	I	J	K	L	M	N
Rubber Products	..	..	1	..	3	1	3	19	22	29	29	21	174	302
	..	..	25020	..	24336	7148	11873	20850	6460	4005	2058	739	1064	103553
Synthetic Rubber	..	..	..	1	..	..	..	..	..	..	..	..	..	1
	..	..	..	10125	..	..	..	..	..	..	..	..	..	10125
Plywood	..	..	..	..	..	..	..	22	9	18	19	26	179	273
	..	..	..	..	..	..	..	22788	2931	2575	1302	1023	678	31297
Paper	..		2	5	5	4	5	26	22	25	47	66	235	442
	..	..	48024	71375	46039	24770	19813	32435	7115	3338	3365	2271	2105	260650
Rayon & Syn. Fibres and Yarns	2	4	3	9	..	9	13	57	28	30	27	23	183	388
	260528	247065	94864	129049	..	58808	41432	63066	9598	4333	1851	879	1175	912648
Cotton Yarns	..	..	..	..	1	1	21	208	126	54	41	23	908	1383
	..	..	..	..	9786	6383	67819	192875	42691	7737	3045	832	2113	333281
Woollen Yarn	..	..	..	..	..	..	2	8	80	39	39	39	65	272
	..	..	..	..	..	..	7850	6708	28580	5780	2924	1424	696	53962
Cotton Fabrics	..	..	3	10	13	18	51	148	28	25	28	50	381	755
	..	..	93575	137567	110868	115962	161393	182142	9229	3607	1922	1794	1965	820024
Silk Fabrics	..	..	..	..	..	..	..	..	..	..	..	..	27	27
	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Woollen Fabrics	..	..	..	..	..	2	4	15	27	9	5	11	87	160
	..	..	..	..	..	11255	11957	14386	8787	1331	307	396	1393	49812
Rayon or Art Silk Fabrics	..	..	..	1	..	1	17	90	73	51	23	25	213	494
	..	..	..	1264	..	5801	61128	92904	23555	9754	1601	904	648	20890
Jute Manufactures	..	..	..	..	4	15	28	21	5	5	2	..	11	91
	..	..	..	..	34050	89731	105010	41075	1706	784	118	..	22	27249
Coated Fabrics	..	..	..	..	..	..	..	..	..	..	..	2	5	7
	..	..	..	..	..	..	..	..	..	..	..	53	11	64
Linoleum	..	..	..	..	..	..	..	1	..	..	..	..	..	1
	..	..	..	..	..	..	..	942	..	..	..	..	..	942
Readymade Garments	..	..	..	..	..	..	..	1	7	12	4	4	26	54
	..	..	..	..	..	..	..	630	1736	1575	378	143	66	4528
Typewriter & Similar Ribbons.	..	..	..	..	..	..	..	1	..	1	2	1	3	8
	..	..	..	..	..	..	..	741	..	200	145	36	30	1152

Cement	..	..	3	15	11	13	2	8	1	..	1	..	4	58
	..	..	72647	216702	77049	83019	5994	13271	468	..	76	..	21	489
Glass & Glassware	..	..	..	..	1	1	10	34	26	13	18	20	82	205
	..	..	..	..	8013	6186	33686	30318	9014	1918	1250	711	627	918
Chinaware & Porcelainware	..	..	..	..	..	1	1	14	17	17	30	23	78	181
		..	..	..	..	5974	3347	17638	5040	2431	2157	820	602	3800
Asbestos Cement Products	..	..	..	..	..	1	2	6	..	1	2	8	101	121
	..	..	..	..	..	7015	7742	11111	..	116	142	284	642	2705
Mosaic Tiles	..	..	..	..	..	..	..	..	..	1	3	24	268	296
	..	..	..	..	..	..	..	..	..	130	162	796	1434	2522
Iron in any crude Form	..	..	..	2	1	1	2	2	..	..	..	..	..	8
	..	..	..	25575	2453	5216	5436	2699	..	..	..	..	..	4837
Steel Ingots	..	..	..	..	..	1	2	2	3	1	..	1	1	11
	..	..	..	..	..	7391	7818	3722	1158	194	..	39	..	2032
Copper and Copper Alloys	..	..	1	..	..	..	..	7	18	50	66	67	257	466
	..	..	21869	..	..	..	..	11463	5816	7491	5217	2481	1970	564
Iron & Steel Products	3	2	1	3	..	..	3	16	12	23	27	17	233	340
	604611	171558	20129	37576	..	..	10106	16615	3197	3655	1878	589	949	870
Zinc	..	..	..	..	..	..	3	1	..	..	1	..	20	25
	..	..	..	..	..	..	12157	731	..	..	81	..	109	130
Aluminium	1	1	3	7	1	3	1	14	13	8	5/	10	88	155
	116226	50966	103504	96630	9973	17876	3496	16628	3995	1086	422	387	275	421
Lead	..	..	..	..	..	..	..	1	..	..	..	..	..	1
	..	..	..	..	..	..	..	949	..	..	..	..	..	949
Tin Plates & Sheets	..	..	..	1	..	1	..	1	..	..	..	..	..	3
Internal Combustion Engines.	..	..	..	18191	..	6994	..	1398	..	..	..	..	..	26583
	..	..	..		..	..	2	6	1	3	7	5	409	433
	..	..	..	..	..	..	6950	7268	497	459	433	182	926	16715
Refrigerators & Air conditioning Appliances.	..	..	2	3	..	1	6	11	10	12	16	23	169	253
	..	..	63133	40851	..	6601	22004	12096	3002	1615	1165	791	809	152067
Electric Motors	..	..	..	..	..	..	6	23	19	23	52	43	504	670
	..	..	..	..	..	..	22463	24972	6782	3362	3563	1595	2927	65664

(i)	A	B	C	D	E	F	G	H	I	J	K	L	M	N
Power Driven Pumps .	..	..	..	..	..	..	..	..	..	..	5	..	172	177
	..	..	..	..	..	..	..	..	..	..	380	..	277	657
Motor Starters . .	..	..	..	..	..	..	..	4	4	6	3	8	13	38
	..	..	..	..	..	..	..	3717	1144	902	202	294	74	6351
Electric Batteries . .	..	..	1	2	2	3	1	5	2	3	2	3	292	316
	..	..	22555	26698	17011	21413	3663	5461	561	498	155	96	1024	99135
Electric Lighting Bulbs .	..	..	..	3	..	..	4	5	5	6	9	11	288	331
	..	..	..	36081	..	..	13440	5042	1315	875	71	410	1009	58883
Electric Fans . .	..	..	..	..	1	2	4	7	12	9	24	14	226	299
	..	..	..	..	8466	13178	14038	8596	3763	1121	1843	476	989	53470
Wireless Receiving Sets	..	..	..	1	2	1	..	7	2	6	7	9	610	645
	..	..	..	11487	16995	6243	..	7787	713	789	517	301	290	45122
Parts of W. R. Sets .	..	..	..	1	..	..	..	1	..	3	..	2	2	9
	..	..	..	13202	..	..	..	1341	..	387	..	55	25	15010
Electric Wires and Cables	..	..	..	1	..	..	11	42	20	32	39	51	461	657
	..	..	..	10945	..	..	37681	50201	6138	4284	2877	1821	1929	115876
Domestic Electric Appliances.	..	..	..	..	..	..	..	1	5	5	16	14	151	192
	..	..	..	..	..	..	..	595	1420	638	1174	549	575	4951
Office Machine . .	..	..	..	..	..	..	1	9	4	3	6	8	105	136
	..	..	..	..	..	..	3800	11486	1358	476	477	346	456	18399
Electric Supply Meters .	..	..	..	..	..	..	1	7	4	2	..	..	2	16
	..	..	..	..	..	..	2547	9944	1708	361	..	..	26	14586
Motor Vehicles . .	1	1	3	2	1	5	3	6	2	3	12	10	274	323
	103265	60789	97054	24982	7623	29195	11081	7740	754	400	742	362	1170	345157
Motor Vehicle parts and Accessories	..	..	..	..	..	..	1	12	6	6	4	6	71	106
	..	..	..	..	..	..	3194	10478	2172	915	323	184	411	17677
Fork Lifts Trucks etc. .	..	..	..	..	..	..	..	1	2	..	2	3	2	10
	..	..	..	..	..	..	..	1045	579	..	161	126	26	1933
Cycle Parts . . .	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Footwear . .	..	..	..	1	..	..	1	4	5	1	2	5	18	37
	..	..	..	12750	..	..	4144	4535	1467	163	159	202	70	23490

Cinematograph Films .	..	..	..	..	..	..	2	6	2	3	4	7	22	46
	..	..	..	..	..	..	7095	5700	639	514	321	243	292	14804
Gramophones & Parts .	..	..	..	..	..	..	..	2	2	..	..	2	25	31
	..	..	..	..	..	..	..	2746	647	..	..	71	92	3556
Cinematograph Projectors	..	..	..	..	..	..	..	1	1	..	1	1	17	21
	..	..	..	..	..	..	..	787	498	..	100	30	42	1457
Photographic Cameras .	..	..	..	..	..	..	..	1	—	1	..	1	7	10
	..	..	..	..	..	..	..	523	..	103	..	35	33	694
Matches . . .	..	..	5	..	..	1	6	59	61	28	32	650	969	1811
	..	..	148174	..	..	5002	21043	63280	21749	3665	2072	22438	7269	294692
Mechanical Lighters .	..	..	..	..	..	..	..	—	—	—	—	1	11	12
	..	..	..	..	..	..	..	..	..	..	..	35	21	56
Steel Furniture . .	..	..	..	1	..	..	..	8	11	13	14	28	506	581
	..	..	..	16196	..	..	..	8492	3712	1836	1047	962	889	33134
Crown Corks . .	..	..	..	1	1	..	..	1	1	1	..	5	8	18
	..	..	..	11500	7924	..	..	1471	414	197	..	194	75	21775
Pilfer Proof Caps . .	..	..	..	..	..	..	..	9	2	1	2	3	19	36
	..	..	..	..	..	..	..	11389	471	117	173	121	104	12375
Wool Tops . .	..	..	1	..	..	1	3	4	..	1	5	..	7	22
	..	..	21447	..	..	6347	10247	5932	..	125	344	..	37	44479
Sparking Plugs . .	..	..	..	..	..	..	..	..	..	1	..	..	..	1
	..	..	..	..	..	..	..	..	..	185	..	..	..	185
Safety Razor Blades .	..	..	..	..	..	..	..	2	2	..	..	..	1	5
	..	..	..	..	..	..	..	1665	624	..	..	..	20	2309
Metal Containers .	..	..	..	..	..	2	6	23	64	70	104	79	239	587
	..	..	..	..	..	11176	24149	27170	18357	10093	7681	3019	1613	103258
Slotted Angles . .	..	..	..	..	..	..	..	..	2	1	5	1	24	33
	..	..	..	..	..	..	..	..	417	155	395	46	101	1074
Safes and Strong Box .	..	..	..	..	..	..	1	1	..	..	..	4	38	44
	..	..	..	..	..	..	2605	656	..	..	..	130	53	3444
Rolling Bearings . .	..	..	..	..	1	1	1	3	2	2	3	11	14	37
	..	..	..	..	8643	5689	2501	3444	296	282	210	430	127	21622

(i)	A	B	C	D	E	F	G	H	I	J	K	L	M	N
Welding Electrodes	..	..	..	..	..	..	2	6	6	2	2	2	2	21
	..	..	..	..	..	..	6938	6179	1995	150	186	51	11	15510
Coated Abrasives	..	..	..	..	..	..	2	3	3	..	5	1	15	29
	..	..	..	..	..	..	7149	2261	938	..	368	40	92	10848
Bolts, Nuts & Screws	..	..	..	...	..	1	1	4	4	15	21	16	427	489
	..	..	..	..	..	6457	2615	3772	1260	2269	1472	669	194	18708
Pressure Cookers	..	..	..	..	..	..	..	1	4	1	1	3	23	33
	..	..	..	..	..	..	..	1503	1395	178	95	137	262	3570
Vacuum Flasks	..	..	..	..	..	..	..	2	3	..	1	1	18	25
	..	..	..	..	..	..	..	1371	987	..	93	44	138	2633
Playing Cards	..	..	..	..	..	..	..	1	5	3	1	3	15	28
	..	..	..	..	..	..	..	508	1848	431	98	103	146	3134
Camphor	..	..	..	..	..	..	..	1	..	..	1	..	8	10
	..	..	..	..	..	..	..	1784	..	..	72	..	24	1880
Zips or Slide	..	..	..	..	..	..	..	3	1	4	3	3	3	17
	..	..	..	..	..	..	..	1810	206	550	225	115	49	2955
Menthol	..	..	..	..	..	..	..	1	1	..	..	..	8	10
	..	..	..	..	..	..	..	1142	486	..	..	..	105	1733
Electric Insulating Tapes	..	..	..	..	..	..	..	..	1	1	3	4	33	42
	..	..	..	..	..	..		..	200	100	195	156	182	833
Adhesive Tapes	..	..	..	..	..	..	..	1	5	1	2	8	30	47
	..	..	..	..	..	..	..	1100	1569	120	178	263	227	3457
Newspapers	..	..	..	..	..	..	..	7	28	27	41	17	289	409
	..	..	..	..	..	..	..	6411	8257	3610	2729	708	720	22435
TOTAL	32	40	93	197	110	187	386	1545	1471	1258	1470	2161	15243	24193
	5707722	2800443	2809849	2713240	935161	1169008	1350056	1682830	473138	180708	105498	76967	74394	20079014
Expressed as % age of Col (N)	.13	.17	.38	.81	.45	.77	1.60	6.39	6.08	5.20	6.08	8.93	63.01	
Do.	28.43	13.95	13.99	13.51	4.66	5.82	6.72	8.38	2.36	0.90	.53	.38	.37	
Progressive		.30	1.68	1.49	1.94	2.71	4.31	10.70	16.78	21.98	28.06	36.99	100	
		42.38	56.37	69.88	74.54	80.36	87.08	95.46	97.82	98.72	99.25	99.63	100	

TABLE (3)

Sectoral Composition of Factories producing excisable goods during 1970-71 *and* 1971-72

	All India	Large Industrial houses in the corporate sector	Government of India Undertakings	Government of India Departments	State Governments Undertakings and Departments	Other Sectors
1970–71						
(i) Number of units for which data have been provided.	64481	786 (1.22%)	124 (0.19%)	11 (0.02%)	182 (0.28%)	63378 (98.29%)
(ii) Revenue derived from units listed in (i) Rs. crores.	1753.06	735.97 (41.86%)	328.49 (18.68%)	0.44 (0.03%)	18.64 (1.06%)	674.52 (38.37%)
1971–72						
(i) Number of units for which data have been provided.	74839	891 (1.19%)	149 (0.20%)	20 (0.03%)	208 (0.28%)	73571 (98.30%)
(ii) Revenue derived from units listed in (i) Rs. Crores	2075.65	860.42 (41.45%)	365.19 (17.60%)	0.47 (0.02%)	24.89 (1.20%)	824.67 (39.73%)

(Figures in brackets represent percentage of each sector to the All India figures)

CHAPTER 8

PRODUCER

In considering central excise, it is necessary to distinguish the onus of tax compliance, which falls on the producer, from that of tax incidence which by and large is borne by the consumer. It is therefore of obvious importance to evaluate procedures from the stand point of those who manufacture the goods. In the ensuing paragraphs we endeavour to present in some detail what might be called the producer's view of how excise procedure operates. The instances and other material set out are largely drawn from the evidence placed before us by the different industries. We must add that the statements and representations cited in this chapter are those to which we attach weight and credence, though we do not necessarily agree with all that they contain or imply.

2. On SRP in general, the replies received in response to the questionnaire and the evidence tendered before us reveal a very large measure of agreement that the facility afforded to the producers of taking clearances at all hours without official intervention is the most welcome feature of the new procedure. This facility is widely appreciated as having (i) contributed to the smooth movement of excisable goods to various distribution points, (ii) effected a saving in man hours, (iii) brought about a reduction in transport costs and in cost of labour which had to be kept waiting for clearance of goods, and (iv) effected reduction in inventories.

3. At the same time, it is pointed out that SRP had made no difference to very many things which the producer is called upon to do. First of all, he has to apply for and take out a central excise licence for manufacture. This involves the filling of an application, payment of a licence fee, submission of particulars concerning the premises and equipment and execution of a bond with suitable security. A separate licence is required for each excisable commodity manufactured by a producer and for each factory where goods are produced. After receipt of the licence, the producer is required to exhibit it in a conspicuous place on the factory premises along with the approved ground plan, give a notice in writing to the Central excise officer before commencement of manufacturing operations and indicate the nature of raw material intended to be used. If and when he intends to stop or resume production he has to provide a written notice to the Department. For purposes of payment of duty, under the provisions of the law as they have hitherto obtained, he becomes an "assessee" immediately on production of goods, though duty is actually realised at the time of the clearance of the goods. Among his obligations are maintenance of appropriate accounts, fulfilment of certain requirements (including payment of duty, except where clearance is under bond) before removal of goods, and submission of various returns in the forms and at the intervals prescribed.

4. In an earlier Chapter we have referred briefly to the producer's principal complaint of inordinate delays at all levels. This has been stressed by practically every producer and association of producers who appeared before the Committee and has been the main theme of many of the memoranda submitted to us in reply to our questionnaire.

5. It is laid down that all clearances of excisable goods shall be made only after (1) the duty due on them has been determined in accordance with the approved classification list and (2) the price list submitted by the producer has been approved by the proper officer. Nevertheless, no time limit has been prescribed for the approval of these lists by the Department; nor has any provision been made to enable the producer to clear his goods if the lists submitted by him are not approved within a stipulated time. The facility of "provisional assessment" no doubt exists, but several lacunae and defects have been pointed out in its actual operation, including the inordinate time—and consequent inconvenience—which is sometimes involved in rendering the provisional assessment final. Several instances of delays in approval of classification and price lists and in finalisation of disputed assessments have been brought to our notice. Some witnesses have told us that, the time normally taken for approval of these lists is two to three months, but there are instances in which classification or price lists were not approved for two to three years. We realise that in certain cases involving tariff complexities or

difficulties of valuation, some delay is inevitable. Nevertheless the complaint about excessive delays merits serious attention. So far as provisional assessments are concerned, the following data supplied by the Collectors are indicative of the trend since 1968-69:

Year		No. of provisional assessments made	Amount of differential duty involved Rs.	
1968-69	*	634	6,47,440	*Provisional assessments in terms of Rule 173-B (3) relating to cases of disputed classification.
	†	1,191	3,46,542	
	Total	1,825	9,93,892	
1969-70	*	1,691	16,41,688	† Provisional assessments in terms of Rule 173-C (2B) relating to cases of disputed value.
	†	11,455	13,76,284	
	Total	13,146	40,17,972	
1970-71	*	4,162	75,76,416	
	†	16,463	85,97,744	
	Total	20,625	161,74,160	
1971-72 (upto December, 1971)	*	8,824	85,90,509	
	†	19,965	81,87,115	
	Total	28,789		
Total	*	15,311	1,84,56,053	
	†	49,074	1,85,07,685	
Total		64,385	3,69,63,738	
Cases of provisional assessment finalised in				
(i) the same year	*	4,352	27,58,799	
	†	18,246	32,43,821	
	Total	22,600	60,02,620	
(ii) the following year	*	1,169	12,12,763	
	†	6,401	31,86,683	
	Total	7,570	43,99,446	
(iii) the second year following provisional assessment.	*	476	6,13,272	
	†	2,771	4,35,378	
	Total	3,247	10,48,650	
(iv) the third year following provisional assessment (upto 31-12-71)	*	2	7,113	
	†	12	5,556	
	Total	14	12,669	
Cases of provisional assessment, pending on 31-12-1971.	*	9,312	1,38,64,116	
	†	21,642	1,16,36,247	
	Total	30,954	2,55,00,363	

It is seen that cases of provisional assessment have increased substantially over the years and that on 31-12-1971, there were as many as 30,954 cases involving a sum of Rs. 2.55 crores waiting to be finalised. A break up of these cases in terms of the time taken for finalisation is not available, but from the figures given by the Statistics and Intelligence Branch in the Statistical Year Book for 1971-72, which presumably include unmanufactured tobacco, the number of cases of provisional assessment pending on 31-3-1972 was 73557, of which 41,315 had been pending for more than six months.

6. In the course of our visits to different collectorates, we have come across a number of cases of inordinate delay in the finalisation of provisional assessment. In February 1973, we found that, in a particular Range, the monthly R.T. 12 returns had not been finalised since July, 1972, and that a certain Division had as many as 7479 cases of provisional assessment pending on 31-12-1972. In another instance, we found that a case of provisional approval of the assessable value of a particular variety of soap manufactured for captive consumption in June, 1971 had not been finalised until February, 1973.

7. In the ccntext of delays, it has been urged that. apart from being irksome as delays always are, they hamper production, increase cost and avoidably aggravate such uncertainties concerning the quantum of liability as may be said to be inherent in *ex-post facto* assessment. Two things have been pointed out. Firstly, the period of limitation for recovery of duties short-levied or erroneously refunded has been extended from three months under the system of physical control to one year under the self removal procedure. Secondly, no time limit has been laid down within which provisional assessments have to be made final. It is alleged that these two factors, among others, have led to demands being raised against the producer with retrospective effect in respect of goods which he has already sold at prices which did not include the duty and in respect of which, therefore, this element can no longer be recovered from his buyers. In a particular case it was pointed out to us that a producer had lost a substantial order for goods because the Department could not tell him whether the goods in question were liable to duty or not; and when, after having learnt that similar goods produced in another Collectorate were not being treated as dutiable, he cleared his goods without payment of duty and indicated the fact on his R.T. 12 return, an offence case was booked against him resulting inlong and protracted proceedings.

8. Instances of undue inconvenience and avoidable hardship caused to the trade have been cited before us. Some of these pertain to 'show cause' notices for technical lapses and heavy penalties for minor discrepancies. Among those who complained of harassment was the Federation of Associations of Small Industries of India, but complaints of this nature were by no means confined to the small or medium sectors. A very large public sector undertaking supplied to the Committee a statement of offence cases booked against them for seemingly trivial lapses which had been detected by the management itself and brought to the notice of the excise authorities. Their contention was that in a big industrial complex where factories work round the clock and raw materials and finished goods are being constantly moved, minor clerical mistakes cannot be avoided; for such petty mistakes, however, explanations are called for, 'show cause' notices issued and cases registered.

9. Relative lack of communication physically, and lack of rapport psychologically, between tax-payer and tax-collector are said to be among the consequences of SRP. It has been emphasised that, with production and accounting techniques getting increasingly sophisticated and with the excise tariff getting steadily enlarged, there ought to be a continuous dialogue between the industry on the one side and Government on the other; but; in actual practice, the closeness of dialogue which had existed under the earlier system disappeared under SRP. Several departmental witnesses have also commented on the absence of adequate contact between the assessees and the department. Some of the reasons for inadequate communication are said to be: (i) withdrawal of staff from prominent points of location of production to distant points of location of offices; (ii) introduction in some instances of functional, as distinguished from territorial, allocation of work with consequent loss of the kind of touch which a compact area would have provided; and (iii) a spirit of apathy and of 'playing safe' on the part of excise officials who would rather keep their distance from production than go near it and risk the suspicion and displeasure of superior authority.

10. The producer feels greatly handicapped for want of information or clarification on tariff and other matters of vital importance to him. There does obtain a system of trade notices, but the issue of these is said to be subject to serious delays. In any case, since trade notices are sent only to recognised associations and federations, a fairly large sector of producers who are not members of such bodies have no access to them. Several witnesses have said that on-the-spot guidance and clarification which were available to the producer under the earlier system are now denied him. In this context it has also been said that references made to the Board seeking clarification are not attended to for long periods: very often they percolate down to the level of the Inspector and a good deal of time is lost before a final ruling or interpretation can be obtained.

11. The multiplicity of inspections has been severely criticised by a large number of witnesses. The burden of the criticism is that whereas, under the earlier system of physical control, the range officer attended to all inspections, the responsibility has now been thrown on the assessees who are required to produce the same records and answer the same queries again and again. A point of material significance here is that where a manufacturer is producing a number of excisable commodities for each of which he is required to have a separate licence, he can be visited by the Inspection group or groups concerned separately for each commodity produced. This occasionally results in an avoidably large number of visits to the same factory. This is because the scale of inspection laid down is in terms of each licence and comprises two regular inspections and one short inspection in a year. Again, where Inspection groups are organised on a functional basis, a producer who has more than one licence may be inspected by more than one Inspection group. Instructions have no doubt been issued that only one Inspection group should visit a factory producing more than one excisable commodity and carry out the inspection in respect of

all the commodities manufactured in that factory, but in actual practice it has been found that these instructions are not quite workable. In quite a few cases the amount of work involved is so heavy that it is not possible for an Inspection group to take up all the commodities produced in the course of a single visit. Again in industrial centres like Bombay, even Divisions are organised on a functional basis and since Inspection groups are attached to Divisions, it is not always possible to achieve the necessary coordination between the working of a different Inspection groups. We had called for some data regarding visits of inspection paid to different producing units during 1971-72 in certain areas. The information received which relates to 96 producing units shows that one of them was subject to concurrent audit by an assessment-cum-inspection unit, six of them were not inspected at all, 43 were inspected only once, another 43 received from 2 to 5 visits each, while three factories were subjected to 6, 15 and 19 inspections respectively. From this it appears that in a large number of cases the prescribed scale of inspections has not been followed while, in some cases, the visits paid for inspection were unduly large.

12. The producing factories are also liable to be test audited by the internal audit parties of the Department at the discretion of the Collector. In the sample analysis referred to in the preceding paragraph, 28, out of the 96 factories visited by Inspection groups were also visited by the internal audit parties.

13. Visits paid by audit parties of the Comptroller and Auditor General have also been referred to, and it has been urged before us that the present scheme of multiple inspections by a number of different agencies, which occasionally take divergent views, needs to be simplified. It has been suggested that for any one unit, there should be only one comprehensive annual audit or inspection.

14. Several difficulties have been voiced in relation to the various records and documents presently required to be maintained. A point has been made that most of the bigger units which contribute the major portion of excise revenue come under the purview of the Indian Companies Act under which they are statutorily obliged to get their accounts audited. It has been urged that with the progressive sophistication of accounting systems followed by the organised sector of the industry it should be possible for the Department to base their checks on the accounts kept by the units themselves.

15. A separate account current has to be maintained by the producer in respect of each excisable commodity produced by him. In this account, credits are taken on the basis of deposits made into a treasury or of cheques issued in favour of the Department. The amounts paid have to be shown separately under each minor head of account. It has been urged before us that the net results of this arrangement from the point of view of the producer is to lock up substantial amounts of money inasmuch as inter-commodity or inter-head transfers or reappropriations are not allowed. It has been represented that either a single account current should be permitted to be maintained for all commodities manufactured by a producer or that, alternatively, reappropriation from one account to another should be allowed subject to the condition that the aggregate debits in all accounts at any time will not exceed the credit balance. It has been stressed that a single account current was in vogue during 1970-71 and that since the monthly returns in Form R.T. 12 are already submitted commodity-wise, such accounting difficulties as might be anticipated from maintenance of a single account would be obviated if the return is accompanied by the relevant abstract from the account current relating to the commodity concerned.

16. In accordance with the present requirement, a producer can, if so authorised, pay excise duty by cheques drawn in favour of the Chief Accounts Officer or the Collector on any of the approved banks of which there is a branch at the Collectorate headquarters. He can also pay duty through demand drafts. It has been pointed out that the present provisions are unduly harsh for some producers, it has, therefore, been suggested that whenever a producer is unable to comply with the present procedure, he may be permitted to take clearance of goods on presenting to the local officer a cheque on a local bank for the appropriate amount, coupled with the undertaking that he would credit the same amount in cash into the treasury on the following working day. It is claimed that this would be an improvement on the existing procedure inasmuch as it would ensure payment of duty within a day as against several days which the present procedure entails. In connection with payment of duty by cheques our attention has also been drawn to several abuses associated with this facility. It has been pointed out that there have been numerous cases in which a large number of cheques have remained uncashed for long periods, while instances of cheques being dishonoured or lost in transit are also not wanting. The Public Accounts Committee has observed that "there is serious laxity of control in clearance of cheques within the excise department" and that the Committee would like the Government to device a foolproof procedure to regulate collection and clearance of cheques. There is also the view that, in a way payment of duty by cheques affords, greater security of revenue under the present system than payments in cash into a treasury on T.R. 6 receipts which are sometimes forged. Since the receipts are not routed through the Chief

Accounts Officer, much time usually elapses before such fraudulent practices are detected.

17. The Raw Material Account has been assailed by almost all categories of producers. According to the Indian Paints Association, the Department's insistance on the maintenance of this acount has rendered SRP very cumbersome for the Paints and Varnish Industry. This industry produces some six to seven thousand finished products of different descriptions and grades and the number of raw materials used is more than six hundred. It is contended that, even though the principal raw materials notified in respect of ready mixed paints and enamels are pigments, oils and resins, these three items comprise in practice a very large variety of individual raw materials. The Raw Material Account is required to be maintained for each such variety. Several other industries, including textiles, paper, corrugated board, pottery, tyres and fertilisers, have been equally vehement about the impracticability of maintaining this account. There seems to be general agreement that in a majority of cases it is not possible, for various reasons, like differences in manufacturing techniques standards of efficiency, specifications of raw materials used and quality of the finished goods, to evolve or establish a precise relationship between the raw material notified and the end product. In certain cases, variations on account of these factors can be as high as 15 to 20%. Since the Account can at best provide only a very rough estimate of production, it is urged that it cannot be relied upon as a basis for working out the extent of shortfall or for raising demands for duty on the basis of such shortfalls.

18. The usefulness and feasibility of the account have also been questioned on other grounds. It is said, for example, that certain quantities of the raw material issued continue to remain in various stages of production or processing and, at such stage or stages, cannot be properly quantified. Moreover, the same raw material may be used in the factory for porduction of non-excisable goods; in such cases, the splitting up of the aggregate quantum of raw material between a number of products is not always feasible.

19. It is also argued that if a producer can be trusted to maintain a correct raw material account, he can also be trusted to maintain a correct finished product account. Moreover the raw material account by itself does not provide an effective check on production. Several producers have pointed out that, in many cases, raw materials are procured through unauthorised channels. In such cases, they are not accounted for in excise records. The production of finished goods obtained from such raw materials is also suppressed.

20. In accordance with the present provisions, if an assessee has made a debit entry in his account current in respect of a consignment for which a gate pass has been prepared, but decides not to clear the consignment, he is not permitted to score out the debit entry or make a corresponding credit entry in the account. He is expected to cancel the gate pass, but credit of duty wrongly debited can be taken by him only on a specific authorisation by the Superintendent when he assesses the R.T. 12 return in the following month. It has been urged before us that such credit entries should be permitted to be permitted to be made immediately on the cancellation of a gate pass. Similarly mutilations, interpolations, over-writings, corrections and erasures in gate passes are forbidden under Rule 52-A. Here again the industry demands that corrections may be permitted to be made under proper authentication.

21. Classification of goods and classification disputes seem to be the principal area of friction between the producer and the department. The main complaint here is one of delays attributed to (i) complexities of the tariff, (ii) dilatoriness and inadequacies of the present procedures as well as of the organisation for settlement of disputes, and (iii) a revenue bias in central excise officers, particularly at the primary level, born of their anxiety to steer clear of possible objections against their decions.

22. Tariff complexities are cited as being responsible for delays at the initial stage of approval of a classification list. Where the proper officer is unable to make up his mind about the classification of goods or where classification of goods is dependent upon such factors as chemical composition etc., he approaches his superior officers for advice or causes samples to be drawn and sent for analysis to the Central Revenues Control Laboratory or other testing institutions. Since a good deal of time is lost in these formalities, the producer has to seek permission for assessment of goods on a provisional basis, or in certain circumstances, to pay duty under protest. The process of consulting superior officers does not always end at the Collector's level. References are sometimes made to other Collectors or to the Central Board of Excise & Customs for advice. Nor is a decision immediately forthcoming on receipt of the result of a test. For one thing, existing procedures provide for a second test. Secondly, there may still be points of interpretation of tariff or law needing to be resolved before a proper decision is given.

23. A producer who is aggrieved by the decision given by the proper officer has three months within which to file an appeal to the Appellate Collector or the Central Board of Excise and Customs as the case may be. An appeal

from a decision taken on his own authority by an Assistant Collector or a Deputy Collector lies to the Appellate Collector. An appeal from a decision taken by or in consultation with a Collector lies to the Central Board. For some time after the introduction of SRP, the proper officer for the purpose of approving classification and price lists was the Superintendent of the assessment range concerned; and prior to the creation of the institution of Appellate Collectors, appeals against his decisions lay to the Deputy Collector or, if there was no Deputy Collector, to the Collector. The institution of Appellate Collectors came into existence in January, 1972 when all appeals against decisions relating to classification and valuation given by a proper officer came within their purview. Later the authority of a proper officer, for the purposes of approving classification and price lists was vested in Assistant Collectors without any change being made in the matter of appellate jurisdiction.

24. It has been repeatedly urged before us that the institution of Appellate Collectors has not afforded the desired relief. It further appears to us that the Appellate Collectors are themselves, generally speaking, over-burdened. Some of them have not been provided adequate staff. Initially, there were four Appellate Collectors stationed in Delhi, Calcutta, Bombay and Madras for disposal of appeals relating to central excise cases. Some idea of the work load with the Appellate Collectors is provided by the following table:

Designation	Jurisdiction	No. of appeals pending and transferred to the Appellate Collector on 17-1-1972	Receipts during the period 18-1-72 to 31-10-72	Disposal during the period 18-1-72 to 31-10-72	Pendency on 1-11-1972
Appellate Collector, Central Excise & Customs, Delhi.	Allahabad, Kanpur, Delhi, Chandigarh and Nagpur Collectorates.	1,167 *1218	1,441 *1,182	972 *1,189	1,636 *1,211
Appellate Collector, Central Excise, Calcutta.	Calcutta & Orissa West Bengal, Patna and Shillong Collectorates.	1,166	108 per month (average)	28 per month (average)	1,849 (as on 1-10-1972
Appellate Collector, Central Excise, Madras	Madras, Madurai, Guntur, Hyderabad, Bangalore and Cochin Collectorates.	1,158	174 per month (average)	100 per month (average)	1,909 (as on 1-10-72)
Appellate Collector, Central Excise, Bombay	Bombay, Goa, Poona, Baroda, Ahmedabad and Nagpur (excluding Madhya Pradesh) Collectorates.	1,640	1,061	312	2,419

*Customs cases. In Delhi, there was initially one Appellate Collector for disposal of both Customs and Central Excise appeals.

It has been pointed out that the pace of disposal achieved was somewhat slow because of the organisational and other difficulties experienced immediately after the creation of the institution of appeallate Collectors. The industry, however, hold the view that the transfer of the appellate jurisdiction from Collectors to Appellate Collectors has led to several undesirable consequences, not the least important of which are (1) delays, (2) lack of adequate appreciation of local practices and problems by the Appellate Collector whose jurisdiction extends to several Collectorates and (3) the inconvenience and expenses which the industry has to go through to pursue the cases at the headquarters of the Appellate Collector.

25. Another point which has been stressed before us is that, in the present scheme of control, there are several forces which counteract the exercise of individual discretion or independent judgment. The Assistant Collector who is supposed to provide the necessary decisions on all matters relating to classification etc. has to reckon with the official hierarchy of which he is a part. Moreover, he is essentially a revenue officer. He wishes not only to ensure that he acts in the interests of revenue, but also that his actions do not attract either adverse notice from above or critical attention from Audit such as might be harmful to his interests. In such a situation, it is alleged, the officers are often afraid to take decisions in favour of the tax payer.

26. Several suggestions have been made with a view to getting over the difficulties presently experienced in matters of classification and valuation of goods. The first and foremost of these suggestions is that the tariff should be simplified so that it is more easily comprehensible to the industry and the assessing officers. It has been urged in this connection that there should be a permanent machinery which should keep the tariff under constant review and en-

sure that it is rational, is capable of being uniformly applied in all parts of the country, and is interpreted, not arbitrarily, but in keeping with well defined principles. Some witnesses have proposed that there should be a classification and valuation cell at each divisional office which should advise the assessees on all matters relating to classification of goods and that, in addition to the regular Assistant Collector, each Division should have an Officer meant exclusively for approval of classification and price lists. Another suggestion made is that on the analogy of the practice obtaining in Gujarat where all cases of disputed classification under the Sales Tax Law are decided by a Deputy Commissioner whose decision is final, all matters relating to disputed classification arising in a Central Excise Collectorate should be settled by a senior officer nominated for the purpose. A somewhat similar view put forward by others is that there should be a Central Classification Cell, assisted by technical experts in different fields, which should decide all cases of disputed classification on an all-India basis and that the decisions given by this cell should not be challengeable departmentally or in law courts. Another suggestion which has been offered is that classification and valuation disputes should be taken out of the field of quasi-judicial functions, and that the decisions in all such cases should be taken at various departmental levels without the intervention of an appellate procedure.

27. Several observations have been made on the role and functioning of the Central Revenues Control Laboratory and its regional branches. These are said to be ill equipped and understaffed. Analysis of samples is said to be subject to serious delays. The accuracy of results conveyed by the laboratories are also seriously questioned. In quite a few fields of production in which duty liability is dependent upon the chemical composition of the product, the laboratories do not find it possible to provide the necessary information about the composition of the product from tests carried out by them. This, however, raises the wider question of the advisability of relating the duty structure to characteristics which are not readily identifiable or determinable.

28. The procedure commonly known as the proforma credit procedure has been referred to by several witnesses in the context of some recent interpretations placed on its provisions. Broadly, what this procedure envisages is that in respect of excisable commodities notified by Government, a producer can obtain duty paid components/material required for manufacture of such commodities and get a proforma credit of duty paid on such components/material. This credit can be utilized by him for payment of duty on the final product. We are told that in terms of the instructions issued at the time of the introduction of the procedure, the entire amount in the proforma credit account of a producer could be used by him to meet his duty liability in respect of the finished goods even though some of the components/material received by him had not been used or consumed in manufacture. But some time ago the view taken was that the proforma credit can be drawn upon only to the extent of the duty paid on components/material actually used in the manufacture of notified goods.

29. On the subject of licences, several suggestions have been made by the industry and also by departmental officers with a view to achieving some rationalisation and simplification in existing requirements. The suggestions relate to the present categorisation of licences on the basis of the nature and volume of activity undertaken, the advisability of introducing a single licence in respect of all commodities manufactured by a producer, scales of licence fees, period for which licences are granted or renewed etc. In the matter of bonds, the principal point made is that in a vast majority of cases the execution of a bond is a mere formality which does not serve any useful purpose. It is also pointed out that there are several in-built provisions in the central excise law itself which can be used to enforce payment of duties and other governmental dues. In this context, the point has been made by some producers that while, under the earlier system, a bond covering movement of goods without payment of duty could be executed by either the consignor or the consignee, the provisions under SRP lay down that the consignor alone can execute the bond. This, it is said, may cause hardship in certain circumstances. Once the goods have left the consignor's premises they are no longer under his control; it is, therefore, urged that it is not fair to hold him responsible for any losses or pilferage that might occur thereafter.

30. Certain representatives have drawn attention to the fact that, whenever a producer intends to manufacture a new product or carry out a change in the composition of an existing product, it is very necessary for him to know that the duty liability of that product would be. If, for example, he finds the tax cost to be too high he can drop or alter his plan of production. The Excise Department, however, insists that the new product should first be produced and only then a request made for its classification. The Industry points out that this would be a contravention of the central excise law since no excisable goods can be produced without a proper licence. It has been urged that the existing procedure is unsatisfactory and should be changed.

CHAPTER 9

EXPORTER AND OTHERS

Over the past two decades, exports have come to assume a position of considerable importance in the country's economic development. The Five Year Plans have continued to lay great emphasis on the need for increasing, diversifying and, in terms of the competitive demands of the markets abroad, improving both the price and the quality of our items of export, traditional and non-traditional. Of the various fiscal measures adopted from time to time in the interests of export promotion, relief from the incidence of customs and excise duties in the form of rebates and or drawbacks is perhaps the oldest; and the procedures laid down envisage (i) rebate of excise duty paid on export goods, (ii) rebate of duty on excisable materials used or contained in the manufacture of export goods, and (iii) drawback of customs and excise duties borne by such goods. In addition, excisable goods and other goods manufactured from excisable goods on which duty has not been paid are permitted to be exported under bond.

2. While in principle, it is recognised that all excisable goods are entitled, on export, to rebate of duty paid on them, technically all such goods have to be notified and the grant of rebate is restricted to such extent and is subject to such safeguards, conditions and limitations as may be specified in the notification issued. *Inter alia,* it is provided that, in order to be eligible for rebate, such goods should be exported after payment of duty direct from a factory or a warehouse within a specified period of their removal. The amount of duty paid and the date of payment have to be established to the satisfaction of the Collector and certain procedural formalities have to be gone through. In certain cases, exports under claim for rebate of duty can also be made from the open market provided the goods are in mill packed condition capable of being related to duty paying documents. Similarly, duties of excise chargeable in respect of material used in the manufacture of export goods which are duly notified are rebated, subject to such conditions and limitations as are specified from time to time. Schemes for the drawback of excise and customs duties are operated by the Customs Department, but it is provided in the central excise rules that no rebate of excise duties will be admissible if a claim for rebate has been made under the drawback rules.

3. Broadly, the procedure for export of goods under claim for rebate of duty prior to the introduction of SRP required that an application for export in the prescribed form, together with a copy of the gate pass showing payment of duty, should be submitted at least 24 hours before the intended removal of the goods. The goods were sealed by the factory officer (Inspector) after physical verification and the fact endorsed on the removal application of which two copies were returned to the exporter, one sent to the maritime Collector of Central Excise and another to the Chief Accounts Officer for post-audit. The exporter presented his copies of the removal application to the Customs Officer at the port of export, along with the shipping bill. The Customs Officer verified the seals and, on being satisfied that the particulars of the consignment corresponded to the particulars given on the removal application permitted export, endorsed the fact of export on both copies of the removal application, returned one copy to the exporter and sent the other to the maritime Collector. Thereafter the exporter filed a refund claim in the proper form, along with a copy of the removal application and the shipping bill, with the maritime Collector who scrutinised the claim and sanctioned the same if it was found to be in order. The Chief Accounts Officer then issued to the exporter a cheque for the refund sanctioned. The procedure for export under bond was more or less similar, except that the exporter was required to execute a bond, against which a debit was raised by the maritime Collector on receipt of a copy of the removal application from the appropriate officer. On receipt of the copy of the application from the Customs Officer with his certificate of export, the bond account was given a corresponding credit, and the concerned officer informed.

4. On introduction of SRP, physical verification and sealing of goods prior to their clearance for export was dispensed with. At the same time, some of the provisions and much of the drill prescribed under the earlier procedure were retained. These included the presentation of the application for removal, together with the original copy of the gate pass, to the proper officer (Superintendent), and his verification of particulars of payment of duty and endorsement of the application before removal of goods. It was, however, provided that if an exporter wanted to remove his goods after physical supervision and sealing, the earlier procedure would apply subject to payment by the exporter of appropriate charges determined by the Collector. These charges included supervision charges and journey expenses of the officer deputed for the purpose at the prescribed rates. While prior to the introduction of SRP the operations of physical supervision and sealing were performed by an Inspector, these functions were now entrusted to a Superintendent. It was, however, provided that examination and sealing of export consignments at the source could be done by an Inspector if a Superintendent was not readily available.

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5. There are special procedures for export by land, air, river and parcel post, but the broad features are the same as have already been described. Exports to Nepal are regulated by a separate set of instructions, but in respect of all such exports, prior examination and sealing of goods, except where such examination and sealing are specifically relaxed, are essential. No supervision charges are, however, required to be paid for such examination.

6. We have found that, by and large, the industry prefers examination and sealing of goods at the source to their examination by customs, because the latter entails, even though on a sample or percentage basis, the opening of mill-packed bales and boxes for the purpose of verifying their contents. In that process goods are not only liable to be damaged, but cannot be repacked in the same way. It has been urged before us that physical examination whether by (or, at an earlier stage, on behalf of) the Customs, should be waived altogether since such examination (it is argued) is inconsistent with the basis concept of SRP. It is suggested, as a corollary, that duty rebates or credits in the running bond account should be allowed on the basis of removal applications or shipping bills filed by the producers. In further support of this contention, several industries including the jute industry have drawn attention to the fact that goods intended for export are examined at every stage by the Export Inspection Council which is a Government body and which issues to the exporter a certificate indicating the quality, quantity and the precise specification of the goods intended to be exported. The Customs authorities, it is urged, should have no hesitation in accepting certificates issued by the Council. At the least, it is suggested, supervision charges should not be levied because examination and sealing are jobs performed in the interests of Government. But the other point of view, expressed by some of the Officers, is that services specifically asked for must be specifically paid for. SRP entailed the withdrawal of staff from factories, and if their attendance is secured on particular occasions, e.g. for supervision of goods to be exported, at the option of the factory, it is only reasonable (according to this argument) that cost should be reimbursed. On the other issue raised, it is pointed out that, in the particular context of goods intended for export, the functions of physical verification and sealing are in effect exercised by Central Excise officers on behalf of the Customs department, and not as part of those normal operations of central excise on which the principles underlying SRP may be said to have a bearing.

7. In connection with the requirement of sealing of goods, the instance has been cited to us of a certain unit which exported tyres and which having opted for excise supervision, found that the excise officers went through the ritual of putting a wire round each tyre and sealing it individually even though each individual tyre bore a distinctive number and no packing was involved in the entire operation.

8. Even in regard to the simplified procedure under which no physical examination and sealing of goods are involved, several exporters have said that it is time-consuming, expensive and cumbersome. They do not see any merit either in the requirement of a 24 hours' advance notice of the intended removal of goods being enjoined upon the exporter or in getting the various documents certified or attested before removal of goods. An instance in point is that of certain sugar factories in Maharashtra which produce raw sugar exclusively for export. These factories have to rush through their entire despatches within what constitutes, in relative terms, a very short period. Clearances for export are required almost simultaneously by all the factories. It is, therefore, not always possible, in these circumstances, either for the excise department to provide the necessary supervision or for the industry to get their documents countersigned and attested every day as a preliminary to clearance. The situation is further aggravated if wagons have to be obtained at short notice. It is pointed out that excise officers do not, and under the prescribed procedure are not called upon to, visit the factories. Such being the case, the industry questions the need for prior attestation of the export documents and urges that it should be sufficient if these are sent to the proper officer immediately after clearance of the goods. It is further pointed out that, in any event, the refund due (or credit in the running bond account) would be afforded to the exporter only after proof of export has been furnished and the relevant documents have been received by the maritime Collector. The sugar industry also argues that the requirement of prior attestation has been waived in the case of exports of cotton yarn; it sees no reason why the procedure should continue to be enforced for other products.

9. There is general complaint of serious delays in the grant of refunds and rebates, as also of credits in the running of bond account. This is pointed out to be particularly true of tea and jute which are the country's major export earners. It is averred that the delays take place at more than one stage. First of all, there is delay in the Custom House from where removal applications, after shipment of goods, are not sent promptly to the maritime Collector. Thereafter there is delay in the office of the maritime Collector where they have to be linked up with copies of the applications received directly from the range before credit is given in the running bond account or claim for refund admitted. Occasionally, even though the proof of shipment (in the form of a copy of the application) is available with the exporter, demands for duty are raised against him, leading to harassment and protracted correspondence. In this context, several individuals and associations have proposed that the department

should be obliged to settle all such claims within a stipulated period, e.g., three months from the date of shipment, failing which interest should be payable to the exporter. It is also urged that, if for any reason such claims cannot be settled promptly, provisional refunds should be allowed on the basis of export documents furnished by the party concerned.

10. Our attention has been pointedly drawn to the fact that the present export procedures tend to be uniform—and in some respects uniformly rigid—for all industries and, in the process, fail to take into account the requirements of particular industries and particular sectors of industries which call for and justify a different treatment. It is claimed, for example, that industries which are exclusively or predominantly export oriented, or where export inspection councils or other organisations carry out an inspection before the goods are exported, might well be brought under a much more simplified and expeditious procedure than ordinarily obtains.

11. Another point made was that in terms of an interpretation placed on Rule 56-A, some time ago, which restricted the utilisation of the proforma credit to the amount of duty paid on components/material actually used in the manufacture of the finished product, exporters under bond had been placed at a disadvantage *vis-a-vis* exporters under claim for rebate of duty inasmuch as the former were debarred from utilising the proforma credit in respect of duty paid components/material received by them while the latter were able to avail themselves of that credit. It was further claimed that the position was inconsistent with Rule 13 in which, for purposes of export under bond, the term "goods" includes excisable goods used in the manufacture of goods which are exported.

12. The central excise rules provide for remission of duty on excisable goods used for special industrial purposes. Such industrial users are required to obtain a central excise licence and to execute a bond in the proper form. On the strength of a certificate issued by the proper officer, they can obtain the excisable goods in question—without payment of duty or on payment of such concessional rate of duty as is prescribed in the exempting notification—from the premises of the manufacturers of such goods in accordance with the procedure laid down for inbond movement of goods. They are required to maintain an account of the goods and to submit a monthly return.

13. Prior to the introduction of SRP all refuse or waste of excisable goods obtained by licensed industrial users remaining after the completion of the industrial process was required to be stored separately and could not be disposed of except after examination by, and with the written permission and in accordance with the instructions of, the proper officer. Under SRP the requirement that refuse of excisable goods cannot be disposed of until after examination and with the prior permission of the proper officer has been dispensed with. It has, however, been provided that manufacturers will give an advance notice of 7 days to the Superintendent of the range concerned about the quantity of refuse proposed to be destroyed and the date proposed for such destruction. During this period the central excise officer concerned may inspect the goods but the licensee is not restrained from disposing of the goods on the date specified by him. The manner of disposal can be prescribed by the Collector.

14. We have been told that, in several instances, excisable goods entitled to remission of duty are used in the manufacture of finished goods which also are excisable. Under the procedure, licensed industrial users are entitled to the facility of in-bond movement of such goods, while other producers are denied this and have to avail themselves of the scheme of proforma credits. It has been suggested that a uniform procedure should be devised for regulating the use of such excisable goods.

CHAPTER 10

EVASION

We have been asked to examine whether the Self Removal Procedure has led to, or afforded greater scope for, evasion of Central Excise duty and if so, to assess the magnitude of such evasion. We have further been asked to enquire whether such evasion is confined to any particular industry or industries, or any sector of the industry or industries and if so, to indicate the causes thereof.

2. In dealing with this important term of reference, we have thought it best to deal first with evasion in general, i.e., without specific reference to SRP, and then to pass on to such aspects of evasion as may be said to be directly relatable to SRP. The main reason for our doing so is that it is not always easy and sometimes not even possible to draw a clear line between the evasion which would have existed in any case and the part which could be said to have been occasioned by SRP.

3. We would add that the evidence leading to a reasonable conclusion that evasion exists, or that the evasion which exists is considerable, is in many ways different from the statistical and other data which alone can be used as the basis for quantification of the magnitude of such evasion. We examine in the following paragraphs both the general evidence and the statistical data which throw light on these issues.

4. So far as excise levies are concerned, the taxable base is the quantum of production of excisable goods. The law sets out (i) the description of goods chargeable to duty, and (ii) the duty liability which is expressed (a) in specific terms relatable to such factors as weight, length, area and volume or (b) as an *ad valorem* rate dependent upon the value of the goods. There are, besides, the exemptions notified by Government from time to time which have the effect of further refining the description of excisable goods by dividing them into categories and sub-categories and prescribing separate rates of duty for each of these along with appropriate conditions, criteria and safeguards. In this context, evasion involves one or more of the following acts, namely:

(i) total suppression of the fact of production of excisable goods and removal of such goods without payment of duty;

(ii) wilful understatement or under-reporting of production, and removal without payment of duty of quantities in excess of the quantities accounted for or reported;

(iii) wilful under-valuation of goods where such goods are liable to *ad valorem* rates of duty; and

(iv) wilful misclassification of goods so as to attract a lower duty liability.

5. Each one of these acts is illegal and, unless detected, results in loss of revenue to the exchequer. That does not, however, mean that every case of loss of revenue would be a case of evasion. For example, there are contexts in which the law itself may be ambiguous or vague and lend itself to more than one interpretation. This in turn may lead to a bonafide short levy to which either the assessee or the department or both may be parties. There are also situations in which the duty liability is "avoided" by taking recourse to legal loopholes or resorting to a type of subterfuge which, in the eyes of law, does not quite amount to evasion. Both bonafide short levy and deliberate avoidance must be distinguished from those perfectly legitimate plans of production and patterns of production mix which aim at minimising tax liability.

6. It is important to note that suppression of production of excisable goods leads to suppression of sales and profits and therefore, to evasion not only of central excise duties but of other taxes both direct and indirect. It is therefore, a matter of considerable importance to prevent evasion under excise. This remains true even if—as there is reason to believe—excise evasion in the eyes of the evader is part of a larger scheme of integrated evasion which embraces not only excise, but also income tax, sales tax and other taxes.

7. It has been urged before us that evasion of taxes—excise, sales tax and income tax among others—has become a way of life with significant sections of industry and of trade. It has further been urged that this in turn is inseparable from a way of life which has been gaining ground in the country over many years; it is a way of life that is not confined to any one class of people, but is based on the spreading conviction that money is the key and black money the master key to power and influence. We discern in this a substantial degree of truth.

8. The general evidence regarding evasion collected by the Committee comprises (i) replies received in response to the questionnaire, (ii) formal evidence tendered by different witnesses from industry and from the department, (iii) exchange of views, both formal and informal, with knowledgeable persons, and (iv) impressions formed by the Committee in the

course of their extensive tours throughout the country during which they visited a large number of producing units and field formations. In our examination of the problem of evasion we have also drawn freely on the observations made in the reports of the Public Accounts Committee. The studies undertaken by the Committee's secretariat in relation to certain industries—and, in some cases, individual units—have also brought out useful data. We have thus had before us a mass of information on which to draw. The evidence, it is true, is at best indicative. It must also be added that by and large the industry was understandably reluctant, while tendering formal evidence, to come out with concrete or specific information about evasion. Nevertheless, the evidence available throws considerable light on several aspects of evasion in relation to specific groups of commodities and to specific categories of the manufacturing units which produce them. We discuss the evidence in the ensuing paragraphs.

9. We have attempted to place together and, as far as possible, view in their entirety the numerous kinds of evasion, in different sectors of production and by different types of units, brought to our notice by knowledgeable and reliable witnesses. The result is two-fold. First, we are free to confess that we were not prepared for, and are therefore painfully surprised at, the range, diversity and, in certain segments of production, almost the universality of the evasion which is practised by those who produce the goods. Second, we are impressed by the fact that evasion is facilitated in a far-reaching manner by two sets of circumstances, one relating to the machinery of implementation and the other to the substance of what is supposed to be implemented. Slack, non-existent or dishonest supervision undoubtedly facilitates evasion. But unnecessarily complicated tariff items and unrealistically designed exemptions constitute between them an even more potent cause of evasion, by providing in-built incentives for either misclassifying goods or under-reporting production. For example, where the tariff or the exempting notification restricts the duty liability to a particular class of producers like those operating with the aid of power, it gives rise to a tendency to escape the duty liability by suppressing the fact of use of power; and the goods produced with the aid of power are cleared as goods produced without the aid of power. This happens, for example, in steel furniture, in certain categories of cotton yarn and in art silk fabrics. The last mentioned item is notorious for the scale of evasion prevalent. Several witnesses brought to our notice the fact that processed art silk fabrics were available in the markets of Surat and Bombay at prices which were only marginally higher than the cost of the yarn contained. It was alleged, and the allegation would seem to us to have substance, that several producers were in fact processing such fabrics with the aid of power but were showing them as processed without such aid in collusion with hand processors. In cotton yarn, higher duties are attracted by certain processes if these are done with the aid of power; and the additional amount is levied when single yarn so processed is cleared in what are known as straight reel hanks. There are strong reasons for believing that a number of factories clear their power-processed yarn as hand-processed, thereby defrauding Government of the differential duty.

10. We observe that in several cases the tariff provides numerous classifications and sub-classifications, carrying different rates of duty, depending on such factors as thickness, colour, weight, area, volume, count and denier. The tariff on cotton fabrics, rayon and art silk yarn, paper and paints and varnishes are classic examples in which it does not require any great exercise of ingenuity on the part of the producer to misclassify his goods with a view to minimising his duty liability. In quite a few of these cases the position is further complicated by the fact that the criteria prescribed for classification are incapable of being ascertained or verified by visual examination, with the result that samples have to be sent to the control laboratories and/or other institutions for test. Surprisingly enough, there are instances, some of which are cited below, where the control laboratories, and in some cases even better equipped institutions, are not in a position to indicate the composition of a product in terms of the criteria laid down in the tariff:

(a) Determination of cotton seed oil in vegetable product. (A substantial duty rebate is admissible on vegetable product manufactured, depending upon the quantity of cotton seed oil used).

(b) Percentage of unconventional pulp in paper.

(c) Percentage of virgin wool or shoddy wool in woollen yarn/woollen fabrics.

(d) Characteristics of mercerised fabrics, like lustre number, percentage of deconvoluted fibres, etc.

(e) Human Gama Serum which requires for test very sophisticated and specialised equipment.

(f) Percentage of minor oils used in soap.

(g) The fact whether a sample does or does not qualify as "waste" in terms of the tariff. For example, the definition of cotton waste appearing in the tariff relating to cotton yarn is "short length of cotton yarn in tangled mass not capable of being disentangled without considerable labour, or short lengths not exceeding 3 metres of cotton yarn even if they are not in the form of an entangled mass or cotton yarn not exceeding 3 metres in length in loom beam ends commonly known as lap waste or antri". It has been urged before us that

this definition is so complicated and so replete with variables that it is well nigh impossible to determine whether or not a particular lot conforms to the criteria laid down.

It would appear from these instances that the two-fold attempt to achieve precision and introduce progression in excise levies has frequently had the contrary effect of enlarging the area of complexity and increasing the scope for evasion. The duty structure has become so complicated that often the tariff is lost in its own ramifications.

11. Evasion results in part from high tax rates. Excise tariff has by and large continued to rise over the years. Wherever this effects the small sector significantly, there is significant evasion. This is so when a substantial part of the production is in the small sector, the market is competitive, and the commodity itself bears a high incidence of excise and other taxes. This combination of factors provides a strong inducement to the producer to suppress his production and evade the tax partly or wholly. Units which evade duty and get away with the evasion have a powerful edge in the market over units which do not. We have been told that evasion in sodium silicate which carried an *ad valorem* duty incidence of 20% (since reduced to 15%) is attributable mainly to factors such as these. In plastics again, the tax incidence amounts to around 45% (30% on account of excise duty, 10% on account of sales tax and 2% on account of octroi). Not many resist the temptation to evade duty. Matches are yet another case in point, since they carry a duty incidence of more than 100%.

12. More important in this context than the duty rates as such are the differential rates for different categories and sub-categories of the same tariff item or of allied products in different items. These in some cases provide for such a steep increase in incidence from one category or sub-category to another, that only a slight manipulation is necessary in order to achieve a substantial saving in duty liability. This is particularly true of yarns on which the duty liability is dependent upon count or denier. Instances of misclassification of marginal counts and deniers are frequent and it may be inferred that there is sizeable evasion. In regard to woollen and art silk yarns, where no tolerance is permissible, the differential rates lead in many cases to serious classification disputes. The following are among the more glaring contexts in which duty differentials are an inducement to misclassification and evasion:—

(i) A fabric containing 40% by weight of silk and 60% by weight of cotton is classified as silk fabric and is exempted from duty: if the silk and cotton contents are 39% and 61% respectively, the fabric attracts duty at varying rates under the cotton fabrics tariff and, in the case of varieties liable to *ad valorem* rates, at 15% *ad valorem*.

(ii) A fabric containing 40% and 60% respectively by weight of silk and rayon or art silk is exempted from duty, but if the respective contents of the two fibres are 39% and 61% the fabric would be classified as art silk fabric attracting a duty incidence of between 3% and 15% *ad valorem*, depending again on the value of the fabric.

(iii) Worsted yarn of 24s counts carries a tariff value of Rs. 27.50 per Kg., but if the count is 25s (but below 48s), the corresponding tariff value is Rs. 46.50, which in terms of *ad valorem* rates of 5% and 12% applicable to these categories would make a difference in incidence of Rs. 4.20 per Kg.

(iv) In asbestos cement products, pressure pipes in lengths of 3 metres and above (manufactured according to specifications of classes 1 to 5 of I.S. 1592-1960) carry a tariff value of Rs. 1450.00 per M.T., whereas other similar pipes are assessable on the basis of a tariff value of Rs. 900.00 per M.T., involving a difference in duty incidence of Rs. 550.00 per M.T.

(v) A 15 H.P. internal combustion engine carries a tariff value of Rs. 4,600 while a 16 H.P. engine is assessable on the basis of a tariff value of Rs. 7050; this would make a difference of more than Rs. 100.00 in the duty incidence of the two engines. Internal combustion engines of 10 H.P. or less are completely exempted from duty. There are several cases in which the horsepower of the engines produced or cleared is underdeclared and duty evaded. We find that in a case detected in 1970-71, a private limited company cleared 128 such engines valued at more than Rs. four lakhs and thereby evaded duty to the extent of Rs. 22,506.00.

13. In an earlier chapter, we referred briefly to the abuse associated with exemptions. The phenomenon is widespread. A few illustrations called from evidence and from details of offence cases registered with the Department would serve to throw some light on the vast potential which exists for abuse and evasion.

14. There are several commodities which attract concessional rates of duty or exemption upto one or more specified levels of production. The production may be specified in terms of value or of quantity. There is usually a proviso that if the total production of the unit exceeds a particular quantum the unit loses

eligibility for concession and exemption: this is because it then ceases to be considered "small". In such an event the unit concerned is liable to pay duty even on clearances which it had already made free of duty. Instances in point are metal containers, safes and strong boxes, roller bearings, welding electrodes, zip fasteners, confectionery, and biscuits. The evasion in respect of goods pertaining to such exempted sectors is traceable to the ease with which some of the limits prescribed can be observed ostensibly, while contravened in fact. It has been repeatedly urged before us that apart from leading to fragmentation and pseudo-fragmentation they are a source of considerable evasion. During 1972, the preventive staff in a certain Collectorate intercepted a truck loaded with steel furniture which had been cleared directly from the premises of a producer but was covered by an invoice purporting to have been issued by an agency through which the producer was marketing his goods. On further scrutiny it was discovered that goods were shown to have been cleared from a nearby unit which, while purporting to be licensed for manufacture of steel furniture, was in fact defunct. This was done with a view to claiming the benefit of duty exemption admissible to the defunct unit. It was found that in 1971-72 the duty revenue evaded by this unit was Rs. 60,000. In another similar case a firm was found to have cleared goods worth Rs. 53,000 without payment of duty even though the full exemption admissible to the firm had already been availed of. In the course of evidence we were told that a big manufacturer of steel furniture, with an annual turnover of more than Rs. 40 lakhs, had to wind up his business in consequence of unfair competition from small units which were stated to be evading duty. The duty structure on matches is somewhat similar and we have already referred to it in our Special Report.

15. In paints and varnishes and certain other commodities, the tariff provides exemptions on the basis of the quantity of goods produced or cleared, subject to certain production ceilings. In essence these exemptions are similar to those described in the preceding paragraph. In the context of these exemptions, a somewhat ingenious method of evasion has been brought to our notice. Since the exemption is related to production in the current year, the producing units initially claim that their estimated production is likely to exceed the maximum prescribed; and they start paying duty at the full standard rates. They price their goods accordingly, i.e. after taking into account the duty incidence. They then proceed to manipulate the accounts in such a way that, towards the end of the year, they are able to come up with a claim for refund of duty paid. They base this claim on the ground that their actual production or clearances during the year did not exceed the maximum limit. The duty refunded is appropriated entirely by the producer. The consumer has already paid a price which is inclusive of the duty; and the exchequer has not benefited.

16. Electric wires and cables made of copper with a sectional area not exceeding 1.5 sq. millimeter produced by a small scale unit (in which the capital investment on plant and machinery as on the date of initial installation does not exceed Rs. 7.5 lakhs) are assessable at 12% *ad valorem,* whereas those with a sectional area of more than 1.5 Sq. millimeter attract a duty liability of 4% only. Several producers who are in this line are known to be misclassifying their goods with a view to evading the duty appropriately chargeable on their products. In one case, the duty revenue evaded on this account amounted to more than Rs. 75,000. In addition, the unit was also able to claim the attendant duty set off of 50 per kg. of copper content in copper wires.

17. As already stated, a duty rebate is admissible on cotton seed oil used in the manufacture of vegetable product. Two major cases of abuse of this concession by two public limited companies have been detected. These companies are reported to have fraudulently availed themselves of rebates amounting to Rs. 2,58,014 and Rs. 44,844 respectively.

18. Dutiable goods are removed in the guise of exempted or partially exempted goods. Tendering evidence before the Committee a witness who belonged to the textile industry alleged that sound fabrics were being declared and cleared as fents, and that the practice was so widespread that the products of his own unit had been priced out of the market. Several instances of this abuse have been brought to our notice. In one case a composite mill was found to have cleared 16,25,584 sq. meters of fresh cotton cloth by cutting it into rags and in the process had evaded duty to the extent of more than Rs. 15 lakhs. In another case, 3,16,957 sq. meters of good cotton fabrics were cleared without payment of duty as rags. Some reputable concerns were reported to have been packing art silk fabrics in rolls and clearing them, without payment of duty by declaring them as fents. In yet another case a seizure of 100 bales containing sound art silk fabrics cleared without payment of duty was made in 1972, and the duty evaded was more than Rs. 40,000. Cases in which good fabrics were deliberately cut into fents and rags with a view to claiming the benefit of total or partial duty exemptions are not uncommon. These developments led the administration, early in 1973, to revise the definitions of fents and rags. One of the criteria is length, and this was reduced in the new definition. Further, as part of the changes introduced by the Budget, the duties on fents were increased and, for the first time, duty was also levied on "rags".

19. There are many exemptions, total and partial, based on the end use of the goods produced. Such exemptions not only present serious difficulties of administration but are grossly abused. Instances of this type are: tractors intended to be used solely for agricultural purposes, special boiling point spirits classified as motor spirit intended to be used in the manufacture of rubber, paints and varnishes or solvent extracted vegetable non-essential oils, electric motors with a certain current consumption meant for fitting as integral parts of electric clocks, copper and copper strips and foils intended for the manufacture of imitation zari and trinkets, paper intended to be used in the printing of newspapers, textbooks and other books of general interest, aluminium paste converted into pyrotechnic powder meant for sale to manufacturers of fireworks, vegetable non-essential oils used in the manufacture of vegetable product, paints and varnishes, soap and artificial or synthetic resins, vegetable product intended to be used in the manufacture of soaps including insoluble soaps, fatty acids, greases, lubricants and textile sizing agents and protective agents in the manufacture of synthetic rubber, etc. Several cases of abuse of these exemptions have been reported. In a case taken note of by the Public Accounts Committee a large quantity of J.P.4 fuel oil cleared on concessional rate of duty was found not to have been used for the purpose to which that concession was related and the revenue involved was nearly Rs. 2.5 lakhs.

20. Wireless receiving sets manufactured in an industrial unit with a capital investment of not more than Rs. 7.5 lakhs of which the price (excluding excise duty or sales tax or both at the point of sale to the consumer) does not exceed Rs. 165.00 are exempted from duty, while sets in certain higher price ranges also attract preferential rates. Evasion is known to be widespread in this industry. The *modus operandi* followed is to mis-declare the value of the sets. In consequence, a large number of units producing dutiable sets have gone over to the exempted sector.

21. Apart from tariff and exemptions, there are several other factors which contribute to evasion. In a number of cases, the production of an excisable commodity can be easily suppressed because it is consumed as such within the factory itself or converted on the spot into a non-excisable product. We have been informed that manufacturers of corrugated boards who are also producing corrugated board boxes, and of copper and copper alloys who manufacture utensils on the same premises, are able to evade duty with impunity. Jute mills use jute fabrics as conveyor cloth, feed cloth and cop cloth in different machines without accounting for the quantity so used. Similarly, when goods command a market in close proximity to centres of production, the risk of detection is relatively small and the possibilities of evasion correspondingly great. Sodium silicate is frequently sold without payment of duty to those manufacturers of soap who are not subject to excise control because they operate without the aid of power. In the tea industry, the hygroscopic character of the commodity leads to gain of weight through absorption of moisture. It is believed that absence of physical supervision, coupled with the difficulty of establishing norms for the weight gained through such absorption, facilitates surreptitious removals without any means of detection through documents relating to weight. It is further believed that "made tea" is stealthily removed by workers and others and sold in the nearby markets. Location of producing units in isolated areas far away from points of control is by itself an inducement to evasion. This is particularly so when compliance with procedural and other requirements entails a visit to the administering officers and is for that reason irksome and expensive. In certain situations, production of excisable goods is suppressed because the corresponding raw materials or components have been purchased in the black market and cannot be shown in the books. Occasionally, goods which are not fully manufactured at the time of imposition of duty are declared as pre-excise stocks and cleared without payment of duty in terms of instructions which exempt such goods from the new levy. Several instances of this type have been brought to light in Public Accounts Committee reports and in audit bulletins issued by the Department.

22. Some of the methods employed for evasion are ingenious. Suppression of production and misclassification or under-valuation of goods are of course the *sine qua non* of evasion but the method itself varies from unit to unit depending upon its size and composition, and from commodity to commodity depending upon the process of manufacture followed, the structure of the tariff applicable thereto and also the extent of control or supervision exercised, in addition to several other factors. A small unit with a simple process of manufacture which does not require large manpower or complex documentation resorts normally to straight physical evasion, whereas bigger units take recourse to more sophisticated devices involving manipulation of accounts. In addition to outright removal of goods without payment of duty and without any documentation at any stage, the use of duplicate gate pass books and the transport of more than one consignment on a single gate pass are a known phenomenon. Misdeclaration of constructional particulars of excisable goods, inflating the weight of containers (like cylinders used for filling gas or drums for filling sodium silicate), claiming excessive storage, processing and transit losses, abuse of proforma credits obtained under Rule 56-A, diversion of goods cleared under bond for special industrial purposes and manipulation of treasury challans are some of the other methods employed. Manipulation of accounts so as to claim higher rebates (as in

the case of rebates related to excess production of sugar) or larger refunds, is also practised. Advantage is sometimes taken of legal and technical ambiguities or complexities to minimise the duty liability.

23. Mention may also be made of some cases of evasion involving fraudulent claims in relation to credits of duty into the treasury and manipulation of treasury challans. A factory manipulated the treasury challans by adding a digit to the figure representing the amount actually credited and thereby defrauded Government to the extent of more than Rs. 50,000. To cite another instance, credits for more than Rs. 18 lakhs were taken by certain factories in a particular State on the strength of some fifty treasury challans, which were discovered to be forged. The frauds took place over a period of 4 years from 1968-69 to 1971-72.

24. We have referred earlier to studies undertaken by the Committee's secretariat in relation to certain individual units. For this purpose visits were paid to a number of factories, most of them located in and around Delhi and producing (1) wireless receiving sets, (2) glass and glassware, (3) internal combustion engines, (4) mill boards, (5) copper and copper alloys, (6) electric wires and cables and (7) asbestos cement products. An attempt was made to correlate the recorded production of these units with independent parameters like machinery installed, capital invested, labour employed, electricity consumed and raw materials used. In certain instances, this was supplemented by other data received from the Collectorates. If the information furnished by the units could be accepted at face value, it would have to be concluded that many of these units were not economically viable. It was however clear that, in several instances, the accounts maintained did not reflect the true state of affairs and the production recorded was not sustainable on the basis of the parameters indicated. Most of these units were in the small sector.

25. In a number of contexts, there is considerable evidence which strongly, even if indirectly, suggests the prevalence of evasion. In certain centres of copper utensils industry it was found that after SRP had been introduced the recorded production of copper and copper alloys (circles) declined sharply. The Collectors inferred evasion and ordered various measures including intensified preventive activity and more frequent inspection of the units. The results achieved were substantial in that, apart from a large number of seizures of stocks cleared without payment of duty, the recorded production immediately began to show an upward trend. In one Division, the revenue realised during the period April to November, 1969, was Rs. 5,27,264; but as a result of the measures taken, the corresponding realisation during the same period in the following year went up to Rs. 11,60,612. An Association brought to our notice the fact that several units engaged in processing art silk fabrics were based on premises worth Rs. 20 to 25 lakhs each while the recorded value of output of such units was so low that the units could not be considered as viable in any sense of the term. In a certain State, the sales tax authorities had evidence of habitual evasion of both excise and sales tax through suppression of production of a series of excisable goods including aluminium, glass and glassware, electric lighting bulbs, sugar, vegetable products, milk products, patent and proprietary medicines and iron and steel products.

26. In response to our questionnaire and in the course of evidence tendered before us, several parties have indicated what in their view are the principal areas of evasion in relation to the nature of goods produced and the type of unit producing them. There is surprising amount of unanimity in this regard. The commodities to which attention has been drawn by the largest number of witnesses are: (1) sugar, (2) tea, (3) paints and varnishes, (4) sodium silicate, (5) cosmetics and toilet preparations, (6) plastics, (7) paper, (8) rayon or artsilk fabrics, (9) glass and glassware, (10) chinaware and porcelainware, (11) asbestos cement products, (12) mosaic tiles, (13) copper and copper alloys, (14) internal combustion engines, (15) electric motors, (16) power driven pumps, (17) electric batteries, (18) electric lighting bulbs, (19) wireless receiving sets, (20) wires and cables, (21) domestic electrical appliances, (22) matches, (23) steel furniture, (24) metal containers, (25) safes and strong boxes, (26) bolts, nuts and screws, (27) rubber products, (28) electric fans (29) plywood and (30) soap.

27. Apart from the general observations (i) that tariff complexities and exemptions provide an incentive for evasion, and (ii) that evasion is more widespread in the small sectors of the industry, some of the points which have come to notice in regard to different commodities are summarised below:—

(i) **Sugar.**—Underweighment of cane is one of the methods employed. It is alleged that, for this purpose, certain factories arrange for powerful magnets to be placed below caneweigh bridges, well paid mechanics being employed for this job.

(ii) **Cosmetics and toilet preparations.**—Exemption in relation to hair oils is being grossly abused.

(iii) **Art silk fabrics.**—The levy is on processors who are not the owners and only do job work. They do not know the correct composition, the constructional particulars or the value of the fabrics processed by them. This makes supervision difficult and evasion easy.

(iv) **Copper and copper alloys.**—Copper circles made out of scrap procured from the open market are not accounted for.

(v) **Internal combustion engines.**—Products suppress production in order to avail themselves of the duty exemption available upto specified limits of production. A large number of producers have gone out of excise control on the apparent basis that they are producing engines of below 10 H.P., while in actual practice they are producing bigger engines on which duty is being evaded. The horsepower is also misdeclared.

(vi) **Electric motors.**—These are often assembled in small workshops and even homes, from where it is easy for them to be cleared without payment of duty.

(vii) **Miniature electric bulbs.**—The records are manipulated to include large quantities of bogus sales of caps, which are the principal raw material for bulbs. The stocks thus shown as sold are actually utilised in the manufacture of bulbs, which are then cleared without payment of duty. Caps are also shown as wasted in the process of manufacture, the wastage ranging from 4% to 35%.

(viii) **Wireless receiving sets.**—The price of wireless receiving sets is under-declared. A large number of units producing dutiable sets have gone out of the purview of excise on its being made to appear that they are producing sets of a value not exceeding Rs. 165 each.

(ix) **Metal containers.**—The small producers evade duty not only on metal containers but also on the raw materials which go into their manufacture. The total duty differential is so large that units in the organised sector are facing unhealthy competition.

28. Tax procedures and the manner of their administration have a vital bearing on evasion. It has been urged by several witnesses, mostly from the Department, that the existing procedures lead to ineffective administration and make evasion a profitable proposition. Tax evasion being essentially an understatement of a tax payer's liability, there seem to be two major factors which govern a tax payer's decision regarding the extent of his understatement. These are his subjective judgment regarding the probability of detection and the penalty which he would have to pay on such detection. It has been urged before us that, as matters stand today, the probability is relatively small and the penalty often inconsiderable.

29. The procedures for levy and collection of excise duties as they obtained prior to the introduction of SRP and as they obtain at present have been described in earlier chapters. It has been suggested to us that the excise tariff structure is still geared to the system of physical control which regulated all administrative procedures for nearly twenty five years, since no basic change has been brought about in that structure after the introduction of SRP, the replacement of immediate physical check by remote documentary control is (according to this view) tantamount to a drastic reduction of the probability of detection and, in that sense is a direct invitation to evade. It is true that penal provisions for evasion have been made more stringent after the introduction of SRP. For example, the maximum penalty has been raised from Rs. 2,000 to an amount not exceeding three times the value of the excisable goods or Rs. 5,000 whichever is greater. Alternatively, to cite another example, the law now provides for confiscation of land, building, plant, machinery etc. in the case of proved offences. In actual practice, however, the penal provisions are hardly ever applied at anywhere near their maximum level. They, therefore, do not provide the deterrent effect intended. If the fear of detection is lessened, so is the dread of what the punishment might be.

30. In attempting to evaluate the two patterns of control, SRP and pre-SRP, from the point of view of their bearing on evasion, it is necessary to distinguish between the situation written into the law and the situation as it exists in fact. For example, under the system of physical control, it would be technically correct to assume that the presence of an Inspector on the premises of a producing unit and his presumably intimate knowledge of the processes of production would mean that misclassification of goods going out of the factory would not ordinarily be possible since the Inspector would not only be knowledgeable on matters of classification but also would actually supervise clearances. The fact that under SRP there is no physical association or supervision on the part of the excise staff might therefore make a difference. This, however, would be an over simplification since, even under physical control, one Inspector had often to supervise several units, especially medium and small units, and could not possibly be present at each of them all the time. Since man-power was so widely dispersed in certain sectors, the so called physical control was, in this particular context more in name than in actual operation. Quite often the officer adopted the course of acquiescing in clearances without actual physical supervision. When this was the case, it made little difference whether the system was called physical control or one based on accounts or audit. Again, where convenience or amenities exist for removing the goods, without much risk of detection, from the factory premises to either outside or to a nearby duty paid godown, the fact that an Inspector was present on the premises during working hours may not make any difference to evasion under either system. At the same time, it would be necessary to take note that the very fact that a system of physical control was in operation tended to provide a moral and psychological deterrence to widespread misclassification and evasion.

31. In the light of the evidence discussed in the preceding paragraphs, we may make two broad generalisations concerning the effect of

SRP on evasion. In respect of those commodities which are significantly produced in the small, and to some extent medium sectors of the industry and of which exemptions are an important feature, it would seem likely that SRP has led to more evasion. The evasion itself, however, whether or not caused by SRP, is very extensive. In other commodities and sectors SRP has either made little difference to evasion or, in relation to specific categories of complicated tariff, has increased the possibility of evasion through misclassification. In regard to the latter categories the total volume of evasion through misclassifications would seem to be substantial, entirely apart from the question of how much SRP has contributed to that volume.

32. We now turn to the statistical side of our investigation. The feasibility of arriving at some kind of quantitative estimate of evasion, either in its totality or in terms of individual sectors of production, has engaged the Committee's attention from the start of this enquiry. The difficulties were obvious from the beginning and cannot be said to have been surmounted since. Even at the micro level, the quantification of the duty evaded involves numerous uncertainties and assumptions. In a macro exercise the difficulty is multiplied many times while the utility decreases in corresponding degree. Nevertheless we have made several attempts to arrive at some broad magnitude of evasion, with reference to such statistical data as were available. The various approaches which suggested themselves and which we have explored are (i) analysis of the offences recorded and fines and penalties imposed and realised, (ii) study of trends in revenue after discounting increases in tariff and trends in production, (iii) comparison of the statistics of production as recorded by two or more agencies, and (vi) estimation of production on the basis of other factors or parameters such as consumption of key raw materials or use of input-output norms, so as to arrive at figures which are independent of the statistics reported. We discuss the exercises attempted in the succeeding paragraphs.

33. Table (1) appended to this Chapter presents statistics of excise offences, aggregated for the whole country, for the period 1967-68 to 1971-72. In this context it is necessary to distinguish between three different but connected statistical aspects of what is loosely termed "excise offences". The first relates to all acts of commission over a given period covered by the term "tax evasion", irrespective of whether they are detected or not. The second concerns the effort made by the administration to track down the offender. The third is confined to registered offences. For obvious reasons, there always exists a gap between offences committed and offences registered, the dimension of the gap being a function of a number of factors including the degree of effort made to detect offences. Table (1) shows that the number of cases registered in respect of manufactured products increased in absolute terms from 4500 in 1967-68 to 8500 in 1971-72 (Column 4). Its proportion to the total number of offences also increased from 20% to 41%. While part of this increase may be due to intensification of preventive activity in the wake of SRP it has to be remembered that the number of commodities under control as also the number of factories (other than powerlooms) increased over the same period from 70 to 116 and from 20579 to 32657 respectively.

34. Table (1) also shows that the number of cases disposed of as a proportion of the total number of cases registered and brought forward, has steadily declined from over 82% in 1967-68 to nearly 73% in 1971-72, even though the total quantum of work as judged from column 6 increased only marginally.

35. Table (2) gives the sector-wise classification of registered offences. This has been compiled on the basis of data received from the Collectors, except for some four or five divisions and indicates that the composition of offences, as between technical and substantive, has not changed at the aggregate level during the three-year periods preceding and following the introduction of SRP. It will be seen that, though by far the largest number of detections relate to proprietary concerns and private limited companies during both the pre-SRP and post-SRP periods, the relative sector-wise composition has only slightly changed, the offences registered against private limited companies gaining at the expense of the proprietary concerns. If it is assumed that distribution of factories into groups according to the revenue yielded by them had also not changed radically over the same period, then the unchanged sectoral distribution of detected offences in the two periods implies that the realised probability of detection was independent of the size or composition of the units under the two systems of physical control and SRP.

36. Table (3) presents the position regarding detection of offences by various groups at different levels of the administrative machinery. By the nature of post-facto verification under SRP a large proportion of the detections attributed to the range staff (44.5%) may be expected to be technical in nature. Again while, in absolute terms, the number of cases detected by the preventive staff increased from 1115 in the pre-SRP period to 3138 in the post-SRP period, their relative contribution to detection seems to have declined, whereas the new agency of "Inspection Groups" detected 25% of the cases which were earlier detected by the range staff.

37. Table (1) which indicates the disposal of offence cases shows that there is some increase in the percentage of cases where penalty was

imposed (44% pre-SRP and 53%SRP), together with a slight decrease of percentage in those cases which were either dropped or closed with a warning (21% pre-SRP and 18% SRP). But the more important point which emerges is that, despite the strengthening of the penal provisions, the number of offence cases where confiscation was ordered without penalty declined both in absolute terms and in relative proportion to the total number of registered cases. In 95% of the cases the penalties imposed were less than Rs. 250. More importantly, the percentage of cases in which fines amounting to more than Rs. 1000 were imposed dropped from 1.51% under pre-SRP to 0.58% under SRP. It appears to us that the deterrent provisions built into SRP have not been adequately invoked.

38. Table (5) presents such evidence as is available in regard to realisation of penalties, fines and duties imposed. It is seen that fines and penalties realised as a proportion of fines and penalties imposed has steadily declined from around 60% in 1960 and 46% in 1967 to 34% in 1970. It is also seen that while percentage realisations have remained constant around 45% for fines, the corresponding proportion for penalties has progressively declined from 47% to 29%. Similarly, duty realised as a percentage of duty imposed has declined from 20.85% in 1967 to 14.47% in 1970. The decline is much more marked if we exclude unmanufactured tobacco. This is evidenced from the sub-joined table.

Year	Fines and penalties		Duty	
	Imposed	Realised	Imposed	Realised
1967	4,99,638	1,99,460 (39.92%)	37,35,099	8,04,357 (21.54%)
1968	4,35,752	1,93,095 (44.31%)	31,48,635	5,75,713 (18.28%)
1969	7,85,097	2,66,776 (33.98%)	20,31,225	2,58,506 (12.73%)
1970	11,28,946	3,43,686 (30.44%)	25,42,047	2,88,863 (11.36%)

(Figures within brackes represent fines and penalties and duty realised as a percentage of fines and penalties and duty imposed.)

39. A further analysis based on registered offences throws some light on commodities which are important from the point of view of evasion. The ten major commodities (major from the point of view of the number of cases detected) before and after the introduction of SRP are indicated below:—

1965, 1966 and 1967		1969, 1970 and 1971	
1. Cotton fabrics	(170)	1. [Matches]	(697)
2. Matches	(142)	2. [Steel furniture	(314)
3. Copper & Copper Alloys	(99)	3. Tea	(307)
4. Tea	(63)	4. Copper & Copper Alloys	(120)
5. Iron & Steel products	(61)	5. Patent or proprietary medicines	(90)
6. Sugar	(59)	6. Refrigerating & Air-conditioning machinery and appliances	(73)
7. Wireless receiving sets	(55)	7. Iron & Steel products	(66)
8. Sodium silicate	(30)	8. Sodium silicate	(60)
9. Wires and cables	(20)	9. Electric motors	(57)
10. Paints and varnishes	(17)	10. Cotton fabrics	(52)

(Figures within brackets represent the number of substantive offence cases.)

40. The foregoing data provides some useful information about sectors and commodities to which registered offences relate and also about their relative importance and trends over a period of time. But it does not disclose a base for estimating the extent of evasion.

41. One of the exercises sometimes attempted for estimating evasion in revenue offences is to relate such evasion to the value of goods seized, or duty evaded in relation thereto. The latter is blown up or inflated on the basis of certain assumptions made regarding the proportion of such seizures or quantum of duty evaded to the total. This method, however, has not much relevance in the present context. There is an obvious difference between detection of contraband goods at Customs ports and central excise seizures in different parts of the country. Smuggling, that is to say professional smuggling which is the only type really important from the point of view of Customs

revenue, is highly and extensively organised. Any one event of smuggling is likely to be part of a whole network of smuggling and therefore representative of that network. By comparison, each act of evasion of excise is individual to the evader; it is not connected with, and is not necessarily representative of, excise evasion on a larger cancas. Production and clearances of excisable goods are a continual process and an unauthorised removal at a given point of space or of time cannot be projected to arrive at an estimate of total evasion. Here, again, the magnitude of evasion cannot be read into the figures provided by the data.

42. So far as a comparison between revenue and production trends is concerned, we are of the view that there is a basic fallacy in this method of estimation, inasmuch as the past data regarding revenue collections or production and clearances are, in themselves, net of evasion. To that extent a comparison of the present rates of growth with past trends cannot be very meaningful. Apart from the constraints pointed out earlier about estimation of evasion in general, there are several other difficulties in adopting this technique. Firstly, the years immediately preceding the introduction of SRP were marked by industrial stagnation, while the post-SRP years have been marked by industrial recovery. As a result, the post-SRP figures of production and revenue can well be expected to reveal a somewhat higher growth rate. Secondly, a higher or a lower growth rate, would not necessarily point to the absence of evasion or to its prevalence. In an economy that is marked by many scarcities, the establishment of a few new units of production or expansion of the capacity of existing units or the cessation or diminution of production for one reason or another e.g. shortage of raw materials or power might result in significant fluctuations of production. The variations noticed are in a majority of cases capable of being explained and since it is not always possible to quantify each factor said to be responsible for such variations, or to arrive at what the optimum rate of growth should have been, but for the factors mentioned, the comparison loses a great deal of its statistical validity. We are aware that the Department itself has conducted studies from time to time, on the basis, largely, of statistics of production and clearances. Some time ago, a Committee of Collectors looked into this aspect. They confined themselves to some 13 or 14 commodities which had registered a decline in production since the introduction of SRP. After going into possible reasons for that decline, they concluded that some of these were: (i) communal disturbances in a particular city, so far as decline in textile production was concerned, (ii) fall in demand for carpet backing cloth in the case of jute manufactures, (iii) reimposition of duty in the case of cigars and cheroots, (iv) fall in production of major producers in the case of steel ingots, and (v) closure of a large number of factories in the case of matches. We draw attention to this because, on the data available, it is often not possible to draw other than ad hoc conclusions regarding decline in production. Thirdly, several practical difficulties are encountered in such analysis on account of lack of adequate data. For example, changes in tariff or enlargement of scope of exemptions in respect of one or more commodities may render it almost impracticable to make meaningful comparison between the figures for one year and those for another. Again, the production of a single commodity may be reported in so many different units that comparison is impracticable, especially when composition changes from year to year. Thus, the units involved in reporting the production of plastics are: numbers, litres, tonnes, metres, square feet and square metres. For patent or proprietary medicines they are: numbers, phials, kilogrammes, litres, cubic centimetres, mega, packages, and tablets.

43. We have been told that detailed exercises are undertaken by the Central Board of Excise and Customs each year at the time of the formulation of the revised budget estimates (for the running year) and budget estimates (for the following year), in which note is taken of past trends, probable increases in levels of installed capacity, availability of raw materials from both imports and indigenous sources and other factors having a bearing on economic growth. It was suggested that if actual realisations correspond reasonably to such estimates, it could be assumed that there was no evasion. We have already referred to the basic fallacy inherent in such an assumption. Even so, we looked into these estimates and found that even between revised estimates which are formulated about three months before the close of the year (when data for 8 or 9 months are already available) and actual collections for the same year, there are fairly wide variations. There are still wider variations between sanctioned budget estimates and actual collections.

44. We considered it might be helpful to institute a comparison between the statistics of production maintained by the Excise Department and those recorded in the accounts prescribed by other agencies. All data regarding production are provided basically by the producing units—by their managements or the persons in charge—statutorily for the purpose of the Excise Department, and on a voluntary basis for others. To that extent, the sets of data available with different agencies cannot be regarded as in fact independent. It was thought nevertheless that a study might be worth attempting. The Gokhale Institute of Politics and Economics, Poona, very kindly undertook a preliminary exercise on our behalf. The analysis carried out by the Institute compared the trends in production of some 40 excisable commodities from two sources; namely production reported in the "Statistical Year

Book" issued by the Statistics and Intelligence Branch of the Excise Department and in the "Monthly Statistics of Production of Selected Industries in India" (MSP) published by the Central Statistical Organisation. The period selected for comparison was 1961-62 to 1970-71. For this purpose, indices of production were constructed with base 1961-62=100, in the excise sector and then compared with the general index of industrial production (MSP) after adjusting the same for its base year. Since aggregation might lead to the rise of production in one commodity cancelling out the fall in another, the Institute made an attempt to compare the trends in production of individual commodities. For this purpose, indices of production were constructed for individual commodities on the same basis. It was realised that the Excise and MSP indices so constructed were not strictly comparable for two reasons. First the coverage of MSP was confined mainly to units in the organised sector and information regarding production was collected on a voluntary basis; this gave rise to variable coverage over a period of time. Second, changes both in the structure of excise duties and in the exemptions granted to different sectors of the industry introduced complications into the comparison. Some broad adjustments were, however, made by the Institute to take care of these factors. The results may be said to be not inconsistent with the view that when the source for the two sets of figures is the same, the trends revealed cannot be substantially different.

45. Another approach to the problem was attempted by the Committee. This was to locate some independent indicators from which rates of growth could be deduced and then applied to production. The number of man-hours employed, electrical energy consumed, the capacity of the machinery installed and raw materials used suggested themselves as the likely indicators. It was, however, found that apart from the fact that such an analysis could be applied only on a micro basis and would be relevant only for individual units, there were several other difficulties in pursuing this line of approach. For one thing, in quite a few cases, the producing units under excise control turn out on the same premises not one but more than one product (including goods which may be non-excisable) and allocation of the man-hours employed or the electrical energy consumed, etc. as between different products and for semi-finished goods in various stages of production or processing is not always possible. Moreover, processes and techniques of production vary not only from unit to unit but keep on changing even within the same unit, and proper allowance has to be made for such changes. These and other similar difficulties were experienced by the Committee's staff in the course of their survey of individual units referred to earlier in this chapter. As regards raw materials, the Department itself has prescribed, in the case of the major industries, the principal raw materials for which a day to day account is required to be maintained by the producer, but this account has not served the purpose intended and we understand that, except in a few cases relating to matches, it has not been possible for the Department to initiate or establish any cases of evasion on the basis of the raw material account. Further, since the account is maintained by the producer, it is as much subject to manipulations as the account relating to production.

46. In an estimation at the aggregate level based on the total availability of raw material, there is also another difficulty, namely, of the same material being used in different industries producing excisable and non-excisable goods in varying proportions. There are however some instances in which this difficulty is not paramount. Thus, in the case of matches and to a lesser extent in the case of sodium silicate, the principal raw materials which are used in the manufacture are, respectively, potassium chlorate and soda ash. Potassium chlorate is used almost wholly for matches while consumption of soda ash by the sodium silicate industry is placed reliably at about 25% of the total availability. Our analysis based on consumption of potassium chlorate is set out in our Special Report on Matches. In the case of sodium silicate we found that proceeding on the assumption that the input-output ratio is 1:3.25, the duty revenue estimated to have been evaded by this industry was as follows:—

1964-65	Rs. 4.2 lakhs	(5.5%)
1965-66	Rs. 9.6 „	(10.6%)
1966-67	Rs. 13.1 „	(9.5%)
1967-68	Rs. 31.4 „	(24.5%)
1968-69	Rs. 61.3 „	(49.3%)
1969-70	Rs. 61.0 „	(38.4%)
1970-71	Rs. 64.1 „	(33.8%)

(Figures within brackets represent estimated evasion as a percentage of the duty revenues realised in each year).

The sodium silicate industry (mostly units in the organised sector) has been clamouring for some time that duty is being evaded by the small producers on a fairly extensive scale. This seems corroborated by the above analysis. According to the industry, the extent of evasion during 1969-70 was around Rs. 81 lakhs.

47. The technique generally followed in conducting input-output analysis involves the taking into account of the effect on production of changes in the final demand (made up of private and public consumption, investment, export, and changes in stocks) the whole exercise being conducted within a framework of general equilibrium. There are, however, serious limitations in applying this method to the estimation of evasion. Firstly, the data requirements of this method are fairly considerable; secondly, the input-output co-efficient matrices presently available refer to the period of the early sixties and are thus out of data for our purpose. Again, the industrial breakdwn available in these matrices is not detailed enough to be applied explicitly to commodities covered by the excise tariff. Having regard to these limitations, we have had to decide against using this technique in the present context.

48. In concluding this chapter we may turn again to the questions which we started it. They are questions which have been put to us and may be re-stated as follows:— (1) where does evasion take place, how does it take place, and why? Is SRP one of the causes? (2) how much is being evaded and, of this, what part is being evaded because of SRP? We have given reasons why we have not been able to find a statistically sound answer to the second of these questions: this is so with reference to the total magnitude of evasion and much more so with reference to SRP's contribution to this magnitude. At the same time, on the basis of all the evidence we have had before us, we have reached the conclusion that evasion is considerable and, in certain sectors, pervasive, This is an inference we have drawn from the totality of what we have seen, heard and investigated. We consider it a perfectly valid conclusion based on what we have elsewhere called the general evidence. But such a conclusion has to be distinguished from quantification, just as quantification in turn has to be distinguished from a mere guess as to quantum. For quantification to be statistically valid, there is a prior two-fold requirement, namely, adequate data and appropriate methodology. The two have to be judged in relation to each other; the methodology must be one which can make something meaningful out of obtainable data. We explored both. The several efforts are set out in the foregoing paragraphs. The result may be summed up in one phrase: we are unable to quantify and unwilling to guess.

49. We would point out however, that in the context of the procedural and organisational issues on which we have been asked to make recommendations, it is not so much a statistically sustainable figure that matters as the wide range of evidence which points to the prevalence of evasion as a large scale phenomenon, and throws light on the diversity and causes of its occurrence. In answer, therefore, to the question as to where evasion takes place, and how, and why, we have endeavoured in this Chapter to set out and analyse the situation both sector-wise and commodity-wise and with specific reference to tariff and exemptions. We have also, in the same context, dealt with those aspects of evasion with which SRP may be said to be more specifically concerned. On this material, and in the background which we have traced of the tax-procedure, its operation and its effects it is now possible for us to put together the various considerations on which recommendations for the future may be formulated. This we proceed to do in the section which follows.

TABLE (I)

Central Excise Offences during 1967—68 to 1971—72

Year	Number of cases brought forward	Number of cases registered			Total Col. (2) and Col. 5	Total number of cases disposed of	Total number of duty paying units as on 31st March	Cost of collection Rs. (Crores)	Registered offences as percentage of total		Number of cases disposed of as percentage of total Col. (7) to Col. (6)	Registered offences (Manufactured Products) as percentage of duty paying unit Col. (4) to Col. (8)
		Unmanufactured Products	Manufactured Products	Total Col. (3) and Col. (4)					Un-manufactured Tobacco Col. (3a) to Col. (5)	Manufactured Products Col. (4) to Col. (5)		
		Tobacco Coffee (a) (b)										
1	2	3	4	5	6	7	8	9	10	11	12	13
1967-68 .	5,234	17,673 764	4,485	22,922	28,156	23,125	20,579	14.01	77.10	19.57	82.13	22
1968-69 .	5,031	14,184 630	4,142	18,956	23,987	18,627	22,497	14.91	74.83	21.85	77.65	18
1969-70 .	5,360	13,660 642	5,740	20,042	25,402	18,635	25,141	12.53	68.16	28.64	73.36	23
1970-71 .	6,767	13,561 835	7,605	22,001	28,768	19,901	26,528	13.70	61.64	34.57	69.18	29
1971-72 .	8,867	11,645 647	8,489	20,781	29,648	21,496	32,657	14.29	56.04	40.85	72.50	26

Sources : Col. (2) to (7) Statistical Year Book of Central Excise Vol. II, 1971-72, Page 10.
Col. (8) : Has been complied from Vol. I of Statistical Year Book for various years.
Col. (9) : Statistical Year Book of Central Excise, Vol. II, 1971—72, Page 25.

TABLE 2

Sector-wise classification of offence cases

Sector	Pre-SRP Period (1965 to 1967)		Post-SRP Period (1969 to 1971)	
	Numbers		*Numbers*	
	Substantive	Total	Substantive	Total
1. Government Undertakings	18 (1.33)	38 (1.15)	73 (1.67)	139 (1.25)
2. Public Limited Companies	51 (3.78)	104 (3.16)	177 (3.81)	326 (2.94)
3. Private Limited Companies	205 (15.20)	449 (13.63)	803 (17.30)	1520 (13.70)
4. Co-operatives	14 (1.04)	34 (1.03)	41 (0.88)	109 (0.98)
5. Proprietary Concerns	1061 (78.65)	2670 (81.03)	3549 (76.44)	9000 (81.13)
TOTAL	1349 (100.00)	3295 (100.00)	4643 (100.00)	11094 (100.00)

NOTE : Figures in brackets indicate the proportion to the total.

TABLE 3

Detection of Offences by various groups

	Pre-SRP Period (1965 to 1967) Number	Post-SRP Period (1969 to 1971) Number
1. Range Staff	2130 (64.64)	4937 (44.50)
2. Inspection Groups	..	2828 (25.49)
3. Audit	13 (0.40)	138 (1.24)
4. Supervisory Officers	37 (1.12)	53 (0.48)
5. Preventive Staff	1115 (33.84)	3138 (28.29)
TOTAL	3295 (100.00)	11094 (100.00)

NOTE : Figures in brackets indicate proportion to the total.

TABLE 4

Disposal of Offence Cases

Nature of disposal	Pre-SRP Period (1965 to 1967)	Post-SRP Period (1969 to 1971)	Pre-SRP Period (1965 to 1967)	Post-SRP Period (1969 to 1971)
1. Number of cases dropped	438 (13.29)	1249 (11.26)		
2. Number of cases closed with warning	252 (7.65)	738 (6.65)		
3. Number of cases compounded	583 (17.69)	402 (3.62)		

TABLE 4—*contd.*

Nature of disposal	Pre-SRP Period (1965 to 1967)	Post-SRP Period (1969 to 1971)	Pre SRP Period (1965 to 1967)	Post-SRP Period (1969 to '71)
4. Number of cases where only charge of duty adjudged without penalty.	123 (3.73)	267 (2.41)		
5. Number of cases where confiscation ordered without penalty.	195 (5.92)	155 (1.40)		
6. *Cases in which penalties were imposed.*				
(a) Upto Rs. 100	1234 (37.45)	4834 (43.57)	84.64	81.77
(b) Rs. 101 to Rs. 250	157 (4.76)	841 (7.58)	10.77	14.23
(c) Rs. 251 to Rs. 500	32 (0.97)	120 (1.08)	2.19	2.03
(d) Rs. 501 to Rs. 1000	13 (0.40)	82 (0.74)	0.89	1.39
(e) Rs. 1001 to Rs. 2000	9 (0.27)	6 (0.06)	0.62	0.09
(f) Above Rs. 2000	13 (0.40)	29 (0.26)	0.89	0.49
(g) Total (a) to (f)	1458 (44.25)	5912 (53.29)		
Number of cases pending	246 (7.47)	2371 (21.37)		
GRAND TOTAL: .	3295 (100.00)	11094 (100.00)		

NOTES.—Figures in brackets indicate proportion to the total.

Col. (4) and (5) give for pre-SRP and Post-SRP period respectively, the percentage distribution of the cases by the amount of penalties imposed in relation to the total number of such cases given in line 6(g).

TABLE 5

Central Excise Offences, Penalties, Fine & Duty imposed and Realised.

	1960 1	1961 2	1967 3	1968 4	1969 5	1970 6
1. Penalties imposed (Rs.) . . .	N.A.	N.A.	4,04,837	5,92,039	7,78,324	11,24,005
2. Fine imposed (Rs.)	N.A.	N.A.	4,31,541	4,80,416	5,35,848	5,25,442
3. Penalties & Fines imposed (1+2) (Rs.)	13,13,349	11,01,033	8,36,378	10,72,455	13,14,172	16,49,447
4. Penalties realised (Rs.) . . .	N.A.	N.A.	1,89,951	2,60,337	2,78,679	3,21,901
5. Fines realised (Rs.) . . .	N.A.	N.A.	1,94,833	2,24,004	2,39,358	2,35,924
6. Penalties & Fines realised (4+5)(Rs.)	7,85,195	5,75,241	3,84,784	48,4,341	5,18,037	5,57,725
7. Duty imposed (Rs.) . . .	18,58,905	29,85,550	53,50,886	54,94,781	37,36,455	42,39,648
8. Duty realised (Rs.)	9,88,242	6,01,143	11,15,618	9,27,614	5,88,378	6,13,684
9. Penalties realised as percentage of penalties imposed.	N.A.	N.A.	46.92	43.97	35.80	28.62
10. Fines realised as percentage of fines imposed.	N.A.	N.A.	45.15	46.63	40.67	44.90
11. Penalties and fines realised as percentage of penalties and fines imposed.	59.79	52.25	46.01	45.16	39.42	33.81
12. Duty realised as percentage of duty imposed.	53.16	20.14	20.85	16.88	15.75	14.47

Sources : Col. (1) & (2) : Central Excise Re-organisation Committee (1963) p. 356.
Col. (3) to (6) Compiled from returns available with the S. & I. Branch, New Delhi.

SECTION III

RECOMMENDATIONS

CHAPTER 11

FRAMEWORK: SYSTEM OF SELECTIVE CONTROL

In the foregoing review of central excise—how it has developed, how it is operating and how it is being evaded—we have attempted to set out at some length the facts and data on which any recommendations for the modification of procedure and organisation must be based. Three aspects stand out: the large diversity of the tax base, the great complexity of the tax system and the wide prevalence of tax evasion. From these follow certain important considerations which must be borne in mind in formulating new measures.

2. First, no single mould of procedure, including SRP, would suit alike all types of commodities or all forms and sizes of industrial units. The tax pattern must conform to the production pattern and not the other way around. Since the commodities produced (along with the units which produce them) fall into certain broad, well-defined categories, the tax system in its turn has to be designed so as to comprise separate procedures of selective control tailored to meet the distinctive features of the different categories.

3. Second, the question of complexity has to be examined with reference to the commodities taxed as well as the procedure extant. No pattern of control for the small sector would be really suitable if it entailed disproportionate complexity from the point of view of tax compliance or disproportionate cost from the point of view of tax enforcement. The complexity would have to be measured from the small assessees, ability to keep books of accounts or fulfil other requirements, and the administrative control would have to be looked at in the perspective of the relatively small revenue yielded by this sector. Both these considerations point to a system much simpler than anything that might be envisaged for the medium and big sectors. Since exemptions complicate more than they help, the rationalisation of exemptions is one of the steps most needed in this connection. But above all—and this affects all sectors, big, medium and small—it is the tariff structure with its numerous and intricate ramifications that needs to be simplified and streamlined. Moreover, the burden of procedure should be lightened wherever that can be done without undue risk to revenue. All these are features which must be incorporated in the new pattern of selective control. They must replace the cumbersom ecomplexities of the present system, especially of its tariff and of its exemptions.

4. Third, exemptions are a prolific source of evasion and, for that among other reasons, evasion is pervasive in the small sector. That does not mean it is not actively present in certain other groups of industries as well. But there are yet other categories—few, but important from the view-point of revenue—where it ceases to be a factor of any significance. These considerations would have to be duly weighed, along with other aspects, in designing the pattern of control most suitable for each of these categories.

5. Sometimes, no cost is so great as the cost of uniformity. If it happens, as is indeed the case, that the larger part of the revenue comes from a sector where evasion is minimal and competence optimal, it is the way of wisdom for the tax authority to take the greatest possible advantage of this situation. To employ the same pattern of procedure, deploy the same scale of staff and incur the same degree of cost irrespective of whether the unit is from this sector or from an entirely different one where competence to comply is minimal and tendency to evade optimal is clearly both extravagant and inappropriate. The control therefore has to be selective, that is to say, discriminating without being discriminatory. For uniformity with reference to principle does not imply uniformity with reference to procedure. That, in this sense, selectivity and uniformity can coexist is illustrated by the whole history of excise procedure.

6. We may now briefly recapitulate the relevant background. When the laws relating to individual commodities subject to central excise were consolidated into the Central Excises and Salt Act, 1944, there were less than fifteen commodities (including salt and unmanufactured tobacco) covered by the Central Excise Tariff and subject mostly to specific duties. Except for unmanufactured tobacco, these commodities were proudced mainly by the organised sector, the tariff was comparatively simple, and the number of producting units was not large. Even so it was felt that the application of a uniform code to dissimilar commodities might create administrative difficulties. Accordingly, separate provisions were built into the rules framed under the Act to take care of the peculiar features of some of these commodities including matches, sugar and tyres.

7. Over a period of time the Central Excise Tariff expanded enormously. Duties came to be extended to a wide range of industrial products including raw materials, intermediate products and finished goods, produced not only by the organised sector but also by the small or cottage sector spread all over the country. In this process of expansion, there was a massive increase in the number of units required to be controlled, the tariff was continually refined to take care of growth and variety of production,

and the new trend of excise taxation was distinctly towards *ad valorem*, and away from specific levies.

8. The small sector presented special difficulties. On the one hand, it was felt that this sector needed fiscal concessions for its growth. Accordingly, several duty exemptions were extended to it and, as already pointed out, they rendered the tariff structure and its administration both complex and difficult. On the other hand, compliance by the small entrepreneurs with the legal and procedural requirements of a system designed basically for the organised industries created numerous problems both for the producers and the Department. Attempts were accordingly made from time to time either to effect suitable adjustments in the existing procedure or to evolve new procedures such as compounded levy schemes for particular commodities. Despite these measures, diversities in the system of excise taxation and procedures continued to grow.

9. In 1968 when SRP was introduced, similar apprehensions appear to have been felt in regard to the suitability of a standard procedure for all commodities. Accordingly, SRP was not extended in the first instance to certain commodities which presented complications in assessment or where there was substantial movement in bond. Even in respect of commodities covered by the procedure, several operations like removals and receipts in bond, removals for destruction, receipt of duty paid goods for reprocessing or repairs or under proforma credit schemes, and clearances for export were kept outside its purview. However, a year later the procedure came to be applied uniformly to all excisable goods and to all operations, including movement of goods under bond.

10. We have elsewhere considered the heterogeneous character of the commodities covered by excise and, with reference to different groups of industries, dwelt at some length on factors such as divergence in techniques of production and marketing, and variation in standard of compliance with the requirements of tax procedure. For reasons already explained, we consider that no single pattern can be expected equally to suit all the broad divisions of the industrial spectrum. We accordingly recommend a SYSTEM OF SELECTIVE CONTROL made up of distinct procedures adapted to different needs. The patterns of control we have in mind are broadly three, based respectively on (1) accounts, (2) production, and (3) clearances. These may, for facility of reference, be designated (1) Accounts Based Control (ABC), (2) Production Based Control (PBC) and Clearance Based Control (CBC).

11. We envisage ABC as a liberalised version of SRP applicable to commodities (i) which are produced almost entirely in the organised sector, (ii) in which the number of producing units is not unduly large, (iii) of which the tariff structure is comparatively simple, and (iv) in which the system of maintenance of accounts and of auditing of such accounts is sufficiently detailed and thorough to justify reliance being placed on their correctness and authenticity. We list the commodities concerned and elaborate the ABC pattern in Chapter 12. If our suggestions are accepted, twenty nine commodities will be brought under this pattern. They account for rupees 1597.83 crores or nearly 60% of the total excise revenue (Rs. 2652 crores) estimated for 1973-74.

12. For the remaining commodities generally, we advocate the pattern of Production Based Control (PBC) which, while not deviating from the essence of SRP, incorporates certain modifications with a view to bringing about a more efficient operation of the tax system. This it attempts through closer association between the excise official and the production unit, and better communication between the Department and the assessee. We list the commodities under PBC and elaborate the pattern itself in Chapter 13. The commodities covered wholly or partly by this pattern (the small sector in some of them will come under the third of the patterns we recommend) are 92 in number. In terms of the 1973-74 budget, they account for Rs. 997.48 crores or 38% of the total estimated revenue from central excise, Matches and coffee (besides a few minor items) are excluded from these figures, since a specific form of control has already been recommended for matches in our Special Report, while coffee, which is the only unmanufactured product under SRP is treated separately in the Chapter on Production Based Control.

13. Some of the commodities covered by PBC are more prone than others to evasion. These have been identified and dealt with at some length in Chapter 10 "Evasion". Moreover, the units pertaining to these commodities include a sizeable sector of small producers whose capacity to maintain records, submit returns or comply with various procedural and other requirements is extremely limited. For this sector—subject to the much more liberal alternative of compounded levy we presently suggest—we recommend the pattern of Clearance Based Control (CBC) which would correspond to the old system of physical control, including supervision over individual clearances. For this purpose, the small sector will be defined in terms of an annual turnover or value of production which does not exceed a pre-determined level or cut-off point. For units pertaining to the specified commodities and operating below this level, the particular measure of reform we contemplate is the offer of an option to put them on a new scheme of compounded levy which simultaneously renders the tax procedure simpler and the tax incidence lower than would be the case under the present system. The conditions specified, the details of the out-off level, the features of compounded levy, the position regarding exemptions and the particulars con-

cerning CBC are set out in Chapter 14. There are 48 commodities under this pattern of which the small units account for Rs. 16.78 crores or nearly 0.60% of the total revenue from excise estimated for 1973-74.

14. The principal measures we recommend for simplification of tariff and exemptions will be found in Chapter 17. These should however be read with connected matters—e.g. classification and valuation, licences and bonds—dealt with in other chapters in this Section. It is our hope that the various steps here recommended will not only contribute to the simplification and rationalisation of the tax structure, but result in considerable reduction of the delays, inconveniences and uncertainties to which the assessee is often subjected. It is however in the Volume on Organisation that we set out our recommendations concerning those measures of administrative and structural reorganisation which should help impart shape and substance to the policy changes and procedural reforms recommended in this Volume.

CHAPTER 12

LIBERALISED PROCEDURE FOR SELECTED COMMODITIES : ACCOUNTS BASED CONTROL

The commodities identified by us as appropriate for Accounts Based Control (ABC), the number of duty paying units producing these commodities, and the revenue yielded by them during 1971-72 are indicated in the table appended to this chapter. The relevant criteria earlier set out are, by and large, satisfied by these commodities. One or two qualifications have to be made, but these are relatively minor. Thus in the iron and steel (or ferrous) group of industries and aluminium, as well as in tyres and motor vehicles, there is a sizeable medium and small sector to which the application of Accounts Based Control would not be appropriate. Accordingly, so far as the ferrous group of commodities and aluminium are concerned, we propose that this pattern should apply only to the main producers. Similarly, in respect of tyres and motor vehicles, the small units which produce mostly tubes or scooter tyres, or trailers may be kept out of the purview of Accounts Based Control.

2. It would be observed that in terms of the data for 1971-72, the number of units which would be covered by this pattern is 583 with a revenue yield of Rs. 1193.41 crores constituting about 60% of the total excise revenue of that year. For 1973-74, the revenue from these commodities is estimated at Rs. 1597.83 crores which is nearly 60% of the total Budget estimate.

3. For units covered by this pattern of control, we envisage, on the part of the Department, a much greater degree of reliance on the accounts which the units themselves keep for their own purposes, a reduction in the number of inspections and visits, elimination as far as possible of physical checks, and substantial simplification of existing procedural formalities.

4. Presently, the Central Excise Rules provide that where the Collector is satisfied that the accounts maintained by an assessee are adequate, such assessee may not be required to maintain any other account for central excise purposes. At several places, we have found in the course of our visits that assessees are not aware of this provision and are, therefore, maintaining in addition to their own comprehensive accounts the records prescribed by the Department. This amounts to considerable duplication of work. We are of the view that the accounts maintained by producers operating under this pattern of control should ordinarily be accepted without any modification as satisfying the requirements of the Department. If, in any particular case, material particulars are found wanting in the accounts so maintained, the lacuna may be arranged to be filled and the accounts then accepted. It often happens that invoices or invoice-cum-despatch advices issued by the producers contain all the information required to be incorporated in a gate pass. In the ABC pattern, all such invoices or advices should be accepetd as valid excise document in lieu of the gate pass.

5. Several of the present procedural formalities are such that they can be dispensed with for this category of producers. For example, the facility to pay duty by cheque is available only after specific authorisation by the Collector. This again is subject to such terms and conditions as may be specified, and is also related to the quantum of duty paid in the preceding year. Similarly, for making a consolidated entry in the account current at the end of the day, or for paying duty on samples cleared during a month through a single debit in the account at the end of the month, the assessee has to seek the prior approval of the proper officer or the Collector. We are of the view that these formalities are unnecessary and that the facility to pay duty by cheque and to make consolidated entries in the accounts should be available generally to this category of producers without any preconditions. If the facility is abused, it would be open for the competent authority to revoke it. We understand that the Indian Oil Corporation have allowed to pay duty by 'Letter of Authority' in lieu of payment by cheque, in respect of some of their units all over the country. We consider that a similar facility should be extended to other producers, if asked for, subject to such safeguards as may be thought necessary.

6. As pointed out elsewhere, the general position under the existing provisions is that mutilations, overwritings, corrections and erasures in the gate pass are not permitted. Similarly, when the assessee has already made a debit entry in his personal ledger account, but has thereafter decided not to remove the goods and has, therefore, cancelled the gate pass, the rules do not allow him to make a corresponding credit entry unless specifically authorised; such authorisation is given at the time of the finalisation of the assessment of the monthly return. We consider these restrictions to be of no practical utility so far as the category of commodities under ABC is concerned. We accordingly recommend the corrections of the kind mentioned above should be permitted provided the entries concerned are neatly scored out and properly attested by a responsible officer of the factory. This relaxation, however, should not extend to date, time of despatch and description of goods. We also recommend that, where a gate pass is cancelled, there should be no res-

triction on a corresponding credit entry being made in the account current, subject to the Department being informed about the credit entry.

7. As an important feature of ABC we recommend a substantial reduction in the number of visits for inspection, audit, drawal of samples etc. There is, today, a certain amount of duplication of functions between the Assessment Range and the inspection Group on the one hand, and the Inspection Group and Internal Audit Parties on the other. For example, in addition to carrying out certain physical checks in relation to production, the Inspection Groups are required to check all gate passes issued by a factory in any calendar month during each half-year selected at random with entries in the RT 12 return, even though this check is also carried out on a cent per cent basis by the Assessment Range on receipt of the monthly return. The other checks prescribed for Inspection Groups are largely duplicated by the Internal Audit Parties. We propose to recommend in the Volume on Organisation that Inspection Groups as such should be abolished and their functions divided between the Assessment Range at the one end and the Internal Audit Organisation at the other. There will thus be two formations: (1) the field formation corresponding to the present Assessment Range and exercising functions relating to classification, valuation and assessment of goods, in addition to carrying out physical and other checks related to production, and (2) the audit formation carrying out a comprehensive audit of all producing units. So far as producers in the ABC pattern of control are concerned, we consider that a detailed half-yearly audit by the audit formation would be adequate, and physical checks or checks on production should be minimal. The jurisdictional field formation should normally confine itself to functions related to classification, valuation and assessment, and drawal of samples.

8. We deal elsewhere with issues such as licensing bonds, maintenance of account current, classification, valuation and other procedural matters. These apply not only to ABC but to the other patterns of control as well.

TABLE

Accounts Based Control

Sl. No.	Commodity	No. of units likely to be covered	Revenue in 1971-72	Revenue in 1973-74 (Sanctioned budget estimate)
			(Rs. Crores)	
1.	Cigarettes	17	193.07	240.00
2.	Motor Spirit	74	219.80	276.30
3.	Kerosene	55	123.89	155.00
4.	Refined Diesel Oils & Vaporising Oil	54	263.57	325.00
5.	Diesel Oil N.O.S.	44	25.37	24.60
6.	Furnace Oil	41	31.56	28.50
7.	Asphalt Bitumen & Tar	9	12.50	19.30
8.	Petroleum Products N.O.S.	20	25.97	47.50
9.	Compounded Lubricating Oils and Greases	44	7.91	16.35
10.	Calcined Petroleum Coke	3	0.87	1.00
11.	Soda Ash	4	2.46	2.85
12.	Fertilisers	51	21.36	44.25
13.	Cellophane	2	1.83	2.03
14.	Tyres (main producers)	14	63.24	81.49
15.	Synthetic Rubber	1	1.01	1.20
16.	Linoleum	1	0.09	0.32
17.	Cement	58	48.92	62.50
18.	Iron in any crude form (main producers)	6	4.57	5.67
19.	Steel Ingots (main producers)	6	1.91	9.46
20.	Iron or Steel Products (main producers)	6	77.89	163.53
21.	Zinc	25	1.31	4.06
22.	Aluminium (main producers)	5	27.07	39.18
23.	Lead	1	0.09	0.15
24.	Tin Plate & Tinned Sheets	3	2.66	5.44
25.	Motor vehicles (main producers)	29	34.30	39.25

TABLE—*Contd.*

Sl. No.	Commodity	No. of units likely to be covered	Revenue in 1971-72	Revenue in 1973-74 (Sanctioned budget estimate)
26.	Fork Lift Trucks & Platform Trucks	10	0.19	0.40
27.	Tool Tips	..	..	0.60
28.	Wire Ropes	..	..	0.75
29.	Carbon Black	..	..	1.15
		583	1,193.41	1,597.83

NOTE.—For items listed against serial Nos. 14, 18, 19, 20, 22 and 25, the sanctioned budget estimate figures for 1973-74 have been adjusted on the basis of the revenue derived from main producers during 1971-72.

CHAPTER 13

MODIFIED PROCEDURE FOR OTHER COMMODITIES : PRODUCTION BASED CONTROL

In the chapter outlining the framework of selective control we have indicated that for commodities other than those covered by the Accounts Based Control (ABC), there should be a pattern of control based on production. This would broadly correspond to SRP, but with certain significant modifications designed to ensure a more efficient operation of the tax system. Subject to one reservation, Production Based Control (PBC) would apply to all commodities not covered by ABC. The reservation is in respect of small units confined to certain specified commodities within the wider group covered by PBC. For these small units, defined in terms of value of production, we propose a simplified procedure which is explained at some length in the next chapter. All units above the level of turnover of small units of the specified commodities will of course be subject to PBC instead of the simplified procedure. Later in this chapter we shall deal with coffee and the procedure to be adopted for this commodity. The procedure for matches has been dealt with in our Special Report.

2. The table appended to this Chapter indicates the commodities to which this pattern of control will apply and the number of units expected to be covered together with the revenue yielded by them during 1971-72. It would be seen that this pattern would embrace some 92 commodities, forty for all units and the rest for those units which are not eligible for the simplified procedure spelt out in the next Chapter. In 1971-72, the relevant commodities accounted for 7335 units to which PBC would have been applicable. They yielded a revenue of Rs. 768.54 crores which was around 39% of the total excise revenue of that year. The commodities included in this pattern cover a very wide spectrum. They nevertheless present certain distinguishing features. They comprise a sizable medium sector, covering partnership firms and proprietary concerns. The processes and techniques of production followed by them as also the range of goods produced show a very wide diversity. The tariff structure is complex. It is based on various criteria which are relatable to the physical features or chemical composition of the goods produced. There is also, in regard to this category of commodities and units, an urgent need to tone up the standard of maintenance of accounts and of tax compliance generally. For all these reasons, it would be of the utmost importance in this sector which is covered by PBC to ensure much closer association than at present between the operation of the unit and the supervision of the Department. This applies to the production processes of the unit no less than to its accounts and other documentation.

3. It needs to be emphasised that by advocating Production Based Control for this class of producers, we are not deviating either from the concept or the form of SRP. In some ways, production oriented control is already an essential part of the Self Removal Procedure (as in the checks carried out by Inspection Groups). In the course of evidence tendered before us both by representatives of the industry and of the department it has been repeatedly pointed out that there is today a serious lack of communication between the assessee and the department. This is attributed, among other things, to the fact that officers are not readily available at or near the producing unit, having been withdrawn from the factories and often located at a distance. The result is that producers are greatly handicapped for want of information or clarification on important matters relating either to tariff or the procedure. What is primarily sought to be eliminated in PBC is this hiatus between the actual operations of production and the department's knowledge of the nature and details of those operations. This hiatus is derived neither from SRP as originally conceived nor from SRP as it ought to be implemented in the light of the instructions issued by the Central Board from time to time. Rather, it is relatable to SRP as it happens to be working in practice as the result of a number of historical and other factors. It is SRP as practised that is sought to be modified and made into PBC. We would reiterate that it is not necessary, in our view, to go back to the old system of physical control with supervision over individual clearances and countersignature of gate passes.

4. In the chapter on "Physical Control and other Pre-SRP Procedures", we have indicated briefly the legal position relating to levy and collection of excise duties. We have also referred to the fact that though excise duty is attracted immediately on production of excisable goods, for administrative and other reasons the central excise rules provide that "payment of duty shall not be required in respect of excisable goods made in factory until they are about to be issued out of the place or premises specified under rule 9 or are about to be removed from a store-room or other place of storage approved by the Collector under rule 47".

5. In the context explained above, the broad pattern of control prescribed by the Department was that all excisable goods manufactured were entered in a Daily Stock Account in form R.G. 1. Every producer was required, unless he undertook to pay duty on all such goods and clear them immediately on

completion of manufacture, to provide a storeroom or other place of storage at his premises for depositing goods made on the same premises without payment of duty. For this an entry book was required to be maintained in form E.B. 4 showing receipt and removal of goods, together with their full description in terms of quantity, weight and value, as well as the marks and numbers given on packages. A distinction was made between the stage at which goods were considered to have been produced for the purpose of attracting the duty liability and the stage at which they were considered as fully packed and/or ready for sale, for the purpose of actual collection of duty on clearance. Accordingly, an R.G. 1 stage used to be clearly indicated for each excisable commodity and the daily stock account was required to be written as soon as the goods in question reached that stage, whereas for the purpose of the storeroom account the assumption was that only such goods as were fully manufactured, packed and ready for delivery would be deposited there and entered in the E.B. 4 record. Instructions were also issued that where on the basis of stock taking operations or otherwise, the full quantity of goods produced and shown in the R.G. 1 record was not satisfactorily accounted for, formal proceedings would be initiated for remission for recovery of duty. Thus for cotton fabrics the R.G. 1 account was supposed to be written up at "off the loom" stage, whereas the E.B. 4 account showed only packed bales or other packages containing fabrics which had been further processed, stamped and packed.

6. We find that for some reason or the other this distinction came gradually to be obliterated, so that for quite a large number of commodities the R.G. 1 stage has not been specifically determined or notified and the two records have been combined under SRP into a single account still called the R.G. 1. It has, however, been provided that where an assessee, on his own, desires to maintain the R.G. 1 and E.B. 4 accounts separately, he would not be required to maintain the R.G. 1 account prescribed under SRP. In making a provision in the combined record for indicating packed and loose goods separately, this account seeks to combine the two records, though it is explained that loose goods are also finished goods lying temporarily in the finishing room awaiting removal to the bonded storeroom.

7. We consider that the earlier system had several merits. It enabled production to be accounted for at a convenient stage which in most cases was a stage or two prior to the one at which goods could be, or were, normally, marketed. It also permitted a reconciliation between the duty due and the duty actually collected. It is true that after the introduction of SRP, a great deal of emphasis came to be placed on the raw material account for the purpose of computing or correlating production with consumption of the raw material notified for various goods. In that context, the maintenance of two accounts, one for day to day production and the other for deposits in, and removals from, the bonded storeroom might have been considered unnecessary. We, however, find that the raw material account has not served the intended purpose. The Department has, no doubt, prescribed the important raw materials for some 62 excisable goods, and the producer is required to maintain an account in respect of each such material and also to submit a quarterly return (in form R.T. 5) of their consumption etc. It has also circulated, for the guidance of departmental officers a list of some 31 commodities in which broad input-output ratios have been given. In several cases, however, the list indicating the input-output ratios itself provides for wide possible variations and allowances for wastage and tolerance. Again, if the production recorded by a manufacturer is *prima facie* less than the production estimated, the remedy available is that normal production can be determined by the proper officer after taking into account a whole variety of factors. Some of these are: the installed capacity of the factory, raw materials used, labour employed, and power consumed. Such shortfall in production as is not satisfactorily accounted for by the above process can be assessed by the officer to the best of his judgment. In the departmental instructions issued on the subject it is specifically mentioned that provisions regarding determination of normal production and consequent assessment on the basis of best judgment should be invoked only in exceptional circumstances. Such an assessment can be made only by an officer duly empowered in this behalf by the Collector by a special order in writing. The Collector is asked to invoke the provision only in cases of a marked decline in production which cannot be attributed to any obvious causes. It has been argued before us that these instructions, by seriously inhibiting the scope for action in such cases, completely impair the utility of the Raw Material Account. We appreciate the view points expressed and subject to what we say later in chapter 18 consider that in all those lines of production in which a direct and uniform quantitative input-output relationship does not exist, there is no point in prescribing a raw material account or in attempting a verification of production on that basis.

8. We consider that proper accounting of production is a matter of considerable importance, particularly in the context of SRP. But adequate emphasis has not been placed on such accounting. In this connection we should like to endorse a suggestion made to us that in all cases in which it is not possible to establish a direct quantitative relationship between the raw material and the finished product, such accounting should begin at a stage prior to the

completion of manufacture, when the goods reach a near-finished condition in which they can be smuggled out and, with or without minor changes, put to use. It is argued that once this is done, and a proper check is kept on the maintenance of this account, it will not be possible for the producer to escape liability for the goods produced, even though duty might be collected at a later stage on the basis of goods actually cleared. What is proposed is in effect the reintroduction of the old R.G. 1 concept of accounting. There is one difference. The stage to be notified need not be the stage of production of goods; indeed, preferably it should be a stage prior to that when goods assume a form in which they can be cleared and, with minor operations thereafter, made ready for sale. We have considered the stages at which excisable commodities were required to be accounted for in the R.G. 1 record, under the earlier pattern of control, and find that in quite a few cases the stages already notified would satisfy the above requirement. For example, the R.G. 1 stage specified for cotton fabrics is "off the loom", for tea it is the stage at which it emerges from the firing machine, for vegetable product it is the bulk weight of deodorised hydrogenated oil manufactured, for cement it is the receipts in bulk in silos, for wireless receiving sets, it is the stage at which they are wired and subjected to test and tuning and so on. In these particular cases, it is not necessary to postulate an earlier stage for the purpose of accounting of production. But there are several other cases in which the stages specified are such as to be hardly distinguishable from the finished stage at which goods are stored in the storeroom and cleared on payment of duty. In all such cases, and others in which no R.G. 1 stage has been specified, it would be necessary to identify a suitable stage for the purpose of accounting. This would need to be done separately for each product after taking into account the process of production and the stage at which goods are capable of being sold. For example, soap can be required to be entered in the production record immediately it is cut into bars and cakes and not after it has been embossed and packed; electric fans after the component parts are assembled, and not after the fans have been tested and affixed with specification labels and numbers; and dry batteries as soon as the ageing process is complete.

9. We feel that accounting of production in the manner indicated above and of finished goods in a separate record corresponding to the old E.B. 4 together with greater physical association of the staff with processes of production, would together constitute a reasonably effective safeguard against suppression of production and illicit removals.

10. There exists in a large number of industries, particularly in the organised sector, a very systematic planning and accounting of production, starting from the stage of allocation of raw materials or an intermediate stage, whichever is feasible and convenient, when a distinctive code or serial number is assigned to each batch of production. The accounts maintained reflect the day to day position of each such batch in elaborate detail and the goods produced and/or the containers in which they are packed are also marked with the distinctive code or serial number assigned to the batch. This enables the management to check operational efficiency and to identify the complete history of each batch or lot of goods produced by them. We are of the view that a system of accounting based on batches of production would make for considerable simplification in procedures of classification and assessment, would facilitate verification of stocks and would enable correlation with the accounts of the producer. We accordingly suggest that the feasibility of adopting this system and extending it generally to all commodities and sectors of producers should be considered.

11. The suggestions made in the preceding paragraphs regarding accounting of production should apply generally to all commodities. They have been included in this Chapter merely because of their special relevance to the PBC sector of producers.

12. It has been suggested to us that for any production based control to be effective, both from the point of view of revenue and of the industry, there is no escape from positioning officers at the point of production itself or in as close a proximity to the point of production as possible. We have given careful thought to this suggestion. SRP did not envisage complete dissociation of the staff from the producing units. What it definitely envisaged and achieved was the freeing of those units from phyiscal verification of clearances and countersignature of gate passes. It was not a necessary part of the intention that SRP Ranges should be shifted from their earlier locations to more distant points. Having regard to the situation as it has developed since the introduction of SRP and as it obtains today, we consider that it is essential to restablish a closer relationship between the unit of production and the staff connected with the verification of that production. This can be done without hampering the processes of production or impeding the operations of management.

13. On whether or not the excise officials concerned should be positioned in the factories or in a separate building housing the Range, the cardinal considerations to be borne in mind should, in our view, be (i) whether the jurisdictional officer is easily accessible to the units assigned to him and, (ii) whether, having regard to his location and conditions of work, he can effectively discharge his responsibilities in respect of the units concerned. We deal in

greater detail with this matter and with other aspects connected with it in the Volume on Organisation.

14. The production control exercised will include many of the checks which were carried out by the jurisdictional staff, short of physical supervision over clearances and countersignature. Among the features to be incorporated are: authentication of all gate pass documents and accounts maintained by the assessee, supervision of production at various stages, and exercise of checks in respect of (i) packing and filling operations, (ii) goods in storage, (iii) raw materials used, (iv) receipt of duty paid goods, (v) accuracy of weighing machines, (vi) destruction of excisable goods, and (vii) clearance of goods for export.

15. The day to day assessment documents will be checked by the jurisdictional staff and submitted to the Superintendent incharge of the Range along with the R.T. 12 return.

16. All checks exercised in relation to production will be indicated in the relevant records and also in a Survey Book maintained by each officer.

Coffee

17. The recommendations made by us so far in regard to patterns of control relate primarily to manuafactured products. Coffee is an unmanufactured product in terms of the Central Excise law, but SRP was extended to it on 1-6-1968, along with 68 manufactured products. This seems to have been done on the consideration that its cultivation was confined to certain limited areas and its marketing was channelled through a central organisation, namely, the Coffee Board.

18. We find that in spite of a certain amount of simplification brought about after the introduction of SRP in procedures relating to collection of duty on coffee, there is considerable duplication of functions performed by the Coffee Board on the one hand and the Central Excise Department on the other. We feel that much of this duplication can be avoided and the controls maintained by the Central Excise Department appreciably reduced without any risk to revenue. The present excise control on coffee estates covers (i) registration of growers, (ii) licensing of curers (unless a grower does not undertake any process of curing) and (iii) visit by the Range staff once a year when the grower-curer's annual return of coffee grown and cured is taken and unused transport certificates and counterfoils of used certificates are resumed and coffee retained in excess of free allowance allowed for personal consumption is assessed to duty. During this visit a formal declaration for the following year is also taken and fresh transport certificates for the following season are issued. Large grower-curers are required to submit written declarations.

19. It appears that issue of licences and obtaining and recording of declarations regarding the area planted and coffee produced serve only a statistical purpose. Since the Coffee Board already keeps detailed statistical information and maintains adequate control on the estates with a view to ensuring that all coffee produced is delivered to the pool, the time and energy spent by Central Excise officers for these purposes appear to be avoidable. We are, therefore, of the view that while the legal requirement of a licence for curing may continue to remain in force, the actual issue of curing licences to the coffee estates may be entrusted to the officers of the Coffee Board who may be declared as Central Excise Officers for this purpose. Similarly the issue of transport certificates can be entrusted to officers of the Coffee Board without in any way detracting from the responsibility which attaches to the curers under the law, for their correct accountal. Such statistical information as is needed by the department regarding number of growers/curers, area planted and the quantity produced can be obtained without much difficulty from the Coffee Board.

20. So far as the growers/curers are concerned there is one area in which the Excise Department performs a distinct function. This is in relation to personal consumption allowance which is permitted to be retained without payment of duty. The Coffee Board also has a scheme of domestic consumption allowance based on the number of members in a curer's family and certain other considertions. The quantity covered by this allowance is not required to be surrendered to the Coffee Board. In view of the fact that the allowance admissible under instructions issued by the Coffee Board is somewhat more liberal than the allowance authorised by the Excise Department, demands for duty involved on quantities retained by each curer in excess of the departmental allowance have to be issued year after year. We find, however, that from the point of view of revenue, this is not very significant. For example, in the State of Mysore which is the principal coffee producing area in the country accounting for over 70% of the total production, the quantity charged to duty on this basis in 1970-71 was only 23 tonnes, involving a duty revenue of around Rs. 15,000. Having regard to the fact that the quantities permitted to be retained for domestic consumption are a very small part of the total quantity produced (about 1.1%) and the revenue involved from the point of view of the Excise Department is negligible, we are of the view that the Department may consider the feasibility of adopting the same personal consumption allowance as is prescribed by the Coffee Board. If this is done, it would be possible to save the labour expended at present on raising demands for duty and thereafter on attempts to realise it.

21. Similarly, we feel that the control maintained by the Central Excise officers on the Coffee Board's pool warehouses can be considerably reduced. At present during the plucking and curing season the range officers visit the warehouses almost every day and spend considerable time in checking the receipts of Coffee for further curing and processing, the accounts of processing operations etc., with the result that during this season every big pool warehouse needs practically the whole time services of an officer. The pool warehouses also submit a detailed list of all storage and processing losses occurring during the month. These statements run into a number of pages and their preparation creates a good deal of avoidable paper work. We find that whole time officers of the Coffee Board are posted at each pool warehouse. They check every item of receipt and clearance and supervise all processing operations. At various stages of processing they also conduct check-weighments. Some of the operations like drawing of samples for auction and delivery of coffee sold at the auction to the successful bidders are undertaken under the instructions of the Coffee Board itself. The owner of the establishment merely acts as an agent of the Coffee Board. The stakes of the Coffee Board are heavier than that of excise. We therefore, feel that it should not be necessary for Central Excise Officers to maintain the present rigorous control on receipts into warehouses. It would be enough if, in addition to the monthly R.T. 12 return, the warehouses submit every month a consolidated statement giving the total receipts during the month and such other particulars as the Range may require. In fact the pool warehouses and pool collecting depots in certain areas are said to be already furnishing the information required every month. It should not be necessary for the central excise officers to check all entries of receipts, processing etc., as a matter of routine. Similarly it should not be necessary for the warehouses to submit detailed statements of all losses occurring in storage or processing. During their routine visits to the warehouses the Inspectors concerned and the Range Superintendents should go through the warehouse records and condone the losses which are within their competence and which in their opinion deserve to be condoned. The warehouses should be asked to submit statements only in respect of the remaining losses which have to be referred to higher officers for orders.

22. The simplification which we have suggested above would, in our opinion, considerably reduce the burden on the warehouses as well on the range officers without any undue risk to revenue. The central excise officers should, however, retain full powers to visit the pool warehouses and carry out such checks as they consider necessary. Similarly, preventive controls, including checking of consignments in transit, should continue as at present.

TABLE

Production based Control

(Revenue Rs. Crores)

Sl. No.	Commodity	No. of units likely to be covered	Revenue in 1971-72	Revenue in 73-74 (S.B.E.)*
1	2	3	4	5
1.	Sugar	223	169.18	179.83
2.	Sugar-Khandsari	97	0.56	.58
3.	Confectionery	23	0.62	0.78
4.	Prepared or preserved Foods	76	4.81	5.19
5.	Food Products	47	4.53	5.51
6.	Aerated Waters	90	3.28	7.45
7.	Glucose & Dextrose	14	0.98	1.30
8.	Tea	932	33.13	42.13
9.	V.N.E. Oils	89	1.20	1.17
10.	Vegetable Product	70	13.25	15.60
11.	Paints and Varnishes	107	6.65	9.52
12.	Chemicals, namely Calcium, Carbide, Bleaching Paste etc.	31	1.84	2.80
13.	Caustic Soda	29	3.93	5.10
14.	Sodium Silicate	87	1.07	1.14

TABLE—*Contd.*

1	2	3	4	5
15.	Glycerine	22	0.17	0.63
16.	Synthetic Organic Dyestuffs	66	5.87	10.06
17.	Synthetic Organic Products	8	0.57	0.81
18.	Patent or Proprietary Medicines	210	15.08	17.97
19.	Cosmetics & Toilet Preparations	50	5.59	6.76
20.	Nitric, Hydrochloric & Sulphuric Acid	44	1.39	1.80
21.	Gases	160	3.68	5.00
22.	Soap	32	11.63	12.86
23.	Artificial or synthetic resins and plastic materials	334	28.09	38.70
24.	Organic Surface Active Agents	25	3.12	4.64
25.	Tyres (other than main producers)	13	0.01	0.01
26.	Rubber Products	78	9.97	13.62
27.	Plywood	56	2.88	4.56
28.	Paper	114	25.43	35.87
29.	Rayon & Synthetic Fibres and yarn	388	91.26	134.00
30.	Cotton Yarn	475	33.12	35.78
31.	Woollen yarn	186	5.25	4.98
32.	Jute Yarn	..	..	2.22
33.	Yarn all sorts N.E.S.	..	..	16.55
34.	Cotton Fabrics	306	81.51	89.66
35.	Woollen Fabrics	62	4.80	5.82
36.	Rayon or Artificial Silk fabrics	256	20.74	34.89
37.	Jute manufactures	91	27.25	36.51
38.	Textile Fabrics N.E.S.	..	..	..
39.	Textile Fabrics Impregnated	7	0.01	0.03
40.	Readymade garments	24	0.43	0.81
41.	Typewriter and Similar ribbons	8	0.12	0.18
42.	Glass & Glassware	85	8.92	10.89
43.	Chinaware and Porcelainware	63	3.54	5.58
44.	Asbestos Cement Products	12	2.61	3.41
45.	Mosaic Tiles	4	0.03	0.05
46.	Copper & Copper Alloys	114	4.96	7.70
47.	Iron in any crude form (other than main producers)	2	0.27	0.33
48.	Steel Ingots (other than main producers)	5	0.12	0.59
49.	Iron or Steel Products (other than main producers)	334	9.20	19.32
50.	Aluminium (other than main producers)	150	15.08	21.82
51.	Internal Combustion Engines	21	1.57	1.88
52.	Refrigerating and air-conditioning appliances	253	15.21	18.60
53.	Electric Motors	90	5.89	10.04
54.	Power Driven Pumps	5	0.04	1.27
55.	Motor Starters	38	0.64	1.10
56.	Electric Batteries	19	9.79	13.33
57.	Electric Bulbs and Tubes	23	5.68	6.80
58.	Electric Fans	59	5.20	5.84
59.	Wireless Receiving Sets	22	4.42	6.13

TABLE—*Contd.*

1	2	3	4	5
60.	Parts of Wireless Receiving Sets	9	1.50	0.55
61.	Electric Wires and Cables	167	11.29	14.03
62.	Domestic Electric Appliances	27	0.38	1.14
63.	Office Machines	23	1.76	2.06
64.	Electric Supply Meters	16	1.46	1.10
65.	Motor Vehicle parts and accessories	26	1.69	6.26
66.	Footwear	37	2.35	2.70
67.	Cinematograph films	46	1.48	2.20
68.	Gramophones and Parts	31	0.36	0.64
69.	Cinematograph Projectors	2	0.13	0.25
70.	Photographic cameras	10	0.07	0.15
71.	Mechanical Lighters	12	0.01	0.01
72.	Steel Furniture	33	3.02	3.28
73.	Crown Corks	18	2.18	3.00
74.	Pilfer Proof Caps	36	1.24	1.40
75.	Wool Tops	22	4.45	5.00
76.	Safety Razor Blades	5	0.23	0.48
77.	Metal Containers not elsewhere specified	269	9.86	11.96
78.	Slotted angles & channels	8	0.10	0.12
79.	Safes & Strong boxes etc.	44	0.34	0.44
80.	Rolling Bearings	37	2.16	3.20
81.	Welding Electrodes	21	1.55	2.30
82.	Coated Abrasives and Grinding wheels	29	1.08	1.50
83.	Bolts and nuts & screws	46	1.78	2.73
84.	Zip or slide fasteners	17	0.30	0.45
85.	Pressure Cookers	33	0.36	0.44
86.	Vacuum Flasks	25	0.26	0.60
87.	Playing cards	28	0.31	0.45
88.	Camphor	10	0.19	0.30
89.	Menthol	10	0.17	0.30
90.	Electric Insulating Tapes	2	0.03	0.08
91.	Adhesive Tapes	7	0.28	0.36
92.	Rubber Processing Chemicals	..	..	0.50
	TOTAL	7335	768.54	997.48

*Sanctioned budget estimate inclusive of additional taxation imposed during the year.

CHAPTER 14

SIMPLIFIED PROCEDURE FOR SMALL UNITS: COMPOUNDED LEVY/CLEARANCE BASED CONTROL

In an earlier chapter, we referred to small units and to the administrative problems which they pose. Small units predominate in certain excisable commodities. The number of such commodities has been on the increase in consequence of the widening coverage of excise levies. The problem has been rendered even more complex by the numerous categories of exemptions, based on diverse criteria of eligibility, built into the duty structure.

2. For the purpose of fiscal concessions under excise, small units have been variously defined or identified. In the case of certain commodities like chinaware and glassware, duty exemptions are related to the number of workers; there are instances such as footwear where the criterion adopted is the number of workers or the total equivalent of power used in the process of manufacture; for wireless receiving sets and wires and cables, differential rates of duty are extended to industrial units in which the capital investment on plant and machinery on the date of initial installation is not more than Rs. 7.5 lakhs; in several commodities duty concessions are based on the quantum of excisable goods produced or cleared for home consumption as in the case of paints and varnishes, internal combustion engines, electric motors and confectionery; while in yet others they are related to the value of production or clearances. Within each set of criteria, again, the position differs from commodity to commodity. For example, to qualify for total exemption, a factory producing glass and glassware should not have employed more than five workers on any day of the preceding twelve months, whereas the corresponding limits for chinaware and footwear are fifteen and forty nine workers respectively. Apart from the fact that limits of production and clearances, with reference to which the eligibility for duty relief or concession is determined, are different for different commodities, such limits themselves are related to different periods. Thus, while it is the actual performance of the producing unit on which eligibility for exemption rests, such performance is related in some instances to the preceding financial year, in others to the preceding twelve months, in yet others to any of the preceding twelve months and, finally in certain cases to the current financial year.

3. Compounded levy schemes—which are special procedures in which the levy is related mostly to the equipment employed—have as one of their main objectives the reduction of the administrative burden of controlling a large number of small units. At the same time the duty incidence implied in these schemes is appreciably, often substantially, smaller than that of units working under the normal procedures. Thus compounded levy is or ought to be a distinct advantage to the small sector. Nevertheless, a curious fact has been brought to our notice: a fact which has also been taken note of by the Public Accounts Committee. In spite of all the favourable features of compounded levy, including a much simpler procedure and substantially lower rates than under the normal system, the fact remains that many small units have not opted for the compounded levy scheme. It would seem legitimate to infer that duty under the normal procedure can be readily evaded by such units, and that it is more attractive to evade the normal duty than to pay the small duty due under compunded levy.

4. While there is need for concessions in favour of the small sector, the existing schemes fail in many ways to subserve the objectives underlying them. We have already referred briefly to the grounds on which these schemes have been assailed from time to time. We are in broad agreement with the criticism levelled, more particularly in relation to widespread subterfuges, such as pseudo-fragmentation and falsification of records which result in the concessions being substantially enjoyed by the bigger people in the name of smaller ones. Moreover, the criteria are often such as to be powerful disincentives to production above a particular level and direct incentives to suppression of facts and dishonesty. Where the latter factors are concerned, both physical evasion through clandestine clearances and suppression of production through documentary manipulation are facilitated by the slackening of supervision under SRP. This has taken place in two ways. First, in terms of distance, supervision has been withdrawn to points far removed from the areas of production. Second, in terms of frequency, supervision is confined to specific occasions and points of time, often divided from one another by long intervals. The administration of exemptions has become even more complicated in these circumstances. The need for simplification is imperative. We believe that this can be achieved: (i) by dentifying that part of the small sector—to one specifically characterised by complicated exemptions—which presents these problems in special degree, and (ii) by devising for the segment of the small sector so identified, in place of the existing plethora of exemptions,

an appropriate procedure of duty relief. This procedure may take the form of either straight exemptions and/or introduction of lower rate of duty than that applicable to the rest of commodity concerned. In either case, the numerous criteria and refinements built into the present scheme would be considerably reduced. We elaborate our suggestions in the succeeding paragraphs.

5. In regard to identification of the relevant segment of the small sector, we realise that for excise purposes no single uniform criterion can adequately cover the various purposes sought to be achieved by the present schemes. The definition of small scale industry adopted in 1966, for purposes of industrial policy, which covers all industrial units with a capital investment of not more than Rs. 7.5 lakhs, is in our view unsatisfactory. This definition was conceived for an entirely different purpose and in quite a few cases such units are capable of producing excisable goods of substantial value and of a class on which no duty concession as such would be merited. The criteria of installed capacity and number of workers employed also present variables which can lead to several distortions. It would be more appropriate if, for commodities which have a relatively large number of small producers—and in which the composition of the industry or the duty structure or other relevant considerations do not militate against such classification—the duty paying units are classified on the basis of their value of production. An appropriate "cut-off" point could then be fixed either for all the commodities concerned or individually for each commodity or group of commodities. All producing units below the cut-off point should be considered small for this purpose and brought under a simplified form of control.

6. Table (1) appended to this Chapter sets out the commodities identified by us in terms of our general thinking as outlined in the preceding paragraphs, the possible basis of categorisation for units producing these commodities and the broad implications in terms of numbers and revenue of the simplified procedure contemplated by us for such units. This table is based on Table (2) appended to Chapter 7, which in turn is based on data relating to factories producing excisable goods in terms of revenue realised during 1971-72. The duty paying units have been listed in column 3 of the table in terms of revenue slabs, viz., (a) less than Rs. 25,000, (b) between Rs. 25,000 and Rs. 50,000 and (c) between Rs. 50,000 and Rs. 1,00,000, (d) over Rs. one lakh and (e) the total. The present approximate duty incidence expressed as a percentage in column 4, while column 5, gives the value of clearances or cut off point for each of the three revenue slabs, i.e. (a), (b) and (c) shown in column 3, based on the average duty revenue as also the maximum revenue of each slab. In column 6, the number of units likely to be within the cut off levels indicated in column 5 on the basis of average duty revenue of each slab has been estimated on certain broad assumptions about the relative proportion of units yielding less or more than the average duty revenue of each slab. The supporting table (2) shows the number of units which, it is estimated, could be covered by the scheme of simplified control on the basis of data for 1971-72, in terms of the cut-off level indicated in the last column. Here we should like to point out that the data presented by these tables are only a very broad indication of the magnitudes involved, and should not be taken to represent an exact or a near exact analysis of the situation as it now obtains. This is so firstly because it is based on figures for a past year somewhat removed from the present and secondly because in the absence of data regarding each individual duty paying unit, certain assumptions have had to be made about relating the number of units to different cut off levels. Subject to these reservations, the two tables provide a reasonable basis for a working analysis.

7. It may be noted here that those power-loom units which produce cotton fabrics and in which not more than 49 power looms are installed are covered by the special procedure under Rule 96J of the Central Excise Rules. This procedure, in our view, is simple and has been working satisfactorily. We have accordingly kept this category of power-looms out of the scope of the scheme visualised by us.

8. The cut off levels indicated for each commodity in the last column in table (2), range generally between Rs. four and six lakhs. We are of the view that, having regard to the results thrown up by this analysis, it would be simpler and more appropriate to adopt a single cut off stage of Rs. 5 lakhs in respect of all the commodities listed instead of a separate cut off level for each commodity or a group of commodities. We also think that in the overall context the adoption of the cut off point of Rs. 5 lakhs would not make more than a marginal difference to the statistical data derived from this analysis.

9. The sub-joined table illustrates the position of units proposed to be covered by the scheme of simplified procedure vis-a-vis the total number of units covered by the commodities in question and by all excisable commodities—

		No. units	Revenue yielded during 1961—72 (Rs. crores)
(i)	All excisable commodities excluding unmanufactured tobacco and powerlooms under special procedure)	24193	2007.90
(ii)	Excisable commodities of which the small sector is proposed to be covered by the scheme of simplified procedure.	18567	408·98
(iii)	Small sector proposed to be covered by the simplified procedure	13962	11.79
(iv)	(iii) as a per centage of (i)	57.71	0.59
(v)	(iii) as a per centage of (ii)	75.19	2.88

10. The essential features of the scheme of simplified procedure may now be stated.

11. The scheme will apply to such commodities as are notified. The commodities identified by the Committee in this behalf are indicated in tables (1) and (2). The list can be modified if necessary. Where a number of commodities or goods are covered by a single item of the tariff, all such commodities or goods will normally be treated as one commodity for the purpose of this scheme.

12. A cut off point or level of the value of production will be notified for the purpose of determining a producer's eligibility for the scheme. All units whose value of production falls below the notified cut off point will be considered as entitled to the simplified procedure. As already said we are of the view that, initially at any rate, the cut off level may be fixed at Rs. 5 lakhs for all notified commodities.

13. In respect of existing procedures, the value of production for the three preceding financial years will be worked out. The average value of production for the three years or the value of production of the last year, whichever is higher will be treated as the value of production for the purpose of determining a producer's eligibility for the scheme.

14. Where an existing unit has not been in production for a full period of three years, its average annual production will be determined on the basis of the period for which it has been in production during the preceding three years, subject to such further instructions as may be issued by the Department in this behalf.

15. Where for any reason an existing unit has not been in production during the preceding three years or where its production during the three preceding years has been for so that short a spell that it would be unreasonable to fix its eligibility for the scheme or prospective duty liability on that basis, the unit concerned will be treated as a new unit for the purpose of this scheme.

16. We are of the view that all existing schemes of duty exemption applicable to the small sector, based on value or quantity of production or clearances or any other factor should cease to operate after the promulgation of the scheme, except to the extent we shall presently indicate. They will be replaced by a single effective rate of duty applicable to the entitled sector of each such commodity having regard to the average duty incidence borne by the entitled sector, the extent of fiscal concession warranted and such other factors as may be relevant. The effective duty rates so fixed will be duly notified. They will be appreciably lower than the normal rates.

17. The duty liability of a producer covered by the scheme of simplified procedure will be related to the average value or quantum of duty-paid clearances during the preceding three financial years or the last year whichever is higher. The liability of each such unit will then be worked out in terms of the existing tariff structure (including duty exemptions where admissible and to the extent admissible) and also on the basis of the effective rate of duty notified by the Government for such producers. The lower of the two quantums so worked out would be treated as his prospective annual liability.

18. The liability arrived at in terms of para 17 above would be treated as his annual liability for the three succeeding years: it will be realised in equal monthly instalments payable by him in advance before the commencement of each month, in such manner as may be prescribed by the department. Each three-year period for which duty liability is fixed on a prospective basis will be treated as a single bloc.

19. The prospective liability so fixed will not be altered unless there is a change in the effective duty incidence applicable to the commodity concerned, in which case the liability fixed would be suitably adjusted to take into account the change made. No extra liability would be atracted for exceeding the cut off point or value of production notified in any of the three years for which liability is fixed, nor would any abatement of duty be allowed for any temporary breakdowns/or cessation of work. But where a unit closes down or goes out of production altogether, its duty liability would cease from the month following that in which the closure takes place.

20. The case of each unit working under the scheme of simplified control would come in for review sometime before the close of the three

years bloc for which its duty liability in terms of the scheme is fixed and if, on the basis of its performance for the period for which it has been working under the simplified procedure (expressed as average annual production or production for the immediately preceding twelve months—whichever is higher), it is still eligible for continuance under the scheme of simplified control, its duty liability for the next three-year bloc will be fixed by applying to its clearances the effective rate of duty applicable to producers covered by the scheme of simplified procedure.

21. If a new unit, i.e. a unit which is not licensed by the department for production of notified commodities at the time of the promulgation of the scheme, intends to avail itself of the scheme it will be required to submit a declaration of the level of production expected to be achieved by it in the first year. The declaration given will be scrutinised by the department and if, having regard to the plant and machinery installed and other relevant factors, the department is satisfied that the declaration given by the unit is reasonably correct and the level of production indicated in the declaration falls within the notified cut off point, the unit concerned will be registered as a unit entitled to avail itself of the simplified procedure, on completion of one year of working, provided its actual production during that one year does not exceed the notified cut off point.

22. During the first year of their working, the operations of all new units would be regulated by the system of physical control, in that their working would be actively supervised by the department and all clearances and removals would be subject to physical control as in the system obtaining prior to the introduction of S.R.P. They would be subject to duty at the effective rate notified by Government for units covered by the scheme of simplified control, except in so far as units manufacturing commodities indicated later in paragraph 26 are concerned. The duty liability of such units would be determined in accordance with the principle enunciated in that paragraph.

23. On completion of one year all new units whose production during that year does not exceed the notified cut off point will be brought under the scheme of simplified control, for the remaining period of the three year bloc. Their prospective duty liability would be determined on the basis of the effective duty rates in force at the time. No duty exemption or preference will be admissible to them since all such exemptions and preferences will have been discontinued, except in so far as units manufacturing commodities indicated later in paragraph 26 are concerned. The duty liability of such units will be determined in accordance with the principle enunciated in that paragraph.

24. Where a unit whose declaration about the expected level of production has been accepted by the department exceeds the level declared by it, will be subject to duty at the effective rates in force at the time of production in excess of the cut off point. The operations of such units will thereafter be regulated by the normal procedure, but before completion of the three-year bloc their cases may be reviewed, on request, for the purpose of determining their eligibility for simplified procedure in respect of the next three-year bloc.

25. Where the declaration furnished by a new unit is not accepted by Department, i.e., the value of production is estimated to exceed the notified cut off point, the unit concerned will work under the normal procedure applicable to the commodity concerned. No refund of duty paid will, however, be admissible to it if its production during the first year of its working falls short of the notified cut off point. It will, however, be entitled to avail itself of the scheme of simplified procedure for the remaining part of the three-year bloc in the same way as other new units.

26. One important point, however, remains to be considered. In the scheme of things outlined above, some of the new units are likely to be placed at a disadvantage vis-a-vis the existing units. This is because the prospective duty liability of the existing units would be determined after taking into account the prevailing schemes of duty exemptions. The new units, it is true, would have a lower effective rate of duty than would normally apply. But such lower rate might not serve fully to neutralise the effect of the withdrawal of exemptions. In that sense, they might be in a slightly disadvantageous position compared with the older units or with the existing situation. Some of the commodities covered by the list identified for the simplified procedure, which are at the same time subject to such exemptions are: confectionery, prepared or preserved foods, food products, paints and varnishes, cosmetics and toilet preparations, acids, paper, mosaic tiles, internal combustion engines, electric motors, power driven pumps, motor vehicle parts, steel furniture, metal containers etc. Though the monetary value of concession afforded by existing schemes of exemptions varies from commodity to commodity, we consider that the purpose in view would be served if small units producing these commodities and considered eligible for the simplified procedure are entitled to an *ad-hoc* duty exemption upto clearances of Rs. 1.0 lakh for the purpose of their duty liability in the first and subsequent years subject to their remaining eligible for the simplified procedure during this period. All clearances in excess of Rs. 1.0 lakh would attract duty at the effective (lower) rate notified by Government.

27. In brief, what we contemplate is a replacement of existing schemes of exemptions designed for the small sector by a flat lower rate of duty, together with a uniform level of exemption for certain commodities. The only exception is in respect of the administration of the prospective duty liability of certain units, both old and new, for the first three-year bloc. But here to the procedure ensures that the effect of existing exemptions is duly taken into account.

28. In addition to exemptions of the type mentioned there are several exemptions such as those related to (i) captive consumption, (ii) end use, (iii) use of duty paid raw materials and intermediates, and (iv) exports. We expect that ordinarily the need to invoke these exemptions will not arise so far as units covered by the scheme of simplified procedure are concerned. But, where it does, we are confident that suitable expedients can be devised to take care of such exemptions without detracting from the merits of the scheme in the matter of its simplicity and other features. For example, exemptions related to captive consumption need not pose any problem since the value of such goods will not form part of the value of duty paid clearances for the present purpose.

29. Where a unit produces more than one commodity on the same premises its entitlement to the simplified procedure should normally be adjudged with reference to the value of production of each individual commodity, but where the Department considers that it would not be desirable to treat such a unit as small unit, its operations may be regulated in terms of the pattern of control considered appropriate.

30. There are goods which are excisable but which have been totally exempted from duty. We would recommend that such goods too should be covered by the scheme of simplified procedure irrespective of the value of goods produced or cleared, subject, of course, to the difference that the duty liability in respect of such goods would continue to be nil. likewise, producers of such goods as ready-made garments and nuts, bolts and screws whose clearances upto Rs. five lakhs (i.e., to the full extent of the value recommended by us), are already exempt from duty, should also be brought within the purview of the scheme. At present control on such units is practically non-existent. Nor is reliable data available regarding their production. We trust that bringing them within the purview of the simplified procedure would serve useful statistical and administrative purposes.

31. We are of the view that the working of the Simplified Procedure as a whole should be reviewed well before the close of the second three-year bloc. We accordingly recommend that steps for such a review be initiated not later than 5 years from the introduction of the Simplified Procedure. Such a review would, among other things, help in deciding on the scope and possibility of further simplification and rationalisation of the structure of tariff and exemptions, especially in its bearing on the small sector.

32. We have been advised that, like the compounded levy schemes, the simplified procedure recommended by us cannot be introduced on a compulsory basis. As already stated in chapter 11 the form of control considered proper or appropriate by us for such units is the Clearance Based Control (CBC). We set out the broad details of this pattern of control in the concluding paragraphs of this Chapter. It is after taking into consideration the administrative difficulties involved in placing under CBC a large number of small units with a low revenue potential and the desirability of freeing such units from procedural and other formalities, that we have recommended the alternative of Simplified Procedure in the hope that all eligible units would readily opt for it.

33. The simplified scheme is designed to achieve a substantial measure of reform in the matter of levy and collection of Central Excise duties, so far as producer in the small sector are concerned. It is expected to provide an incentive for growth, reduce the area of friction between the department and the assessees, and bring about a diminution of the administrative burden. It will be necessary, therefore, to eliminate, for the class of producers covered by the scheme, all procedural formalities other than those connected directly with or having a bearing on determination of their continued eligibility. They may thus be required to maintain only a simple day to day record of production and clearances, both in terms of value and quantity take clearances on simplified gate passes and submit a monthly or quarterly return. Ordinarily, it would not be necessary for the department to pay frequent visit to such units or to submit the accounts maintained by them to meticulous scrutiny. Where, however, a unit is suspected of suppressing its production, the department should be able to take suitable remedial measures.

34. As already stated, a lessening of the administrative burden is also expected, even though the scheme would place on the department additional responsibility of an entirely different character. It is hoped that such resources in the form of personnel as are released by the adoption of the simplified procedure would be utilised to better advantage and for more effective control on the remaining sectors and units which have a much higher revenue potential. We deal with this important aspect in the Volume on Organisation.

35. We now turn to Clearance Based Control (CBC) which is the pattern we recommend for such small units in the small sector as may decide not to opt for the alternative of compounded levy under the Simplified Procedure. The facts which we have brought out concerning the prevalence of evasion in this sector constitute, in our view, sufficient justification for a form of control which as compared with ABC and PBC, is farthest from the existing pattern of Self Removal Procedure.

36. Broadly, the CBC pattern would correspond to the old physical control, including physical supervision of each individual clearance and countersignature of the gate pass, though we would not go so far as to suggest that excise staff must be posted to each such unit or that anything like the old physical control which was at one time enforced in the case of match factories should be reintroduced for these units. In our view the salient features of CBC should be as follows:—

(a) For every clearance required by him, an assessee should be required to present an application in Form A.R. 1 in advance of the intended removal of goods.

(b) Each individual clearance should be physically supervised by a central excise officer and the gate pass under which goods are delivered should be countersigned by him before goods are permitted to be removed.

(c) All deliveries of goods by such units should be regulated as provided for under Rule 224 of the Central Excise Rules, i.e., deliveries will not be effected before six O'clock in the forenoon or after six O'clock in the afternoon, nor at any hour on sundays and public holidays except as provided for in the concerned rules.

(d) Apart from visits paid exclusively for granting clearance, the working of such units should be subject to close and continuous attention and their accounts checked with adequate frequency.

37. In view of the fact that such units would co-exist with units operating under the simplified procedure, and in many cases in the same area, there would be a risk of clandestine removal of goods produced by such units without compliance with the procedural formalities outlined in the preceding paragraph, in the garb of goods produced by the compounded levy units. It would accordingly be necessary to provide for effective preventive surveillance on such units.

TABLE (1)

Simplified procedure contemplated for small units. Basis for categorisation— Implications thereof

Number

(Rs. 000)

Sl. No.	Commodity	Number of duty paying units with revenue yielded by them during 1971-72 of					Present approx-duty incidence expressed as per centage of value of production	Value of clearances or cut off point in (Rs. lakhs) based on average of each revenue slab/ maximum of each revenue slab			Number of units likely to be covered by simplified procedure in terms of cut off point indicated in column 5			Revenue expected during 1973-74 (S.B.E.)* (Rs. 000)
		less than Rs. 25000 (a)	Between Rs. 25000 and 50000 (b)	Between Rs. 50000 and 100000 (c)	Over Rs. 100000 (d)	Total (e)		(a)	(b)	(c)	(a)	(b)	(c)	
1	2	3					4	5			6			7
1.	Khandsari Sugar	1182	84	5	8	1279	5%	1.55	6.37	12.0	817	1243	1270	14000
		9137	2674	300	2665	14776		5.0	10.0	20.0	6315	11079	12051	
2.	Confectionery	104	7	2	14	127	4%	0.24	8.25	14.63	100	109	113	7900
		98	230	117	5812	6257		6.25	12.50	25.00	94	263	445	
3.	Prepared or Preserved Foods	306	24	27	49	406	10%	0.98	3.34	7.44	186	322	344	56000
		2991	801	2008	46058	51858		2.50	5.00	10.00	1818	3525	4833	
4.	Food Products	78	9	18	29	134	10%	0.56	3.47	6.77	60	84	99	56000
		438	312	1218	44056	46024		2.50	5.00	10.00	337	646	1562	
5.	Tea	899	148	204	728	1979	12.5%	0.27	2.88	5.68	776	982	1165	434200
		3088	5326	14492	316776	339682		2.00	4.00	8.00	2662	6075	16792	
6.	V.N.E. Oils	47	11	22	38	118	2.5%	3.83	15.46	31.12	29	52	68	12000
		450	425	1712	9719	12306		10.00	20.00	40.00	278	643	1653	
7.	Paints & Varnishes	787	70	43	89	989	14%	0.31	2.46	5.10	652	830	882	106000
		3387	2413	3070	65230	74100		1.79	3.57	7.14	2804	4869	7582	
8.	Sodium Silicate	147	56	63	49	315	15%	0.88	2.45	4.67	70	177	228	17500
		1935	2061	4409	8040	16445		1.7	3.3	6.7	921	3039	5746	
9.	Synthetic Organic Dyestuffs	93	17	16	56	182	15%	0.52	2.54	5.40	65	101	116	103700
		700	648	1295	57918	60561		1.7	3.3	6.7	489	1005	1834	
10.	Synthetic Organic Products	19	6	2	8	35	20%	0.31	1.74	3.68	14	23	26	8800
		119	209	147	5710	6185		1.25	2.5	5.0	88	258	402	

11. Patent or Proprietary Medicines	613	57	54	129	853	7%	0.76	5.29	9.81	483	643	704	185000
	3234	2109	3710	146117	155170		3.6	7.1	14.3	2555	4344	7669	
12. Cosmetics & Toilet Preparations	347	17	12	50	426	24%	0.13	1.43	2.93	304	358	371	70600
	1078	584	845	55883	58390		1.04	2.08	4.16	942	1456	2155	
13. Acids	54	6	12	32	104	10%	0.26	3.8	7.08	40	57	67	18500
	139	228	849	13001	14217		2.5	5.0	10.00	103	253	862	
14. Soap	18	10	1	32	61	11.62%	0.55	2.92	5.25	14	24	29	129200
	116	339	62	116297	116814		2.16	4.30	8.61	90	319	517	
15. Organic Surface Active Agents	41	4	7	18	70	10%	0.54	4.25	6.5	32	42	50	47000
	221	170	455	30739	31585		2.5	5.0	10.00	172	264	716	
16. Rubber Products . . .	174	21	29	78	302	22%	0.28	1.60	3.23	131	186	212	141500
	1064	739	2058	99692	103553		1.14	2.27	4.55	802	1406	3009	
17. Plywood . . .	179	26	19	49	273	17%	0.22	2.31	4.04	152	190	217	49500
	678	1023	1302	28294	31297		1.47	2.94	5.88	575	1111	2523	
18. Paper . . .	235	66	47	94	442	17%	0.53	2.02	4.21	151	276	328	367500
	2105	2271	3365	252909	260650		1.47	2.94	5.88	1353	3515	6314	
19. Cotton Yarn . . .	908	23	41	411	1383	4%	0.58	9.04	18.55	823	921	953	360000
	2113	832	3045	327291	333281		6.25	12.5	25.0	1893	2583	4577	
20. Woollen Yarn . . .	65	39	39	129	272	8%	1.35	4.56	9.37	37	86	124	52000
	696	1424	2924	48918	53962		3.13	6.25	12.5	399	1463	3619	
21. Cotton Fabrics (Other than S.P. Powerlooms) . . .	381	50	28	296	755	16%	0.32	2.24	4.29	302	409	449	902000
	1965	1794	1922	814343	820024		1.56	3.12	6.25	1558	2967	4996	
22. Woollen Fabrics . . .	87	11	5	57	160	10.5%	1.52	3.43	5.85	31	107	105	60300
	1393	396	307	477616	49812		2.38	4.76	9.52	496	2113	2219	
23. Rayon or Artificial Fabrics .	213	25	23	233	494	10%	0.3	3.62	6.96	19	227	252	35150
	648	904	1601	205753	208906		2.5	5.0	10.0	58	1154	2527	
24. Readymade Garments .	26	4	4	20	54	10%	0.25	3.50	9.45	24	28	..	8500
	66	143	378	3941	4528		2.5	5.0	10.0	61	138		
25. Glass & Glassware . . .	82	20	18	85	205	18%	0.43	1.98	3.98	57	94	113	112000
	627	711	1250	89215	91803		1.39	28.7	5.56	436	1054	2102	
26. Chinaware & Porcelainware .	78	23	30	50	181	14.5%	0.53	2.40	4.96	54	91	118	60000
	602	820	2157	34430	38009		1.72	3.45	6.90	417	1065	2644	

1	2	3				4		5			6			7
27.	Asbestos Cement Products	101	8	2	10	121	10%	0.63	3.55	7.1	75	106	150	35200
		642	284	142	25984	27052		2.5	5.0	10.0	476	820	3843	
28.	Mosaic Tiles	268	24	3	1	296	10%	0.53	3.32	5.4	211	284	295	4500
		1434	796	162	130	2522		2.5	5.0	10.0	1120	1964	2392	
29.	Copper & Copper alloys	257	67	66	76	466	13%	0.59	2.96	6.08	178	288	352	87500
		1970	2581	5217	46639	56407		1.92	3.85	7.70	1363	3164	6763	
30.	Internal Combustion Engines	409	5	7	12	433	7%	0.32	5.2	8.83	372	412	419	20000
		926	182	433	15174	16715		3.6	7.1	14.3	841	1035	1417	
31.	Electric Motors	504	43	52	71	670	14%	0.41	2.64	4.89	387	525	580	112000
		2927	1595	3563	57579	65664		1.79	3.57	7.14	2245	3604	6782	
32.	Power-driven Pumps	172	..	5	..	177	10%	0.16	0.16	7.60	161	161	174	22000
		277		380		657		2.50	5.00	10.00	259	259	429	
33.	Electric Batteries ..	292	3	2	19	316	19%	0.18	1.68	4.08	251	294	296	135000
		1024	96	155	97860	99135		1.32	2.63	5.26	881	1088	1198	
34.	Electric Bulbs and Tubes	288	11	9	23	331	17%	0.21	2.19	4.70	248	294	303	70500
		1009	410	711	56753	58883		1.47	2.94	5.88	868	1233	1735	
35.	Electric Fans	226	14	24	35	299	9%	0.40	3.78	8.53	186	235	246	60000
		989	476	1843	50162	53470		2.78	5.56	11.11	815	1295	1926	
36.	Wireless Receiving Sets	610	9	7	19	645	12.5%	0.04	2.68	5.92	598	616	623	62500
		290	301	517	44014	45014		2.00	4.00	8.00	287	491	886	
37.	Electric & Wires Cables	461	51	39	106	657	6%	0.70	5.95	12.33	384	490	532	144000
		1929	1821	2877	109249	115876		4.17	8.33	16.67	1605	2964	5225	
38.	Domestic Electric Appliances	151	14	16	11	192	10%	0.38	3.90	7.34	128	157	174	15000
		575	549	1174	2653	4951		2.50	5.00	10.00	488	811	1784	
39.	Office Machines	105	8	6	17	136	10%	0.43	4.30	7.95	87	107	115	21500
		456	346	477	17120	18399		2.50	5.00	10.00	378	542	962	
40.	Motor Vehicles	274	10	12	27	323	11%	0.39	3.27	5.64	227	280	294	395000
		1170	362	742	342883	345157		2.27	4.45	9.09	969	1387	2150	
41.	Motor Vehicles parts and accessories	71	6	4	25	106	20%	0.30	1.55	4.03	54	76	79	66000
		411	184	323	16759	17677		1.25	2.50	5.00	313	564	757	

42. Cinematograph projectors .	17	1	1	2	21	20%	0.12	1.50	5.00	15	18	19	2500
	42	30	100	1285	1457		1.25	2.50	5.00	37	72	172	
43. Steel Furniture . . .	506	28	14	33	581	17%	0.10	2.00	4.41	470	524	541	36000
	889	962	1047	30236	33134		1.47	2.94	5.88	827	1507	2375	
44. Metal containers not elsewhere specified . . .	239	79	104	165	587	10%	0.68	3.82	7.38	174	276	372	125000
	1613	3019	7681	90945	103258		2.50	5.00	10.00	1175	3027	8546	
45. Slotted angles & Channels	24	1	5	3	33	10%	0.42	4.6	7.90	20	25	29	1400
	101	46	395	532	1074		2.50	5.00	10.00	84	147	463	
46. Bolts, Nuts & Screws .	427	16	21	25	489	10%	0.05	4.18	7.00	419	432	456	28600
	194	669	1472	16373	18708		2.50	5.00	10.00	193	403	1774	
47. Electric Insulating Tapes .	33	4	3	2	42	10%	0.55	3.90	6.50	7	35	39	2100
	182	156	195	300	833		2.50	5.00	10.00	39	260	468	
48. Adhesive Tapes . . .	30	8	2	7	47	10%	0.76	3.29	8.90	21	35	35	4400
	227	263	178	2789	3457		2.50	5.00	10.00	159	266	266	
TOTAL	12628	1244	1175	3520	18567					10096	13332	14486	5179700
	58365	44714	84782	3901942	4089803					43138	83510	148816	

*Sanctioned budget estimates inclusive of additional taxation imposed during the year.

TABLE 2

Simplified Procedure contemplated for Small units—number of units likely to be covered on the basis of cut off points indicated against each commodity

(Based on Data on duty paying units for 1971-72)

Sl. No.	Commodity	No. of units likely to be covered	Revenue 1971-72 (Rs. lakhs)	Cut off point (Rs. lakhs)	Revenue 1973-74 (S.B.E.)* (Rs. lakhs)
1	2	3	4	5	6
1.	Khandsari sugar	1182	91.37	5.00	98.94
2.	Confectionery	104	0.98	6.25	1.24
3.	Prepared or Preserved Foods	330	37.92	5.00	40.95
4.	Food Products	87	7.50	5.00	9.12
5.	Tea	1,047	84.14	4.00	107.00
6.	V.N.E. Oils	29	2.78	3.83	2.94
7.	Paints & Varnishes	882	75.82	5.10	108.46
8.	Sodium Silicate	228	57.46	4.67	61.15
9.	Synthetic Organic dyestuffs	116	18.34	5.40	31.42
10.	Synthetic Organic Products	27	4.75	5.00	6.76
11.	Patent or Proprietary Medicines	643	43.44	5.29	52.90
12.	Cosmetics & Toilet Preparations	376	25.07	4.16	30.31
13.	Acids	60	3.67	5.00	4.78
14.	Soap	29	5.17	5.25	5.72
15.	Organic Surface Active Agents	45	3.91	5.00	5.82
16.	Rubber Products	224	38.61	4.55	52.76
17.	Plywood	217	25.23	4.04	39.90
18.	Paper	328	63.14	4.21	89.02
19.	Cotton Yarn	908	21.13	6.25	23.00
20.	Woollen Yarn	86	14.63	4.56	14.00
21.	Cotton Fabrics (other than S. P. Powerlooms)	449	49.46	6.25	53.84
22.	Woollen Fabrics	98	17.89	4.76	21.66
23.	Art Silk Fabrics	238	15.52	5.00	26.11
24.	Ready-made Garments	30	2.09	5.00	3.92
25.	Glass & Glassware	120	25.88	5.56	31.57
26.	Chinaware & Porcelainware	118	26.44	4.96	41.75
27.	Asbestos Cement Products	109	9.26	5.00	11.98
28.	Mosaic Tiles	292	22.30	5.00	39.78
29.	Copper & Copper Alloys	352	67.63	6.08	104.86
30.	I. C. Engines	412	10.35	5.20	12.38
31.	Electric Motors	580	67.82	4.89	115.64
32.	Power Driven Pumps	172	2.77	5.00	92.76
33.	Electric Batteries	297	12.75	5.26	17.36
34.	Electric Bulbs	308	21.30	5.88	25.32
35.	Electric Fans	240	14.65	5.56	16.34
36.	Wireless Receiving Sets	623	8.86	5.92	12.27
37.	Wires and Cables	490	29.64	5.95	36.90
38.	Domestic Electrical Appliances	165	11.24	5.00	34.05
39.	Office Machines	113	8.02	5.00	9.35

TABLE 2—*Contd.*

1	2	3	4	5	6
40.	Motor Vehicles (other than main producers)	294	21.50	5.64	24.61
41.	Motor Vehicle Parts	81	9.18	5.00	33.92
42.	Cinematograph Projectors	19	1.72	5.00	2.95
43.	Steel Furniture	548	28.98	5.88	31.51
44.	Metal containers not elsewhere specified	318	46.32	5.00	54.14
45.	Slotted Angles and Chanels	25	1.47	5.00	1.92
46.	Bolts, Nuts & Screws	443	8.63	5.00	13.19
47.	Electric Insulating Tapes	40	5.33	5.00	13.44
48.	Adhesive Tapes	40	6.68	5.00	8.47
		13,962	1,178.74		1,678.12

*Sanctioned budget estimate inclusive of additional taxation imposed during the year.

CHAPTER 15

CLASSIFICATION AND VALUATION

Classification

We have indicated in an earlier chapter that the classification of goods and the procedure for the settlement of classification disputes constitute one of the principal areas of friction between the producer and the Department. The relevant provisions are to the following effect:—

(i) A producer shall submit a classification list in respect of all excisable goods produced by him, and shall not remove such goods from the place of production until the classification list has been approved by the proper officer with such modifications as the latter may consider appropriate.

(ii) If a producer disputes the classification approved by the proper officer in respect of any goods, he may, after giving an intimation to that effect to such officer, either pay duty under protest at the rate of duty approved by such officer or, after obtaining approval of the proper officer to that effect, avail himself of the procedure for provisional assessment of goods.

(iii) In respect of the decision so disputed by the producer it is open to him to file an appeal to the appropriate appellate authority.

2. The "proper officer" for approval of classification lists is the Assistant Collector. Departmental instructions issued on the subject provide that "the Assistant Collector may, however, authorise the Range Superintendent to exercise this function in respect of commodities assessable at a single rate of tariff such as cement, soda ash, glycerine, acids, cycle parts, etc." In the exercise of this function, to the extent it is entrusted to him, the Range Superintendent is supposed to be acting on behalf of the Assistant Collector and "where he entertains any doubt and/or does not agree with, the classification of the commodity as claimed by the assessee in the classification list, the case should be referred to the Assistant Collector who will record his decision after making such inquiries as he deems necessary. The instructions further provide that "where the Assistant Collector feels a doubt regarding classification (and valuation) and is not in a position to make up his mind on account of the points advanced by an assessee, he should not hesitate to refer the matter to the Collector", and that "ordinarily the reference from the Assistant Collector needing a clarification or advice should be couched in general terms rather than being a pointed reference to a particular case". In all such cases, the Collector is expected to examine the reference and may issue general instructions in the form of advice and circulate the same to the other Assistant Collectors in his charge. The instructions go on to say that where "in any particular case—which would be exceptional—it is not possible for the Assistant Collector to make a reference in general terms there may be no alternative for him but to make a specific reference", and that "in such a case the Collector will himself consider the specific reference and convey the decision which will be deemed to be the decision of the Collector himself". Deputy Collectors are also expected to devote more time and attention to such important matters as 'classification' and 'valuation' though the precise area of the discharge of this function by Deputy Collectors does not appear to have been defined.

3. Classification decisions taken by Assistant Collectors are appealable to the Appellate Collectors of Central Excise, while appeals against the decisions of Collectors lie to the Central Board of Excise and Customs.

4. We have referred to the very widespread complaint concerning delays in approval of classification lists and the considerable inconvenience and uncertainty thereby caused. There are many reasons why the present procedures do not ensure expedition and smoothness of working. No time limit for approval of classification lists is stipulated. It is true that, pending approval, resort may be had to provisional assessment. But provisional assessment must itself have a term since, while enabling clearance, it prolongs the uncertainty in respect of tax liability and, depending on how this is finally fixed, involves meanwhile the possibility of the consumer being overcharged or the producer having to pay out of his own pocket. At the same time, the instructions which we have cited regarding the hierarchical levels at which decisions on classification may be taken are hedged round in such a way that, far from encouraging clear cut decisions at each level, they may be said to encourage an upward passing on of responsibility at every suitable opportunity. In the matter of settlement of disputes also, the present procedure (which has been in vogue since January, 1972 when the institution of Appellate Collectors was created) has in many ways tended to aggravate the situation both from the point of view of the assessee and the Department. We have elsewhere referred to the very large increase in the number of provisional assess-

ments as well as of pendencies in appeals. Apart from the delays, there is the consideration that the Appellate Collector whose jurisdiction extends to several Collectorates may understandably not be familiar with local practices and problems of a significant character which often vary from one area to another. Moreover, though the Appellate Collector is expected to, and does, proceed on circuit to different parts of his jurisdiction to hear appeals, the procedure itself is not the best possible from the point of view of ensuring the least delay, inconvenience and expense to the assessee Having regard to all these considerations, we feel that there is need for considerable improvement in the present position in regard to both approval of classification lists and settlement of classification disputes. Our recommendations in this behalf are set out in the succeeding paragraphs.

5. Immediately on submission of a classification list, an assessee should have the option to take clearance of his goods on a provisional basis, i.e., he should be free to remove his goods on determination and payment by him of the duty liability on the basis of the classification indicated by him. This should be subject to only one reservation. There are cases in which assessees pass on the duty burden at the higher rate to the distributing channels, but nevertheless claim assessment at the lower rate on the basis of provisional assessment. In such cases, the facility of provisional assessments should not be available.

6. The classification list should be required to be approved by the proper officer within the stipulated period. While we recognise that in certain cases approval of classification lists may be subject to delays in circumstances which are beyond the proper officer's control, we do not see any justification for keeping such approval open for an indefinite length of time. The Government can provide for such contingencies by prescribing two or more stipulated periods for two or more sets of circumstances. The stipulated period should ordinarily be a matter of days and in no case more than three months.

7. If the classification list is not approved within the period stipulated, the assessee should be free to assume that the classification indicated by him is ipso-facto approved and all clearances taken by him on the basis of that classification will cease to be treated as provisional.

8. If the classification list is approved within the stipulated period, it should operate in respect of all provisional clearances already taken since the submission of the classification list and all clearances taken thereafter until such time as the classification is revised in accordance with the law. In other words all provisional clearances already taken will be finalised on the basis of the approved list.

9. If an assessee chooses to dispute the classification approved by the proper officer, he may be given the option to pay duty either under protest on the basis of the classification approved by the proper officer or provisionally on the basis of classification indicated by him in the classification list, subject again to the reservation made by us in para 5, provided that the latter option will be available to him only for the period of appeal prescribed under the law. If he fails to prefer an appeal within the stipulated period, the facility of provisional assessment will cease to operate and all clearances already taken on the basis of provisional assessment will be finalised on the basis of classification approved by the proper officer. Likewise, the facility of provisional assessment will cease to operate as soon as he has filed an appeal. This will of course be without prejudice to such orders as may be passed by a competent authority regarding stay of recovery of differential duty in respect of clearances already taken or in the matter of prospective assessments.

10. The present law regarding recovery of duties or charges short-levied provides that, whenever such short levies or charges are due to inadvertence, error, collusion or misconstruction on the part of an officer or through mistatement as to the quantity, description or value of such goods on the part of the owner etc., they can be recovered within twelve months from the date on which they were paid or adjusted. We find that this provision is freely invoked and even in cases in which the proper officer has approved the classification list and no mis-statement on the part of the owner of the goods is revealed, retrospective demands are raised against the assessee in terms of the present law. While we agree that the tax administration should be able to demand any additional amount of tax which it believes is due to Government on the basis of information received or developed in the course of administrative procedure, we are of the view that in this context two situations need to be clearly distinguished. Where the fact of there having been a short levy is primarily due to some deliberate commission or omission on the part of the assessee, e.g., where the short levy has resulted from mis-statement on his part or from suppression of facts he is lawfully obliged to disclose or for any other reason for which his responsibility is directly attracted—it is clearly to be stipulated that the amount short-levied should be recovered from him. Where such commission or omission on the part of the assessee amounts to a criminal offence, e.g., fraud or forgery, there would be no limitation of time on Government's right to recover the amount due. Where no such offence is involved, the right to recover should be subject to a period of limitation prescribed by Government. Where, however, it is not the assessee that is primarily or directly responsible, and the short levies later discovered had occurred on account of inadvertence, error

or misconstruction on the part of the officer, the situation assumes an entirely different complexion. The classification list is one, which to the best of the assessee's knowledge and belief is correct in all material particulars; the Department has after due examination, accorded its approval of the classification list; and the assessee had marketed his goods at a price which takes into account the duty liability aproved in such list by the proper officer. At a subsequent stage, however, on detection of error, or availability of more facts, or thorough clarification from above, or as the result of a formal decision by higher authority, the duty liability originally approved happens to be raised. In such circumstances it would, in our view, be untenable to call upon the assessee to bear a further duty burden in respect of the goods he has already cleared on the basis of the lower duty. The tax administration has certainly a right to change the classification of a product in accordance with normal procedure, but where this results in enhancing an approved level of duty, it should affect only the future clearances of the assessee. The enhancement should not apply retrospectively except in the circumstances we have specified above.

Valuation

11. Procedures for submission of price lists (as basis of valuation) and for settlement of valuation disputes are more or less analogous to those laid down for classification lists and classification disputes which have been spelt out in some detail earlier in this chapter. To the extent the broad issues involved are the same. the main recommendations made by us in the context of classification would apply to valuation also. In particular we should like to reiterate that unless it can be shown that a short levy resulting from undervaluation of goods is attributable directly and primarily to the assessee. it should not be open to the Department to raise against him a retrospective liability for such short levy.

12. In an earlier chapter we have taken note of the fact that the law relating to valuation has recently been altered by amending legislation (Act 22 of 1973), even though the new provisions have not yet come into force. The new law also empowers the Central Government to make rules to provide, among other things, for determining the nearest ascertainable equivalent of the normal price and to define or specify the kinds of trade discount to be excluded from value. We are told that the relevant rules and detailed instructions setting out the manner in which the new law and rules will be implemented are expected to be issued in the near future.

13. In the course of the evidence tendered before us and in response to our questionnaire, we came across a large body of opinion which was highly critical of the administration of ad valorem duties in terms of the older (and still extant) provisions contained in section 4 of the Central Excises and Salt Act, 1944. Some of the difficulties, it was argued, arose from the fact that excise duties are related to production or manufacture of excisable goods, and therefore the value for purposes of assessment has to be the value qua-manufacture or qua-production and not the value at any subsequent stage or stages. This position entailed various problems for the industry. Some of the other difficulties cited were concerned with the determination of value in respect of goods sold through distributors and involved issues such as admissibility of discounts, equalised freight, and post-manufacturing expenses. Yet another set of problems was with regard to determination of value in respect of goods produced for captive consumption, or goods which do not by themselves command a price for a market. These and other difficulties have hitherto been sought to be covered by departmental instructions issued from time to time. The new law takes cognisance of some of them. The Rules and instructions, yet to be issued, will presumably deal with them in greater detail.

14. The procedural implications of the new legislation, and the bearing thereof on the whole question of future organisation have to be studied in the light of the rules which are to be promulgated. We propose to do so in Volume II when dealing with the relevant aspects of organisation.

CHAPTER 16

TARIFF AND EXEMPTIONS

Under our terms of reference, we are not directly concerned either with tariff or with exemptions. This applies in particular to the rates of tariff, as distinguished from its structure generally with exemptions as part of the structure. Individual tariff rates are governed by a set of considerations, fiscal and other, which, broadly speaking, fall outside the scope of our enquiry. Not so the tax structure and exemptions which, because of their complexity or for other reason have an intimate bearing on tax evasion and tax avoidance on the one hand, and tax procedure and tax administration on the other. It is on account of this direct relevance to the subject matter of our enquiry that we now deal with certain aspects of tariff and exemptions not already covered in the foregoing chapters.

2. There is one objective common to all taxes and that is to raise revenue. Central excise has hitherto fulfilled this aim admirably well. Most taxes have more than one objective and central excise is no exception. Indeed from time to time it would seem to have been expected to serve a veritable multiplicity of purposes. There has been a continual modification of the tariff structure with a view to achieving such objectives as (i) growth and development of the small sector; (ii) curtailment of consumption, particularly of luxury goods; (iii) reduction of imports of non-essential items in order to conserve foreign exchange for goods essential to economic development; (iv) attainment of equitable allocation of benefits; (v) conservation of scarce resources; (vi) creation of employment opportunities etc. Partly in connection with some of these objectives and partly for other reasons it seems to have been considered necessary to introduce recurring degrees of progression into the tariff. This has been done by adding from time to time to the numerous classifications and sub-classifications in the tariff itself or the large number of exemptions notified by Government. This has resulted in many different modes of levy as well as in the wide range of differential rates based on diverse criteria. We do not wish to comment on whether the various objectives of economic development referred to above have been subserved by the changes effected in tariff rates and tariff structure. But it seems clear that, in this process, the maxims of certainty, convenience and economy which are essential for sound tax administration have been greatly impaired.

3. So far as the coverage of excise levies is concerned, we have felt particularly concerned by the fact that over the years, the tariff has been extended to a large number of commodities with low revenue yield. Since these commodities are produced largely by the small sector, the new levies, as already pointed out, have posed numerous administrative difficulties. Of the 123 excisable commodities covered by the present tariff (including six which are completely exempted from duty), there are as many as thirty one, each of which yields a revenue of Rs. one crore or less. Between them, these commodities are expected to yield a total revenue of only Rs. 14 crores during 1973-74. The position is reflected in the table appended to this Chapter. We do not have data regarding the present number of factories producing each of these commodities, but from the number of factories in 1971-72 and the revenue yielded by such of these commodities as were covered by the tariff in the year, it appears that the average revenue yielded by these units is around Rs. 5,000 each. The question arises whether the extension of excise to such commodities is worthwhile at all. In many cases the problems raised probably outweigh the revenue.

4. In his Budget speech for 1964-65, the Finance Minister had declared that one of the essential conditions to be fulfilled by indirect taxes was that the revenue from the items on which such taxes were imposed was sizeable and secondly that the incidence of these taxes should be identifiable. In pursuance of this pronouncement several duties were removed in 1964 and again in 1965, but most of them came back later, for one reason or another, in the same or some modified form. Unfortunately, despite the recommendations made in this behalf by the Estimates Committee, the Central Excise Reorganisation Committee and the Public Accounts Committee it has not been found practicable to allocate the total cost of collection to different commodities, with the result that it is not possible to show statistically that many of these levies are not viable from the point of view of cost of collection.

5. The Public Accounts Committee has pointed out from time to time that the extension of excise duties with a yield of less than Rs. 50 lakhs a year, particularly when such commodities are produced by small units dispersed throughout the country, is not a worthwhile proposition. We fully subscribe to this view and consider that all existing levies with a yield of less than Rs. 50 lakhs should be reviewed in the light of the principles enunciated by the Finance Minister in 1964. In this context it has been pointed out by the Public Accounts Committee in their 83rd Report that "between 1968-69 and 1971-72, Rs. 26 to Rs. 50 lakhs per annum had been collected from domestic electrical appliances produced in 186

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units, Rs. 32 to Rs. 40 lakhs a year from safes, strong boxes etc. produced in 178 units and Rs. 25.1 to Rs. 45 lakhs per annum from mosaic tiles produced in 514 units."

6. Tariff definitions and descriptions have tended to become increasingly complex and difficult to interpret. This is also true of notifications in which the exemptions are spelt out. As we have already pointed out, several of these descriptions and definitions are couched in such highly technical and scientific terminology that they are not easily intelligible either to the tax payer or to the staff charged with the responsibility of interpreting the tariff. It appears that there has been an increasing tendency on the one hand to model the excise tariff on the Brussels Nomenclature which is a comprehensive classification code designed primarily for customs purposes, and on the other, to align it with the Indian Customs Tariff with a view to achieving a certain amount of uniformity in the administration and interpretation of the two schedules. We consider that for a tax like central excise, which covers so wide a range and so many classes of producers, the emphasis should be, not on sophisticated terminology, but on descriptions and terms which reflect the commercial or trade identity of the goods produced. There is much to be said for a tariff which is simple to understand, simple to compute and simple to administer. It follows that tariff criteria, based on physical or chemical composition which even Government's laboratories are not equipped to establish, should be strictly eschewed from tariff descriptions.

7. The widening range and increasing intricacies of classifications and sub-classifications many of which cannot be distinguished one from another, is reflected in the rising number of the disputes which are ultimately agitated in High Courts and the Supreme Court. Thus the relevant number of writ petitions increased from 167 in 1968-69 to 449 in 1970-71. Likewise, the pendency of such petitions increased over the same period from 394 to 670.

8. Several witnesses have urged before us that excise duties should, as a rule, be specific in character. The arguments advanced in favour of this thesis are that (i) taxes on easily ascertainable figures (for example, kilolitres of motor spirit) are easier to administer than those for which constructive value figures must be ascertained, (ii) use of specific rates is justified since the added social cost is related to physical units, not to their value and (iii) use of specific rates avoids discrimination against various distributive channels that occurs with ad valorem taxes collected prior to the retail level. Nevertheless, having regard to the excise tax structure as a whole as well as the need for the revenue elasticity of the tax system, we consider that ad valorem levies have come to stay and that it would be unrealistic to contemplate a reversal of the process.

9. The observations set out in the preceding paragraphs relate primarily to tariff, but they apply equally to exemptions. In Chapter 14 on the Simplified Procedure we have made certain far reaching suggestions in regard to exemptions designed for the small sector. We realise that this would still leave a very large area of exemptions which would not be affected by the scheme there put forward. We recommend that these exemptions should be reviewed administratively with a view to simplification and rationalisation. Broadly speaking, we think no exemptions should be retained unless each of the following conditions is satisfied:—

(i) The exemption demonstrably promotes a well-defined purpose:

(ii) The amount of revenue foregone can be justified in relation to the purpose;

(iii) The exemption is not likely to result in significant distortions in the structure of production;

(iv) It can be easily implemented in an administrative sense.

10. In this context we should like to make particular mention of certain exemptions which are related (i) to value of either production or clearances and (ii) to end use. Instances of exemptions relating to the first category are metal containers, safes and strong boxes, roller bearings, welding electrodes, zip fasteners, motor starters etc. A peculiar feature of these exemptions is that they are applicable only to manufacturers, the value of whose clearances during the financial year which is current does not exceed a stipulated limit (Rs. two lakhs in the instances cited). Where that limit is exceeded, full duty becomes payable even in respect of clearances which have already been made without payment of duty. It is true that, in any such scheme of tax concessions it is necessary to fix a limit (in terms of production or clearances or other factors) for determining a producer's eligibility for the exemption. At the same time, in actual implementation, such schemes turn out to be counter-productive inasmuch as they expose a producer to the possibility of additional liability on a retrospective basis if and when he expands his production to a level beyond the one stipulated. For all cases of this type, we would recommend that exemption should be related not to a producer's performance in the financial year which is current but to that of the financial year which has preceded. This would make for finality in the matter of admissibility of exemption: the producer would be free to expand his production and on such expanded production pay the appropriate quantum of duty.

11. In respect of exemptions related to end use, we find that several of them are of doubtful utility and in any case necessitate long and protracted post-facto verifications. A case in point is that of aluminium paste which is

exempted from duty provided the producer (i) converts such paste into pyrotechnic powder, (ii) sells such powder only to a manufacturer of fire works, (iii) before such sale furnishes to the Collector names of such fire work manufacturers, and (iv) furnishes to the Collector a declaration to the effect that the powder shall not be used otherwise than for the manufacture of fire works. The position regarding sealing compounds and sack printing inks supplied to bonafide consumers is somewhat similar, except that the manufacturer is required to take an undertaking from the consumer for every lot of goods sold to him to the effect the goods will be used only for sealing cans or for tencilling on sacks. He is also required to submit to the proper officer a half-yearly statement showing the names and addresses of bonafide consumers to whom goods have been sold and the quantities sold to each of them. To cite another example sulphuric acid produced and used within a factory for the purpose of drying air in the air tower is exempted from duty but the exemption does not apply where sulphuric acid is used for drying the acid tank. We do not see what purpose such exemptions serve; all we can visualise is the administrative difficulties they entail in enforcement. We would urge that all such exemptions should be reviewed and drastically curtailed, unless there are very strong reasons to the contrary.

12. In the context of certain exemptions applicable to production of excisable goods by the small sector, our attention has been drawn to a situation which obtains in certain industries, of which soap, footwear and matches are examples. Between certain small units which manufacture these commodities and some of the bigger units in the organised sector of the same industries arrangements are sometimes made for the production of the small unit to be marketed by the big unit under its own name. The duty paid is the concessional rate which, by virtue of the relevant exemption, is applicable to the small unit. It is part of the arrangement that the small unit gets one or more forms of assistance—financial, managerial or technical—from the unit in the organised sector. Above all it gets the advantage of the marketing organisation and even the brand name of an established concern. It is not within our province to go into the merits or policy implications of these arrangements. We are however concerned with the aspects of excise duty and of exemption therefrom. From this point of view the position does seem to us such as to require review. Is it really intended that a concession meant for the small sector should be available for production sold as from a bigger concern? If not, the relevant notifications should be amended so as to ensure that the exemptions do not apply to production marketed under arrangements such as those described above.

TABLE

Commodities in the Central Excise Tariff yielding a Revenue of Rupees one Crore or Less
(Based on Budget Estimates for the year 1973–74)

Sl. No.	Commodity	Year in which duty was imposed	(*Revenue in lakhs*) Realised in 1971–72	Estimated for 1973–74	No. of factories as per S. & I. Branch statistics as on 31-3-74
1	2	3	4(a)	4(b)	5
1.	Calcined Petroleum Coke	1971	86.58	100.00	3
2.	Smoking Mixtures	1973	–	100.00	–
3.	Optial Bleaching Agents	1966	61.85	88.00	40
4.	Ready-made Garments	1971	45.28	85.00	156
5.	Confectionery & Chocolates	1968	62.57	79.00	301
6.	Wire Ropes of Iron or steel	1973	–	75.00	–
7.	Gramophones & Parts	1962	35.56	64.00	36
8.	Glycerine	1961	16.94	63.00	23
9.	Vacuum Flasks	1971	26.93	60.00	24
10.	Tool Tips	1973	–	60.00	–
11.	Certain Parts of Wireless Receiving Sets	1968	150.10	55.00	12
12.	Rubber Processing Chemicals	1973	–	50.00	–
13.	Safety Razor Blades	1970	23.09	48.00	4
14.	Mosaic Tiles	1971	25.22	45.00	540

1	2	3	4(a)	4(b)	5
15.	Slide, Zip Fasteners	1971	29.55	45.00	24
16.	Playing Cards	1971	31.34	45.00	41
17.	Safes and Strong Boxes	1970	34.44	44.00	156
18.	Pressure Cookers	1971	35.70	44.00	37
19.	Adhesive Tapes	1971	34.57	44.00	45
20.	Fork Lift Trucks & Platform Trucks	1971	19.33	40.00	10
21.	Linoleum	1971	9.42	32.00	1
22.	Camphor	1971	18.80	30.00	11
23.	Menthol	1971	17.33	30.00	10
24.	Cinematograph Projectors & Parts	1971	14.57	25.00	15
25.	Electric Insulating Tapes	1971	14.57	21.00	47
26.	Typewriter Ribbons	1971	8.3[a]	18.00	6
27.	Lead Unwrought	1965	9.49	15.00	2
28.	Photographic Cameras	1971	6.94	15.00	12
29.	Slotted angles & channels	1970	10.74	14.00	47
30.	Textile Fabrics Impregnated	1968	0.64	3.00	6
31.	Mechanical Lighters	1934	0.56	1.00	17
	TOTAL :		826.79	1438.00	1626

CHAPTER 17

LICENCES AND BONDS

Of the various procedural obligations which an intending producer of excisable goods has to fulfil, the principal ones relate to licences and bonds.

Licences

2. So far as licensing is concerned, the rules provide for the categories of persons required to take out a licence, the procedure for obtaining licences, the scale of licence fees payable and the officers competent to grant and renew licences. On these and other aspects of licensing, several view-points have been expressed before us.

3. Licence fees, it is urged, should not be regarded as a source of revenue; they should accordingly be abolished or made nominal, whereas the present position is that the Department collects nearly Rupees fifty lakhs every year out of such fees. On the other side, it has been argued that the present scale of licence fees (ranging from nil and Rs. 100.00 is inadequate and should be suitably enhanced. While conceding that licence fees are not primarily a source of revenue, we are unable to agree that they should be abolished. We find, however, little justification for the existing disparity in rates. Presently, there are as many as twenty seven different gradations of licence fees based on a variety of factors such as: nature of goods produced, amount of duty liability, scale of production over a period of time, character of operations undertaken and so forth. In consequence, apart from the work of determining the class or category of licence to which each producer belongs, separate records have to be maintained for each such class or category of licence issued or renewed. We feel that, since the underlying purpose is to licence or regulate an activity rather than the scale of that activity, the existing rates should be converted into a single uniform rate, irrespective of the nature of production or scale of operations undertaken.

4. Our recommendation will apply to manufacture of all excisable goods including matches and composition for match heads, use of excisable goods for special industrial purposes, and storage of goods in bonded warehouses or bonded store rooms. For coffee, the "nil" rate of duty for curers who cure less than forty quintals may continue; for those who cure more than 40 quintals, however, the same uniform rate of licence fee as is decided upon for other operations should be applied. We would add that the rate of licence fee fixed should not be so low as to encourage indiscriminate requests for licensing or default in renewal.

5. Another point has been urged before us by the industry. It is pointed out that a unit producing a number of excisable goods is required to take out as many licences as there are tariff items. Where the administrative distribution of work happens to be on a functional basis, this causes avoidable inconvenience to the producer, since he has to deal with a number of different offices in order to obtain a separate licence for each separate commodity, though all the commodities are produced on the same premises. There is undoubtedly scope for examining the organizational aspect of the problem. We propose to deal with this in the Volume on Organization. At the same time there are sound reasons, including those connected with the maintenance of statistics, for insisting that a separate licence be taken out for each separate excisable item. So far as this requirement is concerned, we are of the view that the present practice should continue.

6. Although the taking out of a licence is the general rule, the Central Government is empowered to grant exemptions from this obligation in respect of one category of goods. These are goods which are themselves exempted from duty either unconditionally or on certain conditions. Such exemptions have been granted, but the result is unsatisfactory from one point of view. The units in the exempted sector—e.g. units operating without the use of power—are often a convenient means of evading duty. This is effected by the simple device of attributing to such a unit goods produced in a non-exempted unit. The absence of data renders preventive surveillance over such units difficult. We recommend that units exempted from licensing control should nevertheless be required to furnish periodically to the Department a simple declaration indicating the location of their premises, the excisable goods produced by them and such other broad particulars as may be appropriate.

7. It has been represented that annual renewal of licences involves a great deal of work and leads to delays and inconvenience. We recommend that (i) licences granted to all manufacturers covered by the scheme of Simplified Procedure set out in Chapter 14 should be valid for the full period of the three-year bloc for which liability is fixed in their case, and (ii) for the remaining manufacturers also, the facility of issue and renewal of a licence for yearly periods not exceeding 3 years at a time should be available on request without abatement of the total licence fee payable. We find that in the case of curers' licences in Form L-1 Government has already decided

that they may be issued or renewed for a period of three years at a time.

8. The obligation to take out a licence in the prescribed form for the operations of production or manufacture of excisable goods and for the wholesale purchase or sale or storage of such goods flows from section 6 of the Central Excise and Salt Act, which also provides for punishment for contravention of that section. In view of this, a person operating without a licence cannot be dealt with through departmental adjudication which is restricted to cases where the Act itself does not provide for specific punishments. Accordingly, all such cases, including those in which manufacturers fail to get their licences renewed, have to be dealt with by either prosecution in a court of law or by composition under Rule 210-A of the Central Excise Rules. We are advised that the present position encourages default and that there are innumerable cases of failure to renew licences in time, despite the provision in Rule 176 enabling levy of an additional fee equivalent to 25% of the licence fee on all applications not submitted within the stipulated period. We recommend that the law be suitably amended so as to enable disposal of such cases by departmental adjudications. The fee for late submission of applications may be suitably enhanced by way of further deterrence.

9. We also recommend that the powers to issue and renew licences relating to all manufactured goods which presently are exercised by Officers at different hierarchical levels should vest in the officer in charge of the primary formation or range in whose jurisdiction the producing units operate.

10. At present, licence fees are payable in the form of central excise revenue stamps stocked at post offices. These are required to be affixed to every application for the grant of a licence or for its renewal. While we do not think that any change in this procedure is called for, we believe that the introduction of a uniform licence fee, as recommended, would lead to all round simplification including, from the point of view of the Posts and Telegraphs Department, a reduction in the cost and labour involved in the printing, storage, sale and accounting of such stamps.

Bonds

11. There are as many as thirty four types of bonds under the Central Excise Rules. Different purposes attract different bonds. The bonds also vary according to class of manufacturer, warehouse owner, exporter etc. There are general bonds as well as bonds for individual transactions. In most cases, either security or surety is permitted to be offered as basis of execution of the bond.

12. The amount of bond is fixed with reference to the obligor's duty liability. For example, in the case of a manufacturer's bond, the amount is equivalent to the duty liability on a fortnight's average output of the factory or the duty on goods likely to be stored at any one time in the store room, whichever is less, subject to a maximum of Rs. 50,000. For exporters, the amount fixed is equivalent to the amount of duty chargeable on goods cleared for export or Rs. one lakh in the case of general bonds. For warehouse owners, the bond is required to be executed for 25% of the amount of duty which would have been payable on the estimated quantity of goods stored in the warehouse. In some cases the amount of the bond is fixed at the Collector's discretion.

13. The securities acceptable are cash, Government Promissory notes, Post Office Saving Bank Deposits, deposit receipts of recognised banks, National Defence Gold bonds, National Savings or National Plan certificates or other Government realisable papers. In the case of surety bonds, a surety of sufficient standing is required; he has to be a person, firm or bank whose status and solvency are not in question. At the time of the renewal of licence each year, the Department has to verify that sureties are alive and solvent for the amount of the bond. Undertakings owned by or under the Central Government are exempted from the execution of bonds; and State Government undertakings are absolved from furnishing security or surety.

14. It has been urged that the execution of a bond is quite often a mere formality which serves no useful purpose. There are, it is pointed out, several provisions in the Central Excise law itself which are designed to ensure payment and discourage default. Some of these relate to detention and attachment of excisable goods as well as of all materials and preparations from which such goods are made. In addition, plant, machinery, vessels, utensils, implements etc. may be attached in certain circumstances. Finally there is a provision for the recovery of dues as arrears of land revenue. It is also argued that the various procedural formalities preceding and following the execution of bonds, particularly those relating to their custody, disbursement of interest on securities and verification of solvency of sureties, are not only time consuming but irksome. The small producers complain that it is not ordinarily possible for them to furnish the requisite security. At the same time, the alternative of furnishing sureties involves the production of certificate of solvency in respect of such sureties; a procedure which drives them to yet another hierarchy of officials, namely, those of the revenue department. In any case, to be able to proceed against the Bond, the Department has to go to court and get a decree. It must then await execution of the decree. All this has resulted in the remedy itself being invoked very infrequently.

15. According to the information supplied to the Committee by Collectors, the number of

bonds relating to manufactured excises pressed into suit during the last six years was only seven. The dues involved amounted to Rs. 92,021.78, and the amount actually realised was only Rs. 12,225.00.

16. As against this, the view has been urged that bonds have a certain psychological value which is all the more important when, as in SRP, the element of physical control is minimal.

17. We feel that there is room for considerable simplification in regard to the matters discussed above. Bonds can be divided broadly into two main categories: (1) those which are executed by manufacturers, industrial users, warehouse keepers etc. who are licensed by the Department and (2) those which are executed by parties who are not so connected, such as merchant exporters and individuals wanting their goods under seizure to be released on execution of a bond. For the first categorey, the obligations imposed by various bonds extend, by and large, to payment of duty due on goods which are produced, exported or transported without payment of duty to another warehouse, or cleared on the basis of provisional assessment, or goods which are not satisfactorily accounted for. We are of the view that all such bonds may be consolidated into a single general bond (with surety or security) in which these eventualities are spelt out generally or specifically. The amount of the bond and the security can be fixed by the proper officer on the basis of suitable guidelines provided by the Department. In this scheme, a licensee who manufactures a number of commodities on the same premises —or one who exports more than one commodity—and who now has to execute as many bonds as the number of commodities produced or exported, will hereafter have to execute only one bond. For the other category we have mentioned, the existing system may continue.

18. In the context of licensing, we have already recommended that excise licences should be issued or renewed for a period of three years at a time in the case of producers covered by the scheme of simplified procedure, and for yearly periods not exceeding three years at a time in the case of other producers and for yearly periods not exceeding three years at a time in the case of other producers on request. In regard to bonds, recommend that the verification of sureties, wherever this is relevant, should also follow the same frequency.

CHAPTER 18

OTHER PROCEDURAL MATTERS

In the Section on 'Data and Evidence' we have recounted in some detail the issues specifically agitated before us by the industry. Some of these issues have a bearing on Organisation and will be discussed in Volume II. A few others concerned with procedure have already been dealt within the preceding Chapters. In the present Chapter we deal with the remaining procedural matters.

Account Current

2. One of the points most frequently urged was that the requirement of maintaining a separate account current for each commodity produced by a manufacturer resulted in the locking up of substantial amounts of money. This arises from the requirement that a credit balance has to be maintained for each commodity and under each minor head of account on the ground that inter-commodity or inter-head transfers or reappropriations are not allowed. We have observed earlier that a single account current was in vogue in 1970-71. It would appear to have been conceded at that time that the maintenance of separate commodity-wise accounts was not essential for reconciliation in accounts offices; the commodity-wise figures of revenue required for inclusion in the budgetary documents or for the purpose of framing tax policy could be based on departmental accounts which would continue to be maintained separately for each commodity and each minor head of account. Later, the Department reverted to the old practice of separate commodity-wise accounts in view of certain practical difficulties stated to have been experienced by assessees as well as departmental officers. We have looked into this question at some length. While we agree that a commodity-wise account makes it easier for departmental officers to check the monthly return in Form R. T. 12 and to furnish commodity-wise figures of revenue and refunds, we do not quite see the utility, from any other point of view, of continuing an arrangement which leads to unnecessary paper work on the one hand and avoidable blocking of working funds on the other. In principle also it is not possible to ignore the argument that all credits into an account current are in the nature of advance deposits which accrue to Government only when dutiable goods are cleared from the place of production and that until then the producer should have the discretion to deal with such credits, subject of course to appropriate audit and financial discipline.

Having regard to these facts we are of the view of that where an assessee is producing more than one excisable commodity, it should be sufficient if he maintains a single account current for all such commodities, with the particulars entered separately under each minor head of account. A copy of this account should accompany each R. T. 12 return submitted by the assessee. We realise that in the present scheme of things, the producer of a number of excisable commodities may be administratively controlled by more than one field formation or range and that in such cases the arrangement proposed may present certain administrative difficulties. In situations of this kind where the maintenance of a number of accounts becomes inevitable, it should be provided that the assessee can, in the event of an insufficient balance in one account, transfer an appropriate amount from another account which has enough balance to permit such transfer. This should be coupled with the requirement that suitable entries should be promptly made in the two accounts and the proper officers intimated within a stipulated time.

Payment by Cheques

4. In regard to payment of duty by cheques, the major grievance of the industry relates to the requirement that such cheques can be drawn only on an approved bank located at the Collectorate headquarters. We find that this restriction was imposed in 1968 when it was realised that collection of cheques on outstation banks was resulting in serious delays in collection. We also find that of late Government has approved a large number of banks on which such cheques can be issued and therefore the hardship felt by the assessees has to a certain extent been mitigated. Nevertheless the present requirement is unduly restrictive and smacks of an outdated context in which banking facilities were not as wide spread as they are today. We recommend that the work of collection of duty by cheques should no longer be confined to the headquarters of Collectorates. The unsuitability of this arrangement becomes apparent when it is realised that some of the Collectorates cover two or more States. As a first step towards decentralisation, the cheques should be permitted to be drawn on approved banks located at divisional headquarters. The extension of this facility to different divisional headquarters should be synchronised with the provision of suitable staff working under the overall supervision of the Chief Accounts Officer stationed at the headquarters of the Collector. The staff will be under the administrative control of the Divisional Officer concerned and will attend to the work of receipt and collection

of cheques as also to the accounting of all credits in the same way as is done at present at the headquarters of the Collectorate.

5. In the context of duty payments, it has been urged before us that all nationalised banks should be authorised to accept duty credits on behalf of the Government, as is done presently, by the State Bank or the Reserve Bank. We understand that the question, which has wider implications, is engaging the attention of Government. We are strongly of the view that it will be a step in the right direction. We hope that this development will take place in the near future. Even so, there will in our opinion be scope for the establishment of departmental treasuries at suitable metropolitan and other centres. Such treasuries, e.g. the one which the Central Excise Department runs in Bombay play an extremely useful role in cities where tax payment is not at a government treasury but at the Reserve Bank or one of its regional head offices, since they supplement the facilities offered by the Reserve Bank. We would accordingly recommend that departmental treasuries be opened at appropriate centres, such as some of the State headquarters, provided their establishment demonstrably meets the needs of a large number of excise assessees by way of supplementing the facilities available at the Reserve Bank.

6. We have drawn attention to the observations of the Public Accounts Committee regarding delays in collection of duties paid through cheques as also the dishonouring of some of the cheques. We consider that in addition to obviating the hardships presently experienced by the industry the two suggestions we have made in regard to the extension of the present facilities to Divisional headquarters and the setting up of more Departmental treasuries would between them lead to greater expedition in the matter of collection. So far as the bouncing of cheques is concerned, the remedies available under the ordinary law against such assessees may be freely invoked in addition to deterrent action in the form of withdrawal, on a permanent basis or for stipulated periods, of the facility to pay duty by cheques.

Raw Material Account

7. We have referred to the Raw Material Account in the Chapter on 'Production Based Control' where we have made detailed suggestions regarding the accounting of production. It is not our suggestion that the raw material account should be eliminated. Indeed we are of the view, despite arguments advanced to the contrary, that there is relatively significant area of industrial production in which a useful correlation could be established between raw material and finished goods. It happens however that no authoritative studies have been carried out so far either for identifying the essential raw materials concerned or for fixing proper norms of consumption or input-output ratios. In our view the present deficiencies are capable of being rectified by induction into the organisation personnel who are technically qualified and by initiating detailed and systematic studies for identified industries.

8. In the same context we attach some importance to the existing provisions regarding determination of normal production and assessments based on best judgment in all cases in which shortfalls are not accounted for to the satisfaction of the proper officer. These provisions have been invoked but rarely. This is presumably due to the relative lack of technical knowledge on the part of departmental officers and the absence of adequate guidelines on the issues involved. It is in our view necessary to build up the necessary expertise and to use the existing powers to greater effect.

Multi-Point Levies—Duty Reliefs

9. From 1956 onwards excise duties have been increasingly extended to raw materials and intermediate products primarily with the object of raising additional resources for financing development. In quite a few cases, it has also been found to be administratively more convenient to tax inputs in preference to the finished products. The latter, it appears to have been felt, tend to get diffused over several points in the system and are not readily amenable to effective control. One important consequence of such expansion in coverage has been to impart to excise tariff its present multi-point character. This has been criticised on the ground of undue cumulative incidence on the final product and the resultant effect on prices.

10. Prior to 1962, the normal practice followed to mitigate the effect of multi-point levies was to issue an exempting notification by which duty on the final product was exempted to the extent specified in lieu of the duty paid on components or raw materials used in the manufacture of the final product. These notifications took several forms depending upon the needs and exigencies of different situations. With certain exceptions, e.g. where the final product was completely exempted from duty, a detailed procedure was laid down for the generality of cases. This required, inter-alia, that—

(i) a prior notice would be given to the factory officer before such duty paid materials (including imported materials on which countervailing duty had been paid) were received in the licensed premises so that the factory officer could be present at the time of their receipt;

(ii) the duty paid materials would be brought in their original packing and

produced before the factory officer for identification along with the original A.R.1/bill of entry etc. on which excise or countervailing customs duty had been paid;

(iii) a proper account of such duty paid materials would be maintained indicating the quantity issued and used for manufacture of the finished product and a pro rata deduction made from the duty payable on the finished product on account of the excise or countervailing duty already paid, such deduction being made at the point of the clearance of the finished product from the factory; and

(iv) all handling and storage losses of duty paid raw materials would be borne by the factory.

11. There also obtained, in addition to the set off procedure indicated in the preceding paragraph the facility, on a selective basis, of in-bond movement of goods, i.e. transport without payment of duty of materials and components required for use in the finished excisable goods. In such cases no abatement of the duty payable on the finished product was involved. At the same time, an account had to be maintained of the receipt and issue of such materials and components and producers were held to account for any shortages or losses which were not satisfactorily accounted for. This facility of in-bond movement was, however, allowed in very few cases. It was largely by way of an extra legal concession, the normal in-bond movement being confined to cases involving transport of goods to different points for purposes of storage for distribution as, for example, in the case of mineral oils.

12. Both the set off procedure and the procedure for in-bond movement were considered unsatisfactory in some ways. The former was said to give to an integrated unit, producing both the components and the final product, an unfair advantage vis-a-vis isolated units which received duty paid components from elsewhere and got only a set off on the finished product. This was because the set off was related mostly to the weight of the finished product and not to the duty initially paid on the total weight of the material used for such manufacture. Similarly, the procedure for in-bond movement of goods was said to present some practical difficulties as the duty paid raw material received had to be accounted for and related to the quantity of the final product manufactured.

13. In November 1962, the Government introduced what came to be known as the 'Proforma Credit' procedure which envisaged that in respect of excisable commodities notified by Government, manufacturers will be permitted to obtain duty paid material or components and would be granted straightaway a proforma credit of duty paid on such material or components and that this credit could be utilized by the manufacturer for payment of duty on the final product. At the time of the introduction of this procedure it was clarified that it was not the intention that "debit in the proforma account should be made only of the excise duty on the quantity of materials/parts used in the manufacture of finished goods", and that "the manufacturer would be permitted credit of the entire amount of duty available in the proforma account even though some materials/parts received by him may continue to lie in the factory". This enunciation of the scope of the scheme of proforma credits seems to have undergone a modification sometime ago when a view was taken by Government that proforma credit could be drawn upon only to the extent of the duty paid on materials and components actually used in the manufacture of notified goods. It has been repeatedly put to us by the industry that this has neutralised all the advantages of the scheme of proforma credits. Another point made was that proforma credits remained unutilised and could not be drawn upon, whenever the relevant goods i.e. those manufactured out of materials and components in respect of which proforma credit had been given were exported under bond. We are glad to observe that both these difficulties have since been removed through the Department's instructions issued in August, 1973, which provide that "the credit of duty allowed in respect of any material or component part can be utilized towards payment of duty on any finished excisable goods for the manufacture of which such material or component parts were permitted to be brought into the factory...", and that "it should now be possible to allow utilisation of proforma credit obtained on raw materials/components used in the manufacture of goods exported under bond towards payment of duty on other finished excisable goods for the manufacture of which such raw materials were brought in the factory".

14. Apart from the set-off, in-bond and proforma credit procedures, the Central Excise Rules also contain a procedure commonly known as Chapter X procedure under which duty leviable on goods used for special industrial purposes can be remitted. Here the intention is not to mitigate the effect of multi-point levies but to afford relief for certain industrial purposes. In effect, the procedure laid down amounts to in-bond movement of goods, and in certain cases to relief from double taxation.

15. We consider that, in so far as they concern the multipoint character of the levies, there is scope for considerable simplification and rationalisation of the existing procedures. The Central Excise Reorganisation Committee which went into this question observed that

there was no uniformity in the pattern of relief afforded nor was there any evident or expressly stated principle in these reliefs. In regard to the procedure of proforma credit they said that, apart from additional documentation and checks, the procedure led to distortion of revenue statistics. The demand of the industry, they pointed out, was not so much for a single point levy as for a single point collection. Where goods are delivered to another factory for use as components for manufacture of articles, which are themselves subject to duty, they recommended that the duty liability should as a general rule be transferred to the latter and collected as and when the final product is charged to duty. In short they recommended the in-bond movement of such goods.

16. We have carefully considered the procedural aspects of multipoint levy from the point of view of the system of selective control envisaged by us. We are of the view that having decided which excisable materials or components have to be exempted from duty, and to what extent, when they are used in the manufacture of other excisable goods, Government should quantify the extent of exemption in concrete terms and notify that where such finished excisable goods are produced out of duty paid components, the effective rate of duty for such goods will be rebated to that extent. Where the number and description of components going into the manufacture of a unit of the finished product are known, this will not present any dificulty. Where, however, the quantity of raw materials, to which duty exemption is related, required for manufacture of a unit of the finished product differs from factory to factory according to the technological process employed or the composition and quality of the raw material itself or for any other reasons, some sort of an average quantum of duty can be worked out on the basis of the chemical composition of the final product or with reference to other relevant data and notified. Where duty rates are *ad valorem* the extent of exemption can be worked out on the basis of the average price prevailing over a point of time for the raw material/component used and then expressed as a proportion or percentage of the average price of the finished product. It is true that in the case of commodities, subject to frequent price fluctuations, this may lead to some distortions, but it would make for a great deal of simplification and impart the necessary uniformity to procedures of assessment all over the country. The quantum of exemptions notified can be kept under constant review and varied as and when required (though not too frequently) having regard to changes in duty structure of either the components/materials used or the final product or fluctuations in price or on account of policy decisions calling for a change in the extent of exemption already notified. The suggestion made by us is not unknown to the Department. Under the Central Excise and Customs Drawback Rules, where duty paid components/raw materials are utilised in a product which is exported, an exercise to determine the average incidence of duty is undertaken for fixing the amount to be rebated and a periodical review of these rates is done to see if any change is required either because of changes in process of manufacture or changes in quantum or rates of duty on raw materials and components.

17. We would commend consideration of the feasibility of applying the procedure outlined above to all cases of multi-point levies in which duty relief is decided upon as a matter of policy including some of those which are presently covered by Chapter X procedure. Thereafter Chapter X procedure should, in our view, be confined to the purpose intended, namely, remission of duty leviable on goods used for special industrial purposes.

18. In the matter of exports, several points have been made by the industry: Broadly recapitulated they are that—

(i) physical examination whether by (or, at an earlier stage, on behalf of) the Customs should be waived altogether since such examination is inconsistent with the basic concept of SRP: duty rebates or credits in the running bond account should be allowed on the basis of shipping bills filed by the exporters;

(ii) supervision charges should not be levied because examination and sealing are jobs performed in Government interest; and

(iii) where no physical examination and sealing of goods are asked for or provided, considerable simplification should be effected of the present procedure which requires that a 24 hours' advance notice of the extended removal of goods should be furnished to the department and a number of documents got certified or attested before removal of goods.

19. In support of their demand that physical examination of goods should be waived altogether, the industry has pointed out that in several fields, particularly textiles, there already exist statutory regulations for preshipment inspection of goods and that the Customs authorities should have no hesitation in accepting certification of inspection issued by competent officers of the Textiles Committee or the Export Inspection Council.

20. We note that pre-shipment inspection of goods is primarily a function of the Customs authorities, and that physical examination and sealing of goods carried out by excise authorities are, in a way, agency functions performed

by them on behalf of the Customs. We have observed earlier that, by and large, the industry prefers examination and sealing of goods at the source to their examination at the customs end. It is true, particularly in the case of textiles, that there are detailed textile export inspection regulations administered by the Textiles Committee which is a statutory organisation established under the Textiles Committee Act, 1963. But the functions of this Committee and the purpose of the various inspection regulations are to ensure that textiles are of standard quality. The considerations underlying examination of goods by Customs authorities, are materially different from those which regulate inspection under different export regulations. We, therefore, do not quite see how examination by excise or customs can be waived altogether. We do however consider that where such detailed pre-shipment inspection is carried out on a compulsory basis and is sufficiently comprehensive, from the point of view of the specifications of the fabrics packed, and their quantity etc., it should be possible for the excise and customs authorities to relax the scale or intensity of checks carried out by them.

21. So far as supervision charges are concerned, we find ourselves in agreement with the views expressed by the industry that such charges should not be levied since examination and sealing are jobs performed in the interests of Government. The fact that such supervision is provided only when it is expressly asked for does not, in our view, make any difference to the situation. In the patterns of control recommended by us, we envisage a much closer degree of association between the producer and the department and we are confident that in the revised scheme of things, in which officers would be located at more convenient places and in closer proximity to points of production and control, the provision of necessary staff for the purpose of examination and sealing of goods would not present any difficulties.

22. On the third point raised by the industry we consider that it should not be necessary to insist that even when no excise supervision or sealing are asked for, the exporter must furnish the application for removal and other documents and get them countersigned and attested before goods are actually removed for export. We do not see any particular merit in the present procedure particularly when, as we have been advised, neither of these requirements is of any practical utility, at any rate for the Department. The exporter would no doubt be concerned, in his own interest, to see that the application for removal and other supporting documents reach the customs authorities as expeditiously as possible so that his consignments are not held up for want of such documents, but the insistence for this purpose on their attestation in advance of the removal of goods, particularly when such attestation does not entail a visit to the factory or the carrying out of any physical checks is, in our view, misplaced. We accordingly recommend that in all such cases, the existing requirements of prior attestation of documents may be waived, it being provided instead that such documents can be presented within a stipulated period of the removal of goods for attestation and transmission to customs authorities.

Refunds

23. It has been one of the most persistent complaints of the industry that claims for refunds are inordinately delayed. The position regarding pendency of refund claims is illustrated by the following table:

	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971
(i) No. of refund claims brought forward from the previous year and the amount involved (Rs. crores) . .	3930	3138	4455	3290	5007	8742	12554
	1.82	1.39	2.08	2.56	2.94	4.61	7.16
(ii) No. of refund claims received during the year and the amount involved (Rs. crores)	23955	24902	21497	22442	21374	17539	35077
	7.34	9.81	11.16	8.34	8.39	10.48	11.79
(iii) No. of refund claims disposed during the year and the amount involved (Rs. Crores) . . .	24747	23585	22662	20725	17639	103727	32870
	7.77	9.12	10.69	7.95	6.72	7.92	11.42
(iv) No. of refund claims pending at the end of the year and the amount involved (Rs. Crores) . . .	3138	4455	3290	5007	8742	12554	14761
	1.39	2.08	2.56	2.94	4.61	7.16	7.53
(v) No. of refund claims pending at the end of the year which were more than three months old and the amount involved (Rs. Crores) .	1321	1516	1331	2400	4835	9165	7763
	0.70	0.92	0.98	1.85	2.92	5.15	5.32

24. It is seen that between 1965-66 and 1971-72, the pendency of refund claims increased almost five fold in point of numbers and almost six fold from the point of view of the amount involved. The corresponding position in respect of refund claims which were more than three months old is appreciably worse.

25. Broadly speaking, claims for refund under the Central Excise law arise from (a) excess payments made or realised through error, inadvertence or misconstruction; (b) retrospective reduction of duty liability in consequence of a change in law; and (c) orders in appeal or revision granting relief of duty liability, penalty or fine in lieu of confiscation. Claims for refunds or rebates of excise duty may also arise in specific cases subject to fulfilments of procedural requirements built into some of the central excise rules. An instance in point is that of duty paid goods returned to a factory for being remade, refined or reconditioned. There is also another area of refund which is related to goods cleared for export under claim for rebate of duty.

26. The present instructions require that a licensee claiming refund has to file his claim in duplicate in the prescribed form and submit it to the Superintendent of the concerned assessment range who examines the claim and forwards the same to the jurisdictional Assistant Collector, together with a copy of the TR 6 challan under which payment in respect of which refund is claimed was initially deposited. The Assistant Collector, who is the proper authority for sanction of refund claims, scrutinizes the claim and if he is satisfied about its admissibility, sanctions refund and issues a cheque for the amount sanctioned to the claimant. At the close of each month, the Assistant Collector sends a consolidated statement of all refunds sanctioned by him to the Chief Accounts Officer for post-audit with reference to the treasury challans received by him directly from the treasury. A somewhat similar procedure is followed in regard to refund claims arising from orders passed in appeal or revision, one distinction being that where the amount of refund admissible has been spelt out in the order, the refund is admitted straightaway and a cheque issued to the party after the prescribed form (which is the same as the claim for refund in cases already referred to) has been signed by him. Where the amount of the refund admissible is not spelt out in the order, the relevant papers are forwarded to the concerned Assistant Collector for working out the precise amount admissible, after which the same procedure is gone through as in the other cases. In relation to exports, refunds are sanctioned by the maritime Collector of Central Excise, on receipt by him of the removal application after shipment of goods, and on presentation by the exporter of a claim for refund.

27. It is clear that the present position regarding the pendency of refund claims is unsatisfactory. Our broad recommendation in this behalf are set out in the following paragraphs.

28. The Department should stipulate a period within which a claim for refund must be settled. We suggest that the period should be three months. We are aware that in several cases delays in such settlement results from failure on the part of the claimant to furnish the necessary information. In all such cases the period to be stipulated should count from the date on which full information relevant to the claim has been furnished by the claimant. For claims relating to rebate of duty in respect of goods exported, the stipulated period should count from the date of shipment of goods and should, in our view, be appreciably less than the period stipulated in other cases. We consider that it should be possible for the Department to obviate all delays which presently occur in the receipt of the relevant copy of the application for removal from the custom house, or in linking up the copy received from the custom house with the removal application received from the range.

29. If a claim for refund is not settled within the stipulated period, and delay in settlement cannot be attributed to circumstances beyond the control of the proper officer, the Department should pay interest to the claimant. The interest should be for the entire period between the expiry of the stipulated period and the date of sanction, and at such rate as the Government may decide, on the same lines as is done under the Income-tax Act, 1961.

30. The Comptroller and Auditor General, we are informed, has taken note of the fact that a large number of refund claims which are sanctioned and paid by the Department remain unadjusted in the accounts. The reason is that the Chief Accounts Officers of the Department are not able to carry out the statutory post-audit of such claims with the original duty paying documents. This in turn is said to be due, among other things, to paucity of staff under the Chief Accounts Officer and difficulties involved in tracing the original duty paying documents which in some cases are quite old. The adequate performance of post-audit of all refund claims is obviously important from the point of view of prevention and detection of cases of fraud and of double payment. This needs not only the streamlining of procedure but the availability of trained staff. We recommend in particular that the staff under the Chief Accounts Officer should be adequately strengthened.

Duty Paid Godowns

31. In our Special Report on the Match Industry, we drew attention to the abuses generally associated with duty paid godowns located on the premises of the producing units or

in close proximity to them. These abuses are not peculiar to the match industry. We find that lately Government have introduced a new provision in the central excise rules under which a Collector "may prohibit an assessee, who has at any time been punished for any offence under the Central Excises and Salt Act, 1944, or the rules made thereunder, from storing excisable goods removed after payment of duty in the manner laid down in rule 176 G, in any godown or place of storage situated within a distance of two kilometres from the factory or warehouse thereof, of such assessee." While we welcome the provision we should like to recommend that the practice of allowing clearances to duty paid godowns located in the factory premises or adjoining premises or in close proximity to the factory premises should be discouraged to the maximum extent possible. It should be clearly stipulated that, for such premises to be approved, they should be located at a reasonable distance from the place of production. We should like to add that where for any compelling reasons duty paid godowns have to be approved, within two kilometres of the producing unit or such other reasonable distance as may be prescribed, the law should provide that the onus of proving that excisable goods found in such godowns are duty paid shall lie on the assessee.

32. Some of the industries have represented that bonds for movement of non-duty paid godowns which under SRP can be executed only by the consignor may be permitted to be executed by either the consignor or the consignee as was the case prior to the introduction of SRP. This sounds logical but we consider that in the revised context under which the consignor himself determines the duty liability attracted by his goods and his liability to the department continues until it is discharged, it would be more appropriate if such bonds are executed only by the consignors.

CHAPTER 19

CONCLUSION

In concluding this part of the Report, it may be useful if we make a brief reference to some of the wider implications of the System of Selective Control put forward in the foregoing chapters. We have in this Volume concerned ourselves largely with procedure. But procedure and organization are inter-related, and both are dependent on policy. In turn, policy must take into account the realities underlying procedure and organisation. The future of excise taxation—including the possible restructuring of tariff and readjustment of coverage—is clearly a matter of policy and, except in some of its aspects, not within the province of our enquiry. At the same time, we cannot, in formulating organisation and procedure for the coming years, ignore the probable directions of future reform and rationalisation. It is in this background that the question arises whether Selective Control, besides meeting present needs, has implications also for the future. The patterns of procedure we have recommended might, therefore, be very briefly considered in their bearing on (i) organization, as of the present, (ii) implementation, as of the short term and (iii) rationalisation, as of the long term.

2. The whole subject of organisation, including field formations, administrative machinery and the structure and functioning of the Central Board, will be dealt with at length in the sequel to this Volume. But meanwhile it may be noted that, in the very process of replacing uniformity by selectivity, the new system seeks to lessen the burden of procedure in sectors where that is most possible and, correspondingly, release man-power for re-deployment in areas where it is most needed. The lightening of the burden on the Department—and even more importantly, on the industry —is attempted in two entirely different contexts in two entirely different ways. In illustration, the forms of recommended control (ABC, PBC and CBC) may be recalled along with the revenue data based on estimates for 1973-74 and other data on somewhat earlier statistical information (1971-72). In round figures, Account Based Control covers as few as 600 units, but as much as Rs. 1600 crores of revenue, constituting 60% of the total revenue from excise. It is governed by the Liberalised Procedure and entails the barest minimum of formalities. Clearance Based Control—of which, however, the alternative of Compounded Levy is what is relevant for our purposes covers (again in round figures) as many as 14000 units, all in the small sector, but contributes as little as Rs. 17 crores of revenue, constituting 0.6% of the total estimate. Compounded Levy will be administered under the Simplified Procedure which not only reduces documentation and supervision to a minimum, but also provides three-yearly intervals during which the assessment is more or less undisturbed and the administration relatively uninvolved. There are a number of areas, technical, supervisory and preventive—besides the whole range of industries coming under PBC—to which the trained staff released from the ABC and CBC groups could be very useful assigned. Production Based Control will be under what we have called the Modified Procedure. It covers about 7500 units and nearly Rs. 1000 crores of revenue, constituting 38% of the total estimate of excise revenue. Even this bare outline, we believe, will suffice to indicate the vast possibilities of re-organization, through rational re-deployment of manpower, which Selective Control holds out.

3. The system we recommend is, in a sense, indivisible. This applies not only to the three patterns which are its main components and which in many ways are inter-dependent; not least in the aspects of organization and administration which fall to be dealt with in the subsequent Volume. The mutual dependence, and therefore the composite character of the principal recommendations, will be apparent in our treatment of the subject of exemptions as also of the scheme of compounded levy which we envisage for a sizable segment of the small sector. This inter-relationship may also be discerned in the concept of a lower set of duties for small units producing certain commodities, such duties occupying an intermediate position between the higher or normal duties at one end and, in specified cases, total exemption from duty at the other end. These features find their place in the framework of our recommendations, not only because they are important in the short term, but also because we consider them to be significant in the long term as clearing the way for future reform and rationalisation. For all these reasons, we would urge that the System of Selective Control, together with the other main recommendations made by us, be regarded as an integrated whole for purposes of implementation.

4. We have suggested a review of the scheme of compounded levy, and of the pattern of Simplified Procedure that goes with it, in about five years' time from the date of introduction of the scheme. This is in order that decisions of policy concerning its future could be taken well before the end of the second of the three-year periods during which the small units concerned have the very valuable facility of a fixed duty assessment which remains more or less undisturbed during each of the periods. We believe that some system whether described as "compounded levy" or "contract

scheme" is, in its basic features, of considerable significance to future excise policy in a developing country with a growing small sector. We are aware that the relevant part of the Selective Control here proposed is very different from the "compounded levy" which now obtains in India, as well as the "contract scheme" for the small sector which are part of a larger tax systems in certain countries of Europe. We ourselves regard the particular scheme we have put forward by way of an alternative to CBC as only a first step towards the development of a simple and rational system of excise levy for the small sector: a levy not riddled by multifarious exemptions and not involving either too much documentation at one end or too much supervision at the other. The rationalisation of exemptions which we have proposed without detracting from the advantages they now confer on the small sector can lead to further and more radical rationalisation of exemptions as a whole. The co-existence of two or more sets of tariff rates which differentiate between bigger and smaller units is not unknown elsewhere. But here again, the proposals we have made in relation to the small sector are, in one sense, a transitional step towards further simplification of the relevant tariff items and, hopefully, of the tariff structure as a whole. Without elaborating further these and allied aspects of our recommendations, we would submit that the various steps we have proposed as part of the System of Selective Control are not only desirable in themselves but, in the longer perspective, are such as can lead towards much greater rationalisation and simplification of the structure of excise duty.

(Sd.) B. Venkatappiah
Chairman

(Sd.) Bhaskar Mitter
Member

(Sd) G. B. Newalkar
Member

(Sd.) K. B. K. Rao
Member

(Sd.) J. Banerjee
Member

(Sd.) Lachman Dev
Secretary

NEW DELHI,
September 29, 1973.

APPENDIX

CENTRAL EXCISE SELF REMOVAL PROCEDURE REVIEW COMMITTEE

SPECIAL REPORT ON THE MATCH INDUSTRY

Introductory

We submit this report on the specific issue of evasion of duty in the match industry. By way of introduction, we set out below the circumstances in which we came to be seized of this matter and the reasons why we consider it to be of sufficient importance and urgency to merit a special report much in advance of our general recommendations.

2. Today, nearly half the production of matches in the country is from the small scale (non-power operated) sector of the industry. The rest of the production is accounted for by the large scale or power-operated sector. Small proprietary concerns form the bulk of the non-power or small scale sector. There are also some units which are cooperatively organised in respect of services such as supply of raw material and marketing of finished goods. Some of the small units of production come directly under the aegis of the Khadi and Village Industries Commission. A large number of these manufacturers have been greatly concerned for some time about the effects on the industry of what has been alleged to be a wide and growing practice of evasion of excise duty on the part of certain units of the sector, both new and old.

3. The grievances of the industry were ventilated in Parliament and the Press, and representations made to the Ministries of Finance and Industrial Development. The Committee, for its part, was apprised of these matters by one of its Members, Shri S. P. Kampani.

The Chairman of the Committee happened in another capacity to undertake a tour of Tamil Nadu in March, 1972. He was met by representatives of the match industry from Sivakasi, Sattur, Gudiyattam and other places in Tamil Nadu and presented with detailed memoranda which he brought to the notice of the Committee. Thereafter, a deputation consisting of some Members of Parliament and representatives of the match industry as a priority issue and make an interim report to the Government. This, it was informally ascertained, was a procedure which would be acceptable to Government.

4. The Committee decided to make an on-the-spot study of the working of the match industry, and in particular of the small scale sector, before deciding on the course of action to be followed. Accordingly, the Committee paid a visit to Madurai, Sivakasi, Sattur, Madras and Gudiyattam from 7th to 11th May, 1972. During this visit the Committee met representatives of the match industry in the large, medium and small sectors, including the cooperatives and had detailed discussions with them as well as with the local officers. They were also presented with a large number of memoranda, including 651 declarations signed for individual producers, in which a demand was made for reintroduction of banderols. They visited a number of units, studied the different processes of manufacture, and acquainted themselves with the system of control, both as it obtained before the introduction of the S. R. P. and as it has evolved thereafter: in particular, since the discontinuance of banderols.

5. The consensus of view which emerged as a result of the Committee's visits and discussions was that the problems which the match industry was currently facing were indeed important and urgent and that, after a further study in some depth—which has since been made—these problems might well call for the submission of a special report to Government. The matter is important not only because of the revenue dervied from matches (which is quite appreciable) being Rs. 30 crores, but also on account of the very significant place which the match industry occupies among the small scale and cottage industries of the South. In Ramanathapuram and Tirunelveli districts alone, it offers employment to over fifty thousand people: men, women and children. We are of the view that the present situation of this industry may indeed be described as serious from the view-point of its healthy growth in future. No growth, it is obvious, can be healthy for either the industry or the exchequer which takes place in conditions where the dishonest have an edge over the honest. It is in our judgment possible to prevent such a climate establishing itself in the match industry provided no time is lost in taking the requisite steps. Hence the element of urgency.

The Problem: Evasion and its effects on the industry

6. With this preamble we now deal with the problem as we see it. Before the introduction of the Self Removal Procedure, Matches were, in common with all excisable commodities, subject to what is usually known as physical control. There was, however, one major difference. The duty on matches was recovered through 'banderols". These had to be purchased by the manufacturing units from Government treasuries either on payment of cash

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or on credit. Soon after matches were produced the match sticks had to be put into boxes or booklets which were simultaneously banderolled. Clearances from the factories were regulated by the normal procedure. This involved the presentation of an application for removal and assessment of duty. An excise officer had to be present to supervise clearance of goods. With the introduction of Self Removal Procedure on 1st June, 1968, these requirements were relaxed. But the banderolling of matches was continued. From 1st October, 1968, banderolling was also given up. Matches then came to be subjected to exactly the same type and degree of control as other commodities under the Self Removal Procedure Scheme.

7. The main contention of the small manufacturers is that widespread evasion of duty followed the discontinuance of banderolling. It is stated that some of the small factories started clearing matches under the Self Removal Procedure without paying in full or evading altogether the duty to which they were liable. They contrived to do so either by using the same gate pass more than once or by dispensing with the gate pass altogether. There were also other means of evasion. The excise duty on matches is fairly high. Such clandestine removals, therefore, meant substantial gains. This enabled the tax evaders so runs the contention to under-sell honest producers and capture their markets. The malpractices were adopted by a widening circle, some of the new converts to dishonesty being those who had been edged out of the market by earlier tax-evaders. In the cut-throat competition which thus ensued those who evaded most succeeded best.

8. The Khadi and Village Industries Commission has emphasised that it is the honest producers who are penalised in this process. As already pointed out, some of the small units are organised on a cooperative basis for marketing and other purposes. These are subject to strict departmental supervision. For obvious reasons, units of this type are not able to compete with dishonest producers. The result has been that quite a few of such units have suffered serious losses or been forced to suspend work or close down altogether. In some instances, their skilled labour has been enticed away into dishonest concerns by the lure of better wages which only those who evade due can afford. The Central Excise authorities became aware of these trends and strengthened the preventive organisation of the department. They set up checkposts at several places in and around the producing areas. They also intensified transit checks. Naturally, some of these checks for example, in so far as they slow down transport or impeded delivery —affect the honest trader no less than his dishonest counterpart. Moreover, consignments of matches are held up not only at excise check-posts, but also at octroi and sales tax barriers, railway stations and State borders. They are frequently detained for verification of transit documents and of the fact of payment of duty. The transport operators who suffer detention or harassment on this account therefore demand exorbitant charges for lifting consignments of matches. It is alleged that, in consequence, the cost of transport has gone up for the honest as well as the dishonest. The only was of meeting such extra cost—so a section of the trade argues—is to embark on still more ingenious methods of evading duty. It is thus a vicious circle of tax evasion, malpractices and cut-throat competition, followed by further evasion and more malpractices by those who feel they cannot otherwise survive. Such being the circumstances, not only is there an increasing evasion of Government revenue, but a constant aggravation of what is already an untenable situation for those producers, big or small, proprietary or cooperative, who happen to be relatively honest and law-abiding. This explains why virtually the entire industry is now demanding effective measures to counteract evasion. There is also a widely held belief that the most effective of such measures is the reintroduction of banderols.

Lines of Inquiry

9. We have given careful thought to the contention that the introduction of the S.R.P. and more particularly the discontinuance of banderols have given rise to evasion. We have examined this with reference to five types of data. These relate to: (i) production and clearances, (ii) prices and costs, (iii) number of units, structure of tariff and quantum of revenue, (iv) prevention and detention and (v) raw materials and production. We have come to the conclusion that the contention is well founded.

Production and Clearances

10. True, the revenue from matches has been rising, and the statistics of production, as also figures of clearances, show a trend which is more or less continuously upward. At first glance, this might seem to counter-indicate large scale evasion of duty. But the relevant data call for detailed examination. The statistics given below trace the growth trends since 1959-60 i.e. for a period of about 12 years

	Total Production ('000 gross boxes)	Total clearances ('000 gross boxes)
1959-60 1960-61 1961-62	135,316	135,046
1962-63 1963-64 1964-65	149,486	148,857
Rate of growth from 1959-62 to 1962-65	10.5%	10.2%
1965-66 1966-67 1967-68	169,806	169,862
Rate of growth from 1962-65 to 1965-68	13.6%	14.1%
1968-69 1969-70 1970-71	192,326	190,250
Rate of growth from 1965-68 to 1968-71.	13.3%	12.0%

SOURCE : Statistics and Intelligence Branch, Central Excise, New Delhi.

The latest three-year period viz. 1968-71 is also the period during which S.R.P. was introduced and banderols were discontinued. The decline in the rate of growth of production during these three years is marginal, but even so requires explanation at a time when all indications point to an increasing rate of demand and an increasing rate of production. The rate of decline is somewhat more pronounced in relation to clearances.

An interesting point emerges in respect of both production and clearances if the figures are set out separately for the power-operated sector and the non-power sector. As discussed in greater details below, the former shows an appreciable increase in the growth rate in both the relevant columns, while the latter, i.e. the non-power or small scale sector, records a steep decline in the rate of growth of production, no less than of clearances.

	Production ('000 gross boxes)		Clearances ('000 gross boxes)	
	Power operated sector	Non-power operated sector	Power operated sector	Non-power operated sector
1959-60 1960-61 1961-62	84692	50624	84595	50451
1962-63 1963-64 1964-65	84791	64695	84780	64077
Rate of growth from 1959-62 to 1962-65	0.1%	27.8%	0.2%	27.0%
1965-66 1966-67 1967-68	88199	81607	88157	81705
Rate of growth from 1962-65 to 1965-68	4.1%	26.1%	4.0%	27.5%
1968-69 1969-70 1970-71	96828	95498	96783	93467
Rate of growth from 1965-68 to 1968-71	9.8%	17.0%	9.8%	14.4%

(For the period prior to June, 1967; A Class factories have bee taken as power operated and B, C and D class factories as non-power operated).

SOURCE : Statistics and Intelligence Branch, Central Excise, New Delhi.

11. It is claimed by the industry that, having regard to various factors such as increase in population, improvement in living standards, increase in smoking habits, etc., the actual consumption of matches has been increasing at a very much faster rate than would seem from the foregoing and that the data of production and clearances registered for the post S.R.P. period fall short grossly of actual production and clearances. We do not wish to go into the validity of the estimates (which seem to be based on an annual growth rate of 8% and more), but are inclined to accept the view that the rate of growth revealed by the recorded data is on the low side. We cannot for example find justification for a decline in the rate of growth in both production and clearances in the post S.R.P. period. Taking the power-operated and the non-power operated sectors separately, the above table reveals the following.

In the power-operated sector the rates of growth of 4.1% and 4.0% in production and clearances respectively which had been registered in the three year period immediately preceding the introduction of the S.R.P. improved in either case to 9.8% in the succeeding three years. In regard to the non-power operated sector, the rate of growth declined from 26.1% to 17.0% for production and from 27.5% to 14.4% for clearances. Assuming that actual demand was higher, and having regard to the fact that the number of units in the small scale sector increased substantially during the post S.R.P. period, this decline in recorded figures of growth in both production and clearances is, in our view, suggestive of the fact that larger quantities were in fact produced and cleared but not accounted for in full.

Prices and costs

12. We have evidence before us which indicates that in many places and on a fairly extensive scale, matches are selling at prices which are lower than their cost of production cum duty. This obviously would not be possible unless duty was evaded. The Khadi and Village Industries Commission has estimated that the cost of production per gross boxes of matches produced by the small scale sector is around Rs. 3.25. Sometime ago, the Central Board of Excise & Customs also collected details of cost of production of matches by several factories in the small scale sector in Sivakasi. These varied from Rs. 3.15 to 3.43, thus closely approximating to the Commission's estimate of Rs. 3.25. The Khadi and Village Industries Commission has emphasised that with the lowest duty incidence of Rs. 3.75 per gross boxes (on production of small units upto 75 million matches) the total cost would amount to Rs. 7.00. As against this the Commission points out that matches are actually selling in the market at Rs. 5.00 to Rs. 6.00 per gross boxes. During our visit to Sivakasi, the trade produced before us vouchers indicating a price of Rs. 30.00 to Rs. 32.00 per bundle of five gross boxes. On the subject of prices, the Committee had also made a specific reference to the Collector of Central Excise, Madurai who replied that "before S.R.P., matches sold in the market between Rs. 37.00 and Rs. 41.00 per bundle of 5 gross boxes of 50s, but after the introduction of the S.R.P. and the abolition of banderolling system, contraband matches are freely available at between Rs. 20.00 and Rs. 25.00 per bundle while duty paid matches are selling at Rs. 37.00 to Rs. 40.00 per bundle". In a recent report, the Collector of Central Excise, Hyderabad, has informed us that, in Hyderabad proper Gudiyattam matches were being sold at Rs. 33 per five gross boxes by stray hawkers and urchins and that these matches could not have been sold by the manufacturers at a price higher than Rs. 31.00 per five gross boxes. He goes on to say that manufacturers in Hyderabad and Guntur Collectorates have also been known to be selling matches at such low prices. According to Wimcos, their matches have been pushed out from quite a few markets in Kerala, South and North Tamil Nadu, parts of Andhra Pradesh and coastal Orissa, i.e. largely from areas of close proximity to the match producing centres in the South, because matches produced at these centres were available at substantially lower prices, in many cases lower than cost of production inclusive of duty. They have also said that several instances of this kind had been brought by them to the notice of the Excise authorities.

Number of units, structure of tariff and quantum of revenue

13. There has been a considerable proliferation of units without a corresponding increase in production or revenue. On 31-3-1968, the number of match producing units in the non-mechanised sector was 1251. This increased to 1298 on 31-3-1969, to 1398 on 31-3-1970, and to 1681 on 31-3-1971. Of the total increase of 430 units between 1968 and 1971, Madurai Collectorate alone accounted for 254, Hyderabad for 68, Madras for 51 and Cochin for 38, i.e. 411 new units have sprung up in the Southern states in and around the match producing belt while increases in other areas have been only marginal. It has been represented to us that the increase in the number of factories is attributable largely to the structure of the tariff which provides for preferential rates of duty for factories producing upto 75 and 100 million matches in a year. The Government seems to have anticipated this phenomenon and sought to discourage it by restricting the concession of preferential rates of duty to units of sizes which existed before specified dates (the only exception to this being units explicitly recognised as belonging to the cottage sector). The notification through which this was done was however invalidated by the Madras High Court on 11-12-1968. The large increase in the number of small units that has taken place in Tamil Nadu may be attributed largely to this circumstance. Viewed only in this context, the proliferation of units in the post S.R.P. years and the declining rates of growth for both production and clearances would not *ipso facto* lead to the conclusion that there has been an increase in the volume of evasion during that period. However, it has to be remembered that the period following the invalidation of the notification referred to, by the High Court coincided with the period following the introduction of the S.R.P. and abolition of banderols. Coupled with the fact that there was during the same period a spurt in the number of units also in areas other than those hit by the High Court Judgment, accompanied by a decline in production, even in absolute terms, the proliferation that has taken place can be attributed also to the case with which evasion either of the higher duty or of duty altogether could be

practised in the post S.R.P. years in the absence of physical checks and the requirement concerning banderols. This is borne out by the following table:

Collectorate	No. of match units in the small scale sector as on		Production in '000 gross boxes of matches in	
	31-3-1968	31-3-1971	1967-68	1970-71
Madras	82	133	1692	1189
Hyderabad	63	131	337	235
Cochin	144	162	1315	620
Madurai	843	1097	25896	29860

It is seen that even in Madurai Collectorate the increase in production has not been commensurate with the increase in number of producing units. Elsewhere, there is a substantial increase in number and a substantial decrease in production.

14. We may now attempt a classification of match factories in terms of the revenue yielded by them. The following table gives the relevant details for some 1459 units for 1970-71:

No. of factories.
(Revenue in Rs. lakhs.)

Match factories in India which yielded during 1970-71 *a revenue of*

Jurisdiction Collectorate	More than Rs. 2 crores each	Between Rs. 25 lakhs & Rs. 50 lakhs	Between Rs. 1 lakh & Rs. 25 lakhs	Between Rs. 50,000 and one lakh	Between Rs. 25,000 and Rs. 50,000	Upto Rs. 25,000	Total
1	2	3	4	5	6	7	8
Madurai	..	7	127	59	543	221	957
	..	271.47	713.64	24.22	201.02	32.53	1242.88
Madras	1	..	14	3	28	79	125
	282.67	..	33.88	2.08	8.81	4.50	331.94
Allahabad	1	..	1	..	1	19	22
	324.07	..	1.02	..	0.32	1.27	326.68
Poona	1	..	..	..	..	1	2
	346.94	..	..	..	..	Neg.	346.94
Shillong	7	..	1	..	..	5	7
	244.71	..	2.27	..	..	0.42	247.40
Calcutta	1	..	1	..	..	11	13
Orissa	288.51	..	4.73	..	..	0.58	293.82
Rest	..	..	11	4	15	303	333
	..	..	23.42	3.11	4.79	17.33	48.65
Total	*5	7	155	66	587	639	1459
	1486.90	271.47	778.96	29.41	214.94	56.63	2338.31

*These factories are all in the power operated sector.

It will be seen that the largest number of units fall in the lowest revenue slab (of less than Rs. 25,000 of revenue). In 1970-71, each of these units contributed on an average Rs. 8,900 which implied a production of roughly 2400 gross boxes or eight gross boxes a day. The trade in matches is highly competitive and according to knowledgeable sources, including the Khadi and Village Industries Commission, an honest manufacturer cannot normally expect to make a profit of more than 20 paise per gross of boxes which for this class of producers would mean, on an average, Rs. 1.60 per day. It is true that some of these units engage in the manufacture of matches on a seasonal basis, but nonetheless they have to take out a licence, execute a bond, maintain licensed premises, keep several records and comply with certain formalities. The position of factories in the next higher revenue slab, though substantially better, still cannot be described as satisfactory. Their average production is roughly 30 gross

boxes a day which would give them a profit of Rs. 6.00. All these considerations suggest that it is only by evading duty that such units continue to subsist.

Prevention and Detection

15. We have already referred to the intensification of preventive activity by the authorities. Some of the ensuing results may be briefly mentioned. In the Madurai Collectorate, the number of offence cases relating to matches which was 238 for the three year period 1965–67 rose to 827 for the three years 1968—70 which followed the discontinuance of banderols. In Hyderabad the corresponding figures for the two periods are 24 and 228, respectively. In this context the Collector of Central Excise, Madurai, has brought to our notice the following interesting facts. According to the books of two stockists of potassium chlorate in Virudhanagar and Madurai as much as 370,975.kgs. of that chemical was sold to certain match manufacturers in the Madurai Collectorate over a period of 12 months. But this was found not to have been accounted for by the factories concerned. The units denied having purchased or received the quantities shown to have been sold to them. This quantity, it was stated, is capable of producing 46,37,188 gross boxes on which the duty liability would be of the order of approximately Rs. 2 crores. Some of the offence cases detected have revealed suppression of production of matches on a fairly large scale; in one case the quantity surreptitiously cleared was 60802 gross boxes involving a duty liability of Rs. 2,61,448.60: in another 220 Kilogrammes of potassium chlorate was found concealed in the residence of a manufacturer and incriminating documents seized from him revealed duty evasion of Rs. 75,250 while in yet another case the producer fraudulently manipulated the date on a treasury challan and took a second credit of the same amount paid on an earlier date in his P.L.A.

Raw material and production

16. We have also attempted an appreciation of the situation with reference to consumption of raw materials by the industry. The most important of these is potassium chlorate. Much the larger part of the potassium chlorate produced in the country is consumed by the match industry. There are only three units which produce it and imports are negligible. For the power operated sector of match manufacturers the relevant data of consumption of potassium chlorate and production of matches are as follows: —

	1966	1967	1968	1969	1970	1971
1. Sale of potassium chlorate to power operated match factories (Tonnes).	1722	1659	2118	2076	2056	1852
		5499			5984	
2. Production of matches by power operated sector ('000 gross boxes).	28903	28581	30161	31467	33112	32260
		87645			96839	
3. Rate of growth in sale of potassium chlorate from 1966-68 to 1969-71.						8.8%
4. Rate of growth in production of matches from 1966-68 to 1969-71.						10.5%

The data presented here are in terms of calendar years and the comparison afforded is between two period of three years each, viz. (i) 1966—68 (comprising largely the period preceding the abolition of banderols on 1-10-1968) and (ii) 1969—71 (immediately succeeding the abolition of banderols). As between these two periods the sales of potassium chlorate increased by 8.8% and the production of matches by 10.5%. During the relevant period and so far as the mechanised sector is concerned, the increased consumption of potassium chlorate can thus be said to have been duly accounted for by the increase in production of matches. The picture presented by the non-mechanised sector is substantially different. Here, because of the composite nature of the available data which are not separately available for the non-mechanised match industry and "other users"—allowance has to be made for what is consumed by the latter. Some of the "other users" are the textile and dye industries and manufacturers of percussion caps (for use in toy pistons). Some quantities are also said to be used clandestinely in the preparation of hand-made bombs and other forms of explosives. However, that be, there is general agreement that the use of potassium chlorate for purposes other than the match industry is relatively small. Indeed this was at one time placed at not more than 5% of the total consumption. In the light of recent data supplied by Wimcos there is some reason, however, to infer that there was a significant increase in the consumption of potassium chlorate by other users during the post S.R.P. period. Even though the quantity of potassium chlorate required for manufacture of bombs is very small, illicit diversions for that use are believed to have increased. We have already referred to the two offence cases detected in Virudhanagar and Madurai in which large quantities of potassium chlorate, reported to have been sold to match producers, have remained unaccounted for. With these qualifications, which must be borne in mind in interpreting the relevant data, we present in the

following table (a) composite figures of sale of potassium chlorate to the non-mechanised sector of match manufacture and "other users" and (b) corresponding figures of production of matches in the non-mechanised sector.

	1966	1967	1968	1969	1970	1971
1. Sale of potassium chlorate to non-power operated match factories and other users (Tonnes), by						
(a) Wimco	1532	1714	1760	1897	2086	2771
(b) Travancore Chemicals	285	464	419	692	694	614
(c) Mettur Chemicals	442	441	645	313	438	529
TOTAL	2259	2619	2644	2902	3218	3914
		7522			10034	
2. Production of matches ('000 gross boxes)	28289	29362	33379	30039	32655	35288
		91030			97982	
3. Rate of growth in sale of potassium chlorate from 1966-68 to 1969-71						33.4%
4. Rate of growth in production of matches from 1966-68 to 1969-71.						7.6%

The figures, as in the case of mechanised sector, are aggregate for two periods of three years each, namely, 1966—68 and 1969—71. It will be seen that in the post-S.R.P. triennium, the sales of potassium chlorate to the non-mechanised sector of the match industry and "other users", increased by 33.4%, whereas the corresponding production of matches in the non-mechanised sector registered an increase of only 7.6%. Even after making reasonable allowance for increased consumption of potassium chlorate by "other users", the disparity is so great as, in our view, to point unmistakably to substantial under-booking of production by the non-power operated units of the match industry: in other words, to large scale evasion of duty in this sector.

17. The actual extent of underbooking can only be a matter of conjecture. Having regard to the rates of growth in production and clearances in the non-power operated sector in the pre-S.R.P. period, we feel we shall not be erring on the high side if we assume that production of matches in the three year period viz. 1969, 1970 and 1971 should have registered an increase of 25% over the preceding three years. On this assumption and applying the lowest rate of duty (of Rs. 3.75 per gross boxes) the evasion would be of the order of about Rs. 6.0 crores for 3 years or Rs. 2.0 crores per annum. All the empirical evidence goes to show that evasion is on the increase and must be appreciably larger today than might be indicated by the three-year average, viz. Rs. 2 crores, pertaining to the immediate post S.R.P. period.

18. A few other broad estimates are available and it might be useful to make some reference to them. In his annual statement for the year ended 31st December, 1971, Shri Akbar Hydari, Chairman of the Western India Match Company said that "very large sums of revenue (estimated at over Rs. 12 lacs per month) are being lost to the exchequer". Later in his oral evidence before the Committee Shri Akbar Hydari said that, in his view, the extent of evasion in matches was currently between Rs. two and three crores per year. The President of the Sivakasi Chamber of Small Industries has observed in a letter to the press that 20% of the revenue from matches (in the small sector) is being evaded. In a letter addressed by him to the Finance Minister, he has estimated the extent of evasion to be Rs. 3 crores per annum.

Evils of Evasion

19. While it cannot be determined with any precision, the estimated evasion and its proportion to the relevant revenue would, even, at the minimum seem to be such as to merit serious attention. But, as already noticed, what is even more disturbing is the widespread nature of the evasion, its growing dimension and its possible effects on the growth of the industry on sound and healthy lines. Evasion has brought several evils in its train. We have referred to some of them earlier in the Report. Obviously, not all the gain from evasion of duty accrues to the producer or the consumer; in fact much of it is siphoned off by the distributive channels, by higher transport costs on account of risks of detention and seizure in transit, by bribes to petty officials, and in other sundry ways. The cooperative movement in the industry has received a serious set-back. The Government of Tamil Nadu have a scheme for the organisation of small match producers' service industrial cooperative societies in Ramanathapuram and Tirunelveli Districts. Of these, some five societies with a membership of 452 small units are in existence. During our visit to Sattur, the State officials Assistant Directors

of Industries) who are in charge of each of these societies, met us and related to us the woes of the small producers affiliated to these units. In the case of one of these societies, some ninety out of a hundred odd factories have had to close down, while the others were also in a state of decay because their production could not be marketed by the societies in the face of competition from dishonest producers. It was stated that sales of Sindco (Service Industrial Cooperative), I, II and III societies, which had been established quite some time ago, substantially declined in the recent past as would be evident from the following details furnished by them:

	Sales in bundles in		
	1969-70	1970-71	1971-72
Sindco I	1,87,214	1,85,716	1,50,866
Sindco II	1,16,747	1,59,788	1,02,458
Sindco II	77,492	85,401	76,251

It was stated that in terms of value the sales had declined from Rs. 151 lakhs in 1970-71 to Rs. 120 lakhs in 1971-72. It has to be remembered that it is the smallest factories (producing not more than 75 million matches in a year) that are members of these societies. The hardship which the present situation entails is, therefore, in this case being felt by the weaker sections of the industry.

Physical control in the past

20. In the wider context of our total enquiry, our terms of reference require us

> "to examine whether the Self Removal Procedure has let to or afforded greater scope for evasion of Central Excise duty, and also to recommend changes to plug the loopholes leading to such evasion."

These considerations are also relevant to our current examination of the match industry. It appears that at one time, of all the excisable commodities produced in India, matches were subject to the most rigorous physical control. While it was matches that were excisable, rules provided for physical control of splints, veneers and the "composition" for match heads. All manufacturers of these items were required to apply for a manufacturer's licence, on payment of the highest licence fee of Rs. 100 regardless of whether they were produced with or without the aid of power. A licensed manufacturer of matches could not be given a licence in respect of any other factory within the same district, save with the sanction of the Central Government and likewise a member of a Hindu Undivided family holding a licence in respect of any other factory in the same district was denied a further licence if it was considered that the business of the two factories would be substantially conducted by or for the benefit of the family. It was laid down that every proposed premises for a match factory must include separate divisions of rooms within the premises each capable of being locked with Government locks or with the joint locks of the licensee and the Government for the following operations:

(*i*) Manufacture of splints and veneers and composition for match heads, if the applicant intended also to manufacture them;

(*ii*) Storage of splints, veneers and composition for match heads manufactured or purchased;

(*iii*) Making boxes from veneers and setting frames of splints;

(*iv*) Dipping of splints and side painting of boxes;

(*v*) Box-filling, banderolling and labelling;

(*vi*) Finishing and packing; and

(*vii*) Storage of matches in the storeroom pending delivery out of the factory.

The keys of all Government locks were required to be placed in a glass case secured by a departmental lock and the key of the lock was kept with the resident officer. For operations permitted outside the licensed premises, several physical checks were prescribed. For example, veneers sent outside the licensed premises to the purpose of being made into boxes were required for be counted before issue, and so were the boxes returned to the licensed premises; likewise splints sent outside for being set up in frames were required to be weighed and related to the frames received. All unserviceable veneers and splints were required to be collected and destroyed in the presence of the factory officer. Stoppage or resumption of operations had to be intimated 5 days in advance. In bigger factories an officer was supposed to be in constant attendance, so that he would be available, whenever any operation connected with the production, storage or delivery of matches was in progress. In smaller factories, one supervising officer was posted to a group of small factories located in the vicinity of each other. Each Wimco factory had a staff of two Inspectors, one Supervisor and four peons. All exits from the factory were required to be guarded by Central Excise peons continuously; locks of all subsidiary exits were secured with the official seal of the supervisory officer, which could not be broken except in his presence. All receipts and deliveries of splints and veneers were regulated by indents countersigned by excise officers and physically supervised; full cognisance was taken of efficiencies; and

wastages which occurred in the process of manufacture were required to be meticulously checked.

21. Overtime, the rigours of physical control came to be greatly relaxed. Restrictions on the issue to the same person or to a member of a Hindu undivided family of another licence in the same district were lifted in 1966. Manufacturers of splints and veneers not using power were exempted from excise control in 1958; the exemption was extended to machine made splints and veneers in 1962, so that control on splints and veneers was completely withdrawn. In other spheres too, with the number of factories continuously increasing, and staff resources not being commensurate with the needs, other checks were considerably reduced. The mode of collection of duty by affixing a banderol of the appropriate value (equivalent of duty) to each match box, however, continued and as this by itself constituted an effective safeguard against evasion, with every consumer in the country being in a position to identify whether a box of matches he was purchasing was duty-paid or contraband, relaxation of the checks mentioned could not have led to any perceptible change in the situation, so far as revenue collection was concerned. It is true that some time in the past some cases of the use of forged and cut banderols were detected and taken cognisance of but we are told that their number was not large and that the forgerer who was behind these cases was apprehended and punished. Thus, by and large, banderols constituted a proof of duty payment which was at once visible and effective and which made all further checks and verification largely redundant. For one thing, they enabled the administration to ensure that differential duty slabs were not abused, inasmuch as the number of banderols of a particular duty value would correspond to the number of match boxes to which that particular duty rate was applicable. For another, they protected the consumer against pilferage of sticks. Duty being related to the number of matches, producers were not interested in packing a smaller number of sticks in each box while paying duty for more, and banderolling ensured that the contents were not tampered with. Even after the introduction of the S.R.P. when all physical controls were withdrawn, Government revenue was reasonably safe as long as this visible proof of payment of duty was available. This is to some extent borne out by the fact that offences relating to matches between 1-6-1968 (when S.R.P. was introduced) and 1-10-1968 (when banderols were discontinued) were insignificant in number and largely technical in character.

Banderolling

22. The discontinuance of banderolling is partly attributable to factors pertaining to the Government Security Press at Nasik. This institution was said to be heavily over-worked at the time and pressed to be relieved of such items of work as could be given lower priority. Earlier, the Security Press had also said that banderols printed by them were not of uniform format and quality and that their printing had been found to be defective. The other arguments advanced were that (a) banderolling was not being resorted to by any other country, and (b) costs of printing banderols were quite heavy, amounting about that time to Rs. 60 to 65 lakhs a year. The Department of Revenue had resisted these arguments at first, but in 1968 when the S.R.P. Scheme came to be introduced, it appears to have been felt that the system of banderolling was combrous and somewhat incongruous with the concept and objectives of the S.R.P. The argument of cost, coupled with the reluctance on the part of the Security Press to print banderols, seems at last to have weighed with the Revenue Department. It was decided to give up banderolling with effect from 1-10-1968.

23. The statement that banderolling is not extant in any other country may be technically true—Thailand, however, uses excise duty stamps on containers of match boxes—but the conclusion hardly follows that India should not resort to banderols. The fact remains that no other country has a small scale sector in matches such as we have, in India, and connected therewith, an employment potential that is not only rurally based but seems to be still growing in skill numbers. If banderols can help restore conditions of healthy growth and competition in such an industry, then banderols would be worthwhile in Indian conditions. It may be thought that the operation of banderolling entails extra labour and therefore extra cost and, in that sense, is an imposition on the small scale industry. Such a view would be far from correct. The making of matches, as we saw for ourselves, consists largely of two main operations: dipping and pasting. In both these processes, the workers have developed such skill and expertise that in the quality and get up of matches produced by them, they are able to compete effectively with the mechanised sector. For them the operation of pasting a banderol is no hardship at all. It is part of one quick manoeuvre in which the box is pasted and sealed. In fact quite a few small scale units continue even now to banderol their match boxes, with their name on the banderol, for reasons of security as well as for letting the customer know that it is their brand he is buying.

24. We have discussed some of the aspects connected with banderolling with Officers of the Department of Economic Affairs as well as with the Security Press, Nasik, the Security Paper Mill, Hoshangabad and the Controller of Printing and Stationery, New Delhi. From these discussions it appeared that there would be no serious difficulty in re-introducing banderols so far as the Security Press Nasik is concerned, provided adequate notice is given to

them. Thus if the Press is informed in, say, July 1972 of the decision to reintroduce banderols, they would, in all probability be in a position to start making supplies in January 1974. They would also be in a position, at some additional cost, to introduce more effective security features on baderols. In the light of these discussions, as well as of the perspective of healthy growth already indicated, it appears to us that the cost involved would be quite worthwhile and it any case need not be an obstacle in the way of reintroduction of banderols.

Other Measures

25. While the trade, by and large, is demanding the reintroduction of banderols, some alternative suggestions have also been made. One of these is that the entire burden of duty on the small scale sector of the match industry should be shifted to raw materials. It is suggested that the duty on matches should thereupon, be abolished altogether so far as the small scale sector is concerned, while the power operated sector would continue to bear a differential charge. The principal raw materials used by the match industry are splints and veneers, blue match paper, potassium chlorate, wax, glue and phosphorus. We have looked into the possibilities of shifting the match duty burden to these commodities, but have come to the conclusion that none of these commodities could take the entire burden without leading to several distortions and creating serious administrative problems and difficulties. A part of the existing duty incidence can, however, be transferred to one or more suitable inputs. Our suggestions in this regard are contained in a separate communication to be transmitted by our Chairman.

26. It has also been suggested that physical control as it existed before the introduction of the S.R.P. including control of splints and veneers, may be revived with suitable modifications in addition to or without the reintroduction of banderols. A brief outline of the physical measures at one time enforced has been given earlier in this report. Re-introduction or revival of full physical control on matches seems to us to be a retrograde step and for that and other reasons, we are inclined to rule it out. Likewise, control on splints and veneers is likely to prove irksome to the trade and administratively cumbersome to the department. We, however, feel that there are certain other features of the erstwhile physical form of control which can be reintroduced with advantage. We include these in our recommendations.

Recommendations

27. Our recommendations are as follows:—

(i) Banderolling of match boxes is by far the most effective revenue safeguard and should be re-introduced as early as possible. Right from 1934, when duty was first extended to matches, upto 1968, the industry has been used to working with banderols and apart from their merits as a revenue measure, we are inclined to attach some importance to the fact that by and large all sections of the industry are combined in their demand for the reintroduction of banderols. In the course of our inquiry, we considered whether it would be feasible to introduce banderols for packages bigger than the individual match box or booklet, so that economies could be effected in cost of paper and printing, but we found that none of the variants which suggested themselves, including the use of excise stamps such as are in vogue in Thailand, would meet the requirements of situation.

We also recommend that adequate security features should be introduced in the banderols. As already stated the Security Press at Nasik does not anticipate any difficulty on this account.

(ii) We realise that, for some time after banderols are reintroduced, both banderolled and unbanderolled matches would be available in the market as duty paid goods and this might encourage further clandestine manufacture and deliveries. We feel that it would be necessary to take suitable remedial measures in this behalf including intensive physical supervision on production and deliveries for some time after the reintroduction of banderols, or stock taking and banderolling, if necessary, of existing stocks with distributors and stockists, and stipulation of a period of time (depending upon the pattern of distribution) after which all unbanderolled stocks would be treated as contraband.

(iii) We recommend that all possible steps be taken to expedite the reintroduction of banderols. Paper with water mark and other security features can be produced in private paper mills in the country and if printing of banderols can also be undertaken under adequate security arrangements and safeguards in private printing presses, which we are told are already printing cheques and other documents, it would be most welcome. Even so, the resumption of banderolling will take some time. Other measures to check evasion will, therefore, be necessary meanwhile. Our recommendations in respect of these are as follows:—

(a) Steps should be taken immediately to reintroduce the requirement regarding presentation of an application for removal in form A.R. 1;

(b) All gate passes under which goods are delivered should be countersigned by departmental Officers as a condition precedent to the clearance of goods. Time and again in the course of our inquiries we found that the Gate pass

was a focal point for evasionary tactics and it is imperative that malpractices associated with this document should be eliminated as far as possible;

(c) Delivery of matches from a factory should hereafter be regulated as provided for under Rule 224 of the Central Excise Rules, i.e. the deliveries should not be effected before six O'Clock in the forenoon or after six O'clock in the afternoon, nor at any hour on Sundays and public holidays except as provided for in the concerned Rule;

(d) The practice of allowing clearances to duty paid godowns located in the factory premises or adjoining premises or in close proximity to the factory premises should be discontinued; it should be clearly stipulated that, for such premises to be approved, they should be located at a reasonable distance from the place of production, the actual distance being consistent with the purpose which the regulations are intended to subserve;

(e) The premises of match factories and accounts kept by individual units should be inspected and reviewed with adequate frequency. With the introduction of the S.R.P. visits to factories are paid only by inspection groups (in adition to audit parties) at six monthly intervals. We consider that the officers concerned should pay more frequent visits to units within their jurisdiction.

(iv) We suggest that the above measures be continued even after the introduction of banderols since they are not only salutary in themselves, but supplement and support the important role played by banderolling. They can of course be suitably modified or relaxed at a larger stage if, on review, they are found to be unnecessary.

28. We should now like to draw attention to the present structure of the tariff relating to matches produced in the non-mechanised sector. The standard rate of duty for this sector is Rs. 4.30 per gross boxes but in the case of factories (i) whose production during 1966-67 did not exceed 100 million matches, or (ii) whose clearances during 1967-68 were not estimated to exceed 75 million matches and a declaration to that effect had been filed before 4-9-1967, or (iii) which fell under category D as defined earlier but had not production till the 4th September, 1967, or (iv) which are recommended for exemption by the Khadi and Village Industries Commission as bona fide cottage units or are set up by registered cooperative societies and whose production during any financial year is not estimated to exceed 100 million matches, the rate of duty is Rs. 3.75 per gross boxes on clearances upto 75 million matches and Rs. 4.30 on quantities cleared in excess of 75 million matches, but if celarances of any unit exceed 100 million matches, the entire quantity cleared is chargeable at Rs. 4.30 per gross boxes. We cite these provisions because, in our view, the present scheme has two in-built characteristics, viz. a disincentive for growth and an incentive for evasion. As soon as a factory finds itself likely to cross the hundred million mark, it is confronted not only with a higher duty for further production but with the prospect of having to bear retrospectively an additional duty burden at the rate of 55 paise (Rs. 4.30—Rs. 3.75) per gross boxes on its clearances of 75 million matches already sold. An alternative before it is to go out of production for the rest of the year. In the result, the factory is often tempted to suppress facts, create "benami" units, and evade duty. We have already drawn attention to the fact that this has let to the evil of proliferation. We consider that, if some sort of a differential has to be maintained even within the small scale sector, as between the small and not so small producers, this may be done by providing two slabs, clearances in excess of a slab attracting a higher rate of duty for such excess and not for previous production as well. There should be a finality about the duty liability discharged by an assessee from day to-day and it should be ensured that the tariff does not act either as a disincentive to production or as an incentive to malpractices.

Acknowledgements

29. We are grateful to the representatives of the match industry, Members of Parliament, Officers of the Central Excise Department and others who assisted us ungrudgingly in the course of this enquiry.

(Sd.)
B. Venkatappiah
Chairman

(Sd.)
Bhaskat Mitter
Member

(Sd.)
G. B. Newalkar
Member

(Sd.)
K. B. K. Rao
Member

(Sd.)
S. P. Kampani
Member

NEW DELHI,
July 7, 1972.

ANNEXURE I

GOVERNMENT OF INDIA

CENTRAL EXCISE (SELF REMOVAL PROCEDURE) REVIEW COMMITTEE

New Delhi, the 15th Nov., 1971.

PRESS NOTE

Through their Resolution F.No. A. 11013/E/134/71-Ad. IV dated the 11th October, 1971, the Government of India in the Ministry of Finance (Department of Revenue and Insurance) have set up a committee with Shri B. Venkatappiah as the Chairman to review the working of the Self Removal Procedure introduced in the Central Excise Department in 1968 under which excisable goods can be cleared from the place of manufacture on determination of the duty liability by the producers themselves without physical supervision by officers of the Central Excise Department and to suggest improvements which could reduce leakage of revenue. The Committee will also examine the existing organisational and administrative set up of the Central Excise Department and make suitable recommendations to the Government.

The Committee will shortly issue a questionnaire to elicit information on their Terms of Reference. They would meanwhile welcome any suggestions which the Trade and Industry or persons otherwise connected with the administration of the Central Excise Department may have to make on the working of the Central Excise levies and their administration and on any other germane to the objectives of the investigation entrusted to the Committee. The suggestions may be addressed to the Secretary, Central Excise (Self Removal Procedure) Review Committee, M-14 N.D.S.E. (pt.II), New Delhi.

QUESTIONNAIRE

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INTRODUCTORY

This questionnaire is designed to cover the various aspects of the enquiry entruited to the Central Excise (Self Removal Procedure) Review Committee constituted by the Government under their Resolution F.No. A.11013/E/134/71-Ad. IV dated the 11th October, 1971. The terms of reference of the Committee are reproduced below :

(1) To review the working of the Self Removal Procedure Scheme in the Central Excise Department in all its aspects, including an analysis of its merits and demerits vis-a-vis the previous system of physical control and particularly enquire :

(a) to what extent the Self Removal Procedure has achieved the objectives set out when the Scheme was introduced;

(b) whether the Self Removal Procedure has led to, or afforded greater scope, for evasion of Central Excise duty and if so, to assess the magnitude, of such evasion and also whether such evasion is confined to any particular industry/industries or any sector of the industry/industries and the causes thereof; and,

(c) to recommend changes considered necessary in existing Rules and/or procedures to plug the loopholes leading to evasion of duty.

(2) To examine whether there are any items in the Central Excise Tariff (excluding tobacco) which, having regard to the safety of revenue, are not suited to be cleared under the Self Removal Procedure in its present form and if so, to suggest modifications or alterations in the mode of assessment and collection of duty on such items and suitable Rules and/or procedure therefor.

(3) To examine the existing organisational and administrative set up of the Central Excise Department employed for levy and collection of Central Excise duties under the Self Removal Procedure, and to advise the Government in the light of the suggestions and recommendations made with refernce to (1) and (2) above, on such reorganisation as may be considered necessary, keeping also in view the various agency functions (like those under the Customs, Gold Control and other Acts) which the Central Excise Department is at present entrusted with, and

(4) To make any other recommendations germane to the objectives of this investigation.

2. The composition of the Committee is as follows :—

(i) Shri B. Venkatappiah,
formerly Member, Planning Commission
and now Chairman, Rural Electrification Corporation Ltd. — Chairman

(ii) Shri Bhaskar Mitter,
formerly President, the Associated Chambers of Commerce and Industry of India — *Member*

(iii) Shri G.B. Newalkar,
Chairman, Maharashtra Small Scale Industries Development Corporation Ltd. — *Member*

(iv) Shri K.B.K. Rao,
Senior Economist, National Council of Applied Economic Research, New Delhi — *Member*

(v) Shri S.P. Kampani,
Member, Central Board of Excise & Customs and ex-officio Joint Secretary to the Government of India — *Member*

(vi) Shri Lachman Dev
Indian Customs & Excise Service — *Secretary*

3. The questionnaire has been divided into separate sections, each covering a particular aspect of the Self Removal Procedure as such or of other allied matters included in the terms of reference. If the questionnaire does not cover any aspect of the enquiry on which you may wish to offer your views, you are welcome to furnish them as an annexure to your reply.

4. It is recognised that you may not be in a position to answer all the questions posed in the questionnaire. you may therefore confine yourself to such of the questions as are of interest to you. It would be appreciated if replies relating to questions covered by each section are given on separate pages and are both brief and precise, supported where necessary by relevant data and concrete examples. If possible eight spare copies of your replies to questions in each section may kindly be sent to facilitate subsequent processing by the Committee.

5. Your reply will be treated as strictly confidential. Please, therefore feel free to express your views frankly and explicitly. The Committee would greatly welcome your doing so, since that would be the best way you can contribute to its efforts in dealing with problems which are admittedly of great importance for the country's tax structure and economy.

6. For facility of reference, questions in which the small scale sector of the industry is likely to be particularly interested are printed in bold type.

7. A brief outline of the Self Removal Procedure is appended as an Annexure to this questionnaire.

8. The questionnaire may not be taken as reflecting the views of the Committee in respect of any of the matters raised therein.

9. Please send your replies so as to reach the Committee, by 30th June, 1972. They may be addressed to the Secretary, Central Excise (SRP) Review Committee, M-14, N.D.S.E. Part II, New Delhi-49.

Please furnish the following particulars along with your reply to the questionnaire.

(1) Name and address (person/trade association/service association/organisation).

(2) Please state the interests, if any, which you represent.

QUESTIONNAIRE

I—GENERAL

1. (I) Do you consider the Self Removal Procedure to be generally suitable in pattern and operation, having regard to the requirements of both trade and taxation?

(ii) If not, what broad changes or modifications would you propose?

2. What in your opinion are the merits and demerits of the S.R.P. *vis-a-vis* the system of physical control previously in vogue?

3. The S.R.P. was introduced (1) by way of reposing greater trust and confidence in producers of excisable goods, (2) to simplify excise formalities, (3) to lighten the administrative burden, as far as possible, both on the assessee and the Department, and (4) to reduce the areas of friction between the tax collector and the tax payer. To what extent, in your view, have these objectives been achieved?

4. (i) Has the S.R.P. in your opinion, led to or afforded greater scope for evasion of Central Excise duty?

(ii) If so,

(a) what are the industry/industries or sectors thereof which provide such scope?

(b) what is the extent of such evasion?

(c) is this due to some inherent defect in the scheme?

(d) what amendments, if any, in the existing rules/procedure would you suggest to plug the loopholes leading to such evasion ?

5. Do you think there are any commodities which, having regard to safety of revenue, are not suited to be cleared under the S.R.P. in its present form? If so, please list such commodities and indicate what modifications or alterations you would suggest in the mode of assessment and clearance of such commodities, and collection of duty thereon.

6. Would you suggest any special checks or measures for commodities in respect of which the duty liability is dependent on physical factors, like weight, volume, area, thickness etc ? If so, please give concrete proposals and indicate how, in your view, they would constitute an effective revenue safeguard without, at the same time, interfering with the normal working operations of the factories concerned.

II—CLASSIFICATION LIST

7. Has any difficulty been experienced in filling up the form of classification list initially or later when an alteration in the list becomes necessary ? If so, please state the nature of the difficulty felt, explaining it specifically with reference to the commodity or goods under classification and the form at of the classification list.

8. What is the normal time lag between the submission of a classification list and its approval by the competent authority and how are clearances taken during this period ?

9. What; in your opinion, is the area or extent of dispute in the matter of classification of goods ? Please give examples.

10. Presently, whenever classification of a particular product is in doubt, it is normally settled by a reference to the Chief Chemist or to an appropriate institution nominated by Government.

(i) Is this arrangement satisfactory ?

(ii) Having regard to the increasing technological sophistication in the industrial field, would you recommend the constitution or nomination of some independent technical committees/institutions for a second opinion on classification of goods in terms of the tariff ?

(iii) If so, please make concrete suggestions.

11. (i) Have the special cells created at Collectorate headquarters detected any cases of misclassification or inadequate classification of goods ?

(ii) Have you any suggestion to improve the working of these cells ?

12. What use does the jurisdictional Assistant Collector make of the copies of classification list received by him ? What in your opinion are the checks the Assistant Collector should organise to ensure that the Superintendents have promptly and correctly dealt with the lists received by them ?

13. (i) If, as a result of checks carried out after the approval of classification list by the prpoper officer, it is found that the approval accorded is wrong in one or more particulars and detrimental to the interests of revenue, what procedural or other remedies would you suggest to rectify the mistake discovered ?

(ii) Would you suggest that the jurisdictional Assistant Collector or Deputy Collector (where classification list was approved by the Assistant Collector) should take up the matter directly with the concerned manufacturer and, after giving him an opportunity to show cause why the misclassification detected should not be rectified, pass appropriate orders ?

14. (i) In your opinion, are the provisions made under Rule 173-B(3) regarding provisional assessment of goods necessary and useful ?

(ii) If so, what suggestions, if any, would you like to make for quick finalisation of such provisional assessments ?

III—PRICE LIST

15. (i) Is the form of price list prescribed by Collectors sufficiently comprehensive for determination of value in terms of Section 4 of the Central Excise and Salt Act, 1944?

(ii) Would it be desirable and feasible to have a single standard form of price list for the whole country ?

16. (i) Have any difficulties been experienced in the matter of determination of value under Section 4 of the Central Excises and Salt Act, 1944 ?

(ii) What simplification, if any, in concept and procedure, would you suggest in this behalf ?

(iii) Would you recommend that such terms as wholesale cash price, wholesale market, trade discount etc. used in Section 4 should be clearly spelt out or defined in the law itself ?

(iv) Would you recommend that the definition of the term 'wholesale cash price' should specifically stipulate that the seller and the buyer should have no interest in the business of each other and the price should be the sole consideration for sale ?

(v) Under Section 4 of the Central Excises and Salt Act, 1944, trade discount and the amount of duty payable are the only abatements or deductions allowed for determining the wholesale cash price of an article. Are there any other deductions which, in your opinion, should also be admissible for purposes of arriving at the wholesale cash price ?

17. Having regard to the importance of correct determination of value and of avoiding provisional assessments, as far as possible, would it be advisable to provide for a quick and independent scrutiny of the price lists (submitted by the assessees) through a specialised agency of the department like the special cells set up for the scrutiny of the classification lists and/or on the lines of valuation cells operating in Custom Houses ?

18. (i) Are there any cases in which short levies discovered in respect of clearances taken under Rule 173-C(4) on the basis of transacted prices were found to be time-barred ?

(ii) Would you suggest that this relaxation regarding assessments on the basis of transacted prices should be available only when an assessee undertakes to avail himself of the procedure prescribed under rule 9B for provisional assessment of goods ?

19. What is the normal time lag between the submission of a price list and its approval by the proper officer and how are clearances taken during this period ?

20. (i) In your opinion, are the provisions made under Rule 173-C(2B) regarding provisional assessment of goods necessary and useful?

(ii) If so, what suggestions, if any, would you make for quick finalisation of such provisional assessments ?

21. Is the bond prescribed under Rule 9B for provisional assessment of goods suitable for cases of disputed classification and valuation under Rules 173-B(3) and 173-C(2B) ?

IV—*AD VALOREM* RATES OF DUTY AND TARIFF VALUES

22. Is the administration of *ad valorem* levies presenting any difficulty under the Self Removal Procedure ? Has it led to delays in finalisation of assessments and has the number of provisional assessments increased because of *ad valorem* duties ?

23. Several expedients have been employed from time to time to get over the difficulties of administering *ad valorem* levies. These include : prescription of specific effective rates by notification; prescription of specific and *ad valorem* rates as alternatives; operation on the basis of published wholesale and retail price lists or on transacted or contracted prices in some cases and prices fetched in auctions in others; and in some instances fixation of tariff values. To what extent and in what way are such expedients preferable to straight specific duties, having regard to the fact that specific duties can be varied from time to time by executive orders (within the ceilings statutorily fixed in the tariff) ?

24. It has been suggested that, with a view to getting over the difficulties of valuation, manufacturers of excisable goods may be required statutorily to mark all dutiable goods produced by them with their wholesale/retail price or publish wholesale retail price lists in respect of such goods and that assessments should be made on the basis of such marked or published prices after suitable abatement where necessary.

(i) What are your comments on this suggestion ?

(ii) Are there any other proposals you would like to be considered from the point of the point of view of facilitating the administration of *ad valorem* duties ?

25. Tariff values are, in the majority of cases, fixed on weighted averages of prices prevailing more than nine months to a year before they are notified.

(i) To what extent to the tariff values fixed correspond to correct assessable values under the law ?

(ii) Do you think the frequency with which tariff values are revised takes adequate care of the price fluctuations ?

26. Tariff values are currently notified for only 14 out of 89 commodities liable to *ad valorem* rates of duty.

(i) Would you suggest the extension of the scheme of tariff values to the remaining commodities ?

(ii) What, in your opinion, should be the consideration on which commodities should be selected for this purpose ?

27. Would you recommend that tariff values should be fixed on a regional basis for those commodities which differ widely in prices from region to region ?

V—RAW MATERIAL ACCOUNT

28. (i) Is the list of raw materials and components notified by the Government satisfactory from the point of view of the purpose intended i.e. verification of excisable goods produced with raw materials and components used in their manufacture ?

(ii) If not, what changes or modifications would you suggest in the list ?

29. Is it feasible from the present raw material account to check the production of finished goods with consumption of raw materials/components shown to have been used, considering that the account shows raw materials and components issued for manufacture and not raw materials and components acutally consumed and does not provide any information regarding stocks of goods in process ? Would you suggest that the form be suitably modified and provision made for periodical stock-taking of materials in process ?

30. (i) What is the normal scale of variation in the ratio of consumption of raw materials to the production of a given unit of a finished excisable product (a) manufactured by the same producer, and (b) manufactured by different producers using the same raw materials ?

(ii) To what extent can this ratio vary from the normal as a result of changes in manufacturing technique or formulae? Please give examples.

31. (i) Does the trade attempt, on its own, to correlate production with consumption of raw materials and components specified by Government or others which have not been so specified ?

(ii) If so, please indicate the manner in which this correlation is carried out.

(iii) Are there any commodities in respect of which such correlation is not feasible ? Please give examples.

32. It is alleged that occasionally some raw materials are procured by the industry through unauthorised channels and such raw materials are not shown in the raw material account and in consequence the figures of production of the excisable product are distorted.

(i) If this is so, please give such broad particulars as you can of raw materials/components in respect of which, in your opinion, such a practice obtains.

(ii) What in your view is the quantum or extent of use of such raw materials/components ?

33. (i) Are raw materials/components intended for production of excisable goods also used for other purposes or sold off as such ?

(ii) If so, what is the extent of such disposal ?

(iii) Do yo suspect that such disposal is designed in some cases to suppress production of excisable goods ?

34. There are items such as containers and receptacles in which goods are filled or packed which, in certain circumstances may provide even a better basis than raw material for verification of the quantity of end product produced and/or cleared. In view of this, would you suggest the prescription of an account to be maintained by assessees in respect of containers, receptacles and similar items used for filling or packing excisable goods ?

VI—DETERMINATION OF NORMAL PRODUCTION AND FIXATION OF PRODUCTION NORMS

35. Rule 173E provides for determination of normal production and fixation of production norms, as also for best judgement assessment, in cases where shortfall in actual production is not accounted for to the satisfaction of the proper officer.

(i) To what extent have these provisions been invoked ?

(ii) In so far as production norms are fixed, is the present procedure satisfactory or is there, in your opinion, scope for associating some specialised technical agency with the Department for the correct evaluation of factors like installed capacity raw material utilisation, labour engaged and power consumed ?

36. It is understood that many industries have taken steps to evaluat he efficiency of their operations and performance by fixing optimum levels of production in all sections through work studies etc. and that incentives are sometimes given on achievement of output in excess of the optimum levels so fixed.

(i) Can you provide some details of such schemes ?

(ii) Please comment on the suggestion that the staff engaged by industries on such studies may be sasociated with the Central excise Officers in the matter of fixation of production norms?

37. Do you think the provisions of Rule 173E regarding fixation of production norms and best judgement assessment constitute an effective revenue safeguard and that they should be more widely applied than at present ?

38. Do you think that assessees in respect of whom production norms have been fixed should be required to intimate to the department any increases/decreases in installed capacity or alteration in manufacturing technique or other changes effected by them as a result of which the production norms already fixed would need to be revised ?

VII—ACCOUNT CURRENT

39. In order to facilitate the reconciliation of departmental figures with accounts figures of receipts of revenue, the existing procedure requires that the amounts should be separately credited into treasuries under each minor head of account, e.g.—

(i) basic excise duties,

(ii) additional excise duties on mineral products,

(iii) additional excise duties in lieu of sales tax,

(iv) regulatory excise duties,

(v) other duties under different enactments, and

(vi) each commodity cess etc. etc.

Have you any concrete suggestions for the simplifications of the existing procedure ?

40. Normally, the duty due on each clearance of excisable goods is required to be pre-paid by a debit entry in the account current before the removal of the goods. This requirement has, however, been relaxed in respect of bigger units (with more than 3000 clearances in the preceding year) which are permitted to make a consolidated debit entry in the account current at the end of the day.

(i) Is the relaxation given adequate ?

(ii) Alternatively, has this led to any abuse ? Please support your answer with the necessary data.

41. Small assessees producing notified excisable goods whose duty liability does not exceed Rs. 500 per annum can be exempted from maintaining an account current and can file the prescribed return relating to excisable goods manufactured at quarterly instead of monthly intervals. At present this concession is restricted to manufactures of tea other than package tea.

(i) Would you suggest that the application of this concession should not be restricted to notified excisable goods but should be extended to other commodities and other categories of small assessees ?

(ii) Alternatively, do you think this concession is open to abuse and should be withdrawn ?

42. It has been alleged that the provisions under which an assessee can claim refund of duty already debited to the account current by cancelling a gate pass can lead to, or afford greater scope for, evasion in as much as a gate pass which has not been checked in transit can be brought back to the factory and shown as cancelled with a corresponding entry for claim of refund made in the account current.

(i) Have you come across any instances of such abuse ?

(ii) Would you recommend the prescription of some revenue safeguards in this behalf, apart from the requirement that the assessee should intimate particulars of cancelled gate passes to the Range Superintendent on the same day ?

43. Where a debit entry has been made in the account current but the corresponding gate pass has been cancelled, the assessee can claim refund of duty only after the monthly return has been checked. It is claimed that this often leads to the assessee's capital being locked up for a month or more. Would you recommend that in such cases a credit entry may be permitted to be made in the account current by the assessee himself subject to such procedure as may be prescribed.

44. Do you think an assessee should be permitted to make corrections and adjustments in the account current otherwise than on discovery of an arithmetical mistake in calculating the balance ? If so, what are the contingencies in which this should be permitted ?

45. Presently the account current is required to be maintained separately for each commodity produced by an assessee and the balance in one account cannot be transferred to another. It has been represented that in some cases this results in blocking of capital and occasionally clearances are also held up for want of adequate balance in the account concerned. What remedial measures would you suggest to overcome this difficulty, keeping in view the administrative needs and the requirement under the treasury rules of proper reconciliation of accounts ?

46. At present Central Excise duties can be credited only in a treasury or a branch of the Reserve Bank or the State Bank of India.

(i) Has this presented any difficulty to the assessees ?

(ii) Would you suggest that all scheduled banks/nationalised banks and other agencies like Post Offices should also be authorised to accept such credits ?

47. Certain classes of assessees can now make payment of duty by cheque.

(i) Is this facility working satisfactorily?

(ii) Is it unduly restrictive in its scope ?

(iii) Would you suggest any curtailment or liberalisation of the existing facility?

VIII—GATE PASS

48. Do you consider the present form of the "Gate Pass" to be satisfactory? Having regard to the fact that physical identification of goods with reference to the duty paying documents has been dispensed with under the S.R.P., would you consider it worthwhile to provide that information given in column 2 of the gate pass should be sufficiently detailed and should correspond as far as possible to the description given in the classification list?

49. Does the relaxation that goods cleared from a factory and brought back in certain contingencies (non-availability of railway wagons or breakdown of carriers) can be redespatched on a subsequent date under the same gate pass give rise to abuse or afford scope for abuse? Please give details.

50. It is alleged that, in a large number of cases, manufacturers have set up shops or depots adjoining or in close proximity to the factory premises to which goods are consigned under cover of a gate pass and, since transit checks in all such cases are practically non-existent, this has led to greater scope for evasion. Do you subscribe to this view? If so, what safeguards would you suggest in this behalf? Would you, for example, recommend that such shops and depots should also be licensed and required to maintain a stock account of excisable goods, and that the transport of such goods in mill packed condition from these premises to their next destination should be covered by a subsidiary gate pass?

51. (i) Would you recommend that a record should be required to be maintained at the exit gate of each factory indicating the time of removal of goods covered by each gate pass by way of a further safeguard against misuse of gate pass documents?

(ii) It is alleged that in some cases, particularly in the small scale sector, goods are occasionaly passed out otherwise than through the factory gates or through gates other than those normally used for clearance of goods. Would you agree that it should be made obligatory under the Rules that excisable goods should not be removed from a factory otherwise than through gates specified and approved for the purpose.

52. (i) What are the abuses normally associated with the use of gate pass documents?

(ii) What is the extent of abuse?

(iii) Have you any suggestions to offer concerning the prevention of such abuse?

53. Has the requirement of Rule 52-A that the original copy of the gate pass shall accompany the consignment to its destination presented any difficulty to the industry? If so, please indicate the nature of the difficulty felt, together with suggestions to overcome the same.

IX—RECOVERY OF SHORT LEVIES O CLAIMS FOR REFUND

54. Cases of short levies/claims for refunds arising as a result of wrong classification of goods or approval of incorrect assessable values are stated to have increased after the introduction of the S.R.P.

(i) What in your opinion are the reasons for this?

(ii) Would you suggest that the scale of supervisory checks presently prescribed for classification and price lists should be suitably increased?.

55. Even though the period of limitation provided in Rules 10 and 11 has been raised from 3 months to a year, demands for short levies or claims for refund are believed to have become time-barred in a number of cases.

(i) What in your opinion are the reasons for this?

(ii) Would you recommend that the period of limitation provided in Rules 10 and 11 should be suitably increased?

56. Cases have come to notice in which large amounts of Central Excise duty have gone into arrears because assessees have, deliberately or through inadvertence, debited their account current with an amount lower than the correct duty liability by misclassifying the goods cleared or by understating their value and, on being called upon after scrutiny of the monthly return and gate passes to make good the short payments discovered, have taken recourse to appeal and/or revision proceedings or even to law courts. What remedial measures would you propose to meet this situation?

57. For recovery of duties short levied or erroneously refunded, or for refund of duties or charges erroneously paid the period of 3 months provided in Rules 10 and 11, which has been raised to one year for commodities covered by the S.R.P., counts from the date of payment or adjustment of the duty or charge concerned in the account current. Having regard to the fact that there has been a changeover from the earlier provisions (in which assessment immediately preceded the payment of duty) to the new procedure (under which assessment is made by the proper officer only after the monthly return of goods cleared is received in the following month), do you think that the period of limitation should count from the date of payment or be related to the date of assessment?

X—RECEIPT OF DUTY PAID MATERIALS OR COMPONENT PARTS FOR USE IN THE MANUFACTURE OF EXCISABLE GOODS

58. The scheme of proforma credit of duty already paid on raw materials and components applies only to notified goods, and no credit is admissible unless (a) duty has been paid for such material or component parts under the same item or sub-item of the tariff as the finished excisable goods, or (b) remission or adjustment of duty paid for such materials or component parts has been specifically sanctioned by the Central Government. Do you think the scheme is unduly restrictive in its scope and should extend to all excisable products and that proforma credit should be available on all duty paid raw materials and/or components used in the manufacture of excisable products?

59. At present raw materials and components can be received in a factory producing notified goods both from the premises of the manufacturer and from other consignees and in some cases even from the open market. As receipts from other consignees and from the open market cannot always be related to duty paying documents would you recommend that this concession should be restricted, in the present scheme of things, to raw materials and components received directly from a manufacturing unit?

60. How is it ensured that raw materials and components on which proforma credit is claimed are actually used in the manufacture of excisable products and cheaper and inferior substitutes carrying a lower duty incidence are not used in their place, particularly when the raw materials and components are liable to duty ad valorem?

61. Since the objective underlying the existing provisions regarding proforma credits is the avoidance of multipoint taxation, would you suggest that, instead of adopting the elaborate procedure presently laid down for taking such credits, ad hoc rebates of duty in lieu of duty borne by component parts and materials may be given at the time of clearance of notified goods, or the duty rates relating to notified goods should be fixed in such a way that the duty already borne by materials and component parts used in their manufacture is taken into account?

62. Do you conceive of any situations in which the duty liability on the final excisable goods would be lower than the proforma credit already given in respect of raw materials and component parts used in their manufacture? Please give examples. Would you recommend that provisions should be made for refund of the amount of proforma credit remaining unutilised in such cases? Alternatively would you suggest that such cases should be reviewed and the duty quantum on the final product suitably adjusted to rectify the anomaly?

63. Under Rule 56A (3)(vi), no part of the proforma credit can be refunded. What is the present procedure for regulating cases in which excisable goods produced out of raw materials and components on which proforma credit has been given are exported under bond or in which such raw materials or components themselves are exported and proforma credit already given remains unutilised?

64. Rule 56-A does not envisage a situation in which raw materials and components on which proforma credit has been given and which are found to be defective before they are taken into use can be returned to their supplier for repairs etc.

(i) Would you suggest that there should be a procedure regulating the return of such goods after a corresponding debit entry has been made in the proforma credit account?

(ii) Is such a procedure likely to lead to abuse?

65. In addition to the facility of proforma credit available under Rule 56-A, "set off" provisions also exist under which the duty already paid on certain raw materials/components is rebated at the time of the clearance of the finished excisable product; in several cases, in-bond movement of such raw materials and components is also allowed.

(i) What, in your opinion, are the merits and demerits of these schemes?

(ii) Would you like these separate procedures to be consolidated into or replaced by a single procedure?

XI—RETURN OF MANUFACTURED EXCISABLE GOODS CLEARED FOR EXPORT

66. Excisable goods cleared for export can now be returned to a factory for being remade, refined etc., without prior verification or identification, even though duty has to be refunded in respect of goods which had been cleared under claim for rebate.

(i) Please indicate as to how the proper officer or the Inspection Group visiting the factory at periodical intervals satisfy themselves that goods shown as received into the factory had indeed been received and were the same goods as had been cleared for export under claim for rebate of duty or under bond.

(ii) Does the intimation of entry of goods within 24 hours of their receipt enable the proper officer to inspect them, particularly when the assessee is not restrained from taking such goods into use prior to inspection?

(iii) Have these relaxations led to any misuse? Instance of misuse which might have come to light may be given.

67. Rule 173-M provides that a detailed account of the returned goods and the processes to which they are subjected after they are returned to the factory should be maintained in the proper form. No form as such appears, however to have been prescribed for the purpose, though departmental instructions contemplate that on receipt the goods will be entered in the R.G.1./E.B. 4 account. Is this adequate?

68. Rule 97-A requires that where the goods returend to a factory had originally been cleared for export under bond, full duty will be recovered if they are disposed of in any manner otherwise than for production of goods of the same class. No such provision has, however, been made in Rule-173M which covers receipt of goods to which the Self Removal Procedure applies. Do you think such a provision is necessary and should be incorporated in Rule 173-M?

XII—WAREHOUSING AND IN-BOND MOVEMENTS

69. Warehousing and in-bond movement of goods are presently regulated by several distinct provisions in the Central Excise Rules (Rules in Chapter VII, Rules 96-D & 96-E, Rule 56-B) in addition to extra legal executive instructions.

(i) Does this present any operational or procedural difficulty?

(ii) Do you think it would be desirable to work out a common set of rules and a common procedure for all in-bond movements?

(iii) Would you like the scope of these provisions to be extended to other commodities? If so on what considerations should such commodities be selected?

70. (i) In view of the fact that physical verification and identification of goods have been dispensed with under the S.R.P., is any difficulty experienced in complying with the requirements of Rules 156-A(6)and 153(4), viz., countersigning of applications for removal and furnishing of rewarehousing certificate in respect of goods moving under bonds?

(ii) Is intimation by the consignee of receipt of goods within 24 hours of their arrival adequate for the purpose of fulfilling these requirements, particularly when the consignee is not restrained from taking the goods into use before verification?

71. Prior to the introduction of the S.R.P., the prescribed bond for movement of non-duty paid goods could be executed by either the consigner or the consignee. Under the S.R.P., this bond can be executed only by the consigner. Has this restriction entailed any difficulty to the industry?

XIII—EXPORT UNDER CLAIM FOR REBATE OF DUTY OR UNDER BOND

72. Is the industry experiencing any difficulty in getting the necessary documents relating to movement of goods for export covered by application in form AR 4-A authenticated by Central Excise Officers?

73. Has the simplification or procedure for export of goods under claim for rebate of duty or in bond under the S.R.P., helped exporters and facilitated expeditious movement of goods for export?

74. It has been suggested that rebate of excise duty paid on excisable goods intended to be exported should be available straghtaway on export on the basis of rates which may be notified from time to time, without the exporter having to produce A.R. 4 or A.R. 4-A, appplications and gate passes or follow other procedures, all clearances under bond being discontinued.

(i) Would you agree with this suggestion?

(ii) Is it likely to lead to any procedural or accounting difficulties?

75. What difficulties, if any, are experienced by exporters other than manufacturers who export excisable goods or goods made out of excisable components or raw materials? What procedural or other simplification would you suggest to get over the difficulties experienced?

76. Have you any comments on the levy of supervision charges in relation to checks which are carried out in respect of goods covered by applications in form AR4 considering that no such charges were recoverable for the same facility under the normal procedure?

77. In respect of exports to Nepal, prior physical verification and sealing of goods have not been relaxed or simplifind after introduction of the S.R.P. Has this presented any procedural or operational difficulty to the trade or the department.

XIV—PROCEDURE FOR REMISSION OF DUTY ON GOODS USED FOR SPECIAL INDUSTRIAL PURPOSES

78. (i) Are you satisfied with the procedure under which remission to duty on goods intended to be used for special industrial purposes is regulated?

(ii) If not what simplification or modification would you like to suggest in the procedure?

79. (i) Are the forms of account prescribed for excisable goods used for special industrial pruposes (R.G.16) and the monthly return (R.T. 11) satisfactory?

(ii) How are transactions relating to disposal of surplus goods which (a) can be cleared on payment of duty, (b) returned to the original or another manufacturer, or (c) cleared for export, reflected in these records?

80. (i) How is the record in form R.G. 16 checked when it does not provide information about the source of the goods received, the documents under which they are received and the documents under which surplus goods are cleared?

(ii) Would it be advisable to amplify this record to enable the same to be properly scrutinised with reference to basic documents of receipts and clearance?

81. In respect of excisable goods required for use in special industrial purposes, clearances are permitted to be made on the strength of a certificate in Form C.T.2 issued by the proper officer. Is this form adequate for the purpose of obtaining such goods in terms of the procedure laid down and from the point of view of security of revenue?

XV—BONDS

82. Presently, the bonds prescribed under the Central Excise Rules as required to be executed for different purposes are as many as thirty in number. Do you think it would be feasible and in the interest of efficiency to reduce the number of bonds by consolidating them on the lines of B-12 and B-15 bonds?

83. Is the amount of surety/security required under existing orders for each type of bond adquate for safeguarding the revenue involved? For example, in the case of B-2 bonds, while the amount of duty involved may be very high, the amount of security prescribed is only Rs. 1,000. Alternatively, and having regard to the fact that Central Excise Rules provide, *inter alia*, that for various offences, land, building, plant and machinery etc., can be attached and are also liable to confiscation, would any difficulty be felt in ensuring safety of revenue otherwise than by the execution of bonds?

84. Would you recommend that in all cases of surety bond, the security required should be in the form of a guarantee from a scheduled bank, instead of personal surities whose solvency has to be verified year after year, giving rise sometimes to collusion between assessees and departmental Officers?

85. Is it necessary to continue the two types of bonds, as at present, namely, bonds with surety and bonds with security. Can one of these be dispensed with generally or for particular commodidites or purposes?

XVI—LICENSING

86. (i) Is the present procedure relating to grant and renewal of licnenses satisfactory?

(ii) Would you recommend that licenses may be renewed for a period of more than one year at a time at the discretion of the licensee?

(iii) If so what should be the amount or scale of licence fee chargeable for the succeeding year/years.

87. At present licence fee is payable in the form of Central Excise revenue stamps obtainable from a post office. Would you agree that a person applying for a licence or for renewal should have the option to pay the same into a Government treasury under the appropriate head of account?

88. The scale of licence fees prescribed for manufacture of excisable goods ranges from Rs. 5 to Rs. 100 at present. These fees were prescribed several years ago. Would you recommend that they should be suitably enhanced and aslo that the five different slabs currently prescribed on the basis of the duty liability of the manufacturer should be reduced?

XVII—MONTHLY/PERIODICALLY RETURNS & ACCOUNTS

89. A point is often made that small scale producers find it difficult to maintain properly the various accounts prescribed or fill up the periodical returns required, Please indicate which particular account or return has presented difficulties in this behalf. What are your suggestions to overcome the difficulties felt?

90 (i) What is the normal time lay between the receipt of the R.T. 12 return and its finalisation? Have the augmentation of staff and provision of calculating machines to assessment group helped to cut down the delays in this behalf?

(ii) Would you recommend that gate passes with reference to which this return is required to be checked may be sent by the assessees in weekly batches so that they can be checked pending receipt of the return and the account current after the close of the month?

91. In some cases the new daily stock account prescribed in lieu of the old R.G.I. and E.B. 4 records excludes from accounting such goods as have already been manufactured or produced in terms of Section 3 of the Act but which are still in some stage of processing and have not entered the finishing room. For example, cloth at "off the loom stage" is considered as manufactured and attracts the duty liability but it undergoes several processes such as bleaching, printing, dyeing etc. etc., before it reaches the finishing room. In all such cases, the new system would delay timely accountal of excisable goods and at the same time prevent accountability for losses claimed to have occurred in the preceding stages. Would you advise that in such cases accounts should continue to be maintained in the old R.G.I. and E.B. 4 forms or, alternatively the new form should be suitably modified to reflect the stock position right from the R.G.I, stage?

92. It has been represented that the small scale sector finds it difficult to indicate the value of goods in the monthly Return in Form R.T. 12 where such goods are liable to specific rates of duty.

(i) Would you recommend that this requirement should be waived altogether?

(ii) If not should it be waived for the small scale sector?

93. On receipt of the monthly and quarterly returns, various formations are required to carry out detailed checks of gate pass documents, entries in account current, credits into treasuries etc. etc. on the scales laid down. How do the supervisory Officers ensure that checks on the prescribed scale have indeed been carried out? Would you recommend that (i) every document checked should bear an endorsement to that effect by the officer concerned, and/or (ii) a record of checks carried out should be maintained by each officer?

XVIII—DUTY EXEMPTIONS AND CONCESSIONS

94. Do you subscribe to the view that schemes of duty concessions and exemptions lead to or encourage evasion? If so please indicate areas in which this is occurring. What safeguards, if any, would you recommend within the framework of the S.R.P. or outside it to prevent such evasion?

95. It has been pointed out that exemption schemes lead to loss of revenue, defeat the objective of ensuring equality of taxation, encourage fragmentation of bigger units, retard growth, and produce consequences detrimental to efficiency and purity of administration apart from increasing the scope for evasion.

(i) To what extent do you agree with this analysis?

(ii) Would you recommend that such schemes should be totally scrapped or confined to certain specified areas or purposes?

(iii) If so, please indicate the areas and purposes you have in mind.

96. Duty concessions are designed largely to help the small scale sector. The Central Excise Reorganisation Committee (1963) had expressed the view that these concessions had been largely ineffective in their promotional effect.

(i) Dou you agree?

(ii) If so, does the position continue to be the same at present?

97. (i) If you consider that fiscal concessions should continue to be available to the small scale sector, would you recommend that they should be confined to a properly defined small scale sector all along the line and not on the basis of diverse criteria differing from industry to industry?

(ii) Would you indicate how the small scale sector should be defined for purposes of excise duty concessions and also how the extent or quantum of concession should be determined?

98. If you do not approve of the present scheme of duty exemptions, what alternative methods would you suggest for extending relief to the genuine small scale sector.

XIX—COMPOUNDED LEVY SCHEMES

99. Compounded levy schemes are designed to (i) relieve the small scale sector of the rigourous of normal excise control, (ii) provide some sort of a fiscal aid to the smaller units in the form of a lower duty incidence, and (iii) reduce administrative costs and burden involved in controlling a large number of small units. Are these purposes served by the compounded levy schemes?

100. At present compounded levy schemes are 'optional'. Even though the duty incidence is appreciably lower than the incidence under the normal procedure and excise surveillance is practically absent, quite a few units entitle to opt for the compounded levey schemes still choose to operate under the normal procedure.

(i) What in your opinion are the reasons for this?

(ii) Has this tendency to operate under the normal procedure increased with the introduction of the S.R.P.?

(iii) Would you recommend that special procedures should be made compulsory for the units concerned?

101. Have compounded levy schemes led to proliferation of the small scale sector to the detriment of the organised sector or to fragmentation of the bigger units into smaller ones?

102. In certain countries, some industries are subjected to what is known as "capacity taxation" under which the duty liability of manufacturing units is fixed in advance, on an yearly basis, with reference to their production capacities determined on the basis of the national average annual production, the pattern of production of the units concerned, the age and the peculiarities of machinery employed, general conditions of working in the areas in which the units are located etc., and is discharged by payment of the amount fixed in regular monthly instalments. Production in excess of notified capacities is exempt from payment of excise duty and abatement is also allowed for closures, breakdowns etc. This measure is said provide incentives to greater production, prevent harassment to the industry and eliminate evasion.

(i) Do you consider it desirable and feasible for a similar scheme of taxation to be applied to industries in India?

(ii) If so, which industries or sectors of industry would you want to be covered by the scheme?

(iii) Please give details as to the basis of fixation of "production capacities" in such cases.

XX—EXCISABLE COMMODITIES

Sugar

103. In sugar factories, samples of various intermediate sugar products and of final molasses are drawn frequently for test and a technical return is also required to be submitted. What is the relevance of the checks in the context of the S.R.P.? Do they serve a useful purpose? If so, would you agree that similar technical checks may be extended to other commodities which may be amenable to similar control? If not, would you recommend that these checks should be modified or dispensed with?

Khandsari Sugar

104. Presently, compounded levy on Khandsari sugar is related to the equipment employed and not the equipment installed. Does this, in your view, lead to evasion and loss of revenue, e.g. as a result of collusion between assessees and departmental officers? Would you recommend that compounded levy rates should be related to equipment installed?

Petroleum Products

105. Would you regard as satisfatory the present procedure for dealing with losses of petroleum products which occur in refineries and insallations and during transit therefrom, i.e. at various stages such as filling of petroleum into tank wagons/lorries, during transit under bond through pipelines from one storage tank to another, or from the refinery to the storage point and during storage?

106. Classification of petroleum products in terms of the tariff is dependent upon such factors as flash point, flame height, colour specification, viscosity, bituminous content etc., and in quite a few cases the line of demarcation between one product and another is very thin while the difference in the rates of duty attracted by them is substantial. Can you suggest some simpler method of classification which would safeguard excise revenue and enable proper identification of the products?

Vegetable Product

107. Vegetable product made solely from indigenous cotton seed oil or from a mixture of indigenous cotton seed oil and other oils is exempt from Central Excise duty to the extent of Rs. 10.00 per quintal. As the duty concession is related directly to the cotton seed oil content of the admixture and the Chemical Examiner is not in a position to declare the degree of such content from an analysis of the mixture after it has been hydrogenated, the earlier procedures contemplated physical supervision at the stage of the admixture; this supervision has been dispensed with under the S.R.P. Has this led to an increase in the quantity of V.P. cleared at the concessional rate of duty and in the percentage of cotton seed oil claimed to have been used? What measure, if any are taken to ensure that the duty concession admissible is not abused?

108. The existing instructions provide that assessments of Vegetable product in terms of the concossion referred to in the preceding question will be treated as provisional and finalised at the end of the month. On what basis are such assessments finalised at present?

Paints and Varnishes

109. In the tariff relating to Paints and Varnishes, several products are charged to duty on the basis of their volume while they are sold by weight. The normal procedure enjoined detailed checks not only on the tare of containers but on the equation between volume and weight of the various products concerned. Has the removal of these checks led to excess filling or increase the scope for evation of Central Excise duty?

Patent or Proprietary Medicines

110. Is classification of medicines as Patent or Proprietary medicines in terms of the description of the item and the Explanation given in the tariff presenting or giving rise to any practical difficulties? If so, what are your suggestions to overcome these difficulties?

111. Is assessment of Patent or Proprietary medicines on the basis of discounted wholesale and retail prices working satisfactorily?

Paper

112. (i) Are any difficulties being experienced in the matter of classification of different varieties of paper?

(ii) What are these difficulties due to?

(iii) How would you surmount them?

Textiles

113. Are the existing duty slabs based on count and denier in the case of yarns, encouraging the manufacture of marginal counts and leading to evasion of duty? If so, would you recommend any restructuring of existing slabs or adoption of any other measures which would minimise chances of evasion?

114. Wastes arising as a result of various processes to which yarns are subjected are either exempt from duty or entitled to substantial duty relief.

(i) Physical supervision having been completely dispensed with under the S.R.P., has the proportion of such duty-free or concessional clearances increased over time?

(ii) If so, what measures would you suggest to ensure that only genuine wastes get the duty concessions admissible?

115. Under cotton fabrics, cut pieces known as fents, rags and chindies which are damaged or sub-standard pieces (falling within certain specified lengths) arising during the normal weaving processing or packing operations are entitled to be cleared at 'nil' or concessional rates of duty. In the absence of any checks under the S.R.P. on various manufacturing operations, the proportion of such cut pieces is stated to have increased. This is claimed to be true also of fents of art silk fabrics. What measures, if any, are taken at present to guard against evasion of duty by declaring good barics as fents, rags etc. or by deliberately cutting the fabrics into the lengths specified for claiming exemption or the concessional duty rates?

116. Some fabrics, particularly art silk fabrics, are liable to substantial shrinkage as a result of the processing operations to which they are subjected before marketing. Prior to the introduction of the S.R.P. a 'Record of Processing Losses' was required to be maintained and the entries made therein were verified by the jurisdictional staff through physical experiments carried out by them from time to time. These checks have since been dispensed with.

(i) Are processing establishments maintaining some record of processing losses on their own?

(ii) Does this record admit of comparison with the record of clearances and does it reveal an increase in the proportion of shrinkage after the introduction of the S.R.P.?

117. Fabrics produced by powerlooms are sent to independent processors or composite mills for processing and on clearance pay the appropriate processing surcharge. It is alleged that, after the removal of physical controls, fabrics produced by composite mills which carry a substantially higher duty incidence are sometimes cleared as powerloom fabrics and duty evaded to that extent. Would you recommend that receipts of powerlooms fabrics for processing by composite mills should be subject to physical supervision or to the procedure provided for similar operations under the S.R.P., namely, intimation of receipt of such goods being provided to the proper officer within 24 hours of their arrival and their verification at his discretion?

Woollen Yarn

118. Shoddy yarn is chargeable to duty at a rate which is substantially lower than the duty on other varieties of woollen yarn, from which it is indistinguishable after spinning. Have clearances of shoddy yarn increased since the introduction of the S.R.P.? Would you recommend that mixing of wool prior to spinning should be supervised?

Matches

119. Prior to August, 1968, every box or booklet of matches issued from a factory for home consumption was required to bear a banderol of a value corresponding to the rate of duty payable. It is reported that, with the discontinuance of banderolling and introduction of the Self Removal Procedure, Central Excise duty is being widely evaded, particularly by the small scale sector of the industry. Do you agree with this view? Having regard to the fact that costs of printing, storage, distribution and sale of match banderols, and their application by the industry are substantial and also that there have been several instances of the use of forged banderols in the past, would you recommend that banderolling of match boxes should be re-introduced with or without the physical checks applicable to the match industry before the introduction of the S.R.P.? Alternatively, ie. if banderolling not reintroduced, would you recommend the application of the older procedure of physical control to the match industry in the manner in which it was generally applicable to other commodities? If you think physical control should be made applicable with certain modifications, please indicate what the modifications should be.

120. Has the price of matches produced by the small scale sector of the industry registered a decline since the introduction of the S.R.P.?

XXI—ORGANISATIONAL AND ADMINISTRATIVE SET UP

General

121. (i) In your opinion, is the existing organisational and administrative set up of the Department concerned with the levy and collection of Central Excise duties under the Self Removal Procedure, adequate for the discharge of the various functions assigned to it at present? Further, is it adequate from the view point of the functions which it is likely to be called upon to assume in order to meet the growing needs of the industry which arise not only from increased output, but from diversification of production and advances in the field of technology?

(ii) If not, what reorganisation and changes in the present administrative set up would you recommend?

122. Officers of the Central Excise Department are required to perform certain functions outside the scope of the Central Excise Law; these include administration of minor ports, land customs frontiers in the country, air customs at several places, Gold Control Act and collection of travel tax and commodity cesses. To what extent are these functions similar or allied to functions under the Central Excise Law and what is your assessment of the performance of these functions by Central Excise Officers?

123. Has the withdrawal of physical control from the factories created any problems or difficulties for the industry? Are clarifications on points of law and procedure, which could be obtained under the normal procedure from the resident staff, readily available under the new scheme of control?

124. (i) What, in your opinion, are the considerations on which Collectorates of Central Excise should be delimited?

(ii) Do you subscribe to the view that a Collectorate should be a settled territorial jurisdiction which should not be changed from time to time, variations in work load being taken care of by induction/withdrawal of staff at lower levels?

(iii) If so, what precisely should be the role of the Collector in this set up?

(iv) Is the present delimitation of Collectorates satisfactory?

125. Have you any comments on the headquarters organisation of the Collector? Is the present distribution of work among various officers and branches satisfactory, keeping in view the changes brought about after the introduction of the S.R.P. and the various agency functions entrusted to the Central Excise Department?

126. Do you have any observations to offer on the existing organisational and administrative set up of the Divisional Offices? Is the present set up suited to the needs of the Self Removal Procedure and consequential change in the role of Central Excise Officers?

127. Divisions are presently organised on either functional or territorial basis. Has this led to any practical difficulties, particularly in relation to units producing a number of excisable goods falling within the jurisdiction of different divisions?

128. Would you advocate that Divisions should be smaller and more compact than they are at resent with a view to affording greater personalised attention to the problems of the industry?

129. (i) What do you think of the pattern and working of field formations evolved after the introduction of the S.R.P.?

(ii) Does the new pattern represent an improvement over that in vogue under the earlier system of physical control?

(iii) Is it sufficiently flexible to absorb or take care of changes which are likely to be necessitated from time to time in the administration of excise levies as a result of technological and other improvements in the methods of production and of accounting followed by the industry?

XXII—ASSESSMENT RANGES.

130. (i) Are assessment ranges adequately staffed?

(ii) Have their duties and responsibilities been clearly and specifically defined?

(iii) Is the scale of checks laid down for them realistic from the point of view of security of revenue and expeditious finalisation of assessments? Is any relaxation or reduction of the present scale of checks called for at the level of the Supervisory Officers?

(iv) Is proper liaison maintained between them and the other groups/parties functioning in the same jurisdiction?

(v) Would you like to make any suggestions regarding their composition and pattern of working with a view to improving their performance?

131. (i) Has the provision of calculating machines facilitated the carrying out of various documentary checks prescribed in relation to gate passes, entries in Personal Ledger Accounts and monthly and periodical returns?

(ii) Having regard to the number of entries to be checked, particularly in areas with a concentration of big industrial units, would you recommend that such checks should be computerised? Do you have any ideas about the feasilbility of computerising such checks?

132. (i) Is the Random Sampling method followed where documents are required to be checked at the supervisory level on a percentage basis?

(ii) If not, how are documents selected for the purpose?

XXIII — INSPECTION GROUPS

133. It is said that in the present scheme of things adequate liaison or communication between the assessment range and inspection group is occasionally lacking. Would it be desirable in your opinion combine the two into a single homogenous unit with a view to (i) fixing responsibility and (ii) achieving greater efficiency ?

134. (i) How is the scheme of concurrent working of assessment ranges and inspection groups, reported to have been introduced in respcect of bigger units functioning ?

(ii) Would you like this scheme to be introduced for medium and small units ?

135. (i) Is the present frequency of inspections prescribed inadequate/excessive for the medium and the small scale sectors of the industry ?

(ii) Please indicate why you consider the frequency of inspections to be excessive or inadequate.

136. Several detailed checks are required to be performed by inspection groups at the time of their visits to the factories.

(i) Are all these checks desirable and feassible ?

(ii) Would you like the scale of these checks to be varied for organised and unorganised or small scale sector of the industry ?

137. Is there any duplication or overlapping in the matter of checks carried out by inspection groups/assessment ranges/ preventive parties/internal audit parties? Please give instances of such duplication and your suggestions for avoiding the same where necessary.

138. Have you any comments on the quality of the inspection notes issued by the inspection group ? Are the notes receiving proper attention at the hands of the Assistant Collectors concerned and are the disscrepancies pointed out therein being promptly rectified by the assessment ranges ?

XXIV — INTERNAL AUDIT PARTIES

139. (i) What is your assessment of the role and utility of internal audit parties ?

(ii) Are they really necessary and useful, particularly having regard to the fact that full scale audit is carried out by audit parties deputed by the Accountant General ?

(iii) If so, would you recommend that they should consist of personnel possessing a certain standard of technical know-how in the field of accounts ? Please describe the standard you expect.

140. (i) If internal audit parties are necessary, what should be the periodicity of audit by them ?

(ii) Should periodicity be different for units falling in different sectors or producing different excisable goods ?

(iii On what considerations should selection of units be based for purposes of audit ?

(iv) Would you recommend that periodicity of audit should take into account the period of limitation provided under rule 173-J of the Central Excise Rules ?

XXV — ADJUDICATIONS, APPEALS & REVISIONS

141. (i) Do you think the powers presently conferred on various officers for adjudication of offences are satisfactory ?

(ii) Would you like these powers to be suitably enhanced so far as value of goods liable to confiscation is concerned, and/or in the matter of imposition of penalties ?

142. (i) Is the present pace of disposal of offence cases at all levels satisfactory ?

(ii) If not, what are the reasons for delay in disposals and what are the stages at which cases are held up ?

143. Would you suggest that functions relating to adjudication of offences should be separated from the executive and entrusted to an independent hierarchy at various levels, in order to evoke greater confidence from the industry and bring about the requisite objectivity and specialisation ?

144. The appellate jurisdiction of Deputy Collectors and Collectors under the Central Excise Law has recently been transferred to Appellate Collectors.

(i) How was the industry reacted to this change ?

(ii) Has this posed any difficulty in cases of disputed classification and valuation etc. under the S.R.P. which until recently were decided by the Deputy Collector/Collector concerned, but would now fall within the jurisdiction of an Appellate Collector ?

145. Have you any comments on the present arrangements under which appeals against the original orders of Collector are heard and disposed of by the Central Board of Excise & Customs ?

146. Have you any comments on the present arrangements under which revision applications against orders-in-appeal passed by Deputy Collectors or Collectors (and now Appellate Collectors) or by the Central Board of Excise & Customs, are heard and disposed of by the Central Government ?

147. Would you recommend that the institution of Tribunals should be introduced in the Central Excise Department vested with appellate and revisionary powers ? If so, at what level should such tribunals be constituted and what should be their functions ?

XXVI—OFFENCES

148. By way of an essential revenue safeguard, penal provisions for unauthorised removal of goods or other contraventions of the rules with intent to evade payment of duty have been made more stringent. To what extent have these provisions been invoked after the introduction of the S.R.P. ?

149. At present the jurisdiction of officers for adjudication of offences is determined with reference to the value of goods liable to confiscation. Under the S.R.P. clearance of goods without payment of duty is, in the majority of cases, discovered at a stage when the goods are not available for seizure or confiscation.

(i) How is the jurisdiction of officers determined in such cases ?

(ii) Is it a fact that such cases are decided at the level of the Superintendent or the Assistant Collector even though the value of goods on which duty is evaded is far in excess of the limits laid down ?

(iii) If so, would you recommend that powers of adjudication should be related to the value of goods involved (and not liable to confiscation) or to the amount of duty evaded ?

150. (i) Are legal branches provided in the Collectorate headquarters organisation adequately equipped for handling legal work arising out of court cases and for tendering advice on matters which are referred to the Collector and involve interpretation of law ?

(ii) What are your suggestions for improving the working of these branches ?

151. Are existing arrrangements for custody and disposal of seized and confiscated goods satisfactory ?

XXVII — REFUNDS

152. (i) Are claims for refund settled promptly by the Department ?

(ii) If not what, in your opinion, are the reasons responsible for delay ?

153. Even where refunds are sanctioned through orders-in-appeal or revision, the parties concerned are required to prefer a formal refund claim before a cheque for the amount is issued to them. Is it not feasible in such cases to provide that the refund sanctioned will be available to the party straight away without his having to apply for it ?

XXVIII — ARREARS OF REVENUE

154. (i) Have arrears of revenue increased after the introduction of the S.R.P. ?

(ii) To what extent are they attributable to the special features of the S.R.P. Scheme ?

155. (i) Are provisions under Section 11 of the Central Excise and Salt Act, 1944 regarding attachment and sale of excisable goods and Rule 230 of the Central Excise Rules regarding detention of goods, plant and machinery etc. adequate for purposes of recovery of sums due to Government on account of duty ?

(ii) To what extent have these provisions been invoked for liquidation of arrears ?

156. (i) Is the progress of realisation of Central Excise arrears through district authorities, on the basis of certificates issued under Section 11 of the Central Excises & Salt Act as arrears of land revenue, satisfactory ?

(ii) If not, what alternative measures or modifications in the existing procedure for such rceoveries would you propose?

XXIX — MANAGEMENT IMPROVEMENT

157. Is the present cadre composition in the Central Excis Department satisfactory from the point of view of efficiency, chances of promotion and general satisfaction of service Officers in all grades ?

158. How in your view can the utility of the Class IV staff be improved, keeping in view the changes brought about by the S.R.P. ?

159. Several departments of the Government of India have weltare schemes of their own for the benefit of their employees, such as medical facilities, educational institutions, holiday homes, transit camps and residential accommodation. Would you recommend that such welfare schemes should also be extended to the Central Excise Officers ?

160. (i) Dou you think the existing 'public relations' arrangements between the department and the assessees satisfactory ?

(ii) Are Public Relations Officers provided in Collectorates and Divisional Offices, and do adequate arrangements exist for proper reception of visitors and attention to their needs ?

161. (i) Are the facilities available at present for the training of officers in various grades satisfactory ?

(ii) Do the training arrangements take into account the importance of the personnel being technically equipped to discharge adequately the responsibilities expected of them under the S.R.P. ?

XXX — CUSTOMS AND CENTRAL EXCISE ADVISORY COUNCIL AND REGIONAL ADVISORY COMMITTEES

162. (i) To what extent have Regional Advisory Committees succeeded in resolving procedural and other difficulties by providing a forum for mutual discussions between the Officers of the Central Excise Department and the representatives of industry and trade ?

(ii) Have you any observation to make on the constitution and composition of the Regional Advisory Committees? Do you have any suggestions for the improvement of their working ?

163. (i) What is your assessment of the usefulness of the Customs and Central Excise Advisory Council in providing an effective forum at the Centre for the purpose of resolving Central Excise problems, on an all-India basis, at the highest level?

(ii) Do you have any observation to make on the constitution and composition of the Advisory Council? Do you wish to make any suggestions for the improvement of its working ?

XXXI — MISCELLANEOUS

164 (i) Has the introduction of the S.R.P. led to a lessening of the Administrative burden (a) on the department, and (b) on the licensees

(ii) Has the cost of collection of excisable commodities covered by the S.R.P. increased or declined ?

(iii) Do you have any suggestions to offer for reducing the present administrative burden and costs ?

165. Are you satisfied with the present procedure for drawal of samples for chemical and other tests ?

(i) What do you think of the role and functioning of departmental laboratories ?

(ii) Are they adequately and properly equipped to tender advice on the composition of goods covered by the Central Excise tariff ?

(iii) If not, would you recommend that they should be suitably expanded in personnel and equipment ?

(iv) Alternatively, should their role be confined to a limited and properly defined sphere, it being understood that for advice on matters falling outside that sphere, the department would resort to other institutions possessing the necessary expertise ?

166. (i) What checks if any, are exercised on units operating in the exempted sector, i.e. units producing excisable goods which are exempted from payment of duty with or without any conditions or limitations ?

(ii) Are these checks adequate from the point of view of security of revenue ?

(iii) Are they unduly restrictive in their scope ?

(iv) What modifications if any would you suggest in this behalf ?

167. What to you think of the proposal made some time ago that a Central Exchange should be constituted on an all-India basis to examine problems of classification and/or valuation and to provide necessary guidance and co-ordination to the special cells set-up at Collectorate headquarters ?

168. Are you satisfied with the present arrangements for supply of departmental books and publications ?

169. (i) Are you satisfied with the present system of issue of Trade notices ?

(ii) Do arrangements exist for their prompt transmission to the industry ?

(iii) Would you suggest that a Central Excise Tariff Guide should be compiled on the lines of the Indian Customs Tariff Guide and published at suitable intervals for convenience of departmental officers and the industry?

170. (i) What is the pace of disposal of revenue audit objections received from the Accountants General and draft paragraphs received from the Comptroller & Auditor General of India ?

(ii) What suggestions, if any, would you make to reduce the number of such objections or to settle them expeditiously ?

171. Have any difficulties been experienced by the industry in respect of clearances required on the Budget day and after 6 p.m. on the day preceding the presentation of the Budget ? Would you advocate any changes in the existing procedure for taking such clearances ?

XXXII — CONCLUDING

172. Are there any matters germane to the objectives of the investigation entrusted to the Committee which have not been included in the preceding questions but on which you would like to offer your views? If so, please indicate the items and give your suggestions.

ANNEXURE

A BRIEF OUTLINE OF THE SELF-REMOVAL PROCEDURE

The beginnings of the Self-Removal Procedure can be traced back to June, 1962 when the Central Board of Revenue assumed the power to allow any manufacturer to deliver the excisable goods produced by him without the normal physical checks prescribed by the Central Excise Rules and introduced what is commonly known as the 'Audit Type of Control' for manufacturers of certain specified commodities. Under the audit type of control the producers were required to—

(i) maintain a Personal Ledger Account with adequte balance to their credit to cover the full duty liability on clearances taken by them;

(ii) take all clearances on gate passes issued by them without countersignature of the Central Excise Officer concerned;

(iii) maintain a number of simplified records; and

(iv) submit certain prescribed weekly and monthly returns.

2. The new procedure was, however, optional and, as already stated, applied to a limited number of commodities. Clearances for export, whether under claim for rebate of duty or under bond, and certain other operations also fell outside its purview. The bulk of the commodities covered by the Central Excise tariff continued to be regulated by the standard procedure under which various operations of manufacture, storage, processing and removal of goods were subject to physical supervision or control.

3. While introducing the Central Budget for 1968, the Deputy Prime Minister announced that with a view to giving relief to the trade and industry "it had been decided to extend the system of self assessment to all manufacturers, big and small, making exception in respect of a few excisable commodities only which presented complications in assessment or where there was substantial movement in bond." The procedure introduced came to be known as the Self Removal Procedure and was applied compulsorily with effect from 1-6-1968 to 69 out of 73 commodities then covered by the Central Excise tariff. Later, i.e. on 1-8-1969, the procedure was extended to the remaining commodities also with the exception of unmanufactured tobacco. This procedure has the same broad features as the audit type of control; however, an attempt has been made to standardise and streamline its various aspects and to provide for a series of direct and indirect checks in relaion to raw material consumed, goods produced and cleared, and records and documents maintained. The assessees are required to submit to the jurisdictional Superintendent of Central Excise for approval a classification list indicating, in terms of the Central Excise tariff, full description of the goods produced by them and the corresponding item of the tariff under which the goods fall and also a price list. in respect of goods assessable at ad valorem rates of duty, giving separately for each product, its value for purposes of assessment In the case of certain complicated items the classification list is required to be approved by a senior officer of the status of Assistant Collector. The assessees are obliged to maintain a Personal Ledger Account with the Department with enough balance to their credit to cover the duty liability on clearances required by them, and excisable goods can be removed on the basis of approved classification and price list on the strength of gate passes issued by the assessees themselves without countersignature by a Central Excise Officer, after the duty due thereon has been determined and debited to the Personal Ledger Account. Physical supervision and checks prescribed under the normal procedure have been largely dispensed with. The assessees are also required to submit a monthly return accompanied by the prescribed documents viz., gate pass, personal ledger account, treasury challans etc. for post facto verification of the correctness of the duty liability determined and paid by them. The procedure further provides for periodical inspection of accounts. Stringent punishments have been laid down for violation of the Act and the Rules. To guard against clandestine removals preventive activities have been intensified. Officers above a certain level have been empowered to compute production indirectly from raw materials/intermediates consumed in the manufacture of excisable goods and to make best judgment assessments on that basis. The administrative set up responsible for administering the Self Removal Procedure consists of (i) assessment ranges, (ii) inspection groups, and (iii) preventive parties. Accounts maintained by the assessees are also subject to audit by internal audit parties and by revenue audit parties of the Accountant General concerned.

ANNEXURE 3

SUPPLEMENTARY QUESTIONNAIRE

INTRODUCTORY

This questionnaire is being issued as a supplement to the main Questionnaire dated the 5th April, 1972 already circulated by the Committee and is designed to elicit information largely on matters of policy having a bearing on the organisational and administrative set up of the Central Excise Department.

2. It is intended for limited circulation.

3. Some of the issues raised are covered by the earlier questionnaire also and would need to be considered in conjunction therewith. For facility of reference, questions dealing with some of the important organisational and administrative matters already included in the main questionnaire are appended as Annexure.

4. It would be appreciated if replies are sent to the Committee by 15th August, 1972.

SUPPLEMENTARY QUESTIONNAIRE

1. CENTRAL BOARD OF EXCISE & CUSTOMS

1. What are your views about the present constitution of the Central Board of Excise and Customs which functions on the one side as a part of the Ministry of Finance, its Chairman and Members being *ex officio* Additional Secretary and Joint Secretaries to the Government of India, and on the other as the chief revenue and administrative authority of the Central Excise & Customs Department ?

2. What is the role assigned by statute or otherwise to the Board in the matter of formulation of fiscal policies related to excise and customs? And what, in actual practice, is the extent of its participation or involvement in such policy formulations?

3. It has often been suggested that tax administration as such should be separated from the framing of tax policy and that the two Boards concerned with direct and indirect taxes should be reconstituted as independent and autonomous organisations concerned primarily with tax administration. Do you subscribe to this view ?

4. The earlier Central Board of Revenue was bifurcated into two Boards because among other things it was considered that there was little similarity between direct and indirect taxes. It can be argued that Customs and Excise duties also have several dissimilarities in both concept and procedures. Would you on this ground recommend that there should be separate Boards dealing with Customs and Central Excise duties ?

5. What is the present strength of the Board and how are appointments thereto made? Do the appoinments made or the present composition of the Board reflect the relative importance or strength of the two departments coming within its purview?

6. Have any rules been made for the purpose of regulating transaction of business by the Board? Does it function generally or in particular spheres in a joint or collective capacity? If so, how often does it meet and what are the items of work which are earmarked for discussion or consideration in such meetings. Where Members act in their individual capacity in respect of the subjects allotted to them, to whom are they responsible for their action ?

7. In the present scheme of working of the Board, all officers dealing with administration, at the level of the Deputy Secretary and the Under Secretary are drawn from the Indian Administrative Service or other Central Services while Deputy Secretaries or Under Secretaries required for technical work come from the field formations of the two departments of Customs and Excise. At the lower rungs, the personnel in various branches belong largely to the Central Secretariat Service even though they have to deal with highly technial references. Is this arrangement satisfactory ?

8. The Narcotics Department is also administered by the Central Board of Excise & Customs. What precisely is the status of this department in the matter of organisation, cadre composition, recruitment policies, promotion to various grades and other allied matters *vis-a-vis* the Customs and the Central Excise Departments ?

9. Does the Board maintain liaison with other departments and ministries and State Governments with a view to collecting or exchanging information on matters having a bearing on tax policy and enforcement of tax laws? If so, kindly give details of the liaison maintained.

10. The taxation Enquiry Commission had recommended the setting up of a Tax Research Bureau to study the tax system as a whole, to keep under review the main developments in foreign tax systems, to serve as a coordinating agency for tax statistics, to take steps to improve statistics for purposes of fiscal analysis, to undertake, special inquiries relating to the working of particular taxes, to study the impact of taxes on commodities and the overlap that may arise between Central and State commodity taxation etc. Is the existing organisation of the Board concerned with tax research and planning adequate for these jobs? What are the functions performed by the Tax Research Unit at present ?

11. The role of the Central Excise Department is becoming increasingly important and the scope of its work constantly expanding. The organisation of the Department and the procedures prescribed have also, therefore, undergone changes from time to time. In view of these considerations, does the Department have an agency which carries out a review of the efficacy of the various procedures laid down, and of the adequacy or otherwise of the organisational pattern adopted?

2. PERSONNEL POLICY AND RECRUITMENT

12. What is the present composition of various cadres in the Central Excise Department? How are recruitment to various grades and promotions regulated? What are the educational or technical qualifications taken into account before recruitments are made to various grades? Have any rules been framed in this behalf? Do you consider the present personnel policy of the Government adequate from the point of view of achieving reasonable standards of efficiency at all levels and securing to the personnel concerned in all grades (a) reasonable promotion prospects, (b) adequate direction and control by supervisory officers, and (c) a sense of satisfaction in working conditions ?

13. It has been represented to the Committee that there is acute stagnation in the grade of Inspectors in several Collectorates and that over time serious disparities have developed in promotion pospects in different regions. Is this correct? If so, factual details of such disparities may kindly be provided. Do you consider the situation remediable ?

14. Are vacancies in various cadres filled expeditiously? Kindly give statistics of vacancies existing in the Department as on 1-1-1972 in various service grades together with the dates on which those vacancies arose and the circumstances under which they remained unfilled.

15. The Central Excise and Customs Services were integrated at the Class I level sometime during 1959. What is your experience of the working of the integrated service? What has been the scale of exchange between officers of the two services at various levels ?

16. It has been argued that a logical corollary to the integration of services at the Class I level would be to extend the same to other caders. What are the factors or circumstances on account of which this has not come about so far ?

3. DIRECTORATES OF INSPECTION, TRAINING AND OTHER INSTITUTIONS

17. Is the existing organisational and administrative set up of the Directorate of Inspection (Customs and Central Excise) including its regional units adequate for discharging the functions assigned to it ?

18. The Directorate is at present manned by officers drawn from the same general cadres as the officers in field. Since the Directorate is supposed to tender advice to the Board on all technical matters, which are getting more and more complicated, do you think that the Directorate as at present, constituted possesses the necessary expertise and technical know-how to discharge that function ?

Would you recommend that having regard to the nature and functions assigned to the Directorate, it should have a separate and independent cadre of its own to which only technically qualified personnel are appointed ?

19. Do you think routine inspections of field formations and Divisional and Collectorate offices should be a function of the Directorate of Inspection? What is your assessment of the utility of such inspections?

20. What is your assessment of the actual working, since their inception, of the Central Training Institute in Delhi and the three Regional Training Institutes in Bombay, Calcutta and Madras?

21. Having regard to the fact that the Central Excise Department alone has a strength of more than 22,000 officers in Classes I, II and III, are the facilities presently available adequate to provide one initial and at least one refresher training to each of these officers? If not, what are Government's plans for expanding these facilities? On what basis are individual officers selected for training ?

22. It has been suggested that the facilities for lodging and boarding available at the Central Institute, which have to be paid for by the trainees, are relatively expensive and sometimes discourage officers from joining the training courses. Considering the importance of training, would you recommend that the training institutes concerned should be residential in character and should be suitably subsidised by Government ?

23. It is understood that preventive training centres have been opened all over the country to impart intensive training to staff engaged in anti-smuggling work. What is the nature of the training imparted at these centres? Does it cover training in methods of detection and prevention of evasion under the Central Excise law particularly in the wake of the SRP ?

24. What is your assessment of the usefulness of the Statistics and Intelligence Branch? Is any expansion in its existing role of compilation or consolidation of statistics called for? If so, what are the enlarged functions and corresponding set up you envisage for this organisation ?

25. What is your assessment of the working of the institution of Appellate Collectors of Central Excise recently created by the Government ? Has it led to more expeditious disposal of appeals and to greater objectivity and independence in decisions? Is the present strength of Appellate Collectors adeqauate to deal with the workload involved ? Have any norms of disposal been laid down for Appellate Collectors ?

26. What are your views regarding the adequacy of the present machinery for disposal of revision applications filed against orders-in-appeal passed by the Appellate Collectors of Central Excise? Please give your suggestions, if any, in this connection, having regard to the importance of the issues raised and the fact that substantial amounts of revenue are involved in such cases.

27. The "internal audit" organisation of the Central Excise Department has been criticised from time to time as inadequate. What are your views on this and on the proposal that the Department should have a full-fledged 'Directorate of Audit' which will streamline the functioning of the existing audit parties and provide the necessary coordination? If you agree with the proposal, what in your view should be the scope and composition of the Directorate ?

28. What is your assessment of the role of the institution of Chief Accounts Officer and his staff in the context of the SRP ?

4. VIGILANCE, INTELLIGENCE AND PREVENTIVE SET-UP

29. Do you have a Central agency for collection and coordination of intelligence relating to offences, under the Central Excise law ? With the transfer the Directorate of Revenue Intelligence to the Department of Personnel laid with the functioning of that organisation being devoted largely to customs offences, would you advocate the constitution of a separate Directorate of Intelligence or Investigation as in the Income-tax Department to undertake these functions ?

30. What is your assessment of the scope and extent of corruption in the Central Excise Department? Is the existing vigilance organisation of the department adequate ? Please furnish figures of the present pendency of vigilance cases, with a break up in terms of the years to which the cases relate and the grades to which officers involved belong ?

31. Has the number of vigilance cases increased after introduction of the SRP ? If so, what in your view are the reason for the increase? To what extent is the increase attributable to the SRP ?

32. Please furnish a brief account of the Preventive and Intelligence organisation as it obtained before the introduction of the SRP and as it has been modified since then. Is the existing set up adequate from the point of view of (a) strength of personnel, (b) outfit and equipment including trasnsport, (c) training in methods of collection of intelligence and acting on that intelligence, and (d) follow up action after detection of offences ?

33. Preventive parties at Collectorate and Divisional levels are charged with all preventive activities including those relating to unmanufactured tobacco, customs and gold control. It is said that these parties have a tendency to concentrate on customs and gold control work to the detriment of preventive work pertaining to manufactured excises. Is this so and why? Would you suggest that some of the preventive parties should be exclusively constituted for surveillance on commodities covered by the SRP ?

34. Are preventive parties exercising adequate checks on exempted units and units working under compounded levy schemes ?

35. What is the present system of collection of intelligence ? Are adequate funds placed at the disposal of Collectors, Assistant Collectors and other Officers for purchase of information regarding Central Excise offences? What has been the expenditure incurred on purchase of information since 1965-66? Are the existing limitations on use of these funds unduly restrictive and such as to defeat the main purpose of getting useful, prompt and accurate information ?

36. What is your assessment of the role of informers in detection of evasion of Central Excise revenue? In how many offence cases registered after the introduction of SRP was detection based on intelligence gathered from informers ?

37. Are preventive parties provided with funds which they can use for nursing informers and meeting other sundry items of expenditure? What has been the expenditure incurred on this account since 1965-66? If preventive officers are expected to incur such expenditure themselves and then claim reimbursement, what is the average time lag between the receipt of such claims and their actual reimbursement ?

38. Are the present reward rules sufficiently attractive for informers and officers engaged on detection of offences? A point has been made that there are serious limitations on the powers of officers to sanction advance payments of rewards to informers and that this acts as a disincentive to preventive activity. Do you think the existing powers shoud be liberalised and if so, to what extent ?

39. Do the existing reward rules provide for payment of rewards (including advance rewards) in cases in which no contraband goods are physically seized but in which duty evasion has been detected on the basis of information supplied ? If so, how is the quantum of rewards determined in such cases?

40. In view of the fact that preventive jobs involve an element of personnel hazard, and call for a certain degree of intelligence, initiative and resourcefulness, in addition to a flair for the work, would you propose that preventive officer should constitute a separate cadre altogether, with personnel specially selected and trained, and with pay scales and other emoluments commensurate with the type and quality of work expected of them ?

5. MISCELLANEOUS

41. In addition to their normal duties under the Central Excise law, Central Excise officers are also entrusted with several agency functions which they perform on behalf of the Customs Department, the Gold Control Administration and under various other enactments. A point has been made that Central Excise officers are not properly and adequately equipped to carry out such functions and except where staff has been posted exclusively for these jobs, the extra duties involved are performed at the cost of their legitimate functions under the Central Excise law. Do you subscribe to this view? If so, what remedial measures would you suggest to meet the situation ?

42. What is Government's policy in the matter of providing (a) Government owned accommodation to all Central Excise offices including field formations, and (b) Government residential accommodation to Central Excise Officers at all levels? To what extent have the relevant requirements for office purposes been met by Government accommodation ? Likewise, what proportion of the total establishment in the Central Excise Department has been allotted Government owned residential accommodation ?

43. Are existing designations for various grades of appointments in the Central Excise Department suitable? Would you suggest any changes therein ?

44. What is your experience of the day-to-day working of the SRP since its inception in 1968? Is the trade sufficiently responsive to the needs and requirements of the procedure and do they afford the necessary cooperation to Government agencies, in the matter of scrutiny of accounts and in carrying out the necessary transit checks etc? Likewise, are departmental officers helpful in providing the trade necessary guidance in understanding the detailed requirements of the procedure ?

45. The primary unit in the present organisational set up of the Central Excise Department seems to be the 'Assessment Range', which apart from approval of classification and price lists has to carry out a number of duties. Are assessment Ranges adequately equipped from the point of view of ministerial staff, typewriters, imprest for incurring contingent expenditure, mobility of transport etc.?

46. The Department has prescribed uniforms for all officers of and up the level of Assistant Collectors of Central Excise. Do you consider that the wearing of uniforms has added to the efficiency of the officers or is otherwise desirable or necessary? Does the change of situation brought about the SRP make any difference in this respect? Are the allowances paid for the initial outfit and for itr upkeep adequate?

47. As presently structured, Central Excise Tariff has numerous classifications, sub-classifications and exemptions, based on diverse criteria. It has been suggested that the administration of excise levies generally—and the implementation of the SRP in particular—would greatly improve if this structure was simplified. Do you agree? Kindly elaborate your views on this point.

48. Are there any suggestions, general or particular, which you would make in regard to the improvement of the efficiency of the department, including its discipline, morale and public relations ?

XXI—ORGANISATIONAL AND ADMINISTRATIVE SET UP

General

121. (i) In your opinion, is the existing organisational and administrative set up of the Department concerned with the levy and collection of Central Excise duties under the Self Removal Procedure, adequate for the discharge of the various functions assigned to it at present? Further, is it adequate from the viewpoint of the functions which it is likely to be called upon to assume in order to meet the growing needs of the industry which arise not only from increased output, but from diversification of production and advances in the field of technology?

(ii) If not, what reorganisation and changes in the present administrative set up would you recommend?

122. Officers of the Central Excise Department are required to perform certain functions outside the scope of the Central Excise law; these include administration of minor ports, land Customs frontiers in the country, air customs at several places, Gold Control Act and collection of travel tax and commodity cesses. To what extent are these functions similar or allied to functions under the Central Excise Law and what is your assessment of the performance of these functions by the Central Excise officers?

123. Has the withdrawal of physical control from the factories created any problems or difficulties for the industry? Are clarifications on points of law and procedure, which could be obtained under the normal procedure from the resident staff readily available under the new scheme of control?

124. (i) What, in your opinion, are the considerations on which Collectorates of Central Excise should be delimited?

(ii) Do you subscribe to the view that a Collectorate should be a settled territorial jurisdiction which should not be changed from time to time, variations in work load being taken care of by induction/withdrawal of staff at lower levels?

(iii) If so, what precisely should be the role of the Collector in this set up?

(iv) Is the present delimitation of Collectorates satisfactory?

125. Have you any comments on the headquarters organisation of the Collector? Is the present distribution of work among various officers and branches satisfactory, keeping in view the changes brought about after the introduction of the SRP and the various agency functions entrusted to the Central Excise Department?

126. Do you have any observations to offer on the existing organisational and administrative set up of the Divisional Officers? Is the present set up suited to the needs of the Self Removal Procedure and consequential change in the role of Central Excise officers?

127. Divisions are presently organised on either functional or territorial basis. Has this led to any practical difficulties, particularly in relation to units producing a number of excisable goods falling within the jurisdiction of different divisions?

128. Would you advocate that Divisions should be smaller and more compact than they are at present with a view to affording greater personalised attention to the problems of the industry?

129. (i) What do you think of the pattern and working of field formations evolved after the introduction of the SRP?

(ii) Does the new pattern represent an improvement over that in vogue under the earlier system of physical control?

(iii) Is it sufficiently flexible to absorb or take care of changes which are likely to be necessitated from time to time in the administration of excise levies as a result of technological and other improvements in the methods of production and of accounting followed by the industry?

XXV—ADJUDICATIONS, APPEALS AND REVISIONS

141. (i) Do you think the powers presently conferred on various officers for adjudication of offences are satisfactory?

(ii) Would you like these powers to be suitably enhanced so far as value of goods liable to confiscation is concerned, and/or in the matter of imposition of penalties?

142. (i) Is the present pace of disposal of offence cases at all levels satisfactory?

(ii) If not, what are the reasons for delay in disposals and what are the stages at which cases are held up?

143. Would you suggest that functions relating to adjudication of offences should be separated from the executive and entrusted to an independent hierarchy at various levels, in order to evoke greater confidence from the industry and bring about the requisite objectivity and specialisation?

144. The appellate jurisdiction of Deputy Collectors and Collectors under the Central Excise Law has recently been transferred to Appellate Collectors.

(i) How has the industry reacted to this change?

(ii) Has this posed any difficulty in cases of disputed classification and valuation etc. under the SRP which until recently were decided by the Deputy Collector/Collector concerned, but would now fall within the jurisdiction of an Appellate Collector?

145. Have you any comments on the present arrangements under which appeals against the original orders of Collectors are heard and disposed of by the Central Board of Excise & Customs?

146. Have you any comments on the present arrangements under which revision applications against orders-in-appeal passed by Deputy Collectors or Collectors (and now Appellate Collectors) or by the Central Board of Excise & Customs, are heard and disposed of by the Central Government?

147. Would you recommend that the institution of Tribunals should be introduced in the Central Excise Department, vested with appellate and revisionary powers? If so, at what level should such tribunals be constituted and what should be their functions?

XXIX—MANAGEMENT IMPROVEMENT

157. Is the present cadre composition in the Central Excise Department satisfactory from the point of view of efficiency, chances of promotion and general satisfaction of service officers in all grades?

158. How in your view can the utility of the Class IV staff be improved, keeping in view the changes brought about by the SRP.

159. Several departments of the Government of India have welfare schemes of their own for the benefit of their employees, such as medical facilities, educational institutions, holiday homes, transit camps and residential accommodation. Would you recommend that such welfare schemes should also be extended to the Central Excise officers?

160. (i) Do you think the existing 'public relations' arrangements between the department and the assessees, satisfactory?

(ii) Are Public Relations Officers provided in Collectorates and Divisional Offices, and do adequate arrangements exist for proper reception of visitors and attention to their needs?

161. (i) Are the facilities available at present for the training of officers in various grades satisfactory?

(ii) Do the training arrangements take into account the importance of the personnel being technically equipped to discharge adequately the responsibilities expected of them under the SRP?

ANNEXURE 4

(Para 9, Chapter 1)

LIST OF INDUSTRIAL UNITS VISITED BY THE CENTRAL EXCISE (SRP) REVIEW COMMITTEE

S.No.	Date	Name of the industrial unit
1	2	3
1.	5-11-71	Pravara S.S.K. Ltd., Ahmednagar (Maharashtra).
2.	6-11-71	The Hindustan Spinning & Weaving Mills Ltd., Bombay (Maharashtra).
3.	8-11-71	M/s. Lajya Dycing Works, Bombay (Maharashtra).
4.	"	M/s. Dilkhush Dycing & Printing Works, Bombay (Maharashtra).
5.	10-1-72	Siris Pharma, Vijayawada (Andhra Pradesh).
6.	11-1-72	M/s. Associated Chemicals & Gas Industries Ltd., Mangalagiri (Andhra Pradesh).
7.	2-2-72	M/s. Metal Box Co. of India Ltd., Calcutta (W. Bengal).
8.	5-2-72	M/s. Indian Aluminium Company Ltd., Calcutta (W. Bengal).
9.	23-2-72	M/s. Bata Shoe Factory, Patna (Bihar).
10.	11-3-72	M/s. Indian Paints & Chemicals (P) Ltd., Cuttack (Orissa).
11.	13-3-72	M/s. Gupta Cables (Pvt) Ltd., Bhubaneswar (Orissa).
12.	22-3-72	Small Match Factory, Sivakasi (Tamil Nadu).
13.	"	Hind Match Factory, Sivakasi (Tamil Nadu).
14.	23-3-72	Sitalakshmi Mills Ltd., Madurai (Tamil Nadu).
15.	24-3-72	M/s. Madras Rubber Factory Ltd., Madras (Tamil Nadu).
16.	"	Carborandum Universal Ltd., Madras (Tamil Nadu).
17.	6-4-72	M/s. Paven Talbors Pvt. Ltd., Faridabad (Haryana).
18.	"	M/s. Oswal Electrical, Faridabad (Haryana).
19.	"	M/s. Hitkari Potteries, Faridabad (Haryana).
20.	"	M/s. Escorts Ltd., Faridabad (Haryana).
21.	7-4-72	M/s. Dua Bros., Ludhiana (Punjab).
22.	"	M/s. Presto Industries, Ludhiana (Punjab).
23.	"	M/s. Gurmukh Singh, Ludhiana (Punjab).
24.	"	M/s. Gloria Manufacturers, Ludhiana (Punjab).
25.	"	M/s. Oswal Woollen Mills, Ludhiana (Punjab).
26.	"	M/s. Supreme Woollen Mills, Ludhiana (Punjab).
27.	"	York Hosiery Mills, Ludhiana (Punjab).
28.	14-4-72	M/s. Hindustan Zinc Ltd., Debari, Udaipur (Rajasthan).
29.	15-4-72	M/s. Birla Cement Works, Chittorgarh (Rajasthan).
30.	17-4-72	M/s. National Engineering Industries, Jaipur (Rajasthan).
31.	4-5-72	M/s. Hindustan Levers Ltd., Bombay (Maharashtra).
32.	"	M/s. Goodlas Narolac Paints Ltd., Bombay (Maharashtra).
33.	5-5-72	M/s. Premier Automobiles Ltd., Bombay (Maharashtra).
34.	"	M/s. Murphy India Ltd., Bombay (Maharashtra).
35.	8-5-72	M/s. Madura Mills, Madurai (Tamil Nadu).
36.	"	M/s. Rayalu Rubber Co., Madurai (Tamil Nadu).
37.	"	M/s. Balu Wireless Receiving Sets Manufacturing Co., Madurai (Tamil Nadu).
38.	11-5-72	M/s. Western India Match Co. (WIMCO), Madras (Tamil Nadu).
39.	20-5-72	M/s. Philips India, Calcutta (W. Bengal).

1	2	3
40.	27-5-72	M/s. Hyderabad Allwyn Metal Works, Hyderabad (Andhra Pradesh).
41.	29-5-72	M/s. Vazir Sultan Tobacco Co., Hyderabad (Andhra Pradesh).
42.	29-6-72	M/s. Mattoo Worsted Weaving & Spinning Mills, Srinagar (J & K State).
43.	1-7-72	State Government Match Factory, Baramulla (J & K State).
44.	25-7-72	M/s. Dinesh Woollen Mills, Baroda (Gujarat).
45.	"	M/s. Gujarat Phenolic Synthetics Pvt. Ltd., Baroda (Gujarat).
46.	"	M/s. Dinesh Tiles Factory, Baroda (Gujarat).
47.	"	M/s. Alembic Chemical Works Co., Baroda (Gujarat).
48.	"	M/s. Alembic Glass Industries, Baroda (Gujarat).
49.	26-7-72	M/s. Arvind Mills, Ahmedabad (Gujarat).
50.	"	M/s. Deep Industries, Ahmedabad (Gujarat).
51.	27-7-72	M/s. Forge & Blower Co., Ahmedabad (Gujarat).
52.	"	M/s. Satelite Engineering Ltd., Ahmedabad (Gujarat).
53.	28-7-72	M/s. Wockhardt Pharmaceuticals, Bombay (Maharashtra).
54.	29-7-72	M/s. Pure Drinks Ltd., Bombay (Maharashtra).
55.	8-8-72	M/s. Brooke Bond Co., Calcutta (W. Bengal).
56.	"	M/s. Indian Tobacco Co., Calcutta (W. Bengal).
57.	9-8-72	M/s. Britannia Biscuit Factory, Calcutta (West Bengal).
58.	10-8-72	M/s. Haldia Refinery, Calcutta (W. Bengal).
59.	24-8-72	M/s. Esso Marketing Installations, Bombay (Maharashtra).
60.	25-8-72	M/s. Esso Refinery, Bombay (Maharashtra).
61.	26-8-72	M/s. Bombay Laboratory, Bombay (Maharashtra).
62.	1-9-72	M/s. Electronics Corporation of India, Hyderabad (Andhra Pradesh).
63.	2-9-72	M/s. Associated Glass Co., Hyderabad (Andhra Pradesh).
64.	3-9-72	M/s. United Auto Tractors, Hyderabad (A.P.).
65.	4-9-72	M/s. Brooke Bond Tea Co., Hyderabad (A.P.).
66.	19-9-72	M/s. Tata Iron & Steel Co. Ltd., Jamshedpur (Bihar).
67.	,,	M/s. Tata Engineering & Locomotive Co., Jamshedpur (Bihar).
68.	,,	M/s. India Cable Co., Jamshedpur (Bihar).
69.	20-9-72	M/s. Calcutta Chemical Co., Calcutta (W. Bengal).
70.	,,	M/s. Plaza Chemicals Industries, Calcutta (West Bengal).
71.	,,	M/s. Guest Keen Williams Ltd., Howrah (W. Bengal).
72.	21-9-72	M/s. American Refrigerators, Calcutta (W. Bengal).
73.	10-10-72	M/s. Standard Mills Co., Bombay (Maharashtra).
74.	,,	M/s. Bombay Dyeing and Manufacturing Co., Bombay (Maharashtra).
75.	,,	M/s. Kirloskar Oil Engines, Poona (Maharashtra).
76.	11-10-72	M/s. Rustom & Hornsby, Poona (Maharashtra).
77.	,,	M/s. Atlas Steel ERA, Poona (Maharashtra).
78.	,,	M/s. Bhagwat Brothers, Poona (Maharashtra).
79.	12-10-72	M/s. Ogale Glass Works, Poona (Maharashtra).
80.	,,	M/s. Corrugated Box (Pvt.), Poona (Maharashtra).
81.	,,	M/s. Lakaki Paints Factory, Lonawala (Maharashtra).
82.	,,	M/s. Century Rayon Mills, Kalyan (Maharashtra).
83.	12-10-72	M/s. Ratandeep Textiles (Powerloom), Bhiwandi (Maharashtra).
84.	13-10-72	M/s. Parkin & Krips Engineering Works, Bombay (Maharashtra).
85.	,,	M/s. Korula Rubber Co. Pvt., Bombay (Maharashtra).

1	2	3
86.	13-10-72	M/s. Metal Box Co., Bombay (Maharashtra).
87.	23-10-72	M/s. Electrical Manufacturing Co., Calcutta (West Bengal).
88.	24-10-72	M/s. Alfa Electrical Equipment, Calcutta (W. Bengal).
89.	,,	M/s. Neolux Miniature Bulb Factory, Calcutta (W. Bengal).
90.	25-10-72	Farm & Food Products, Calcutta (W. Bengal).
91.	26-10-72	Indian Oxygen Ltd., Calcutta (W. Bengal).
92.	21-11-72	M/s. Lucky Biscuit Co., Patna (Bihar).
93.	,,	M/s. Pradip Lamp Work, Patna (Bihar).
94.	22-11-72	M/s. Life Pharmaceutical (P) Ltd., Patna (Bihar).
95.	25-11-72	M/s. Modi Spinning & Weaving Mills Co., Modinagar (Uttar Pradesh).
96.	,,	M/s. Modi Rayon & Silk Mills, Modinagar (U.P.).
97.	,,	Modipon Ltd., Modinagar (Uttar Pradesh).
98.	,,	M/s. Khatauli Sugar Factories, Khatauli (U.P.).
99.	26-11-72	M/s. Janki Sugar Mills, Daurala (U.P.).
100.	,,	Comet Miniature Bulb Factory, Dehradun (U.P.).
101.	28-11-72	M/s. Digvijay Cement Works, Bombay (Maharashtra).
102.	,,	M/s. Mahalaxmi Glass Work, Bombay (Maharashtra).
103.	29-11-72	M/s. Golden Tobacco Co., Bombay (Maharashtra).
104.	18-12-72	M/s. Sahib Singh Manufacturing Co. Pvt. Ltd., New Delhi.
105.	18-12-72	M/s. Aurobindu Industries, Okhla Industrial Estate, New Delhi.
106.	,,	M/s. Televista Electronics Pvt. Ltd., New Delhi.
107.	19-12-72	M/s. Delhi Cloth Mills Chemical Works, New Delhi.
108.	20-12-72	M/s. Vijay Metal Works, Hapur (Uttar Pradesh).
109.	,,	M/s. Hapur Sugar Works, Hapur (Uttar Pradesh).
110.	,,	M/s. Mohan Glass Works, Mohan Nagar, Ghaziabad (Uttar Pradesh).
111.	31-1-73	M/s. Aluminium Cables & Conductors Ltd., Bangalore (Mysore).
112.	,,	M/s. Machine Components, Bangalore (Mysore).
113.	,,	Bharat Electronics Ltd., Bangalore (Mysore).
114.	,,	M/s. New Government Electric Factory, Bangalore (Mysore).
115.	1-2-73	Indian Tobacco Company, Bangalore (Mysore).
116.	,,	M/s. Machine Industry Company, Bangalore (Mysore).
117.	2-2-73	Cochin Refineries Ltd., Cochin (Kerala).
118.	,,	M/s. Premier Tyres, Cochin (Kerala).
119.	,,	M/s. Fertilisers & Chemicals Travencore Ltd., Cochin (Kerala).
120.	,,	M/s. Indian Aluminium Co. Ltd., Cochin (Kerala).
121.	5-2-73	M/s. Madouna Industries, Trivandrum (Kerala).
122.	13-2-73	M/s. Satna Cement Works, Satna (Madhya Pradesh).
123.	14-2-73	M/s. New India Mosaic & Marble Co. Ltd., Jabalpur (Madhya Pradesh).
124.	15-2-73	Ganesh Chikitsa Bhawan, Damoh (Madhya Pradesh).
125.	16-2-73	Heavy Electricals, Bhopal (Madhya Pradesh).
126.	17-2-73	Security Paper Mills, Hoshangabad (Madhya Pradesh).
127.	19-2-73	M/s. Central Paint Co., Pvt. Ltd. Indore (Madhya Pradesh).
128.	,,	M/s. Supreme Chemicals Industries, Indore (Madhya Pradesh).
129.	,,	M/s. Impha Laboratories, Indore (M.P.).
130.	24-3-73	M/s. Jayashree Textiles & Industries Ltd., Midnapur (West Bengal).

1	2	3
131.	20-4-73	Noomati Refinery (I.O.C.), Gauhati (Assam).
132.	21-4-73	Latekoojan Tea Estate and Tea Factory, Jorhat (Assam).
133.	21-4-73	Methoni Tea Factory, Jorhat (Assam).
134.	5-5-73	M/s. Corrugating & Punching Mills, Bombay (Maharashtra).
135.	,,	M/s. Everest Packing Andheri, Bombay (Maharashtra).
136.	,,	M/s. Guru Packing Seovi, Bombay (Maharashtra).
137.	16-5-73	M/s. Madras Fertilizers Ltd., Manali (Tamil Nadu).
138.	,,	M/s. Gemini Pictures Circuit (Pvt.) Ltd., Madras (Tamil Nadu).
139.	25-6-73	M/s. Bakelite Hylem Ltd., Hyderabad (A.P.).

ANNEXURE 5

LIST OF INDIVIDUALS/ASSOCIATIONS ETC. WHO TENDERED EVIDENCE BEFORE THE CENTRAL EXCISE (SRP) REVIEW COMMITTEE

S.No.	Date	Place	Name of the Chambers of Commerce/Trade Associations/Individual Manufacturers/Representatives of different professions/Staff Associations/Officers connected with Department	Represented by
1	2	3	4	5
			Chambers of Commerce and Industry	
1.	1-2-73	Bangalore	Mysore Chamber of Commerce, Bangalore	Sh. G. Ramaratnam
2.	3-2-73	Cochin	Cochin Chamber of Commerce	Sh. B.L. Rathi
3.	23-2-73	Calcutta	Bharat Chamber of Commerce, Calcutta	1. Sh. R.R. Bhiwaniwalla 2. Sh. K.L. Dhandhania 3. Sh. S.N. Guha 4. Sh. S.K. Chatterjee 5. Sh. D.B.S. Rao 6. Sh. N. Saha 7. Sh. B.C. Dass
4.	24-2-73	Calcutta	Indian Chamber of Commerce, Calcutta	1. Sh. D.P. Chakravarti 2. Sh. J.M. Jatia 3. Sh. Amarjit Singh 4. Sh. F.J. Hose 5. Sh. R.L. Rikhyie 6. Sh. R.K. Sen 7. Sh. K.S. Bhattacharya
5.	26-2-73	Calcutta	Bengal Chamber of Commerce, Calcutta	1. Sh. A.L. Mudaliar 2. Sh. T.K. Ramasubramanian
6.	27-2-73	Calcutta	The Indian Chamber of Commerce, Calcutta (Representing Tea Industry)	1. Sh. R.L. Rikhyie 2. Sh. R.K. Singh
7.	15-3-73	Bombay	Bombay Chamber of Commerce, Bombay	1. Sh. V.V. Dhume 2. Sh. N.M. Rao 3. Sh. K.R. Chari 4. Sh. J.J. Mistry 5. Sh. Atul Mehta 6. Sh. Tej Singh 7. Sh. J.B. Bowman 8. Sh. B.P. Gunaji
8.	9-4-73	Bombay	M/s. Southern Gujarat Chamber of Commerce & Industry, Surat	1. Sh. A.N. Zariwala 2. Sh. R.P. Laxpati 3. Sh. S.H. Bachkaniwala
9.	10-4-73	Bombay	The Indian Merchant's Chamber, Bombay	1. Sh. G.N. Poddar 2. Sh. Charan Das V. Mariwala 3. Sh. D.S. Pendurkar 4. Sh. Ambalal Kilchand 5. Sh. K.S. Thanawala 6. Sh. R.D. Shivaji
10.	17-4-73	Delhi	Punjab, Haryana & Delhi Chamber of Commerce & Industry Delhi	1. Sh. V.P. Punj 2. Sh. G.D. Kedia 3. Sh. G.S. Gargya 4. Sh. P.S. Ahluwalia
11.	23-4-73	Shillong	Merchant Chamber of Commerce and Industry, Shillong	1. Sh. R. Shroof
12.	28-4-73	Calcutta	Merchant's Chamber of Commerce 3-1-72 Armenian Street, Calcutta	1. Sh. S.L. Agarwal 2. Sh. H.R. Bose

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1	2	3	4	5
13.	28-4-73	Calcutta	M/s Bengal National Chamber of Commerce, Calcutta	1. Sh. R.M. Mittra 2. Sh. S.B. Ghosh 3. Sh. S.S. Chandra 4. Sh. A.R. Dattu Gupta
14.	16-5-73	Madras	M/s. Southern India Chamber of Commerce, Madras	1. Sh. D.A. Rajan 2. Sh. R. Krishnamurti 3. Sh. S. Ignatious 4. Sh. D. Srinivasan
15.	23-6-73	Hyderabad	The Federation of Andhra Pradesh Chambers of Commerce & Industry	1. Sh. G.C. Rustogi 2. Sh. M.C. Agarwal 3. Sh. R.C. Lohoti 4. Sh. E.B.V. Raghviah 5. Sh. B.L. Beri 6. Sh. P.N. Behl 7. Sh. S.K. Dhawan
16.	26-7-73	Kanpur	Upper India Chamber of Commerce, Kanpur	
17.	26-7-73	Kanpur	Merchant Chamber of Uttar Pradesh, Kanpur	
18.	22-8-73	Jaipur	Rajasthan Chamber of Commerce, Jaipur	Sh. K.L. Jain
			Trade Associations	
19.	1-2-73	Bangalore	All Mysore Small Scale Industries Association	Sh. Bhomanand Maney
20.	1-2-73	Bangalore	Coorg & Mysore Coffee Curers' Association, Chickmagalur	Sh. S.K. Ganeshiah
21.	3-2-73	Cochin	United Association of Planters of Kerala	Sh. O.C. Methews
22.	3-2-73	Cochin	Kerala Match Manufacturers' Association	1. Sh. T.K. Madathil 2. Sh. K.K. Hydrose 3. Sh. P. Vumnani
23.	24-2-73	Calcutta	The Federation of Associations of Small Industries of India, Culcutta	1. Sh. A. Roy Chowdhury 2. Sh. S.M. Banerjee 3. Sh. S.S. Singhania 4. Sh. S.K. Khaitan 5. Sh. A.R. Battacharyya 6. Sh. S. Roychoudhry
24.	24-2-73	Calcutta	Indian Non-Ferrous Metals Manufacturers' Association	Sh. R. Dass
25.	26-2-73	Calcutta	Engineering Association of India (East Regional Unit), Calcutta	1. Sh. R.P. Patodia 2. Sh. B.D. Poddar 3. Sh. A.K. Roy 4. Sh. R.C. Sinha
26.	26-2-73	Calcutta	The Indian Paint Association, Calcutta	1. Sh. S. Venkatachalam 2. Sh. S. Bhattacharya 3. Sh. Dr. S. Sarma
27.	13-3-73	Bombay	The Clothing Manufacturers' Association of India, Bombay	1. Sh. J.J. Desai 2. Sh. K.S. Thanawala 3. Sh. Hira Lal G. Shah 4. Sh. K.M. Madhavan 5. Smt. Premila Wagle
28.	13-3-73	Bombay	The Indian Drug Manufacturers' Association, Bombay	1. Dr. A. Patnic 2. Sh. S.P. Kanekar
29.	14-3-73	Bombay	The All India Air-Conditioning and Refrigeration Association, Bombay	1. Sh. R.M. Zaveri 2. Sh. N.S. Pai 3. Sh. H.R. Ghose
30.	21-3-73	Calcutta	The Federation of Associations of Small Industries of India, Calcutta	1. Sh. A. Roy Chowdhury 2. Sh. R.B. Chakraborty 3. S. Roy Choudhury 4. Sh. S.S. Singhania

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31.	21-3-73	Calcutta	M/s Indian Tea Association, Calcutta	1. Sh. V.P. Mahajan 2. Sh. D. Chakraborty
32.	22-3-73	Calcutta	The Indian Jute Mills Association, Calcutta	1. Sh. N. Banerjee 2. Sh. C.B. Nevatia 3. Sh. S. Sen
33.	6-4-73	Bombay	Mill Owners' Association, Bombay	1. Sh. Ram Prasad P. Poddar 2. Sh. R.L.N. Vijayanagar 3. Sh. P.V. Jois
34.	6-4-73	Bombay	All India Rubber Industries' Association, Bombay	1. Sh. K.N. Madok 2. Sh. P. Kinariwala 3. Sh. M.R.P. Desai 4. Sh. N.K. Patel
35.	6-4-73	Bombay	M/s Textile Processors' Association (INDIA), Bombay	1. Sh. V.H. Shah 2. Sh. Dwarkadas Negji 3. Sh. S.M. Sundram
36.	7-4-73	Bombay	M/s Deccan Sugar Factories' Association, Bombay	1. Sh. S.G. Shah 2. Sh. Venkataraman
37.	7-4-73	Bombay	The All India Tobacco Federation, Bombay	1. Sh. A. H. Tobaccowala 2. Sh. B.N. Maluste 3. Sh. O.E. Kuriakose
38.	9-4-73	Bombay	Surat Artsilk Cloth, Manufacturers' Association, Surat	1. Sh. A.N. Zariwala 2. Sh. I. M. Metha
39.	9-4-73	Bombay	The South Gujarat Textile Processors' Association, Surat	3. Sh. Navin Topiwal 4. Sh. S. H. Bachkaniwala 5. Sh. A. J. Vakharai
40.	9-4-73	Bombay	The Surat Venkar Shakari Sangh Ltd. Surat	6. Sh. M. S. Chevli 7. Sh. K. C. Zariwala 8. Sh. S. A. Bachkaniwala
41.	16-4-73	Delhi	The Indian Sugar Mills Association, New Delhi	1. Sh. S. L. Gupta 2. Sh. K. S. Venkatapathy
42.	16-4-73	Delhi	Northern India Manufacturer's Association, New Delhi	1. Sh. S. Hassija 2. Sh. D. K. Jain 3. Sh. K. L. Aggarwal
43.	16-4-73	Delhi	Federation of Indian Manufacturers' Association, New Delhi	
44.	18-4-73	Delhi	Faridabad Industries Association, Faridabad	1. Sh. Surendra Sehgal 2. Sh. A. K. Virmani
45.	19-4-73	Gauhati	The Assam Manufacturers Association, Gauhati	1. Sh. P. K. Jain 2. Sh. H. L. Aggarwal 3. Sh. B. L. Sabhu 4. Sh. B. P. Singh 5. Sh. M. S. Bagrodia 6. Sh. S. K. Agarwal
46.	21-4-73	Jorhat	Assam Tea Planters Association	1. Sh. A. K. Barooah 2. Sh. S. N. Phukan 3. Sh. J. K. Saika
47.	21-4-73	Jorhat	Assam Tobacco Dealers Association, Tinsukia	Sh. L. C. Jain
48.	21-4-73	Jorhat	Assam Branch of Indian Tea Association	Sh. S. Basu
49.	23-4-73	Shillong	Assam Tea Association	Sh. T. Barua
50.	25-4-73	Calcutta	M/s East India Corrugated Box Manufacturing Association, Calcutta	1. Sh. M. L. Benrani 2. Sh. B. N. Ghosh 3. Sh. A. M. Ghosh 4. Sh. S. Bose 5. Sh. A. R. Ajmera

1	2	3	4	5
51.	25-4-73	Calcutta	M/s Indian Paper Mill Association, Calcutta	1. Sh. S. P. Modi 2. Sh. S. Narayan 3. Sh. A. N. Mukherjee 4. Sh. B. Ghosh
52.	26-4-73	Calcutta	M/s Calcutta Silicate Manufacturers Association, Calcutta	1. Sh. B. D. Goenka 2. Sh. K. D. Shroff
53.	27-4-73	Calcutta	M/s Tin Plate Fabricators' Association, Calcutta	1. Sh. B. N. Kayan 2. Sh. S. B. Mathur
54.	27-4-73	Calcutta	The Federation of Small Industries of India	Sh. A. Roy Choudhury
55.	9-5-73	Bombay	The All India Air Conditioning & Refrigeration Association, Bombay	1. Sh.R. M. Zaveri 2. Sh. N. S. Pai 3. Sh. H. K. Ghose
56.	16-5-73	Madras	The Southern India Mill Owners Association, Coimbatore	Sh. R. M. Subramanian
57.	17-5-73	Madras	Federation of Association of Small Industries of India, Madras	Sh. K. R. Rao
58.	21-6-73	Hyderabad	The Hydrabad Paint Manufactures' Association, Hyderabad	1. Sh. H. R. Sood 2. Sh. B. Rama Rao 3. Sh. Satish Marqandey 4. Sh. R. P. Marqandey
59.	21-6-73	Hyderabad	The Andhra Pradesh Tin Plates Fabricators' Association, Hyderabad	1. Sh. C. D. Agarwal 2. Sh. B. Sadashiva Rao
60.	22-6-73	Hyderabad	The Industrial Estate Manufacturers' Association Hyderabad	Sh. V. S. Bhatia
61.	26-7-73	Kanpur	The U. P. Cotton Textile Mill Owners' Association, Kanpur	
62.	26-7-73	Kanpur	Indian Paint Association, Kanpur	
63.	22-8-73		The Rajasthan Textile Mills' Association, Jaipur	1. Sh. K.D. Kolhari 2. Sh. V. N. Sarol 3. Sh. D. Revindran
64.	22-8-73	Jaipur	The Bikaner Distt. Industries Association, Bikaner	Sh. Jagmohan Das Mundra
65.	22-8-73	Jaipur	Alwar Distt. Small Industries Association, Alwar	Sh. Om Prakash
			Individual Manufacturers	
1.	31-7-73	Bangalore	M/s Aluminium Cables and Conductors Ltd., Bangalore	Sh. J. B. Joshi
2.	31-1-73	Bangalore	M/s Machine Components Ltd., Bangalore	Sh. V. A. Krishnan
3.	31-1-73	Bangalore	M/s Bharat Electronics Ltd.	1. Sh. C. R. Subramanyam 2. Sh. A. Rangaswamy 3. Sh. P. S. Rao
4.	31-1-73	Bangalore	M/s New Government Electric Factory	1. Sh. M. Sachidananda 2. Sh. G. R. Murthy
5.	1-2-73	Bangalore	M/s India Tobacco Co. Ltd., Bangalore	1. Sh. Z. U. H. Ansari 2. Sh. H. S. Junwarkar
6.	1-2-73	Bangalore	M/s Motor Industries (MICO) Ltd.	1. Sh. D. N. Vatcha 2. Sh. G. H. Schoeffler 3. Sh. P. Sprunk 4. Sh. K. G. Ramaswamy
7.	1-2-73	Bangalore	M/s Binny's Ltd.	1. Sh. K. S. Murthy 2. Sh. K. Gopinath

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8.	1-2-73	Bangalore	M/s Jindal Aluminum (P) Ltd.	1. Sh. R. N. Pandey 2. Sh. V.R. Gupta
9.	2-2-73	Cochin	Cochin Refiners Ltd.	1. Sh. G. Bitz 2. Sh. F. W. Fulton 3. Sh. M. Joseph Lobo
10.	2-2-73	Alwaye	Premier Tyres	Sh. B. S. Desai
11.	2-2-73	Cochin	M/s Fertilizers & Chemical Travancore, Ltd., Cochin	1. Sh. V. Sankaranarayanan 2. Sh. Krishna Menon
12.	2-2-73	Cochin	M/s Indian Aluminium Co. Ltd.	Sh. H. Jai Ram and other senior officers
13.	3-2-73	Cochin	M/s Travancore Rayons	1. Sh. L. Kannappan 2. Sh. V. Subramanian 3. Sh. P. S. Hariharan Krishan
14.	24-2-73	Calcutta	M/s Indian Aluminium Co.	Sh. R. Dass
15.	7-4-73	Bombay	The Associated Cement Companies Ltd., Bombay	1. Sh. G. K. Valiathan 2. Sh. P. A. Nair
16.	7-4-73	Bombay	Visnagar Coop Spinning Mills	Sh. Ramnik Lal Maniar
17.	9-4-73	Bombay	M/s Bhilai Steel Plant, Bhilai	1. Sh. A. K. Banerjee 2. Sh. S. L. Gulati
18.	17-4-73	Delhi	M/s Chanderpur Board Mills, Yamunanagar	Sh. L. R. Jain
19.	18-4-73	Delhi	M/s Niemla Textile Finishing Mills Pvt. Amritsar	1. Sh. P. L. Aggarwal 2. Sh. M. M. Aggarwal
20.	20-4-73	Gauhati	M/s Noonmati Refinery	1. Sh. G. S. Harnal 2. Sh. H. L. Narang
21.	21-4-73	Jorhat	Assam Oil Co., Digboi	Sh. U. S. Bagchi
22.	21-4-73	Jorhat	Jorhat Tea Co.	1. Sh. P. Barooah 2. Sh. J. C. Sarma
23.	26-4-73	Calcutta	M/s Indian Tobacco Company	1. Sh. D. M. Rajan 2. Sh. K. V. L. Rao
24.	28-4-73	Calcutta	M/s Tata Iron & Steel Company, Jamshedpur	Sh. A. K. Bose
25.	15-5-73	Madras	M/s Madurai Mills Co. Ltd., Madurai	Sh. R. Thulsi Rao
26.	15-5-73	Madras	M/s Gemini Picture Circuit (Pvt.) Madras	1. Sh. P. Narayanaswamy 2. Sh. G. Subramanian
27.	15-5-73	Madras	M/s Madras Refineries Ltd., Madras	1. Sh. B. S. Narayana 2. Sh. V. V. S. N. Raju 3. Sh. K. B. Gopalakrishnan
28.	16-5-73	Madras	M/s Madras Fertilizers Ltd., Manali	1. Sh. R. C. Sternhalf 2. Sh. B. R. Sreenivasamurthy 3. Sh. N. B. Tendolkar 4. Sh. R. N. Warrior 5. Sh. V. R. R. Gupta 6. Sh. D. P. Ananathan 7. Sh. R. Krishnamurthi
29.	24-5-73	Madras	M/s Klas Engineering (P) Ltd.	Sh. V. Suryanarayan
30.	10-8-73	Delhi	Shri Y. K. Modi, Director in charge, Modi Rayon & Silk Mills, Modinagar	
31.	22-8-73	Jaipur	R. J. Engg. Co. & Iron Re-rolling Mills, Jodhpur	Sh. Sheo Raj Mohta
32.	22-8-73	Jaipur	Rajsthan Electric Industries, Jaipur	Sh. G. L. Gupta

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			Representatives of Different Professions, Staff Associations and Officers connected with Department	
1.	1-2-73	Bangalore	Mr. Koshi Chandy, Assistant Collector of Central Excise, Bangalore	
2.	1-2-73	Bangalore	Sh. Raj Dorai, Assistant Collector of Central Excise, Bangalore	
3.	1-2-73	Bangalore	Sh. D. P. Arya, Assistant Collector of Central Excise (Preventive), Bangalore	
4.	1-2-73	Bangalore	Superintendent (Legal) Central Excise Collectorate, Bangalore	
5.	1-2-73	Bangalore	Sh. Mascarenhas, Dy. Collector of Central Excise, Bangalore	
6.	1-2-73	Bangalore	Sh. R. B. Sinha, Collector of Central Excise, Bangalore	
7.	3-2-73	Cochin	The Kerala Central Excise Non-Gazetted Officers' Association (Executive)	1. Sh. P. Sreedharan 2. Sh. George Eapen Luke
8.	3-2-73	Cochin	The Kerala Central Excise Ministerial Officers' Association, Cochin	1. Sh. V. V. S. Marar 2. Sh. T. K. Rajagopalan 3. Sh. K. G. Asokan 4. Sh. T. M. Balakrishnan
9.	3-2-73	Cochin	Collector of Central Excise, Cochin	Smt. Kaushalya Narainan
10.	3-2-73	Cochin	Assistant Collector (Headquarters), Cochin	Sh. G. S. Tampi
11.	3-2-73	Cochin	Assistant Collector of Central Excise, Cochin	Sh. V. Kuppuswamy
12.	3-2-73	Cochin	Asstt. Collector, Central Excise, Cochin	Sh. K. P. Shridhara Raman
13.	3-2-73	Cochin	Assistant Collector, Central Excise, Cochin	Sh. B. B. Sharma
14.	3-2-73	Cochin	Chief Accounts Officer	Shl G. S. Bagve
15.	3-2-73	Cochin	Chemical Examiner, Cochin	Sh. T. R. S. Krishnan
16.	3-2-73	Cochin	Office Superintendent, Cochin	Sh. T. T. Govindan Nair
17.	3-2-73	Cochin	Shri Gopinathan, Preventive Officer	
18.	4-2-73	Trivandrum	Sh. S. V. Ramakrishnan, Asstt. Collector, Central Excise, Trivandrum	
19.	24-2-73	Calcutta	Cental Excise & Land Customs Ministerial Officers' Association, Calcutta	1. Sh. P. Banerjee 2. Sh. A. N. Basu 3. Sh. S. C. Gupta 4. Sh. K. K. Chatterjee 5. Sh. R. L. Sen 6. Sh. S. K. Ganguly 7. Sh. B. K. Chakraborty
20.	26-2-73	Calcutta	All India Central Excise & Customs Accounts Officers' Association	1. Sh. D. C. Bhattacharya 2. Sh. A. Roychoudhry 3. Sh. S. K. Das 4. Sh. M. L. Guba 5. Sh. A. K. Basu 6. Sh. M. S. Bhattacharya
21.	27-2-73	Calcutta	Central Excise & Customs Officers' (Class III) Association, Calcutta	Sh. N. R. Banerjee and others
22.	27-2-73	Calcutta	Central Excise & Customs Exectutive Officers (Class II) Association, Calcutta	1. Sh. S. Bandopadhya 2. B. N. Chatterjee
23.	27-2-73	Calcutta	Central Excise & Customs Drivers' Association, Calcutta	1. Sh. Ashok Mukherjee 2. Sh. Bagto Charan Dev 3. Sh. Manoranjan Das
24.	14-3-73	Bombay	M/s Nanabhoy & Company Cost Accountants	Sh. R. Nanabhoy

1	2	3	4	5
25.	23-3-73	Calcutta	Shri C. Banerjee, Assistant Collector of Central Excise, Chandernagore (W. Bengal).	
26.	23-3-73	Calcutta	Shri H. B. Barua, Assistant Collector of Central Excise, Burdwan.	
27.	23-3-73	Calcutta	Shri J. K. Patnaik, Assistant Collector of Central Excise, Calcutta I.	
28.	23-3-73	Calcutta	Shri P. N. Chakraborthy, Assistant Collector of Central Excise, Calcutta II.	
29.	23-3-73	Calcutta	Shri N. C. Mujkerjee, Assistant Collector of Central Excise, Calcutta III.	
30.	23-3-73	Calcutta	Shri L. K. Kakkar, Assistant Collector of Central Excise, Calcutta V.	
31.	23-3-73	Calcutta	Shri D. N. Mitra, Assistant Collector of Central Excise, Calcutta VI.	
32.	23-3-73	Calcutta	Shri D. L. Mukherjee, Assistant Collector of Central Excise, Calcutta VII.	
33.	23-3-73	Calcutta	Shri K. C. Mukerjee, Assistant Collector of Central Excise, Calcutta VIII.	
34.	23-3-73	Calcutta	Shri D. C. Chakraborty, Assistant Collector of Central Excise, Calcutta IX.	
35.	23-3-73	Calcutta	Shri S. R. Ganguly, Assistant Collector of Central Excise, Calcutta X.	
36.	23-3-73	Calcutta	Shri N. C. Sen, Assistant Collector of Central Excise, Calcutta XI.	
37.	23-3-73	Calcutta	Shri K. P. Roy Choudhury, Assistant Collector of Central Excise (Audit), Calcutta.	
38.	23-3-73	Calcutta	Shri H. K. Ghosh, Assistant Collector of Central Excise, (Preventive).	
39.	23-3-73	Calcutta	Shri N. K. Bhattacharjee, Assistant Collector of Central Excise (Refunds).	
40.	23-3-73	Calcutta	Shri P. Roy, Dy. Collector of Central Excise, West Bengal.	
41.	23-3-73	Calcutta.	Shri R. N. Sen, Dy. Collector of Central Excise, Calcutta & Orissa Collectorate.	
42.	23-3-73	Calcutta.	Shri S. C. Dutta Choudhry Dy. Collector of Central Excise, Calcutta & Orissa.	
43.	23-3-73	Calcutta	Shri K. K. Ganguly, Appellate Collector of Central Excise.	
44.	23-3-73	Calcutta	Shri N. N. Roy Choudhury, Collector of Central Excise, West Bengal.	
45.	23-3-73	Calcutta	Shri A. K. Bandyopadhyay, Collector of Central Excise, Calcutta & Orissa.	
46.	6-4-73	Bombay	Shri D. T. Sawant, Inspector of Police CBI, Bombay.	
47.	6-4-73	Bombay	Shri K. V. Sastri, Inspector of Central Excise, Bombay.	
48.	10-4-73	Bombay	Shri N. R. Benjamin, Assistant Collector of Central Excise, Bombay Division II.	
49.	10-4-73	Bombay	Shri K. D. Kelawala, Assistant Collector of Central Excise, Bombay Division III.	
50.	10-4-73	Bombay	Shri V. K. Ashtana, Assistant Collector of Central Excise, Bombay Division V.	
51.	10-4-73	Bombay	Shri B. R. Tarporewala, Assistant Collector of Central Excise, Bombay Division VI.	
52.	10-4-73	Bombay	Shri K. G. Krishnan, Assistant Collector of Central Excise, Bombay Division VII.	
53.	10-4-73	Bombay	Shri G. R. Pai, Assistant Collector of Central Excise, Bombay Division VIII.	

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54.	10-4-73	Bombay	Shri K. V. Bole, Assistant Collector of Central Excise, Bombay Division IX.	
55.	10-4-73	Bombay	Shri S. K. Bhardwaj, Assistant Collector of Central Excise, Bombay (Refunds-Bonds).	
56.	10-4-73	Bombay	Shri B. Parihar, Assistant Collector of Central Excise, Bombay (Preventive).	
57.	10-4-73	Bombay	Shri P. R. Venkataraman, Assistant Collector of Central Excise (Legal & Special Audit), Bombay.	
58.	10-4-73	Bombay	Shri D. N. Lal, Collector of Central Excise, Baroda.	
59.	10-4-73	Bombay	Shri H. N. Sehgal, Collector of Central Excise, Ahmedabad.	
60.	10-4-73	Bombay	Shri N. B. Sanjana, Dy. Collector of Central Excise, Baroda.	
61.	17-4-73	Delhi	Shri M. L. Routh, Collector of Central Excise (Retired).	
62.	17-4-73	Delhi	All India Federation of Central Excise & Land Customs (N. G.) Executive Officers.	1. Sh. H. V. Narasimha 2. Sh. S. K. Banerji 3. Sh. Dhiraj Acharya 4. Sh. K. M. Mathur 5. Sh. N. P. Sah 6. Sh. Hirday Narain 7. Sh. S. P. Singh 8. Sh. D. N. Prashad 9. Sh. Tufail Ahmed 10. Sh. Gajendra Parshad 11. Sh. M. M. Raza 12. Sh. George Eapen Luke 13. Sh. P. Sreedharan 14. Sh. K M. Balagopalan 15. Sh. P. S. Rane 16. Sh. P. Bhushanam 17. Sh. B. K. Mehta 18. Sh. D. S. Masilamani 19. Sh. P. R. Kamath 20. Sh. K. V. Shastri 21. Sh. M. P. G. Kutty 22. Sh. P. P. Dambal 23. Sh. D. K. Majumdar 24. Sh. M. K. Biswas 25. Sh. D. M. Chanda 26. Sh. H. S. Joshi 27. Sh. S. N. Kulkarni 28. Sh. S. N. Dutta 29. Sh. N. R. Banerji 30. Sh. J. R. Bhattacharjee 31. Sh. H. K. Gangauli
63.	17-4-73	Delhi	All India Federation of Central Excise Class II Executive Officers.	1. Sh. O. N. Khanna 2. Sh. G. K. Kulkarni 3. Sh. M. G. Wakins 4. Sh. S. Prasad 5. Sh. K. K. Verma 6. Sh. K. S. Prakasha Rao 7. Sh. B. M. Mohta
64.	18-4-73	Delhi	Shri D. N. Kohli, Joint Secretary, Department of Revenue & Insurance (Retd.).	
65.	18-4-73	Delhi	Shri S. A. Prabhu, Joint Director, Department of Economic Affair Ministry of Finance, Government of India.	

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66.	24-4-73	Shillong	Central Excise Ministerial Officers' Association	1. Sh. R. K. Bhattacharjee 2. Sh. Pant
67.	24-4-73	Shillong	Shri H. R. Syiem', Collector of Central Excise, Shillong	
68.	24-4-73	Shiilong	Shri K. S. Saha, Dy. Collector of Central Excise, Shillong	
69.	24-4-73	Shillong	Shri R. P. Das, Assistant Collector of Central Excise (Audit)	
70.	24-4-73	Shillong	Shri R. R. Bhattacharjee, Chief Accounts Officer.	
71.	24-4-73	Shillong	Shri T. Tochhawng, Headquarters Assistant Collector.	
72.	24-4-73	Shillong	Shri Datta Chowdhery, Superintendent (Preventive)	
73.	24-4-73	Shillong	Shri P. C. Khound, Assistant Chief Accounts Officer	
74.	24-4-73	Shillong	Shri A. K. Dey, Administrative Officer	
75.	24-4-73	Shillong	Shri Gangulee, Examiner of Accounts	
76.	24-4-73	Shillong	Shri A. N. Nandi Mazumdar, Superintendent (Customs & Gold)	
77.	24-4-73	Shillong	Shri P. K. Purkayastha, Superintendent (Technical)	
78.	26-4-73	Calcutta	Shri N. N. Roy Choudhury, Collector of Central Excise, West Bengal	
79.	26-4-73	Calcutta	Shri N. Mookerjee, Retired Collector of Central Excise,	
80.	27-4-73	Calcutta	Shri S. N. Banerjee, Collector of Central Excise, Patna	
81.	27-4-73	Calcutta	Shri H. N. Raina, Dy. Collector of Central Excise, Patna	
82.	27-4-73	Calcutta	Shri Manan Prasad, Assistant Collector of Central Excise, Dalmianagar	
83.	27-4-73	Calcutta	Shri H. R. Kataria, Assistant Collector of Central Excise, Jamshedpur	
84.	27-4-73	Calcutta	Non-Gazetted Ministerial Officers' Association, Patna	1. Sh. R. N. Sahani 2. Sh. D. Dayal
85.	7-5-73	Bombay	Shri Vipin Maneklal, Collector of Central Excise, Poona	
86.	7-5-73	Bombay	Shri M. L. Badhwar, Dy. Secretary, Gold Control, Bombay	
87.	7-5-73	Bombay	Shri B. N. Rangwani, Appellate Collector of Central Excise, Bombay.	
88.	8-5-73	Bombay	Shri B. S. Chawla, Collector of Central Excise, Bombay	
89.	8-5-73	Bombay	Shri S. C. Roy, Appellate Collector of Customs, Bombay	
90.	8-5-73	Bombay	Shri Ambalal F. Patel, Advocate, Bombay	
91.	8-5-73	Bombay	Shri W. J. Robb, Assistant Collector of Central Excise, Poona	
92.	9-5-73	Bombay	Shri M. R. Ramachandran, Collector of Customs, Bombay	
93.	9-5-73	Bombay	Shri M. G. Chitnis, Dy. Director, Regional Training Institute, Bombay	
94.	17-5-73	Madras	Class II Central Excise Officers Association, Madurai	1. Sh. M. Venkataraman 2. Sh. S. Nagarajan
95.	18-5-73	Madras	Shri C. Chidambaram, Collector of Central Excise, Madras	
96.	18-5-73	Madras	Shri M. K. Zutshi, Assistant Collector of Central Excise Division II Madras	
97.	18-5-73	Madras	Shri N. V. Raghwan Iyer, Assistan Collector of Central Excise Division I Madras	
98.	18-5-73	Madras	Shri M. Prasad, Assistant Collector (Audit)	
99.	18-5-73	Madras	Shri P. R. Krishnan, Dy. Collector	

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100.	18-5-73	Madras	Shri Vaidyanathan, Assistant Collector (Headquarters)	
101.	18-5-73	Madras	Shri J. K. Nagarajan, Assistant Collector (Vig.)	
102.	18-5-73	Madras	Shri A. C. Saldanha, Appellate Collector.	
103.	18-5-73	Madras	Shri K. Sarvanai, Dy. Collector Regional Training Institute, Madras	
104.	25-5-73	Madras	The All India Central Excise & Land Customs Ministerial Officers Federation, Madras	1. Sh. P. G. Deshpande 2. Sh. M. Subbaraman 3. Sh. R. A. Sahni 4. Sh. A. N. Basu 5. Sh. N. D. Solamanna 6. Sh. K. Narayanaswami 7. Sh. M. Rama Durai 8. Sh. P. Pandurangam 9. Sh. Sunder Singh 10. Sh. Rama Rao 11. Sh. D. Devabharanam 12. Sh. N. Nesamani
105.	21-6-73	Hyderabad	Central Excise Class II Gazetted Officers, Association, Hyderabad	1. Sh. S. Raman 2. Sh. H. Radhakrishnamoorty 3. Sh. M. Raghavanandam 4. Sh. M. A. Basha
106.	22-6-72	Hyderabad	Andhra Pradesh Central Excise Class III Executive Officers Association of Guntur and Hyderabad Collectorate	1. Sh.Subbarao 2. Sh. M. Apparao 3. Sh. S. K. Mohammed
107.	22-6-73	Hyderabad	Shri Butchiah, Assistant Collector of Central Excise, Eloru.	
108.	23-6-73	Hyderabad	The Central Excise Ministerial Officers Association, Hyderabad	1. Sh. Durairaj 2. Sh. Kazi 3. Sh. Soloman
109.	23-6-73	Hyderabad	Shri S. K. Srivastava, Collector of Central Excise. Hyderabad.	
110.	23-6-73	Hyderabad	Shri G. D. Mittal, Dy. Collector of Central Excise, Hyderabad	
111.	23-6-73	Hyderabad	Shri N. V. Veeraswami, Assistant Collector of Central Excise	
112.	23-6-73	Hyderabad	Shri S. R. Hasan, Assistant Collector of Central Excise	
113.	23-6-73	Hyderabad	Shri N. Narasingharao, Assistant Collector of Central Excise	
114.	23-6-73	Hyderabad	Shri A. Rao, Assistant Collector of Central Excise	
115.	23-6-73	Hyderabad	Shri R. G. Plater, Assistant Collector of Central Excise	
116.	23-6-73	Hyderabad	Mrs. Maitran, Assistant Collector of Central Excise	
117.	26-7-73	Kanpur	Shri J. Datta, Collector of Central Excise, Kanpur	
118.	26-7-73	Kanpur	Shri M. V. N. Rao, Collector of Central Excise, Allahabad	
119.	26-7-73	Kanpur	Shri A. D. Nagpal, Dy. Collector of Central Excise, Allahabad	
120.	31-7-73	Delhi	Shri S. P. Kampani, Retired Member, Central Board of Excise & Customs	
121.	31-7-73	Delhi	Shri J. N. Saxena, Retired Secretary, Central Board of Excise & Customs	
122.	9-8-73	Delhi	Shri M. G. Abrol, Member, Central Board of Excise & Customs	
123.	9-8-73	Delhi	Shri B. A Subba Reddy, Secretary, Central Board of Excise & Customs	

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124.	9-8-73	Delhi	Shri C. L. Sawhney, Retired Deputy Director of Inspection, Customs & Central Excise	
125.	9-8-73	Delhi	Shri L. M. Kaul, Retired Collector of Central Excise	
126.	10-8-73	Delhi	Shri D. P. Anand, Chairman, Tariff Commission (formerly Chairman, Central Board of Excise & Customs)	
127.	10-8-73	Delhi	Shri. S. K Bhattacharjee, Retired, Member, Central Board of Excise & Customs	
128.	10-8-73	Delhi	Shri K. Narasimhan, Member (Tariff), Central Board of Excise & Customs	
129.	11-8-73	Delhi	Shri Jasjit Singh, Chairman, Central Board of Excise & Customs, New Delhi	
130.	11-8-73	Delhi	Shri G. S. Sawhney, Director of Revenue Intelligence	
131.	28-8-73	Delhi	Shri S. Venkatesan. Member (Appeals), Central Board of Excise & Customs	
132.	14-9-73	Delhi	Shri B.N. Banerjee, formerly Chairman, Central Board of Excise & Customs	
133.	16-9-73	Delhi	Shri R. C. Misra, Officer on Special Duty, Central Board of Excise & Customs	
			Others	
134.	1-2-73	Bangalore	Indian Coffee Board, Bangalore	Sh. C. V. Subramanyan-Sr. Dy. Chief Coffee Marketing Officer
135.	31-7-73	Delhi	Shri A. N. Tariq, Chairman, Indian Motion Pictures Export Promotion Ltd., Bombay	

SECTION I

BACKGROUND

CHAPTER I

INTRODUCTORY

This part of our Report (Volume II on ORGANISATION) is submitted in continuation of Volume I on PROCEDURE.

2. In the first Volume, we recommended a system of selective control made up of distinct procedures adapted to different needs. We also dealt with various aspects relevant to procedure. But procedure is inter-related to organisation and dependent on it for achieving the intended objectives. Organisation for its part implies structure, inter-connection between various parts of the structure, and the manner of operation of the parts as well of the structure as a whole. In very general terms, it is with these matters that we deal in this Volume. More specifically our present task is relatable to the third and to some extent the fourth of our terms of reference which read as follows:

"(1) * * * *

(2) * * * *

(3) To examine the existing organisational and administrative set up of the Central Excise Department employed for levy and collection of Central Excise duties under the Self Removal Procedure, and to advice the Government in the light of the suggestions and recommendations made with reference to (1) and (2) above, on such reorganisation as may be considered necessary, keeping also in view the various agency functions (like those under the Customs, Gold Control and other Acts) which the Central Excise Department is at present entrusted with, and

(4) To make any other recommendations germane to the objectives of this investigation".

3. The various stages through which the administration of excise levies in India has evolved in recent times have been set out briefly in Volume I. Broadly, the procedures adopted from time to time reflected the need to collect the tax revenues accruing from an expanding base of excise levies with the minimum of inconvenience to the industry. At the same time the organisation responsible for collecting excise revenues not only expanded but had to be attuned to the new procedures. In this process it underwent several changes.

4. Until 1938 central excise duties were administered largely by the Provincial Governments; and the pattern of control differed from province to province. The Central Excise Department as such came into existence as an appendage of the Salt Department in 1938 when the administration of both Central Excise and Salt was entrusted to the Central Excise and Salt Revenue Department, which operated through three administrative units, namely, the Northern India Unit which was placed under a Commissioner and the units in Bombay and Madras which were headed by Collectors. Later, the northern unit was divided into two independent jurisdictions and the Commissioner was replaced by two Collectors, one for North West India stationed at Delhi and the other for North East India stationed at Calcutta.

5. With expansion in coverage and consequent incraases in work load, the number of Collectorates increased: these were organised as territorial units usually extending to a part or the whole of one State (or metropolitan area) or sometimes of more than one State or metropolitan area. The general rule is, thus for all Central Excise work in a defined and normally contiguous area to be placed under the charge of a Collector of Central Excise. To this there are a few exceptions which arise from special circumstances. Thus, in Andaman and Nicobar Islands excise work is entrusted to the Deputy Commissioner, Andaman and Nicobar Islands. The Administrator of the Kandla Free Trade Zone, who is under the administrative control of the Ministry of Foreign Trade, looks after the excise work in that area. In Kerala the Collector, Cochin, is both the Collector of Central Excise for the entire State of Kerala (including the Union territory of Laccadives, Amindevi and Minicoy islands) and Collector of Customs for the port of Cochin. His administration, however, is organised in two wings independent of each other both in the field and at headquarters. The customs work at Goa and at minor ports, on land frontiers and all airports except Calcutta, Bombay and Madras, has been entrusted to Collectorates of Central Excise, but integrated in a common field and headquarters organisation. By and large, the main work of the Collectorates may be summed up as comprising the administration of the Central Excise Act and the Gold Control Act, and, in so far as minor ports and airports other than those at Bombay, Calcutta and Madras are concerned, the Customs Act as well.

6. The Collectorate, with its, Divisions, Circles and Ranges, remains the basic administrative unit at the field level of the Central Excise Department. With the passage of time, the functions of the Department have greatly widened in scope and complexity. As elsewhere described in some detail the operation of the tax was extended from a few items of production to unmanufactured tobacco and coffee and later to a progressively increasing number of manufactured products. The latter now cover almost the whole spectrum of industry, and a large number of the items are

assessable at *ad valorem* rates. Along with these molifications, the field administration and the pattern of control underwent changes. An account of these has been given in the previous Volume together with a description of the functions of some of the field formations.

7. The Central Board of Revenue, which had been created in 1924 as a statutory authority for controlling and supervising the administration of central revenues, assumed in 1938 direct responsibility for levy and collection of central excise duties with a view to improving realisations and introducing uniformity in procedure, rules and regulations. The constitution and status of the Board has undergone several changes, the latest and most important being the replacement in 1963 of the Central Board of Revenue by two separate Boards one for Direct Taxes and the other for Excise and Customs. In the administration of central excise duties, the Central Board of Excise and Customs, is assisted by several subsidiary organisations like the Directorate of Inspection, Directorate or Training, the Statistics and Intelligence Branch and the Central Revenues Control Laboratory with its chain or regional and other laboratories. There is also the Directorate of Revenue Intelligence which was established in 1957 as an attached office of the Central Board of Revenue, primarily in order to deal with problems of smuggling. Some times ago the administration of this directorate was transferred to the Cabinet Secretariat; it continues, however, to be manned largely by officers drawn from Customs and Central Excise Departments. The Board is also assisted by a Tax Research Unit.

8. In this Volume, as already stated, we concern ourselves with the organisational and administrative aspects of the subject of our enquiry. In the Chapters which follow we deal with the various institutions referred to above both in the context of our recommendations and of the views and evidence placed before us. There are six Sections or which the first traces the evolution of the organisational structure as it exists today. The second Section spells out briefly the implications and principles of the new patterns, the particular problems which are likely to arise at the time of their introduction and the operational issues thereafter required to be sorted out. In the third Section are set out our main recommendations concerning structure and organisation. The fourth Section concerns itself with personnel in its short term and long term aspects including re-deployment of existing manpower and recruitment and training of those who in future must operate the patterns of selective control. In the fifth Section we deal with institutional reform. The fields covered are public relations, chemical laboratories and statistics and intelligence. The last Section contains our concluding observations and acknowledgments. The appendices are a summary of the recommendations contained in the two Volumes.

9. One point remains to be mentioned. In Volume I we had stated that the procedural implications of the new law on valuation, and its bearing on the whole question of future organisation have to be studied in the light of the rules to be promulgated. We had accordingly proposed to do so in this Volume when dealing with relevant aspects of organisation. We find that the new valuation law has not yet come into force, nor have the contemplated rules been promulgated so far. Our recommendations on organisation are accordingly based on the existing position.

CHAPTER 2

CENTRAL BOARD

The functions of the Central Board of Revenue which, as already stated, was established under the Central Board of Revenue Act, 1924, were to direct, control and supervise the administration of Central Revenues. The Central Board was designated the Chief Revenue Authority under the various fiscal statutes. The Members of the Board were given *ex-officio* status in the Secretariat hierarchy. So far as indirect taxes were concerned the Board controlled only the Customs administration of the major ports, through Collectors of Customs and of the minor ports the land customs frontiers, and the levy on salt through the Salt Department. It was in 1938 that Central Excise duties, which until then had been administered largely by the Provincial Governments, also came under the direct authority of the Board.

2. One of the objects in setting up the Central Board of Revenue was to relieve the Secretariat of the Government of India of detailed administrative functions with regard to collection of revenue. Moving the Central Board of Revenue Bill in 1924 for the consideration of the Council of States. the Finance Secretary observed:—

> "Clearly, if this direct administration by the Central Government is to be possible we want an appropriate machinery, and the machinery cannot be impersonal machinery of the Government of India Secretariat. We want the Heads of this Department to be in close personal contact with their work and with their officers. We want them to be touring officers constantly visiting the main centres of the country. We want them to interview frequently the important Chambers of Commerce and other representatives of the tax payer. The efficient administration of a revenue department is clearly not solely a question of collecting a large amount of revenue; it implies that the revenue should be collected with minimum of inconvenience to the public and also that the public should have opportunities of representing and discussing their grievances".

3. In 1949, the Central Board of Revenue was invested with secretariat status and became the Revenue Division of the Ministry of Finance. Later in 1956, its status was raised to that of a Department in the Ministry of Finance. The strength of the Board varied from time to time and so did the *ex-officio* status of the Chairman of the Board which was that of a Joint Secretary, Additional Secretary, Secretary and again Additional Secretary at different times.

4. The Direct Taxes Administration Inquiry Committee (1958-59) recommended that the existing Board should be reorganised into two wings, one for direct and the other for indirect taxes, with a common Chairman. The Central Excise Reorganisation Committee (1963) expressed its agreement with the view that there should be two Boards of Revenue, not merely on the basis of revenues raised by them, but on an appreciation of the intricacies of the levies entrusted to each. They did not, however, subscribe to the recommendation that the two Boards should have a common Chairman and observed that, there being little similarity between direct and indirect taxes, they should constitute two distinct and separate entities each with its own Chairman. The Committee also endorsed the view expressed by the Estimates Committees of Parliament (in its Forty-Ninth Report, 1958-59) that in combining in the same body the secretariat functions of the Department of Revenue and the administrative functions of the Central Board of Revenue as the chief revenue executive, the purpose of the Central Board of Revenue Act had been largely defeated. They recommended that the Board should cease to be a department of the Government.

5. With the enactment of the Central Board of Revenue Act in 1963, two separate Boards of Revenue came into existence, one for Direct Taxes and the other for Excise and Customs. All functions of the erstwhile Central Board of Revenue which related to matters connected with direct taxes, as specified in the Act, were assigned to the Central Board of Direct Taxes. All other matters, unless in any specific instance otherwise directed by the Central Government, were to be discharged by the Central Board of Excise and Customs. The two Boards continue to perform secretariat functions as an integral part of the Department of Revenue and Insurance in the Ministry of Finance. It is the Central Board of Excise and Customs which is the Chief Executive Authority entrusted with the administration and enforcement of Central Excise and Customs Laws.

6. The Central Board of Excise and Customs as now constituted has a Chairman and four Members. The Chairman is *ex-officio* Additional Secretary in the Department of Revenue and Insurance, while the Members are *ex-officio* Joint Secretaries in the Department.

7. Under the Central Board of Excise and Customs (Regulation of Transaction of Business) Rules, 1964, the Chairman of the Board may, by an order made with the previous

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approval of the Central Government, distribute the business of the Board among himself and the other Members and specify cases or class of cases which shall be considered jointly by the Board. So far as Central Excise work, other than appeals, is concerned it is presently divided between two Members designated Member (Central Excise) and Member (Tariff). The items of work entrusted to them are as under: —

Member (Central Excise) and ex-officio *Joint Secretary in the Department of Revenue and Insurance.*

(i) Central Excise Policy.

(ii) All Central Excise work relating to procedure (including self removal procedure) and other technical matters of the Central Excise Department except items of Central Excise work allotted to Member (Tariff).

(iii) All administrative, organisational and establishment matters pertaining to Central Excise formations including Land Customs stations and Minor ports.

(iv) Directorate of Inspection (Customs and Central Excise) administration and establishment matters.

(v) Visits/Inspections of field formations.

(vi) Maintenance, repairs, upkeep and renting of buildings of the Central Excise Department; allotment of accommodation and allied matters.

(vii) All residuary items of Central Excise work not specifically allotted.

(viii) Co-ordination of P.A.C. matters.

Member (Tariff) and ex-officio *Joint Secretary in the Department of Revenue and Insurance.*

(i) Customs and Central Excise Tariff Policy.

(ii) All matters relating to Customs and Central Excise Tariff classification, valuation and disputes relating thereto, including Central Exchange for classification and valuation matters.

(iii) Exemption of Customs and Central Excise duties, all types, whether general, special, ad hoc, diplomatic consular, but excluding Customs exemptions pertaining to passengers' baggage, ship-stores and gifts by post.

(iv) Directorate of Drawback, fixation of drawback rates.

(v) Tax research and tax planning of Customs and Central Excises. Finance Bill and Budget.

(vi) Statistics and Intelligence Branch administration and establishment matters.

(vii) Work relating to taxes levied by Centre but collected by States, namely, Medicinal and Toilet Preparations (Excise Duties) Act, Stamp Act, Central Sales Tax Act and Rules relating thereto.

(viii) Visits/Inspections of field formations.

The broad distinction is that, while matters concerning tariff, including valuation and exemptions, are handled by the Member (Tariff), all work relating to procedures and organisation and all residuary items of Central Excise work are dealt with by the Member (Central Excise). The appellate jurisdiction for both Excise and Customs cases, so far as this falls within the purview of the Board, vests in another Member, designated as Member (Appeals).

8. A Member of the Board is fully competent to take decisions and pass orders in respect of matters allocated to him and every such order made or act done is deemed to be the order or act, as the case may be, of the Board. The Members are responsible for orders made or acts done by them in their individual capacity to the Central Government through the Chairman.

9. At present, the cases specified below are considered by the Board jointly:

(i) Reorganisation of field formations entailing creation of new cadres or changes in the jurisdiction or functions of the Collectorates.

(ii) General policy relating to recruitment, promotion and personnel management.

(iii) Performance budgeting and perspective planning of the Customs, Central Excise and Narcotics Departments particularly in the context of the socio-economic objectives of the State.

(iv) Expenditure Budget of the Customs/ Central Excise and Narcotics departments.

(v) Awards and Appreciation certificates; general policy relating to rewards.

(vi) Write-offs and abandoning of revenue/ penalties in cases involving an amount of Rs. 2 lakhs or more.

(vii) Such other matters which the Chairman or with his prior approval, any Member, may sponsor for discussion/ decision by the full Board.

Meetings are held, not at fixed intervals, but as and when matters arise which appear to be important enough to call for consideration by the Board as a whole.

10. The Board functions through a secretariat. Appointments to various posts in this secretariat (excluding posts of a purely technical character for which separate recruitment rules have been framed) are made in accordance with the general rules and scheme regulating appointment to posts in the secretariat of the Central Government. Appointments to the posts of Deputy Secretary and Under Secretary are broadly regulated by the scheme formulated by the Central Government for staffing senior posts in the Central Secretariat. Officers of the Indian Customs and Central Excise Service, Class I, are also eligible for appointment to these posts under the scheme. The Board's secretariat is organised into Administration and Technical branches. Since adequate knowledge and experience of Central Excise and Customs laws and procedure is considered essential for efficient functioning at these levels, the posts of Deputy Secretary and Under Secretary on the technical side are filled exclusively by appointment of suitable officers from the two departments of Customs and Excise. Possession of technical knowledge and experience in revenue administration has also been considered desirable at the level of the Deputy Secretary in the Administration Wing of the Board's secretariat. Accordingly, one out of the two posts of Deputy Secretary in the Administration Wing was lately filled by the appointment of an officer of the Income Tax Service, Class I. In the technical branches, posts below the level of Under Secretary are held almost entirely by the officers of the Central Secretariat and Central Secretariat Clerical Services. However, having regard to the desirability of providing these branches with special expertise, a few posts of Section Officers and Assistant have been excluded from the purview of the above services and reserved for appointment of persons who possess the requisite specialised knowledge and experience.

11. So far as the functioning of the Central Board of Excise and Customs is concerned, the principal point made by the industry, in their replies to our questionnaire and in the course of oral evidence tendered before us is that often there are inordinate delays, even in important matters, in obtaining the Board's orders or rulings on references made to it by the Collectors. There does not, it is stated, obtain that closeness of dialogue between the industry and the Board which would make for smooth and harmonious working. This is attributed largely to (i) the location of the Board away from the main centres of industrial production; (ii) infrequency of visits or tours by the Members of the Board to different parts of the country in view of their preoccupation with work at headquarters; and (iii) inadequacy of the present strength of the Board in terms of the vastness of its jurisdiction.

12. The dual character of the Board, which functions as the Chief Executive Authority for the administration of Central Excise and Customs on the one hand, and as an integral part of the Ministry of Finance on the other, has also been commented upon by some witnesses. We have already referred to the observations on this subject made by the Estimates Committee in its Forty-Ninth Report. The Direct Taxes Administration Inquiry Committee (1958-59), however, felt that it was neither practicable nor desirable to divorce administration entirely from policy making. Several other Committees, including the Central Excise Reorganisation Committee, and working groups have examined this question and come to divergent conclusions. In its replies to our Supplementary Questionnaire, the Board have dealt with this question. In their view, the present arrangement is positively advantageous, convenient, practical and economical. They have emphasised the close inter-connection between policy making and its execution, and expressed the opinion that it would not be practicable or desirable to divorce policy making from administrative responsibility for its implementation. Policy making would otherwise tend to become theoretical and unrealistic. They have also justified the present arrangement on administrative grounds.

13. It has been represented by several individuals and staff associations that there should be a separate Board for the Central Excise department. It is claimed that the functions performed by the two departments of Customs and Central Excise presently controlled by the Board are in many ways dissimilar. It is argued that having regard to the ever expanding base of excise levies and the revenues derived from them and the vast organisational structure required to be controlled by it, the constitution of a separate Board for Excise would make for greater efficiency and also meet the aspirations of Central Excise Officers who feel that they have not received adequate justice at the hands of the present composite Board. While conceding that there are some differences in the concept and procedures of administration of Central Excise and Customs duties, the Board have pointed out, in their reply to the Committee's questionnaire, that there are many more points of similarity than of dissimilarity in the working of the two departments, and that the advisability of bifurcating the Board has to be viewed in the light of several other considerations. Some of these are: (i) the extent of interconnection between

Excise and Customs levies both of which belong to the field of indirect taxation; (ii) the necessity of a coordinated fiscal policy in the field of commodity taxation; (iii) the existence of a common Class I service for the administration of Excise and Customs laws as well as for filling appropriate posts in several organisations which serve alike both Customs and Excise, such as Directorates of Inspection, Training and Revenue Intelligence and the Statistics and Intelligence Branch; and (iv) the need for pooling and utilisation of the experience of officers in one service for functions required to be performed in the other. The Board have also drawn attention to the recommendation of the Estimates Committee (1958-59) which in its Fifty-Seventh Report observed that "it would be advantageous if the two departments are amalgamated so as to avoid duplication of establishments", and "enable the staff of the two departments to be employed more effectively and economically". Further it has been stated that in U.K. the Board of Customs administer both Customs and Excise laws.

14. It has been represented that there is need for greater association of departmental officers at the lower ranks of the Board's Secretariat for better appreciation and assessment of the problems faced by the field staff. The Working Group of the Administrative Reforms Commission on Customs and Central Excise Administration had also felt that in order to ensure that the Board is fully acquainted with the problems of the field, officers in lower cadres of the Board's department should be posted to various technical branches of the Board including those dealing with administration. The Estimates Committee had also recommended in its Forty-Ninth Report that there should be provision for periodical exchange of officers and staff between the Board and the field.

CHAPTER 3

DIRECTORATES AND ALLIED ORGANISATIONS

The Central Board of Excise and Customs is assisted in the performance of its administrative and executive functions by a number of organisations with the status of Attached or Subordinate offices of the Board.

(I) DIRECTORATE OF INSPECTION (CUSTOMS AND CENTRAL EXCISE)

2. An Inspectorate of Customs was created in 1938 as a central agency for carrying out periodical inspections of Custom Houses and advising the Board on technical questions relating to Customs organisation, administration and procedure. A Central Excise wing was added to the Inspectorate in 1942 when it undertook on behalf of the Board a survey of production and marketing in India of tobacco, vegetable product, tea etc., with a view to exploring the possibility of imposing excise duty on these goods. It functioned as a part of the Board's office till March, 1946, when it was separated and made an Attached Office. Later, it came to be known as the Directorate of Inspection (Customs and Central Excise).

3. With a view to achieving economy and improving the quality of inspections, the Directorate was decentralised in 1953 into Regional Units with headquarters at Simla, Calcutta and Hyderabad. After a time the number of Regional Units was raised to four and they were called the North, West, East and South Regional Units, located respectively at Allahabad, Bombay, Calcutta and Madras, each headed by a Deputy Director/Assistant Collector and assisted by two or more Superintendents called Inspecting Officers. Lately, another Unit called the Central Regional Unit has been created at Hyderabad. The Directorate proper continues to be located in Delhi.

4. The scope and functions of the Directorate of Inspection on the Central Excise side are broadly as follows:—

(i) *Inspections*:—The main object of inspection is to make a study of the working of the departmental machinery throughout the country with a view to formulate proposals for improvement of efficiency and/or for the rectification of major defects. Besides, while supplementing the Collector's inspection of his subordinate offices, the Directorate's inspections are expected to focus attention on techniques and procedures rather than on details of administration. Examination of the adequacy of Manuals and Collectorate instructions for meeting local conditions and problems and detection of weak spots in the administration for strengthening the machinery and evolving appropriate methods, are some of the other major points which the Directorate is required to look into in the course of its inspections.

(ii) *Other functions*:—Among the other major tasks and responsibilities which have been entrusted to the Directorate from time to time are:

(a) Enquiry into vigilance complaints, coordination of anti-corruption measures, liaison with allied Vigilance Departments;

(b) maintenance of Manuals and Books of Instructions;

(c) summarising Board's and Government's orders and notifications for quarterly bulletins and compilation of judgements;

(d) advising the Board and the Collectors on technical matters;

(e) conducting annual recruitment and half-yearly Departmental Examinations;

(f) Standardisation of forms and Registers;

(g) reviewing Collectors' and Deputy Collectors' inspection notes;

(h) advising on staff requirements;

(i) suggestions scheme;

(j) planning of MORs;

(k) Tax-credit Scheme;

(l) Nepal Refund Work (transferred in July, 1968 from the Statistics and Intelligence Branch);

(m) Revenue Intelligence (entrusted to the Directorate in 1953 but transferred to the Directorate of Revenue Intelligence in 1958); and

(n) Staff-Training Schemes (transferred to the Directorate of Training in 1969).

5. On the Customs side the main functions and duties of the Directorate are:

(i) Periodical inspection of the Custom Houses, standardisation of organisation and procedures in Customs Collectorates and generally offering suggestions for improving efficiency;

(ii) advising the Board on technical questions relating to the Customs Act and procedure;

(iii) investigating and reporting on specific cases referred to the Directorate;

(iv) evolving units of measurement of work and submission of proposals for re-staffing of the Custom Houses, Minor ports and Land Customs stations;

(v) making recommendations for the standardisation of forms and registers; and

(vi) drafting and vetting rules and regulations framed under the Customs Act.

6. In 1960, however, it was decided to discontinue the system of routine inspection of the Customs Houses. The Customs Wing of the Directorate now mainly devotes its attention to tackling major problems such as proper and speedy clearance of passengers and their baggage, custody and disposal of confiscated goods, expeditious disposal of refund claims and simplification of procedures with a view to speeding up clearance of goods and disposal of papers.

7. The Directorate is also responsible for bringing out certain publications on behalf of the Board for the use of the industry and of departmental officers. Some of the important publications brought out periodically are:

(i) Customs manuals;

(ii) Indian Customs Tariff Guide;

(iii) Compilation of judgments in Customs and Excise cases.

Recently the Board has also entrusted to the Directorate the work of bringing out a few pamphlets and brochures on various aspects of Customs and Excise administration for general guidance of the trade.

8. A number of points have been made in regard to the functioning of the Directorate of Inspection. Staffed as it is by officers drawn from the general cadres in the field, it has been stated that they do not possess any special expertise or competence to advise the Board on technical matters. The utility of the inspections carried out by the Directorate and its Regional Units has been questioned by several witnesses. In this context we observe that the Central Excise Reorganisation Committee had expressed the opinion that the Directorate should concern itself largely with investigation of major revenue problems and procedures and that it should not repeat the routine of inspections of sub-ordinate formations which should be the sole responsibility of the field officers. This view was also endorsed by the Working Group on Customs and Central Excise Administration (1968) set up by the Administrative Reforms Commission when it said that "the Directorate of Inspection should be divested of functions like conducting training" (since transferred to the Directorate of Training), "and departmental examinations, routine inspections and advisory role for ordinary technical matters, etc."

9. The question of the status of the Director has also been raised before us. It is said that, as it is, the post of the Director which is borne on the cadre of Collectors does not carry the necessary prestige or authority vis-a-vis the Collectors whose charges the Director and his officers are supposed to inspect.

(II) DIRECTORATE OF TRAINING (CUSTOMS AND CENTRAL EXCISE)

10. The present Directorate of Training came into existence in 1969. Earlier the Department had set up zonal training schools for Inspectors at Kharagoda, Madras, Calcutta and Allahabad which functioned under the administrative control of the Collectors concerned, and a central training school at Delhi under the Director of Inspection. The zonal schools imparted a six to eight week's training by way of a refresher course while in the central school batches of selected officers of the grade of Deputy Superintendent and Superintendent were put through a ten week's refresher course. Later, the central school was also entrusted with the imparting of initial training to Class I officers recruited directly to the Indian Customs and Central Excise Service.

11. With the creation of the Directorate of Training, the zonal and central schools were replaced by—

(i) A Central Training Institute at Delhi under a Director; and

(ii) Three Regional Training Institutes one each at Bombay, Calcutta and Madras, headed by Deputy Directors, but under the administrative control of the Director of Training.

12. The orders setting up the Directorate of Training and the training institutes stipulated that the Central Training Institute will impart initial training to Class I direct recruits, arrange for refresher courses for Assistant Collectors of Customs and Central Excise and provide for initial training and refresher courses for Class II and Class III executive staff of the North zone. The Regional Training Institutes were required to impart initial training to Appraisers of Customs and Superintendents of Central Excise, Preventive Officers and Examiners of Customs and Inspectors and Sub-Inspectors of Central Excise, in addition to arranging refresher courses for Class II and Class III executive staff in the two departments.

13. The Central Training Institute came into existence on 1-9-1969 and the three regional institutes at Calcutta, Madras and Bombay started functioning on 18-12-1970, 15-2-1971 and 8-6-1971 respectively. All the four institutes are located in hired buildings. The Central Institute at Delhi has a hostel which can accommodate thirty three trainees. The Regional Institutes have no such arrangement and their training courses are, therefore, non-residential.

14. The Director of Training is responsible for drawing up proposals relating to training policies, implementation of policies approved by the Board and formulation of training schemes and syllabi of studies, as also for all matters relating to the management and organisation of the four institutes. The Directorate organises initial training and refresher courses for Class III ministerial officers, special combined courses for officers of other organisations such as the Central Bureau of Investigation, Directorate of Enforcement etc. and provides guidance and assistance in training of staff engaged in antismuggling work at various centres in different Collectorates.

15. According to a communication received by us in September, 1973, the number of officers trained at the Central Training Institute and the Regional Training Institutes since their inception was as follows:—

1.	Class I Officers.	141
2.	Class II – Superintendents of Central Excise.	81
3.	Class II – Appraisers of Customs.	19
4.	Class II – Preventive Inspectors of Custom.	9
5.	Other Officers – CBI	7
	– DRI	10
	– Enforcement	7
6.	Class III Officers.	821

16. Several witnesses have laid emphasis on the need for training. The difficulties experienced by the Directorate in implementing the present training schemes and in expanding the scope of their operations are said to be (i) lack of adequate accommodation for the institutes as well as the hostels; (ii) inability of Collectors to spare officers for training on account of lack of training reserves; (iii) inadequacy of training skill and knowledge on the part of officers employed in the Directorate of Training; and (iv) paucity of staff.

17. Having regard to the fact that the Central Excise Department alone has a strength of nearly 22,000 officers in Class I, II and III, it is recognised that the present training facilities are grossly inadequate. Another point repeatedly brought to our notice was that officers are reluctant to go for training because training amounts in most cases to maintaining a double establishment, which they can ill afford to do. It has also been pointed out that, whereas training extends over several weeks, the payment of full daily allowance is discontinued under the rules after the initial spell of ten days and this involves real hardship to the trainees.

(III) DIRECTORATE OF REVENUE INTELLIGENCE

18. This organisation was established in December, 1957 as an Attached office of the Central Board of Revenue, primarily for the following purposes:

(i) Collection and study of information on smuggling activities of organised gangs and others;

(ii) deployment of anti-smuggling resources at all-India level;

(iii) arranging training for Investigation and Intelligence Officers of the Central Excise Departments; and,

(iv) dealing with problems relating to anti-smuggling in the Customs, Central Excise and Narcotics departments which require handling, direction and investigation from the centre.

19. Sometime ago the administration of the Directorate of Revenue Intelligence was transferred to the Department of Personnel under the Cabinet Secretariat.

20. In the course of his evidence, the Director of Revenue Intelligence stated that while its charter of functions included anti-smuggling work related to Central Excise, in actual practice the Directorate has not been able to devote much attention to this aspect, largely because of the paucity of staff and partly for the reason that the Directorate has been organised primarily for tackling cases of international smuggling. From the evidence before us, it would appear to be the position that, in respect of Central Excise, there is little or no co-ordination of intelligence and investigation at the all-India level.

(IV) DIRECTORATE OF TAX RESEARCH

21. The Taxation Enquiry Commission (1953-54) had recommended the setting up of an All-India Taxation Council representing the Central Government and all the States, with the object of achieving co-ordination of tax policies, tax legislation and tax-administration of the States as between States themselves and as between the Union and the States. In

the context of this recommendation, they had also proposal the setting up of a Tax Research Bureau attached to the Ministry of Finance. It was stated that, apart from investigation of specific issues arising in the course of the business of the Council, this Bureau would engage itself on a study of the tax system as a whole as well as of its main constituents, ie., central, state and local taxes; it would keep under review the main developments in foreign tax systems; and it would not only serve as a coordinating agency for tax statistics, but take steps to improve the statistics for purposes of fiscal analysis and research. The Bureau was also expected to study the effects of direct taxation on savings and capital formation, the impact of certain taxes on particular industries, the overlap that may arise between Central and State commodity taxation and generally to aid Governments in the formulation of tax policies by providing factual, material and technical advice.

22. It appears that instead of a Tax Research Bureau as envisaged by the Taxation Inquiry Commission two separate research units, one for Income tax and other direct taxes and the other for Excise and Customs were created in due course. An embryonic tax research unit for Customs and Excise came into existence in 1960. The unit expanded subsequently and is now called the Directorate of Tax Research. It is headed by a Director of the grade of Collector of Customs and Central Excise. The functions of this organisation so far as Central Excise is concerned are as follows: —

(1) studying and analysing the trends of revenue;

(2) formulation of Budget Estimates;

(3) maintaining liaison with the various economic and statistical organisations and other allied Government agencies;

(4) exploring avenues for additional resources;

(5) studying and exploring ways and means of simplification of the tariff structure;

(6) undertaking comparative studies of indirect taxes in other countries;

(7) drafting of Finance Bill, Notifications, preparation of Summaries, Briefs for Cabinet, etc., concerned with the Budget proposals relating to Central Excise, and issue of relevant instructions to Collectors;

(8) post-Budget work connected with Parliament Questions and Parliament Debates on Budget proposals: processing of references/representations received from the field formations, trade and industry;

(9) pre and post-Budget market enquiries and on-the-spot studies;

(10) any other ad hoc work connected with tariff assigned by the Finance Secretary/Chairman.

(V) STATISTICS AND INTELLIGENCE BRANCH (CENTRAL EXCISE)

23. This branch functions as a Subordinates Office of the Central Board of Excise and Customs and is under the administative charge of an Additional Director (in the grade of a Deputy Collector of Central Excise). The post has lately been upgraded to that of a Collector.

24. Apart from processing and interpreting monthly, quarterly and annual returns it also undertakes ad hoc studies assigned to it by the Board from time to time.

Various data are processed manually and mechanically and then put out in the form of Monthly and Quarterly Bulletins, a Statistical Year Book and other publications. In addition, Excise and Customs Tariffs and Working Schedules are issued by the Branch sometime after the presentation of the annual budget. Lately the Statistics and Intelligence Branch has been equipped with a small printing press.

25. It has been represented that compilation of statistics by the Branch and issue of its various publications are subject to long delays and that out dated methods are still being followed in the matter of collection, compilation and reporting of various data. In spite of a recent switch over to computerisation for a number of returns the bulk of the compilation is still manual. It was stated that the principal cause for delay arose at the field level where the work of collection of returns and their compilation takes a long time. At present the Branch compiles statistics at the secondary stage i.e. from returns which themselves have been compiled by the field formations from primary documents received or collected from the producing units. It was put to us that this work could be speeded up greatly if the Statistics and Intelligence Branch itself undertook the compilation of data from primary documents.

26. The Central Excise Reorganisation Committee (1963) had observed that though the Statistics and Intelligence Branch had for its attributes both statistical and intelligence functions, in fact it was no more than a statistical compilation unit as its composition was hardly designed to undertake any intelligence work. It was represented that, though its strength had increased over the years, there had been hardly any change in the functioning of this organisation. We were, however, informed that the Branch has since been entrusted with the responsibility of collecting information

for fixing tariff values and that a Central Exchange has recently been established in the Branch to examine problems of classification and valuation at the all India level. This, it is claimed, will result in a substantial expansion of its activities.

(V) CENTRAL REVENUES CONTROL LABORATORY

27. The need for technical advice on matters connected with interpretation of import tariffs and classification based on scientific terminology led to the creation of a Central Revenues Control Laboratory. Later, regional laboratories were set up in major Custom Houses and the scope and functioning of these laboratories were expanded to include analysis of samples of excisable goods and tendering of advice on technical matters connected with the Central Excise Tariff.

28. Presently, in addition to the Central Revenues Control Laboratory at Delhi and a regional unit attached to it, there are twelve laboratories located at Bombay, (one in the Custom House and one in Esso refinery), Calcutta, Madras, Cochin, Baroda, Digboi, Barauni, Okha, Kandla, Ghazipur and Neemuch. A laboratory is expected to start functioning in Visakhapatnam shortly.

	No. of samples analysed during					
	1970-71		1971-72		1972-73	
	Excise	Total	Excise	Total	Excise	Total
Delhi	8,878	9,961	8,840	10,791	9,576	10,898
Bombay	16,243	51,068	19,183	52,889	21,722	60,930
Calcutta	5,368	10,962	6,179	12,682	7,537	13,863
Madras	6,657	12,122	7,393	12,677	9,300	14,911
Cochin	1,841	3,033	2,033	3,389	2,159	4,250
Okha	..	69	..	123	..	38
Kandla	..	72	..	139	..	130
Baroda	3,944	3,969	5,190	5,359	4,717	5,355
Digboi	1,035	1,035	1,188	1,188	1,488	1,488
Esso	1,313	1,313	920	922	460	461
Gharipur	..	24,958	..	21,623	..	24,364
Neemuch	..	13,712	..	15,820	..	23,114

29. The following table indicates the number of samples analysed at the various laboratories, during 1970-71, 1971-72 and 1972-73.

30. The Laboratories are essentially chemical laboratories staffed by Chemists and Chemical Examiners belonging to the Central Revenues Chemical Services. The technical control is exercised by the Chief Chemist who is also the administrative head of the Central Revenues Control Laboratory. At the Board's level the control of these laboratories vests in Member (Customs).

31. Apart from testing and retesting of samples, the laboratories exercise indirect technical control on certain classes of manufacturers like those producing sugar, cement, soap etc. In such cases, samples of raw materials used and intermediate and finished goods produced are taken at periodical intervals to ascertain whether production has been correctly recorded.

32. The practice which obtains in respect of analysis is broadly as follows, Samples of all goods of which the tariff depends upon the composition of the product are sent to the Chemical Examiner (officer in charge of a regional laboratory) and classification and assessment of such goods are determined after the analysis is reported by the Examiner. If the assessee feels dissatisfied with the test carried out by the Chemical Examiner he can ask for a retest by the Chief Chemist. The instructions also provide that, where a party requests for retest in a laboratory other than a control laboratory, the adjudicating or appellate authority will decide to which other Government or semi-Government laboratory the sample should be sent for retest.

33. It has been represented to us that apart from the fact that these laboratories cannot under-take many of the physical tests for which samples have to be sent to other Government and semi-Government institutions like the National Test House, Alipore, I.I.T., Kharagpur, National Laboratories etc., they are ill-equipped even for carrying out some of the chemical tests in the sense that they lack the latest scientific equipment and literature.

The laboratories are also said to be understaffed inasmuch as the additional staff provided from time to time has not been able to keep pace with the increase in volume of work. In consequence, serious delays occur in analysis, and at any given time a large number of samples is awaiting test. This, it is said, is particularly true of the oBmbay and Baroda laboratories.

34. It has also been stated that, in several cases, the results of analysis reported by institutions other than control laboratories, or results as arrived at on retest by the Chief Chemist himself, are materially different from the results based on first tests carried out by the Chemical Examiners. The industry has complained that this state of affairs tends to undermine confidence. In this connection it was brought to our notice in Bombay that, during 1968 and 1969, samples drawn by departmental authorities from spun yarn produced by a manufacturer in Surat from synthetic fibres on the cotton system were analysed once by the Deputy Chief Chemist, Bombay, and twice by the Chief Chemist and that the results of these three tests indicated the acrylic content of this yarn to be 98.0%, 98.5% and 99.5% respectively whereas samples drawn from the same lots and sent to TAIRO, Baroda and SASMIRA, Bombay were declared to be 100% acrylic. It was pointed out that since duty on yarn spun from 100% acrylic fibre was 0.80 per kg. while synthetic blended yarns attracted a duty of Rs. 14.0 per kg., the producers in this case were unjustly penalised, on the basis of tests carried out in departmental laboratories, which it was claimed, were erroneous. Several instances of variations between the results indicated by Chemical Examiners and those based on retest by the Chief Chemist were also brought to our notice.

(VII) REGIONAL ADVISORY COMMITTEES AND THE CUSTOMS AND CENTRAL EXCISE ADVISORY COUNCIL

35. With a view to establishing a consultative machinery for resolving by mutual discussion the difficulties experienced by the industry in the day to day administration of Central Excise, it was decided by Government in 1955, that Regional Advisory Committees should be set up in all Collectorates of Central Excise, with the Collector as the Chairman. The composition of the Committee for manufactured products was finalised in 1956 and regional committees came into existence in almost all Collectorates in 1957. Later, it was decided that there should be a single Committee for both manufactured and un-manufactured products. The members of the Committee include representatives of Trade Associations, Chambers of Commerce and Tobacco manufactures. The Committee has in all 12 members, with a non-official approved by the Board acting as the vice Chairman. It is open to the Collector to co-opt not more than three members to the Regional Committee. It is expected to meet once in six months. The functions of the Committee are purely advisory. Normally, discussions are confined to procedural difficulties of a general nature. The Committee may, however, discuss any matter, including issues of policy underlying individual cases, as distinguished from the cases themselves. Questions of judicial or semi-judicial character are also outside the purview of the Committee.

36. Similarly, with a view to providing a forum at the centre for the purpose of discussing general Customs and Central Excise problems on an all-India basis, the Government constituted, in 1959, a Customs and Central Excise Advisory Council. This is expected to meet half yearly to discuss with representatives of trade and industry general problems of procedure arising from implementation of Excise and Customs laws.

37. It is generally recognised that both the Central Advisory Council and the Regional Committees serve a useful purpose. About the Regional Advisory Committees, several interests have urged that their constitution and functioning should be reorganised so as to enable them to play a more purposeful role in the working relationship between the assessees and the Department. Some of the suggestions made in this behalf are that (i) they should be more broad-based in that representatives of each important industry should be nominated on the Committee; (ii) they should meet more frequently; and (iii) they should have adequate powers with a senior Member of the Board being associated, if necessary, with the deliberations of the Committee. The Working Group on Customs and Central Excise appointed by the Administrative Reforms Commission suggested that Members of Advisory Committees and the Council should be encouraged to visit departmental officers and observe their working.

CHAPTER 4

COLLECTORATE AND FIELD FORMATIONS

The Collectors charge, as already stated, is organised on a territorial basis. The jurisdiction assigned to each Collectorate is specifically notified under the Central Excise Rules. Presently, there are twenty Central Excise Collectorates in India, apart from the areas covered by the Andaman and Nicobar islands and the Kandla Free Trade Zone. In size of jurisdiction, amount of revenue, variety of duty-paying units and number of subordinate field formations, the present charges show very wide divergences. The functions performed by a Collectorate, while primarily concerned with the collection of central excise revenues, involve as already indicated various other items such as the administration of the Customs Act at the land frontiers, minor and intermediate sea ports, the coastline, and airports other than Calcutta, Bombay and Madras, in addition to the Gold Control Act. Table (1) appended to this Chapter sets out some of the particulars confined, however, to excise work pertaining to the different Collectorates.

2. The machinery of administration is based on a 'Range' which is the lowest field formation, either territorial or functional. Initially, so far as manufactured production was concerned, a range comprised a factory or a number of factories producing excisable goods; and it was usually located on the premises of the factory itself or in close proximity thereto. In course of time the constitution of the Range, including its functions, underwent several changes, some of which have been described in Vol. I. The Range was originally a self-contained unit of administration headed by an Inspector who, in some cases, was assisted by one or more Sub-Inspectors. Later, this comprised a number of Inspectors brought together in one office, first under a Deputy Superintendent and then under a Superintendent. Along with increase in strength and status the Range underwent a diminution of effective responsibility that is to say pin-pointed individual responsibility for control specific units as well as a denudation of its original functions. Thus, some of the important duties it had discharged, such as inspection, were entrusted to other parts of the organisation, e g., Inspection Groups. Indeed, under SRP, the functions of a range were restricted to assessment of excisable goods and it came to be known as the Assessment Range. Physical proximity to the manufacturing units was no longer an important need. The range headquarters tended therefore to be sometimes located at considerable distance from such units.

3. A number of ranges constituted a Circle placed under a Superintendent of Central Excise, and a number of such Circles constituted a Division under an Assistant Collector. With ranges getting transformed into multiple officer formations, headed by Superintendents, the institution of Circles gradually disappeared. Some of the circle formations together with their staff, got merged with Divisional offices. A Collectorate comprised a number of Divisions, usually four to eight, which were constituted largely on a territorial basis. In certain instances, however, and notably in metropolitan cities with their large concentration of industrial units, the Divisions were assigned a functional jurisdiction. The present field organisation of the Department is based on this pattern comprising, in concentric order, the Collectorate and (within it) the Division and the Range, with certain ancillary formations like Inspection Groups, Preventive Parties and the Internal Audit Organisation operating from different levels. A Collectorate also has what is known as headquarters organisation consisting of a number of Assistant Collectors, performing different functions, in addition to a Chief Accounts Officer. Earlier, there was an Assistant Collector (Technical) attending to all technical references in the Collectorate, but sometime ago the status of this post was raised to that of a Deputy Collector. In some of the more important Collectorates, a Deputy Collector and some other staff are also provided for work under the Gold Control Act. In certain areas an Additional Collector is also provided. This functionary has the status of a Deputy Collector, but for adjudication of offences etc. he exercises the powers of a Collector. The normal pattern of organisation in a Central Excise Collectorate is indicated in the Chart appended to this Chapter.

4. The Collector is the chief administrative authority of the Collectorate. He exercises the powers of a Head of Department in relation to appointments, promotions, confirmations and discipline, as also in respect of all financial matters enumerated in the General Financial Rules. He is also, within his territorial jurisdiction, the highest administrative authority under the Central Excises and Salt Act, 1944, and the rules framed thereunder. He has been delegated some of the powers of the Gold Control Administrator under the Gold Control Act. He is Collector of Customs for certain purposes. His statutory functions include adjudication of offences without any limit in the matter of the value of the goods he can confiscate or penalties he can impose under the Central Excise, Gold Control and Customs laws. He can also remit duty on

goods lost or stolen and write-off irrecoverable dues, without limit in either case. Prior to the creation of the institution of appellate Collectors, he was the appellate authority for orders passed by Deputy Collectors and Assistant Collectors. Under SRP, the Collector has been specially vested with the power to nominate an officer (not lower in rank than an Assistant Collector) to determine the normal production of a factory and to assess the shortfalls in production to the best of his judgment. The power to sanction prosecution of offenders is also vested in him. In his capacity as Collector, he is the Chairman of the Regional Advisory Committee.

5. The Deputy Collector exercises statutory powers, subject to certain limits, in the matter of adjudication of offences under Excise, Customs and Gold Control laws. He also exercises powers, without any limit as to the value of the goods involved, in respect of composition of offences under the Central Excise Law. He is empowered to condone losses, write off Central Excise duty and sanction rewards within certain limits. In the administrative and technical spheres, he performs several functions delegated to him by the Collector and is responsible for inspection of lower formations and implementation of Board's orders and instructions as also for effective supervisory control on Central Excise, Customs and, where necessary, Gold Control staff. He is expected to provide technical advice to field formations on both tariff matters and working procedures.

6. The Assistant Collector in his capacity as Divisional Officer, is responsible for the administration and enforcement of Central Excise, Gold Control and Customs laws in his jurisdiction. He exercises the powers of a "head of office" in all administrative and financial matters, including certain disciplinary powers in respect of Class III and Class IV Officers. Under SRP, the Assistant Collector is the proper officer for approval of classification and price lists, even though he may authorise the Range Superintendent in certain cases, to approve these lists. He exercises direct supervisory control over the working of the Inspection Groups and is required to associate himself with at least fifty inspections (the number has since been reduced to twenty four) in his charge in the course of a year. He is responsible for planning the preventive and intelligence work of his Division and for providing the necessary guidance to the staff in their day-to-day work and attending to all technical problems arising in his charge. His quasi-judicial functions extended to adjudication of offences under the Central Excise, Gold Control and Customs Acts and Composition of offences committed under the Central Excise Law. He is the licensing authority in respect of factories and warehouses falling in the highest category and deals with claims for refund. He is responsible for compilation of statistical returns and their timely submission to the Collector and the Statistics and Intelligence Branch.

7. The Chief Accounts Officer acts as a financial adviser to the Collector and performs all functions relating to preparation of classified revenue accounts and their reconciliation with figures booked by the treasuries and the Accountant General. He prepares estimates for revenue receipts and expenditure pertaining to the Collectorate, undertakes audit of refund claims, issues cheques for refunds sanctioned in certain cases, scrutinises personal ledger accounts maintained by the assessees and is responsible for receipt and accounting of cheques tendered towards payment of duty. In relation to establishment, he is the drawing and disbursing officer for all non-gazetted staff posted in the Collectorate office; he also acts as the controlling and sanctioning officer in respect of claims presented by non-gazetted staff. He is responsible for maintaining General Provident Fund accounts of Class IV employees and for scrutiny of pension cases. The Chief Accounts Officer is assisted by an Assistant Chief Accounts Officer and a complement of ministerial staff in various grades. At one time, incumbents of the post of Chief Accounts Officer were provided by the Comptroller and Auditor General, but the posts are now filled wholly by selection from amongst ministerial officers in the Department.

8. Apart from statutory audit carried out by the Comptroller and Auditor General, there also exists an internal audit organisation of the Department, operating from the Collectorate level. The organisation is headed by an Assistant Collector (Audit) who has a number of audit parties working under him. Each such party consists of auditors drawn both from the executive cadre of Inspectors and the ministerials cadre of Upper Division Clerks, with an officer of the status of a Superintendent of Central Excise (Executive) or an Examiner of Accounts (Ministerial) being placed in charge of each party. The main functions of the audit parties are as follows:—

(i) Auditing the accounts maintained by factories, warehouses and ranges operating under the system of physical control.

(ii) Dealing with major defects arising out of the reports of Inspection Groups as are brought to the notice of the Collector by the Assistant Collector concerned. If after going through the reports received by him, the Collector is satisfied that the working of a particular unit requires a further probe, he may direct that the unit concerned be subjected to full audit.

(iii) Test auditing the accounts of units yielding substantial revenue or having a complicated excise tariff. This again is carried out in respect of units specifically indicated by the Collector.

(iv) Looking into the reports of statutory audit carried out by the audit parties of the Accountant General concerned.

9. The Preventive Organisation of the Department operates from both the Divisional and the Collectorate levels. The Divisional Preventive unit consists of a number of Inspectors headed by a Superintendent, while the organisation functioning from the Collector ate headquarters consists of a number of Inspectors with one or more Superintendents placed under an Assistant Collector. In Collectorates where there are a number of Divisions located at the Collectorate headquarters itself, the Divisional Preventive Organisation does not function as a separate unit: the entire preventive work in such cases is centralised in the Collectorate.

10. Both the Divisional and Collectorate offices have a complement of ministerial staff. The ministerial cadre, apart from the posts of Chief Accounts Officer, Assistant Chief Accounts Officer, Administrative Officer and Examiner of Accounts, consists of non-gazetted officers in different grades, namely, (i) Lower Division Clerks. (ii) Upper Division Clerks (iii) Head Clerks, (iv) Deputy Office Superintendents, and (v) Office Superintendents, in addition to the cadre of stenographers and a number of other ministerial posts like Hindi translators, typists and draftsmen.

11. There also exists a cadre of Class IV officers, consisting of peons who are designated as Sepoys and Daftries. Sweepers are among those in the Class IV category.

12. A statement indicating the strength of various cadres in the Central Excise Department is appended as Table (2) to this Chapter.

13. Several features of the Collectorate and other field formations, have come under criticism. Some of the points made by the industry, in so far as they relate mainly to procedure, have been dealt with in the preceding Volume. Other comments pertain to organisation and administration. These are taken up in the paragraphs which follow.

14. It has been urged that the administrative Machinery of the department has not responded adequately to the changing needs of the situation. It is claimed, for example, that while the manufacturing techniques followed by the industry have become increasingly sophisticated, the organisation continues to operate on the same out-moded patterns as before. The industry also complains that in certain areas of vital importance to them, the authority for taking decisions has tended to move upwards from the level of Inspector to that of the Superintendent and in some cases to that of the Assistant Collector, with consequences which are detrimental alike to the interests of the industry and the Department. Witnesses from the industry as well as the Department have at some pains to point out that the Central Excise tariff has become increasingly diversified and the new procedures place greater reliance on accounts. Even so, it is stated, the Department has failed to induct into the system adequate technical personnel or to impart to the existing staff suitable training for a proper comprehension of the complexities of tariff, techniques of production and maintenance of accounts. The need has been stressed for a proper recruitment and training policy at different levels.

15. So far as the Collectorates are concerned, the consensus of opinion is that the present delimitation of charges is hardly conducive to efficiency. It is stated that even though the number of Collectorates has increased over the years, several of the present charges are still unwieldy, and the Collectors so overburdened with routine and peripheral functions that they seldom have time to attend to matters of real importance. It has also been represented to us that the headquarters organisation of the Collector suffers from a serious imbalance in the sense that while both the Administrative and Technical Wings are headed by senior Class I officers, the accounts unit is looked after by the Chief Accounts Officer who continues to have a Class II status, even though the accounts and audit functions performed by him are as important as his technical and administrative functions. The need for strengthening the internal audit and preventive organisation in the Collectorate, of imparting adequate training to the personnel concerned and for devising an arrangement whereby the Collector has a direct responsibility for major revenue earning units in his charge has also been stressed.

16. In regard to the internal audit organisation a point which has been made by ministerial associations is that this organisation should be manned exclusively by ministerial officers. In support of their argument they have cited the analogy of external audit carried out by the Accountant Generals in which the auditors are drawn entirely from the ministerial cadre. The same point is made by them in regard to Inspection Groups.

17. As in the case of Collectorates, the bulk of evidence tendered before us suggests that Divisional charges are also heavy and Assistant Collectors have been saddled with too many responsibilities. Some witnesses feel that the functional basis on which certain divisional

charges are organised is unsatisfactory from the point of view of the assessee.

18. The constitution, staffing pattern, functions and responsibilities of assessment ranges have also been criticised. The burden of the complaint is that the reorganisation of the ranges first on the MOR pattern and then under SRP has led to diffusion of responsibility, inaccessibility of officers, absence of adequate communication between the industry and the Department, and inordinate delays. More specifically, it is stated that in several cases the ranges are not coveniently located or adequately staffed from the point of view of either number or quality of personnel posted. It is also said that, even though the clerical work involved in a range office is fairly heavy, no ministerial assistance has been provided. Range offices, it is pointed out, are lacking in such essential equipment and facilities as calculating machines, typewriters, articles of stationery, and an imprest for incurring contingent expenditure.

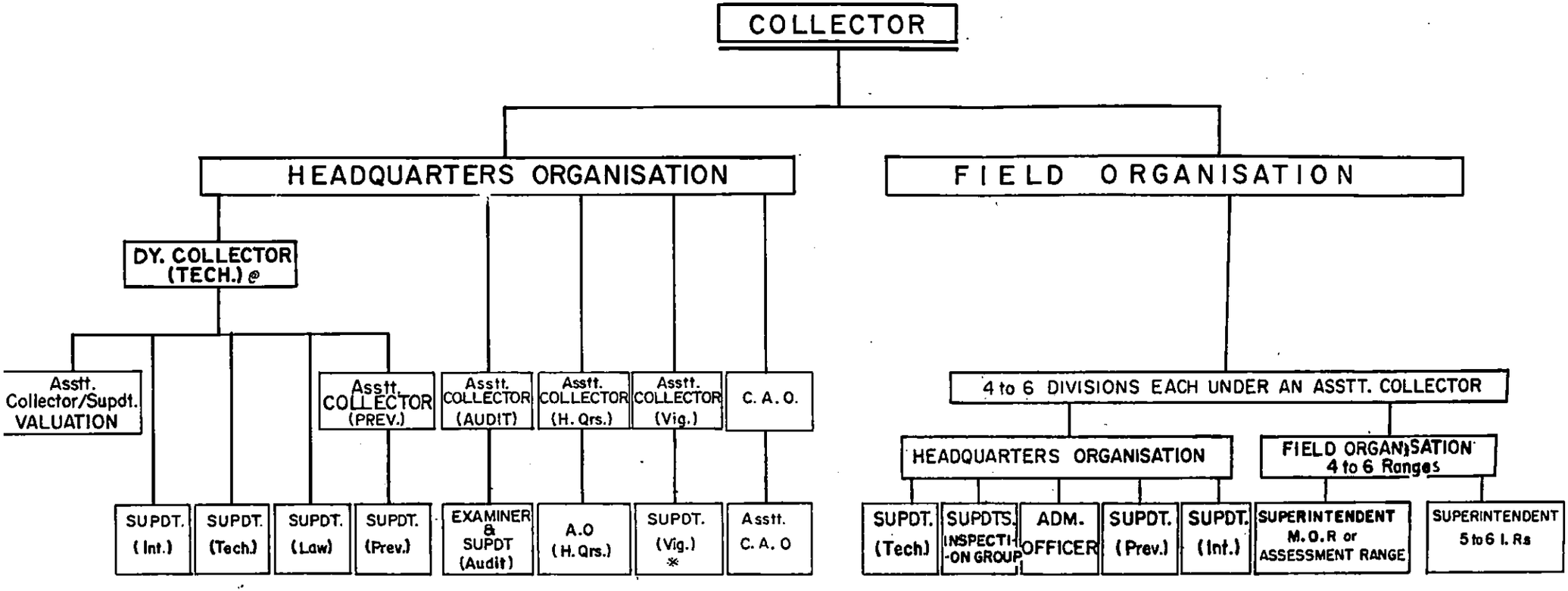
19. The Inspection Groups and their working have been severely criticised. The principal points made are that (i) their duties are not clearly defined; (ii) some of the functions included are more appropriately discharged by other formations; and (iii) there is duplication between the work performed by Inspection Groups on the one hand and Assessment Ranges and Internal Audit parties on the other. As in the case of other formations, lack of familiarity with techniques of production and methods of accounting is pointed out as a serious handicap. The inspections done are said to be perfunctory in character and the quality of notes drawn up is described as poor. The present frequency of inspections carried out is also considered to be unduly excessive. The institution of assessment-cum-inspection groups which carry out a concurrent day to day check of assessment documents has not been facourably received by the industry.

20. Apart from the general point made about strengthening the Preventive Organisation, departmental witnesses have laid considerable emphasis on (i) proper selection of preventive staff with adequate incentives provided for them in consideration of the hazardous nature of duties performed, (ii) collection of intelligence, which aspect according to some witnesses has not received adequate attention in the Central Excise Department, (iii) liberalisation of present rules and instructions relating to rewards and expenditure from secret service funds and (iv) provision of adequate transport and other facilities for detection and follow up of cases of unlawful removal. Some witnesses have also said that preventive and intelligence activity, in order to be effective, should begin at the range level and not remain confined, as at present, to the Divisional and Collectorate levels.

21. In regard to the agency functions performed by Central Excise officers, such as those relating to the administration of the Customs law at the minor and intermediate posts, land frontiers and certain airports and the Gold Control Law, it has been generally observed that these functions have been performed satisfactorily by excise officers and that in the present scheme of things there is no better alternative than to continue to entrust these functions to them.

NORMAL PATTERN OF ORGANISATION

IN A CENTRAL EXCISE COLLECTORATE



i) *In four Collectorates viz. CALCUTTA , MADRAS, BOMBAY & DELHI a separate Deputy Collector with staff is provided for GOLD CONTROL.*

ii) *In some Collectorates there is a Deputy Collector located outside Headquarters e.g at JAIPUR and BHUBANESWAR to supervise some outlying Divisions.*

In some Collectorates where there is no A.C (Vig.) Superintendent vigilance is under Asstt. Collector (H.Qrs.)

M. O. R = Multiple Officers Range

I. R = ISOLATED RANGE. Such formations exist only in a few Divisions.

TABLE I

Jurisdiction and other important features of Central Excise Collectorates in India

Name of Collectorate	Jurisdiction	Revenue 1972-73 (excluding cess Misc. & Refunds. Rs. (000)	No. of duty paying units (1971-72)	Subordinate field formations as on 1-7-73	
				No. of Divs.	No. of Ranges (other than tobacco)
1	2	3	4	5	6	7
Delhi	Union Territory of Delhi and State of Rajasthan.	717,545	1,381	6	25
Chandigarh	States of Punjab, Haryana, Jammu and Kashmir, Himachal Pradesh and Union Territory of Chandigarh.	664,231	2,074	7	25
Allahabad	Districts of Bareilly, Pithauragarh, Almora, Nainital, Shahjahanpur, Pilibhit, Hardoi, Badaun, Lucknow, Unnao, Sitapur, Lakhimpur-Kheri, Faizabad, Barabanki, Sultanpur, Raibareli, Allahabad, Pratapgarh, Fatehpur, Jaunpur, Mirzapur, Varanasi, Ballia, Gorakhpur, Azamgarh, Deoria, Ghazipur, Gonda, Basti, Bahraich, Rampur, Moradabad, Pauri Garhwal, Chamoli, Bijnor and Banda of the State of Uttar Pradesh.	786,351	1,466	8	110
Kanpur	Districts of Kanpur, Jhansi, Jalaun, Hamirpur, Farrukhabad, Etah, Agra, Mathura, Aligarh, Manipuri, Etawah, Bulandshar, Meerut, Saharanpur, Dehradun, and Muzaffarnagar of the State of Uttar Pradesh.	1,382,476	1,104	8	65
Hyderabad	Districts of Hyderabad, Medak, Nizamabad, Karimnagar, Adilabad, Khammam, Nalgonda, Warrangal, Mahabubnagar, Anantapur, Cuddapah, Kurnool, Chittoor, Nellore and Kanigiri Podili Darsi, Taluka of Ongole District all of the State of Andhra Pradesh.	622,678	495	7	81
Mysore	State of Mysore.	1,104,316	606	8	53
Madras	Districts of Madras North Arcot, South Arcot, Chingleput, Thanjavur, Salem, Dharampuri, Coimbatore and Nilgiris of the State of Tamil Nadu, the area comprised in Malkipara Tea Factory Range (being a part of Pariyaram village of Mukundapuram Taluk of Trichur District, Kerala State) and the Union Territory of Pondicherry excluding Mahe commune and the village Yanam.	1,702,970	1,992	9	66
Madurai	Districts of Tiruchirapalli, Madurai excluding the area comprised in Kolukumalai Tea factory Range (being part of Kettagudi village of Uthamapalayam Taluka of Madurai District) Ramanathapuram, Tirunelveli and Kanyakumari of the State of Tamil Nadu.	326,911	530	4	35

TABLE I—*Contd.*

1	2	3	4	5	6	7
9	Cochin	State of Kerala excluding the areas comprised in Malakipara Tea Factory Range (being a part of Pariyaram Village of Mukundapuram Taluk of Trichur District, Kerala State) but including the areas comprised in Mahe commune of the Union Territory of Pondicherry and Kolukumalai Tea Factory Range (being part of Kottagudi village of Uthamapalayam Taluk of Madurai District, Tamil Nadu State) and Union Territory of Laccadive, Minicoy, Amindivi Islands.	1,071,987	673	4	18
10	Guntur	Districts of Srikakulam, Visakhapatnam, East Godawary, West Godawary, Krishna, Guntur and Ongole excluding Kanigiri Podili Darsi Taluka all of the State of Andhra Pradesh and the village of Yanam of the Union Territory of Pondicherry.	669,313	274	7	5
11	Calcutta & Orissa . .	Districts of Calcutta 24-Parganas, Howrah and Midnapur of the State of West Bengal and State of Orissa.	2,199,710	2,652	12	45
12	Patna	State of Bihar	1,395,502	267	7	64
13	West Bengal . . .	Districts of State of West Bengal other than those specified against Calcutta and Orissa Collectorate.	974,895	470	6	30
14	Shillong	States of Assam, Nagaland, Meghalaya, Manipur and Tripura and the Union Territory of Arunachal Pradesh and Mizoram.	586,430	752	7	12
15	Baroda	Districts of Surat Bulsar, Dange, Broach, Baroda, Kaira, Panchmahal and Ahmedabad and Dashkroi Taluks of Ahmedabad district, all of the State of Gujarat in the Union Territory of Dadra and Nagar Haveli and the territory of Daman of the Union Territory of Goa, Daman and Diu.	1,996,430	1,857	7	71
16	Nagpur	State of Madhya Pradesh and the districts of Chanda, Bhandara, Nagpur, Akola, Buldhana, Yeotmal, Amraoti, Wardha and Rajpura of the State of Maharashtra.	955,365	547	6	80
17	Bombay	Districts and Talukas of the State Maharashtra other than those areas specified under Nagpur and Poona Collectorate.	4,711,117	3,253	10	71
18	Poona	Districts of Ahmadnagar Jalgaon, Dhulia, Nasik, Poona, Satara, Sholapur, Sangli, Kohapur, Aurangabad, Porbhani, Nanded, Bhir, Osmanabad, Kolaba, Ratnagiri and Thana except Thana taluka of Maharashtra State.	1,108,351	825	7	26

1	2	3	4	5	6	7
19	Goa	Territory of Goa of the Union Territory of Goa, Daman & Diu.	185,780	90	..	4
20	Ahmedabad . . .	Districts of Ahmedabad excluding Ahmedabad and Dashkroi taluks, Gandhinagar, Mahasana, Banaskantha, Sabarkantha, Surendranagar, Rajkot, Jamnagar, Kutch, Amrili, Bhavanagar and Jaunagadh all of the State of Gujarat and the territory of Diu of the Union Territory of Goa, Daman and Diu.	478,210	572	3	16
	TOTAL		28,640,568	21,880	133	902

Source—Central Excise Statistics Quarterly Bulletin-June, 1973 Vol. XIII No. 1, issued by Statistics & Intelligence Branch (Central Excise), New Delhi. S. & I. Branch Year Book Vol. I, 1972-73 pages 363-425. Statements attached to Vol. I of our Report. Information received from Collectorates (F No. 11(5) 73/III).

TABLE 2

Strength of various cadres in the Central Excise Department

S.No.	Cadre	Strength as on 1-7-73
	CLASS I	
1	Collector	19
2	Appellate Collector	4
3	Additional Collector	2
4	Deputy Collector	29
5	Assistant Collector	287
6	Superintendent Class I	124
7	Chemical Examiner	3
	Total	468
	CLASS II	
1	Chief Accounts Officer	19
2	Assistant Chief Accounts Officer	22
3	Administrative Officer	144
4	Superintendent Class II	1,621
5	Assistant Chemical Examiner	3
6	Hindi Officer	7
	Total	1,816
	CLASS III (EXECUTIVE)	
1	Deputy Superintendent (C.T.)	16
2	Inspector (SG)	2,027
3	Inspector (OG)	9,465
4	Women Searcher	77
5	Motor Mechanic	5
6	Driver	357
7	Others (Chemical Asstts, Carpenter, Radio Technician, Telex Operator, Shroff) .	9
	Total	11,956

S. No.	Cadre	Strength as on 1-7-73
	CLASS III (MINISTERIAL)	
1	Office Superintendent	143
2	Deputy Office Superintendent	613
3	Head Clerk	178
4	Upper Division Clerk	3,571
5	Lower Division Clerk	2,484
6	Stenographer (SG)	26
7	Stenographer (OG)	595
8	Cashier	1
9	Draftsman	18
10	Hindi Translator	10
11	Hindi Typist	41
	Total	7,680
	CLASS IV	
1	Gestetner Operator	136
2	Daftry (S.G.)	22
3	Daftry (O.G.)	305
4	Jamadar	205
5	Sepoy	10,306
6	Others (Sweeper, Mali, Chowkidar etc. etc.)	354
	Total	11,328
	GRAND TOTAL	
	Class I	468
	Class II	1,816
	Class III (Executive)	11,956
	Class III (Ministerial)	7,680
	Class IV	11,328
		33,248

Source.—Information received from the Ministry of Finance (Department of Revenue & Insurance) F. No. 11(5)73/III.

CHAPTER 5

PERSONNEL: STRUCTURE AND GRADES

In the preceding Chapters we have made a passing mention of the various cadres and grades in the Central Excise Department. The time scale posts in Class I comprise Superintendents Class I and Assistant Collectors who presently carry an integrated pay scale of Rs. 400-1250. Deputy Collectors on Rs. 1300-1600 constitute the junior administrative grade. Collectors who are in the pay scale of Rs. 1800-2250 are heads of department, with certain posts of Collectors carrying a special pay. The top posts are those of Members of the Central Board of Excise and Customs. There are also Joint Secretaries dealing with Revision Applications in the Ministry of Finance.

2. Prior to 1959, Customs and Central Excise constituted two distinct and separate services. The Customs Department was concerned primarily with imports and exports through the major customs ports. The administration of minor ports and land customs frontiers vested originally in the Salt Department from which it passed as a legacy to the Central Excise Department. Even though the two departments were sometimes administered by the same Member in the Board (which untill 1963 was a common Board for Central Revenues including Direct Taxes), their development followed different patterns according to administrative and organisational needs. The Customs Department had a Class I service of its own, but the Central Excise Department, which came into existence much later, was manned largely by Class II officers except for certain super-cadre posts like those of Collectors and Deputy Collectors. Appointments to these higher posts were made by promotion of Class II officers from the service or by drafting officers for short periods from the Customs Service, the Indian Civil Service and other sources. With the progressive industrialisation of the country and the need for larger resource mobilisation the tempo of excise levies, and along with it the activities of the Central Excise Department, increased appreciably from time to time and there was a demand for creating a Class I service for Central Excise as well. This was constituted in 1955. Thereafter in 1959, a decision was taken to merge the Customs and Excise services at the Class I level into a single Indian Customs and Central Excise Service. At lower levels, i.e., Class II and below, Excise and Customs continue to be two separate services regulated by rules and regulations formulated by the two departments. The integration of the two services at the Class I level entailed a certain number of problems, including relative seniority and numerical representation in the combined cadre. Several witnesses have contended before us that there are several points of dissimilarity between the two services —even if the two sets of duties, customs and excise, come under the descriptive category of "indirect taxes"—and that the integration itself lacked a valid base of justification. The feeling has been expressed that, even though the excise duties contribute by far the largest revenue to the central exchequer, the Department as such is but poorly represented in the higher echelons, including the Board.

3. Appointments to the integrated Indian Customs and Central Excise service are made by direct recruitment through a competitive examination conducted by the U.P.S.C. (which is common for all Central Class I and All-India Services) to the extent of 50% of the vacancies while the remaining 50% are filled by promotion of Class II officers in the two departments in a certain numerical proportion.

4. Outside Class I, the service cadres in the Central Excise Department are either ministerial or executive. Class IV constitutes a separate cadre by itself.

Ministerial non-gazetted cadre

5. The ministerial non-gazetted cadre consists of the following posts carrying the scales of pay indicated against them.

	Post	Pay scale applicable prior to Third Pay Commission's recommendation	Pay scale applicable as a result of the Pay Commission's recommendation
		Rs.	Rs.
(i)	Office Superintendent	450-25-575	700-30-760-35-900
(ii)	Deputy Office Superintendent	335-15-425	550-20-650-25-750
(iii)	Head Clerk	210-10-290-15-320-EB-15-380	425-15-500-EB-15-560-20-700
(iv)	Upper Division Clerk	130-5-160-8-200-EB-8-256-EB-8-280-10-300	330-10-380-EB-12-500-EB-15-560
(v)	Lower Division Clerk	110-3-131-4-155-EB-4-175-5-180	260-6-290-EB-6-326-8-366-EB-8-390-10-400
(vi)	Stenographer (Ordinary garde)	130-5-160-8-200-EB-8-256-EB-8-280-10-300	330-10-380-EB-12-500-EB-15-560
(vii)	Stenographer (Senior grade)	210-10-290-15-320-EB-15-425	425-15-500-EB-15-560-20-700
(viii)	Woman Searcher-cum-clerk	110-3-131-4-155-EB-4-175-180 plus Rs. 20 Spl. Pay	330-8-370-10-400-EB-10-480

In the above cadre, direct recruitment is confined to the grade of Lower Division Clerk, Stenographer (Ordinary Grade) and Woman Searcher-Cum-Clerk. The remaining appointments are filled by promotion from lower grades subject to the fulfilment of certain criteria regarding length of service, suitability etc. Some of the posts are "selection posts", this implying a high degree of selectivity at the stage of promotion.

6. The strength of ministerial posts in the Department as 1-7-1973 was as follows:—

(i)	Office Superintendent	143
(ii)	Deputy Office Superintendent	613
(iii)	Head Clerk	178
(iv)	U.D.Cs.	3,571
(v)	L.D.Cs.	2,484
(vi)	Stenographers (S.G.)	26
(vii)	Stenographers (O.G.)	595
(viii)	Women searcher-cum-clerk	77

7. The principal grievance of the ministerial staff is that for purposes of promotion they have far too many stages to go through. From the draft recruitment rules framed by the Department in 1971 (which does not seem to have been formalised so far) it appears that a Lower Division Clerk (in the scale of Rs. 260-400) will take a minimum of 20 years to become an Office Superintendent (in the scale of Rs. 700-900), provided it is assumed that on completing his minimum tenure in each grade, he is immediately promoted to the higher grade. In actual practice this does not happen. On the other hand, it is also true that in certain areas, for want of eligible personnel, the prescribed stipulation regarding length of service is in practice often relaxed. The ministerial staff complain of faulty cadre composition and lack of adequate career prospects.

8. We observe that the sanctioned strength of posts in the U.D.C. grade is higher than the number of posts sanctioned in the grade of L.D.Cs. Since recruitment to the former is based entirely on promotion from the grade of L.D.Cs., this has created a serious administrative difficulty inasmuch as U.D.Cs. cannot be recruited direct and L.D.Cs. are too small a cadre to meet the entire requirement of U.D.Cs. We are told that in consequence a large number of posts of Upper Division Clerks are vacant in several Collectorates, with Bombay Collectorate alone having 94 vacancies in this grade as on 1-7-1973.

9. For sometime past the Administration has been acting on the policy that the grade of Head Clerk should be gradually abolished and posts of Head Clerks upgraded to that of Deputy Office Superintendent. In recommending revised scales of pay for Head Clerks and Deputy Office Superintendents the Third Pay Commission have, however, observed that "a proportion of posts on these two scales, ranging from one third to one half should be placed on the lower pay scale that we have suggested for Head Clerks viz., Rs. 425-700".

Ministerial Gazetted Cadre

10. In the gazetted cadre, the ministerial staff consists of Administrative Officers, Assistant Chief Accounts Officers, Examiners of Accounts and Chief Accounts Officers. The number of sanctioned posts in these grades and pay scales applicable to them are as under:

	Post	No. of posts	Pay scale applicable prior to Third Pay Commission's recommendations	Pay scale applicable as a result of the Pay Commission's recommendations
			Rs.	Rs.
(i)	Administrative Officer	144	350-25-500-30-590-EB-30-800-EB-30-830-35-900	650-30-740-35-810-EB-35-880-40-1000-EB-40-1200
(ii)	Assistant Chief Accounts Officer	22	Do.	Do.
(iii)	Examiner of Accounts	9	Do.	Do.
(iv)	Chief Accounts Officer	19	590-30-830-35-900	700-40-900-EB-40-1100-50-1300

11. There is no direct recruitment to the above grades all appointments to (i), (ii) and (iii) being made by promotion from amongst office Superintendents or Deputy Office Superintendents. Similarly appointments to the post of Chief Accounts Officer are made from amongst Administrative Officers, Assistant Chief Accounts Officers and Examiners of Accounts. At present there is no Class I post in the ministerial cadre.

12. In the Gazetted ministerial carde, the principal grievance relates to the status of the Chief Accounts Officer who, it is claimed shoulders heavy responsibilities. There is also a demand for raising the number of posts of Chief Accounts Officers and Assistant Chief Accounts Officers. The pay scale (Rs. 700-1300) recommended by the Third Pay Commission for the post of Chief Accounts Officer corresponds to the pay scale recommended by them for junior time-scale posts in Class I.

13. We have already referred to the suggestion made by ministerial associations that a Directorate of Audit should be created, as recommended by the Central Excise Reorganisation Committee and that the Internal Audit Organisation should be manned exclusively by ministerial officers.

Executive Cadre

14. The executive (or non-ministerial) cadre consists of the following posts:

	Post	No. of posts as on 1-7-73	Pay scale applicable prior to Third Pay Commission's recommendations	Pay scale recommended by the Pay Commission
			Rs.	Rs.
(i)	Collector	19	1800-100-2000-125/2-2250	2250-125/2-2500
(ii)	Appellate Collector	4	Do.	Do.
(iii)	Deputy Collector	29	1300-60-1600	1500-60-1800-100-2000
(iv)	Assistant Collector	287	400-400-450-30-510-EB-700-40-1100-50/2-1250	*Senior Scale 1100-50-1600
(v)	Superintendent Class I . . .	124	Do.	*Junior Scale 700-40-900 EB-40-1100-50-1300
(vi)	Superintendent Class II . . .	1621	350-25-500-30-590-EB-30-800-EB-830-35-900	650-30-740-35-810-EB-35-880-40-1000-EB-40-1200
(vii)	Inspector (Senior Grade) . . .	2027	320-15-500-25-575	570-20-750--EB-30-900
(viii)	Inspector (Ordinary Grade) . .	9465	210-10-290-15-320-EB-15-425	425-15-500-EB-15-560-20-700-EB-25-800

*Senior and Junior time scales recommended by thd Pay Commission, instead of a single intergrated scale applicable heretofore to both Assistant Collectors and Superintendents Class I.

15. In the executive grades listed above, direct recruitment is confined to the levels of Inspector of Central Excise (Ordinary Grade), and Superintendent of Central Excise, Class I. Appointments to the grade of Inspector are made to the extent of 75% of the posts available by direct recruitment from out of the names sponsored by the Employment Exchange on the basis of a written recruitment test and compliance with certain physical standards, while the remaining 25% of the posts are filled by selection from Upper Division Clerks, Stenographers and Women Searchers on the basis of merit-cum-seniority and subject to their passing a written test and fulfilling certain qualifications regarding age, physical standards etc.

16. In the cadre of Inspectors, a selection grade was created in 1952. Until 1966, there existed between the Inspectors and the Superintendents, an intermediate cadre of Deputy Superintendents to which appointments were made by promotion of Inspectors on the basis of selection. With the abolition of the cadre of Deputy Superintendent, the maximum of the pay scale attaching to the selection grade (which came to be known as senior grade) was brought on par with the maximum of the scale applicable to Deputy Superintendents. The senior grade is limited to 25% of the permanent posts.

17. The minimum educational qualification for direct recruitment to the grade of Inspector was originally a University Degree but it was relaxed in 1961 to Intermediate or its equivalent. It has been urged that, having regard to the nature of functions required to be performed in the Department, particularly in the wake of newer techniques of production, more intricate accounting procedures and increasingly complex Central Excise tariff, the educational qualification prescribed and the mode of recruitment are both inadequate. We find that the Third Pay Commission, while recommending parity of pay scales for Inspectors of Income Tax, Customs and Central Excise Departments, observed that the qualification for direct recruitment to these grades should be raised to a University degree and recruitment channelled through the U.P.S.C. or the Subordinate Services Board.

18. At present there is no direct recruitment at the level of Superintendent, Central Excise, Class II, all vacancies in that grade being filled by promotion from the cadre of senior

grade Inspectors. A policy decision is stated to have taken some time ago to fill 25% of the posts of Superintendents, Class II, by direct recruitment in future. On the Customs side, the corresponding Class II grade is that of Appraisers to which appointments are made, to the extent of 50%, by direct recruitment through the U.P.S.C. on the basis of either general competitive examinations or (in certain cases) special tests. The Central Excise Reorganisation Committee (1963) thought that it would be desirable to induct some fresh blood into the administrative cadre of Superintendent Class II and that of the posts left after making such direct recruitment, 50% should be filled by selection of suitable personnel on the basis of seniority-cum-merit and 50% by a competitive examination open to all Inspectors who have completed a minimum specified period of service. We understand that somewhat similar method of selection is already prevelent in the Income Tax Department where recruitment to the posts of Income Tax Officers Class II is made normally by promotion of Inspectors with 3 years' service who have passed the departmental examination prescribed for Income Tax Officers.

19. One obstacle in the way of initiating a process of direct recruitment at Class II level would appear to be the stagnation which has been prevailing for several years in the grade of Inspectors. The complaint about stagnation is widespread. Several witnesses and staff associations have drawn attention to it and stressed the need for ameliorating the present state of affairs. The following table compiled from information supplied by Collectors provides some idea of the prevailing positions:

(i) Total number of Inspectors in position as on 1-1-1973	10636
(ii) No. of officers with total service as Inspectors.	
(a) exceeding 25 years	1018 (847 in the senior grade and 171 in the ordinary grade).
(b) between 20 and 25 years	1343 (607 in the senior grade and 736 in the ordinary grade).
(c) between 15 and 20 years	1608 (299 in the Senior grade and 1309 in the ordinary grade).
(d) below 15 years	6667 (75 in the senior grade and 6592 in the ordinary grade).

20. The extent of stagnation varies from Collectorate to Collectorate. This is illustrated by the following table:—

Collectorate	Working Strength	No. of Inspectors with over 20 years service as an Inspector	Percentage of 3 to 2
1	2	3	4
Shillong	467	259	55.5
Patna	522	211	40.4
Cochin	314	114	36.3
Madras	594	196	33.0
Nagpur	460	142	30.9
Kanpur	493	146	29.6
Guntur	575	155	27.0
Calcutta, Orissa & West Bengal	1772	455	25.7
Madurai	342	85	24.9
Hyderabad	410	87	21.2
Poona	569	110	19.3
Bangalore	530	94	17.7
Delhi & Chandigarh	991	131	13.2
Allahabad	597	72	12.1
Goa	15	1	6.6
Bombay	927	56	6.0
Baroda	609	29	4.8
Ahmedabad	449	18	4.0
TOTAL	10636	2361	22.2

21. The Third Pay Commission has compared the promotion prospects of Inspectors in the Central Excise Department, Inspectors in Income Tax and Examiners and Preventive Officers in the Customs Department. The following table is taken from Vol. II of the Commission's Report:

TABLE XXVI

Income Tax		Customs				Central Excise	
		Examiners		Preventive			
Inspectors	Posts 2872	Examiner (Ordinary & senior grades)	Posts 311	Preventive Officers	Posts 940	Inspectors (Ordinary & senior grades)	Posts 11280
Income Tax Officer Class II working strength (100% by promotion)	2172	Appraisers (50% by promotion)	419	Preventive Inspectors	104	Superintendent Central Excise Class II (100% by promotion)	1595
Promotion prospects	76%	Promotion prospects	67%	Promotion prospects	11%	Promotion prospects	14%

22. On the need for having direct recruitment to the Class II grade of Superintendent, the Pay Commission has observed as follows:

"There has been unanimity in the evidence received by us. Certain departments would like to continue with such direct recruitment. Most of the engineering departments, which have organised class I services, were, however, in favour of filling the class II posts entirely by promotion. From the view point of improving the promotion chances of the class III staff, it would be desirable to avoid direct recruitment to class II wherever possible. Although we conceive of the class II service as primarily providing a promotion avenue for the class III staff, hereagain, we would leave the choice to the individual departments since the decision would have to depend on the size of the class II cadre and the quality of the class III base from which promotion takes place."

23. A number of witnesses who favour selective direct recruitment at the Class II level have argued that a solution to the problems of stagnation of Inspectors must be found in a manner which does not involve dilution of the quality of recruitment of class II. They suggest, for example, the creation of an adequate number of super-numerary posts in the higher grade to tide over the present situation.

24. For ministerial staff also, suggestions have been made for selective direct recruitment at the U.D.C. level with the minimum educational qualification of a University degree. We have already referred to the anamalous situation obtaining at present in which the grade of LDCs which is supposed to be feeder grade for UDCs has a lower sanctioned strength. As a long term measure, the abolition of the grade of lower division clerks has also been suggested.

25. There is complete unanimity on the need for better training in order to achieve greater efficiency. It has been represented that facilities presently available for training of officers in various grades are neither adequate nor satisfactory. It has been suggested that the present training programmes should not only be substantially expanded but also reoriented to the changing needs of the Department. Some of the witnesses have complained that the training needs of ministerial officers have been completely neglected by the Department.

26. With the exception of Class I posts and of Chief Accounts Officers, all appointments and promotions in a Collectorate are based on the Collectorate itself. Similarly transfers of staff in these grades are confined to areas within the Collectorate except when Class II officers are promoted to Class I when they are liable to be posted anywhere in India. The postings and transfers of Chief Accounts Officers are regulated on an All-India basis.

27. A complaint which has been voiced by departmental witnesses is that departmental promotion committees do not meet at adequate intervals with the result that a large number of posts remain unfilled, for varying lengths of time, affecting both the morale of the service and the efficiency of the Department. So far as the ministerial cadre is concerned, it has been stated that a factor which affects its efficiency adversely is the promotion of ministerial employees to executive positions which results in the cadre being repleted of some of its best material. It was suggested that ministerial employees should not, as a rule, be eligible for appointment to the executive cadre, but that their chances of promotion should be improved in other ways.

28. A point about which the services feel greatly concerned is the frequency of transfers in the Department. It has been represented that under present day conditions a transfer involving change of station entails considerable hardship on the employees particularly in the matter of housing and admission of children to educational institutions. It has been suggested that in the case of big cities transfers may

be limited, as far as possible, from one job to another so that the employee concerned does not have to break up his establishment; but where a transfer is inevitable, the Government should take a sympathetic view of the problems faced by the Government servant and make suitable arrangements, such as provision of transit hostels, allocation of seats in educational institutions and payment of a suitable house rent allowance. The need for evolving a rational policy in the matter of transfers has been stressed.

29. Another important matter concerns residential accommodation. It has been represented that even though the Central Excise Department is concerned with the largest single source of revenue for the central exchequer, adequate attention has not been paid to the provision of this basic necessity for the staff. Several Committees and Study Groups have emphasised the need for building residential accommodation for Central Excise officers especially in those areas in which there is acute shortage of accommodation. The Customs Study Team had recommended that a welfare fund might be created in the Department by appropriating a part of the sale-proceeds of confiscated goods plus penalties realised from evaders and utilised for this and other welfare activities.

CHAPTER 6

ADJUDICATION, APPEAL, REVISION AND REVIEW

It is usual in a fiscal statute not only to define and locate the liability for payment of revenue but to provide for enforcement of such payment through various penal provisions and a machinery of adjudication. The latter includes arrangements for appeal and revision. The Central Excises and Salt Act, 1944, provides for prosecution in a Court of Law for contraventions of the Act, involving among other things: (i) production of excisable goods without a licence; (ii) possession of tobacco in excess of the quantity prescribed by notification except as provided by the Rules; (iii) evasion of duty; (iv) removal of excisable goods in contravention of the provisions of the Act or the Rules; (v) acquisition of excisable goods or involvement in transporting, depositing, keeping, concealing, selling or purchasing, or in any other manner dealing with any excisable goods which are liable to confiscation; or (vi) failure to supply any information or supply of false information. Where the offence relates to excisable goods on which the duty leviable exceeds one lakh of rupees, the offender is punishable with imprisonment for a term which may extend to seven years and with fine", while in other cases the punishment is "imprisonment for three years and fine or both". For every subsequent offence, irrespective of the amount of duty leviable, the punishment provided is imprisonment for a term which may extend to seven years and fine. It is also provided that in the absence of special and adequate reasons to the contrary to be recorded in the judgment of the Court, imprisonment shall not be for a term of less than six months.

2. The rules framed by the Central Government under section 37 of the Act also provide for imposition of penalties for contravention of the provisions of such rules. These contraventions are adjudged by departmental officers in accordance with the powers conferred on them by the Act. It is provided in most cases that the penalty may extend to two thousand rupees. The offending goods are liable to confiscation. Under Rule 173-Q which was introduced in the wake of SRP the penalty provided is an amount not exceeding three times the value of the excisable goods in respect of which any contravention of the nature referred to has been committed or five thousand rupees whichever is greater.

3. Section 33 of the Act provides that confiscation or penalty may be adjudged:

(a) without limit, by a Collector of Central Excise;

(b) upto confiscation of goods not exceeding five hundred rupees in value and imposition of penalty not exceeding two hundred and fifty rupees, by an Assistant Collector of Central Excise.

It is also provided that the Central Board of Revenue may confer these powers on other officers or alter some of the powers in certain circumstances. Accordingly, powers of adjudication have been conferred by the Board on Deputy Collectors and Superintendents, while powers of Assistant Collectors have been enhanced. The present position is as follows:

Officer	Confiscation of goods	Imposition of penalty
Collector	Without limit	Without limit
Deputy Collector	Upto Rs. 50,000 in value	Upto Rs. 750.00
Assistant Collector	Upto Rs. 5,000 in value	Upto Rs. 250.00
Superintendent	Upto Rs. 1,000 in value	Upto Rs. 100.00

Officers of the Central Excise Department are also vested with powers to adjudicate on losses.

4. So far as powers of adjudication of the Superintendents are concerned, it appears that in 1966, when the cadre of Deputy Superintendents was upgraded, a distinction was drawn between the newly promoted Superintendents and Superintendents who had been promoted earlier and who, for administrative convenience, were designated as senior Superintendents. It seems to have been felt that the powers of newly promoted Superintendents should be restricted to certain specified items and, in particular, should exclude adjudication of offences. The instructions issued on the subject stated that "though legally all Superintendents were equally competent to exercise the powers statutorily delegated to them, the actual exercise of powers by the upgraded Superintendents should be regulated by executive instructions issued from time to time." It appears that, over the years, either as a result of the issue of executive instructions by the Collectors or on account of lack of stenographic and ministerial assistance in the range offices, the practice grew up of offences falling within the jurisdictional competence of a Superintendent being adjudicated, not by the Superintendent of the Range concerned, but by the Superintendent (Technical) attached to the divisional office.

5. In the matter of appeals, the Central Excise law provides that "any person deeming himself aggrieved by any decision or order passed by a Central Excise Officer under this

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Act or the rules made thereunder may, within three months from the date of such decision or order, appeal therefrom to the Central Board of Revenue, or in such cases as the Central Government directs, to any Central Excise Officer empowered in that behalf by the Central Government". The orders which the Central Government issued in pursuance of this provision (and which have since been superseded by other arrangements as will be seen below) postulated that appeals against a Superintendent's decision or order would lie to the Deputy Collector; against the decision of an Assistant Collector or a Deputy Collector to the Collector; and against the decision of a Collector to the Central Board of Excise and Customs. This arrangement, under which executive and appellate functions were performed by the same set of officers, was criticised from time to time. The Public Accounts Committee suggested the separation of these functions in their Second Report (1967-68) and again in their Thirty-sixth Report (1968-69). The Working Group on Customs and Central Excise Administration, set up by the Administrative Reforms Commission (1968) recommended the creation of appellate authorities, completely divested of executive and administrative responsibility, for hearing Central Excise appeals. The institution of Appellate Collectors was created in January, 1972. Since then appeals against orders passed by officers subordinate to the Collector lie to the Appellate Collector concerned while appeals against Collector's decisions lie as hitherto, to the Central Board of Excise and Customs.

6. The right of appeal extends only to a person deeming himself aggrieved by any decision or order passed by a Central Excise officer. The revenue administration has no such right of appeal. Moreover, section 35 of the Act provides that no order in appeal shall have the effect subjecting any person to any greater confiscation or penalty than has been adjudged against him in the original decision or order. The position is slightly different on the Customs side, where Section 128 of the Customs Act, 1962, provides that the Appellate authority concerned may pass an order enhancing a penalty or fine in lieu of confiscation etc. after giving to the appellant a reasonable opportunity of showing cause against the proposed order.

7. It appears that it was in the context of the provisions mentioned in the preceding paragraph that the Central Board initiated the practice of communicating tariff rulings, since replaced by tariff advices, to authorities under them. Executive instructions were issued to the effect that, where a Central Excise Officer was in doubt, his decision should favour the revenue, the underlying thesis being that the assessee could, while former could not, resort to appeal and revision. Today, the position is somewhat different. By an amendment passed in the Finance Act of 1972, the Central Government and the Central Board of Excise and Customs may, "of their own motion or otherwise, call for and examine (within one year from the date on which a decision or order is passed) the record of any proceedings in which a decision or order has been passed for the purpose of satisfying themselves as to the correctness, legality or propriety of such decision or order, and pass such order thereon as they think fit". These provisions are analogous to those contained in section 130 of the Customs Act.

8. The law also provides that "the Central Government may on the application of any person aggrieved by any decision or order passed under this Act or the rules made thereunder by any Central Excise Officer or by the Central Board of Revenue, and from which no appeal lies, reverse or modify such decision or order". Where an order against which a revision is sought has been passed by an Appellate Collector, the revision application is heard by Joint Secretary (Revision Applications) in the Ministry of Finance; where such an order has been passed by the Central Board of Excise and Customs, the revision application is heard by the Finance Secretary.

9. Until recently there were two Joint Secretaries dealing with revision applications against orders passed by Appellate Collectors of Central Excise and Customs. Lately another officer has also been appointed to deal with revision applications. The intake and disposal of these applications during 1972 and 1973 and their pendency at the end of each year are reflected in the following table:—

		Customs (Major ports)	Central Excise (including Customs relating to minor ports and town seizures)	Total
(i)	No. of cases brought forward on 1-1-1972	5986	3339	9325
(ii)	No. of cases received in 1972	3769	1819	5588
(iii)	No. of cases disposed of in 1972	6381	2949	9330
(iv)	No. of cases pending at the end of 1972 or carried forward to 1973.	@3374	@2209	5583
(v)	No. of cases received in 1973	5346	1802	7148
(vi)	No. of cases disposed of in 1973	4932	2206	7138
(vii)	No. of cases pending at the end of 1973 or carried forward to 1974.	3788*	1805*	5593

*Includes 158 and 172 Call Book cases respectively.

@Includes 39 and 107 Call Book cases respectively.

10. So far as powers of adjudication vested in Central Excise officers other than Collectors are concerned, a number of points have been made before us. It has been stated that a distinction based on value of goods liable to confiscation is hardly appropriate in the context of S.R.P. under which illegal removals are detected largely on the basis of scrutiny of accounts without involving physical seizure of goods as such, and that in consequence higher officers have a tendency to pass on some of the major cases to lower officers for adjudication. It has been suggested that powers of adjudication should be based on criteria which are clearly identifiable. The other point made is that the powers presently conferred on Superintendents, Assistant Collectors and Deputy Collectors in the matter of confiscation of goods and imposition of penalties are too low and need to be suitably enhanced; also that there is no justification for excluding jurisdictional Superintendents from the exercise of these powers.

11. In Volume I we have referred to the institution of Appellate Collectors and drawn attention to certain views placed before us in connection with the working of this institution. Since then we have had occasion to discuss the subject further with representatives of the industry and the Department. Several interests have welcome the institution of Appellate Collectors as a recognition of the principle of separation of judicial and executive functions, though the view has also been expressed that Appellate Collectors, being departmental officers subordinate to the Board, are hesitant to take an independent view. One suggestion made is that there should be a separate judicial cadre of Appellate Collectors.

12. Several departmental witnesses have, on the other hand, argued that the transfer of appellate powers from the jurisdictional Collector to the Appellate Collector has undermined the authority of the jurisdictional Collector, besides leading to procedural difficulties and inordinate delays. In particular, it has been contended that appeals relating to classification and valuation should revert to the Collector, who would thus be put back in the picture in relation to what perhaps is the most important aspect of excise in any Collectorate.

13. It has also been urged that the present strength of Appellate Collectors should be suitably augmented and the offices of Appellate Collectors adequately staffed and equipped.

14. On the subject of revision applications, apart from delays, the principal point made is that the present arrangements do not inspire the requisite degree of confidence in the industry. The Joint Secretaries dealing with revision applications, though technically not a part of the Board, are nevertheless liable to be posted to the Board. Being drawn from the Customs and Excise Service, they cannot always be expected to be free from the revenue bias to which they were accustomed in the service. It has been strongly urged that the present arrangements should be replaced by an administrative tribunal, which is completely independent of the executive. The contrary view has also been placed before us mostly by departmental witnesses who, without contesting the need for independence and objectivity, stress that a pragmatic attitude based on practical knowledge is more important at this level than the preponderance of judicial precedent and legal formality such as might result from the induction of a tribunal into the quasi-judicial administration of excise and customs.

15. The question of an administrative tribunal for the Customs and Central Excise Department has engaged the attention of a number of Committees and Commissions in the past. The Taxation Enquiry Commission (1953-54) had recommended that revision petitions against the orders of the Central Board of Revenue should be disposed of by a tribunal which should be independent of the Ministry of Finance and should consist of at least one Judicial Member who should be either a serving or a retired High Court Judge and one Member who had experience of Customs Administration. This recommendation was endorsed by the Tobacco Expert Committee (1956-57), Customs Reorganisation Committee (1957-58), Estimates Committee (1958-59) and Central Excise Reorganisation Committee (1963). The Law Commission (1959) recommended that in the judicial and quasi-judicial decision an appeal on facts should lie to an independent tribunal presided over by a person qualified to be Judge of a High Court, who may be assisted by a person or persons with administrative or technical knowledge. The Customs Study Team (1967) and the Working Group on Customs and Central Excise Administration (1968), set up by the Administrative Reforms Commission also recommended the setting up of independent tribunals for the Customs and Central Excise Department.

16. On the subject of Review, the Central Excise Reorganisation Committee (1963) recommended that "any officer senior to the adjudicating officer should have the right of review as a matter of course and the authority to revise the initial order but only after giving the assessee the opportunity of a hearing". We find that for a long time Collectors and Assistant Collectors were authorised to review their own orders and remit or reduce a penalty on production of further evidence except where the time limit for appeal had expired; no officer could, however, review an order of adjudication passed by his predecessor in office, except after reference to the next higher officer. This continued to be the position till 1952, when the Attorney General

advised that adjudicating officers had no power to review their original orders, and that such orders could be reviewed or revised only by appellate authorities duly empowered by law.

17. It has been stated that inasmuch as the existing provisions relating to review confer the necessary powers only on the Central Board and the Central Government and review is confined to decisions which are not more than one year old, they are restrictive in scope. In a department where several thousand adjudication orders are passed every year by a large number of officers at different levels, the powers of review, it is claimed, can at best be exercised in relation to a very small number of cases.

SECTION II

NEW PATTERNS

CHAPTER 7

ADMINISTRATIVE IMPLICATIONS OF NEW PATTERNS

The existing structure of administration outlined in the foregoing Chapters has to be viewed from a new stand-point: that of the demands which will be made on it by the System of Selective Control and the distinctive patterns employed in it. In meeting the new demands, the modified structure must also answer the less specific, but by no means less important, requirements of speed and convenience, efficiency and economy. The changes thus necessitated are governed by certain important considerations. To illustrate: the extensiveness of the tax base calls for decentralisation; the growing complexity of the tax system calls for increased specialisation; the prevalence of tax evasion at different points calls for effective control at those points; and the new approach of selectivity calls for organisational diversification within the broad frame-work of the Central Excise Department. Moreover, the administrative alterations will have to be so designed as to fit in not only with present needs as assessed but with future trends so far as they can be projected.

2. Under the three different procedural patterns recommended—ABC, PBC and CBC —some 3% of the units will yield about 60% of revenue; 30% will yield about 38% of the revenue and as many as 67% of the units as little as 2% of the revenue. While the relative size of the revenue derived from it cannot be the sole criterion for the proportion of expenditure incurred on the administration of each broad sector of excisable commodities, the expenditure should not be out of relation to the yield expected from the whole range of units covered by a particular pattern of control.

3. In any consideration of the new arrangements, three view-points have to be kept in mind, namely, those of: (i) the Government, (ii) the taxpayer, and (iii) the personnel of the tax-collecting Department. For Government, what is needed is an efficient machinery which maximises collection and minimises cost, and a streamlined procedure which reduces the burden of the Department and the assessee alike. From the taxpayer's point of view, uncertainty of tax liability is as much of an evil as irksomeness of tax procedure. Both are, in a literal sense, counter-productive. What the assessee most desires in the system are prompt assessment of liability and effective redressal of grievances. Finally, the tax personnel can best perform their duty if responsibilities are clearly defined, and both service and working conditions are such as to promote job satisfaction as well as individual contentment and welfare. We revert to these considerations in the recommendations we later make.

4. Four types of functions arise in respect of each of the controls already enumerated. These are: (i) routine functions; (ii) functions connected with assessment; (iii) functions relating to audit; and (iv) preventive functions. For routine and assessment functions, the interests of the assessees and the Department have to be reconciled, while the interest of revenue should determine the audit and preventive arrangements. Routine functions are those which require the occasional or recurring presence of a Central Excise Officer, such as authentication of documents and accounts, verification of duty-paid or bonded goods and supervision over specified operations. These should be performed from as near the assessee as possible. Assessment functions must rest with a jurisdictional field formation whose level will depend upon the particular type of control. Keeping in view the importance of assessment functions both for the assessee and the Department, no one type of arrangement can be expected to suit all commodities, all patterns of control and all kinds of units. In this sense, our proposals envisage a departure from the present administrative pattern under which there is a uniform type of control, emanating from the same level, for all duty paying units regardless of their distinctive characteristics.

5. Similar considerations arise in the sphere of adudit. No one type can be made applicable to all patterns of control. Moreover, if audit has to function as an effective tool in the hands of the management, it is necessary to ensure its independence from those whose work is subjected to audit. The control of audit has accordingly to vest in a body higher than the field organisation. Since the existing structure of Internal Audit does not satisfy this requirement, it would need to be suitably restructured and reoriented. While dealing with audit, the close relationship between audit and accounts should not be lost sight of. The accounts set-up of the Department would similarly need to be streamlined. Among other things, it would be necessary to keep in view our suggestions regarding extension of the cheque facility and establishment of more departmental treasuries. If audit is to be independent and objective, it has to be answerable to a level higher than the Collectors. If it has to be efficient, particularly in the context of ABC, the induction of specially qualified accountants would be necessary and audit parties would need to specialise in groups of commodities, say petroleum products or metals or textiles. To meet all these requirements, it would be desirable to constitute a separate Audit and Accounts Division within the Department.

6. The need for a well-designed preventive organisation is self-evident. Human ingenuity being what it is, mere procedures, no matter how well-conceived, cannot ensure that there will be no evasion of revenue. There is need for reviewing preventive activity as it exists today so as to devise ways of identifying areas of significant evasion and focussing special attention on those areas. For this purpose, the Preventive Wing must have its own system of intelligence and information. At the all-India level we envisage creation of an appropriate machinery for intelligence and investigation by a restructuring of the Directorate of Inspection. At other levels adequate preventive and striking forces should be available.

7. It is needless to emphasise the special importance which will attach to the selection, recruitment and training of personnel. The problem falls into two parts according as it is concerned with existing staff or that which is hereafter to be recruited. While the need to train will be common to both, the gradations, procedures and criteria of selection will have to be considered de novo for future personnel in relation to the demands of the new procedures. Meanwhile, by way of meeting the needs of the interregnum, careful selection and ad hoc training will be necessary in order to fit the members of the existing staff to some of the new tasks of the System of Selective Control. In this process, due consideration would have to be given to certain current problems, such as stagnation and cadre imbalance, and appropriate solutions found in the interest of efficiency. Indeed, personnel management, career development and welfare measures would have to be given much more attention than hitherto, considering the large and diversified manpower employed by the Department.

8. We perceive no legal difficulties in giving effect to the new patterns recommended for different excises and classes of manufacturers. The scheme can be implemented through the framing of suitable rules under the Central Excises and Salt Act. The whole history of excise procedure illustrates that it is within the competence of the Department to prescribe varied controls to suit specific commodities. The new system only takes this a step further.

9. As a preliminary measure, commodities under different patterns of control which we have already broadly identified in Volume I would need to be notified. It is true that, for some of the commodities (e.g. metals), only the main producers are under ABC, the rest being classed as PBC; but the meaning of the term "main producers" is well-understood in industrial circles. Again, while oil refineries will be under ABC, it will be open to the administration to exclude marketing installations and small producers of lubricants from this form of control. This is illustrative of points of relative detail which have in due course to be decided by the administration.

10. Somewhat different problems arise in respect of the commodities entitled to Simplified Procedure. Besides being fairly numerous, these require to be examined for the purpose of fixing, firstly, the cut-off point and secondly, the lower rate of duty which will apply.

11. There is also the question of what pattern should be made applicable to a manufacturer who produces on the same premises goods covered by two or more patterns. The general principle should be that the pattern which governs the principal excisable commodity produced by the unit should apply to the whole unit. In so far as Simplified Procedure is concerned, the relevant recommendation is set out in para 29 of Chapter 14 of the Report on Procedure.

12. Just as different patterns of control pose different administrative issues, different areas present different combinations of operational patterns. This fact has to be borne in mind in the implementation of the new patterns.

13. We may now turn to a consideration of individual patterns for a better appreciation of the issues involved. For units under ABC, the type and level of control has to be of a higher order with special emphasis on technical and audit expertise. Matters such as classification, valuation etc. which have a bearing on assessment should, in this view, be entrusted to an appropriately high level in the departmental hierarchy. This will not only be in keeping with the dimension of the revenue potential involved, but will impart greater certainty and a higher degree of uniformity to the whole process of assessment. The officers mainly concerned with these units should be such as are capable of exercising effective control and assisting settlement of genuine difficulties. This higher control can, because of its audit and technical orientation, be exercised form an office which need not necessarily be physically proximate to the unit in question. At the same time, provision has to be made for routine or peripheral functions e.g. authentication of accounts, drawal of samples, verification of duty paid goods—which cannot be kept too remote from the manufacturing unit. Adequate arrangements will have to be made for the performance of such functions by the nearest administrative unit at the primary level.

14. Since ABC units are in point of number relatively few but in terms of revenue extremely important, it would be appropirate if the level of responsibility for their administration was equated with that of the Collector. The nature and quality of the assistance provided to the Collector would have to be commensurate with the responsibility placed on him.

15. Since it is proposed to place greater reliance on the internal accounts of the ABC units, a knowledge of commercial accounts and modern accounting techniques would be necessary for the officers of the Department. The need for expertise in the relevant technological fields is also obvious. It would accordingly be necessary to induct the necessary specialisation into the Department by drafting experts from outside. It would also be necessary to impart to the departmental officers the requisite technological orientation so that they are able to discharge their functions efficiently. This applies equally to audit. In order that the necessary expertise may develop within the Department, the audit parties should be so constituted as to attend to groups of allied commodities: for instance, petroleum products, or metals or chemicals. While this pattern of control takes cognizance of the generally high degree of organisation and internal control of ABC units, it cannot be presumed that the level of tax compliance by all such units would be uniform. This consideration has to be kept in view in formulating the detailed responsibilities of tax-administration, including preventive and other measures, within the general framework of Accounts Based Control.

16. Turning to PBC it may be noted that its two most distinctive features are (i) a closer contact of the excise personnel with the production units under their charge and (ii) better communication between the Department and the assessees. This would imply reasonable proximity between the primary formation and the producing unit so as to make it possible for the officers concerned to pay an adequate number of visits to the units. The duties of these officers should be clearly defined, their jurisdiction compact and the number of units not too large. Moreover, the officers concerned should possess adequate knowledge of the ingredients, processes and stages of manufacture in order to ensure that production is correctly accounted for. They should also be familiar with the accounting procedures of the manufacturers. It need hardly be added that, as for the other forms of control, individual and pin-pointed responsibility will have to be insisted upon in respect of PBC if efficiency is to be secured in the operation of the pattern as a whole.

17. Since, for PBC, the emphasis will be on production control, the various stages of production beginning with the receipt and issue of inputs and ending with the completion of manufacture will have to be spelt out in adequate detail and the checks so devised as to be operative at each important stage. In the specific context of accounting of production for the purpose of determining duty liability, we reiterate the recommendation made by us in Volume I that such accounting should start from a stage prior to completion of manufacture when goods assume a form in which they can be removed and, with only a minor operation, if any, made ready for sale. Necessary modifications in rules and penal provisions to serve the needs of Production Based Control have to be effected. Supervision of production at various stages and exercise of checks on goods and accounts have to be entrusted to officers posted in close proximity to the units they have to supervise. Apart from necessary physical checks, there is need for periodical correlation of production with such factors as consumption of raw materials, consumption of power and manufacturing capacity. A broad indication of the proportion which finished excisable goods bear to the principal raw materials used, important stages in the process of manufacture and the nature and extent of control intended to be exercised at different stages should be outlined by the Department to facilitate checks and controls. It has to be ensured that, while nothing is done to hamper production and clearance, the checks themselves are not allowed to degenerate into routine exercises which frustrate the purpose of Production Based Control.

18. Simplified Procedure, as its name signifies, aims at simplifying the tax procedure in respect of a large number of small manufacturers whose importance in terms of revenue is marginal, whose resources are meagre and whose capacity to comply with excise requirements is limited. At the same time, the degree of evasion prevalent in this sector presents a problem which is further aggravated by the very large number of assessees involved. The form of procedure which we have proposed seeks to reduce the administrative burden without either sacrificing revenue or inhibiting growth. It will enable diversion of excise staff to fields which are of greater revenue significance.

19. As already stated only those units which are below a given cut-off point (in terms of the level of the value of production, initially to be fixed at Rupees five lakhs per annum) would be entitled to Simplified Procedure. Their identification would involve careful analysis of past production and, therefore, both an adequate mechanism and proper procedures to work out the value of production and determine the producer's eligiblity for the scheme. This job will have important revenue implications and should therefore invite special attention at a proper level. Separate rules for units which have not been in production for a full period of three years should be framed. For new units, the nature and sequence of the steps to be taken has to be determined in the light of the recommendations set out in paragraphs 15, 21, 22 and 23 of Chapter 14 of Volume I. A single lower effective rate

of duty applicable to the entitled sector of each relevant commodity, having regard to various factors, including the average duty incidence borne by the commodity, should be fixed and notified by the Government. On this basis, the prospective annual duty liability should be fixed in advance by the proper officer designated for the purpose. The manufacturers opting for Simplified Procedures should be required to give a declaration regarding the quantity and value of production during the preceding three years to the proper officer for determining their entitlement to the procedure and fixing the prospective duty liability for the next three years.

20. Once the liability is fixed, a mechanism has to be established: (i) for realising duty in monthly instalments payable in advance, (ii) for fixing duty liability in case of change in the effective duty incidence, and (iii) for undertaking a review for the next three-year bloc. To the extent the performance of each unit working under the Simplified Procedure would form the basis for prospective duty liability during the next three-year bloc, the Department would be interested in the authenticity of day to day transactions of the unit. There have to be devised for this purpose, but not too elaborately, a suitable form of daily accounts and gate pass as well as arrangements for periodical supervision. This has to be done within the framework of Simplified Procedure.

21. As far as CBC is concerned, emphasis will be on complete physical control. Two types of units will be under CBC (i) those which have not opted for Simplified Procedure and (ii) new units which produce a notified commodity and declare a value of production entitling them to Simplified Procedure. (For administrative reasons, such units are placed under CBC for one year). We believe that some 95% of the units for which the option of Simplified Procedure is available will readily opt for it. The number of units under CBC is, therefore, not likely to be large. However, the administration has to take note of the possibility that some units may deliberately avoid Simplified Procedure in the hope of evading (under CBC) even the small amount of duty due under Compounded Levy. There is also the possibility that units under the PBC pattern may try to pass off their production as pertaining to CBC units which attract a lower rate of duty. In view of the need for close supervision, including control over individual clearances contemplated in this type of control, proximity of the Central Excise Officer would be essential in respect of CBC units. The arrangements however, should be such that no impediments are placed on legitimate activities pertaining to production and clearance.

22. In the existing system, the Divisional Officers have an undue load of work and responsibility placed on them. With the relief provided, on the one hand by transfer of ABC units from their control and on the other by introduction of Simplified Procedure for a large number of small units, they would be enabled to supervise the work of the Division more effectively. In Volume I we have referred to the abolition of Inspection Groups. We envisage the transfer of direct responsibility for effective control in certain areas to the Superintendent and Inspectors in a Range. As a concomitant, the Ranges would have to be compact and Superintendents would have to be entrusted with suitable powers in matters of classification and valuation appropriate to the type of control for which they would have responsibility.

23. It will be evident that our procedures seek to restore a closer association between the Field Formation (including the Collectorate and its head) and the large body of tax-payers. No less important is the need for intimate association between those at or near the Board level on the one hand and the numerous industries concerned, together with their representatives, on the other. This points to the desirability of devising an administrative measure whereby some of the relevant powers and responsibilities of the Board are in effect decentralised and brought into a closer and more appropriate relationship with the assessee and his problems.

24. The Central Board of Excise and Customs has a dual function in that it has responsibility for both policy formulation and its execution. These are interrelated. We see no advantage in divesting the Board of its policy making function. At the same time, the responsibilities of the Board are so very large that its executive functions tend to get inadequate attention. Some of the reforms we have suggested will indeed serve to reduce the total burden. Nevertheless, if the Board is to do justice to its responsibilities, we consider that some of its executive functions have to be less concentrated at one place—the capital of the country —than at present.

25. What we envisage in this regard is that certain posts of senior officers be created, that these officers should ex officio have the status of Members of the Board, and that they be individually located at certain important centres in different regions. We would designate these officers "Zonal Commissioners". They would not have secretariat functions, but their status as already mentioned, would be equivalent to that of Members of the Board with whom, moreover, they would be interchangeable. They would function as extended arms of the Board in the performance of its duties as the Chief Revenue Authority. They would maintain rapport with industry and trade, oversee the work of the Collectorates, guide and direct Internal Audit and be inti-

mately concerned with personnel, training and inspection. We consider that it would be advisable to divide the country into five zones, each zone consisting of a certain number of Collectorates headed by the Zonal Commissioner.

26. The new arrangements proposed will, it is hoped, expedite decisions on important revenue matters and reduce areas of doubt and dispute. The new relationship which may thus be well expected to emerge between Government and the tax-payer will, we trust, be further strengthened by the setting up of an independent Tribunal which we later recommend.

27. These then are the broad implications of the new patterns and the aims and directions of structural reorganisation and institutional reform indicated by our review of the organisation of the Department. We deal with these proposals at greater length in the succeeding Chapters.

SECTION III

STRUCTURAL REORGANISATION

CHAPTER 8

HEADQUARTERS LEVEL: ISSUES CONCERNING CENTRAL BOARD AND DIRECTORATES

The Central Board of Excise and Customs, as its name implies, has jurisdiction over both Customs and Excise. In addition, it deals with a certain number of miscellaneous items such as Narcotics. Among the Attached, Subordinate and other offices of the Board, which similarly cater to the combined needs of Customs and Excise, are: (1) the Directorate of Inspection, together with its regional offices, (2) the Statistics and Intelligence Branch, (3) the Directorate of Training, (4) the Directorate of Drawback, (5) the Central Revenues Control Laboratories and (6) the Directorate of Tax Research (which is an integral part of the Board itself). The Central Excise Collectorates are not only responsible for all Central Excise work but are in charge of land customs frontiers and also of customs administration of intermediate and minor sea ports and inland airports. For Air Customs, a pool has been constituted which is at present manned by officers drawn from both Customs and Excise services. The Central Excise Collectorates further perform within the territorial jurisdiction assigned to them all preventive functions under the Customs law. A recent but important exception to this is where Preventive Collectorates have been created for Customs preventive work. At major sea ports, however, customs matters are looked after by officers of the Customs Department. Gold Control at different field levels remains with the Central Excise Department. Narcotics, however, is a separate Department, though manned at the higher levels mostly by officers drawn from the Central Excise Department. Class I appointments in all these organisations, irrespective of whether they are exclusively Excise, Customs or Narcotics or composite in character, are filled by officers belonging to the Indian Customs and Central Excise Service, which came into existence in 1959.

2. One of our terms of reference requires us to "examine the existing organisational and administrative set up of the Central Excise Department....." while another extends the scope of our enquiry to other matters "germane to the objectives of the investigation". In the context set out above, of partly composite and partly separate functioning of the Central Excise and Customs organisations at different levels, it is clear that some of our recommendations will have implications on the Customs side, though primarily aimed at Central Excise. In so far as they arise from the composite features of the organisation, such recommendations are, in our view, not only unavoidable but integral to the enquiry itself.

3. Several Staff Associations and other interests have put forward before us their view that Customs and Excise should be separated and the present organisation bifurcated all along the line into two well defined and distinct administrations dealing, one exclusively with Excise, and the other exclusively with Customs. They cite the instance of Income Tax functioning as a Department distinct from Customs and Excise. Earlier in this Report we have recounted briefly the evidence tendered on this subject and also set out the views of the Central Board of Excise and Customs on this issue. The present Board was constituted in 1963, when the number of commodities covered by excise was 65 with a revenue of around Rs. 600 crores. Since then the activities of the Excise Department have expanded manifold: the number of commodities has almost doubled while the revenue during 1974-75 is expected to exceed Rs. 3,000 crores. There has been a gradual switchover from specific to ad valorem duties and the tariff has been continuously refined to provide for numerous classifications and sub-classifications attracting different rates of duty, apart from total and partial exemptions based on diverse criteria. In consequence not only the tariff but procedures and administration have grown enormously in complexity. In Volume I we have commented on the increasing diversity of the tax base, the growing complexity of the tax procedures and the wide prevalence of tax evasion which are some of the characteristics of the present tax structure of the Excise Department. These have placed a very large burden on the administrative machinery. It is argued that having regard to these complexities and the increasingly important role assigned to excise duties in the fields both of resource mobilisation and economic regulation, it is important that they should be administered by an independent organisation geared fully to the needs of Excise. This organisation should not be conditioned in its approach or administration by principles, concepts and practices applicable to another service or by the needs and requirements of that service howsoever similar or allied all these may be. The feeling has been expressed that the problems of the Central Excise Department and Central Excise Officers have tended to receive inadequate appreciation in the absence of a Board specifically designed, in composition as in functions, for the purpose of giving exclusive attention to Central Excise. It has been emphasised that, in the concept and procedures of excise and of customs duties, there are important dissimilarities which it would be administratively undesirable to ignore. In elaboration of this contention it has been pointed out that, though the two Departments had been merged at Class I level some fifteen years ago, it has not even till today been possible for the Administration to

merge them at the lower levels. This, in turn, it is stated, has given rise to numerous administrative and other problems, such as those relating to promotion and seniority, which affect the morale of the service.

4. While there is a certain amount of force in some of these arguments, we are by no means convinced that the present situation is such as to call for the kind of drastic solution which has been proposed. What is both striking and important is not so much the points of dissimilarity as the very large area of similarity and common operation between the two Departments. Indeed, there are several levels of working at which they are so closely interconnected as to make it a formidable task even to attempt to sever the links. Moreover, we have no reason to believe that the administration of excise has suffered merely because of the composite nature of the Board as distinguished from other aspects such as the remoteness of the Board from large bodies of assessees in different parts of the country. We also take note of the fact that at the Class I level an integrated service has been functioning since 1959 and is presently manned largely by officers recruited directly to the integrated service. Furthermore we expect that the organisational reforms we are proposing would go a long way in streamlining the administrative machinery and in mitigating some of the current grievances.

5. The functions performed by the Board may be described as falling under the following categories which, however, are not mutually exclusive:—

(i) Statutory, i.e. those pertaining to the exercise of authority conferred on the Board and the Central Government by statute as for example the authority to invest officers with different powers or to exempt excisable goods from payment of duty in circumstances of an exceptional nature or to act as the Appellate authority in certain cases;

(ii) Administrative, i.e. those performed by it as the Chief Revenue Authority for administration of the Customs, Central Excise and Narcotics Department; and

(iii) Secretariat, i.e. those performed by it as an integral part of the Ministry of Finance, in which capacity it is concerned with formulation of tax policy. For performance of these functions the Chairman and Members of the Board act as *ex-officio* Additional Secretary and Joint Secretaries respectively to the Government of India.

6. We have referred to the criticism of the Estimates Committee (1958-59), made in the context of the then existing Central Board of Revenue, that in combining in the same body the secretariat functions of the Department of Revenue and the administrative functions of the Chief Revenue Authority, the purpose of the Central Board of Revenue Act had been largely defeated. The same criticism applies to the two successor Boards, namely, the Central Board of Direct Taxes and the Central Board of Excise and Customs. The question is one which has been looked into by several Committees in the past, including the Direct Taxes Enquiry Committee (December 1971) which examined it with reference to the Central Board of Direct Taxes. There has, however, been no unanimity in the conclusions arrived at. So far as the Central Board of Excise and Customs is concerned, we find ourselves broadly in agreement with the views of the Board already quoted in Chapter 2. We also consider that the substance of the criticism would be met by the proposals we have already made to the effect that most of the executive functions of the Board should be performed by Zonal Commissioners who would *ex-officio* have the status of Members. Accordingly we do not think any reconstitution of the Board as an independent executive authority, dissociated from formulation of tax policy, is called for or would be desirable.

7. We note that in the matter of financial and administrative powers, the Board does not have adequate discretion or independence. All proposals of the Board having financial implications are processed by an Internal Finance Unit which does not function as a part of the Board. Most of the proposals have to be referred to the Department of Expenditure for approval. We consider this arrangement to be unsatisfactory not only in principle but also because it leads to a great deal of duplication and delay. We accordingly recommend the delegation of adequate financial and administrative powers to the Board.

8. We find ourselves in agreement with the view that there should be some induction of technical officers drawn from the Department at the lower ranks of the Board's secretariat for better appreciation and assessment of problems which are referred to the Board. We are told that most of the references coming to the Board are technical in character. There is considerable advantage in such references being processed by technical men.

9. In the context of our proposals regarding appointment of Zonal Commissioners which we elaborate in the succeeding Chapter, the Members of the Board, namely, Member (Tariff) and Member (Central Excise) will be relieved some of their present functions. It would therefore be necessary to reassess the requirements of the Board and redistribute the work accordingly. It does not, however, follow that the creation of Zonal Commissioners will lessen the work load of the Board as a whole or justify a reduction in its strength. Entirely apart from the new and hitherto unattended work which, because of his closeness to his jurisdiction, the

Zonal Commissioner will hereafter perform in the field of Excise, the Board will have many important functions which it will continue to discharge. These include formulation of policies in relation to its executive responsibilities, co-ordination of working between various Collectorates (hereafter Zones) and exercise of authority in respect of all residuary items of work. All this will be in addition to its functions as an integral part of the Ministry of Finance of which a few are: advising the Government on fiscal policy, attending to legislation, Parliament questions, P.A.C. work, Tariff and Exemptions, and performing other tasks which statutorily fall within the purview of the Central Government.

10. At present all matters of policy relating to recruitment, promotion and personnel management are expected to be considered by the Board jointly, while administrative, organisational and establishment matters fall within the purview of Member (Central Excise) or Member (Customs) according as they relate to Central Excise formations or Customs. Our general impression throughout has been that, in the Excise Department, personnel policy has not received sustained and adequate attention. The recurring exigencies of new taxation have led to uneven recruitment and, sometimes, consequential stagnation. Training has tended to be neglected until recently. The training programmes are still inadequate. Job classification remains to be completed and cadre imbalances to be rectified. Having regard to the importance which personnel management has come to assume in modern administration, we are of the view that the Board should have a whole-time Member (Personnel) dealing with policies relating to recruitment, training, evolution of norms and preformance standards, promotion and general welfare of the staff and other allied matters having a bearing generally on personnel management. In this connection we find that both the P & T and Railway Boards have whole-time Members designated as Member (Posts) and Member (Staff). In fact the P & T Board has in addition a Member (Administration). We trust that in the redistribution of work consequent on the creation of the institution of Zonal Commissioners, it would be possible for Government to fulfil what we consider a long over-due requirement, namely, the allotment of functions concerning personnel as the main duty of a whole-time Member of the Board.

11. It may here be noted that, as part of the present distribution of work, all matters of tariff concerning both Central Excise and Customs are the responsibility of Member (Tariff) as distinct from the two separate Members who are in charge of Central Excise and Customs respectively. All matters other than at the policy or Board's level will, as already indicated, devolve on the Zonal Commissioners, thus giving corresponding relief to the Members concerned. In the re-arrangement of work now suggested, we consider it appropriate that Member (Central Excise) should deal with policy matters of tariff concerning his subjects and Member (Customs) similarly with matters concerning his. We recommend this arrangement not merely or mainly on the ground that it will now be administratively feasible from the point of view of distribution of the work load, but also, and primarily, because it will have the merit of ensuring that the related issues of tariff and procedure are combined in point of responsibility. Co-ordination of tariff matters within the Board would be the function of the Chairman of the Board. In such an arrangement, all or most of the functions now discharged by the Member (Tariff) will be distributed among the other Members of the Board including the Chairman.

12. Our attention has been drawn to the fact that so far as disciplinary cases involving a vigilance angle are concerned, the Secretary to the Central Board, who is an officer of the status of a Deputy Secretary, is designated as the Chief Vigilance Officer of the Department whereas the Director of Inspection, who is a senior Collector and Head of Department, is the Additional Chief Vigilance Officer. We consider that the functions of the Chief Vigilance Officer should also vest in Member (Personnel).

13. We have already referred to the functions presently entrusted to the Directorates and other institutions attached to the Board. To the extent that some of the work now performed by these institutions will devolve on the Zonal Commissioners, it will be necessary to reorganise their functioning. We have also observed that in practice the Directorate of Revenue Intelligence has not been able to devote much attention to Central Excise work, largely because of the paucity of staff and partly for the reason that it has been organised primarily for tackling cases of international smuggling. It also appears somewhat anomalous to us that while the Central Board of Excise and Customs should continue to be responsible for enforcing Excise and Customs laws, this Directorate (which, incidentally, is manned almost entirely by officers drawn from the Customs and Excise Department) should be under the administrative control of the Department of Personnel. Nevertheless, we do not feel called upon to suggest any change in the present structure, so long as other arrangements are made for enabling the Board to discharge its own functions adequately. We accordingly recommend that the Directorate of Inspection (Customs and Central Excise) should be reconstituted into a Directorate of Investigation and Intelligence, performing, as the name implies, only intelligence and investigation functions. These may be summarised as (i) collection, collation, dissemination and follow up where necessary of all revenue intelligence relating to Central Excise, that is to say, all functions which are presently expected to be performed by the Directorate of Revenue Intelligence; (ii) investigation of all

Excise offences having inter-zonal or wider ramifications; and (iii) co-ordination of anti-corruption and vigilance measures. At present the Directorate of Inspection also advises the Board and Collectors on technical matters. After the institution of Zonal Commissioners has come into existence this advisory function would be performed by the Commissioners. Of the other items of work entrusted to the Directorate of Inspection, maintenance of Manuals and Books of Instructions, compilation and issue of Quarterly Bulletins and Judgments, standardisation of forms and registers and other related items should more appropriately be assigned to the present Statistics and Intelligence Branch, which in our view should be reconstituted as a Directorate of Statistics and Publications. Similarly its present functions relating to recruitment tests and departmental examinations should devolve on the Directorate of Training. In so far as the Regional Offices of the Directorate of Inspection are concerned, we are proposing in a later Chapter that they should be merged in the new Zonal Offices.

14. We deal with "Training" in the Section relating to Institutional Reform. In so far as the Directorate of Training is concerned, we do not intend to suggest any large scale modifications in the present organisational structure. As already indicated, the new Member (Personnel) would be responsible, *inter alia,* for policy relating to training. The Director of Training should continue to perform the function of advising the Board on all matters relating to training and be generally responsible for formulation of training schemes and syllabi of studies and for the management and organisation of the Central Training Institute. The Regional Institutes should be under the administrative control of the Zonal Commissioners though technical supervision over their working would continue to be provided by the Director of Training.

CHAPTER 9

ZONAL LEVEL: NEW OFFICE OF COMMISSIONER

Wider coverage, higher tariff, larger revenue: in all these respects, Central Excise has continued to expand over the years. With increasing sophistication of production and accounting techniques and growing intricacies of excise tariffs and sub-tariffs, the administrative responsibilities of the Department have multiplied manifold. This has occurred at all levels of the administration, including the Board. Attempts to reorganise the system and revamp its procedures in the light of changing needs have on the whole, hitherto, affected only the lower echelons of the structure. There has been no substantial change by way of devolution of authority or of decentralisation of decision making.

2. We have referred to the constitution of the Board and its functioning and also to the objectives underlying the creation of the Central Board of Revenue as enunciated in the statement of the Finance Secretary made at the time of the introduction of the Central Board of Revenue Bill 1924, in the Council of State. These objectives, which postulated among other things a close personal contact between the Members of the Board and the representatives of the tax payer through constant touring and frequent consultations, are even more relevant today than they were in 1924.

3. In Volume I, we have drawn attention to the complaint generally voiced by the industry of a lack of rapport between the tax payer and the tax collector. In the context of the Central Board it was stated that references made to the Board seeking clarification were not attended to for long periods. The usual practice was to forward them to officers lower down. In the result, it was urged, there have been long delays at different levels, and a good deal of time usually elapses before a final ruling or interpretation can be obtained. It was pointed out that this not only prolonged the period of suspence and uncertainty, but frequently led to situations in which the assessee or the Department suffered avoidable financial liability or loss of revenue.

4. In our view there are several factors which contribute to the present state of affairs. The functions and responsibilities of the Board have increased substantially. This is particularly so in respect of its secretariat functions as part of the Department of Revenue. These functions entail an ever increasing volume of work in connection, for example, with the preparation of the Budget, proceedings in Parliament or meetings of the Public Accounts Committee. In so far as Central Excise is concerned our observations are, in particular, applicable to the Member in charge of Central Excise and to a lesser extent the Member in charge of Tariff. One view is that the Members find themselves obliged to stay on at headquarters for performance of the duties we have enumerated above. They are consequently unable to devote adequate time to visits to important centres, including those where industrial activity is concentrated. This has tended to inhibit closeness of dialogue between the industry and the highest revenue executive. Even in so far as the internal administration of the Department is concerned, the Board now has to deal with twenty Central Excise Collectorates in addition to the Custom Houses and a number of Attached and other offices. There is avoidable concentration of authority at the level of the Board. Apart from delays, these factors lead to a lack of adequate appreciation of regional and local problems and absence of effective supervision over the working of the Collectorates.

5. In our considered view, the time has come for some of the functions of the Board to be decentralised in the sense of their being exercised in much closer proximity to the assessees in different parts of the country. We have referred to the dual character of the Board which acts as the Chief Executive Authority for the administration of the Central Excise and Customs Departments on the one hand and, in certain spheres, as an integral part of the Ministry of Finance on the other. In our view the Board should continue to perform its secretariat functions as at present; but some of its executive functions and responsibilities may with great advantage be entrusted to officers exercising the authority of the Board in well defined territorial zones. These officers—Zonal Commissioners—would *ex-officio* have the status of Members of the Board without secretariat functions.

6. Having regard to the present jurisdiction of Excise Collectorates and the need for achieving as equitable a distribution of the work load as possible among the Members, we consider that the country may be divided into the following five zones:

(1) North Zone with headquarters at Kanpur comprising Chandigarh, Delhi, Kanpur and Allahabad Collectorates;

(2) East Zone with headquarters at Calcutta and comprising Patna, Shillong, West Bengal and Calcutta and Orissa Collectorates;

(3) Central Zone with headquarters at Hyderabad and comprising Poona, Nagpur, Guntur and Hyderabad Collectorates;

(4) West Zone with headquarters at Bombay and comprising Ahmedabad, Baroda, Bombay and Goa Collectorates, and

(5) South Zone with headquarters at Madras and comprising Madras, Madurai, Cochin and Bangalore Collectorates.

7. Each of the above zones will have a Commissioner who will be the Chief Executive Authority in the Zone. The functions of the Board, other than quasi-judicial functions concerning appeals against the decisions or orders passed by Collectors, which have a direct bearing on Administration and Revenue can be classified broadly as falling within the ambit of (i) Tariff (ii) Procedure and (iii) Administration. We consider that, except for policy formulation relating to these matters and their coordination at the all-India level, the Zonal Commissioners should be responsible for discharging all these functions within their respective jurisdictions.

8. Interpretation of statutory provisions and rules and of Board's instructions in so far as all those pertain to classification and valuation of goods, constitute the principal area of concern to the industry. It is largely with reference to this area that there are complaints of inordinate delays. This has been taken note of by the public Accounts Committee and acknowledged by the Board in the recent instructions issued by them on the holding of tariff conferences between Collectors. In our opinion the present process of prior consultation with the Collectors and the resultant delays in this field can be greatly reduced if Zonal Commissioners are empowered to take decisions on all appropriate matters concerning the Central Excises and Salt Act and Rules such as do not necessarily fall within the exclusive jurisdiction of the Board. We accordingly recommend that they should be so empowered.

9. On the basis of the distribution indicated above, each zone will cover four Collectorates. This number may become five or six if some of the existing Collectorates are bifurcated. We envisage that the Zonal Commissioner will be a touring officer meeting his Collectors individually and collectively in conference either at their headquarters or his own at frequent intervals. Problems relating to classification can be discussed and, where appropriate, even decided at these meetings. The apprehension that this may give rise to disparate or dissimilar practices in different zones need not be seriously entertained, for it is not likely that the area of differences would be large. In any case we also contemplate a periodical, say quarterly, meeting of the Commissioners-in-Conference which will be presided over by the Member of the Board in charge of Excise. Where practices vary, these can be reviewed at such meetings. In addition, all pending questions, *i.e.* those on which individual Commissioners defer taking decisions with a view to securing uniformity, can be sorted out at these conferences. As a working arrangement it should be convenient for the internal meeting between the Zonal Commissioner and his Collectors to precede the meeting of Commissioners-in-Conference by a month or so.

10. We are further of the view that Central Excise work relating to Procedure and other technical matters, presently performed by Member (Central Excise) should substantially devolve upon the Zonal Commissioners. Here again the same principle will apply, *i.e.* the Zonal Commissioners will take appropriate decisions at their own level and discuss those which have wider implications at their quarterly conference.

11. Under Administration again, all functions presently performed by Member (Central Excise), except those relating to Class I services, should be entrusted to the Zonal Commissioner. In the matter of transfers and other issues relating to establishment, the new arrangements will not have the effect of supplanting the existing authority or powers of the Collectors within their own jurisdiction: the Commissioners would come in only where movement from one Collectorate to another within the zone is desired or called for in the interests of the administration or where the issues involved have inter-Collectorate ramifications. Necessary co-ordination in the matter of posting and transfers of Class I staff will be provided at the level of the Board in consultation with the Zonal Commissioners concerned.

12. Like Procedure and Tariff, all pending questions relating to Administration on which decisions are deferred by the Zonal Commissioners will be discussed in the periodical meetings of Commissioners-in-Conference.

13. We have given some thought to the question of entrusting appellate functions to the Zonal Commissioners. Earlier this work was shared by Members of the Board, but for some time now it has been performed by a Member placed exclusively in charge of Appeals. The

position regarding receipt, disposal and pendency of appeals in the Board for the preceding three calendar years is indicated in the following table:

		Number brought forward	Receipts	Disposal	Pendency at the end of the year	Call Book
1971	(*a*) Excise	406	188	207	387	14
	(*b*) Town seizures and land Customs	671	264	298	637	290
	Total (a+b)	1077	452	505	1024	304
	(*c*) Customs (Major ports)	831	618	687	762	
	Total (a+b+c)	1908	1070	1192	1786	
1972	(*a*) Excise	387	341	229	499	17
	(*b*) Town seizures and land Customs	637	305	131	811	369
	Total (a+b)	1024	646	360	1310	386
	(*c*) Customs (Major ports)	*785	581	539	*827	
	Total (a+b+c)	1809	1227	899	2137	
1973	(*a*) Excise	499	384	324	599	20
	(*b*) Town seizures and land Customs	811	283	135	959	385
	Total (a+b)	1310	667	459	1518	405
	(*c*) Customs (Major ports)	*833	540	534	*823	
	Total (a+b+c)	2143	1207	993	2341	

*Corrected figures.

Cases mentioned against (a) and (b) relate to adjudications done by Central Excise Collectors, while those under (c) pertain to Custom Houses. It is seen that the annual intake is around 1200 cases while disposals aggregate nearly a thousand cases. On these facts, there may seem some merit in the suggestion that the appellate functions of the Board should also be entrusted to the Zonal Commissioners. At the same time, it would be unwise to burden the new office of Commissioner with what may turn out to be an undue amount of desk work. Moreover, for obvious reasons, the discharge of these functions involves several procedural formalities and quite frequently a process of consultation not only within the Ministry of Finance but with other Ministries and organisations like the Ministry of Law, Directorate General of Technical Development, Ministry of Petroleum and Chemicals etc., which make it convenient for the Appellate authority to be located at the headquarters of the Government. In addition, there are two or three important considerations such as uniformity of approach and desirability of entrusting appellate jurisdiction to an authority not currently concerned with the performance of executive functions. Having regard to all these factors, we consider that the balance of advantage lies in maintaining the *status quo* so far as appellate functions of the Board are concerned. It follows that we do not advocate reversion to the system which prevailed sometime ago under which the appellate work was distributed among the Members of the Board.

14. It has been mentioned earlier that lately the Central Board of Excise and Customs has assumed powers of review in respect of certain decisions or orders for the purpose of satisfying themselves as to the correctness, legality or propriety of such decisions or orders. We consider that the power of review so far as it is presently exercised by the Board should vest in the Zonal Commissioners, in accordance with the recommendations made by us in the Chapter on 'Machinery of Adjudication'.

15. In addition to the subjects listed in the preceding paragraphs, we envisage a number of functions for the Zonal Commissioners. In general they would be responsible for the efficient administration of Excise within their jurisdictions and for this purpose maintain the closest touch with their officers and with industry. Though the functions of the Chief Vigilance Officer of the Department would vest in Member (Personnel), individual cases involving a vigilance angle and all disciplinary cases which are presently looked into by the Board should come within the purview of the Zonal Commissioner concerned. Collectorate inspections constitute one of the routine functions of the Board and of the regional offices of the Directorate of Inspection which also carry out periodical inspections of some lower formations; we propose that these regional offices should be merged in the new zonal organisation of the Commissioner and inspections should constitute the responsibility of the new organisation. We deal with Internal Audit in a later Chapter. In so far as audit of ABC units is concerned, we consider that it should be carried out by parties operating from the zonal level. Having regard to the importance of units under this

pattern of control these parties should be better equipped from the point of view of expertise in accounts. In our view they should comprise officers of a level not below that of Examiner of Accounts headed by an Officer of the status of an Assistant Director, assisted if necessary by a small complement of Technical Assistants. The organisation at the zonal level will be controlled by a Deputy Director and work under the overall direction and supervision of the Zonal Commissioner. The organisation should be linked to a Bureau of Audit at the centre, headed by a Director of Audit who would be responsible for formulating policies relating to audit and for providing technical guidance and direction to the audit organisation in the field.

16. It is also our intention that the Zonal Commissioners should be actively associated with training. The Regional Training Institutes should be placed under their administrative control and function under their supervision. Similarly all Regional Laboratories which presently cater to the needs of the Central Excise Department or to the needs of both Customs and Central Excise should be under the administrative control of the Zonal Commissioners. Technical supervision over these institutions would, however, continue to be provided by the Director of Training and the Chief Chemist who would be responsible for the functioning of the Central Institute and the Central Revenues Control Laboratory, apart from advising the Board on matters connected with policy pertaining to these institutions.

17. In the foregoing suggestions about the constitution of the new office of Commissioner, we have confined ourselves generally to functions connected with the administration of Central Excise. Commissioners would ex-officio have the status of Members of the Board which is a composite Board for both Customs and Central Excise functions. At the field level, as has already been pointed out, several Customs functions—such as those relating to administration of land customs, sea customs at minor and intermediate ports and air customs in Delhi, and customs preventive functions in areas other than those specifically assigned to Customs—are performed by Central Excise officers. All these functions pertain to the Customs Act, 1962, of which the administration at the Board's level vests in Member (Customs). Similarly, functions relating to levy and collection of countervailing excise duties are performed by Customs Officers. Having regard to this close inter-connection between Excise and Customs at various levels, we feel that the arguments which justify the devolution to the Zonal level of some of the functions of the Board in so far as Excise is concerned are also valid to a certain extent in respect of Customs. We draw attention to this very important aspect, without however attempting to make concrete suggestions, since these would largely fall outside the scope of our terms of reference. Government will no doubt, at the proper stage, but as an integral part of the issue under consideration, examine and take a decision on the complementary functions which, on the customs side, may be appropriately exercised by the Zonal Commissioner.

CHAPTER 10

FIELD LEVEL: REORGANISATION OF COLLECTORATE

Among the field formations of Central Excise are, in concentric order, the Collectorate and (within it) the Division and the Range. The last mentioned unit covers a variety of types such as the earlier MOR and the later Assessment Range. In this Chapter we propose to examine these and other basic units of Excise administration from the composite viewpoint of maximum efficiency in collection with minimum hardship to the assessee.

2. The following have to be taken into consideration in determining the optimum size of a formation:—

(i) geographical factors;

(ii) the number of units producing excisable goods, the character and composition of such units and their concentration and distribution;

(iii) potential for:

(a) increase in existing revenue, and

(b) increase in number of producing units; and

(iv) scope for evasion.

3. To the foregoing criteria must be added another set of considerations in examining the size and structure of field formations. These are the requirements which arise from the different patterns envisaged in the system of Selective Control. These requirements have been examined at some length in an earlier Chapter.

4. We have observed that Collectorates are organised on a territorial basis, with their delimitation specifically notified under the Central Excise Rules. The expansion of Excise coverage, the increasing complexities which have accompanied such expansion, the allocation of new functions to the Department and the modifications effected at different times in the operational and administrative spheres called for changes in the territorial jurisdiction assigned to different Collectorates. In the course of the years, many adjustments have in fact been carried out, though based largely on *ad-hoc* assessments made from time to time of the work load involved. From three administrative units of the Central Excise and Salt Revenue Department in 1938, the number of Collectorates increased to 15 in 1962. Since then five more Collectorates have been carved out.

5. The delimitation of primary field formations in the Central Excise Department is based on certain norms formulated by the Staff Inspection Unit (SIU) of the Ministry of Finance with reference to different items of work including, among other, the documents dealt with or checked. Coefficients have been evolved in respect of different items of work for determining the number of Inspectors required for assessment or inspection. It has been estimated that a viable Assessment Range or an Inspection Group headed by a Superintendent should have four to six Inspectors. No such norms appear to have been worked out for higher formations, but the working rule followed seems to be that normally four to six Ranges with a corresponding number of Inspection Groups should constitute a Division which, together with supporting executive and ministerial staff, would have an overall complement of 100 to 165 individuals. Further, it is generally assumed that six to eight Divisions justify a Collectorate charge.

6. Despite the increase in their number, the work load of some of the Collectorates is disproportionately heavy. Our attention has been drawn particularly to (1) Bombay, (2) Calcutta and Orissa, and (3) Delhi Collectorates. Originally, Bombay Collectorate covered the entire State of Bombay which included, among other areas, large parts of the present Maharashtra and Gujarat States. In the fifties, the area covered by the present State of Gujarat was constituted into a Collectorate at Baroda, while the Vidharba region of the Maharashtra State, comprising the revenue districts of Chanda, Bhandara, Nagpur, Akola, Buldhana, Yeotmal, Amraoti, Wardha and Rajapura, came to be comprised in the Madhya Pradesh and Vidharba Collectorate with headquarters at Nagpur. On account of the rapid industrial expansion which had taken place, the Bombay Collectorate was bifurcated again in 1959; with the exception of Greater Bombay and Thana taluka, all the areas then covered by the Collectorate were con-

stituted into a separate Collectorate with headquarters at Poona. Though small in area the Bombay Collectorate, comprising Greater Bombay and Thana, continues to have a heavy work load as may be seen from the following data:—

		1-4-1959	1-7-1962	1-7-1973
(*i*)	Jurisdiction	The whole of the present State of Maharashtra minus Vidarbha region	Greater Bombay and Thana Taluka	Greater Bombay and Thana Taluka
(*ii*)	Total revenue (Rs. crores)	72.55	104.48	471.11
(*iii*)	Number of commodities dealt with	27	51	110
(*iv*)	Number of factories (excluding powerlooms)	924	2600	4107
(*v*)	Number of Divisions	7	7	10
(*vi*)	Ranges	*219	51	71
(*vii*)	Staff Strength			
	Class I	11	17	27
	Class II	51	31	187
	Class III	2209	1643	1571
	Class IV	2712	2210	450

*Including tobacco and Customs ranges which now form part of other Collectorates.

7. We are informed that, on the basis of the norms fixed by SIU for primary formations, the number of ranges in Bombay Collectorate should be 96, which in turn would justify 16 to 24 Divisions and three Collectorates. We have not attempted a precise assessment of either the quantum of work or the corresponding staff requirements of the Collectorates, but from the above data and the evidence tendered before us by several witnesses, we consider there is *prima facie* case for reorganisation of the Collectorate.

8. The position is somewhat similar in regard to the Calcutta and Orissa Collectorate and the Delhi Collectorate. The former has a long sprawling jurisdiction comprising many of the districts of West Bengal and the whole of the State of Orissa, while Delhi, despite the creation of a Collectorate at Chandigarh, still covers the entire State of Rajasthan in addition to the Union Territory of Delhi. In respect of the Delhi Collectorate, account must also be taken of the very substantial Customs work arising from the international airport and diplomatic privileges, apart from additions to its work load on account of Gold Control and the recent rapid industrial expansion of certain areas in Rajasthan. To all intents and purposes, even now the Orissa and Rajasthan areas are treated as distinct administrative units controlled by Deputy Collectors posted at Bhubaneswar and Jaipur. We consider that with some minor territorial adjustments, these might appropriately be constituted into separate Collectorates.

9. The cases of Bombay, Calcutta and Orissa and Delhi Collectorates have been cited only by illustration. Other Collectorates might call for similar adjustments. We recommend that the existing jurisdiction of all Collectorates may be reviewed for the purpose of making these charges administratively viable.

10. Instances have been cited by several witnesses of big industrial complexes which, on account of their location, would reportedly find it more convenient to deal with a neighbouring Collectorate rather than the one in whose jurisdiction they happen presently to be situated. Two cases mentioned are Faridabad and Ghaziabad which, respectively, are now controlled by the Chandigarh and Kanpur Collectorates. It is urged that both these industrial concentrations would, from the point of view of Excise, be better served by being attached to the Delhi Collectorate. The principal reason for this preference is stated to be the present requirement that cheques in respect of duty payments can be drawn only on approved bank located at the Collectorate headquarters. We have already dealt with this matter in Volume I in which we have made several recommendations including the one that cheques may be permitted to be drawn on an approved bank located at divisional headquarters. We believe that, with the implementation of the measures recommended, the inconvenience presently felt by the assessees would be largely mitigated. Moreover, we understand that a redistribution of Collectorate boundaries as required would present a number of administrative and accounting problems. We consider that the balance of advantage, in at least these specific cases, lies in not disturbing the *status quo*.

11. It has already been observed that the present pattern of control, uniformly applicable to all units, under which the Assessment

Range and the Division are the primary and supervisory levels responsible for administering them, is in adequate so far as ABC units are concerned. In coming to this conclusion, we have been guided by several considerations, including the revenue potential of these units, the highly technical and sophisticated methods of accounting followed by them and the high level of the management charged with the responsibility of planning and controlling production and maintaining accounts. In this situation it is not only desirable but necessary that the Government agency responsible for checking such accounts and dealing with the management of these units should be equally competent in methods of account keeping and at the same time be of sufficient calibre and authority to be able to inspire confidence and ensure compliance with legal and procedural requirements. We are accordingly of the view that ABC units should be the direct responsibility of the jurisdictional Collector who should exercise that responsibility through a team of specially selected and trained officers.

12. In accordance with the analysis presented in Volume I the number of units in each Collectorate which qualify for this pattern of control, on the basis of data for 1971-72, is as follows:

Collectorate	Number of commodities	Number of units	Revenue (Rs. crores)	Revenue as percentage of the total revenue of the Collectorate
Delhi	10	26	30.52	53.57
Chandigarh	6	21	12.72	26.50
Allahabad	9	22	27.76	36.24
Kanpur	8	9	84.50	62.46
Baroda		29	119.25	67.23
Bombay	16	119	233.33	56.78
Ahmedabad	9	34	37.46	72.21
Goa	5	9	15.56	93.40
Hyderabad	3	7	31.99	67.43
Guntur	9	28	41.87	72.96
Nagpur	8	17	30.81	53.18
Poona	5	9	2.32	3.08
Mysore	6	11	51.36	63.81
Madurai	1	6	6.81	38.54
Madras	14	52	103.19	68.70
Cochin	13	36	82.25	86.22
Calcutta & Orissa	21	83	103.33	58.60
Patna	17	28	85.91	76.76
West Bengal	11	22	58.12	71.78
Shillong	9	15	34.38	66.00
TOTAL	29	583	1193.44	60.47

13. In the above data the number of units indicated corresponds to licensed units; since a separate licence is issued for each excisable commodity produced, even though a number of them may be produced on the same premises (mineral oils produced in a refinery are an instance in point) the number of units required to be controlled would in fact be less than the number shown. Even so, the number of such units would vary widely as between different Collectorates so that, in the scheme of direct control envisaged by us for ABC units, the additional burden which would devolve on the Collectors would not be evenly distributed. A study made by us reveals that in most Collectorates a fairly large

proportion of these units is located either at the Collectorate headquarters itself or within reasonable distance thereof. This is illustrated by the following table :

Collectorate	Total number of ABC units (based on data for 1971-72)	Number of units located at Collectorate head-quarters or within reasonable distance of the Collectorate headquarters	Other important centres of concentration
1	2	3	4
1. Delhi	26	19	
2. Chandigarh	21	Not available	
3. Allahabad	22	8	(Varanasi 5, Lucknow 2, Bareilly 2)
4. Kanpur	9	5	
5. Baroda	29	12	
6. Bombay	119	119	
7. Ahmedabad	34	..	(Jamnagar Division 22)
8. Goa	9	..	
9. Hyderabad	7	7	
10. Guntur	28	1	(Visakhapatnam 21)
11. Nagpur	17	..	(Raipur 8)
12. Poona	9	5	
13. Mysore	11	7	
14. Madras	52	50	
15. Madurai	6	..	(Sivakasi 2, Trichy 2)
16. Cochin	36	28	
17. Calcutta & Orissa	83	77	
18. Patna	28	9	(Jamshedpur 9, Ranchi 6, Gaya 3)
19. West Bengal	22	2	(Burdwan 15)
20. Shillong	15	1	(Dibrugarh 7, Gauhati 7)
TOTAL	583	350	

14. It is seen from the above data that in addition to the units located at or near Collectorate head-quarters, there are in several Collectorates some outlying clusters or concentrations of such units. We also realise that in the future industrial expansion of the country, there is likely to be greater emphasis on dispersal of industries and establishment of new industries in backward areas. It might accordingly be argued that to attempt to control all such units from the Collectorate headquarters may not be a feasible proposition. While we appreciate the force of this argument, we consider that in the ultimate analysis, having regard to the base postulates of the ABC pattern, the balance of advantage so far as units under this pattern of control are concerned would like in their being controlled centrally by an authority at a sufficiently high level. In the case, however, of certain areas such as Jamshedpur, Visakhapatnam and Burdwan (Durgapur—Asansol complex), which not only represent a concentration of such units but which are at the same time located at considerable distances from the headquarters of the concerned Collectors, it would be desirable to post a sufficiently senior local officer (of at least the status of Deputy Collector) to administer such units on behalf of the Collector.

15. For purposes of approval of classification and price lists, the proper officer in the case of ABC units would be the Collector. Assessments and all other functions, except peripheral functions, would also be his responsibility. In peripheral functions we would include such routine jobs as the issue and renewal of licences, approval of ground plans, execution of bonds, verification of sureties, drawal of samples, etc. which may be performed by the range formation responsible for the jurisdiction in which the ABC units concerned are located. Adjudication of offences arising in relation to these units would also fall within the jurisdiction of the Collector irrespective of the nature or the gravity of the offence involved.

16. In respect of ABC units, the Collector would be assisted by a team of officers of which the strength may differ from Collectorate to Collectorate depending upon the number of units, their location and character and the nature and complexity of the tariff to be administered. For obvious reasons this staff would have to be specially selected, so as to provide the necessary expertise in the relevant method of accounting and techniques of production. The accounts personnel would be provided by the internal Audit and Accounts Division. The technical staff would belong to the normal

cadres of services in the Department (Assistant Collectors and Superintendents). In addition, the technical side will be strengthened by the induction of suitable experts either directly recruited or drafted from other departments on deputation. What we visualise is that these experts would be assigned to Collectorates where their special knowledge and expertise would be most useful from the point of view of the concentration of commodities produced; but they would be available for advice on technical matters to other Collectors also. Thus a steel expert might be posted to Calcutta and an oil expert to Bombay, but it would be possible for other Collectorates dealing with units producing steel and oil to requisition their services for advice on problems relating to these excises.

17. The accounts maintained by ABC units would receive the closest attention: they may be inspected either on the premises of the producer himself or at the collectorate headquarters according to the convenience of the assessee and the Department. All audit objections raised with reference to these accounts would be looked into by the Collector and appropriate action taken, if necessary, after discussion with the management. We also expect that the Collector himself would visit the ABC units in his charge at periodical intervals for on-the-spot inspection and settlement of all pending problems.

18. In addition to the Collectorate functioning as a distinct field and administrative unit, the Collector's charge comprises formations known as the Division and the Range. By and large these formations also operate on a territorial basis, but in certain metropolitan areas like Bombay, Calcutta, Madras and Delhi, they are organised on what is known as the functional pattern. This implies that they are assigned jurisdiction not over a distinctly defined geographical area in respect of all excisable goods produced within that area and all Excise work connected therewith, but over certain specified commodities produced in a wider territory which may be coterminous with the territorial jurisdiction of the Collector or the Assistant Collector according as the formation organised on the functional basis is the Division or the Range. In this pattern, the same territory or geographical area constitutes the jurisdiction of more than one Division or Range in respect of commodities assigned to each one of them. We have given careful thought to these patterns of working and consider that, consistently with the basic considerations we have elsewhere elaborated, including the need to pinpoint the responisbility of individual officials in respect of individual units of manufacture—the actual pattern must be left to be decided by those best acquainted with the local conditions and local problems, viz. the Collector and Commissioner concerned. It follows that we consider it in appropriate to lay down rigid principles which prescribe, at one or more levels, either a territorial pattern or a functional pattern or specific degrees of admixture of the two patterns either for metropolitan areas generally or for individual cities like Bombay or Calcutta.

19. In so far as the constitution and strength of the Divisional formation is concerned, the present basis, which is understood to have been evolved in consultation with SIU, stipulates as follows:—

"(i) a Division should normally have 4 to 6 Assessment Ranges and a corresponding number of Inspection Groups, Preventive Parties etc. with a total strength of 100 to 165 persons including ministerial and Class IV staff;

(ii) the Assistant Collector may be provided with the assistance of one Superintendent for both Technical and Administrative work so long as the total strength of the Division is upto 120. When the strength exceeds this figure, he may be provided with the assistance of another Superintendent (Administration)/Administrative Officer; and

(iii) the Division may be bifurcated/reorganised if the total strength exceeds 165 or the number of Assessment Ranges within its jurisdiction exceeds 6."

20. It appears to us that the present constitution of Divisions is based more or *ad hoc* considerations than on an assessment of the work load involved. We consider that it would desirable in due course to evolve suitable norms, as in the case of Assessment Ranges and Inspection Groups, for various items of work required to be performed by an Assistant Collector and his office and to determine the size of a Division on the basis of the work load so assessed. We, however, realise that it may not be possible to do so unless Divisions actually start functioning in terms of the requirements of the new patterns of control. Until then it would be appropriate, in our view, to proceed on the assumption that a Division should ordinarily comprise four or five Ranges.

21. In the course of our tours and from evidence tendered before us we have gathered the impression that Assistant Collectors, as a rule, are overburdened with work. In an earlier Chapter we have set out briefly the principal functions presently entrusted to them. We attach considerable importance to the office of the Assistant Collector and consider that as a Controlling Officer in relation to Range formations he has a pivotal position in the organisational set-up. The Division is an important cross-section of the industrial map of the Collectorate. The Assistant Collector, as the senior most officer in his jurisdiction, is called upon to tackle all the complex tax problems which arise in the day to day administration of a variegated pattern of industry and excise. He is concerned

with solving as many such problems as possible at his own level. The representatives of industry look up to him as their immediate source of redress in matters on which they feel dissatisfied with the working of the Range. The Administration for its part holds him responsible for the security of Government revenue and the smooth and efficient functioning of his charge. For these and other reasons, an Assistant Collector should be an officer of standing and experience and one who is able to take appropriate decisions on his own. In our view an officer should not be given independent charge of a Division unless he has had sufficient field experience and has some familiarity with work at the Collectorate headquarters. Once he is given such charge, it is important that he should not be saddled with too many routine functions which keep him tied to his desk. We envisage for him the role essentially of an officer who is in continuous touch with his charge, meeting his officers and assessees at frequent intervals, carrying out surprise checks in addition to administrative inspections, organising preventive and intelligence activities in the Division and applying his mind constantly to improving the tone and integrity of administration. For carrying out these tasks he should be given greater authority than at present and ample scope for the exercise of discretion.

22. With ABC constituting a separate entity controlled by the Collector, the Assistant Collector will be relieved of his direct responsibility in respect of these units. We do not, however, envisage his complete dissociation from such units. Apart from the peripheral functions performed by jurisdictional Ranges under his administrative control, for which he would continue to be responsible, he should keep himself in touch with the working of these units through his intelligence officers and other sources of information. The activities of his preventive organisation would extend to these units also. In a way, so far as ABC units are concerned, he would be the eyes and ears of the Collector communicating to him all such information as may have a bearing on revenue.

23. On the subject of approval of classification and price lists, the position obtaining at present has been quoted at some length in Volume I. In this context it has been repeatedly urged before us that the entrustment since May 1972 of the functions of 'proper officer' to the Assistant Collector has added substantially to his work load and impaired his efficiency in the other spheres. In Volume I we have also observed that "the present instructions regarding the hierarchical levels at which decisions on classification may be taken are hedged round in such a way that far from encouraging clear cut decisions at each level, they may be said to encourage an upward passing on of responsibility at every suitable opportunity". For these and other reasons, we propose that the Range Superintendent should also be a 'proper officer' for approving certain items of classification and valuation. It is at the same time necessary that the Assistant Collector should continue to be associated actively with both classification and valuation. Our recommendations in this behalf are as follows:—

(a) In so far as commodities under the ABC pattern are concerned, functions relating to classification, valuation and assessment should vest in the Collectors. We should, however, like to make one reservation which we illustrate with reference to mineral oils. Mineral oils produced by refineries are consigned under bond to all parts of the country where they are stored in bonded installations and then cleared on payment of duty. The classification in respect of these products would be decided upon by the Collector having jurisdiction over the refinery concerned and the classification would also be indicated on the removal application under which the products are transported under bond. Most of these products are liable to specific rates of duty with the result that no valuation problems as such are involved in their assessment, apart from the fact such products are sold in terms of pricing formulae approved by Government. Even otherwise, the storage, issue and accounting of these products are not likely to present such problems as to warrant the personal attention of the Collector. Therefore, it should be open to the Collector to delegate his functions in relation to such marketing installations and other similar units to the jurisdictional Assistant Collector, by virtue of powers, vested in him under the Central Excise Rules.

(b) For PBC units, which constitute a major revenue yielding sector, the commodities covered may be divided into two lists: (1) one comprising items which have a complicated tariff or involve detailed examination with reference either to the composition of the product or the valuation law and principles or extensive market inquiries, and (2) the other comprising all the remaining items. In the residuary list we would include commodities subject to single and specific rates of duty, and goods for which prices are fixed by statute, in addition to those for which tariff values have been notified and others which do not present complexities of classification and valuation. The Assistant Collector and the Range Superintendent respectively would be the proper officers for commodities covered by the two lists. The division of commodities on the above basis should be decided upon by the Administration and may be varied from time to time according to needs and exigencies. As Superintendents gain more experience and acquire the necessary expertise, it should be possible for more and more commodities to be transferred to the residuary list.

(c) For units operating under CBC, of which the number is not likely to be large and which would fall largely in the small sector, the powers of the 'proper officer' for purposes of

classification and valuation should be exercised by the Superintendent, irrespective of the commodity produced.

24. We observe that instructions issued by the Department provide for internal consultation between the Superintendent and the Assistant Collector or between the Assistant Collector and the Collector for resolving doubts on matters relating to classification and valuation. We appreciate the need for frequent internal consultation on all issues which have an important bearing for either the Industry or the Department; but having regard to the quasi-judicial nature of decisions on issues pertaining to classification and valuation, as distinguished from other issues, we consider that instead of providing for an extra-judicial method of internal discussion or consultation in regard to such matters, the relevant rules should clearly stipulate that where a proper officer, for reasons to be recorded in writing, feels that a decision on an issue concerning classification or valuation should be taken by a higher officer, it should be possible for him in law to refer the matter to such higher officer.

25. It follows that, with due regard to the relative importance of various commodities, appropriate officers at different levels—and not merely the Assistant Collector as at present—should be empowered to take a decision as 'proper officers' in regard to classification and valuation of different commodities. We recommend that necessary provisions be made in the Rules accordingly.

26. The Assistant Collector would be expected to keep under constant surveillance the work of classification and valuation done in the Range, and for this purpose he may be required to carry out a percentage check of all assessments. Where, in the course of his inspections, he discovers instances in which he considers there has been a short levy or under-assessment of goods, we are advised that it would be possible for him to take recourse to the relevant provisions with a view to recover the duty or other amounts which are found to have been short levied.

27. We have recommended in Volume I that the work of collection of duty by cheques should no longer be confined to headquarters of Collectorates and that as a first step towards decentralisation, the cheques should be permitted to be drawn on approved banks located at the divisional headquarters. For this additional work of receipt and collection of cheques and accounting (including reconciliation with the treasuries) of all credits, the Assistant Collector should be provided with the necessary staff under his administrative control. In our view this will not only remove a long standing grievance of the industry but also help improve the Assistant Collector's control of units in his jurisdiction.

28. We also recommend elsewhere an enhancement of the powers of adjudication now vested in the Assistant Collector.

29. We contemplate that, in respect of producers expected to be brought within the purview of Simplified Procedure, the Assistant Collector will have an important role in the matter of determining their eligibility therefore and in arriving at their prospective duty liability. Though these matters would come within the purview of the jurisdictional Range, we consider that the Range staff should receive active guidance from the Assistant Collector. For example, the initial operation should be organised at his level and with his active participation in the various exercises needed to be carried out for a proper switchover to the new procedure.

30. In terms of the recommendations made by us, the Superintendent (Technical) attached to the Divisional Office will be relieved of such of his functions as relate to adjudication of offences; we do not, however, think it would be possible for that reason to dispense with this post altogether. The day to day administration of a Division involves several technical functions for which a Superintendent (Technical) will continue to be necessary.

31. In the scheme of Selective Control envisaged by us, the Range would be the primary formation responsible for all units other than those under the ABC pattern. It will have a cearly defined jurisdiction in which the work involved (including peripheral functions required to be performed by the Range in relation to ABC units) would ordinarily warrant the posting of four or five primary workers (Inspectors) headed by a Superintendent of Central Excise. We have already observed that at present the work load is assessed on the basis of norms formulated by SIU for different items of work. The new Range will be called upon to assume several functions which are not being performed by the present Assessment Range or MOR; for example, functions presently performed by Inspection Groups which would hereafter be transferred to the Range. The Range would also perform functions which are different from those presently entrusted to it, such as items pertaining to classification and valuation. It would therefore be necessary to re-assess the quantum of work involved in a Range.

32. The role we visualise for the Range is that of a compact, self-contained, administrative unit performing all primary functions in relation to the producing units coming within its purview. Such functions, in so far as PBC units are concerned should, in our view, include assessment together with the preceding operations of approval of classification and/or price lists by the Superintendent in charge of the Range. Subject to the observations we have made in paragraph 23 ante, these would also include exercise of production checks as set out

briefly in Volume 1 and discussed later in this Volume. Other items included would be scrutiny and consolidation of periodical returns and physical verification of goods (where required), in addition to peripheral functions such as verification of sureties, drawal of samples, issue and renewal of licences and execution of bonds. In respect of units eligible for Simplified Procedure, the Range will be responsible, subject to the observation already made about the active overall supervision of the Assistant Collector, for examination of their relevant accounts for the purpose of determining their initial or continued eligibility for Simplified Procedure; for obtaining their options; and for fixing their prospective duty liability in terms of the orders or instructions issued by the Department. It would also ensure timely payment or realisation of duty instalments and carry out in relation to such units the prescribed periodical or other checks in addition to the scrutiny and consolidation of production returns. For units which do not opt for Simplified Procedure, the Range will follow the standard procedure applicable to units working under physical control. Here again approval of classification and price lists which would precede assessment of AR 1 by the Inspector would be the responsibility of the Range Superintendent. The Inspector concerned would note on the AR 1 itself that assessment was based on classification and/or valuation approved by the Superintendent.

33. Consequent upon the introduction of the MOR pattern of work, and later the SRP, the Range offices came to be shifted from their original locations within the producing factories or in close proximity to points of production to more distant places and in some cases, to Divisional headquarters. The arguments usually advanced in support of this development are:

(i) that the territorial jurisdiction of a large number of Ranges extends to out of the way places where housing. educational and medical facilities and other amenities of a town life are not available and this constitutes a serious hardship for the staff,

(ii) that withdrawal of officers to more convenient points or Divisional offices promotes mutual consultation on problems of Excise administration, and

(iii) that it is wrong in principle to expect manufacturers to provide office (and residential) accommodation, particularly when the physical presence of officers for granting clearances is not necessary.

34. The above arguments do in fact constitute an explanation, rather than a justification for the shifting of residential and office accommodation previously provided to the Inspectors by the factories. The question that arises now is whether, in the light of the recommendations made by us regarding the change in the pattern of controls and checks, the existing arrangements relating to office and residential accommodation would require to be changed.

35. In so far as ABC units are concerned, no problem may arise because it is essentially the Collector in charge of these units and his technical officers who would be exercising the control based on accounts; and the few peripheral duties to be performed by the Assistant Collectors can be done without any need for the Assistant Collector or his staff to be stationed near the particular factory. However, as regards PBC and CBC units, it would be necessary for the controlling Excise staff to be as near the factories as possible. For this purpose, a distinction could be made between office accommodation and residential accommodation. In the matter of office accommodation, if no suitable building is available in proximity to the bigger units falling within the jurisdiction of the Range, there is no objection to one of the factory units providing the necessary accommodation for the Range or the sector office concerned by arrangement with the Department for payment of due rent. In the matter of residential accommodation, in metropolitan areas such as Bombay, Calcutta, Madras, Ahmedabad, Kanpur, etc., having regard to the high rent prevailing in these areas, the Government should take steps to hire buildings and rent them out at the standard or the pool rent to the Central Excise staff, unless of course, Government buildings are available for occupation. Where Government buildings are available, the Director of Estates may be requested to reserve a pool for the Central Excise staff, so that no difficulty may be experienced by them in regard to residential accommodation. Where the factories are situated in remote areas, such as in Assam, and no building is available for residential accommodation, apart from those owned by the factory owner, there should be no objection for the Central Excise staff being housed in accommodation hired from the factory. In other places, if the Central Excise staff are not able to hire or rent residential accommodation readily and at reasonable rents, there should be no objection to Government hiring the accommodation from the factories themselves if such residential accommodation, already constructed by them for their officers and workers, is available.

36. While the Superintendent would be responsible to the Administration for the overall functioning of the Range as such, the jurisdiction of the Range should be demarcated into sectors, each sector being placed directly under an Inspector who will be responsible for effective administration of allunits falling within the sector. As already stated the principal aim underlying the constitution of Ranges should be to make them compact and self-contained units in which the Range Superintendent and

the sector officers can operate conveniently from the same office, and are easily accessible to the industry. In some areas, which do not have the requisite concentration of Excise work. as for example, those which involve administration of tobacco and coffee excises, or which include a large number of small tea estates, a sector office may have to be located at a different point. Such isolated sectors should nevertheless form part of a parent Range, the sector officers being responsible to the Superintendent concerned.

37. We have referred in an earlier Chapter to the circumstances leading to the present practice whereby all offences arising within the jurisdictional competence of a Superintendent are adjudicated not by the Superintendent of the Range concerned but by the Superintendent (Technical) attached to the Divisional office. This practice does not appear to us to be conducive to effective administration. We recommend that powers of adjudication should be exercised by the jurisdictional Superintendent.

38. In addition to adjudication as such there are several functions performed in a Range, including inspection of producing units, receipt and despatch of references etc., for which clerical assistance is necessary. We recommend that this may be provided in the form of a Clerk cum-Typist. It is not, however, our intention to saddle the Range with other administrative and housekeeping functions, like maintenance of service records, preparation and drawal of bills and compilation or tabulation of statistical returns. These functions should continue to be performed in the Divisional Office. We would however urge that a small permanent imprest may be given to the Range for petty contingent expenditure.

39. In the preceding paragraphs we have dealt with the reorganisation of field formations in relation to their basic functions connected with levy and collection of duty. These formations also perform certain allied functions of which the principal ones are "Preventive" and "Audit". We deal with them in the succeeding Chapters.

CHAPTER 11

PREVENTIVE ORGANISATION

In the early stages of the functioning of the Central Excise Department, i.e. prior to the imposition of excise duty on unmanufactured tobacco, a Superintendent at the Collectorate headquarters with a complement of eight to ten Inspectors and Sub-Inspectors constituted what was called the Intelligence Wing of the Collectorate. The principal task assigned to this force was to collect intelligence about the smuggling activities of manufacturers of excisable goods. The commodities covered by excise then were motor spirit, kerosene, sugar, steel ingots, matches, mechanical lighters and tyres. With the extension of duty in 1944, to unmanufactured tobacco, which was subject to an entirely new pattern of control, and in which points of tax collection were dispersed all over the country, it was felt that the scope and functioning of the Intelligence Wing needed to be enlarged. In this context it became necessary to undertake a continuous study of the growing, curing, movement and marketing of tobacco and to exercise preventive checks on consignments in transit. The Intelligence Wing was later converted into a Preventive and Intelligence organisation. The intelligence functions of the new organisation came to include collation and interpretation of statistical data, besides collection of information concerning smuggling.

2. The strength of the Preventive and Intelligence organisation differed from Collectorate to Collectorate. In the Northern India Collectorate, each Division had a Superintendent with an Inspector working in each Circle, whereas in Bombay, there was an Assistant Collector (Preventive) with two Superintendents, each having a number of Inspectors under him. The Preventive and Intelligence staff acted independently of the local staff, reporting directly to the Superintendent or Assistant Collector (Preventive).

3. In 1949, the range jurisdictions were redefined on the basis of a new schedule of work units in which time was also allowed for preventive checks, which thus became the responsibility of the Range Officer himself. Preventive and Intelligence work in Circles and Divisions was entrusted to Officers who were given the designation of Preventive Intelligence Officers. The staff posted to a Circle consisted generally of two Inspectors who were also employed for conducting special and important investigations including checking of railway documents, octroi records etc. Similarly a Deputy Superintendent and a number of Inspectors were assigned to each Division. These Officers functioned under the direct administrative control of the Circle or Divisional Officer concerned, though they were required to submit certain periodical returns (known as Intelligence Returns) to the Collectorate headquarters. Each major Collectorate had two Superintendents, designated as Superintendent (Intelligence) and Superintendent (Preventive). The former was responsible mainly for the compilation of statistical returns and interpretation of statistics, while the latter, who had a staff of one or two Deputy Superintendents and six to eight Inspectors, was concerned mainly with prevention and detection of offences. In smaller Collectorates, only one Superintendent was provided and he looked after both Intelligence and Preventive Work.

4. Though the Preventive Intelligence Officers posted in Circles and Divisions worked under the administrative control of the Circle or the Divisional Officer concerned and the staff provided at the headquarters of the Collector was responsible to Superintendent (Preventive) or Superintendent (Intelligence), it was laid down that the responsibility for coordination of all preventive activity within the Division would lie with the Divisional Officer and that, similarly, the Collector would be responsible for the formulation of policy relating to preventive work in the whole Collectorate.

5. On the scope and technique of preventive intelligence work, the instructions issued by the Department stipulated as follows:—

> "Preventive Intelligence Officers should not be employed solely on routine checks which rightly fall within the sphere of the range staff. The Preventive Officers must endeavour to develop a sound intelligence system which is the very basis of fruitful preventive work. The Officers will serve as mobile field units for collection of intelligence and for procuring information through reliable informers. While every Range Officer is a Preventive Officer in his jurisdiction for the purpose of all preventive checks, the Preventive Officers attached to the Circle and Divisional organisations are intended for collection of intelligence and to do preventive work against organised smuggling etc. They will submit copies of all secret information, intelligence reports, seizure reports and returns in the manner prescribed....."

6. On selection of Preventive Intelligence Officers, the instructions required that "the natural aptitude for detection, the knack for collecting intelligence, and the integrity and initiative of the officers, should be carefully examined in making the selections".

7. With extension of the tariff to more and more manufactured products and with the entrustment of the administration of Gold Control to the Excise Department, the scope and functioning of the Preventive and Intelligence organisation expanded. When a large number of Circles were abolished or integrated with Divisional offices, the Preventive Intelligence Officers assigned to them also came to form a part of the Divisional set-up. The strength and composition of preventive intelligence parties differed from Collectorate to Collectorate but the normal complement before the introduction of SRP was three Superintendents at the Collectorate headquarters, one each for Intelligence, Gold Control and Customs, and Central Excise. Each of the three Superintendents was assisted by five or six Inspectors. The organisation in each Division consisted of a Superintendent and a number of Inspectors and was responsible for all types of preventive activity in the Division including Gold Control, goods notified under the Customs Act and other anti-smuggling operations. In certain Collectorates, where the nature and extent of clandestine operations relating to gold warranted special attention, all work connected with the administration of Gold Control was centralised under a Deputy Collector (Gold).

8. Broadly speaking, the preventive functions performed by the Central Excise Department include prevention and detection of offences under (i) Central Excise law viz., the Central Excises and Salt Act, 1944, and the rules framed thereunder, (ii) Customs Act, 1962, so far as offences under that Act pertain to (a) Land Customs which is administered entirely by the Central Excise Department or to (b) areas which fall outside the jurisdiction assigned to the Customs Department in respect of major sea ports and air ports, and (iii) Gold Control Act, 1969. In so far as detection of offences under the Customs law is concerned, in metropolitan areas like Bombay, Calcutta and Madras, the Customs and Central Excise Departments exercise concurrent jurisdiction. Normally all preventive work coming within the ambit of Central Excise is the responsibility of the jurisdictional Collector and through him of the Assistant Collectors concerned. In certain areas, however, where the preventive work involved is so heavy as to justify it, Preventive Collectorates have been created exclusively for the purpose of tackling preventive work. Two instances in point are Bombay and Patna. The preventive Collectorate in Bombay is designed to undertake all preventive activity in relation to Sea Customs in the jurisdiction of Greater Bombay and certain coastal areas extending beyond that jurisdiction. The Patna preventive Collectorate is responsible for anti-smuggling operations on the Indo-Nepal border.

9. With the introduction of SRP it was felt that "under the new procedure, the existing preventive set up will need to be improved both qualitatively and quantitatively".

10. We find that though SRP was introduced in 1968 and applied to 59 commodities (out of 73 then under Excise) and extended to the remaining commodities, except unmanufactured tobacco, in 1969, the preventive organisation of the Department remained unchanged until 1971. It appears that, about this time, the total strength of preventive staff in the Collectorates was as follows:—

Assistant Collectors	...	4
Superintendents, Cass I	...	7
Superintendents, Class II	...	126
Inspectors	...	1169
Sub-Inspectors	...	413
Sepoys	...	495

11. The Directorate of Inspection (Customs and Excise) was asked to review the Preventive organisation in the light of SRP. In January, 1971, it made certain proposals which envisaged, inter alia, the creation of the following additional posts:

Assistant Collectors	...	10
Superintendents, Class I	...	21
Superintendents, Class II	...	317
Inspectors	...	1188

It was recommended that the 413 posts of Sub Inspectors which formed part of the preventive force should be upgraded to those of Inspectors and offset against the additional strength of 1188 Inspectors recommended for that cadre. The proposals were pruned first in the Board's office and later in the Department of Expenditure and in July, 1971, the following additional staff was sanctioned for preventive work:

Assistant Collectors	...	7
Superintendents, Class I	...	—
Superintendents, Class II	...	135
Inspectors	...	540

12. Some time later, in recognition of the need for strengthening the preventive arrangements in the match manufacturing areas, additional preventive staff was also sanctioned for Madras, Madurai, Cochin, Hyderabad and Guntur Collectorates.

13. In so far as qualitative improvements in the Preventive organisation are concerned, the instructions issued by the Department reiterated that personnel for preventive work should be very carefully selected. It was emphasised that preventive checks would now call for much greater emphasis than had been placed on them under the earlier procedure, but it was enjoined at the same time that "it must be constantly ensured that preventive staff does not become a source of harassment to the assessees". In the reorganisation proposals made by the

Directorate of Inspection in January, 1971, it was recommended, inter alia, that:

(i) in addition to providing adequate start at the Divisional and Collectorate headquarters, arrangements should also be made for local preventive units to watch day to day activities of the trade and to exercise checks over goods in transit in addition to collecting local intelligence, such preventive units being located at the headquarters of various range formations, and in other sensitive areas, like industrial centres, traffic bottlenecks, and concentration of match and tea factories;

(ii) statistical work and ad hoc inquiries should be separated from the preventive;

(iii) preventive work in Collectorates like Bombay, where the industries are concentrated at the Collectorate headquarters itself, should be centralised by withdrawing all preventive staff sanctioned for the Divisions to the Collectorate preventive force, the same principle being followed in other Collectorates in respect of Divisions located at the Collectorate headquarters;

(iv) except for local preventive units which should comprise an Inspector and a Sepoy, a preventive party should consist of one Superintendent and 3 Inspectors;

(v) separate staff should be provided in each Division and Collectorate for attending to statistical returns, intelligence and ad hoc inquiries as also for investigation and prosecution work; and

(vi) adequate clerical assistance should be provided for both preventive and Statistical branches.

14. In Volume I of our Report on the problem of evasion of Excise duty has been considered in some detail. The relevant recommendations are designed to deal with those features of the structure of tariff (including exemptions) and of the framework of administration which in our view tend to facilitate evasion. Indeed, the System of Selective Control should help to bring about a considerable reduction in evasion by introducing a more rational distribution of trained manpower corresponding to the revenue significance of different categories of units. But that would not make it any the less necessary to build in, as part of the total scheme, an adequate and efficient Preventive and Intelligence Organisation. Such an organisation would continue to be a matter of paramount importance in the administration of Excise levies.

15. It may be said that, on the whole, the substantial strengthening of the Preventive organisation which followed in the wake of SRP resulted in a quantitative increase in the cases detected. But many of these were either technical or trivial. The main reason for this, in our view, is that, like SRP itself, Prevention has tended to be routine and non-selective. We would emphasise that Selective Control implies, among other things, Selective Prevention, that is to say, Prevention directed in particular to those points where it is most needed and where, in terms of revenue, its efforts would be most rewarding.

16. We have, in an earlier Chapter, recommended the establishment of a Directorate of Intelligence and Investigation at the Centre to collate information regarding evasion and other malpractices and to investigate cases with all-India ramifications or large revenue implications. The organisation will also be responsible for formulation of policies regarding both intelligence and investigation and issue of guidelines for implementation of those policies at different levels. At the same time, the Collectorate and other field preventive formations would need restructuring and reorientation to make them more effective.

17. Some deficiencies in the present preventive set up relate to:—

(i) insufficient incentives to attract personnel of the requisite calibre for this arduous and hazardous work;

(ii) inadequate attention to selection of the right type of personnel;

(iii) want of proper training;

(iv) paucity of funds for intelligence work;

(v) lack of elementary facilities like vehicles, telephones, fire-arms etc; and

(vi) meagre provision for rewards in comparison with Customs or Narcotics.

We suggest improvements in these basic respects. Concurrently certain organisational changes are necessary.

18. We consider that the Preventive Organisation of the Department ought to take into account the relative needs of the different patterns of Selective Control as well as the existing complexion of smuggling and other offences under Customs and Gold Control laws. In respect of ABC units, for example, preventive activities should be designed and guided by those who are familiar with sophisticated accounts, subtleties of classification and the ways of some of the larger enterprises. In dealing with PBC units, some knowledge of the techniques of production and of the implications of the tariff would be an indispensable qualification on the part of the preventive staff. The requirements for Simplified Procedure and CBC are somewhat different, and preventive activity here

would largely take the shape of physical checks designed to intercept the main avenues of evasion. Having regard to the fact that Collectorates and within them, the Divisions, will have different combinations of producing units subject to different patterns of control, the strength and quality of preventive personnel needed will have to be assessed separately, for each formation. The requirements of preventive staff for Customs and Gold Control work would also depend on several factors including the nature and extent of smuggling in different areas, and the deployment of preventive staff for this purpose would have to be planned on that basis.

19. For the Preventive organisation other than the Directorate of Intelligence and Investigation, we propose a three-tier structure. This will not be a hierarchial set up in the sense of each lower tier being subordinate to the one above it. Recognising three levels—viz. Range, Division and Collectorate at which preventive activity needs to be organised, this merely means that a preventive force is provided for each of these field organisations and that the force so provided will be competent to act either independently or in collaboration with one or both of the preventive forces operating at the other levels.

20. In view of the fact that evasion of duty under Central Excise is centred primarily in the activities of the producer, we consider that intelligence and preventive activity in the Department should begin at the organisational level closest to the producer. In a majority of cases information about the activities of a producing unit emanates from within the unit itself. Since this information is more readily available to the local officers and can be worked more usefully and without avoidable loss of time at the Range level, we consider that, in addition to its usual complement of Inspectors a normal Range formation should have an Inspector P&I (Preventive and Intelligence) attached to it, whose principal function should be to gather intelligence regarding evasion or other malpractices by setting up informers; making discreet inquiries about the activities of producing units located in the jurisdiction of the Range; keeping surveillance and conducting in-transit checks and checks of railway, octroi and transport companies' records; under the direct and active guidance of the Superintendent. There would have to be proper liaison between this unit and the Preventive organisation provided as the second tier.

21. The second tier of the Preventive organisation should be at the Divisional level. The preventive force at this level may continue to be headed as at present by a Superintendent assisted by an appropriate number of Inspectors depending upon the nature of preventive work involved and the scope for preventive activity. This force will function independently of the Range Preventive. It will have a limited supervisory role in that it will oversee the preventive activity in the entire jurisdiction of the Division. It may in appropriate contexts duplicate the checks performed by Preventive and Intelligence Inspectors functioning at the primary level. The staff posted in this organisation will accordingly have adequate striking capacity as well as its own sources of information. It will be answerable to the Divisional Officer. Where information intended to be developed or pursued has emanated from the Range, or where the assistance of the local staff can be utilised without jeopardising the chances of preventive activity, the Divisional staff will act in collaboration with the local officers. We consider that at this level the force should function as a composite unit responsible for all preventive and intelligence work in the Division, including Customs, Gold Control and Central Excise. It will receive the closest attention from the Assistant Collector and maintain liaison with the preventive organisation operating at the third tier which is the Collectorate.

22. At the Collectorate level, separate parties should be constituted for preventive activity under Customs, Gold Control and Central Excise, each operating under a Superintendent. All these parties should, however, function under the administrative control of an Assistant Collector (or a Deputy Collector wherever needed). Necessary coordination between the functioning of different parties constituting the third tier of the preventive organisation, and between the functioning of the preventive parties constituting the two tiers already discussed, would be provided at this level by the Assistant Collector or the Deputy Collector concerned. These parties would have jurisdiction over the whole Collectorate and be capable of acting independently of the divisional or the Range staff, if necessary, or in collaboration with them, where appropriate.

23. Where a number of Ranges are located at the divisional headquarters itself or where a number of Divisions are located at the Collectorate headquarters, the present practice is that the staff intended for preventive work is centralised in a common pool operating from the divisional or the collectorate level. While we appreciate that this arrangement may have some advantages, we consider that these are outweighed by the need which we believe exists for each Range and each Division being equipped with a preventive force of its own as part of a co-ordinated three-tier structure for the Collectorate as a whole. We are of the view that no exception need be made in this respect merely because the Range is situated at the headquarters of the Division or the Division at the headquarters of the Collectorate.

24. We consider that ordinarily a preventive party should consist of a Superintendent with not less than three or four Inspectors and a small complement of Class IV staff. While octroi

and other barriers should receive adequate attention for checking consignments in transit, greater emphasis should, in our view, be laid on mobile preventive parties operating at odd hours in areas close to the producing units. For this purpose, the mobile parties should be adequately equipped. Each preventive party should have a vehicle at its disposal and also the equipment necessary for setting up road blocks and exercising adequate surveillance. Preventive parties should also be issued firearms (pistols or revolvers) in limited numbers. The parties at Collectorate headquarters should also have walkie-talkie sets through which they can communicate with the control room of the Collectorate headquarters.

25. The important role played by informers and officers in combating the evils of evasion, the extent and gravity of which has been discussed in detail in Chapter 10 of Volume I of our Report, cannot be overstated. It is in this connection that the question relating to policy of rewards arises.

26. In considering the subject of rewards, it is essential to take into account—

(a) the criteria adopted for payment of rewards to informers and officers;

(b) delegation or entrustment of powers to the various officers of the Department for payment of rewards; and

(c) the time and manner of payment of rewards.

27. As regards the criteria for payment of rewards, both to informers and officers, the present instructions, in so far as Central Excise cases are concerned, make a distinction between cases in which (i) goods are seized and confiscated; (ii) no goods as such are seized but in which demands for duty are raised; and (iii) only penalties have been realised departmentally. In respect of (i) and (iii), the amount of the reward which can be sanctioned is restricted to half the sum realised by way of fine in lieu of confiscation of goods and or penalty. In respect of (ii), the amount of reward payable is 10% of the amount of duty collected as such. The Collectors may sanction rewards upto the maximum limit laid down above or Rs. 2,500, whichever is less, in any one case or group of cases detected together. The above limits are again subject to certain conditions and restrictions.

28. In so far as departmental officers are concerned, the broad principles which govern payment of rewards in Central Excise cases are that—

(i) rewards are granted wholly at the discretion of Government as a token of their appreciation in cases calling for a measure of industry and investigation much beyond what is expected of an officer in the regular performance of his allotted duties;

(ii) gazetted officers of the Department are not entitled to rewards except in very exceptional cases of meritorious work, where rewards can be sanctioned by the Board after examining each case individually on the basis of Collectors' recommendations; and

(iii) the total amount of reward sanctioned in a case should not ordinarily exceed 10% of the value of the confiscated goods plus the penalty or fine realised, or three months' salary whichever is less.

29. As regards delegation of powers, the operative limit of Rs. 2500 in the case of Collectors of Central Excise, as already pointed out, is subject to certain restrictions. The maximum is not admissible where, for example, 10% of the duty collected or 50% of the fine in lieu of confiscation and/or penalty, or three months' salary, in the case of a Government servant, is less than Rs. 2,500.00. The corresponding limits of powers of Deputy Collectors and Assistant Collectors are only Rs. 250.00 and Rs. 100.00 respectively.

30. Instructions also provide that advance rewards may be paid by Collectors to informers, immediately on seizure of goods, upto Rs. 250.00 or one fourth of the expected final reward, whichever is less. Subject to the same restriction, Deputy Collectors and Assistant Collectors posted outside the Collectorate headquarters are competent to sanction advance rewards to informers upto Rs. 150.00 and Rs. 100.00 respectively.

31. It is provided that as a general working rule, no advance reward should be paid to departmental officers. This instruction seems to have been issued as a sequel to the observations of a High Court that "it might not be advisable to distribute rewards to persons who are likely to be witnesses in a pending prosecution case for the obvious reason that the testimony of such witnesses is likely to be attacked and looked at with much suspicion and that in such situations, the Court could be justified in seeking independent corroboration."

32. It has been put to us that the instructions which we have explained at some length in the foregoing paragraphs are unduly restrictive in their application to Central Excise cases. It is pointed out that in Customs cases, there is no absolute monetary limit on the powers of a Collector to sanction payment of reward to an informer at a rate upto Rs. 20.00 per tola in the case of gold bullion or 10% of the estimated market price in India of confiscated goods at the time of seizure. The Additional Collector or Deputy Collector looking

after the preventive work in the Collectorate/ Custom House is also competent to sanction reward upto Rs. 5000.00 in a case, both to the informer and the officers. Where there is no Additional Collector or Deputy Collector attending to preventive work, the Assistant Collector looking after the preventive work for the whole Collectorate/Custom House is competent to sanction reward upto Rs. 2000.00 in a case for the informer and the staff. In the matter of payment of rewards to Government servants also, instructions obtaining on the Customs side are more liberal inasmuch as Collectors are empowered to sanction rewards in a case to a Government employees, including Class II gazetted officers, upto the following monetary limits subject to the overall ceiling of Rs. 20.00 per tola in the case of gold bullion or 10% of the estimated market price in the case of other goods:

(i)	Class II gazetted officers	Rs. 2500.00
(ii)	Preventive officers, Inspectors of Central excise of officers of equivalent status . . .	Rs. 1500.00
(iii)	Sub-Inspectors Woman Searchers and other Class III staff excluding drivers . . .	Rs. 1000.00
(iv)	Drivers . . .	Rs. 750.00
(v)	Sepoys and other Class IV staff . . .	Rs. 500.00

33. In the context of rewards payable to Government servants, another interesting distinction has also been brought to our notice. For rewards in Customs cases the instructions provide that "if in any case reward in excess of the above amount is considered necessary, the Collector should make the recommendation to the Government giving justification therefor. They are however authorised to sanction rewards upto the limits prescribed above; and for the additional amounts they should make a reference to the Government." On the Excise side, on the other hand, the instructions stipulate that if it is proposed to pay any individual Government servant reward exceeding his three months' pay, the entire reward proposal will be submitted to the Board. Thus in a Customs case, a Class II gazetted officer can get a reward upto Rs. 2500.00 from the Collector, but where the detection relates to Central Excise he is not entitled to any reward except in very exceptional circumstances of meritorious work, for which the competent authority is the Board. It will be observed that between the two wings under the same Board, there is a differential treatment in the matter of payment of rewards, both to informers and officers.

34. As regards other Tax Departments, such as Income Tax and Sales Tax, the following considerations determine the payment of reward:

(i) the extent of help rendered by the informer in the shape of evidence, documents, etc;

(ii) the risk, trouble and expense incurred by the informer and difficulty in securing the information; and

(iii) quantum of extra tax involved. The reward payable by the Income Tax Department ranges between 7½ and 10% of the extra tax realised which is attributable to the information supplied or assistance rendered by the informer. In the Sales Tax Department also somewhat similar rules are provided.

35. We feel there is considerable scope for improvement in the present position regarding payment of rewards in Central Excise cases. Under the earlier system of Physical Control, it was neither important nor necessary to evolve elaborate preventive arrangements for manufactured excisable goods or for that matter an elaborate code for payment of rewards. Though the position drastically changed with the introduction of SRP, the rules or instructions for payment of rewards have remained substantially unaltered. We note that in 1970, a Sub-Committee of Collectors was appointed to examine the existing reward policy but it appears to have confined its deliberations to anti-smuggling operations. Similarly the Customs Study Team made several recommendations regarding liberalisation of existing provisions relating to rewards in Customs cases. We consider that the position on the Central Excise side needs also to be examined in depth. We should like, however, to make a few general observations about the present instructions.

36. It appears to us that the absolute limit of Rs. 2500.00 in respect of rewards which can be sanctioned in a Central Excise case by the Collector and which was fixed in 1963, is far too low in present day conditions. In fact we consider that, as in the case of Customs, there need be no ceiling at all. There exists, in our view, adequate justification for a substantial enhancement of the existing powers vested in Collectors, Deputy Collectors and Assistant Collectors, on the Central Excise side, both in the matter of final and interim rewards. We consider that the procedure prescribed for, and the powers delegated to, Customs Officers of equivalent rank should apply mutatis mutandis to Central Excise Officers also. Lastly, we do not consider there is adequate justification for laying down, as do the instructions now in

force, that Deputy Collectors and Assistant Collectors posted at the Collectorate headquarters cannot sanction any advance rewards at all.

37. Payment of reward should not merely depend upon the duty, fine of penalty realised but should also take into consideration such factors as (a) the nature of the offence detected, (b) the extent of prevention of further mischief by reason of the Department having acted on the information, and (c) the additional revenue gained or extent of loss prevented by taking action as at (b) above.

38. The quantum and scale of rewards payable to Government servants are, in our view, adequate. We however see no reason why, in Central Excise cases, rewards should be denied to Class II gazetted officers, unless the Board decides on a reward in an exceptional case. Adequate discretion in this behalf should vest in Collectors and other senior officers. We should like to add that, where the part played by a Government servant in the matter of prevention and detection of evasion merits special recognition, this can, in appropriate contexts, be accorded in different ways (and not necessarily or only by rewards), such as granting additional increments in pay, making special entries in the confidential record, awarding accelerated promotion or granting medals and certificates in appreciation of the work done. We find that some instructions on these lines already obtain, but in practice they are seldom invoked. We recommend that they should be made use of more freely for all classes of officers, more particularly those who are not entitled to rewards.

39. As regards the time and manner of payment both for the informers and the officers, an incentive to sustain their interest in rendering service to the Department should be provided by: (i) immediate payment of 50% of the expected final reward; (ii) ordering an additional interim reward if the case is subject to long and protracted legal proceedings; and (iii) giving payment of the final reward immediately on the completion of the legal (departmental) or judicial (court) proceedings.

40. Connected with the problem of enhancement of the amounts payable as reward and delegation of powers in relation thereto is the total budgetary allotment for this purpose. We recommend that this should be substantially increased. Similarly allocation of funds for secret service expenditure should be suitably increased and officers encouraged to establish a proper system whereby informers are recruited and nursed.

41. In our view, intelligence and preventive work is a specialised function which requires not only aptitude for the work but also appropriate training. These aspects do not appear to have received adequate attention so far. Preventive Officers belong to the general cadres and are interchangeable with their counterparts in the field. They are not entitled to any special pay or allowances for the hazardous nature of duties performed by them, nor are we aware of any training programmes specially designed for them. We understand that sometime ago the Administration had set up a number of training centres in different Collectorates at which training was imparted in anti-smuggling work mostly connected with Customs; but several of these centres are reported to have been wound up.

42. We consider that officers required for preventive and intelligence functions should be specially selected, after taking into account their aptitude, past performance in detection of offences, and other relevant factors. For this purpose suitable standards for selection may be evolved and a special agency set up for selection. We do not recommend their being constituted into a separate cadre. We are at the same time of the view that an appropriate scale of special pays should be designed for preventive officers.

43. We are in agreement with the view expressed by the Directorate of Inspection that separate staff should be provided in each Division and Collectorate for attending to statistical returns and for undertaking prosecutions. We do not, however, approve of intelligence functions being entrusted to this staff. Intelligence is essentially collection of information about unlawful activities and this should form one of the principal functions of a Preventive Officer.

44. In our view it is of the greatest importance that arrangements should be made to impart adequate training to preventive officers at different levels. We deal with this in the Chapter on "Recruitment, Training and other issues".

CHAPTER 12

AUDIT

In Central Excise, the term 'Audit' has been used differently in different contexts. There is first of all the statutory audit i.e. audit of Central Excise receipts and refunds by the Comptroller and Auditor General which stands on a different footing from the rest. This may be said to be that section of audit which fulfils the constitutional responsibilities vested in Parliament. Apart from this, the term 'Audit' has been used to connote (1) inspection of records of revenue-collecting offices with reference to the revenue collected and also (2) examination of accounts and documents of manufacturing units with reference to their excise liability. Quite often these two are so interlinked that it is not possible to treat one as separate from the other. In practice, a broad distinction is maintained between administrative inspection and audit. The former is carried out by supervisory officers who inspect Central Excise formations below them for the purpose of ascertaining generally whether the formation is working with the requisite efficiency and whether revenue is being assessed and collected properly. Though inspection of producing units falling within the jurisdiction of the formation concerned may be included in administrative inspections, the emphasis is more on the general performance of the machinery of collection than on the detailed scrutiny or examination of accounts with reference to the documents relating to the liabilities for duty and the payment thereof. Such scrutiny, as distinguished from inspection, is termed audit. In so far as this audit is carried out by departmental officers in respect of receipts of revenue belonging to the Central Excise Department and refunds flowing out of that revenue, it has come to be known as "Internal Audit", though it is not internal to the accounts of the paying units.

2. A scheme for internal audit of revenue receipts in the Central Excise Department was formulated in 1950. The objectives of the scheme were to provide for a check over assessments by a body of auditors in addition to, and independent of, the checks prescribed for officers administering the excise and to find out errors and defects in procedure or other serious irregularities which could lead to leakage of revenue. The scheme was introduced on an experimental basis in Calcutta, Bombay, Madras and Allahabad Collectorates. It was clarified that the scheme would not divest the field officers of their primary executive responsibility of ensuring that no leakage of revenue occurred, but was intended to introduce an independent check.

3. Initially, internal audit was entrusted to roving parties consisting of a senior Auditor of the grade of Head Clerk, assisted by two junior Auditors of the grade of Upper Division Clerk. An officer of the grade of Superintendent of Central Excise, designated as the Examiner of Central Excise Accounts, supervised the working of one to three such parties. Also, the scope of internal audit was confined to tobacco, tea, sugar and matches; and audit was carried out mostly in the offices of various formations with reference to the documents collected and maintained by them. It was laid down that all MORs and Circle officers in a Collectorate should be audited once in two years and all Isolated Ranges and Divisional offices once in three years. The technique followed by audit was to cross-check the relevant documents according to a fixed pattern and on a predetermined scale. Thus, in the case of removal applications in form A.R.1, 2% of the documents issued since the last audit were selected at random and checked with the Record of Assessments and Realisations, Account Current, Duty Tariff and the Price list duly approved by the Divisional Officer. Later, the scheme was extended to other Collectorates, besides Calcutta, Bombay, Madras and Allahabad. It was also extended to Land Customs receipts. Moreover, several other commodities were brought within the ambit of the scheme of internal audit.

4. Subsequently the Audit Type of Control was introduced in respect of certain specified commodities such as Iron and Steel, Cement and Tyres. It was some time thereafter, in 1963, that Regional Audit Parties were constituted. They functioned under the administrative control of the Collectors concerned, but it was provided that the "staff attached to the Directorate of Inspection may be instructed to look into the working of Audit Type of Control and the Regional Audit Parties and to bring to the

notice of the Board any deficiencies in the auditing of the duty payments by the licensed units concerned."

5. In 1966, the strength and disposition of the Audit Organisation in the Central Excise Department was as follows: —

Collectorate	Number of audit parties	Assistant Collector	Superintendent	Inspector		Head Clerk	UDC	LDC	Steno-typist
			Class III	Senior Grade	Ordinary Grade				
Allahabad	2	..	1	..	..	2	4	..	1
Kanpur	1	..	1	..	..	1	2	1	1
Delhi	2	..	1	..	..	2	4	..	1
Calcutta & Orissa	2+2*	1	1	2	6	2	2+2*	2+3*	2
West Bengal	1	..	1	..	..	1	2	..	1
Shillong	2	..	1	..	..	2	4	..	1
Patna	2	..	1	..	..	2	4	..	1
Nagpur	1+2*	1	1	2	4	1	2+2*	3*	2
Bombay	4+2*	1	2	2	4	4	8	3*	2
Baroda	4	..	2	..	..	1	8	2	1
Poona	2	..	1	..	..	2	3	1	1
Madras	3+2*	1	1	2	6	3	5	1	2
Cochin	..	..	..	..	..	..	..	..	..
Hyderabad	3	..	1	..	..	3	6	..	1
Mysore	1	..	1	..	..	1	2	..	1
Total . .	38	4	16	8	20	27	60	16	18

6. About this time, i.e. in 1966, the Board felt the need to reorganise and strengthen the existing Audit control in the various Collectorates and took the following decisions:

(i) The internal and regional audit parties should be merged into a single organisational unit, placed under the administrative control of an Assistant Collector of Central Excise known as Assistant Collector (Audit).

(ii) In addition to the existing ministerial audit parties, separate audit parties consisting exclusively of senior grade and ordinary grade Inspectors should be organised in each Collectorate. Audit parties could also consist of both executive and ministerial staff.

(iii) Effective audit of various units and the headquarters office should be the personal responsibility of the Collector. It was pointed out that it had come to the notice of the Board that because of lack of adequate interest at the Collector's level, the usefulness of audit as an effective instrument to cure deficiencies, defects and ensure the smooth running of the Collectorate had been defeated.

7. In pursuance of these decisions the strength of audit parties in various Collectorates was suitably augmented, the total staff proposed compared with the total staff provided earlier being as under:

		Strength before 8-12-1966	Strength proposed under orders issued on 8-12-1966
(i)	Number of parties	38	54
(ii)	Assistant Collectors	4	15
(iii)	Superintendents Class II	16	17
(iv)	Inspectors (Senior Grade)	8	37
(v)	Inspectors (Ordinary Grade)	20	51
(vi)	Head Clerks	27	27
(vii)	Upper Division Clerks	60	61
(viii)	Lower Division Clerks	16	16
(ix)	Steno-typists	18	19

8. In effect, the reorganisation indicated above attempted to augment the audit organisation of the Department which until then was largely ministerial in character, by induction of executive personnel in the grade of Inspectors, in addition, of course, to providing an Assistant Collector (Audit) in each Collectorate. Later, Deputy Office Superintendents also came to be employed for audit and some additions in staff were made in consequence of the creation of more Collectorates. According to the information received by the Committee from Collectors the strength of the Audit Organisation, as on 30-9-1971 was as under:

(i)	Assistant Collectors	18	(Goa and Madurai did not have Assistant Collector (Audit)).
(ii)	Superintendents or Examiners of Accounts	37	
(iii)	Deputy Superintendents	2	
(iv)	Inspectors	131	
(v)	Sub-Inspectors	4	
(vi)	Deputy Office Superintendents	25	
(vii)	Head Clerks	15	
(viii)	Upper Division Clerks	91	
(ix)	Lower Division Clerks	23	
(x)	Steno-typists	22	

9. With the introduction of SRP, no change was made in the Internal Audit Organisation of the Department. The scope of its functions in the context of SRP was, however, explained through departmental instructions which read as under:

Internal Audit Parties

The Internal Audit Parties at Collectorate Headquarters will be retained without any change. Their main duties will now be the following:—

(i) Audit of factories and ranges under physical control system;

(ii) deleted;

(iii) dealing with major defects arising out of the reports as brought to the notice of the Collector by the Divisional Officers in pursuance of para 16 of this Chapter. If after going through these reports sent to him by Divisional Officer, the Collector is satisfied that detailed inspection of any unit is necessary and some important issues require further probe, he may direct the internal audit parties to make a full inspection of the units. The Collector may also direct the Internal Audit Parties to test audit the accounts of the units yielding high revenue or having a complicated excise tariff. It is not necessary to fix any test percentage of checks or frequency of visits by the Internal Audit Parties. The revenue checks by Internal audit should be so designed and exercised in such a manner as to cause minimum inconvenience to the trade and industry. Units inspected by the Internal Audit Party should not ordinarily be taken by the Inspection group in that half year. The Collector may allot to the Internal Audit Parties any other work relating to audit of accounts and/or of records etc. of any factories of Central Excise formations;

(iv) looking into the reports of concurrent Audit parties of Accountant General.

Any rigid percentage check of frequency of visits by Internal Audit Parties of the Assistant Collector (Audit) to units covered by Self Removal Procedure, is really not necessary. The internal audit will, from the scrutiny and follow up of Inspection Reports, be able to determine the adequacy of the Inspection done by the Inspection Group and where they find that an important issue has not been gone into adequately, they should be left free to make a full inspection as a test audit; every such Inspection (Test audit), should, however, have the prior approval of the Collector. The revenue checks by internal audit should be so designed and exercised in such a manner so as to cause minimum inconvenience to the trade and industry."

10. The Internal Audit Organisation of the Department is manned by personnel drawn from the ministerial and executive cadres. In the ministerial cadre direct recruitment takes place only at the level of Lower Division Clerks for whom the job requirements cover routine duties of diary, despatch and typing for which the educational qualification of matriculation is considered adequate. After about seven years of service they are promoted as Upper Division Clerks and employed in various jobs which may be administrative or technical in character. Upper Division Clerks are eligible for posting in audit parties but since such posting entitles them to a special pay of Rs. 25.00 per mensem, their appointment in the audit organisation is regulated entirely by seniority and not by selection. In so far as the executive cadre is concerned, direct

recruitment takes place at the level of Inspectors. The bulk of Inspectors in the Department were recruited at a time when the number of excises was much fewer and the emphasis was more on physical control than on checks related to accounts. While it is true that Inspectors and some Upper Division Clerks do acquire a certain degree of expertise and familiarity with methods of production and accounting in the course of their day to day working, nevertheless they do not have a basic accounts background. Apart from such training in accounts etc. which a fraction of the executive staff received as a part of the general training in the Central or Regional Institutes, there are no training schemes as such designed for audit staff. It has been specifically brought to our notice that in the present scheme of things, on account of the various deficiencies of internal audit, statutory audit is obliged to perform several functions which legitimately pertain to Internal Audit. There is also a good deal of overlapping between audit on the one side and inspection on the other.

11. Having regard to the facts discussed in the preceding paragraphs, it appears to us that the audit organisation of the Department is structurally inadequate and, in a large measure, functionally ineffective. At the field level the work of auditing the accounts of producing units is performed by Inspection Groups which combine several other functions, including physical checks and those which constitute what might more accurately be described inspection rather than audit. These Inspection Groups operate from the divisional level and are expected to audit the accounts of each producing factory once in six months. There are several audit functions which are performed by the Chief Accounts Officer and his staff, particularly in relation to Personal Ledger Accounts and reconciliation of revenue receipts. The Directorate of Inspection (Customs and Central Excise) also carries out some audit functions through its regional offices. The inadequacies of the present structure were commented upon by the Central Excise Reorganisation Committee, (1963) which recommended, inter alia, that "the top echelon at the level of the Chief Central Excise Revenue Authority should include a Directorate of Audit to keep under constant review detailed schemes of audit as need arises, and to see that accounting and audit of revenue in Collectorates is effectitve, expeditious and thorough". We are wholly in agreement with this view.

12. For a large and growing organisation like the Central Excise which currently yields a revenue of more than Rs. 3000 crores per annum and deals with thousands of duty paying units, it is of the utmost importance that the machinery of audit should be so designed as to play an effective role in the matter of both collection and proper accounting of revenue. For this purpose, what we have in mind is an organisation which is (i) adequately staffed; (ii) manned by personnel which is technically qualified or trained; and (iii) as far as possible independent of the executive whose performance it is supposed to audit. We have already proposed that Inspection Groups which are performing functions connected with both audit and assessment should be disbanded and the functions performed by them appropriately allocated elsewere. We now recommend that the audit function preformed by these groups should be transferred to a proper Audit Organisation. We are also of the view that audit should constitute a separate Division within the Department. It should be manned by officers who in the performance of their audit functions are independent of the executive and who are not normally interchangeable with officers of equivalent or corresponding status outside the Audit Division. Further, it would be in the fitness of things if the present accounts set-up of the Department headed by the Chief Accounts Officer is also merged with Audit in a common organisation which may be called the Internal Audit and Accounts Division of the Department.

13. The salient features of the scheme we have in mind for constituting a separate Audit and Accounts Division in the Department are spelt out in the succeeding paragraphs.

14. As already stated the new organisation should comprise both the present 'Internal Audit' and 'Accounts' wings of the Central Excise Department.

15. The constituent Accounts Wing of the new organisation should continue to function as at present, with the same hierarchical set-up manned entirely by ministerial officers in different grades, namely, Lower Division Clerks, Upper Division Clerks, Head Clerks, and deputy Office Superintendents in Class III and Assistant Chief Accounts Officers in Class II. For the Chief Accounts Officer we visualise Class I status as later discussed. The seniority and promotion of Class III ministerial officers including those posted in the Accounts Wing, would continue to be subject to the same principles as at present and regulated on a Collectorate basis. On promotion to the level of Assistant Chief Accounts Officer, the incumbents should be borne on the common Class II cadre of the Internal Audit and Accounts Division of the Department which will consist of Assistant Chief Accounts Officers in the Accounts Wing and Examiners of Accounts in the Audit Wing. The seniority of this cadre should be regulated on a zonal basis.

16. The constituent Audit Wing of the new organisation should be restructured. In addition to its normal complement of Lower Division Clerks required for routine ministerial duties, the hierarchical structure of this wing should consist of five distinct grades of officers

who may be designated as Technical Assistant, Examiner of Accounts, Assistant Director, Deputy Director and Director. We consider that the posts of Technical Assistants (which will be in Class III) should carry the pay scale of Rs. 550-900 recommended by the Pay Commission for Technical Assistants in some other departments. For appointments to this grade, officers of comparable grades in the executive and ministerial wings of the service, namely, Inspectors from the executive side and Head Clerks and Deputy Office Superintendents from the ministerial side, should be eligible. Their selection should be based on their performance in the past, aptitude and flair for audit and a written departmental examination, if necessary. Technical Assistants being an entirely new grade would constitute a distinct cadre of their own within the Audit and Accounts Division. Their seniority and postings would be regulated on a zonal basis. They would be eligible for promotion as Examiner of Accounts which would be a Class II appointment, though for initial appointments to that grade, we envisage selection from (1) existing Superintendents of Central Excise, Assistant Chief Accounts Officers, Examiners of Accounts and Administrative Officers who may opt for the new Audit and Accounts organisation, (2) senior grade Inspectors, and (3) Office Superintendents. Examiner of Accounts would be borne, as already stated, on the combined Class II cadre of the new organisation. In principle, Assistant Chief Accounts Officers and Examiners of Accounts should be interchangeable but having regard to the need for building up proper expertise in the two spheres of accounts and audit we would recommend that as far as possible, they should remain posted in their respective Wings.

17. In the Class I cadre of the new organisation the posts we contemplate are Chief Accounts Officer in the Accounts Wing and Assistant Director, Deputy Directors and Director in the Audit Wing. The Assistant Directors will be Class I officers corresponding in status to Superintendent of Central Excise Class I or Assistant Collectors. The Deputy Directors would correspond to Deputy Collectors while the Director would be equivalent in status and responsibility to other Directors in the Department. We consider that all these posts, though borne technically on the strength of the new organisation, should belong to the integrated Indian Customs and Central Excise Service; that is to say, appointments to these posts should be made, in common with other Class I posts in the Department, on the basis of direct recruitment and promotion of Class II officers. For purposes of promotion, Class II cadre in the new organisation consisting of Assistant Chief Accounts Officers and Examiners of Accounts would be eligible for consideration along with other Class II officers in the Department. We should, however, like to make one reservation here, which is that on their promotion to Class I, Examiners of Accounts and Assistant Chief Accounts Officers should be accommodated, as far as possible, within the Audit and Accounts Division as Chief Accounts Officers or Assistant Directors. Where, however, this cannot be helped, they would be entitled to be posted to higher appointments in the general stream.

18. We have referred earlier to the grievance relating to the status and pay of the Chief Accounts Officer. The Pay Commission has made certain recommendations which we understand are under the consideration of Government. The Central Excise Reorganisation Committee (1963) recommended that "there should be a proper recognition of the Chief Accounts Officer being also de facto Financial Adviser to the Collector and the Officer should be given the status and pay appropriate to these functions and to his responsibility which seem to us to be comparable to those of a Junior Accountant General". Since then the functions and responsibilities of Chief Accounts Officer have increased. We also note that the incumbents of this post are in many cases officers who have put in not less than 20 to 25 years of service. Having regard to these facts we consider that the post of Chief Accounts Officers should be formally designated as a Class I post. This would be in keeping with the pay scale of Rs. 700-1300 recommended for it by the Pay Commission. We also consider that a certain number of these posts should be placed in the senior Class I scale of Rs. 1100-1600 or, failing that, a suitable special pay be attached to them. These posts can be assigned to important Collectorates including those which have departmental treasuries.

19. We consider that the above scheme would achieve the objectives of (i) revitalising audit, (ii) streamlining the accounts organisation and (iii) improving all round the career prospects of the personnel concerned, particularly those in the ministerial cadres. In formulating this scheme we have given due weight to the argument that audit functions, related as they are to the examination of documents and accounts, are largely ministerial in character. At the same time, we consider that in the Central Excise Department, in which techniques of production have an important bearing on points of revenue, the executive element should be duly represented in the machinery of audit.

20. The requirements of audit in each Collectorates should be assessed on the basis of the composition of duty paying units under different patterns of control and audit parties constituted on that basis. So far as ABC units are concerned, we have set out our recommendations regarding Audit in Chapter 9 where we have also pointed out that the Audit organisation should be linked at the centre to a Bureau of Audit headed by a Director of Audit. For audit of PBC units each party

should consist of two Technical Assistants headed by a Class II Supervisory officer. This organisation will audit all PBC units in the Collectorate, in addition to such CBC units as are specifically assigned to them. At the Collectorate level the audit organisation will be controlled by one or more Assistant Directors of Audit depending upon the quantum of work involved and the number of audit parties.

21. Statutory audit and internal audit have distinct responsibilities of their own and have well-defined individual roles to perform. In a sense, however, their roles are complementary. Statutory audit, at the same time, is concerned with their relevant revenue-collecting aspects of the Department as a whole. Earlier, a reference has been made to the fact that statutory audit has had often to perform functions which legitimately pertain to internal audit because the latter is deficient in many respects. Our recommendations aim at removing these defects which mostly arise from inadequate structure and organisation. We trust that the new General Audit and Accounts Division of the Department will be able to fulfil its assigned role in all particulars thus affording considerable relief to statutory audit.

22. Internal Audit and the Department generally, should of course co-operate and coordinate to the fullest extent with statutory audit. We are advised that instructions already exist that Range Superintendents should depute an Inspector of Central Excise for accompanying the statutory Audit Parties to factories wherever so requested to assist them in conducting audit. All assistance required by statutory audit in the matter of procurement of records and other documents should be afforded by the Range staff and other departmental authorities including officers of the Internal Audit and Accounts Division. Existing instructions may be re-emphasised, and if necessary, new directions issued, to this effect.

CHAPTER 13

MACHINERY OF ADJUDICATION

In Excise parlance the term 'adjudication' has a limited connotation in that it generally applies to the original or first decision taken by an officer in relation to an offence under the Central Excise Rules. In this sense, the order of adjudication may involve one or more of the following, viz. (i) confiscation of goods, where such goods are liable to confiscation; (ii) levy of duty where it has been evaded or short levied; and (iii) imposition of a penalty for the contravention adjudged to have been committed. It is of course open to the adjudicating authority in considering the facts of the case to come to the conclusion that no offence has been committed and to drop the adjudication proceedings. Apart from adjudications in the sense mentioned above, there are several matters such as those relating to classification and valuation or condonation of losses, which have to be adjudged by competent authority. Like adjudications, orders passed in all such matters are quasi-judicial in character and are subject to the same procedure of appeal, revisions and review. In this Chapter on the 'Machinery of Adjudication', we deal with all quasi-judicial decisions taken at different levels, including decisions passed in proceedings of appeal revision and review.

2. In Chapter 6, we have described the existing provisions relating to adjudications. In so far as offences are concerned, powers of adjudication have been conferred on or delegated to four classes of officers, viz. Superintendents, Assistant Collectors, Deputy Collectors and Collectors, whose jurisdiction is determined with reference to the value of goods which can be confiscated and limits upto which penalties can be imposed. Thus an Assistant Collector of Central Excise can order confiscation of goods up to Rs. 5,000 in value and impose a penalty upto Rs. 250.00. The corresponding limits are lower in the case of Superintendents and higher in the case of Deputy Collectors. Collectors can adjudge confiscation and impose penalties without limit.

3. We consider the above structure of delegation of powers to be inherently defective inasmuch as the jurisdiction of officers is related not to the prima facie nature of the offence but to the degree of the punishment which might eventually be imposed. A view regarding confiscation of goods or imposition of penalty or both can emerge only after an authority has processed the case; but, before this is done, it ought to be clear as to who should take up the case and apply his mind to it. Accordingly, the proper thing in our view would be to frame the delegation of powers in terms of the goods involved as distinguished from goods which can be confiscated, i.e. the delegation should provide limits of value upto which, in terms of the goods involved, different adjudicating authorities can take up a case. Once this is clear, the powers that can be exercised by different classes of officers can be defined in terms of confiscation of goods and imposition of penalties. Where the value of goods which can be confiscated is found on examination of the case by the appropriate authority (in terms of the delimitation based on value of goods involved) to be in excess of the limit upto which he can confiscate the goods, or if he considers that the case warrants the imposition of a penalty higher than the one he is competent to impose, he should be able to send the case to the higher authority concerned. In this sense the delimitation of powers would cover three distinct items; namely, (i) the value of goods involved, as a criterion for judging which authority can deal with the case, (ii) the maximum limit in terms of value upto which goods can be confiscated by such authority, and (iii) the limit upto which it can impose a penalty. The revision of the existing structure on the lines indicated above is all thte more necessary because in SRP the question of goods being seized arises only in a minimum number of cases. Accordingly, a view has prevailed that since there are no goods to be confiscated, it is open even to the lowest officer to deal with any case of evasion of duty. This view has in turn resulted in a very unsatisfactory situation, namely, that of a number of such cases being disposed of by authorities at the lowest level by the imposition of what amounts to nominal penalties.

4. In the same context, the question arises whether it should also be open to an authority to remit the case to a lower authority if it finds that on the basis of the value of goods which can be confiscated or the penalty warranted by the facts of the case, such lower authority would be competent to adjudge the case. We consider that, since powers in respect of both confiscation and penalty are related to the maximum limits upto which an authority can go, and it is open at each level to impose a lower penalty and confiscate goods of a lower value than the maximum laid down, it should not normally be necessary in such circumstances to transfer the case to a lower authority. We do, however, realise that there may be situations in which offences which are essentially trivial in character are categorised as falling within the jurisdiction of higher authorities on the basis of the value of goods involved, and dealing with such offences might entail avoidable expenditure of time and effort on the part of such authorities as well as inconvenience to the assessees. In all such cases it should be

possible for the authority concerned to exercise appropriate discretion subject to such guidelines or safeguards as the Administration might prescribe. It should be possible for legal provisions relating to delegation of powers to be so worded as to take care of these contingencies. In the general context of delegation of powers based on the value of goods involved it would be necessary to define clearly what is meant by goods involved and also the manner in which their value should be determined.

5. We believe that the delimitation of powers in terms of the recommendations made in the preceding paragraphs would cover the bulk of offence cases arising in the day to day administration of Central Excise. There are, however, bound to be cases in which no goods as such are involved as for example those concerning failure or repeated failure of assessees to submit the returns in time or those involving falsification or mutilation of records, of which some may be trivial and others serious. Presently, all such cases are examined in the first instance by the Superintendent concerned. Where he feels that a particular case would justify a penalty higher than he is competent to impose, he can pass on the case to the higher officer concerned. In our view it would be desirable in this connection to evolve an administrative arrangement by which such cases can be suitably allocated. For example, it can be laid down that copies of proceedings drawn up are endorsed to the jurisdictional Assistant Collector who can scrutinise the facts and then take a decision about the authority which should adjudicate the case.

6. We note that the present delegation of powers in respect of confiscation of goods and imposition of penalties dates back to 1967, i.e. to a point of time before the introduction of SRP. In our view, powers of adjudication should take into account the current level of prices and the need for greater deterrence. Having regard to these two factors, we consider that the following delegation of powers would be more appropriate:

	Value of goods involved	Confiscation of goods	Imposition of penalty
Collector	Without limit	Without limit	Without limit
Deputy Collector	Upto Rs. 75,000 in value	Upto Rs. 100,000 in value	Upto Rs 2,000
Assistant Collector	Upto Rs. 15,000 in value	Upto Rs. 20,000 in value	Upto Rs. 1,000
Superintendent	Upto Rs. 2,500 in value	Upto Rs. 3,000	Upto Rs. 300

We are recommending a higher monetary ceiling in respect of confiscation of goods, on the assumption that goods involved would be excisable goods while goods liable to confiscation would include other categories such as re- that on account of their value, conveyances that on account of their value, conveyances should be excluded for the purpose of determining delegation of powers relating to confiscation of goods. Power to confiscate conveyances should in our view be exercised by the same officer who is competent to adjudge the case on the basis of the criteria laid down.

7. Though the Central Excises and Salt Act provides that "where by the rules made under this Act anything is liable to confiscation or any person liable to a penalty, such confiscation or penalty may be adjudged (a) without limit, by a Collector of Central Excise,.....", in actual fact the powers of a Collector in the matter of imposition of penalties are restricted by the provisions of the relevant penal rules. The position under these is that, ordinarily, the maximum penalty which can be imposed by the Collector is two thousand rupees. An exception to this is provided by Rule 173 Q which was introduced in the wake of SRP. Under this rule the Collector can impose a penalty upto Rs. 5,000/- or (if this exceeds five thousand rupees) upto three times the value of the excisable goods involved. Some of the relevant rules, contravention of which attracts a penalty of not more than two thousand rupees are Rule 9 relating to removal of excisable goods from the place of production or their deposit in a place other than the place of storage approved by the Collector; Rules 14-A and 14-B concerning failure to furnish proof of export within the prescribed period or removal for export of excisable goods, on which the duty leviable exceeds the amount of the bond executed; Rule 57 relating to unauthorised alterations and additions etc. to building, vessels, pipes etc.; Rules 92-E, 96-M, 96-S, 96ZZZ and others providing for penalties for misdeclaration by manufacturers working under compounded levy schemes; and Rule 151 concerning offences in respect of warehousing. In certain rules, like Rules 52-A, 198, 227, 229 etc. the maximum penalty provided is one thousand rupees. These provisions appear to have remained unchanged for the last thirty years. For the reasons we have advanced in favour of enhancement of the powers of different officers we recommend that the present limits of maximum penalty provided for contravention of Central Excise Rules should be increased to five thousand rupees.

8. In so far as condonations of losses in storage and transit or losses discovered at the time of stock taking are concerned, the delegation of powers is expressed either in terms of absolute monetary limits (based on duty involved on the stock found to be deficient) or as percentages of the goods involved, which are different for different commodities. Powers of different officers for condonation of storage and transit losses for commodities other than coffee and mineral oils are as under:—

Officer competent to condone/ adjudicate	Limits in terms of duty involved in the stock found to be deficient in storage or transit as the case may be for the purpose of			REMARKS
	Condonation	Demand of duty	Imposition of penalty	
Inspector	Upto Rs. 100	..	..	Not empowered to adjudicate losses i.e. to demand duty or impose penalty.
Deputy Superintendent	Upto Rs. 250	..	..	
Superintendent	Upto Rs. 500	Upto Rs. 250	Upto Rs. 100	
Assistant Collector	Upto Rs. 4000	Upto Rs. 2000	Upto Rs. 250	
Deputy Collector	Upto Rs. 10000	Upto Rs. 5000	Upto Rs. 750	
Collector	Without limit	Full, statutory limit	Upto Rs. 2000	

It is observed that the powers to impose penalties in respect of losses correspond to the powers vested in different officers in the matter of adjudication of offences. These limits should be enhanced to the levels recommended by us. For condonation as such and demand of duty, it would be appropriate, in our view, to double the present limits. For coffee, in addition to the percentage limits upto which transit, storage and processing losses may be condoned, monetary limits which are related presumably to the amount of duty involved have also been prescribed. The same is true of mineral oils. In respect of stock-taking losses, the percentage rule normally applies. We suggest that powers related to monetary limits wherever prescribed may be reviewed in the limit of increases in price levels and suitably enhanced if necessary. Incidentally we also observe that there is a plethora of instructions issued at different times on the subject of condonation of losses, remission of duty leviable on goods not duly accounted for, forfeiture of securities etc. etc. These can with advantage be consolidated and published as self-contained handout which can be updated from time to time.

9. On powers relating to approval of classification and price lists, we have expressed our views in an earlier Chapter.

10. In the context of appellate jurisdiction generally and with particular reference to classification and valuation disputes, we had occasion, in Volume I, to draw attention to the view held by the industry that "the transfer of the appellate jurisdiction from Collectors to appellate Collectors has led to several undesirable consequences, not the least important of which are (1) delays, (2) lack of adequate appreciation of local practices and problems by the Appellate Collector whose jurisdiction extends to several Collectorates, and (3) the inconvenience and expense which the industry has to go through to pursue the cases at the headquarters of the Appellate Collector". On the last point we commented elsewhere in that Volume that "though the Appellate Collector is expected to, and does, proceed on circuit to different parts of his jurisdiction to hear appeals, the procedure itself is not the best possible from the point of view of ensuring the least delay, inconvenience and expense to the assessee". It is true, moreover that there is a considerable body of opinion which holds that assessments are primarily an administrative function, different in character, for instance, from functions which involve the adjudication of an offence and that to remove this function from the purview of the internal administrative machinery of the Department and entrust it to another authority at a very early stage is likely to create more problems than it solves. While we appreciate the strength of some of these arguments, we are of the view that considerations of objectivity and independence which are sought to be achieved through the institution of Appellate Collectors outweigh such advantages as might be secured by reverting to the earlier system of investing Deputy Collectors and Collectors with appellate jurisdiction albeit in the restricted sphere of classification and valuation disputes. The institution of Appellate Collectors came into existence in January, 1972, only and the time cannot be said to be ripe yet for an appraisal of its usefulness. Moreover, the number of Appellate Collectors has been raised some time ago to speed up the pace of disposal. We hold that the concept underlying the creation of the institution of Appellate Collectors is basically sound and that the experiment should be given a fair trial. We are not impressed by the argument that Appellate Collectors, being departmental officers subordinate to the Board, are reluctant to take an independent view of things and allow themselves to be influenced by instructions issued by the Board. Accordingly we do not see any merit in the suggestion that they should come from and belong to a different cadre, preferably the judicial cadre.

11. For similar reasons, we see no reason to disturb the present arrangement of appeals against orders of the Collectors being decided by the Board i.e. Member (Appeals).

12. We have given serious thought to the question of setting up a tribunal for dealing with revision applications. The principal argument which seems to have weighed with the Taxation Enquiry Commission (1953-54) when it advised that "revision petitions against the orders of the Central Board of Revenue or the Collector of Customs should be disposed of by a tribunal....", was that the Central Board of Revenue being an executive authority could hardly be expected to take so totally detached and objective a view as to ensure that not only was justice done to the appellant but it also clearly seems to be done. The Commission's recommendation was not accepted by Government on the ground that a purely judicial authority would place undue emphasis on technical breaches of procedure and might make efficient working of the Department difficult, particularly when most of the Central Excise cases related to smuggling and breaches of rules and did not involve any major question of law. However, a procedural change was introduced in the system in 1957, in that revision petitions were entrusted to two officers (and not to a single officer as was the practice hitherto) one of them being the Chairman of the Central Board of Revenue and the other a Joint Secretary of the Ministry of Law. The Estimates Committee (1959-58) did not consider the new arrangement as satisfactory and recommended that the feasibility of setting up a separate Tribunal to deal with revision petitions independently of the Central Board of Revenue might be reconsidered. Later, the arrangement introduced in 1957 seems to have been discontinued and in course of time revision applications came to be entrusted to Joint Secretaries in the Ministry of Finance in their separate or individual jurisdiction, or to the Finance secretary where the decision which was the subject matter of revision had been taken by the Board. Dealing with administrative decisions in general, the Law Commission (1959) made the following observations:—

"(a) In the judicial and quasi-judicial decisions an appeal on facts should lie to an independent tribunal presided over by a person qualified to be a Judge of a High Court. He may be assisted by a person or persons with administrative or technical knowledge. The tribunal must function with openness, fairness or impartiality as laid down by the Franks Committee.

(b) In the case of judicial or quasi-judicial decisions, an appeal or a revision on a question of law should lie to the High Court. Special machinery can, if necessary, be provided to assist the High Court Judge. The suggestions made by the Spens Committee may be adopted in this connection".

13. As already stated, several other Committees have generally endorsed the suggestion to set up an independent administrative tribunal in the Department, though there has been some difference of opinion in their recommendations on the precise scope of the Tribunal's functioning. For example, the Taxation Enquiry Commission recommended that the Tribunal should be independent of the Ministry of Finance, while the Central Excise Reorganisation Committee thought that "the Tribunal should not be subordinate to the Chief Excise Authority but there is no objection to its being within the Ministry of Finance". Again, while the Law Commission seemed to hold the view (quoted above) that the Tribunal should be concerned with questions of fact and not with questions of Law, the Central Excise Reorganisation Committee envisaged that the Tribunal "would go both into the facts of the case as well as points of law". On the subject of the appropriate level at which tribunals should be inducted into the present machinery of adjudication, the consensus seems to have been that they should come in only at the revision stage, though the Customs Study Team (1967) opined that the tribunals should also deal with appeals against the orders of the Collectors, in which case there would be no further revision against such orders.

14. We have examined the question of setting up an independent tribunal as distinguished from the present arrangements. We believe that the overriding consideration is one of principle, namely, the need to secure the demonstrable independence and objectivity of the judicial process. This is not to suggest that the departmental machinery, as it now operates, is not impartial or independent. But, as stated by the Taxation Enquiry Commission, what is important is that justice should not only be done but also be seen clearly to have been done. It is from this point of view that improvement is both possible and desirable in the present structure. We do not share the Administration's fears communicated to the Estimates Committee that a purely judicial authority would place undue emphasis on technical breaches of procedure and might make efficient working of the Department difficult, particularly when most of the Central Excise cases related to smuggling and breaches of rules and did not involve any major question of law. The Tribunal would be a high powered body inducted into the judicial process at the last stage when only such cases would come into its purview as have already been looked into by at least two authorities, namely, the authority which originally decided the case (which may include such senior officers as Deputy Collector and Collector) and the authority which heard the appeal (the Appellate Collector or the Board). We do not think that in a situation like this there would be any risk of the efficient working of the Department being rendered difficult. Moreover, the jurisdiction of High Courts and the Supreme Court

is in several cases invoked by the parties; and if this does not impede the working of the Department, there is no reason why it should be feared that the functioning of a Tribunal would.

15. Accordingly it is our considered view that a Tribunal should be set up to deal with cases at the revision stage i.e. those in which orders-in-appeal have been passed by the Appellate Collector or the Board. The Tribunal should be competent to look into questions both of law and of fact. Since it is important to ensure the independence of the Tribunal we consider that it should not be administratively attached either to the Central Board or to the Department of Revenue and Insurance. Preferably, it should be attached to the Ministry of Law.

16. In so far as the constitution of the Tribunal is concerned, in the light of statistics relating to Revision Applications given earlier in the Report and the fact that presently there are three whole-time Joint Secretaries employed on this work (in addition to the Finance Secretary, who devotes a part of his time to deal with revision applications pertaining to decisions in appeal taken by the Board), we consider that the Tribunal should consist of a Chairman and a minimum of two Members. This number may be added to depending on the volume of work. The Chairman of the Tribunal, though he need not necessarily be drawn from the Judiciary, should have the status of a High Court Judge. Where serving officers of the Department are selected for appointment as Members, it would be necessary to provide that after serving on the Tribunal they would not be eligible for reappointment to their parent service.

17. The Tribunal may frame its own rules of procedure for transaction of business, including the constitution of benches. It would be necessary for Government to provide not only for the constitution of the Tribunal but for numerous other matters connected with its working, such as the scope of powers, nature and extent of jurisdiction, exercise of discretion, etc.

18. As elsewhere stated, powers of review have recently been conferred by statute on the Central Board of Excise and Customs and the Central Government. The present position in regard to these is as follows:—

Nature of decision	Officers competent to take decisions mentioned in para 1	Reviewing authority	Conditions to which review is subject.
1	2	3	4
(1) All original decisions (i.e. decisions other than those passed on appeal under sec. 35)	1. Superintendent 2. Assistant Collector 3. Deputy Collector 4. Collector	Central Board of Excise and Customs.	1. No decision or order shall be varied so as to prejudicially affect any person unless such person is given a reasonable opportunity of making a representation and, if he so desires, of being heard in his defence.
(2) All decisions passed on appeal or review	1. Appellate Collector 2. Central Board of Excise & Customs	Central Government	2. No proceedings shall be commenced in respect of any decision or order after the expiration of a period of one year from the date of such decision or order.

We consider that, having regard to the increasing complexities of the tariff and the possibilities of erroneous decisions, the scope of existing powers should be suitably extended. We have no intention, however, of suggesting, as was done by the Central Excise Reorganisation Committee, that any officer senior in rank to an adjudicating officer should have the right of review as a matter of course together with the power to revise the initial order. Our recommendations regarding decisions falling in category (1) above are that so far as such decisions are taken by a Superintendent, Collectors should have the necessary powers of review.

For decisions taken by Assistant Collectors and Deputy Collectors, the Zonal Commissioner concerned should be the competent reviewing authority, while for decisions taken by Collectors, the Board should continue to perform this function. So far as decisions falling in category (2) are concerned, we would recommend that, when the proposed Tribunal is set up in the Department, the Government should consider the feasibility of replacing the present review procedure by suitable provisions enabling the Government (in addition to the assessee) to go in revision to the Tribunal. This in our view would be more equitable than a machinery which provides for one mode of redressal for Government and another for the assessee.

SECTION IV

PERSONNEL : SHORT TERM AND LONG TERM ASPECTS

CHAPTER 14

RE-DEPLOYMENT

In the preceding Section we have indicated the broad structural changes we consider necessary at different levels of the existing organisation.

2. At several places in the Report we have had occasion to refer to the ad hoc manner in which the present organisation has grown on the basis of the heterogeneous demands made on it from time to time by widening tariff, altering procedure and increasing involvement in new functions such as Gold Control. It follows that the various formations fall into no single pattern, nor do their strength and composition conform to a broadly identifiable norm or norms.

3. The procedures relating to levy and collection of duty on unmanufactured tobacco are entirely different from those applicable to manufactured excisable products, but since both unmanufactured tobacco and manufactured products are administered by the same officers under the same supervisory hierarchy, there has developed over the years a series of formations, known as (1) MOR (SRP) or Assessment Ranges, (2) MOR (Tobacco), (3) Isolated Ranges (SRP) 4 Isolated Ranges (Tobacco), (5) MOR (Mixed) and (6) Isolated Ranges (Mixed). Inspection Groups are a feature of SRP but not of unmanufactured tobacco. In certain areas they are combined with Assessment Ranges and called Assessment cum Inspectors units. In Mixed MORS one or more Inspectors may be dealing exclusively with unmanufactured tobacco, but in Mixed Isolated Ranges the same Inspector deals with both tobacco and manufactured products. Again even though the staff required in various Collectorates is sanctioned with reference to specific purposes such as, for example, preventive, Audit, Gold Control etc., Collectors have considerable discretion in the matter of re-deployment of the available manpower according to the exigencies of work, so that the actual deployment of personnel is often different from what might be inferred from the formal staff sanctions.

4. The recommendations made by us relate to manufactured excisable products only, and for obvious reasons it is not possible for us to put forward a detailed pattern of work units or norms for different functions proposed to be assigned to different formations and within them to different classes of officers. This is best pursued after a specific scheme of control has started functioning and a more realistic appreciation of the quantum of work involved is available. Until then it is difficult to work out the precise staff requirements arising from our recommendations or to juxtapose such requirements against present availability. Nevertheless, some estimate, however, broad, seems called for if only in order to obtain some idea of the magnitude of the changes involved in terms of personnel. We attempt this in the succeeding paragraphs.

5. The data regarding the number of producing factories expected to fall under each different pattern of control presented in Volume I was based on information which related to 1971-72. On the other hand, the information regarding dispositions of staff relates to 31st August, 1973. Since the number of producing units has increased appreciably since 1971-72, the data concerning ABC, PBC and CBC Units set out in Volume I has to be updated or certain assumptions so as to correspond in point of time to the data concerning staff employed. Accordingly, the number of producing units under each pattern of control may be adjusted so as to accord generally with the known increase in the number of licenced units producing the commodities concerned. Only a broad approximation can be arrived at by this method, but that should suffice for our present purposes. The estimates for 1973 will then be approximately as indicated below:—

	Number of units based on data for 1971-72	Number of unit estimated as on 31st August. 1973.
ABC	583	630
PBC	7335	8000
CBC (including Simplified Procedure)	13962	15800

6. On 31st August, 1973 the actual deployment of executive staff in the cadres of Superintendents and Inspectors was as follows:—

		Superintendents	Inspectors	
(i)	MORs (SRP) or Assessment Ranges	242 (15.1)	484 (13.7)	
(ii)	Isolated Ranges (SRP)	4 (0.3)	52 (0.5)	
(iii)	Inspection Groups	280 (17.5)	1066 (9.9)	
(iv)	Concurrent Assessment-cum-Inspection Units	51 (3.2)	320 (3)	
	TOTAL	377 (36.1)	2922 (27.1)	(I)
(v)	MORs (Tobacco)	90 (5.6)	622 (5.8)	
(vi)	Isolated Ranges (Tobacco)	7 (0.4)	213 (1.9)	
	TOTAL: (v+vi)	97 (6.0)	835 (7.7)	(II)
(vii)	MORs (Mixed i.e. dealing with both manufactured excises and unmanufactured tobacco)	267 (16.7)	1825 (16.9)	
(viii)	Isolated Ranges (Mixed)	18 (1.1)	540 (5)	
	TOTAL: (vii + viii)	285 (17.8)	2365 (21.9)	(III)
(ix)	Preventive	153 (9.6)	1347 (12.5)	
(x)	Audit	33 (2.1)	131 (1.2)	
(xi)	Others including Gold Control, Customs and executive staff posted at Collectorate and Divisional headquarters)	453 (28.4)	3199 (29.6)	
	Total Working Strength	1598 (100.0)	10799 (100.0)	
(xii)	Total sanctioned strength	1621	11382	

(Figures within brackets represent individual items as a percentage of the total working strength.)

7. The Tobacco Excise Tariff Committee has estimated, after obtaining the requisite details concerning field formations and allocating between tobacco and manufactured excisable products the time spent in mixed formations, that during 1973 a total of 265 Superintendents and 2094 Inspectors were engaged on unmanufactured tobacco. On this basis the field staff indicated in the preceding paragraph can be allocated as follows: —

	Superintendents	Inspectors
Total (I+II+III)	959 (100.00)	6122 (100.0)
Unmanufactured Tobacco	265 (27.6)	2094 (34.2)
Manufactured Exciseable Products	694 (72.4)	4028 (65.8)

We note that unmanufactured tobacco, which contributes hardly 3 to 4% of the total revenue from excise duties, taken up a quarter to one-third of the staff employed in the field. The staff employed in other formations such as Audit and preventive also performs functions related to unmanufactured tobacco. No allocation of this manpower is, however available.

8. For estimating staff requirements in terms of the System of Selective Control, it is necessary to make certain assumptions, based on the need of each pattern of control viz. ABC, PBC. Simplified Procedure and CBC (for units other than those covered by Simplified Procedure). It needs to be reiterated that many of the assumptions made are in the nature of broad averages which we consider can be applied only to the sort of broad exercise we are attempting here. They have no statistical validity for estimating requirements in relation to smaller areas or individual units on account of the very wide variations presented by them. Thus, while one officer may be able to look after five units producing a particular commodity and operating say under PBC, there may be certain units producing the same commodity and operating under the same pattern of control which, individually, on account of the nature and scale of activity undertaken by them, may require the whole time attention of one or more officers. The assumptions made by us should be viewed in the light of these reservations.

9. For ABC units the field control envisaged falls into two distinct categories, viz. peripheral functions which will be performed by the Jurisdictional Range and the more substantive functions relating mostly to assessments which will be the responsibility of the Collector. As already stated, this would be a liberalised form of control in which greater reliance would be placed on the accounts maintained by the assessees. Accordingly, we do not consider that units operating under this pattern would call for the same degree or intensity of control as is exercised at present. Peripheral functions include, among others, the routine function of drawal of samples of mineral oils. Here we consider that there is scope for simplifying the present procedure. Most of the refineries have departmental laboratories attached to them and we see no reason why the work of drawal of samples cannot be entrusted to the Chemical staff. The nature of peripheral functions and the amount of work involved differ from commodity to commodity and are also dependent upon the scale of activity of the individual units. We consider that for these functions the total requirement of staff for 630 units estimated to fall under ABC pattern can be placed at 100 Inspectors on the basis roughly of one Inspector for every six units. These Inspectors will be allocated to the respective jurisdictional Ranges. For supervision of the work of these 100 Inspectors the notional requirement of Superintendents would be about 25.

10. Of the various items of work covered by the substantive functions, which are required to be performed by the Collector, the principal one will relate to checking of returns and their assessment. Here again we contemplate a substantial measure of simplification through acceptance of accounts maintained by the assessees themselves. If statements of daily operations or recapitulation sheets contain all the information required to be furnished through RT. 12s and gate passes, the same may be accepted and the scale of checks in relation to individual entries suitably relaxed. We consider that for these functions the Collectors would require a staff of 120 Superintendents, roughly one Superintendent for every five ABC units. Since the emphasis would be more on the quality of checks exercised through intelligent sampling and scrutiny of accounts than on check of arithmetical calculations, we believe it is not necessary to allot Class III staff for this purpose.

11. In so far as PBC units are concerned, the control is essentially production oriented and the underlying objective is to provide much closer supervision by the Department over the operations of the producing unit. The important elements are proximity of contact, closeness of association and last but not least, continuity and quality of supervision. We have stated earlier that a Central Excise Range would have a clearly defined jurisdiction in which the work involved (including peripheral functions required to be performed in relation to ABC units) would ordinarily warrant the posting of four or five primary workers (Inspectors) headed by a Superintendent of Central Excise. In view of the fact that a certain number of commodities under PBC are extremely important from the point of view of both magnitude of revenue and complexity of tariff, it would be appropriate if, for purposes of control, the more important units producing such commodities are treated as Superintendent oriented as against the main body of PBC units which will be Inspector oriented. We have already recommended in Chapter 10 that, for purposes of approval of classification and price lists, commodities covered by PBC may be divided into two lists depending upon the complexity of the tariff and certain other factors, and that the Assistant Collector would be the proper officer to deal with the more complicated items, while the rest would be dealt with by the Superintendent. Just as there is justification for a distinction being made in the case of PBC commodities for purposes of approval of classification and valuation, in our view a similar distinction for purposes of control on individual units would also be justified. On this basis, we have had a quick analysis carried out of units under PBC and come to the conclusion that, out of a total of 8000 units, there would be at least 400 units which would call for a qualitatively superior degree of control. Each of these units by itself, or in combination with one or two more of the same category, could constitute a Range consisting of a Superintendent and one or two Inspectors, the latter being utilised for routine jobs, while the primary responsibility for effective functioning of the Range would devolve squarely on the Sup-

erintendent. These units would thus require some 300 Superintendents and 600 Inspectors. It may be that for these units individually the staff recommended may not be adequate but what we have indicated must be taken to be based on a broad average for this important group as a whole.

12. For the remaining 7600 units, the general Pattern of the Range indicated in Chapter 10 should apply. On the assumption that an Inspector would be able generally to look after four PBC units and the work of four Inspectors can be supervised by one Superintendent, the staff requirements for this sector would be 1900 Inspectors and 475 Superintendents.

13. The number of units expected to be covered by CBC is 15800. Of these we assume that nearly 95% or 15000 will opt for the Simplified Procedure while the remaining 800 might choose to work under Clearance Based Control. For units working under Simplified Procedure we estimate the staff requirement at 600 Inspectors and 150 Superintendents (on the basis of one Inspector for 25 units and one Superintendent for four Inspectors). For 800 units which do not opt for the Simplified Procedure and which will therefore be under full control, the requirement can be placed at 80 Inspectors on the basis that ten such units can be looked after by one Inspector. For supervisory control they would require 20 superintendents.

14. The estimates mentioned above do not include the requirements of staff for Matches and Coffee which from the point of view of Procedure have been dealt with separately. The pattern of control recommended by us for the Match Industry is analogous to the old physical control of CBC in terms of our recommendations regarding other commodities. In our Special Report on the Match Industry we have recommended that physical control on matches should continue, in any case until banderols are reintroduced. The number of match factories is around 1900. Since they are concentrated in compact areas, and the match tariff is relatively simple, a staff of 100 Inspectors and 20 Superintendents should in our view be adequate for these units. In so far as coffee is concerned, our recommendations are designed to achieve considerable simplification in the matter of procedures and control relating to this commodity. We trust that such procedural formalities as would still be necessary can be performed by carrying out some marginal staffing adjustments within the Collectorates concerned.

15. The estimates can now be presented in the form of a Table:

Staff required for	Superintendents	Inspectors
(i) ABC units (pheripheral functions)	25	100
(ii) ABC units (substantive functions)	120	..
(iii) PBC units (for a qualitatively superior degree of control)	300	600
(iv) PBC units (standard range pattern)	475	1900
(v) CBC units (Simplified Procedure)	150	600
(vi) CBC units (Full control)	20	80
(vii) Matches	20	100
(viii) Leave Reserve	111	338
TOTAL	1221	3718

16. For working out the staff requirements under various patterns of control, we have not taken into account industrial units holding licences in form L6, exempted units, and power-looms. Their number is reported to be 1,400, 18,000 and 80,000 respectively. At present exempted units are looked after mostly by the preventive staff, though power-looms and L6 licences are the responsibility of the jurisdictional Range. We consider that by and large it should be possible for the jurisdictional Ranges to take care of the power-looms and exempted units without any additional staff. This may not however be possible in the case of industrial units, for which a staff of 40 Inspectors and 10 Superintendents should in our opinion be adequate.

17. In the Chapter on Preventive Organisation, we have proposed that in addition to its normal complement of field Inspectors all Ranges other than Officer oriented Range should have a preventive Inspector. We are told that Preventive Inspectors are already provided in some of the outlay Ranges. We consider that, for present requirements, the preventive organisation functioning is by and large adequate from the point of view of numbers though not necessarily of quality. Its optimum requirements, how-

ever, would need to be reassessed in the light of the reorganisation proposed. On certain broad assumptions, these requirements would be roughly as follows:—

Formation	Number estimated	Requirements of staff		
		Superintendents	Inspectors	
Range	665 plus 300 officer oriented	..	750	(including staff required for sensitive areas, like concentrations of match factories and tea and coffee estates).
Division	170	170	510	(on an average one Superintendent and three Inspectors in each division).
Collectorate	30	60	180	(on an average two Superintendents and six Inspectors in addition to an Assistant Collector (Preventive) for each Collectorate)
Leave Reserve—	..	23	69	(no leave reserve would be necessary for the Range)
TOTAL		253	1509	

It may be pointed out that the requirements estimated above do not include preventive saff required exclusively for Customs and Gold Control Work. We are advised that for Customs and Gold Control Preventive work, where such work is performed by parties constituted specifically for that purpose, the existing resources are adequate and such adjustments as may be necessitated by the reorganisation proposed can be effected by redeployment.

18. We have also proposed reorganisation of the existing Audit set-up. The following Table sets out the estimated requirements of the Internal Audit and Accounts Division.—

Requirements for	Superintendent (Examiner of Accounts)	Inspector (Technical Assistant)
1	2	3
I. (1) ABC, for audit operating from the Zonal office [on the assumptions that: (i) each unit will require on an average 3 days twice a year; and (ii) each audit party will consist of one Asstt: Director (Assistant Collector), three Examiners of Accounts (Superintendents) and two Technical Asstts.]	57	38
(2) PBC, for audit operating from the Collectorate office [on the assumption that: (i) each unit will require on an average 2½ days twice a year: and (ii) each audit party will consist of an Examiner of Accounts (Superintendent) and two Technical Assistant]	200	400
(3) Simplified Procedure for audit operating from the Collectorate or the Divisional level [on the assumptions that: (i) each unit under Simplified Procedure will be visited for the purpose of audit not more than twice in three years, for a duration of not more than one day; and (ii) each party will consists of two Technical Assistants whose work will be supervised periodically by Examiners of Accounts].	10	100
(4) CBC	Audit of these units will be managed by parties performing audit of PBC and SP units.	

1		2		3	
II.	Total requirement	267		538	
	Leave Reserve	27	294	54	592
III.	Staff available for audit (according to information received from Collectors)				
	(*a*) Executive	28	(excluding two Deputy Superintendents)	131	(excluding 4 Sub-Inspectors)
	(*b*) Ministerial	9		131	(ministerial including Deputy office Superintendents Head clerks, and Upper Division Clerks).
IV.	Additional requirement	257		330	
V.	Estimated additional requirement of executive staff	193*		165†	

*It is assumed that initially at the Class II level, the ministerial cadre will not be able to provide more than 1/4th of the total requirement.

†At the level of Technical Assistant the staff provided by ministerial and executive cadres is assumed to be fifty-fifty.

19. The above estimates do not provide for requirements of audit for unmanufactured tobacco, though in arriving at the additional requirement, the existing audit staff which performs audit functions for both manufactured products and unmanufactured tobacco, has been taken into account.

20. The category 'Others' shown in the Table in paragraph 6 includes staff employed on Gold Control and Customs in addition to the staff provided at Collectorate and Divisional Headquarters. In the Collectorate and Divisional office, Superintendents are employed on technical jobs, whereas Inspectors are utilised mostly for outdoor duties and other miscellaneous items of work. Occasionally Inspectors are also posted in Technical Branches. In several places we have observed that executive staff is used for a number of routine ministerial functions. We deprecate this tendency and consider the utilisation of Inspectors for these jobs as misapplication of resources. If the ministerial staff provided is inadequate, the remedy lies in creating the requisite number of ministerial posts. We recommend that this aspect may be looked into and rectified. Since the staffing adjustments called for on this account would be marginal we do not propose to take note of them for the purpose of this exercise.

21. As for work concerning Customs and Gold Control, in respect of which policies regarding procedure and organisation are formulated at the level of the Member (Customs) and by the Gold Control Administrator, it has not been possible for us to study their working in depth. Inasmuch as the performance of functions relating to Customs and Gold Control by Central Excise officers is reported to be generally satisfactory, we assume that the relevant procedures and organisation are also satisfactory. Nevertheless we observe from some data relating to these organisations that under Gold Control the proportion of Superintendents to Inspectors is 1:9 while under Customs it is 1:13. While we realise that considerations which justify a much lower proportion for field formations in Central Excise may not be wholly applicable to Customs or Gold Control in view of difference in the nature of work, we suggest that this is a matter which needs to be separately processed by Government.

22. The additional staff required in the cadre of Superintendents and the surplus we anticipate in the cadre of Inspectors, as a result of the foregoing proposals would be as follows:—

	Superintendents	Inspectors
(i) Sanctioned strength.	1621	11382
(ii) Deduct field staff employed on unmanufactured tobacco	265	2094
(iii) Balance	1356	9288
(iv) Requirement as now estimated for ABC, PBC and CBC units and match factories including leave reserve (vide Table in para 14).	1221	3718
(v) Requirement of staff for industrial units (L6) including leave reserves	11	44
(iv) Requirement of staff for preventive work	253	1509
(vii) Requirement of staff for other categories (same as at present)	452	3199
(viii) Requirement of staff for audit including leave reserves	221	296
(ix) Total requirement	2158	8766
(x) Additional requirement (+) of surplus(—) with reference to the total working strength.	802(+)	522(—)

The number of additional Superintendents required would be roughly 50% of the total sanctioned strength while nearly 5% of the Inspectors would be rendered surplus.

23. We have confined our analysis to Inspectors and Superintendents, since it is mainly these cadres which constitute the primary field formations. As already stated, a Range will be constituted on the basis of the total quantum of work involved where such work warrants, generally speaking, the posting of four or five Inspectors in terms of the assumptions spelt out.

24. The increase in the number of Superintendents in the field organisation would entail an increase in the number of Divisions. In areas in which small, compact, officer-oriented Ranges are created under PBC, a Division should be able to look after more than its normal complement of four or five Ranges. Similarly the proposed reorganisation of Audit would warrant the creation of a certain number of additional posts in the grades of Assistant Director (corresponding to the present Assistant Collector), and Deputy Director, in addition to the Chief of the Bureau of Audit at the Centre. On the Accounts side, there would be additional posts of Chief Accounts Officers besides Assistant Chief Accounts Officers at Divisional headquarters. The implications of these and other recommendations pertaining to Organisation in terms of additional requirements of ministerial and other staff, as also of the allied topics of executive and ministerial cadres including their composition, selection and training, are dealt with in the succeeding Chapters.

CHAPTER 15

SELECTION AND TRAINING FOR NEW DUTIES

We have attempted in the preceding Chapter to work out the requirements of staff, in the cadres of Superintendents and Inspectors, for different patterns of control and for certain organisations such as Preventive and Audit. we have broadly noted the existing staff implications of unmanufactured tobacco, but since it falls outside the scope of our inquiry, excluded it from the estimates of projected requirements. In view of the fact that both manufactured excisable goods and unmanufactured tobacco are administered by the same organisation at the primary as well as the supervisory level, the reorganisation of the Department will have to take into account the staffing and other requirements of the pattern of control envisaged for tobacco. We understand that the Tobacco Excise Tariff Committee is seized of this and allied issues. An integrated approach to the problem of staffing, especially at the level of the lower formations, is clearly necessary.

2. On the basis of the requirements estimated by us, the existing sanctioned strength of Inspectors in the Department (Other than those engaged on unmanufactured tobacco) would be surplus by 522 posts while an additional 802 posts of Superintendents would be required. One way of putting this in proper perspective would be to point out that the net requirements, plus and minus, thus worked out, merely reflect the emphasis on quality in the patterns of control recommended by us. With the consequential increase in the number of Divisions and promotion of Superintendents to that grade, there would be further vacancies so that in point of fact the total number of additional posts of Superintendents needed would be around 900.

3. Selection of staff, irrespective of whether this is by direct recruitment or takes the shape of promotion, would need to subserve the basic requirements postulated by the System of Selective Control. These are: greater familiarity with the processes of production and maintenance of accounts, better and more effective control from the point of view of revenue, and greater appreciation of the problems of the tax payer. Patterns of control have been tailored to the needs of both the Department and the assessees and the distinctive requirements of these patterns would have to be borne in mind for selecting and training staff expected to administer the patterns and perform allied functions.

4. In the matter of selection for supervisory posts of Superintendents, a distinction has to be made between long term and ad hoc appointments. Recruitment from the outside market is necessarily time-consuming, while the needs of the Department would be immediate. Fortunately, the available resources include a large body of Inspectors, many of them well qualified and experienced both in SRP and the system of physical Control. Properly selected and given some training, these Inspectors with their long practical experience of the working of the Department would be well suited, as an immediate step, for the supervisory role of Superintendents envisaged for the new patterns.

5. The promotion of a considerable number of Inspectors, apart from easing stagnation, will simultaneously solve the problem of the somewhat large surplus located in that grade. At this point, it becomes necessary once again to take note of the fact that at present all recruitments to Class III posts and promotions from Class III to Class II are regulated individually for each Collectorate. In a few cases this takes place in terms of the old Collectorate now bifurcated. Although the staff requirements estimated by us in the preceding Chapter are based on a broad analysis, it is fairly evident that Collectorates which have a larger concentration of industrial units, particularly in the PBC sector, would command a larger share of the additional posts required. There already prevails considerable dissatisfaction in the Services on the score of uneven prospects of promotion in different Collectorates. The consequent stagnation in certain Collectorates is the major grievance of a large body of Inspectors. What we are here contemplating by way of the selective promotions suggested is in fact a somewhat massive operation of an exceptional nature necessitated by a major reorganisation of the administrative structure. It would clearly not be proper to deal with so unusual a context as if it arose in the normal course of day to day administration. We accordingly recommend that the proposed selective promotions to the new posts of Superintendents from the existing cadre of Inspectors should be regulated either on an all-India basis or on that of adequately large regional or zones, In deciding the size and composition of the region or zone, one of the main considerations to be kept in mind is the need to remedy, as far as possible, grievances which have arisen on account of serious disparties in promotions between different Collectorates. It need hardly be pointed out that the regions or zones we have in mind for this purpose are purely *ad hoc* and should not be confused or regarded as co-terminous, with the five zones elsewhere proposed as the jurisdiction of the Zonal Commissioners.

6. The Central Excise Reorganisation Committee (1963) had recommended that the promotion quota in the cadre of Superintendents should be filled, 50% on the basis of merit-cum-seniority and 50% by a system of departmental competitive examination open to Inspectors with a minimum prescribed period of service. We consider that this would be an eminently suitable arrangement even in the present ad hoc context inasmuch as it would enable these posts to be equitably distributed between old and senior Inspectors on the one side and relatively younger people who possess the necessary merit, on the other. We consider that the prescribed period of service for this purpose should be five years.

7. After the requisite number of Inspectors has been selected for promotion on the basis indicated above they should be allocated as far possible or to the extent of vacancies available, to the Collectorate to which they belong, and failing that, to another Collectorate within the region or zone which served as the basis for selection.

8. After the above, ad hoc selection is made, the future vacancies of Superintendents should be filled, as already contemplated, partly by promotion from among Inspectors and partly by direct recruitment in the ratio of 75 : 25. We have recommended elsewhere that the induction of specialists is necessary at various levels. The number of posts of Superintendents intended to be filled each year should be properly allocated on the basis of the requirements of each different pattern of control between generalists and specialists (in various disciplines like accounts, engineering and other fields of technology) who would be recruited through the UPSC in either case.

9. The reorganisation proposals would also involve selection of personnel for the new Audit and Accounts Division in the Department. We have recommended earlier that initial appointments to the various grade in this Division should be made from the existing departmental cadres and also spelt out the criteria to which selections should be subject. For future vacancies of Technical Assistants, the normal channel for appointment should continue to be through the feeder cadres of Inspectors on the executive side and Head Clerks and Deputy Office Superintendents on the ministerial side, vacancies being allocated equally between the two wings, though, at a later date, the Administration may consider the feasibility of resorting to direct recruitment for a number of these posts with a view to attracting personnel of requisite educational and accounts qualifications. In so far as Class II posts are concerned, future vacancies may be filled in the same way as vacancies in the grade of Superintendents on the executive side, a certain proportion being allocated to direct recruitment and the rest to promotion. Direct recruitment will be based on the same competitive examination whereas promotion will be made from out of the cadre of Technical Assistants. For Class I appointments, all incumbents of Class II posts in the Division will be eligible for promotion to the integrated Customs and Central Excise Service, in the same way as Class II officers on the executive side.

10. There will be considerable expansion in the ministerial cadre also. Selection of personnel for the additional posts required may continue to be regulated as at present.

11. It would be necessary to impart adequate training to the staff needed for different patterns of control and for other functions like Preventive and Audit. Our proposals regarding augmentation of the present training facilities are set out in a subsequent Chapter. We therefore draw attention to the necessity of organising crash training programmes to fit the existing personnel into new jobs. By and large, the bulk of the staff required will be concerned with production control. It would therefore, be necessary to get them familiarised with the various process of production, the raw materials used, the key points at which control is to be exercised, the type of accounts kept by the industries concerned, the marketing pattern of the excisable commodities and similar aspects of importance which have a bearing on revenue. For this purpose, courses of instruction supported by visits to producing units would need to be arranged to supplement the expertise available with the staff actually working in the present Assessment Ranges and Inspection Groups. Similarly the requirements of other patterns of control and ancillary organisations would need to be identified and training programmes devised to meet those requirements.

12. It would be essential for the Divisional Officers to understand the new patterns of control in all their aspects and to pay adequate attention to the training and guiding of Superintendents and Inspectors charged with the concerned responsibilities. It would therefore be very desirable to start by instituting ad hoc training courses and seminars for the Assistant Collectors themselves before the introduction of the scheme.

13. In the foregoing paragraphs we have indicated very broadly the objectives underlying selection and training and also given some suggestions in regard to the achievement of those objectives. In this context we should like to draw attention to the fact that it is only a proportion of the total staff of Inspectors and Superintendents which is employed on field jobs relating to manufactured products, the

rest being engaged on tobacco, customs, gold control and miscellaneous work. This imposes a built-in limitation on the possibilities of developing an expert cadre for Selective Control since the staff employed on these jobs would be transferable to other duties. Nevertheless, the administration should endeavour to allocate the staff in such a manner that officers continue to remain employed in the particular fields assigned to them for a sufficiently long period. This will enable expertise to be developed to the benefit of both the Department on the one hand and the assesses on the other.

CHAPTER 16

RECRUITMENT, TRAINING AND OTHER ISSUES

The personnel of the Central Excise Department, comprising four different classes of service with more than one cadre in each class and several grades in each cadre, has a total strength of around 30,000. Commensurate with the size and variety of the Department are the personnel problems which arise in respect of recruitment, training, cadre composition and promotion as well as service and working conditions generally, including those which have a bearing on job satisfaction and, in the long run, on career development. To cope with these problems there is need for a well conceived personnel policy which operates at different levels through a well-designed system of personnel management. This need will be all the more pressing in the new context of reorganisation, specialisation and added individual responsibilities postulated by our recommendations. It is against this background that we have elsewhere stressed the importance of constituting Personnel into a distinct portfolio which would receive the whole time attention of one of the Members of the Central Board.

2. In viewing the personnel structure from the stand point of our recommendations, two aspects have to be kept in mind short-term and long-term. So far as the immediate future is concerned, the new demands will to a large extent have to be met by redeployment of existing staff after appropriate training for the purpose. Where, however, expertise is needed of a type not hitherto provided in the cadres, there is no alternative to ad hoc recruitment or induction of qualified persons. Looking farther ahead, long term modifications reflecting long term projections and needs will be inevitable in regard to points of admission (on recruitment or promotion) to different posts or cadres, qualifications on admission and training thereafter.

3. We need not expatiate on the need or importance of a sound and balanced cadre composition which is the corner-stone of any efficient administrative structure. The service cadres in the Central Excise Department are classified for purposes of recruitment, promotion etc. as ministerial or non-ministerial except in the case of Class IV officers such as peons, jamadars and daftaries who constitute a separate cadre of Class IV non-gazetted personnel. Each of the two cadres, ministerial and non-ministrial, has officers belonging to different classes and grades which have been described briefly in Chapter 5. Normally, officers in the two cadres have their own channel of promotion or advancement but at the level of Inspectors in the non-ministrial cadre, a certain quota or proportion is reserved for selection from amongst Upper Division Clerks and Stenographers (Ordinary Grade) who form part of the ministerial cadre.

4. In so far as ministerial personnel are concerned, the present cadre composition and career prospects are reflected in the following table:

Total number of posts in Class III	As on 1-7-1973
(i) Office Superintendent	143
(ii) Deputy Office Superintendent	613
(iii) Head Clerk	178
(iv) U.D.C.	3571
(v) L.D.C.	2484
(vi) Stenographer (Senior Grade)	26
(vii) Stenographer (Ordinary Grade)	595
(viii) Woman Searcher-cum-Clerk	77
TOTAL	7687

Total No. of posts in class II	
(i) Administrative Officer	144
(ii) Assistant Chief Accounts Officer	22
(iii) Examiner of Accounts	9
(iv) Chief Accounts Officer	19
TOTAL	194

It is seen that career prospects of ministerial officers in class III for purposes of promotion to Class II are extremely unsatisfactory, even though 25% of the posts of Inspectors, Ordinary Grade (of which the number was 9465 as on 1-7-1973), is presently reserved for Upper Division Clerks, by virtue of which some of them might get eventually promoted to Class II in the executive cadre. Within Class II and Class III there are a number of grades and appointments to each higher level are made from one or more of the grades below it. The relevant data show that both the present composition of various grades in the ministerial cadre and the manner in which vacancies are filled are hardly satisfactory. We have already drawn attention to one specific situation. The grade of U.D.C. consists entirely of those promoted from the feeder grade of L.D.C. there being no direct recruitment to the post of U.D.C. Yet the cadre strength of L.D.Cs. is smaller than that of U.D.Cs. with the result that a large number of vacancies in the grade of Upper Division Clerk has existed over a number of years. A cadre of 3571 individuals in the grade of Upper Division, Clerk and a part of the cadre of Stenographer (Ordinary Grade) are required to be fed wholly by the cadre of L.D.Cs. whose total strength is 2484. The position in the case of Deputy Officer Superintendents, who have a cadre of 613 individuals, is similar inasmuch as the feeding cadres of Head Clerk and Stenographer (Senior Grade) have a total strength of 204. Whether or not practical difficulties are frequent, it seems desirable to take early steps to correct this lopsided structure.

5. To turn to another point, Deputy Office Superintendents were previously considered eligible for appointment to Class II posts, but it appears that selection is now confined to Officer Superintendents. For quite sometime, appointments, confirmations and transfers of Class II officers were regulated on a zonal basis, but sometime ago it was decided that they should be made on a Collectorate basis except in certain Collectorates which maintain a common establishment and seniority roster.

6. We have mentioned earlier that on account of the existence of a multiplicity of grades in the ministerial Class III cadre, a Lower Division Clerk takes a minimum of twenty years to become an Officer Superintendent which also is a Class III appointment. Within Class III itself, posts of L.D.C., (to the extent of 10% of the posts which are filled from among Class IV staff), Head Clerk and Office Superintendent are treated as selection posts, i.e., appointment to these posts involves promotion based on the findings of the Departmental Promotions Committee for selection posts.

7. We believe that if our recommendations elsewhere are implemented, the career prospects of ministerial officers would show considerable improvement. The strength of Class II ministerial cadre would improve further as a result of (i) creation of nearly 200 posts of Assistant Chief Accounts Officers to be posted at Divisional headquarters; and (ii) fifty posts of Examiners of Accounts; so that the cadre would in fact be more than doubled. Within the Class III grades again there would be substantial increases as a result of consequential vacancies in the grades of Office Superintendents who are eligible for promotion as Assistant Chief Accounts Officers; Deputy Office Superintendents and Head Clerks who would be eligible for appointment as Technical Assistants; and Upper and Lower Division Clerks who will have better and quicker avenues in the normal channel of promotion. At the same time there would be a rise in the number of ministerial posts, largely in Class III, as the result of an all round increase in the number of Ranges and other formations. But a matter of far greater significance for ministerial officers will be the consideration that avenues of promotion to Class I appointments will now, for the first time, be thrown open to them.

8. Despite the substantial improvements in the career prospects of ministerial officers which the present proposals are expected to open out, there is need, in our view, for a re-examination of the prevailing position regarding the number of grades in the ministerial cadre, their composition, methods of recruitment and promotion and restrictions to which promotions are subject with a view to (i) removing the existing anomalies, (ii) curtailing the time lag for promotions within the same class, by reducing, if possible, the number of grades, and/or the minimum period of service presently prescribed for purposes of promotion, and (iii) providing for direct recruitment at certain levels. We have referred earlier to the recommendation of the Pay Commission that a proportion of posts on the two pay scales applicable to Deputy Office Superintendents and Head Clerks, ranging from one third to one half, should be placed on the lower pay scale suggested by the Commission for Head Clerks. We have also mentioned that for some time past the Administration has been following the policy of gradually reducing the number of those who are in the grade of Head Clerk. In the context of the situation obtaining in the Department as a result of the existence of a multiplicity of grades in the ministerial cadre, we endorse the Administration's standpoint.

9. In the executive cadre, the grievance relating to faulty cadre composition and inadequacy of career prospects relates primarily to the grade of Inspectors, through promotion opportunities available to Superintendents of Central Excise, Class II are also said to be poor. We have already referred to the widespread feeling of frustration prevailing in

the ranks of Inspectors. This state of affairs appears to us to be the result partly of the gradual dissociation of this class of officers from active participation in functions involving trust and responsibility. We have seen how from an important, indeed pivotal role, which an Inspector played in the early days of physical control, his importance in the administrative set up gradually declined, first under the MOR pattern of work and later under SRP. The other factor, and one which in some ways is more important, is the stagnation in the grade of Inspector of a large number of officers for want of adequate promotion prospects. This is due to several reasons including the sporadic and uneven manner in which the relevant cadres expanded in different Collectorates. Whatever the underlying factors, the resultant damage to the morale of the Inspector has been considerable.

10. Our proposals regarding reorganisation of the field formations at different levels, the infusion of a large element at the level of Superintendents, the strengthening of the preventive rganisation and the constitution of a separate cadre for audit and accounts are expected to ameliorate the present state of affairs and thereby restore to some extent the confidence which inspectors have lost and which is sorely needed for effective functioning and certain statistics which we have given in of the organisation as a whole. The tables an earlier Chapter throw some light on the present cadre composition of Class II and Class III services. We also note that the pay scale applicable to Inspectors (Ordinary Grade) is Rs. 425-15-500-EB-15-560-20-700-EB-25-800. Unless promoted it would take an officer 20 years to traverse this scale. Likewise the senior scale of Rs. 550-900 requires 13 years of service to attain the maximum. The Pay Commission has compared the promotion prospects of Inspectors of Central Excise with those of Inspectors of Income Tax and Customs and found that on the basis of 100% promotion to the Class II grade of Superintendent, Central Excise, the promotion prospects of Inspectors of Central Excise are 14% as against 76% for Inspectors of Income Tax, 67% for Customs Examiners and 11% for Customs Preventive Officers. While recognising the usefulness of selection grades which are said to have a moderating effect on the disparities existing in the promotion prospects available to comparable cadres in different departments, the Commission has observed that selection grades should be provided for posts in Class III and Class IV cadres which are filled by direct recruitment where the number of higher posts to which employees in a particular cadre can seek promotion is less than half the strength of that cadre. The Commission has recommended that the number of selection posts in such grades should not be less than 10% but should not exceed 20% of the posts for which they serve as the selection grade (all posts which have been in existence for three years being taken into account for this purpose).

11. We have given careful thought to this problem. We note that initially and for quite some time the educational qualification required for appointment as Inspector was a University degree and the cadre attracted a large number of graduates in science and technology of whom quite a few were post-graduates. With relaxation in 1961 of the prescribed educational qualification to Intermediate and infusion into the cadre of promoted Sub Inspectors, the quality of personnel started declining. With the abolition of the cadre of Sub Inspector and the appointment of most of them as Inspectors in 1972, the cadre of Inspectors suffered a further dilution. To our mind the most pertinent consideration involved here is one of justification for retaining this cadre now and for continuing it in the future. The complexities of the excise tax system and the probable directions of its future development both suggest that tasks of administration would call for increasing specialisation and performance of functions by a body of officers who have better educational background, are technically more qualified and command an appropriate status for dealing with the industry and for taking decisions on such important matters as those involving classification, assessment etc. of goods. Even so we are not quite convinced that either now or in the foreseeable future it would be possible to dispense with this cadre altogether, though we do visualise that in the not very distant future its preponderance will have steadily declined, as a result of the Department's exapansion and retirement from service of a large number of Inspectors of whom nearly 85% are more than 50 years old. Accordingly, we consider "stagnation" largely as a transitional problem. Nevertheless it is a real problem and would continue to be one for several years.

12. We trust that the recommendations made by us in connection with the reorganisation of field formations and the redeployment of existing resources would result in improving the present career prospects of Inspectors. We would further recommend that having regard to the particularly long span of time scales prescribed for Inspectors, it may be provided that an Inspector who has put in 15 years of service in the Ordinary Grade and who has satisfactory record of service in that grade should be appointed to the Senior Grade. Correspondingly the number of Senior grade posts which is presently restricted to 25% of the permanent posts should be suitably raised to, say 50%, and related as recommended by the Pay Commission to posts which have been in existence for three years.

13. We have referred to the sporadic character of expansion in different areas. We realise that in a way this is inevitable in a department like the Central Excise where excise coverage is related directly to industrial activity. However, this gives rise to uneven prospects of promotion, not unoften in adjoining Collectorates. The consequence is dissatisfaction. To illustrate: in Bombay Collectorate, Inspectors recruited in 1954 have been promoted as Superintendents, while in the adjoining Poona Collectorate, Inspectors recruited in 1949 have still to be considered for promotion. We find that at one time, seniority and promotion upto Class II were regulated on a zonal basis : the country was divided into four zones, each comprising a number of territorially contiguous Collectorates and the personnel employed in a Collectorate shared the promotion prospects available in the zone as a whole according to their seniority in that zone. Later the zonal concept was discarded in favour of the Collectorate. In the present scheme of things when a Collectorate is divided to form two Collectorates, the same combined seniority is maintained for some time and promotions are regulated on the basis of the combined parent Collectorate. This evidently is an expedient employed to get over the hardship or dissatisfaction which may arise as a result of uneven expansion in the two Collectorates. We are, however, informed that this principle was not followed after the Poona Collectorate was carved out of Bombay in 1959. We consider that the earlier arrangement under which the Administration operated on the basis of zones had considerable merit. It evened out chances of promotion in the zone and thereby minimised discontent. We recommend that Government might consider the revival of old zonal concept for this purpose, the new zones corresponding in territorial coverage to the zones recommended by us in Chapter 9. In this context we do not envisage any change in present policies or exercise of power relating to recruitment or confirmations. Even in matters of transfer, the existing position may continue, except in cases involving promotion in which the officer concerned may be required to move to another Collectorate within the zone. Departmental instructions can provide that this may also be avoided if a vacancy is available within the Collectorate itself. We should like to add that seniority for this purpose should be fixed with reference to the date of appointment and not the date of confirmation as was the case in the old zonal arrangement which also led to disparity in promotion prospects, albeit for a different reason.

14. Concerning stagnation in the grade of Superintendent of Central Excise, it may be stated that in view of the fact that Customs and Excise Services have been integrated at the Class I level, their promotion prospects can be considered only in the light of data relating to the combined service. The relative position of Class II officers belonging to Customs and Excise services eligible for promotion to Class I *vis-a-vis* corresponding grades in the Income Tax Service is indicated in the following table:

Income Tax		Customs and Central Excise taken together	
Income Tax Officers Class II	1738	Superintendents of Central Excise, Preventive Inspectors and Appraisers	2118
Income Tax Officers Class I (50% by promotion)	1746	Superintendents and Assistant Collectors (50% by promotion)	664
Promotion prospects	50%		15.7%

15. Here again the prospects of promotion are poor and the number of posts in Class I available for promotion is substantially less than half the number of posts in Class II. However, the sense of frustration in the cadre of Superintendent, Central Excise, Class II is not as acute as it is in the cadre of Inspector, the principal reason being that presently the entire Class II cadre consists of officers who have already received one or two promotions, having come from the grades of Inspector or Deputy Superintendent. The position would, however, be aggravated by direct recruitment to the cadre of Superintendent of Central Excise and we recommend that a Senior or Selection grade should be created for this cadre also. Our suggestion would be in consonance with the principles laid down by the Pay Commission in this regard. In this context we recommend that, on their promotion to Class I, Superintendents should be appointed directly in the Senior Class I scale, on account of their experience, without having to go through the Junior scale.

16. We find that opportunities of promotion available to Class IV personnel are negligible. At present 10% of the vacancies in the grade of Lower Division Clerk are reserved for Class IV employees (borne on regular establishment). They are filled by selection through a departmental examination, selection being confined to individuals who fulfil the minimum educational qualification of a pass in Matriculation or an equivalent examination, are within a stipulated age limit, and have put in at least five years service in Class IV cadre itself. The promotion posts available to peons/sepoys are Jamadars and Daftries (Ordinary Grade) of which the

total number is 510, against a strength of 10,306 in the cadre of peon/sepoy. In this respect we cannot do better than support the recommendations made by the Pay Commission in para 47 of Chapter VIII of their Report.

17. At the Class I level of Central Excise, recruitment and promotion follows the general pattern prescribed for all Central Services. At the same time, despite some expansion in the number of higher posts, such as those of Collectors in recent years, the magnitude and range of the functions of the Department have increased so much that the present hierarchy at the higher levels requires restructuring. This is one of the reasons for our proposal regarding the new office of zonal Commissioner. Certain other inadequacies are sought to be corrected by raising the status of the Chief Accounts Officers and constitution of a new audit and Accounts Division within the Department. Increase in the number of Division and Collectorates and the creation of specialist posts to advise on technical and accounting matters are other measures considered necessary in the context of Selective Control.

18. As we have pointed out elsewhere, the induction of specialists is necessary at various levels. For Class II, they would be recruited in the same manner as specialist Appraisers of Customs, namely, through the U.P.S.C. For ABC units a certain number of additional posts in Class I would be necessary for accomodating suitable specialists in such fields as Chartered/Cost Accountancy and Steel or Oil Technology. In order that the talent attracted is of the appropriate type, it will be necessary to incorporate certain special features into the recruitment such as relaxation of the usual age limit, offer of higher initial pay and provision for absorbtion into the general stream at later stages. It should also be possible, in some cases, to obtain the services of suitable experts on deputation from other Government Departments, e.g., the Directorate General of Technical Development, Ministries of Industrial Development and Petroleum and Chemicals.

19. Government have already accepted in principle the need for direct recruitment to the grade of Superintendent Class II upto a limit of 25% of the posts and it is only because of acute stagnation at the level of Inspectors that the proposal has not yet been implemented. In view of the fact that Selective Control calls for an improvement in the quality of Superintendents, direct recuitment at this level will be more necessary than ever. While we agree with the general proposition that on the whole the percentage of such direct recruitment should be in keeping with the principle that Class II posts should be so designed as to provide an avenue for promotion, we nevertheless feel that in this particular case there may be need eventually for an even higher percentage of direct recruits, considering the onerous responsibilities envisaged for the Superintendents. At this stage, however, direct recruitment may be limited to 25%.

20. The source for direct recruits to the grade of Superintendents Class II would be the same as that for Appraisers of Customs. A percentage of posts may be reserved for specialists recruited through the UPSC, while the majority would be selected by the UPSC from among candidates qualifying in the annual combined competitive examination for the IAS and allied Services.

21. Because of the qualitative need, the present policy of promotion to the grade of Superintendent Class II based on merit-cum-seniority selection by the Departmental Promotions Committee, would need some reconsideration. In this context, we endorse the recommendation made by the Central Excise Reorganisation Committee (1963) that the quota reserved for promotion may be filled, half on the basis of merit-cum-seniority and half by a system of competitive examination open to all Inspectors who have completed a minimum prescribed period of service.

22. For the grade of Inspector, the existing pattern of direct recruitment and selection from the grade of UDC may continue. However, in keeping with the advances that have taken place, and are still taking place, in techniques of production and accounting as also because of the complexity of the tariff, we endorse the recommendation of the Pay Commission that the minimum qualification for direct recruits should be a University Degree and that recruitment should be either through the UPSC or the Subordinate Services Board.

23. We have referred to the anomalous situation caused by the fact that the cadre of UDC is much larger than the feeder cadre of LDC, leading to a large number of posts of UDC remaining unfilled for want of qualified LDCs. In view of this as also the fact that a Lower Division Clerk has to put in at least seven years service before he is considered as eligible for promotion to the grade of Upper Division Clerk, there seems to be no escape from having recourse to direct recruitment to the cadre of UDC. The extent of direct recruitment should be determined with reference to the present staffing position of these grades. Having regard to the proportion of 35 : 65 which appears to be the present accepted policy regarding the

relative strength in these grades, we consider that two-thirds of the posts in the cadre of UDC may be filled by direct recruitment. Suggestions have also been made for the abolition of the grade of LDC and raising the minimum qualifications for UDC to that of a Graduate as obtains in some departments. In keeping with the general practice and also because of the fact that a proportion of vacancies in the grade of Inspector is reserved for UDCs, it is logical to prescribe the minimum qualification of a University Degree for direct recruits to the grade. As regards the abolition of the cadre of LDC, we would not favour this for several reasons. There are many clerical jobs in the Department for which it would be wasteful and expensive to employ graduates; there is no reason why, with proper academic and on-the-job departmental training, the LDCs cannot be groomed for the reponsibility of UDCs. The present position in regard to the cadre of LDC, may, therefore, continue.

24. The need for training of personnel in any organisation is well recognised and the importance attached to training in the Central Excise Department in recent years is evidenced by the establishment of the Directorate of Training in 1969. In Chapter 4 we have briefly described the functioning of the Directorate. We have also referred to the inadequacies and difficulties impeding the achievement of its goals.

25. There are around twenty two thousand Class I, II and III officers in the Central Excise Department alone, while the Central Training Institute and the four Regional Institutes have imparted training to barely one thousand officers employed on Excise and Customs work. Though some training has been given to most of the staff at some stage of their career; this was largely before the establishment of the Directorate of Training. There is need for considerable augmentation in both size and diversity of training facilities. Unlike in Customs, there has been no recruitment of specialists despite the complexity of the Excise tariff and procedures; and this makes it all the more necessary that existing staff should be adequately trained. Moreover, the new patterns of control now proposed aim at placing responsibility at each appropriate level of the structure in keeping with the revenue innoline; this postulates appropriate training for the duties to be discharged at each such level. Among other things, the training should help towards a better understanding of the different types of operations and accounts peculiar to the manufacturing units concerned.

26. Despite enhancement of the penal provisions in the Rules and increase in the preventive staff as a consequence of SRP, evasion is prevalent on a fairly wide scale though there has been an increase in the number of offences detected, largely of a technical nature. This points to the need for adequate training to personnel engaged on preventive duties. Unless these are fully aware of the requirements of the law, including their own powers and how those powers are to be exercised, they cannot function effectively. Among other subjects, the Preventive and Intelligence staff should be trained in such matters as (i) Central Excise law and procedure with particular reference to evasion; (ii) gathering of intelligence including likely sources of information, recruitment of informers and maintenance of records; (iii) surveillance over suspects, premises and vulnerable points; (iv) use of fire-arms; (v) manner of conducting searches, seizure and arrest; (vi) investigation and follow-up after initial detection of a case; (vii) manner of preparing panchnamas, recording statements and completion of case files; (viii) legal requirements in respect of prosecution of offenders and (ix) Provisions relating to use of Secret Service Funds and payments of rewards. If necessary, special courses for preventive officials covering these and other aspects may be devised, For training to be useful it should be of adequate duration and preferably be imparted by officers who have distinguished themselves in this particular field.

27. We are aware that the organisation of training facilities on the large scale contemplated necessarily takes time. Moreover, there are constraints of finance, accommodation, equipment and, more importantly, of suitable personnel to take care of the training itself. Subject to this, however, and apart from the extention of the regular training facilities, it will be necessary to organise crash training programmes so fit existing personnel into new jobs. Such training of course would be given only to those who would be adjudged, after a process of selection, to be suitable for the new assignments.

28. The future scope of the facilities should be such that besides initial training to all direct recruits, it should be possible for every officer to attend at least two general refresher or executive development courses during his service. This would be apart from the specialised training which some of the officers would have to undergo.

29. Most of the personnel belong to Class III and are primarily employed in the field. The four Regional Institutes would hardly be in a position to meet the training need of this large body of officials. One way to

overcome this difficulty would be to set up training centres in the Collectorates for training both executive and ministerial Class III officers. Trainers can be drawn from the talent available in the Collectorates. They may be given short courses at the Regional Training Institutes in both the art of instruction and in the subjects they are to teach. For new recruits to Class III, there should be a sound task-oriented basic training, both theoretical and practical, while for others there should be refresher training geared to the duties and responsibilities which will devolve on them for a few succeeding years. Since the element of direct recruits is not likely to be predominant, most of the Class II posts will be held by persons who have risen from Class III. The need for proper training at the Class III level cannot, therefore, be over-emphasised.

30. We have already proposed that the Regional Training Institutes should be placed under the administrative control of the Zonal Commissioners. These institutes would cater largely to Class II personnel. Such Class I officers as have not undergone the formal training given to direct recruits and who cannot be trained in the Central Training School might also be given courses at the Regional Institutes. In addition, refresher training to various categories of gazetted officers can be imparted in these Institutes.

31. As regards the training of probationers belonging to the Indian Customs and Exise Service, we have no special observations to make. The period of two years provided for (1) their training at the Lal Bahadur Shastri Academy of Administration, Mussoorie, (2) the departmental Central Training School, Delhi, and (3) on-the-job training which they get in the Collectorates, should suffice to start them well-equipped for the commencement of their careers.

32. Apart from the basic and refresher training imparted by the departmental institutions, maximum use should be made of the facilities provided by the Lal Bahadur Shastri Academy, the various Management Institutes, the Indian Institute of public Administration and the Administrative Staff College, so that sufficient care is taken not only of the aspects of executive development but of the acquisition by the Department of the latest techniques of public.

33. Several organisational difficulties have been mentioned as coming in the way of the proper functioning of the departmental Training Institutes. It is our firm view that any investment in training facilites is bound to pay rich dividends not only by way of larger revenue but of increased goodwill and tax payer catisfaction. It is therefore unwise to stint on training facilities. Adequate accommodation should be provided not only for lecture rooms and libraries, but also for the lodging of the trainees. Proper facilities for their boarding and recreation and the payment of sufficient allowances are also necessary, so that trainees may look forward to this phase of their career and not regard training as a financial penalty and administrative imposition. We would also support the need for provision of adequate training reserves at all levels, so that Collectors can plan their personnel needs in advance and officers can be spared when their turn comes for being deputed for training.

34. Since the Department has its staff spread throughout the country, its policy in the matter of transfer of officers from one station to another is a very important aspect of personnel management. In Chapter 5, mention has been made of the grievances of the services in regard to the frequency of transfers and the attendant difficulties caused to the officers.

35. In a revenue department, the necessity of transferring field officers at periodical intervals needs no elaboration. At the same time, present day difficulties in securing residential accommodation and admission to schools and colleges, as also the financial burden on the staff, are factors which must be taken into account. A general observation we would make in this regard is that transfer allowances should be adequate to cover the expenses involved. We are constrained to say this because frequently they are not. Routine transfers from one station to another in the case of officers below the Class I level, specially after they reach middle age, should be governed by human considerations no less than by well-deliberated principles.

36. At the Class I level, all-India transfers are inevitable. particularly above the level of Assistant Collector. As regards Assistant Collectors and Superintendents, we feel that five years in one Collectorate (except where a transfer is warranted for compelling administrative reasons) would be a suitable working rule.

37. As regards promotee Class II officers, normally it should be the endeavour not to transfer them outside a Collectorate. In any case, they should not be transferred outside the zone or linguistic region. Direct recruits to Class II may, however, need to be transferred to various Collectorates in a zone to expose them to as wide a range of Excise duties as possible. For Class III officers, transfers should be restricted to the Collectorate.

38. Performance appraisal is an important aspect of personnel management in identifying training needs, arranging proper placement and selecting persons for advancement. With the diffused responsibility under SRP it is difficult to visualise proper evaluation of the performance of various officers. We hope that the reforms and reorganisation we have recomended will help to make performance appraisal more meaningful in that they are designed to concretise the job and pinpoint the responsibility. We would also suggest a review of the present system of Annual Confidential Reports to bring it in line with modern methods of performance appraisal.

39. Motivation is perhaps the most important and yet the most elusive of all factors in getting the best out of the human resources of an organisation. We hope that some improvement in this regard will result from the suggested removal of such inhibiting conditions as lack of a due share of trust and responsibility, inadequacy of training and want of reasonable avenues for career advancement. No less important are welfare measures for the physical and mental well-being of the staff. The Third Pay Commision has dealt with this subject at some length and we confine ourselves to certain matters of concern to the personnel of the Excise Department.

40. In another context we have dealt with problems relating to accommodation. We consider that a great deal more needs to be done than at present, and for a much larger complement of staff, by way of providing residential accommodation. During the course of their duties, Central Excise officers have to undertake extensive touring and are subject to frequent transfers. A number of industries and commodities with which the Department is concerned are often located at remote places where living conditions are difficult. The inadequacy of accommodation, coupled with ever increasing rents in towns and cities, places a heavy strain on the staff which cannot but adversely affect their morale and capacity to work. Immediately, and perhaps on an emergency basis, it is necessary for the Department to start its own programme for construction of buildings at places where the problem is acute. In certain places, it may be advantageous to provide residential accommodation for the head of the office in the same building as the office. At each Divisional and Collectorate office provision should be made for accommodating visiting officers and those arriving on transfer. What is needed is a comprehensive scheme with the next two decades in perspective. As a transitional measure, there need be no objection to the Department hiring private accommodation, even from licensees, and allotting it to the officers on recovery of appropriate rent. This, as we have earlier pointed out, is even more necessary in outlying places like tea estates or remote industrial units where the presence of Central Excise Officers is necessary and private accommodation is scarce or non-existent. In such cases, the management should be required to provide suitable residential accommodation on payment of rent by the Department subject to its recovery from the officers.

41. The office premises should be located centrally in clean surroundings, should provide adequate space and be suitably furnished. They should provide for normal facilities like canteens, tiffin rooms and recreation rooms. The provision of vehicles, telephones and other necessary equipment should be carefully planned and supplies promptly made.

42. Emphasis needs to be placed on the promotion of social, cultural and recreational activities for officers and their families. Suitable arrangements should be made for games and sports since such arrangements as exist tend at present to be confined to the Collectorate headquarters. The grants now provided are inadequate. They should be substantially increased. We endorse the proposal of the Customs Study Team that there should be created a Welfare Fund for the Department. In addition, the Collectors should be provided with a small discretionary fund for the grant of relief to employees who suffer illness or injury in the course of discharge of their duties or are otherwise seriously afflicted.

43. At present there are very few wholetime Welfare Officers in the Department. There should be more such officers. Properly trained and qualified personnel, whether from within the Department or from outside, should be appointed as Welfare Officers. Adequate measure should also be taken to improve staff relations and make the fullest use of the machinery for joint consultation. It is to be hoped that with the appointment of Zonal Commissioners on the one hand and Member (Personnel) on the other all matters concerning the working conditions and welfare of the staff will receive much greater attention than hitherto.

44. Service Associations have represented that many Departmental Promotion Committees do not meet regularly and that in consequence vacancies in different grades of service remain unfilled for long periods. The subjoined table shows the number of vacancies, in some of the grades in various Collectorates as on 1-7-1973.

Collectorate	Inspector	LDC	Steno (Ordinary grade)	Sepoy
Ahmedabad	34	26	11	120
Allahabad	18	41	2	15
Baroda	59	9	5	150
Bombay	44	27	18	96
Bangalore	10	40	4	79
Chandigarh	38	12	14	135
Cochin	..	7	1	18
Calcutta & Orissa	89	15	11	110
Delhi	35	9	..	70
Guntur	33	17	4	59
Hyderabad	21	9	1	33
Goa	2	..	..	..
Kanpur	32	32	..	38
Nagpur	4	40	9	4
Poona	28	5	3	72
Patna	24	57	30	106
Madras	24	5	..	117
West Bengal	39	8	6	120
Shillong	34	8	8	..
Madurai	15	8	5	98
TOTAL	583	375	132	1440
Vacancies as a proportion of the total strength of the grade	5.1	15.0	22.2	14.0

45. While there may be adequate justification for not filling up some of the posts, we consider that the Department ought to have a machinery which ensures that all vacancies are promptly brought to the notice of the administrative authority concerned and filled without delay. We understand that lately the process of holding Departmental Promotion Committees has been greatly speeded up. We welcome this development.

SECTION V

INSTITUTIONAL REFORM

37—8 DGSI&CE/74

CHAPTER 17

PUBLIC RELATIONS AND MACHINERY OF COMMUNICATION

Public relations include all activity connected with improving the relationship of an organisation with the public. Central Excise duties cover a large segment of industrial production constantly expanding in size and a large body of tax payers year by year increasing in number. This makes it all the more necessary that the Excise Department should establish an adequate machinery of communication between the department and the tax-payer as part of a proper system of public relations. The need is further accentuated by the growing complexity of the tariff and the increasing sophistication of the techniques of production and accounting.

2. While it may be generally correct to say that ignorance of law is no excuse, the axiom cannot be applied without qualification to the field of taxation. This is particularly so in respect of indirect taxation where, in effect, the assessee collects the tax on behalf of the Government. He has a right to know how much he has to pay and what else he has to do: in other words, what his liabilities and responsibilities are. It has been one of the persistant complaints of the industry—and we have referred to this in several places in the Report—that rapport between the assessee and the Department is, with some exceptions, conspicuously lacking. Some of the recommendations we have made in regard to Procedure and Organisation are designed to ensure a closer relationship between the tax collector and the tax payer.

3. A proper scheme of public relations should include tax payer assistance programmes. Presently such assistance seems to be confined to the issue by the Collectors of trade notices based on clarifications emanating from the Central Board. We have already referred to the complaint that trade notices are received after considerable delay; and since they are sent only to recognised associations and federations, a fairly large sector of producers who are not members of such bodies have no access to them. Some time ago, the Directorate of Inspection had brought out a small number of handouts or brochures in English setting out the salient features of certain procedures, but these were not adequately publicised and the effort does not seem to have been kept up. The Regional Advisory Committees and the Central Advisory Council provide a good forum for exchange of views between the industry and the Department, but their usefulness is limited.

4. Public relations should begin with the Range. Being the very first level at which the assessee comes in contact with the Department—and therefore the most important from many points of view —every effort should be made to ensure that all the information needed by him is available in the Range itself. It should not normally be necessary for him to go to another office to seek clarification about his obligations under the law. More often than not, the image of the Range is the image of the Department. It is therefore of the utmost importance that the personnel of the Range should be trained to be courteous and equipped to be knowledgeable. It is equally necessary that the Range office should have adequate stocks of forms to be filled, latest editions of tariff, manuals and supplements and uptodate versions of notifications and instructions. Copies of such publications as are available for sale should also be supplied to each Range according to its anticipated requirements, together with an adequate number of trade notices and such instructions as can be distributed among the assessees. The Department should impress upon the staff the paramount need of maintaining good public relations in the widest sense. In more concrete terms, there should at least be facilities for seating the visitors and arrangements for attending to them without inordinate delays. We regret to have to comment that in neither of these respects is the average Range office of today a model as to how a public office ought to be equipped and conducted. It is wrong economy to economise in the courtesies which the public rightly regard as their due.

5. In the Divisional and Collectorate offices, including the offices of the Appellate Collectors, Public Relations officers of a suitable status should be available to receive visitors and give them necesary guidance on their problems. Each such office should have a neatly furnished room where visitors can wait pending the completion of their business. It would be all the better if the visitors' room contained reading material including attractive literature on the activities of the Department.

6. Senior Officers of the Department should set apart some time for interviews. Requests for consultation should be readily agreed to. If necessary, appointments may be fixed in advance through the Public Relations Officer. The Officers should endeavour to deal with the visitors in a spirit of understanding. The matters raised should be decided as far as possible on the spot. Where this is not possible, they should be looked into and decided expeditiously. Officers should be encouraged to take decisions at their level and eschew the tendency to make references to higher officers.

7. In the matter of printing and publication of departmental books and other literature, whether for sale or departmental use, the existing machinery needs to be streamlined and strengthened. In the course of our visits to field formations and factories it was repeatedly brought to our notice that even such vital publications as the Central Excise Manual, Tariff and the SRP Handbook were not being brought out and supplied in time. We understand that this work is presently divided between the Directorate of Inspection, Customs and Central Excise, and the Statistics and Intelligence Branch and that, frequently, considerations of economy are responsible for inadequacies of the present arrangements. We consider that the entire work of compilation and publication should be centralised in one organisation, preferably the Statistics and Intelligence Directorate, which should simultaneously undertake the responsibility of distribution.

8. It is true that tax payer assistance programmes do not play the same role in the Central Excise Department as they do, for example, in the Income Tax Department. In Excise, where assessees come in contact with the Department on relatively frequent occasions, much of the education or assistance, needed is provided by these contacts. Even so, it is desirable that suitable programmes should be drawn up from time to time to provide information about the activities of the Department both to assessees and to the general public. There are many obvious channels of communication for this purpose including the newspaper, the magazine and the trade journal, the radio, the T.V. and the documentary film. Press conferences to resolve doubts—these keep recurring at least at every budget—and are by no means confined to policy—could not only be held at different levels but be made the occasion for informative publicity about the Department. Excise duties, as we have repeatedly pointed out, are the largest single source of revenue in India and yet very little is known about the activities of the Department.

9. In so far the Customs and Central Excise Advisory Council is concerned, we are of the view that it serves a useful purpose. We, however, find that even though the Council is supposed to meet bi-annually, in actual practice it meets only once a year, with the result that the agenda becomes unduly heavy and has to be rushed through within the allotted space of two days. We are informed that the agenda is usually accompanied by either a statement indicating the official point of view or set answers on the various items proposed to be discussed. The practice of putting forward prepared answers has been criticised in certain quarters, though the contrary view has also been expressed that it would facilitate discussion if the Council knew in advance the official reaction to the points raised. Another aspect to which our attention has been drawn is that, being a combined Council for both Customs and Excise, the Council cannot do full justice to the problems raised. The number and complexity of these problems, it is stated, are constantly increasing as a result of the country's rapid industrial expansion.

10. We consider that there should be a separate Advisory Council for Excise of which the membership should be more broadbased including greater representation for the medium and small scale sectors of the industry. If necessary, this Council should function through sub-committees constituted for major industries or allied groups of industries. The conclusions arrived at by such sub-committees should be discussed in the general body meeting. We also recommend that the Council should meet bi-annually, or even oftener if necessary, and that Zonal Commissioners should participate in the deliberations of the Council.

11. We have referred to the constitution and functioning of the Regional Advisory Committees. The consensus of opinion so far as these Committees are concerned is that they need to be reorganised to enable them to play a more purposeful role in the working relationship between the assessees and the Department. Having regard to the suggestions made in this behalf and in the context of our recommendations regarding the creation of Zonal Commissioners, we conside that it would be more appropriate to constitute Committees at the Zonal level and to call them Zonal Advisory Councils. The membership of these Councils should cover all important industries concerned with Excise within the zone. They should function within the zone in exactly the same way as does the All India Central Advisory Council within its wider jurisdiction. The Collectors in the zone should participate fully in the deliberations.

12. In view of the fact that there would be an all-India Advisory Council and Zonal Councils, meeting at least twice a year, we do not think it should be necessary to retain formally the Regional Committees currently constituted and functioning in the Collectorates. This of course by no means implies any diminution in the contact between the Collector and the industry. Collectors and other officers would continue to meet the industry periodically at different centres in their jurisdiction and in forums such as Chambers of Commerce and associations of trade and industry. There could also of course be special meetings for discussing the problems of particular sections of the industry.

CHAPTER 18

CONTROL LABORATORIES

Though created originally for Customs work, Control Laboratories are performing an important function in the matter of classification of goods for purposes of duty under the Central Excise Law. We observe from the Table given in Chapter 3 that excise samples analysed by Control Laboratories (other than Ghazipur and Neemuch which cater exclusively to the requirements of the Narcotics Department) during 1970-71, 1971-72 and 1972-73 were 48%, 51% and 51% respectively of the total samples tested. We are also told that in several cases it is found that declarations furnished by the producers are wrong and goods produced by them are found on tests carried out by the Chemical Examiners to be liable to higher rates of duty. Of the 9552 samples tested in Delhi, in 1972-73, this was true of 271 samples.

2. Apart from testing samples, the control laboratories and the chemical staff perform several other functions. They are Chemical Examiners for the purpose of the Explosives Act, Petroleum Act and Section 510 of the Criminal Procedure Code and are occasionally called upon to undertake analysis of State Excise Samples. The Chief Chemist has many duties. In addition to exercising technical control over the Regional Laboratories and tendering advice to the Board, and the Joint Secretaries dealing with revision applications, he is a Member of the Standing Committee formed under the provisions of the Medicinal and Toilet preparations (Excise Duties) Act and Rules and acts as Adviser to the Ministry of Education in the matter of the issue of duty exemption certificates to educational institutions importing chemical apparatus and other equipment for educational purposes. As head of the department, he exercises several administrative functions.

3. We have referred to some of the observations made on the role and functioning of Control Laboratories. Broadly, the criticism made centres' round dalays to which analysis of samples is said to be subject and the accuracy of the results of tests carried out by the laboratories. It has also been complained that control laboratories are unable to undertake several types of tests for which samples have to be sent to other government or semi-government institutions. It has accordingly been suggested that their functioning should be enlarged so as to make them compact and self-contained units, fully equipped to carry out all the tests required in terms of the Tariff. Another suggestion made is that since, for the purposes of analytical tests, requirements of Excise and Customs are different, the present composite laboratories should be split into laboratories dealing exclusively with Excise or Customs.

4. On the subject of delays we are informed by the Chief Chemist that generally about 85% to 95% of the samples are tested and reported within a month of their receipt in the laboratories, and that it is only about 4% of the samples which take more than two months before their reports are despatched to the authorities concerned. The principal reasons for delay are said to be leakage of samples during transit due to breakage of glass bottles or otherwise, and non-fulfilment of the procedural formalities laid down, such as those relating to the filling up of the test memos, quantity of samples required to be sent, and the composition of the product which is under test. In Customs Laboratories which also undertake excise work, customs samples get priority because clearance of imported goods and shipment of export cargo are held up for want of test reports. This leads to some delays in disposing of excise samples. We were informed that in the control laboratory at Bombay, as many as three thousand excise samples were pending at the end of 1972-73.

5. While some of the causes for delay are susceptible of being rectified by issue of administrative instructions, we feel there are other deficiencies which need to be looked into. As already stated, control laboratories were created originally for Customs work. In addition, some of them have taken up work relating to excise samples and assumed technical control on factories producing certain excisable goods. This has tended to make them rather unwieldly. The laboratory in Bombay is a case in point. It is currently handling some sixty to seventy thousand samples of which more than a third relate to Central Excise. It continues to be located in the Custom House where, for want of space, it finds itself too cramped to function effectively. In our view, this laboratory should be split up into two units, one dealing with customs and the other with excise. The excise laboratory can be located elsewhere. The work load in each of the two laboratories would still be quite heavy; in fact, on present statistics it would be heavier than the work load in any other laboratory dealing with excise and/or customs samples.

6. We do not think there is a case for splitting up other laboratories. We are not impressed with the argument that, as a rule, there should be separate laboratories for Excise

and Customs. The basic requirements of the two Wings are not materially different and as long as the total quantum of work involved can be managed by an existing laboratory, there is considerable advantage in retaining its composite character particularly when several customs samples have to be tested from the point of view of the excise tariff for the purpose of the levy of countervailing duties.

7. We have given some thought to the suggestion that the functioning of control laboratories should be enlarged so as to make them self-sufficient in the matter of equipment and personnel needed for carrying out all the tests required in terms of the Tariff. In our view this is neither feasible nor necessary. A vast majority of the tests required to be carried out are essentially chemical in character, while for others (of which the number is reportedly not more than 2%) the control laboratories have established the necessary liaison with government and semi-government institutions which readily carry out the tests required or place the facilities needed at the disposal of the chemical staff. In several cases it would be not only uneconomical but involve avoidable expenditure to equip the control laboratories with the paraphernalia for other tests. By way of illustration the Chief Chemist brought to our notice that the equipment needed for testing samples of polyester would cost several lakhs of rupees in foreign exchange, whereas the number of samples required to be tested in a whole year may be just two or three. For all such tests it is only right and proper that resort should be had to other reputable institutions which specialise in their respective fields.

8. We are advised that control laboratories lack the latest scientific equipment and do not employ modern instrumental methods of analysis. The application of modern techniques can help curtail the time involved in tests carried out through conventional methods, improve the accuracy of results and step up the overall efficiency of analytical work. We recommend that steps should be taken urgently to meet these deficiencies and streamline the working of control laboratories. For this purpose, the staff should be imparted the necessary training in National or Government Industrial Testing Laboratories.

9. It has also been urged before us that, having regard to the increasing volume of work connected with the testing of samples, as also the other multifarious functions which they are expected to perform, the Central Revenues Control Laboratory and the Regional Laboratories are very inadequately staffed. It is not possible for us to indicate the extent to which the existing personnel of the Control Laboratories needs to be augmented. We however believe the matter needs urgent attention and recommend that steps be taken after appropriate, and if necessary expert, examination.

10. In so far as the criticism relating to the accuracy of tests carried out by the control laboratories is concerned, we take note of the fact that the number of cases in which retest is sought by assessees who feel aggrieved with the results of the tests carried out by the reginal laboratories is not large. In 1972-73, the number of such cases was 211, as against a total of nearly 60,000 excise samples analysed in that year. We do not consider that a change in the system is called for, if regard is also had to the fact that there is provision for permitting a retest in a laboratory other than the control laboratory.

11. As earlier recommended, regional laboratories which presently cater to the needs of the Central Excise Department or of both Customs and Central Excise should be placed under the administrative control of the Zonal Commissioners.

CHAPTER 19

STATISTICS AND INTELLIGENCE BRANCH

Of late the functions of the Statistics and Intelligence Branch have expanded considerably even though it continues to be concerned primarily and largely with statistical compilations. Sometime ago it was entrusted with the responsibility of collecting information and formulating proposals regarding fixation and review of tariff values, and very recently the establishment of a Central Exchange for Assessment Data has also been entrusted to this unit.

2. The strength of the Branch, presently made up of some 250 persons in different grades, is being augmented in connection with the establishment of the Central Exchange. Except for Inspectors, who are taken on deputation as Investigators against certain posts and are liable to revert to the parent organisation, the Branch operates as a self contained unit with a cadre composition tailored to its needs. We consider that the status assigned to the Branch of a subordinate office of the Board, in charge of a Deputy Collector of Central Excise, is hardly communsurate with the responsibilities expected of it in terms of its present charter. Moreover, as will appear below, we have further functions in mind for this organisation. We recommend that its status should be raised to that of a full fledged Directorate which may be called the Directorate of Statistics and Publications.

3. The so called 'Intelligence' functions of the Statistics and Intelligence Branch, such as study of price fluctuations in the wake of the Budget or the tariff changes, in fact amount to the collection and interpretation of statistical data. Even in the functions entrusted to it in connection with the Central Exchange the stress is on collection and tabulation of statistics. Accordingly, we consider that the appellation 'Intelligence' should be dropped from the name of this organisation.

4. We have proposed in an earlier Chapter that the Directorate of Inspection (Customs and Central Excise) should be reconstituted into a Directorate of Investigation and Intelligence and that its present functions connected with publication and maintenance of Manuals and Books of Instructions, compilation and issue of Quarterly Bulletins and Judgments, standardisation of forms and registers and other related items should more appropriately be assigned to the Statistics and Intelligence Branch. In this context we contemplate that the work of distribution and publicity should also be entrusted to this Branch. For the performance of these functions the Branch would need to be strengthened with personnel of the number and quality needed. Further, it will have to establish a close liaison with the Central Board as well as with the Zonal Commissioners. The new Directorate would initiate porposals regarding material to be published and distributed both for official and non-official purposes and publicity to be undertaken as a part of Public Relations. Policy in this behalf would continue to be formulated at the level of the Board, but implementation of the policy would be the responsibility of the new Directorate. The Branch, as now constituted, brings out several monthly, quarterly and yearly publication We trust that with suitable augmentation of the existing resources including facilities for printing, the new Directorate would be able to assume the additional responsibility envisaged by us.

5. The delays now involved in the compilation of statistics raise several important questions concerning the receipt, consolidation and submission of periodical returns. At present returns received from the producing units are consolidated at the Divisional level, and the consolidated returns are sent to the Statistics and Intelligence Branch for compilation. In view of the fact that the returns are routed through the Divisional Offices, which are responsible for consolidating them, there is some timelag between the submission of the returns by the producing units and the receipt of consolidated returns by the Statistics and Intelligence Branch. This, it has been suggested, is the principal cause of delay. It has moreover been pointed out that the work of complication of consolidated returns is undertaken in the Statistics and Intelligence Branch with the aid of a computer, while at the same time the number of returns required to be compiled, (which corresponds to the number of Divisions) is too small to be considered economical from the point of view of computer costs.

6. It has been suggested by the Additional Director incharge of the Statistics and Intelligence Branch that the usefulness of his work can be greatly enhanced if the work of compilation, beginning with certain selected commodities, is done from primary documents and not from returns already compiled in the Divisional offices. The Central Excise Reorganisation Committee (1963) had also taken note of this scheme of compilation and observed that it "suffers from a major

defect in that the statements are not prepared from the primary records of the Ranges but from summaries prepared in the Circles".

7. The scheme of Central Exchange envisages that one copy of the assessed RT 12 returns (monthly return of excisable goods manufactured etc.) together with enclosures (presumably gate passes, invoices etc.) will be forwarded to the headquarters of the Central Exchange. It has been suggested that this requirement will achieve the desired expedition in compilation. Since, however, the checking and assessing of monthly returns takes a fairly long time, the suggested procedure, viz., submission to the Exchange after assessment, is not likely to obviate the delays to which compilation is now subject.

8. The Central Exchange has not yet started functioning fully but from the objectives underlying its establishment it appears to us that it would be concerned with tabulation of data relating to classification, prices, computation of production etc. with a view to ensuring uniformity and accuracy in assessments. It is for this purpose that "assessed RT 12s together with enclosures" are required to be forwarded direct to the headquarters of the Central Exchange. If the intention is that gate passes, invoices. etc. should be sent to the Central Exchange along with the assessed RT 12s, we are somewhat sceptical about the administrative feasibility of tabulation based on these documents of which the number issued in a year runs into several millions. We consider that it would be more appropriate to elaborate the format of the RT 12 itself so as to provide such additional information as is sought to be gleaned from these documents.

9. In regard to delays a suggestion made to us is that a copy of the RT 12 and other returns which are required to be mechanised should be sent immediately on receipt from the producing unit to the Directorate of Statistics (without being sent first to the Divisional office for consolidation and transmission thereafter to the Directorate) and compilation undertaken on receipt of these returns. We see no objection to this and consider that the primary returns so received by the Statistics and Intelligence Branch may be utilized, after compilation, by the Central Exchange. Mistakes and errors discovered in the process of checking the returns in the Range, which even now are communicated to the Branch through the succeeding monthly return, can be brought to the notice of the Central Exchange, if necessary, by the compilation Unit. In our view this would facilitate the working of both the Compilation Unit and the Central Exchange.

10. We do not favour any arrangement which cuts out the Divisional and Collectorate offices from receipt and maintenance of relevant data in respect of their jurisdiction. We recommend continuance of the present arrangements whereby copies of basic returns are submitted to the Divisional office and the Chief Accounts Officer and, after consolidation in the Divisional office, are submitted to the Collector.

SECTION VI

CONCLUSION

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CHAPTER 20

CONCLUDING OBSERVATIONS AND ACKNOWLEDGEMENTS

In concluding this second and last part of the Report, we would draw attention to some of our proposals for reorganisation and recount briefly the considerations which have weighed with us in making these recommendations.

2. In the course of this enquiry we have had to review a variety of problems concerning procedure and Organisation. We have been struck by one common feature of the difficulties that are encountered by the Department. Many of these have their origin in a growing disparity between fiscal aims and fiscal implements. The preoccupation of policy with raising more taxes and devising more exemptions is wholly understandable. But this has not been matched by something equally important, namely the corresponding feed-back from the filed and the necessary preparation at all levels, so as to ensure that only practicable is aimed at, and what is aimed at is in fact implemented. In a word, tax policy has tended to run ahead of tax administration. The former is outside the scope of our terms of reference. We have tried, however, in the suggestions we have made in this Volume, to harmonise the administrative structure with the broad requirements of tax procedure outlined in the earlier part of the Report. We have, further, in our recommendations concerning the Central Board, kept in mind the need to bring together and combine within the functions of one Member the three aspects of tax policy, tax procedure and tax administration.

3. We have noted with some concern the growing gap of communication between the tax payer and the tax gatherer. Industry is on the whole justified in feeling that there is too much centralisation, that decisions are unduly delayed, and that even important problems fail to receive timely and adequate attention at different levels of the administrative structure. Several of our recommendations for reform are designed to rectify this unsatisfactory situation. The proposals concerning the Board, the creation of Zonal commissioners and the various directions in which it is suggested that field formations should be reorganised are evidence of our anxiety that a closer relationship should be established between different units of the industry and different levels of the tax administration.

4. Our recommendation concerning the establishment of a Tribunal at the revision stage follows from the same reasoning as underlies the institution of Appellate Collectors.

5. Time and again we have felt that efforts towards improving the tax system are seriously impaired by the shortage of qualified staff. This deficiency is brought into sharp focus by the administrative demands implicit in the System of Selective Control recommended in Volume I. We have accordingly placed considerable emphasis on training and on the formulation of a proper policy concerning personnel management in the Department. It is needless to add that we attach great importance to the recommendation that all personnel matters such as policies of recruitment, training, career development and staff welfare should be dealt with exclusively by one Member of the Board designated as Member (Personnel).

6. We have dealt with "Evasion" in some detail in Volume I. While the recommendations there set out are designed to counter evasion by the introduction of a more effective deployment of trained man-power, corresponding to the revenue significance of different categories of units, we have elaborated in this Volume our suggestions for the establishment of an adequate and efficient Preventive and Intelligence Organisation as part of the total scheme.

7. We have elsewhere commented that the audit organisation of the Department is structurally inadequate and functionally ineffective. We have accordingly proposed a radical transformation of the existing structure, including the constitution of an Internal Audit and Accounts Division in the Department.

8. We believe that the recommendations made by us would lead to better deployment of existing resources, bring about a qualitative improvement in working, reduce the area of friction between the assessees and the Department, lighten the burden of both, and substantially improve the career prospects of working personnel in different grades. In absolute terms, the cost of collection would increase, but as a percentage of the revenue yielded by excise duties, the effect of our recommendations would at the most be marginal.

9. In conclusion we should like to place on record our sincere appreciation of the cooperation extended to us in our task by various organisations and individuals. We have acknowledged the contribution of some of them in Volume I and thank them again for continued assistance. We are grateful to Shri M. R. Yardi, former Finance Secretary, and Shri H. N. Ray who has succeeded him, for the

keen interest they have taken. We are indebted to the Chairman and Members of the Central Board of Excise and Customs for making available to us their vast experience and knowledge. The Secretariat of the Board has throughout been most cooperative and we express our gratitude to them. In relation to the present Volume on Organisation, a great deal of useful work was done for us by the Department of Personnel and Administrative Reforms and by the Directorate of Inspection (Customs and Central Excise). We express our special thanks to them. We are also grateful to the Statistics and Intelligence Branch for providing the Committee with the great deal of data asked for from time to time.

10. We acknowledge with thanks the work done by Shri N. C. Kandola, Deputy Director of Inspection, during the absence on leave of our Secretary. We feel specially indebted to Shri A. J. F. D'Souza, Collector of Central Excise and Customs, who has been with the Committee since he joined his present post on 7th February, 1974. His contribution has been valuable and he has been a source of strength to the Committee. We would put on record our deep appreciation of the part played by the Secretary, Shri Lachman Dev. He showed again that he merited the high praise we gave him at an earlier stage. As before, he was ably assisted by his colleagues in the Committee's Secretariat, notably Shri Lajja Ram and Shri B. Prosad. The Research Officers, Section Officer and personal staff whose names we mentioned in the earlier Volume continued to do excellent work. We would record our sense of appreciation of the contribution which they and the other staff have made towards the smooth working of the Committee.

11. One of our Members, Dr. K. B. K. Rao, proceeded on a foreign assignment in October, 1973, after he had signed the first Volume of the Report. We have had the benefit of knowing his views on some of the aspects dealt with in this Volume, though he has not directly participated in the formulation of the present proposals. We place on record our appreciation of the assistance rendered by him. Once again we are deeply grateful to Shri V. Gauri Shankar, Director of Receipt Audit Office of the Comptroller & Auditor General, who attended our sessions in response to our invitation, and assisted in clarifying a number of issues in the light of his special knowledge and experience.

12. It only remains to add that we as a Committee have been deeply conscious of the responsibility placed on us. We shall regard our labours as amply rewarded if, in the discharge of that responsibility, we have succeeded some measure in drawing attention to the problems which today beset on of the most important spheres of the country's taxation and in focussing thought on the measures of reform and reorganisation which seem to us urgently needed in solution of those problems.

(Sd.) B. Venkatappiah
Chairman

(Sd.) Bhaskar Mitter
Member

(Sd.) G. B. Newalkar
Member

(Sd.) J. Banerjee
Member

(Sd.) Lachman Dev

(Sd) A. J. F. D'Souza
Secretaries

NEW DELHI.

SUMMARY

OF THE

REPORT OF THE

CENTRAL EXCISE (SELF REMOVAL PROCEDURE) REVIEW COMMITTEE

289—290

SUMMARY

VOLUME I (PROCEDURE)

1—GENERAL

Introductory

In terms of the revenue it brings, Central Excise is the largest single tax levied in India. On the latest figures available (1973-74 budget), it yields over Rs. 2,700 crores and constitutes nearly 50% of the tax revenue of the Union Government. The manner of its levy is, therefore, of considerable importance. The The Committee has been entrusted with the task of reviewing the relevant procedures with reference to intended objectives and actual operation. It has also been asked to examine the organisational and administrative set up of Central Excise. (1.1)

The Tax and Exemptions

Duties of Excise are levied and collected on all excisable goods which are produced or manufactured in India at the rates set forth in the First Schedule to the Central Excises and Salt Act, 1944: Excisable goods are defined in the Act as "goods specified in the First Schedule as being subject to a duty of excise...." (5.2)

The First Schedule presently covers some 123 commodities. Duty rates differ from item to item and where there is sub-division, from sub-item to sub-item. A large number of excise levies are multi-point in their operation.

Broadly, duties of excise are either specific or ad valorem in character, though there are a number of variants: (1) ad valorem-cum-specific, (2) specific-cum-ad valorem, or (3) specific or ad valorem whichever is higher. In certain cases, duties are specific for certain sub-items and ad valorem or a mixture of ad valorem or specific for others. For the purpose of determining the liability of a product to duty, or the appropriate rate of duty applicable to it, it has to be classified on the basis of the criteria laid down which, illustratively, include such factors as sucrose content related to temperature, flashing point, flame height, viscosity, count, average count, denierage, diameter, sectional area, shape, circuit ampereage, voltage, horse power, intended use, commercial parlance, etc. etc. For purposes of assessment, value in the case of goods subject to ad valorem duties, and such physical factors as weight (in some cases sectional weight), volume, thickness, length, area, etc. in the case of specific duties have also to be taken into account. In certain cases, goods are accounted for or sold by the producers on the basis of weight but duty rates or concessional duty slabs are based on volume: in such cases, quantities eligible for exemption or assessment have to be computed on the basis of notional conversion formulae.

The same diversity on a much wider scale is discernible in notifications issued by Government. (5.7, 5.8)

In the case of ad valorem duties, the value of excisable goods is determined in accordance with provisions of law contained in Section 4 of the Act. Several difficulties have been experienced from time to time in the working of the provisions cited. By and large they relate to (i) admissibility of deductions on account of items such as equalised freight and post-manufacturing expenses (e.g. on after-sales service) which are included in the price charged or invoiced, (ii) determination of value in the case of excisable components which do not by themselves command a price or a market, (iii) admissibility of discounts of different kinds (iv) determination of value in the case of new products which enter the market for the first time, and (v) admissibility of prices charged by a producer from a sole distributor or distributors.

The existing provisions have undergone alterations by amending legislation (Act 22 of 1973). The new provisions come into force on a date to be notified by Government. (5.9, 5.10)

The Act empowers Government to fix tariff values for goods chargeable to duty at ad valorem rates. Apart from tariff values, several other expedients are employed from time to time to get over the difficulties of valuation experienced in relation to certain commodities or in particular situations. These include (i) acceptance of prices fixed by Government from time to time under different enactments (ii) operation on the basis of transacted prices indicated by the assessees, (iii) acceptance of rate contract prices as assessable values, and (iv) operation on the basis of the cost of production plus a reasonable margin of profit for commodities produced for captive consumption. (5.11, 5.14)

Compounded levy schemes have been evolved from time to time for a certain number of commodities. At present, these schemes apply to (1) khandsari sugar, (2) cotton yarn produced by a manufacturer who uses the whole or part of such yarn in the manufacture of cotton fabrics in his own factory, (3) electric battery plates, (4) coarse grain plywood, (5) embroidery, (6) cotton fabrics processed (with

stentering and mercerising machines) without the aid of power, and (7) cotton fabrics produced on powerlooms. The basic consideration on which these schemes are extended to different industries would appear to be the prevalence in the industry concerned of a large sector of small producers whom it would be difficult to control under the normal procedure. Duty liability is fixed with reference to some identifiable equipment used by the producer, after taking into account the average production of the commodity concerned and other relevant factors. (5.15)

The Central Government have the power to exempt, by notification in the official gazette, and subject to such conditions as may be specified in the notification, any excisable goods from the whole or any part of duty leviable on such goods. (6.1)

Barring a few exceptions, the exemptions notified cover the entire gamut of Central Excise. There are nearly one thousand live notifications to day by virtue of which duty reliefs are afforded. It appears that some three hundred tariff rates have, as a result of the issue of notifications of exemption, been multiplied into more than two thousand effective rates. (6.2)

There is a miscellany of purposes expected to be served by individual exemption. Some of the objectives are: promotion of exports, increase of production, conservation of resources, development of backward areas, convenience of administration, support to programmes of public health and family planning and, not at least, reduction of the cumulative impact of multi-point levies. But much more important and pervasive than any of these has been the objective of encouraging the establishment and growth of small scale industries in the country. This purpose underlies a wide range of exemptions. In seeking to give effect to it, however, so many different parameters and criteria have been used as to what is, and what is not, a small unit with reference to particular commodities, that a bewildering variety of exemptions has come into being all of which purport to help the small sector. (6.3)

There are several other forms of exemptions which do not relate directly to the small scale sector. (6.4)

Duty exemptions have been assailed on several grounds. One of the major points made is that they lead to fragmentation and pseudo-fragmentation. It has also been stated that where duty is exempted upto certain levels of production or where rates of levy increase with higher output, duty exemptions have the effect of inhibiting or restricting production. It is claimed that fiscal preferences for different sectors within the same industry upset the economic equilibrium between them.

The Public Accounts Committee have criticised the executive's power to exempt. It has also criticised exemptions from the administrative angle. Another important point made is that exemptions render assessment an unnecessarily elaborate and time-consuming process. (6.10)

It is generally agreed that schemes of exemptions provide considerable scope for evasion and avoidance of Central Excise duties. The evasion is facilitated by the withdrawal of physical controls under SRP. (6.11)

From 55 commodities, yielding a revenue of Rs. 489.31 crores in 1961-62, the excise tariff expanded in 1973-74 to 123 commodities expected to yield a revenue of Rs. 2741.25 crores. (7.2)

Data relating to revenue realised from excisable commodities (other than unmanufactured tobacco) show that on the basis of sanctioned Budget Estimates for 1973-74 the top 23 commodities (with a yield of more than Rs. 20 crores each) together account for Rs. 2229 crores or more than 84% of the total Budget realisation. With the next 17 items also included, the first 40 commodities account for Rs. 2464 crores or 92.8% of the total, the balance of 7.11% (or Rs. 188 crores) being the total revenue contribution of no fewer than 77 commodities. Included in this number are 29 commodities which account individually for less than Rs. one crore and in the aggregate for Rs. 12.38 crores. (7.3)

From 1963-64 to 1970-71, the excise revenue increased from Rs. 662.77 crores to Rs. 1675.41 crores or by Rs. 1012.64 crores. The increase was broadly accounted for by the following:

	(*Rs. crores*)
(i) Growth in consumption or/and increase in prices where duties are *ad valorem* . . .	477.16 (47.1%)
(ii) Increases in duty rates	477.75 (47.2%)
(iii) Extension of excise to new items	57.73 (5.7%)
TOTAL . . .	1012.64 (100.0%)

Classification of factories in terms of revenue realised during 1971-72, shows that—

(i) the four highest revenue slabs, which comprise units yielding a revenue of more than Rs. one crore each, include only 1.5% of the total number of duty paying units (excluding powerlooms covered by the special procedure). In terms of revenue, however, they account for nearly 70% of the total realisation;

(ii) factories falling in the lowest revenue slabs and yielding a revenue of less than Rs. one lakh each account for only Rs. 25.68 crores or 1.28% of the total revenue. But numerically they comprise as many as 18874 units of more than 78% of the total number of duty paying factories; and

(iii) the rest of the duty paying units, which may be considered as the medium sector (with a revenue yield of between Rs. one lakh and one crore), account for 20 to 21% of the total number of units and for the about 28 to 29% of the revenue. (7.5)

It is noteworthy that the small units, though preponderant in number, yield only a very small fraction of the total revenue. (7.6)

It is interesting that commodities which are more prone to evasion than others are by and large the very commodities which have a large or preponderant small scale sector. (7.7)

Effective control of small units has been a matter of considerable concern to the Administration. The administrative problems involved have been rendered even more difficult by the numerous categories of exemptions built into the duty liability of the small sector. (7.8)

Evasion

The general evidence available points to a surprisingly wide range and diversity of evasion. In certain segments of production, it may be said to be almost universal. Evasion is facilitated in a far reaching manner by two sets of circumstances, one relating to the machinery of implementation and the other to the substance of what is supposed to be implemented. Slack, non-existent or dishonest supervision undoubtedly facilitates evasion. But unnecessarily complicated tariff items and unrealistically designed exemptions constitute between them an even more potent cause of evasion by providing in-built incentive for misclassifying goods or under-reporting production. In several instances the two-fold attempt to achieve precision and introduce progression in excise levies has frequently had the contrary effect of enlarging the area of complexity and increasing the scope for evasion. (10.8, 10.9)

Evasion results in part from high tax rates. Excise tariff has by and large continued to rise over the years. Wherever this affects the small sector significantly there is significant evasion. This is so when a substantial part of the production is in the small sector, the market is competitive, and the commodity bears a high incidence of excise and other taxes. (10.11)

More important in this context than the duty rates as such are the rates for different categories and sub-categories of the same tariff item or of allied products in different items. These in some cases provide for such a steep increase in incidence from one category or sub-category to another, that only a slight manipulation is necessary to achieve a substantial saving in duty liability. (10.12)

There are several commodities (illustrations: metal containers, safes and strong boxes, roller bearings, zip fasteners) which attract concessional rates of duty or exemptions upto one or more specified levels of production. Evasion in respect of goods pertaining to such exempted sectors is traceable to the case with which some of the limits prescribed can be observed ostensibly, while contravened in fact. (10.14)

From certain studies attempted by the Committee's secretariat to correlate the recorded production of some manufacturers in the small sector with independent parameters like machinery installed, capital invested, labour employed, electricity consumed and raw materials used, it was clear that in several instances the accounts maintained did not reflect the true state of affairs and the production recorded was not sustainable on the basis of the parameters indicated. If the information furnished by these units could be accepted at face value, it would have to be concluded that many of them were not economically viable. (10.24)

Tax procedures and the manner of their administration have a vital bearing on evasion; the existing procedures lead to ineffective administration and make evasion a profitable proposition. (10.28)

Excise tariff structure is still geared to the system of physical control. Penal provisions have no doubt been made more stringent but in actual practice they are hardly ever applied at anywhere near their maximum level. They, therefore, do not provide the deterrent effect intended. If the fear of detection is lessened, so is the dread of what the punishment might be. (10.29)

In response to the Committee's questionnaire and in the course of evidence tendered before the Committee, several parties have indicated what in their view are the principal areas of

evasion in relation to the nature of goods produced and the type of units producing them. There is a surprising amount of unanimity in this regard. The commodities of which attention has been drawn by the largest number of witnesses are (1) sugar, (2) tea, (3) paints and varnishes, (4) sodium silicate, (5) cosmetics and toilet preparations, (6) plastics, (7) paper, (8) rayon or artsilk fabrics, (9) glass and glassware, (10) chinaware and procelainware, (11) asbestos cement products, (12) mosaic tiles, (13) copper and copper alloys, (14) internal combustion, engines: (15) electric motors, (16) power driven pumps, (17) electric batteries, (18) electric lighting bulbs, (19) wireless receiving sets, (20) wires and cables, (21) domestic electrical appliances, (22) matches, (23) steel furniture, (24) metal containers, (25) safes and strong boxes, (26) bolts, nuts and screws, (27) rubber products, (28) electric fans, (29) plywood and (30) soap. (10.26)

In respect of commodities which are significantly produced in the small and to some extent medium sectors of the industry and of which exemptions are an important feature, it would seem likely that SRP had led to more evasion. The evasion itself, however, whether or not caused by SRP, is very extensive. In other commodities and sectors, SRP, has either made little difference to evasion or, in relation to specific categories of complicated tariff, has increased the possibility of evasion through mis-classification. (10.31)

Several exercises have been attempted to estimate the extent of evasion. The method whereby evasion is related to the value of goods seized or duty evaded in relation thereto has not much relevance in the present context. So far as a comparison between revenue and production trends is concerned, there is a basic fallacy in this method of estimation, inasmuch as the past data regarding revenue collections or production and clearances are, in themselves, net of evasion. There are several other difficulties also in adopting this technique. While instituting a comparison between the statistics of production maintained by the Excise Department and those recorded in the accounts prescribed by other agencies, it was realised that to the extent the relevant data regarding production was provided, basically by the producing units, the same could not be regarded as in fact independent. An attempt was made to locate some independent indicators from which rates of growth could be deduced and then applied to production. It was, however, found that apart from the fact that such an analysis could be applied only on a micro basis and would be relevant only for individual units, there were several other difficulties in pursuing this line of approach. In an estimation at the aggregate level based on the total availability of raw material, it was found that the same material was being used in different industries producing excisable and non-excisable goods in varying proportions. The technique generally followed in conducting input—output analysis involves the taking into account of the effect on production of changes in the final demand (made up of private and public consumption, investment, export, and changes in stocks) the whole exercise being conducted within a framework or general equilibrium. There are, however, serious limitations in applying this method to the estimation of evasion. (10.41—10.47)

An analysis based on registered offences shows that there are certain commodities like, (1) Matches, (2) Steel furniture, (3) Tea, (4) Copper and Copper alloys, (5) P. or P. medicines, (6) Refrigerating and Air conditioning machinery and appliances, (7) Iron and steel products, (8) Sodium silicate, (9) Electric motors, (10) Cotton fabrics, which are specially prone to evasion. (10.39)

Evasion is considerable and in certain sectors pervasive. It has not, however, been possible to quantify the extent of evasion. It is not so much a statistically sustainable figure that matters as the wide range of evidence which points to the prevalence of evasion as a large scale phenomenon, and to the diversity and causes of its occurrence. (10.48—10.49)

2—SYSTEM OF SELECTIVE CONTROL

The large diversity of the tax base, the great complexity of the tax system and the wide prevalence of tax evasion are the three aspects of excise administration which stand out. From these follow certain important considerations which must be borne in mind in formulating new measure. (11.1)

No single mould of procedure, including SRP, would suit alike all types of commodities or all forms or sizes of industrial units. Since the commodities produced (along with the units which produce them) fall into Certain well defined categories, the tax system has to be designed to comprise separate procedures of selective control tailored to meet the distinctive features of the different categories. (11.2)

No pattern of control for the small sector would be suitable if it entailed disproportionate complexity from the point of view of tax compliance or disproportionate cost from the point of view of tax enforcement. The complexity would have to be measured from the small assessee's ability to keep books of accounts and fulfil other requirements and the administrative control would have to be looked at in the perspective of the relatively small revenue yielded by this sector. Both these considerations

point to a system much simpler than anything that might be envisaged for the medium and big sectors. Since exemptions complicate more than they help, rationalisation of exemptions is necessary. More than this, the tariff structure with its numerous and intricate ramifications needs to be simplified and streamlined. Further, the burden of procedure should be simplified wherever that can be done without risk to revenue. (11.3)

A SYSTEM OF SELECTIVE CONTROL made up of distinct procedures adapted to different needs is recommended. These patterns of control should be respectively based on (1) accounts, (2) production, and (3) clearance. These may, for facility of reference, be designated (i) Accounts Based Control (ABC), Production Based Control (CBC). (11.10)

ABC would be a liberalised version of SRP applicable to commodities (i) which are produced almost entirely in the organised sector, (ii) in which the number of producing units is not unduly large, (iii) of which the tariff structure is comparatively simple, and (iv) in which the system of maintenance of accounts and of auditing of such accounts is sufficiently detailed and thorough to justify reliance being placed on their correctness and authenticity. Twenty nine commodities (illustrations; mineral oils, iron and steel products, cigarettes, fertilizers), which account for 60% of the total excise revenue estimated for 1973-74 have been identified for this purpose.

For the remaining commodities generally, the pattern of control advocated is PBC, which while not deviating from the essence of SRP, incorporates certain modifications with a view to bringing about a more efficient operation of the tax system. It attempts this through closer association between the Excise official and the production unit, and better communication between the Department and the assessee. The commodities covered wholly or partly by this pattern are 92 in number. They account for 38% of the total estimated revenue for 1973-74. (11.12)

Some of the commodities covered by PBC are more prone than others to evasion. Moreover, the units pertaining to these commodities include a sizeable sector of small producers whose capacity to maintain records, submit returns or comply with various procedural and other requirements is extremely limited. For this sector the normal pattern of control would be CBC corresponding to the old system of physical control including supervision over individual clearances but it is provided that units producing certain specified commodities in the small sector, will be defined in terms of an annual turnover or value of production which does not exceed a pre-determined level of cut-off point, and such small units will be extended the option to operate under a new scheme of compounded levy, which renders the tax procedure simpler and the tax incidence lower than would be the case under the present system. (11.13)

3—RECOMMENDATIONS

Liberalised procedure for selected commodities: Accounts Based Control.

In terms of the data for 1971-72, the number of units covered by Accounts Based Control would be 583. (12.2)

For units covered by the accounts based pattern of control (ABC), a much greater degree of reliance by the Department on the accounts which the units themselves keep for their own purposes is envisaged. This pattern also contemplates a reduction in the number of inspections and visits, elimination as far as possible of physical checks and substantial simplification of existing procedural formalities. (12.3)

The accounts maintained by producers operating under ABC should ordinarily be accepted without any modification as satisfying the requirements of the Department. If, in any particular case, material particulars are found wanting in the accounts so maintained, the lacuna may be arranged to be filled and the accounts then accepted. In the ABC pattern the invoices or invoice-cum-despatch advices issued by the producers should be accepted as a valid excise document in lieu of the gate pass if they contain all the information required to be incorporated in a gate-pass (12.4)

The facility to pay duty by cheque and to make consolidated entries in the accounts should be available generally to producers under ABC category without any pre-conditions. If the facility is abused, it would be open to the competent authority to revoke it. The Indian Oil Corporation have been allowed to pay duty by 'Letter of Authority' in lieu of payment by cheque, in respect of some of their units all over the country. A similar facility should be extended to other producers, if asked for, subject to such safeguards as may be considered necessary. (12.5)

The present restriction that there should be no mutilations, overwritings, corrections and erasures in the gate pass is of no practical utility in so far as the category of commodities under ABC is concerned. Corrections of the kind mentioned should be permitted provided the entries concerned are neatly scored out and properly attested by a responsible officer of the

factory. This relaxation, however, should not extend to date, time of despatch and description of goods. Where a gate pass is cancelled, there should be no restriction on a corresponding credit entry being made in the account current, subject to the Department being informed about the credit entry. (12.6)

To avoid duplication of functions, Inspection Groups should be abolished and their functions distributed between Assessment Ranges and Audit. There should be a substantial reduction in the number of visits for inspection, audit, drawal of samples, etc. And tailed half-yearly audit and a minimum number of physical checks or checks on production for ABC units would be adequate. (12.7)

Modified procedure for other commodities: Production Based Control:

PBC would apply to all commodities not covered by ABC subject to the reservation that this pottern will not apply to small units pertaining to certain specified commodities. For these small units, defined in terms of value of production, a simplified pattern of control has been recommended. (13.1)

PBC would embrace 92 commodities. Of these, 52 commodities would be eligible for PBC only, whereas the remaining forty would consist of units which, above a particular turnover, would come under PBC, but below that would be eligible for Simplified Procedure. PBC would comprise a sizeable medium sector, covering partnership firms and proprietary concerns. In 1971-72, the relevant commodities accounted for 7335 units. The processes and techniques of production followed by them as also the range of goods produced show a very wide diversity. The tariff structure is complex. In regard to this category of commodities and units, there is an urgent need to tone up the standard of maintenance of accounts and of tax compliance, generally. It would be of the utmost importance in this sector to ensure much closer association than at present between the operation of the units and the supervision of the Department. (13.2)

What is primarily sought to be eliminated in PBC is the hiatus between the actual operations of production and the department's knowledge of the nature and details those operations. But it is not necessary to go back to old system of physical control with supervision over individual clearances and countersignature of gate passes. (13.3).

Proper accounting of production is a matter of considerable importance. The earlier system under which separate RG 1 and EB 4 accounts were required to be maintained in respect of all goods manufactured and all such goods deposited in and removed from the store-room had several merits. It enabled production to be accounted for at a convenient stage which in most cases was a stage or two prior to the one at which goods could be, or were, normally marketed. It also permitted a reconciliation between the duty due and duty actually collected. (13.7, 13.8)

In all cases in which it is not possible to establish a direct quantitative relationship between the raw material and the finished product, such accounting should begin at a stage prior to the completion of manufacture, when the goods reach a near-finished condition in which they can be smuggled out with or without minor changes. (13.8)

In all those lines of production in which a direct and uniform quantitative input-output relationship does not exist, there is no point in prescribing a raw material account or in attempting a verification of production on that basis. (13.7)

A system of accounting based on batches of production would make for considerable simplification in procedures of classification and assessment. This would also facilitate verification of stock and enable correlation with the accounts of the producers. The feasibility of adopting this system and extending it generally to all commodities and sectors of producers should be considered. (13.10)

Production control will include many of the checks which were carried out by the jurisdictional staff, short of physical supervision over clearances and countersignature. Among the features to be incorporated in this pattern of control are: authentication of all gate pass documents and accounts maintained by the assessee, supervision of production at various stages, and exercise of checks in respect of (i) packing and filling operation, (ii) goods in storage, (iii) raw materials used, (iv) receipt of duty paid goods, (v) accuracy of weighing machines, (vi) destruction of excisable goods, and (vii) clearance of goods for export. (13.14)

Coffee

Since the Coffee Board keeps detailed statistical information and maintains adequate control on Coffee estates, the actual issue of curing licences to the coffee estates may be entrusted to the officers of the Coffee Board who may be declared as Central Excise Officers for this purpose. Similarly the issue of transport certificates can be entrusted to officers of the Coffee Board without in any way detracting from the responsibility which attaches to the curers of coffee under the excise law, for their correct accountal. (13.19)

Having regard to the fact that the quantities of coffee permitted to be retained for domestic consumption are a very small part of the total quantity produced (about 1.1%) and revenue involved from the point of view of the

Excise Department is negligible, the Department may consider the feasibility of adopting the same personal consumption allowance as is prescribed by the Coffee Board. (13.20)

The control maintained by the Central Excise Officers on the Coffee Board's pool warehouses can be considerably reduced. The stakes of the Coffee Board are heavier than that of excise. Therefore, it should not be necessary for Central Excise Officers to maintain the present rigorous control on receipts into warehouses. During their routine visits to the warehouses, the Inspectors concerned and the Range Superintendents should go through the warehouse records and condone the losses which are within their competence and which in their opinion deserve to be condoned. The warehouses should be asked to submit statements only in respect of the remaining losses which have to be referred to higher officers for orders. (13.21)

Central Excise officers should, however, retain full powers to visit the pool warehouses and carry out such checks as they consider necessary. Similarly, preventive control, including checking of consignments in transit, should continue as at present. (13.22)

Simplified procedure for small units, Compounded Levy Clearance Central.

The definition of small scale industry adopted in 1966, for purposes of industrial policy, which covers all industrial units with a capital investment of not more than Rs. 7.5 lakhs is inappropriate for Central Excise purposes. The criteria of installed capacity and unmber of workers employed also present variables which can lead to several distortions. For excisable commodities which have a relatively large number of small producers—and in which the composition of the industry or the duty structure or other relevant considerations do not militate against such classification—the duty paying units should be classified on the basis of their value of production. An appropriate cut-off point can be fixed either for all commodities or individually for each commodity or group of commodities. All producing units below the cut-off point should be considered small and brought under the system of simplified procedure. On the basis of the statistical data available, it would be appropriate to adopt a single cut-off stage of Rs. 5 lakhs in terms of value of production in respect of all the commodities identified for the purpose instead of a separate cut-off level for each commodity or a group of commodities. (14.5)

The scheme of simplified procedure postulates, among other things, that the duty liability of a producer covered by the scheme will be related to the average value or quantum of duty paid clearances during the three preceding financial years, or the last year, whichever is higher. It will be worked out in terms of the existing tariff structure (including duty exemptions where admissible and to the extent admissible) and also on the basis of the lower effective rate of duty notified by Government in replacement of the existing schemes of duty exemptions applicable to the small sector. The lower of the two quanta so worked out would be treated as his prospective annual liability for the succeeding three years. It is contemplated that all schemes of duty exemption will cease to operate after the promulgation of the simplified procedure, and the duty liability fixed will not be altered unless there is a change in the effective duty incidence applicable to the commodity concerned. (14.13, 14.18)

The case of each unit working under the scheme of simplified control would be reviewed before commencement of the next three year bloc. If, on the basis of its performance for the three-year bloc for which a unit has been working under the Simplified Procedure, the unit is still eligible for continuance under the scheme of simplified control, its duty liability for the next three-year bloc will be fixed by applying to clerances the effective rate of duty applicable. (14.20)

Some of the new units are likely to be placed at a disadvantage vis-a-vis the existing units. This is because the prospective duty liability of the existing units would be determined after taking into account the prevailing schemes of duty exemptions. Even the lower effective rate of duty applicable to such units might not serve fully to neutralise the effect of the withdrawal of exemptions. The intention, however, is that the new units should not be placed at a disadvantage. The purpose in view would be served if new units, producing commodities subject to various types of exemption, are allowed an adhoc duty exemption upto clearances of Rs. one lakh (value) for the purpose of their duty liability in the first and subsequent years, provided such units remained eligible for the simplified procedure. (14.26)

Excisable goods which are totally exempted from duty should also be covered by the scheme of simplified procedure irrespective of the value of goods producted or cleared, even though the duty liability would continue to be nil. Bringing them within the purview of simplified procedure would serve useful statistical and administrative purposes. (14.30)

The simplified scheme is expected to provide an incentive for growth, reduce the area of friction between the Department and the assessees, and bring about a diminution of the administrative burden. It will be necessary to eliminate all procedural formalities for this class of producers other than those connected with or having a bearing on determination of their continued eligibility. This pattern of control

will also release resources in the form of personnel for being utilised to better advantage and for more effective control on the remaining sectors and units which have a much higher revenue potential. (14.33, 14.34)

The working of the Simplified Procedure as a whole should be reviewed well before the close of the second three-year bloc. Steps for such a review should be initiated not later than 5 years from the introduction of the Simplified Procedure. (14.31)

Clearance Based Control

As Simplified Procedure cannot be introduced on a compulsory basis, the form of control considered appropriate for such units as do not opt for Simplified Procedure, is CBC. It is after taking into account the likelihood of considerable administrative difficulties in placing under CBC a large number of small units with a low revenue potential, that an alternative in the form of Simplified Procedure has been recommended for them in the hope that all eligible units would readily opt for it. (14.32)

The prevalence of evasion in the CBC sector constitutes sufficient justification for a form of control, which as compared with ABC and PBC, is farthest from the existing pattern of SRP. Broadly the CBC pattern would correspond to the old physical control, including physical supervision of each individual clearance and countersignature of the gate pass. As CBC units would co-exist with units operating under the Simplified Procedure, and in many cases may be in the same area, there would be a risk of clandestine removal of goods produced by the CBC units without compliance with the procedural formalities required of them in the garb of goods produced by units availing of the Simplified Procedure. It would accordingly be necessary to provide for surveillance on such units. (14.35, 14.36)

Classification and Valuation

There is widespread complaint about delays in approval of classification lists. These cause considerable inconvenience and uncertainty. Provisional assessment prolongs the uncertainty in respect of tax liability and, depending on how this is finally fixed, involves meanwhile the possibility of the consumer being overcharged or the producer having to pay out of his own pocket. There is need for considerable improvement in the present position regard to both approval of classification lists and settlement of classification disputes. (15.4)

The classification list should be required to be approved by the proper officer within the stipulated period. There is no justification for keeping provisional approval of a classification list open for an indefinite length of time. In certain cases, approval of classification lists may be subject to delays in circumstances which are beyond the control of the officer concerned. The Government can provide for such contingencies by prescribing two or more stipulated periods for two or more sets of circumstances. The stipulated period should ordinarily be a matter of days and in no case more than three months. (15.6)

If the classification list is not approved within the period stipulated, the assessee should be free to assume that the classification indicated by him is ipsofacto approved and all clearances taken by him on the basis of that classification will cease to be treated as provisional. If the classification list is approved within the stipulated period, all provisional clearances already taken will be finalised on the basis of the approved list. (15.7, 15.8)

If an assessee chooses to dispute the classification approved by the proper officer, he may be given the option to pay duty either under protest on the basis of the classification approved by the proper officer or provisionally on the basis of classification indicated by him in the classification list. If he fails to prefer an appeal within the stipulated period, the facility of provisional assessment will cease to operate and all clearances already taken on the basis of provisional assessment will be finalised on the basis of the classification approved by the proper officer. Likewise, the facility of provisional assessment will cease to operate as soon as he has filed an appeal. (15.9)

The practice in regard to the present provision of law relating to recovery of duties or charges short levied is for officers to raise retrospective demands for duty even in cases where the proper officer has approved the classification list and no mis-statement on the part of the owner of the goods is revealed. It is, however, necessary to make a distinction between a case where the short levy is primarily due to some deliberate commission or omission on the part of the assessee and one in which the assessee is not primarily or directly responsible. In the former case the amount should be recoverable without time limit of the commission or omission which amounts to a criminal offence, and where no such offence is involved, subject to a time limit prescribed by Government. In the latter case, it would be untenable to call upon the assessee to bear a further duty burden, as a result of detection of error, availability of more facts, clarification from above or a formal decision by a higher authority, in respect of goods he has already cleared, on the basis of duty chargeable, according to the classification list duly approved by

the Department, after examination. The tax administration has a right to change the classification in accordance with normal procedure, but where this results in enhancing an approved level of duty, it should affect only the future clearances of the assessee. The enhancement should not apply retrospectively except in the circumstances specified above. (15.10)

The main recommendations made in respect of classification would apply to valuation also. In particular, unless a short levy results from undervaluation of goods directly and primarily attributable to the assessee, it should not be open to the Department to raise against him a retrospective liability for such short levy. (15.11)

Tariff and Exemptions

There has been a continual modification of the tariff structure with a view to achieving certain objectives. Partly in connection with some of these objectives and partly for other reasons, it to have been considered necessary to introduce recurring degrees of progression in the tariff. It seems clear that, in this process, the maxims of certainty, convenience and economy which are essential for sound tax administration have been greatly impaired. (16.2)

Over the years, the tariff has been extended to a large number of commodities with low revenue yield. Since these commodities are produced largely by the small sector, the new levies have posed numerous administrative difficulties. In many cases the problems raised probably outweigh the revenue. (16.3)

The extension of excise duties to commodities with a yield of less than Rs. 50 lakhs a year is not a worthwhile proposition. All existing levies with a yield of less than Rs. 50 lakhs should be reviewed. (16.5)

Tariff definitions and descriptions have tended to become increasingly complex and difficult to interpret. This is also true of notifications in which the exemptions are spelt out. For a tax like central excise, which coveres so wide a range and so many classes of producers, the emphasis should be, not on sophisticated terminology, but on descriptions and terms which reflect the commercial or trade identity of the goods produced. (16.6)

Having regard to the excise tax structure as a whole as well as the need for the revenue elasticity of the tax system, ad valorem levies should be recognised to be a feature that has come to stay. It would be unrealistic to contemplate a reversal of the process. (16.8)

Exemptions should be reviewed administratively with a view to simplification and rationalisation. No exemptions should be retained unless (i) the exemption demonstrably promotes a well-defined purpose; (ii) the amount of revenue foregone can be justified in relation to the purpose; (iii) the exemption is not likely to result in significant distortions in the structure of production; and (iv) it can be easily implemented in an administrative sense. (16.9)

Exemptions related to value of either production or clearances should be based not on the producer's perforanmce in the financial year which is current but on that of the financial year which has preceded. (16.10)

Several exemptions relating to end use, are of doubtful utility and in any case necessitate long and protracted post-facto verification. All such exemptions should be reviewed and drastically curtailed, unless there are very strong reasons to the contrary. (16.11)

Between small units which produce certain commodities like soap, footwear and matches, and some of the bigger units in the organised sector of the same industries, arrangements are sometimes made for the production of the small unit to be marketed by the big unit under its own name. The duty paid is the concessional rate which, by virtue of the relevant exemption, is applicable to the small unit. From the point of view of excise duty and exemption the position seems to require review. The relevant notifications should be amended so as to ensure that the exemptions do not apply to production marketed under arrangements such as those described above. (16.2)

Licences and Bonds

The purpose underlying grant of licences is to regulate an activity rather than the scale of that activity. Accordingly the existing rates of licence fee which are based on such factors as nature of goods produced, amount of duty liability, scale of production over a period of time, character of operations undertaken etc., should be converted into a single uniform rate. The rate of licence fee fixed should not be so low as to encourage indiscriminate requests for licensing or default in renewal. (17.3, 17.4)

The Central Government is empowered to grant exemption from the obligation to take out a licence in respect of goods which are themselves exempted from duty, either unconditionally or on certain conditions. Such exemptions have been granted, but the result is unsatisfactory, because the units in the exempted sector are often a convenient means of evading duty. Units exempted from licensing control should be required to furnish periodically to the Department a simple declaration indicating the location of their premises, the excisable goods produced by them and such other broad particulars as may be appropriate. (17.6)

To avoid delays and inconvenience, licence granted to all manufacturers covered by the scheme of Simplified Procedure should be

valid for the full period of three-year bolc for which liability is fixed in their case, and (ii) for the remaining manufacturers also, the facility of issue and renewal of a licence for yearly periods not exceeding 3 years at a time, should be available on request without abatement of the total licence fee payable. (17.7)

The obligation to take out a licence for the operations of production or manufacture of excisable goods and for the wholesale purchase or sale or storage of such goods flows from Section 6 of the Central Excises and Salt Act, which also provides for punishment for contravention of that Section. In view of this, a person operating without a licence cannot be dealt with through departmental adjudication which is restricted to cases where the Act itself does not provide for specific punishments. The law may be suitably amended so as to enable disposal of such cases by departmental adjudications. (17.8)

The fee for late submission of applications may be suitably enhanced by way of further deterrence. The powers to issue and renew licences relating to all manufactured goods should vest in the officer in charge of the primary formation or range in whose jurisdiction the producing unit operates. (17.8, 17.9)

All bonds executed by manufacturers, industrial users, warehouse keepers etc. who are licensed by the Department may be consolidated into a single general bond (with surety or security) in which the obligations stipulated in the existing bonds are spelt out generally or specifically. The amount of the bond and the security can be fixed by the proper officer on the basis of suitable guidelines provided by the Department. (17.17)

The verification of sureties, wherever this is relevant, should also follow the same frequency as has been recommended for issue and renewal of licences. (17.18)

Other Procedural Matters

Where an assessee is producing more than one excisable commodity, it should be sufficient if he maintains a single account current for all such commodities, with the particulars entered separately under each minor head of account. A copy of this account should accompany each R.T. 12 return submitted by the assessee. (18.3)

The situations where the producer of a number of excisable goods is controlled by more than one field formation and the maintenance of a number of accounts becomes inevitable, it should be provided that the assessee can, in the event of an insufficient balance in one account, transfer an appropriate amount from another account which has enough balance to permit such transfer. This should be coupled with the requirement that suitable entries should be promptly made in the two accounts and the proper officers intimated within a stipulated time. (18.3)

Payment by Cheques

The work of collection of duty by cheques should no longer be confined to the headquarters of Collectorates. (18.4)

As a first step towards decentralisation, the cheques should be permitted to be drawn on approved banks located at Divisional headquarters. (18.4)

The extension of this facility to different divisional headquarters should be synchronised with the provision of suitable staff working under the overall supervision of the Chief Accounts Officer stationed at the headquarters of the Collector. (18.4)

Departmental treasuries should be opened at appropriate centres such as some of the State headquarters. (18.5)

So far as the bouncing of cheques is concerned, the remedies available under the ordinary law against such assessees may be freely invoked, in addition to deterrent action in the form of withdrawal, on a permanent basis or for stipulated periods, of the facility to pay duty by cheques. (18.6)

Raw Material Account

There is relatively significant area of industrial production in which a useful correlation can be established between raw material and finished goods. It happens, however, that no authoritative studies have been carried out so far, either for identifying the essential raw materials concerned or for fixing proper norms of consumption or input-output ratios. These deficiencies are capable of being rectified by induction into the organisation of personnel who are technically qualified and by initiating detailed and systematic studies for identified industries. (18.7)

It is necessary to build up the necessary expertise and to use the existing powers regarding determination of normal production and assessments, based on best judgment to greater effect in all cases in which short falls are not accounted for to the satisfaction of the proper officer. (18.8)

Multi-point Levies—Duty Reliefs

The multi-point character of excise levies has been criticised on the ground of undue cumulative incidence on the final product and the resultant effect on prices. Having decided which excisable materials or components have

to be exempted from duty, and to what extent, when they are used in the manufacture of other excisable goods, Government should quantify the extent of exemption in concrete terms and notify that where such finished excisable goods are produced out of duty paid components, the effective rate of duty for such goods will be rebated to that extent. (10.9, 10.16)

Where duty exemption is related to the raw material and the quantity of such material in relation to a unit of the finished product differs from factory to factory, it will be necessary to work out and notify an average quantum of duty on the basis of the chemical composition of the final product or with reference to other relevant data. (18.16)

Where duty rates are ad valorem the extent of exemption can be worked out on the basis of the average price prevailing over a point of time for the raw material/component used and then expressed as a proportion or percentage of the average price of the finished product. (18.16)

"Chapter X procedure" should be confined to the purpose intended, namely, remission of duty leviable on goods used for special industrial purposes. (18.17)

Exports

Where detailed pre-shipment inspection is carried out on a compulsory basis as in the case of textiles by the Textiles Committee and is sufficiently comprehensive it should be possible for the excise or customs authorities to relax the scale or intensity of checks carried out by them. (18.20)

Supervision charges should not be levied since examination and sealing are jobs performed in the interest of Government. (18.21)

The existing requirements of prior attestation of export documents may be waived, it being provided instead that after removal of goods, such documents can be presented to the concerned excise authority within a stipulated period for attestation and transmission to the Customs. (18.22)

Refunds

The Department should stipulate a period within which a claim for refund must be settled. It is suggested that the period should be three months. The period should count from the date on which full information relevant to the claim has been furnished by the claimant. (18.28)

For claims relating to rebate of duty in respect of goods exported, the stipulated period should count from the date of shipment of goods and should be appreciably less than the period stipulated in other cases. (18.28)

If a claim for refund is not settled within the stipulated period, and delay in settlement cannot be attributed to circumstances beyond the control of the proper officer, the Department should pay interest to the claimant. The interest should be for the entire period between the expiry of the stipulated period and the date of sanction, and at such rate as the Government may decide, on the same lines as is done under the Income-tax Act, 1961.

The staff under the Chief Accounts Officer should be adequately strengthened so that he is able to carry out the statutory post audit of refund claims expeditiously. (18.30)

Duty paid Godowns

The practice of allowing clearances to duty paid godowns located in the factory premises or adjoining premises or in close proximity to factory premises should be discouraged to the the maximum extent possible. It should be clearly stipulated that, for such premises to be approved, they should be located at a reasonable distance from the place of production. (18.31)

Where, for any compelling reasons, duty paid godowns have to be approved within two kilometres of the producing units or such other reasonable distance as may be prescribed, the law should provide that the onus of proving that excisable goods found in such godowns are in fact duty paid shall lie on the assessee. (18.31)

It would be more appropriate if bonds for movement of non-duty paid goods are executed only by the consignors. (18.32)

Conclusion

In the process of replacing uniformity by selectivity, the new system seeks to lessen the burden of procedure in sectors where that is most possible, and, correspondingly, release man-power for re-deployment in areas where it is most needed. The lightening of the burden on the Department and, even more importantly, on the industry is attempted in two entirely different contexts in two entirely different ways. ABC, which covers as few as 600 units but as much as 60% of the total revenue, is governed by the liberalised Procedure and entails the barest minimum of formalities. CBC—of which the alternative of Compounded Levy is what is relevant—covers as many as 14000 units all in the small sector but contributes as little as 0.6% of the total estimated revenue. Compounded levy will be administered by the Simplified Procedure which not only reduces documentation and Supervision to a minimum.

but also provides three-yearly intervals during which the assessment is more or less undisturbed and the administration relatively uninvolved. There are a number of areas, technical, supervisory and preventive, besides the whole range of industries coming under PBC to which the trained staff released from the ABC and CBC groups could be usefully assigned. PBC, which covers about 7500 units contributing 38% of the estimated revenue will be under a modified procedure. Selective Control holds out possibilities of re-organisation through rational re-deployment of man-power. (19.2)

The system recommended is in a sense indivisible. This applies not only to the three patterns which are its main components and which in many ways are interdependent, not least in aspects of organisation and administration. The mutual dependence, and therefore the composite character of the principal recommendations, will be apparent in the treatment of the subject of exemptions as also of the scheme of compounded levy. This inter-relationship may also be discerned in the concept of a lower set of duties for small units producing certain commodities, such duties occupying an intermediate position between the higher or normal duties at one end and, in specified cases, total exemption from duty at the other. (19.3)

The particular scheme of Compounded Levy put forward as an alternative to CBC is regarded only as a first step towards the development of a simple and rational system of excise levy for the small sector. This again is regarded as a transitional step towards further simplification of the relevant tariff items and, hopefully, of the tariff structure as a whole.

The various steps proposed as part of the system of Selective Control are not only desirable in themselves but, in the longer perspective, are such as can lead towards much greater rationalisation and simplification of the structure of excise duty. (19.4)

VOLUME II (ORGANISATION)

1—GENERAL

Introductory

The first Volume dealt with various aspects relevant to Procedure and recommended a System of Selective Control. Procedure is, however, inter-related to Organisation and dependent on it for ahieving the intended objectives. Organisation for its part implies structure, inter-connection between various parts of the structure and the manner of operation of the parts as well as of the structure as a whole. In very general terms the present Volume deals with these matters. More specifically it is relatable to the third and to some extent the fourth of the Committee's terms of reference. (1.2)

Administrative set-up

The organisation responsible for collecting excise revenues has not only expanded over the years but has had to be attuned to the new procedures. Until 1938, excise duties were administered largely by the Provincial Governments; and the pattern of control differed from province to province. The Central Excise Department came into existence as an appendage of the Salt Department in 1938. (1.3, 1.4)

The Collectorate, with its Divisions, Circles and Ranges, remains the basic administrative unit at the field level of the Central Excise Department. With the passage of time, the functions of the Department have greatly widened in scope and completity. With the operation of the tax being extended to a progressively increasing number of products, the field administration and pattern of control underwent changes. (1.6)

The Central Board of Revenue assumed in 1938 direct responsibility for levy and collection of Central Excise duties. In 1963 the Board was replaced by two separate Boards, one for Direct Taxes and the other for Excise and Customs. In the administration of Central Excise duties the Central Board of Excise and Customs is assisted by several subsidiary organisations. (1.8)

Moving the Central Board of Revenue Bill in 1924 for the consideration of the Council of State, the Finance Secretary observed:—

"Clearly, if this direct administration by the Central Government is to be possible we want an appropriate machinery, and the machinery cannot be the impersonal machinery of the Government of India Secretariat. We want the Heads of this Department to be in close personal contact with their work and with their officers. We want them to be touring officers constantly visiting the main centres of the country. We want them to interview frequently the important Chambers of Commerce and other representatives of the tax payer. The efficient administration of a revenue department is clearly not solely a question of collecting a large amount of revenue; it implies that the revenue should be collected with minimum of inconvenience to the public and also that the public should have opportunities of representing and discussing their grievances".

The strength of the Board has varied from time to time. It was invested with secretariat status in 1949. (2.3)

In its Forty-Ninth Report (1958-59) the Estimates Committee of Parliament expressed the view that in combining in the same body the secretariat functions of the Department of Revenue and the administrative functions of the Central Board of Revenue as the Chief Revenue executive, the purpose of the Central Board of Revenue Act had been largely defeated. (2.4)

So far as the functioning of the Central Board of Excise and Customs is concerned the principal point made by the industry is that often there are inordinate delays, even in important matters, in obtaining Board's orders or rulings on references made to it by the Collectors. (2.11)

The dual character of the Board has also been commented upon by some witnesses. (2.12)

It has been represented by several individuals and staff associations that there should be a separate Board for the Central Excise Department. (2.13)

The Directorate of Inspection (Customs and Central Excise) is an Attached Office of the Board. It performs several functions related both the Excise and Customs. One of its principal functions is Inspections of which the main object is to make a study of the working of the departmental machinery throughout the country with a view to formulate proposals for improvement of efficiency. The Directorate operates through five regional units in addition to the headquarters organisation located in Delhi. (3.3, 3.4)

The Central Excise Reorganisation Committee had expressed the opinion that the Directorate should concern itself largely with investigation of major revenue problems and

procedures and that it should not repeat the routine of inspections of subordinate formations which should be sole responsibility of the field officers. (3.8)

The present Directorate of Training came into existence in 1969. The Central Training Institute at Delhi and the three regional institutes at Calcutta, Madras and Bombay were established on 1-9-1969, 18-12-1970, 15-2-1971 and 8-6-1971 respectively. (3.12, 3.13)

The total number of officers trained at the Central Training Institute and the Regional Training Institutes since their inception upto September 1973 was 821. (3.15)

The difficulties experienced by the Directorate in implementing the present training schemes in expanding the scope of their operations are said to be (i) lack of adequate accommodation for the institutes as well as the hostels; (ii) inability of Collectors to spare officers for training on account of lack of training reserves, (iii) inadequacy of training skill and knowledge on the part of officers employed in the Directorate of Training; and (iv) paucity of staff. (3.16)

It is recognised that the present training facilities are grossly inadequate. Officers are reportedly reluctant to go for training because training amounts in most cases to maintaining a double establishment, which they can ill-afford to do. (3.17)

The Directorate of Revenue Intelligence was established in 1957. Sometime ago its administration was transferred to the Department of Personnel. (3.18, 3.19)

The Director of Revenue Intelligence stated that while the charter of functions of the Directorate included anti-smuggling work related to Central Excise, in actual practice, the Directorate has not been able to devote much attention to this aspect. It appears that in respect of Central Excise, there is little or no coordination of intelligence and investigation at the all-India level. (3.20)

An embryonic tax research unit for Customs and Excise came into existence in 1960. It expanded subsequently into a Directorate of Tax Research. It performs several functions. (3.22)

The Statistics and Intelligence Branch functions as a subordinate office of the Central Board of Excise and Customs. (3.23)

Apart from processing and interpreting monthly, quarterly and annual returns it also undertakes adhoc studies assigned to it by the Board. It has been represented that compliation of statistics by the Branch and issue of its various publications is subject to long delays. (3.24, 3.25)

The Central Revenues Control Laboratory and regional laboratories are essentially Chemical laboratories staffed by chemists and chemical Examiners. Apart from testing and testing of samples the laboratories exercise indirect technical control on certain classes of manufacturers. (3.31)

It has been represented that laboratories cannot undertake many of the physical tests: they are ill-equipped even for carrying out some of the Chemical tests in the sense that they lack the latest scientific equipment and literature. They are reportedly understaffed. In consequence serious delays occur in analysis. (3.33)

It has been stated that, in several cases, the results of analysis reported by institutions other than control laboratories or results as arrived at on retest by the Chief Chemist himself, are materially different from the results based on first tests. (3.34)

Regional Advisory Committees came into existence in 1957. A customs and Central Excise Advisory Council was established in 1959. It is recognised that they both serve a useful purpose. About the Regional Advisory Committees, several interests have urged that their constitution and functioning should be reorganised. (3.37)

In size of jurisdiction, amount of revenue, variety of duty paying units and number of subordinate field formations, the present Collectorate charges show very wide divergences. (4.1)

The machinery of administration is based on a 'Range' which is the lowest field formation. Over the years the constitution and functioning of the Range underwent several changes. Although its strength and status increased, it suffered a diminution of effective responsibility —that is to say—pin-pointed responsibility for control over specific units—as well as a denudation of its original functions. (4.2)

The present field organisation of the Department is based on a pattern which comprises, in concentric order, the collectorate and (within it) the Division and the Range, with certain ancillary formations like Inspection Groups, Preventive Parties and the Internal Audit Organisation operating from different levels. (4.3)

The Collector is the chief administrative authority of the Collectorate. He exercises the powers of a Head of Department and performs several other functions. (4.4)

The Deputy Collector exercises statutory powers, in the matter of adjudication and composition of offences in addition to performing several other functions in the administrative and technical spheres. (4.5)

The Assistant Collector is responsible for the administration and enforcement of Central Excise, Gold Control and Customs laws in his jurisdiction. Under SRP he is the proper officer for approval of classification and price lists. (4.6)

The Chief Accounts Officer acts as a financial adviser to the Collector and performs all functions relating to preparation of classified revenue accounts and their reconciliation with figures booked by the treasuries and the Accountant General. (4.7)

The internal audit organisation operates from the Collectorate level and is headed by an Assistant Collector (Audit) who has a number of audit parties working under him. Each such party consists of auditors drawn both from the executive cadre of Inspections and the ministerial cadre of Upper Division Clerks. (4.8)

The Preventive Organisation of the Department operates from both the Divisional and the Collectorate levels. In Collectorates where there are a number of Divisions located at the Collectorate headquarters itself, the Divisional Preventive Organisation does not function as a separate unit. (4.9)

It has been urged that the administrative machinery of the Department has not responded adequately to the changing needs of the situation. It is claimed, for example, that while the manufacturing techniques followed by the industry have become increasingly sophisticated, the organisation continues to operate on the same outmoded patterns as before. The industry also complains that in certain areas of vital importance to them, the authority for taking decisions has tended to move upwards. (4.14)

The consensus of opinion is that the present delimitation of Collectorate charges is hardly conducive to efficiency. (4.15)

Ministerial associations have made the point that the internal audit organisation should be manned exclusively by ministerial officers. (4.16)

The bulk of evidence tendered suggested that Divisional charges are also heavy and Assistant Collectors have been saddled with too many responsibilities. (4.17)

The constitution, staffing pattern, functions and responsibilities of assessment ranges have also been criticised. (4.18)

On the working of Inspection Groups, the principal points made are (i) their duties are not clearly defined; (ii) some of the functions included are more appropriately discharged by other formations; and (iii) there is duplication between the work performed by Inspection Groups on the one hand and Assessment Ranges and Internal Audit parties on the other (4.19)

Departmental Witnesses have laid considerable emphasis on (i) proper selection of preventive staff with adequate incentives provided for them in consideration of the hazardous nature of duties performed, (ii) collection of intelligence, which aspect according to some witnesses has not received adequate attention in the Central Excise Department, (iii) liberalisation of present rules and instructions relating to rewards and expenditure from secret service funds, and (iv) provision of adequate transport and other facilities for detection and follow up of cases of unlawful removal. (4.20)

In regard to agency functions, it has been generally observed that these functions have been performed satisfactorily by Excise Officers. (4.21)

Personnel

Originally, Customs and Central Excise constituted two distinct services. In 1959 they were merged at the Class I level into a single Indian Customs and Central Excise service Several witnesses have contended that there are several points of dissimilarity between the two services and that the integration itself lacked a valid base of justification. The feeling has been expressed that, even though the excise duties contribute by far the largest revenue to the Central Exchequer, the Department as such is but poorly represented in the higher echelons, including the Board. (5.2)

Outside Class I, the service cadres in the Central Excise Department are either ministerial or executive. (5.4)

The principal grievance of the ministerial staff is that for purposes of promotion they have far too many stages to go through. (5.7)

The sanctioned strength of posts in the UDC grade is higher than the number of posts sanctioned in the grade of LDCs. Since recruitment to the former is based entirely on promotion from the grade of LDCs, this has created a serious administrative difficulty. (5.8)

In the Gazetted ministerial cadre, the principal grievance relates to the status of the Chief Accounts Officer. (5.12)

It has been suggested that a Directorate of Audit should be created. (5.13)

It has been urged that the educational qualification prescribed for direct recruitment to the grade of Inspector and the mode of recruitment are both inadequate. (5.17)

One obstacle in the way of initiating a process of direct recruitment at Class II level appears to be the stagnation which has been prevailing for several years in the grade of Inspectors. The extent of stagnation varies from Collectorate to Collectorate. The Third Pay Commission has compared the promotion prospects of Inspectors in the Central Excise Department, Inspectors in Income Tax and Examiners and Preventive Officers in the Customs Department. (5.19—5.22)

There is complete unanimity on the need for better training in order to achieve greater efficiency.

With the exception of Class I posts and of Chief Accounts Officers, all appointments and promotions in a Collectorate are based on Collectorate itself. Similarly transfers of staff in these grades are confined to areas within the Collectorate except when Class II Officers are promoted to Class I. (5.26)

It has been complained that departmental promotion committees do not meet at adequate intervals. (5.27)

The services feel greatly concerned about the frequency of transfers in the Department and about residential accommodation. (5.29)

Adjudication

So far as powers of adjudication vested in Central Excise Officers other than Collectors are concerned, a number of points have been made. It has been stated that a distinction based on value of goods liable to confiscation is hardly appropriate in the context of SRP under which illegal removals are detected largely on the basis of scrutiny of accounts without involving physical seizure of goods as such. The other point made is that the powers presently conferred on Superintendents, Assistant Collectors and Deputy Collectors in the matter of confiscation of goods and imposition of penalties are too low and need to be suitably enhanced; also that there is no justification for excluding jurisdictional Superintendents from the exercise of these powers. (6.10)

Several interests have welcomed the institution of Appellate Collectors. One suggestion made is that there should be a separate judicial cadre of Appellate Collectors. (6.11)

It has also been represented that appeals relating to classification and valuation should revert to the Collector, who should be put back in the picture in relation to what perhaps is the most important aspect of Excise in any Collectorate. (6.12)

On the subject of revision applications, apart from delays, the principal point made is that the present arrangements do not inspire the requisite degree of confidence in the industry. It has been strongly urged that the present arrangements should be replaced by an administrative Tribunal. (6.14)

It has been stated that inasmuch as the existing provisions relating to review confer the necessary powers only on the Central Board and the Central Government and review is confined to decisions which are not more than one year old, they are restrictive in scope. (6.17)

2. IMPLICATIONS OF NEW PATTERNS

The changes necessitated in the administrative structure are governed by certain important considerations. To illustrate: the extensiveness of the tax base calls for decentralisation; the growing complexity of the tax system calls for increased specialisation; the prevalence of tax evasion at different points calls for effective control at those points; and the new approach of selectivity calls for organisational diversification. The administrative alterations will have to be so designed as to fit in not only with present needs but future trends so far as they can be projected. (7.1)

The expenditure incurred on administration should not be out of relation to the yield expected from the units covered by a particular pattern of control. (7.2)

The tax personnel can best perform their duty if responsibilities are clearly defined and both service and working conditions are such as to promote job satisfaction as well as individual contentment and welfare. (7.3)

Routine functions should be performed from as near the assessee as possible.

Assessment functions must rest with a jurisdictional field formation whose level will depend upon the particular type of control.

The proposals made envisage a departure from the present administrative pattern under which there is a uniform type of control, emanating from the same level, for all duty paying units regardless of their distinctive characteristics. (7.4)

It is necessary to ensure independence of audit. Control of audit should rest in a body higher than the field organisation. It should be answerable to a level higher than the Collectors. The need for close relationship between audit and accounts should not be lost sight of.

Induction of specially qualified accountants in audit is necessary and audit parties would need to specialise in groups of commodities.

It is desirable to constitute a separate Audit and Accounts Division within the Department. (7.5)

There is need for reviewing preventive activity as it exists today. Preventive wing must have its own system of intelligence and information.

At the all India level the creation of an appropriate machinery for intelligence and investigation is envisaged. (7.6)

Careful selection and adhoc training are necessary in order to fit the existing staff to some of the new tasks of the system of Selective Control.

Personnel management, career development and welfare measures would have to be given much more attention.

No legal difficulties are perceived in giving effect to the new patterns recommended for different excises and classes of manufacturers. (7.8)

As a general principle, the pattern applicable to a manufacturer who produces on the same premises goods covered by two or more patterns should be the pattern which governs the principal excisable commodity produced by him. (7.11)

For units under ABC, the type and level of control has to be of a higher order with special emphasis on technical and audit expertise. (7.13)

It would be appropriate if the level of responsibility for the administration of ABC units is equated with that of the Collector. (7.14)

For administering ABC units a knowledge of commercial accounts and modern accounting techniques would be necessary. The need for expertise in the relevant technological fields is also obvious. Necessary specialisation should be provided by drafting experts from outside and imparting to the departmental officers the requisite technological orientation. (7.15)

Officers concerned with administration of PBC units should possess adequate knowledge of manufacturing processes. They should also be familiar with accounting procedures. Individual pinpointed responsibility will have to be insisted upon in respect of PBC if efficiency is to be secured in the operation of the pattern as a whole. (7.16)

Accounting of production for the purpose of determining duty liability should start from a stage prior to completion of manufacture.

A broad indication of the proportion which finished excisable goods bear to the principal raw material used, important stages in the process of manufacture and the nature and extent of control intended to be exercised at different stages should be outlined by the Department. (7.17)

Both an adequate mechanism and proper procedures would need to be devised to work out the value of production of units opting for Simplified Procedure and to determine their eligibility for the scheme. Separate rules for units which have not been in production for a full period of three years should be framed.

A single lower effective rate of duty applicable to the entitled sector of each relevant commodity should be fixed and notified by Government. (7.19)

Once the duty liability of units under Simplified Procedure is fixed, a mechanism would need to be established (i) for realising duty in monthly instalments, (ii) for fixing duty liability in case of change, and (iii) for undertaking a review for the next three-year bloc. (7.20)

The administration has to take note of the possibility that some units may deliberately avoid Simplified Procedure in the hope of evading (under CBC) even the small amount of duty due. There is also the possibility that units under PBC may try to pass off their production as pertaining to CBC units which attract a low rate of duty. (7.21)

Ranges would have to be compact and Superintendents would have to be entrusted with suitable powers in matters of classification and valuation appropriate to the type of control for which they would have responsibility. (7.22)

It would be desirable to devise the administrative measures whereby some of the relevant powers and responsibilities of the Board are in effect decentralised and brought into a closer and more appropriate relationship with the assessee and his problems. (7.23)

If the Board is to do justice to its responsibilities, some of its executive functions have to be less concentrated at one place—the capital of the country—that at present. (7.24)

Certain posts of Zonal Commissioners should be created with the status equivalent to that of Members of the Board. They would function as extended arms of the Board in the performance of its duties as the Chief Revenue Authority in areas which may be called Zones—each Zone consisting of a certain number of Collectorate headed by the Zonal Commissioner. (7.25)

3. RECOMMENDATIONS

Headquarters Level: Issues concerning central board and Directorates.

There is a certain amount of force in some of the arguments put forward in support of the proposition that Customs & Excise should be separated and the present organisation bifurcated all along the line with two well defined and distinct administrations, but the situation does not call for the kind of drastic solution which has been proposed. The organisational reforms proposed are expected to go a long way in streamlining the administrative machinery and in mitigating some of the current grievances. (8.3, 8.4)

It is not necessary to reconstitute the Board as an independent executive authority, dissociated from formulation of tax policy. (8.6)

There should be delegation of adequate financial and administrative powers to the Board. (8.7)

There should be some induction of technical officers drawn from the Department at the lower ranks of the Board's Secretariat. (8.8)

Having regard to the importance which personnel management has come to assume in modern administration the Board should have a whole-time Member (Personnel) dealing with policies relating to recruitment, trainiig, evalution of norms and performance standards, promotions and general welfare of the staff and other allied matters having a bearing generally on personnel management. Functions of Chief Vigilance Officer should also vest in Member (Personnel). (8.10)

In the rearrangement of Board's functions, it would be appropriate that Member (Central Excise) should deal with policy matters of tariff concerning his subjects and Member (Customs) similarly with matters concerning his. Coordination of tariff matters within the Board should be the function of the Chairman. (8.11)

The Directorate of Inspection (Customs & Central Excise) should be reconstituted into a Directorate of Investigation and Intelligence. The Regional Offices of the Directorate of Inspection should be merged in the new Zonal Offices. (8.13)

The Regional Training Institutes should be placed under the administrative control of the Zonal Commissioners, though technical supervision over their working would continue to be provided by the Director of Training. (8.14)

Zonal level New Office of Commissioner

The objectives underlying the creation of the Central Board of Revenue as enunciated in the statement of the Finance Secretary made at the time of the introduction of the Central Board of Revenue Bill, 1924 postulated among other things a close personal contact between the Members of the Board and the representatives of the tax payer through constant touring and frequent consultations. These objects are more relevant today than they were in 1924. (9.2)

The functions and responsibilities of the Board have increased substantially. Members find themselves to stay on at headquarters for performance of their numerous duties. They are consequently unable to devote adequate time to visit to important areas. There is avoidable concentration of authority at the level of the Board. Apart from delays these factors lead to a lack of adequate appreciation of regional and local problems and absence of effective supervision over the working of the Collectorates. (9.4)

Some of the executive functions and responsibilities of the Board may with great advantage be entrusted to officers exercising the authority of the Board in well-defined territorial zones. These officers would exofficio have the status of Members of the Board without Secretariat functions. For this purpose the country may be divided into five zones. (9.5, 9.6)

All functions of the Board relating to (i) Tariff (ii) Procedures and (iii) Administration, except for policy formulation relating to these matters and their coordination at the all India level, should be performed by the Zonal Commissioners within their respective jurisdictions. (9.7)

Zonal Commissioners should be empowered to take decisions on all appropriate matters concerning the Central Excises and Salt Act and Rules such as do not necessarily fall within the exclusive jurisdiction of the Board. (9.8)

Zonal Commissioner will be a touring officer meeting his Collectors individually and collectively in conference either at their headquarters or his own at frequent intervals. Problems relating to classification can be discussed and, where appropriate, decided at these meetings. Further there should be a quarterly meeting of Commissioners-in-Conference presided over the Member of the Board in charge of Excise. (9.9)

Under 'Administration' all functions presently performed by Member (Central Excise), except those relating to Class I Services, should be entrusted to the Zonal Commissioners. In the matter of transfers and other issues relating to establishment, the new arrangements will not have the effect of supplanting the existing authority of the Collectors within their own jurisdiction. (9.10)

Appellate functions of the Board should continue to be performed by Member (Appeals). There should be no reversion to the system which prevailed sometime ago under which the appellate work was distributed among the Members of the Board. (9.13)

Individual cases involving a vigilance angle and all disciplinary cases which are presently looked into by the Board should come within the purview of Zonal Commissioners. Collectorate inspections and periodical inspections of lower formations which are one of the routine functions of the Board and of the regional offices of the Directorate of Inspection should constitute the responsibility of the new organisation of Zonal Commissioner.

Audit of ABC units should be carried out by parties operating from the zonal level. (9.15)

Regional Training Institutes and all Regional Laboratories which presently cater to the needs of the Central Excise Department or to the needs of both Customs and Central Excise should be under the administrative control of the Zonal Commissioner. (9.16)

Having regard to the close inter-connection between Excise and Customs at various levels, the arguments which justify the devolution to the zonal level of some of the functions of the Board in so far as excise is concerned are also valid to a certain extent in respect of Customs. (9.17)

Field level Reorganisation of Collectorates.

Despite the increase in their number, the work load of some of the Collectorates is disproportionately heavy. For example, though small in area, Bombay Collectorate comprising greater Bombay and Thana continues to have a very heavy work load. The position is somewhat similar in regard to (i) Calcutta & Orissa and (2) Delhi Collectorates. Existing jurisdiction of all Collectorates may be reviewed for the purpose of making these charges administratively viable. (10.6, 10.9)

A redistribution of Collectorate boundaries with a view to providing better service to certain industrial complexes which on account of their location find it more convenient to deal with a neighbouring Collectorate rather than the one in whose jurisdiction they happen presently to be situated, would present a number of administrative and accounting problems. The inconvenience presently felt by assessees in terms of the requirement that cheques in respect of duty payments can be drawn only on an approved bank located at the Collectorate headquarters is expected to be largely mitigated if the proposal that cheques may be permitted to be drawn on approved banks located at divisional headquarters is implemented. (10.10)

ABC units should be the direct responsibility of the jurisdictional Collector who should exercise that responsibility through a team of specially selected and trained officers. In the case of such areas as Jamshedpur, Visakhapatnam and Burdwan (Durgapur-Asansol Complex) which not only represent a concentration of ABC units but which are at the same time located at considerable distances from the headquarters of the concerned Collector, it would be desirable to post a sufficiently senior local officer (of a status not less than that of a Deputy Collector) to administer such units on behalf of the Collector. (10.11, 10.14)

Assessments and all other functions (except peripheral functions) connected with ABC units would be the Collector's responsibility. Adjudication of offences arising in relation to these units would also fall within the jurisdiction of the Collector. (10.15)

The staff assisting the Collector in the administration of ABC units would have to be specially selected, so as to provide the necessary expertise in methods of accounting and techniques of production. Suitable experts may be inducted by direct recruitment or drafted from other Departments on deputation. These experts would be assigned to Collectorates where their special knowledge and expertise would be most useful from the point of view of the concentration of commodities produced. They would be available for advice on technical matters to other Colletcors also. (10.16)

On whether field formations should operate on a territorial basis or be organised on what is known as the functional pattern, it is suggested that, consistently with the basic considerations put forward, including the need for pinpointed responsibility, the actual pattern must be left to be decided by those best acquainted with the local conditions and local problems, viz., the Collector and Commissioner concerned. (10.18)

It would be desirable in due course to evolve suitable norms for various items of work required to be performed by an Assistant Collector and his office and to determine the size of a Division on the basis of the work load so assessed. (10.20)

The Assistant Collector has a pivotal position in the organisational set-up. He should be an officer of standing and experience, who is able to take appropriate decisions on his own. An officer should not be given the independent charge of a Division unless he has had sufficient field experience and has some familiarity with work at the Collectorate headquarters. The Assistant Collector should keep himself in touch with the working of ABC units through his intelligence Officers and other sources of information. The activities of his

preventive organisation would extend to these units. In a way, so far as ABC units are concerned, he would be the eyes and ears of the Collector, communicating to him all such information as may have a bearing on revenue. (10.21, 10.22)

For ABC units, functions relating to classification, valuation and assessment should vest in the Collectors. It should, however, be open to the Collector to delegate these functions to the jurisdictional Assistant Collector in respect of bonded installations of mineral oils and other similar units which do not involve problems warranting the personal attention of the Collector.

For PBC units in so far as functions relating to classification, valuation and assessment are concerned, the Assistant Collector should be the proper officer for commodities which have a complicated tariff or involve detailed examination with reference either to the composition of the product or the valuation law and principles or extensive market enquiries, whereas for the remaining commodities, these functions should be performed by the Superintendent. The division of commodities on the above basis should be decided upon by the Administration and varied from time to time according to needs and exigencies

For CBC units the powers of the proper officer for purposes of classification and valuation should be exercised by the Superintendent. (10.23)

Having regard to the quasi-judicial nature of decisions on issues pertaining to classification or valuation, instead of providing for an extra-judicial method of internal discussion or consultation between the Superintendent and the Assistant Collector or between the Assistant Collector and the Collector, the relevant rules should clearly stipulate that where a proper officer feels that a decision on an issue concerning classification or valuation should be taken by a higher officer it should be possible for him in law to refer the matter to such higher officer. (10.24)

For the additional work of receipt and collection of cheques and accounting of credits at the divisional headquarters, the Assistant Collector should be provided with the necessary staff under his administrative control. (10.27)

The initial operation of determining the prospective duty liability of producers expected to be brought within the purview of Simplified Procedure, should be organised at the Assistant Collector's level and with his active participation in the various exercises needed to be carried out for a proper switchover to the new procedure. (10.29)

It would be necessary to assess the quantum of work involved in a Range. (10.31)

The Range should be a compact, self-contained administrative unit performing all primary functions in relation to the producting units coming within its purview. (10.32)

In the matter of office accommodation, if no suitable building is available in proximity to the bigger units falling within the jurisdiction of the Range, there should be no objection to one of the factory units providing the necessary accommodation for the Range or the Sector Office concerned by arrangement with the Department for payment of due rent.

In the matter of residential accommodation in metropolitan areas such as Bombay, Calcutta, Madras, Ahmedabad, Kanpur, etc. Government should take steps to hire buildings and rent them out at the standard or the pool rent to the Central Excise staff. Where Government buildings are available, the Director of Estate may be requested to reserve a pool for the Central Excise staff, so that no difficulty may be experienced by them in regard to residential accommodation. Where the factories are situated in remote areas, such as in Assam, and no building is available for residential accommodation apart from those owned by the factory owner, there should be no objection to the Excise staff being housed in accommodation hired from the factory. In other places, if the Central Excise staff are not able to hire or rent residential accommodation readily and at reasonable rents there should be no objection to Government hiring the accommodation from the factories themselves if such residential accommodation, already constructed by them for their officers and workers, is available. (10.35)

The jurisdiction of the Range should be demarcated into Sectors, each Sector being placed directly under an Inspector who will be responsible for effective administration of all units falling within the sector. (10.36)

Powers of adjudication should be exercised by the jurisdictional Superintendent. (10.37)

The Range may be provided clerical assistance in the form of a clerk-cum-typist. The Range should also be given a small permanent imprest for petty contingent expenditure. (10.38)

Preventive Organisation

The System of Selective Control should help to bring about a considerable reduction in evasion by introducing a more rational distribution of trained man-power corresponding to the revenue significance of different categories of units. But this does not make it any the less necessary to build in, as part of the total scheme, an adequate and efficient Preventive and Intelligence Organisation. (11.14)

In the wake of SRP there was a quantitative increase in the cases detected. But many of them were either technical or trivial. Like SRP itself, Prevention has tended to be routine and non-selective. Selective Control implies, among other things, Selective Prevention. (11.15)

The Directorate of Intelligence and Investigation at the centre will be responsible for formulation of policies regarding both intelligence and investigation and issue of guidelines for inplementation of those policies at different levels.

Collectorate and other field preventive formations need restructuring and reorientation to make them more effective. (11.16)

Some deficiencies in the preventive set up relate to insufficient incentives to attract personnel of the requisite calibre; inadequate attention to selection of the right type of personnel; want of proper training; paucity of funds for intelligence work; lack of elementary facilities like—vehicles, telephones, fire arms etc., and meagre provision for rewards. Improvement should be made in these basic prospects. (11.17)

Having regard to the fact that Collectorates and within them the Divisions will have different combinations of producing units subject to different patterns of control, the strength and quality of preventive personnel needed will have to be assessed separately for each formation. (11.18)

The preventive organisation should have a three tier structure. (11.19)

In addition to its usual complement of Inspectors a normal range formation should have an Inspector (Preventive and Intelligence). (11.20)

The second tier should be at the Divisional level. The preventive force at this level should function independently of the Range Preventive.

It should have adequate striking capacity as well as its own sources of information. It should function as a composite unit responsible for all preventive and intelligence work in the Division, including Customs, Gold Control and Central Excise. (11.21)

At the Collectorate level separate parties should be constituted for preventive activity under Customs, Gold Control and Central Excise, each operating under a Superintendent. Necessary coordination between the functioning of different parties constituting the third tier and between the functioning of the preventive parties constituting the two tiers, namely, the Range and the Division, should be provided at this level by the Assistant Collector on the Deputy Collector concerned. (11.22)

The need exists for each range and each division being equipped with a preventive force of its own as part of a coordinated three-tier structure for the Collectorate as a whole, irrespective of whether the range is situated at the headquarters of the division or the division is situated at the headquarters of the Collectorate. (11.23)

Greater emphasis should be laid on mobile preventive parties operating at odd hours in areas close to the processing units.

Each preventive party should have a vehicle at its disposal and also the equipment necessary for setting up road blocks and exercising adequate surveillance. Preventive parties should also be issued fire-arms in limited numbers. The parties at Collectorate headquarters should also have walkie-talkie sets through which they can communicate with the control room or the Collectorate headquarters. (11.24)

There is considerable scope for improvement in the present position regarding payment of rewards in Central Excise cases. The whole position needs to be examined in depth. (11.35)

The absolute limit of Rs. 2500 in respect of rewards which can be sanctioned in a Central Excise case by the Collector and which was fixed in 1963 is far too low in present way conditions. In fact, as in the case of Customs, there need be no ceiling at all. There exists adequate justification for a substantial enhancement of the existing powers vested in Collectors and other officers, both in the matter of final as well as interim rewards. The procedure prescribed for, and the powers delegated to, Customs Officers of equivalent rank should apply mutatis mutandis to Central Excise Officers also. There does not exist adequate justification for laying down that Deputy Collectors and Assistant Collectors postal at Collectorate headquarters cannot sanction and advance rewards at all. (11.36)

The quantum and scale of rewards payable to Government servants are adequate. Existing disparities between Excise and Custom Officers should, however, be removed. Apart from rewards, recognition for meritorious work done should be accorded in such other ways as granting additional increments in pay, making special entries in confidential record, awarding accelerated promotion, or granting medals and certificates in appreciation of the work done, particularly to government servants who are not eligible for cash rewards. (11.38)

As regards the time and manner of payment both for the informers and the officers, any incentive to sustain their interest in rendering service to the department should be provided by (i) immediate payment of 50% of the expected final reward; (ii) ordering an additional

interim reward if the case is subject to long and protracted legal proceedings; and (iii) making payment of the final reward immediately on the completion of legal and judicial proceedings. (11.39)

The funds allocated for rewards should be substantially increased. Allocation of funds for secret service expenditure should be suitably increased and officers encouraged to establish a proper system whereby informers are recruited and nursed. (11.40)

Officers required for preventive and intelligence functions should be specially selected, after taking into account their aptitude, past performance in detection of offences and other relevant factors. A separate cadre for the Preventive organisation is not necessary but an appropriate scale of special pays should be designed for preventive officers. (11.42)

The audit organisation of the Department is structurally inadequate and, in a large measure, functionally ineffective.

The Committee is wholly in agreement with the view expressed by the Central Excise Reorganisation Committee (1963) that "the top echelon at the level of the Chief Central Excise Revenue Authority should include a Directorate of Audit to keep under constant review detailed schemes of audit as need arises, and to see that accounting and audit of revenue in Collectorates is effective, expeditious and thorough". (12.11)

It is of the utmost importance that the machinery of audit should be so designed as to play an effective role in the matter of both collection and proper accounting of revenue.

Audit functions perfomed by Inspection Groups should be transferred to a proper Audit Organisation.

It would be in the fitness of things if the present Accounts set-up of the Department headed by the Chief Accounts Officer is merged with Audit in a common organisation which may be called the Internal Audit and Accounts Division of the Department. (12.12)

The constituent Accounts Wing of the new organisation should continue to function as at present with the same hierarchical set up.

The seniority and promotion of Class III ministerial officers including those posted in the Accounts Wing would continue to be subject to the same principles as at present and regulated on a Collectorate basis. On promotion to the level of the Assistant Chief Accounts Officer, the incumbents should be borne on the common Class II cadre of the Internal Audit and Accounts Division. (12.15)

The constituent Audit Wing of the new organisation should be restructured. The hierarchical structure should consist of five distinct grades of officers, viz. Technical Assistant, Examiner of Accounts, Assistant Director, Deputy Director and Director.

For appointment as Technical Assistant, officers of comparable grades in the executive and ministerial Wings of the service, namely, Inspectors from the executive side and Head Clerks and Deputy Office Superintendents from the ministerial side, should be eligible. Technical Assistants would constitute a distinct cadre of their own within the Audit and Accounts Division, with their seniority and posting regulated on a zonal basis.

For initial appointments to the grade of Examiner of Accounts selection should be made from (1) existing Superintendents of Central Excise, Assistant Chief Accounts Officers, Examiners of Accounts and Administrative Officers who may opt for the new Audit and Accounts Organisation, (2) Senior grade Inspectors, and (3) Office Superintendents.

Posts of Chief Accounts Officer in the Accounts Wing and Assistant Directors, Deputy Directors and Director in the Audit Wing will be in Class I. All these posts should belong to the integrated Indian Customs and Excise Service. (12.17)

The post of Chief Accounts Officer should be formally designated as a Class I post. A certain number of these posts should be placed in the senior Class I scale or failing that, a suitable special pay may be attached to them. (12.18)

Audit functions are largely ministerial in character. At the same time in the Central Excise Department, in which techniques of production have an important bearing on points of revenue, the executive element should be duly represented in the machinery of audit. The new Internal Audit and Accounts Division should be able to fulfil its assigned role in all particulars thus affording considerable relief to statutory audit which has had often to perform functions which legitimately pertain to internal audit.

All assistance required by statutory audit in the matter of procurement of records and other documents should be afforded by the Range staff and other departmental authorities including officers of the Internal Audit and Accounts Division. (12.19)

Machinery of Adjudication.

The present structure of delegation of powers based on the value of goods which can be confiscated and limits upto which penalties can be

imposed is inherently defective inasmuch as the jurisdiction of officers is related not to the prima facie nature of the offence but to the degree of the punishment which might eventually be imposed.

The delimitation of powers should cover three distinct items, namely, (i) the value of goods involved, as a criterion for judging which authority can deal with the case, (ii) the maximum limit in terms of value upto which goods can be confiscated by such authority, and (iii) the limit upto which it can impose a penalty. The revision of the existing powers on these lines is all the more necessary because in SRP the question of goods being seized arises only in a minimum number of cases. (13.3)

It should not normally be open to an authority to remit the case to a lower authority if it finds that on the basis of the value of goods which can be confiscated or the penalty warranted by the facts of the case, such lower authority would be competent to adjudge the case. However, in exceptional cases such as those in which the offences involved are trivial in character, it should be possible for the authority concerned to exercise appropriate discretion subject to such guidelines or safeguards as the Administration might prescribe. (13.4)

It would be desirable to evolve an administrative arrangement by which cases in which no goods as such are involved as for example those concerning failure or repeated failure of assessees to submit the returns in time or those involving falsification or mutilation of records, can be suitably allocated to different officers. (13.5)

Powers of adjudication should be suitably enhanced. (13.6)

Present limits of maximum penalty provided for contravention of different Central Excise Rules should be increased to five thousand rupees. (13.7)

Powers to impose penalties in respect of losses should be enhanced to the levels recommended in respect of adjudication of offences. For condonation of losses as such and demand of duty the present monetary limits should appropriately be doubled.

Powers related to monetary limits wherever prescribed may be reviewed in the light of increases in price levels and suitably enhanced, if necessary.

The concept underlying the creation of the institution of Appellate Collectors is basically sound and the experiment should be given a fair trial.

There is no merit in the suggestion that Appellate Collectors should come from and belong to a different cadre, preferably the judicial cadre. (13.10)

A Tribunal should be set up to deal with cases at the revision stage, i.e., those in which orders-in-appeal have been passed by the Appellate Collector or the Board. The Tribunal should be competent to look into question both of law and of fact. It should not be administratively attached either to the Central Board or to the Department of Revenue and Insurance. Preferably, it should be attached to the Ministry of Law.

The Tribunal should consist of a Chairman and a minimum of two Members. This number may be added to depending on the volume of work. The Chairman of the Tribunal, though he need not necessarily be drawn from the judiciary, should have the status of a High Court Judge. (13.15)

In so far as original decisions (i.e., decisions other than those passed on appeal under Section (35) are concerned, Collectors, should have the necessary powers of review in respect of decisions taken by Supdts. For decisions taken by Assistant Collectors and Deputy Collectors, the Zonal Commissioner concerned should be the competent reviewing authority, while for decisions taken by Collectors, the Board should continue to perform this function. In respect of decisions passed on appeal or review the Government should consider the feasibility of replacing the present review procedure by suitable provisions enabling the Government (in addition to the assessee) to go in revision to the Tribunal. (13.17)

Re-deployment

The present organisation has grown in an adhoc manner on the basis of the hetrogenous demands made on it from time to time by widening tariff, altering procedure and increasing involvement in new functions. (14.2)

The procedures relating to levy and collection of duty on manufactured tobacco are entirely different from those applicable to manufactured excisable products, but both unmanufactured tobacco and manufactured products are administered by the same officers under the same supervisory hierarchy.

Even though staff required in various Collectorates is sanctioned with reference to specific purposes, Collectors have considerable discretion in the matter of re-deployment of the available manpower so that actual deployment is often different from what might be inferred from the formal staff sanctions. (14.3)

The recommendations made relate to manufactured excisable products only. It is not possible to put forward a detailed pattern of

work units or norms for different functions proposed to be assigned to different formations and within them to different classes of officers. Some estimate, however broad, seems called for if only in order to obtain some idea of the magnitude of the changes involved in terms of personnel. (14.4)

The Tobacco Excise Tariff Committee has estimated after obtaining the requisite details concerning field formations, the total number of Superintendents and Inspectors engaged on unmanufactured tobacco during 1973. Unmanufactured tobacco which contributes 3 to 4% of the total revenue from excise duties takes up a quarter to one third of the staff employed in the field. (14.7)

The staff requirements estimated are based on certain assumptions regarding the need of each pattern of control: many of the assumptions made are in the nature of broad averges which can be applied only to the sort of macro exercise attempted here. (14.8)

On the basis of the analysis attempted, the number of additional Superintendents required would be 802 while 522 Inspectors would be rendered surplus. (14.21)

The increase in the number of Superintendents in the field organisation would entail an increase in the number of Divisions. The proposed reorganisation of Audit would warrant the creation of a certain number of additional posts in the cadres of Assistant Director and Deputy Director, in addition to the Chief of the Bureau of Audit at the centre. On the Accounts side, there would be additional posts of Chief Accounts Officers besides Assistant Chief Accounts Officers at Divisional headquarters. (14.24)

Selection and Training for new duties

The reorganisation of the Department will have to take into account the staffing and other requirements of the pattern of control envisaged for tobacco. (15.1)

An additional 802 posts of Superintendents would be required. With the consequential increase in the number of Divisions and promotion of Superintendents to that grade, there would be further vacancies so that the total number of additional posts of Superintendents needed would be around 900. (15.2)

Selection of staff would need to subserve the basic requirements postulated by the System of Selective Control. (15.3)

In the matter of selection for supervisory posts of Superintendents, a distinction has to be made between long term and adhoc appointments. Recruitment from the open market is necessarily time-consuming, while the needs of the Department would be immediate.

Properly selected and given some training, Inspectors with their long practical experience of the working of the Department would be well-suited, as an immediate step, for the supervisory role of Superintendents envisaged for the new patterns. (15.4)

What is contemplated is a somewhat massive operation of an exceptional nature necessitated by a major reorganisation of the administrative structure.

The proposed selective promotions to the new posts of Superintendents from the existing cadre of Inspectors should be regulated either on an all-India basis or on that of adequately large regions or zones. (15.5)

Appointments to the new posts of Superintendents should be made, 50% on the basis of merit-cum-seniority and 50% by a system of departmental competitive examination open to Inspectors with a minimum prescribed period of service which should be five years. (15.6)

Future vacancies of Superintendents should be filled partly by promotion from among Inspectors and partly by direct recruitment in the ratio of 75 : 25. The number of posts required to be filled each year should be allocated between generalists and specialists who would be recruited through the UPSC in either case. (15.8)

Initial appointments to the various grades in the internal Audit and Accounts Division should be made from the existing departmental cadres. For future vacancies of Technical Assistants, the normal channel for appointment should continue to be through the feeder cadres of Inspectors and Head Clerks and Deputy Office Superintendents, though at a later date direct recruitment may also be resorted to for a number of these posts.

Future vacancies in Class II may be filled in the same way as vacancies in the grade of Superintendents on the executive side. (15.9)

There will be considerable expansion in the ministerial cadre. Selection of personnel may continue to be regulated as at present. (15.10)

It would be necessary to impart adequate training to the staff needed for different patterns of control and for other functions like Preventive and Audit. (15.11)

Ad hoc training courses and seminars might be started before introducing the scheme of selective control. (15.12)

The Administration should endeavour to allocate the staff in such a manner that officers continue to remain employed in the particular fields assigned to them for a sufficiently long period. (15.13)

Recruitment, Training and Other issues

There is need for a well-conceived personnel policy which operates at different levels through a well designed system of personnel management. (16.1)

So far as the immediate future is concerned the new demands will to a large extent have to be met by redeployment of existing staff after appropriate training for the purpose. Looking further ahead, long term modifications reflecting long term projections and needs will be inevitable in regard to points of admission to different posts or cadres, qualification on admission and training thereafter. (16.2)

A sound and balanced cadre composition is the corner stone of an efficient administrative structure. (16.3)

Career prospects of ministerial officers in Class III for purposes of promotion to Class II are extremely unsatisfactory.

Cadre strength of LDCs is smaller than that of UDCs with the result that a large number of vacancies in the grade of UDC has existed over a number of years. The position in the case of Deputy Office Superintendents is similar.

It is desirable to take early steps to correct this lop-sided structure. (16.4)

With the implementation of the recommendations made, the career prospects of ministerial officers would show considerable improvement. But a matter of far greater significance for ministerial officers will be the consideration that avenues of promotion to Class I appointments will now, for the first time, be thrown open to them. (16.7)

The prevailing position regarding the number of grades in the ministerial cadre, their composition, methods of recruitment and promotion and restrictions to which promotions are subject should be re-examined.

In the context of the situation obtaining in the Department as a result of the existence of a multiplicity of grades in the ministerial cadre, the policy followed by the Administration of gradually reducing the strength of Head Clerk's grade is endorsed. (16.8)

Frustration prevailing in the ranks of Inspectors appears to be the result partly of the gradual dissociation of this class of officers from active participation in functions involving trust and responsibility. The other factor is stagnation in the grade of Inspectors of a large number of officers for want of adequate promotion prospects. Whatever the reasons for stagnation the resultant damage to the morale of the Inspectors has been considerable. (16.9)

Reorganisation proposals are expected to ameliorate the presnt state of affairs. (16.10)

It is not possible either now or in the foreseeable future to dispense with the cadre of Inspectors altogether, though its prepondance would steadily decline. Stagnation is largely a transitional problem. (16.11)

An Inspector who has put in 15 years of service in the ordinary grade and who has a satisfactory record of service should be appointed to the senior grade. Correspondingly the number of senior grade posts which is presently restricted to 25% of the permanent posts should be suitably raised to say 50%. (16.12)

The earlier arrangement under which seniority and promotion upto Class II were regulated on a zonal basis had considerable merit. Government might consider the revival of the old zonal concept.

Seniority should be fixed with reference to the date of appointment and not the date of confirmation. (16.13)

Prospects of promotion for Class II officers are poor.

A senior or selection grade should be created for this cadre also.

On promotion to Class I, Superintendents should be appointed directly in the senior Class I scale. (16.15)

Opportunities of promotion available to Class IV personnel are negligible. In this connection the recommendations made by the Third Pay Commission (Chapter VIII—para 47 of their Report) are supported. (16.16)

Induction of specialists is necessary at various levels.

In order that the talent attracted is of the appropriate type, it will be necessary to incorporate certain special features into the recruitment such as relaxation of the usual age limit, offer of higher initial pay and provision for absorption into the general stream at later stages.

Services of suitable experts may also be obtained on deputation from other Government Departments. (16.18)

There may be need eventually for an even higher percentage (i.e. higher than 25%) of

direct recruits in Class II considering the onerous responsibilties envisaged for the Superintendents. (16.19)

For the grade of Inspector the existing pattern of direct recruitment and selection from the grade of UDC may continue. Minimum qualification for direct recruits should be a University degree. (16.22)

Two thirds of the posts in the cadre of UDCs may be filled by direct recruitment. The minimum educational qualification for direct recruitment to this grade should be a University degree. (16.23)

There is need for considerable augmentation in both size and diversity of training facilities.

Among other things, training should help towards a better understanding of the different types of operations and accounts peculiar to the manufacturing units concerned. (16.25)

There is need for adequate training to personnel engaged on preventive duties. If necessary special courses for preventive officials may be devised. (16.26)

Apart from the extension of the regular training facilities, it will be necessary to organise crash training programmes to fit existing personnel into new jobs. (16.27)

Besides initial training it should be possible for every officer to attend at least two general refresher or executive development courses during his service. (16.28)

Training centres may be set up in the Collectorates for training both executive and ministerial Class III officers. For new recruits to Class III there should be a sound task-oriented basic training. (16.29)

Regional Training Institutes should be placed under Zonal Commissioners. These institutes would cater largely to Class II personnel. Such Class I Officers as have not undergone the formal training given to direct recruits and who cannot be trained in the Central Training School might also be given courses at the Regional Institutes. (16.30)

Maximum use should be made of the facilities provided by the Lal Bahadur Shastri Academy, the various Management Institutes, the Indian Institutes of Public Administration and the Administrative Staff College. (16.32)

In the training institutes adequate accommodation should be provided not only for lecture-rooms and libraries but also for the lodging of the trainees: proper facilities for their boarding and recreation and the payment of sufficient allowances are also necessary. (16.33)

It is unwise to stint on training facilities. Transfer allowances should be adequate to cover the expenses involved. Routine transfers from one station to another in the case of officers below the Class I level, specially after they reach middle age should be governed by human considerations no less than by well deliberated principles. (16.35)

For Assistant Collectors and Superintendents a stay of five years in one Collectorate (except where a transfer is warranted for compelling administrative reasons) would be a suitable working rule. (16.36)

Promotee Class II officers should not normally be transferred outside the Collectorate; in any case they should not be transferred outside the zone or linguistic region. Direct recruits to Class II may, however, need to be transferred to various Collectorates in a Zone to expose them to as wide a range of excise duties as possible. For Class III officers transfers should be restricted to the Collectorate. (16.37)

The present system of Annual Confidential Reports should be reviewed to bring it in line with modern methods of performance appraisal. (16.38)

In the matter of residential accommodation a great deal more needs to be done than at present and for a much larger complement of staff. Immediately and perhaps on an emergency basis, it is necessary for the Department to start its own programme for construction of building at places where the problem is acute.

What is needed is a comprehensive scheme with the next two decades in perspective. (16.40)

Office premises should be located centrally in clean surroundings, should provide adequate space and the suitably furnished. They should provide for normal facilities like canteens, tiffin rooms and recreation rooms. The provision of vehicles, telephones and other equipment should be carefully planned and supplies promptly made. (16.41)

Emphasis needs to be placed on the promotion of social, cultural and recreational activities for officers and their families. (16.42)

Properly trained and qualified personnel should be appointed as Welfare Officers. (16.44)

Government ought to have a machinery which ensures that vacancies arising in different cadres of the service are promplty brought to the notice of the administrative authority and filled without delay. (16.45)