

Supreme Court of India

State Of Orissa & Ors vs Narain Prasad & Ors.,Etc.Etc on 3 September, 1996

Equivalent citations: JT 1996 (8) 50

Author: B Jeevan Reddy

Bench: Jeevan Reddy, B.P. (J)

PETITIONER:

STATE OF ORISSA & ORS.

Vs.

RESPONDENT:

NARAIN PRASAD & ORS., ETC. ETC.

DATE OF JUDGMENT: 03/09/1996

BENCH:

JEEVAN REDDY, B.P. (J)

BENCH:

JEEVAN REDDY, B.P. (J)

PARIPOORNAN, K.S. (J)

CITATION:

JT 1996 (8) 50

ACT:

HEADNOTE:

JUDGMENT:

J U D G M E N T B.P.JEEVAN REDDY,J.

Leave granted.

Having voluntarily entered into contracts with the Government of Orissa, undertaking to lift a particular quantity of liquor every month and also to remit the monthly excise duty in two equal installments on the fifth and fifteenth of the month, the respondents- licencees committed default on both counts and when the said undertaking in the contract is not enforceable in law. They invoked the extra- ordinary jurisdiction of the High Court under ARTICLE 226 of the Constitution for the purpose. The High Court the upheld their contention. Hence, these appeals by the State of Orissa.

The grant of excise licences in the State of Orissa is governed by the Bihar and Orissa Excise Act,1915 [the Act] and the rules made thereunder. Section 22 provides for grant of exclusive

privilege of sale of country liquor, whether wholesale or retail. Section 27 empowers the State Government to impose excise duty or countervailing duty, as it may direct on any of the activities specified therein. It would be appropriate to set out sub-section [1] of Section 27:

"27. Power to impose duty on import, export, transport and manufacture. [1] An excise duty or countervailing duty, as the case may be, at such rate or rates as the State Government may direct, may be imposed, either generally or for any specified local area, on - [a] any excisable article imported, or [b] any excisable article exported, or [c] any excisable article transported, or [d] any excisable article [other than tari] manufactured under any Cl.[a] of S.13, or [e] any hemp plant Cultivated, or any portion of such plant collected, under any licence granted in respect of Cl. [b] or Cl. of S. 13, Or [f] any excisable article manufactured in any distillery or brewery licensed, established, authorized or continued under this Act.

Explanation: Duty may be imposed on any article under this sub-section at different rates according to the places to which such article is to be removed for consumption, or according to the article."

Section 28 empowers the levy of excise duty/countervailing duty in any of the several ways provided therein. Section 28, insofar as is relevant, reads:

"28. Ways of levying such duty. - Subject to any rules made under S.90, Cl. [12], any duty imposed under S.27 may be levied in any of the following ways:

[c] On an excisable article transported, -

[i]..... [ii] by payment upon issue for sale from a warehouse established, authorized or continued under this Act:

Section 29 is particularly relevant to the controversy herein. It reads:

"29. payment for grant of exclusive privilege. [1] Instead of or in addition to, any duty leviable under this Act, the State Government may accept payment of a sum in consideration of the grant of any exclusive privilege under S.22 [2] The sum payable under sub- [1] shall be determined as follows: [a] by auction or by calling tenders or otherwise the State Government may by general or special order direct; and [b] by such authority and subject to such control as may be specified in such order . [3] The sum determined under sub-S. [2] shall be final and shall be final and shall be binding the party making the offer by way of tender, bid or other wise once such offer is accepted by that sub- section."

A reading of Section 29 shows that the State Government may accept payment of a sum in consideration of the grant of any exclusive privilege under Section 22. This may be instead of or in addition to any duties leviable under the Act. Sub-section [2] clarifies that the sum payable under

sub-section 1) shall be determined by auction or by calling for tenders or otherwise; sub-section [3] declares that the sum determined under sub-sub-section [2] shall be final and binding upon the party making the offer once the offer is accepted by the appropriate authority.

Section 89 empowers the State Government to make rules to carry out the objects of the Act. Sub-section [2] specifies the several heads in respect of which rules can be made. Clause [1] of sub-section [2] empowers the State Government to make rules "for regulating the procedure to be followed and prescribing the matters to be ascertained before any licence for the wholesale or retail vend of any intoxicant is granted for any locality."

In exercise of the power conferred by Section 89, the Government of Orissa has made rules governing the grant of licences, viz., The Orissa Excise Exclusive Privilege Rules, 1970'. Rule 6 of these Rules prescribes the manner in which the consideration determined for grant of exclusive privilege shall be paid. Rule 6[A], as substituted by SRO No. 215/89, provides for monthly minimum guaranteed quota, the obligation of the licensee to lift it before the end of the month and the further obligation to remit the monthly excise duty in two equal instalments, i.e., on the 5th and 15th of every month. Clauses [1], [2], [3] and [4] of the said Rules read thus:

"6 [A][1] Minimum guaranteed quantity of Country spirit: Every successful bidder of Country Spirit shop shall, before obtaining licence, guarantee the sale of the minimum guaranteed quantity of Country spirit as fixed by the Collector. The bidder shall before obtaining licences submit monthly distribution of statement to the concerned Collector. The licensee before the 30th June, may revise and resubmit the monthly distribution statement for the portion of the Excise Year from August to March. The Collector, shall be competent to revise and approve such revised statement.

There shall be no further changes in the distribution statement so approved.

[2] The licensee shall lift the monthly minimum guaranteed quantity approved for that month before 5.00 P.m. on the last working day of that month. The right to lift the monthly minimum guaranteed quantity approved for that month and left unlifted if any by 5.00 p.m. on the last working day of the month shall be forfeited, unless specially permitted to be lifted in the subsequent month or months by the Collector.

Provided that:-

[i] The Collector, may for any special reasons permit the licensee to lift the short drawn minimum guaranteed quantity of the previous month in the succeeding month except for the months of February and March. The Collector shall however, obtain the order of the Commissioner of Excise in case of default and for any special reasons if the period exceeds Over one month.

[ii] THE Commissioner, may, wherever if he deems it necessary, permit the licensee to lift the short down minimum guaranteed quantity of any month other than that month of March in any subsequent month or months.

[iii] No unlifted quantity of the Country Spirit shall be permitted to be lifted beyond the last day of February.

[3] Subject to provisions of sub-

rule [1] no licensee shall lift less than the specified minimum guaranteed quantity of country spirit in any month. The excise duty of country spirit for the month as approved in the distribution statement under sub-

rule [1] shall be remitted in two equal instalments by the licensee into the Government treasury of the District in which the shop is situated. The first instalment shall be remitted by fifth of the second instalment by fifteenth of that month. where due date or subsequent day happens to be holiday the instalment shall be remitted on the next working day.

If in any month, the first or second instalment of the excise duty of country spirit for that month is not remitted as required above, the excise duty to the extent of deficit payment without prejudice to any other mode of recovery shall be deducted first from the Bank Guarantee, if any, and the balance from the advance deposits furnished or paid under rule 6 and the licensee shall be called upon to indemnify the amounts so adjusted in the case of first instalment by fifteenth of that month and in the case of second instalment by twentyfifth of that month in which deficit payment of instalment of excise duty had expired.

[4] Where a licensee fails to indemnify the advance amount adjusted under sub-rule [3] in the case of first instalment of fifteenth of that month and in the case of second instalment by twentyfifth of that month, the license is liable for cancellation and the right acquired by the defaulting licensee shall be liable for redisposal subject to provisions of sub-section [1] of Section 22 of the Act."

A reading of Rule 6-A makes the following matters clear: the licensee shall have to undertake to lift the M.G.Q. of liquor every month. Clause (3) of the Rules, read with clauses (1) and (2) means that the obligation to lift the M.G.Q. of liquor and the obligation to remit the excise duty payable for the month are two distinct obligations. While the obligation to lift the M.G.Q. is to be discharged before the end of the month, the obligation to remit the excise duty for the month is to be discharged in two equal instalments, viz., first instalment by the fifth and the second instalment by the fifteenth of the month. The consequences of not remitting the excise duty in the manner specified are set out in clauses (3) and (4), which make the said obligation mandatory and emphatic. The Rule also makes it clear that if in a given month, the full M.G.Q. is not lifted, the Collector can permit the deficit to be lifted in the subsequent month but this has nothing to do with the obligation to remit excise duty for the month on the dates specified. It is relevant to point out that the several consequences provided in clauses (3) and (4) follow the non- deposit of excise duty on specified dates - and not the non-lifting of M.G.Q. which is an independent obligation. It is necessary to bear this aspect in mind.

Every person whose bid/tender has been accepted is required to execute an agreement/contract in the prescribed form. Under this agreement, the contractor/licensee agrees to abide by the rules and conditions relating to retail vend of country spirit (liquor) as stipulated in the licence as also the

general conditions of licence. The said conditions shall be treated as part of the agreement. Clause (2) obliges the contractor to draw a particular quantity of liquor every month from the specified warehouse. Under Clause (3) the contractor "undertakes to pay the duty at the prescribed rate at the Warehouse prior to lifting the stock". This condition provides that excise duty shall be remitted prior to lifting ; it does not say it shall be remitted at the time of lifting. Under Clause (7), the contractor-licencee agrees to abide by all the provisions of the Act and the Rules and instructions as may be issued from time to time.

Conditions 1 and 2 of the licence, as amended in 1989, repeat and reiterate the provisions contained in Rule 6-A aforesaid in their entirety.

The respondents were the highest bidders in respect of the various liquor shops in Orissa. Their bids were accepted. They executed agreements in the prescribed form and were issued licences. Each of them had undertaken the agreement/contract to lift a particular specified quantity of liquor every month during the relevant excise year (1990- 1991) as well as to remit the excise duty as specified in the Rules. They did the business under the said licences for the entire excise year. They failed to lift the agreed M.G.Q. They also failed to remit the excise duty as provided by Rule 6-A. And when notices were served calling upon them to remit the appropriate amount, they rushed to the Orissa High Court by way of writ petitions questioning the demand notices.

The main contention of the respondents (writ petitioners) was that the demand for payment of excise duty on unlifted quantity of arrack amounts to levy of duty and that such levy is not warranted by the Act. They submitted that Rule 6-A(3) is ultra vires the rule making power of the Government and is outside the purview of the Act. They submitted that if there is a sale of liquor, duty can be collected on the liquor sold but that seeking to collect duty even in the absence of sale amounts to levy of duty contrary to the provisions of the Act. They placed reliance upon the decisions of this Court in *Bimal Chandra Banerjee v. State of Mahdya Pradesh* [1971 (1) S.C.R. 844] and the subsequent decisions following it. According to them, their case did not fall within the ratio of the decisions of this Court in *Panna Lal v. State of Rajasthan and Ors.* [1976 (1) S.C.R. 219] and *State of Andhra Pradesh v. Y.Prabhakara Rao* [1987 (2) S.C.R. 513].

The State of Orissa disputed the several contentions of the writ petitioners. In particular, they relied upon the Agreement and the undertakings contained therein. Their case is set out in the impugned judgement in the following words:

"It is further contended that the fixation of M.G.Q. was made considering the potentiality of sale and by taking other relevant factors into consideration, and the petitioner and other contractors were aware of the M.G.Q. at the time when they participated in the auction-cum-tender.....the petitioner having accepted the contract cannot now turn around and challenge the fixation of M.G.Q. for the year 1991-92..... the demand was justified being the duty towards shortfall of the M.G.Q., the challenge of the petitioner to Annexure-3 is untenable. Sub-rule (3) of Rule 6-A of the Orissa Excise (Exclusive Privilege) Rules, 1970.....is valid and has been framed in exercise of powers under sub-section (1) of Section 89 of the Bihar & Orissa Excise Act, 1915

which empowers the State Government to make rules to carry out the objects of the Act, or any other law for the time being in force relating to the excise revenue and also by Section 89(2) of the Act which empowers the State Government to make rules for regulating the import, export or transport of any intoxicant....under Section 22(1) of the Act, an exclusive privilege can be granted to any person on such terms and conditions and for such period as the State Government may think fit. The M.G.Q.. being one of the conditions for grant of a licence, the Government was fully empowered in framing rules which related to fixation of M.G.Q. and also for providing the consequences which would follow on reach of such condition. This power..... flows from a combined reading of Sections 22, 27, 29 and 89 of the Act.....the provision relating to the M.G.Q. ought to be considered as a condition subject to which the licence was issued and accepted by the petitioner, the petitioner cannot, after operating the licence, challenge the same. He is bound by the conditions and is, therefore, liable to pay the amount demanded to compensate the State for the loss sustained by it for failure on the part of the petitioners having entered into an agreement for sale of country liquor and having been granted an exclusive privilege on certain terms and conditions, cannot now, after entering into a contract, wriggle out of their contractual obligation and contend that the amount demanded for shortfall of M.G.Q. is invalid.....the sum sought to be realized is damages for breach of contract namely, failure to lift M.G.Q...It is in the granting of damages being the duty on the shortfall, and as such, is in the nature of a penalty and can be realised on a breach being committed. Strong reliance is placed on Hari Shankar and others etc. V. Deputy Excise & Taxation Commissioner AIR 1975 SC 1121, Panne Lal V. State of Rajasthan, AIR 1975 SC 2008 and State of Harvang V. Jage Ram & others, AIR 1980 SC 2018."

The High Court, however, accepted the contentions of the respondents-writ petitioners and quashed the demand notices impugned in the writ petitions.

It is evident from the contentions urged by both the sides that while the respondents-licencees look at the impugned demand as an instance of levy of excise duty, the State looks at it as a case of enforcing the undertakings contained in the agreement/contract executed by the licencees. According to the licencees, no excise duty can be levied unless there is a sale. Demand for excise duty where there is no sale of liquor, according to them, is [4] unsustainable in law. The State's case, however, is that the licence/privilege was granted to the respondents in consideration of payment of several items of money, all of which together constitute the consideration for the grant of licence. The State says that it is merely seeking to recover the amount due to it under the contract and that such a course does not amount to levy of excise duty. Both sides rely upon certain decisions of this Court in support of their respective points of view. It would be appropriate to notice them.

In *Bimal Chandra Banerjee v. State of Madhya Pradesh* [1971(1) S.C.R. 844], one of the conditions of the licence stipulated that:

"The minimum quantity for taking issues from the Warehouse for sale is fixed at 3213 p. liters spiced spirit and 25940 p. liters plain spirit. You (licencees) shall be liable to make good every month the deficit of monthly average of the total minimum duty on or before the 10th day of each month following the month to which the deficit duty relates."

Since the licensee failed to remit the duty as stipulated, the State made a demand for the same. The contention of the licensee was that the excise duty is a tax, that it can be levied only on the basis of a valid law and that no tax can be levied on the basis of a contract or pursuant to executive orders. Tax, it was submitted, can be levied only by the legislature. It was contended that the aforesaid condition of licence is ultra vires the powers of the Government. In other words, the contention was that Government had no power to amend the Rules so as to include the aforesaid clause in the conditions of licence. Section 25 of the Madhya Pradesh Act provided for the levy of duty on any or the events specified therein, namely, import, export transport, manufacture and cultivating while section 26 provided for levy of duty inter alia on liquor issued from distillery or warehouse. No provision of the Act, however, empowered levy of duty even where there was no issue of liquor from distillery or warehouse. This Court upheld the licensee's contention on the following reasoning:

"Neither s.25 or s.26 or s.27 or s.62(1) or cls. (8) and (h) of s.62(2) empower the rule making authority Viz., the State Government to levy tax on excisable articles which have not been either imported, exported, transported.

manufactured, cultivated or collected under any licence granted under s.13 or manufactured in any distillery established or any distillery or brewery licensed under the Act. The legislature has levied excise duty only on those articles which come within the scope of s.25. The rule making authority has not been conferred with any power to levy duty on any articles which do not fall within the scope of s.25. Therefore it is not necessary to be conferred on that authority. Quite which the contractors failed to lift. In so doing it was attempting to exercise a power which it did not possess. No tax can be imposed by any bye-law or rule or regulation unless the statute under which the subordinate legislation is made specially authorises the imposition even if it is assumed that the power to tax can be delegated to the executive. The basis of the statutory power conferred by the statute cannot be transgressed by the rule making authority. A rule making authority has no plenary power. It has to act within the limits of the power granted to it. We are of the opinion that the impugned rule as well as the demands are not authorised by law."

The ratio of the said decision is that inasmuch as the Act does not empower levy of excise duty on unlifted liquor, on such levy can be created by a rule made under the Act. It was also observed that in as much as the Act does not empower the rule-making authority to impose tax on unlifted liquor, the rule-making authority (the Government of Madhya Pradesh) had no power to add the aforesaid clause in the conditions of the licence. It is significant to notice that this decision approached the question from the point of view of levy of excise duty. No argument appears to have been put forward-as was done in later decisions-that the State is merely seeking to recover the

consideration for the grant of privilege/licence as per the terms and conditions of, and as undertaken in, the Agreement. The decision, therefore, does not advert to that aspect at all-an aspect which came to highlighted in some of the later decisions. This decision was followed in *State of Madhya Pradesh v. Firm Gappulal etc.* [1976 (2) S.C.R. 1041] and in *Excise Commissioner, U.P., Allahabad v. Ram Kumar* [1976 Supp. S.C.R. 532]. Gappulal was again a case from Madhya Pradesh. In this case, an attempt was no doubt made by the State to bring its case within the ratio of *Panna Lal v. State of Rajasthan* [which was decided meanwhile], but it was repelled by the Court holding that the facts of the case before them placed the case within the ratio of *Panna Lal*. In *Ram Kumar*, a case arising under the U.P. Excise Act, one of the conditions of the licence provided that in case the licensee failed to lift the minimum guaranteed quota, "he shall be liable to pay to the Sate Government compensation at the rate equal to the rate of stillhead duty per litre by spiced spirit". In this case too, the State tried to bring its case within the ratio of *Panna Lal* but the Court did not agree. It preferred to apply the ration of *Bimal Chandra Banerjee*. It held that none of the provisions of the U.P. Act authorised the levy of the duty even where there was no sale. The Court held further that though disguised as compensation, the demand is in reality a demand for excise duty on the unlifted quantity of liquor, which is not authorised by the provisions of the Act.

The licencees--respondents submit that the present cases, having regard to the language of the enactment, Rules and conditions of the licence fall within the ration of the above decisions while the State of Orissa submits that these cases properly fall within the ratio of the decisions in *Panna Lal* and *Prabhakara Reddy*. before referring to these decisions, it would be appropriate, in our opinion, to refer to the decision of the Constitution Bench in *Har Shankar V. Deputy Excise and Taxation Commissioner* [AIR 1975 SC 1211]. In *Har Shankar*, one of the objections raised by the State to the maintainability of the writ petitions filed by the licencees was that the writ petitioners were seeking to enforce contractual rights thereby. This was denied by the writ petitioners therein. This said, they were merely seeking to vindicate their legal rights. The contention of the writ petitioners was repelled by this Court in the following words:

The short answer to this contention is that the bids given by the appellants constitute offers and upon their acceptance by the Government a binding agreement came into existence between the parties. The conditions of auction become the terms of the contract and it is on those terms that licences are granted to the successful bidders in Form L. 14-A of the Rules." The Court further observed: "One of the reliefs Which the appellants ask for is that Rules 27-A 30 and 31 be declared ultra vires and unconstitutional and consequently the respondents be directed to refund the assessed fees already recovered. By attempting to exploit the licences without the burden of assessed fees originally attaching to them under the rules framed by the financial Commissioner, the appellants are seeking to work the licences on such terms as they find convenient. The writ jurisdiction of High Courts under Article 226 of the Constitution is not intended to facilitate avoidance of obligations voluntarily incurred. That however will not estop the appellants from contending that the amended Rules are not applicable as their licences were renewed before the amendments were made."

(emphasis added) The approach adopted in this decision has to be borne in mind in every such case. It is also to be kept in mind that while the decisions referred to hereinbefore are by smaller Benches, this decision is by a Constitution Bench. A person who enters into certain contractual obligations with his eyes open and works the entire contract, cannot be allowed to turn round, according to this decision, and question the validity of those obligations of the Rules which constitute the terms of the contract. The extra-ordinary jurisdiction of the High Court under Article 226, which is of a discretionary nature and is exercised only to advance the interests of justice, cannot certainly be employed in aid of such persons. Neither justice nor equity is in their favour.

Panna Lal arose under the Rajasthan Excise Act. The licences were given to contractors under a guaranteed system; there was a total guaranteed amount. When the contractors failed to pay the guaranteed amount as per the contract, demand notices were issued. The contention urged by the licencees was that the demand for shortfall in truth amounted to levy of excise duty on unlifted quantity whereas the State's case was that they were demanding the amount guaranteed by the contractor and payable in accordance with the agreement. Another argument of the contractors was that the demand for issue price of unlifted quantity was in effect a demand for excise duty inasmuch as one of the components of issue price was excise duty. This Court rejected the contention relying upon the decisions of this Court rejected the contention relying upon the decisions of this Court in *Nashirwar V. State of Madhya Pradesh* [1975 (2) S.C.R. 861] and *Har Shankar*. It was held that rental is the consideration for the privilege granted by the Government for manufacturing or vending liquor, that rental is neither a tax nor excise duty and that it is the consideration for grant of privilege by the Government. The Court referred to the decision of the Federal Court in the *Central Provinces and Berar Sales of Motor Spirit and Lubricants Taxation Act, 1938* [(1939) F.C.R. 18] and observed:

"Many Acts Provide for lump sum payments in certain cases by manufacturers and retailers, which may be described as payments either for privilege or as consideration for the temporary grant of a monopoly, but these are clearly not excise duties or anything like them."

(See 1939 F.C.R. 18 at pp. 53 and

54).

After referring to certain other decisions of this Court, it was held:

"The decisions of this Court establish that the lump sum amount Voluntarily agreed to by the appellants to the State are not levies of excise duty but are in the nature of lease money or rental or lump sum amount for the exclusive privilege of retail sales granted by the States to the appellants.

There is no levy of excise duty in enforcing the payment of the guaranteed sum or the stipulated lump sum mentioned in the licences.

for these reasons. First, the licences were granted to the appellants after offer and acceptance or by accepting their tenders or auction bid. The appellants stipulated to pay lump sum amounts as the price for the exclusive privilege of vending country liquor. The appellants stipulated to pay lump sum amounts as the price for the exclusive privilege of vending country liquor. The appellants agreed to pay what they considered to be equivalent to the value of the right. Second, the stipulated payment has no relation to the production or manufacture of country liquor except that it enables the licensee to sell it. The country liquor is produced by the distilleries. Under section 28 of the Act and under the relevant duty notifications the excise levy is on the manufacture and not on the sale or retail of liquor. Under the duty notifications on excise duty is levied or collected from the liquor contractors who are liable only to pay the price of liquor. The taxable event is not the sale of liquor to the contractors but the manufacture of liquor. What the liquor contractors pay in consideration of the license is a payment for the exclusive privilege for selling country liquor. The liability for excise is on the distillery and the liquor contractors are not concerned with it."

Dealing with the argument that recovery of issue price is in effect a recovery of excise duty for the reason that excise duty forms a component of the issue price, this Court observed:

"The lump sum amount payable for the exclusive privilege is not to be confused with the issue price.

In essence what is sought to be recovered from the liquor contractors is the shortfall occasioned on account of failure on the part of liquor contractor to fulfil the terms of license.

Having regard to the particular stipulations and conditions of the contracts concerned therein, the Court observed further:

"The agreements give the liquor contractors an exclusive privilege to sell country liquor in a specified area for the period fixed for a stipulated sum of money for enjoying the privilege. If the Contractors do not sell any liquor they are Yet bound to pay the stipulated sum. If they sell liquor they are given the benefit of remission in the price of the exclusive privilege. The measure for this remission is the excise duty leviable to the extent that the liquor contractors can neutralise the entire amount of exclusive privilege in the excise duty payable by them. If the contractors fail to lift adequate quantity of liquor and thereby fail in neutralising the entire price of exclusive privilege the contractors are not called upon to pay excise duty.

The decision in Har Shankar was followed in State of Harvana and others V. Jage Ram and others [A.I.R.1980 S.C. 2019]. This Court observed:

"In view of these decisions. the preliminary objection raised by the learned Solicitor General to the maintainability of the writ petitions filed by the respondents has to be

upheld. We hold accordingly that High Court was in error in entertaining the writ petitions for the purpose of examining whether the respondents could avoid their contractual liability by challenging the Rules under which the bids offered by them were accepted to conduct their business can work out the licence if he finds it profitable to do so; and he can challenge the conditions under which he agreed to take the licence, if he finds it commercially inexpedient to conduct his business."

Dealing with the nature of the amounts payable by the licensee in respect of a liquor contract, the Court observed:

"The respondents agreed to pay a certain sum under the terms of the auction and the Rules only prescribe a convenient mode whereby their liability was spread over the entire year by splitting it up into fortnightly instalments. The Rules might as well have provided for payment of a lump sum and the very issuance of the licence could have been made to depend on the payment of such sum. If it could not be argued in that event that the lump sum payment represented excise duty, it cannot be so argued in the present event merely because the quota for which the respondents gave their bid is required to be multiplied by a certain figure per proof liter and further because the respondents were given the facility of paying the amount by instalments while lifting the quota from time to time. What respondents agreed to pay was the price of a privilege which the State parted with in their favour. They cannot, therefore, avoid their liability by contending that the payment which they were called upon to make is truly in the nature of excise duty and that no such duty can be imposed on liquor not lifted or purchased by them....."

These decisions cannot help the respondents because the true position, as stated earlier, is that the amount which the respondents are called upon to pay is not excise duty on undrawn liquor but is the price of a privilege for which they offered their bid at the auction of the vend which they wanted to conduct."

Finally, we may refer to the decision in *Y. Prabhakara Reddy*. Rule 15 of the Andhra Pradesh (Arrack, Retail Vend Special Conditions of Licences) Rules, 1969 read as follows:

"15. Minimum guaranteed quantity of arrack--

(1) No licensee shall purchase arrack less than the specified minimum guaranteed quantity in any month. If in any month, quantity less than the minimum guaranteed quantity fixed for that month is drawn, at the end of that month issue price to the extent of deficit purchase shall be deducted from the advance money paid by the licensee under the minimum quantity of arrack guaranteed by him and the licensee shall be called upon to indemnify the amount so adjusted by the end of the succeeding month in which short drawn quantity had occurred. Provided that the Excise Superintendents may permit the licensee to lift the short drawn minimum

guaranteed quantity of the previous month in the succeeding month for special reasons expert for the month of September, unless the licensee has committed default in lifting the minimum guaranteed quantity for two successive months; Provided further that Where the Commissioner deems it necessary to permit a shop keeper to draw the deficit quantity short drawn in any month in the subsequent, he shall obtain the prior approval of the Government for granting such permission.

(2) Where a licensee fails to lift the arrack as permitted by the Excise Superintendent or to indemnify the advance amount so adjusted by the end of the succeeding month in which the short drawn of quantity had occurred, the right acquired by the defaulting licensee shall be reaucted forthwith."

Rule 17 Provided that "every licensee shall be bound by the provisions of Andhra Pradesh Excise Act, 1968, and the rules and orders made thereunder from time to time."

Inasmuch as the licencees failed to lift the minimum guaranteed quota, the total issue price of the unlifted quantity was sought to be recovered from him, which was questioned by the licencee in a writ petition. The argument of the licencee based upon Bimal Chandra Banerjee was that the State is really levying excise duty in the name of issue price and that it has no power to do so. Basing upon certain observations in Panna Lal, it was contended by the licencee that issue price can only relate to liquor drawn by the contractor and that it cannot pertain to undrawn liquor. This Court repelled the contention based upon observations in Panna Lal in the following words:

"There can be on question that issue price must generally relate to liquor which is drawn by the Contractors but it does not follow therefrom that issue price cannot be adopted by agreement between the parties as a measure of compensation to be paid in the case of undrawn liquor. In fact. It may not be quiet correct even to view it as compensation as we shall presently see. It is no more and no less than the price which the contractor agrees to pay for the grant of the privilege to sell liquor drawn or undrawn."

The Court then referred to the provisions of the A.P.Excise Act and the Rules made thereunder and observed that according to these provisions "the Privilege of selling liquorand the licence to sell liquor herein may be granted by the State by public auction subject to: (1) payment of rental being the highest bid at the auction (ii)the requirement that the licensee shall Purchase arrack at the issue price and (iii) the further requirement that the licencee shall purchase a minimum guaranteed quantity of arrack which he has to make good in case of shortfall The consideration for the grant of privilege to sell liquor is not merely the rental to be by paid by the lessee but also the issue price of the arrack supplied or treated as supplied in case of shortfall which is also to be paid by the lessee-licencee. There is no question of the licencee-lessee having to pay the excise duty though it may be that the issue price is arrive at after taking to account the excise duty payable."

The above statement of law was based upon & reading of Sections 17 and 23 of the A.P. (Arrack Retail Vend Special Condition Supply Service) Rules as also the definition of `rental' in the A.P.

(Lease of Right to Sell Liquor in Retail) Rules, 1969. The provisions of the Orissa Act and Rules are no different. Section 22 of the Orissa Act corresponds in material particulars to Section 17 of the A.P. Act whereas Section 29 of the Orissa Act corresponds to Section 23 of the A.P. Act. Rule 6-A of the Orissa Rules corresponds to Rule 15 of the A.P. Rules while Rule 3 of the Orissa Rules corresponds to Rule 3 of the A.P. Rules. The only difference is that while Rule 15 of the A.P. Rules provides for payment of issue price in case of the failure of the licensee to lift the M.G.Q., the payment of excise duty under the Orissa Rules is made as an independent obligation unrelated to lifting of M.G.Q. It is, in truth and effect, the consideration for the grant of privilege/licence along with the amounts specified in Rule 6. In this sense, the Orissa Rules are clearer on the point that rental and excise duty (Payable under Rules 6 and 6-A) together constitute the consideration for the grant of licence.

A review of the decided cases of this Court on the subject indicates a clear shift in the way this matter has been looked at. Initially, the matter was looked at from the point of view of the levy of excise duty. On that basis, it was held that unless there is a sale, no duty can be collected (Bimal Chandra Banerjee, Gappu Lal and Ram Kumar). But then a different view point emerged with the Constitution Bench decision in Har Shankar which was carried forward in Panna Lal, Jageram and Y. Prabhakara Reddy. These decisions look at the matter from the point of view of the several payments being, in truth and effect, consideration for the grant of Privilege/licence. They point out that the excise duty on manufacture of production and not on sale. It was a case, they said, where the duty was being passed on to the licensee who in turn passed it on to the consumer. What the licensee paid, they held, is nothing but consideration for the grant of licence and the mere fact that the total consideration fixed comprises several elements (including excise duty), it cannot be said that excise duty is levied upon the licensee. In our opinion, the Orissa matters fall under the ratio of Panna Lal and Y. Prabhakara Reddy and not under the ratio of Bimal Chandra Banerjee, Gappu Lal and Ram Kumar. The amounts mentioned in Rules 6 and 6-A, as also the undertakings contained therein, together constitute the consideration for grant of privilege licence, determined by auction, as contemplated by Section 29 of the Act. As explained hereinbefore, the obligation to remit the excise duty is independent of the sale/purchase of liquor; it is payable on or before the specified dates every month; it is an addition to the monthly instalment payable under Rule 6; its remittance is not tied up to the purchase of M.G.Q. to the extent that the licensee has to pay the prescribed instalment of excise duty prior to the lifting of the liquor. It, therefore, cannot be said that there is any levy of excise duty upon the licensee. The concept here is altogether different. It is a case where the consideration payable by the licensee for grant of licence is made up of monthly rental plus excise duty besides the obligation to purchase the M.G.Q. The licensee pays the rental and excise duty as undertaken by him under the agreement/contract executed by him and as required by conditions of the licence under which he is doing business, i.e., as and by way of consideration. Indeed, the rules could have provided that the entire amount provided under Rules 6 and 6-A should be paid in advance before the issuance of licence in which event it could not have been contended that it is not in consideration of grant of licence. Merely because, the Rules provide a concession and provide for collection of the said amounts in convenient instalments spread over the year, the nature and character of the payments cannot change.

Mr. Sorabjee, learned counsel for the theory of "Privilege" has been exploded in the decision of this Court in *Synthetics and Chemicals Limited And Others V. State of U.P. And Others* [1990 (1) S.C.C.109] and can no longer be invoked. In support of his submission, Mr. Sorabjee relied upon certain observations in the concurring opinion of G.L.Oza, J. at page 164 of the Report. The learned judge referred to Article 47 of the Constitution and observed:

"This article appears in the chapter of directive principles of State Policy. Inclusion of this article in this chapter clearly goes to show that it is the duty of the State to do what has been enacted in Article 47 and in fact this article starts with the phrase "Duty of the State" and the duty is to improve public health and it is further provided that this duty to improve public health will be discharged by the State by endeavouring to bring about prohibition. It sounds contradictory for a State which is duty bound to protect human life, which is duty bound to improve public health and for that purpose is expected to move towards prohibition claims that it has the privilege of manufacture and sale of alcoholic beverages which are expected to be dangerous to human health, transferring this privilege of selling this privilege on consideration to earn huge revenue without thinking that this trade in liquor ultimately results in degradation of human life even endangering human life and is nothing but moving contrary to the duty cast under Articles 21 and 47 and ideal of prohibition enshrined in Article 47. In view of Articles 21 and 47 with all respect to the learned Judges who so far accepted the privilege doctrine it is not possible to accept any privilege of the State having the right to trade in goods obnoxious and injurious to health."

It is difficult to agree with Mr. Sorabjee. Firstly, these observations are found in the opinion of Oza, J. alone. The majority opinion does not express any opinion on this aspect. Secondly, what does the expression "privilege" mean in the context of intoxicating liquors. The expression is not defined in the Act. In the context of excise enactments, the expression "Privilege" really means the licence or permit granted by the State. We may explain: the State is entitled to prohibit the trade in intoxicating liquors altogether; it can impose a total ban; no citizen can claim any fundamental right to manufacture or to trade in these liquors; it is, however, open to the State to lift the ban partially and allow the trade in liquor to be carried on in the manner prescribed; the State says that a citizen can trade in liquor only under a licence to be granted by it for the consideration specified in that behalf and that the trade therein can be carried on only in accordance with the regulatory provisions prescribed by it in that behalf. It is this grant of licence/permit, which is called or is described sometimes as grant of "privilege". We do not think that the observations of Oza, J. relied upon by Mr. Sorabjee can be understood as disabling the State from granting licences and permits for trading in and/or manufacture of intoxicating liquors for a consideration. Nor can they be understood as precluding the State from carrying on the trade or manufacture of said liquors by itself or its agents. The learned Judge seems to have looked at the matter from an idealistic and moralistic angle. The learned Judge observed that in the light of Articles 47 and 21 "it is not possible to accept any privilege of the State having the right to trade in goods obnoxious and injurious health."

Lastly we may also invoke the holding in Har Shankar and Jageram that the writ petitioners, having entered into agreements voluntarily, containing the conditions aforesaid and having done the business under the licences obtained by them, cannot be allowed to either wriggle out of the agreements nor can they be allowed to challenge the validity of the Rules which constitute the terms of the contract. The High Court should not have exercised its extra-ordinary discretionary jurisdiction under Article 226 of the Constitution in aid of such licencees.

For the above reasons, the appeals are allowed, the judgments and orders of the High court under appeal are set aside and the writ petitions filed by the respondents writ petitioners are dismissed with costs. Advocate's fee Rs.. 5,000/-in each appeal.

Before parting with these matters, we may refer to an additional argument in Civil Appeal No.. 11518 of 1996 (arising out of S.L.P.(C) No. 1122 of 1996). It is submitted that there was a default on the part of the Government in supplying the liquor and that non-lifting of M.G.Q. was not on account of any default on the part of the licensee. Firstly, we have held hereinabove that obligation to remit the excised duty is independent of the obligation to lift the M.G.Q. every month and that the remitting of excise duty is not dependent upon or co-related to lifting of M.G.Q. Secondly, the judgment of the High Court does not refer to this submission. In the circumstances, we decline to express any opinion on the submission.