



Industrial Alcohol Regulation

For Prelims: [Supreme Court](#), [Chief Justice of India](#), [Excise Duty](#), [Goods and Services Tax \(GST\)](#), [Seventh Schedule](#)

For Mains: Issues Arising Out of Design & Implementation of Policies, Role of excise duty in state revenue generation and its impact

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Why in News?

The [Supreme Court](#), led by the [Chief Justice of India \(CJI\)](#), is currently hearing a case with a **9-judge Constitution Bench**. The case pertains to the question of whether states have the authority to regulate and impose excise duty on **industrial alcohol**.

Note

- Industrial alcohol, unlike alcoholic beverages, is **not meant for human consumption (denatured)**. It finds applications in various sectors, including manufacturing pharmaceuticals, disinfectants, chemicals, and even biofuels.

What is the Constitutional Debate Regarding Industrial Alcohol?

- **Constitutional Framework:**
 - **State List (Entry 8):** Entry 8 in the State List under the [Seventh Schedule of the Indian Constitution](#) pertains to the power of state governments to legislate on the production, manufacture, possession, transport, purchase, and sale of **intoxicating liquors**.
 - **Union List (Entry 52):** Confers upon Parliament the authority to **legislate on industries** deemed expedient in the public interest.
 - **Concurrent List (Entry 33):** Allows **both states and the Centre** to legislate on industries, with the caveat that state laws cannot contradict central laws.
 - Industrial alcohol falls under the [Industries \(Development and Regulation\) Act, 1951 \(IDRA\)](#), which lists it as a subject of regulation. This act of Parliament provides the central government with the power to regulate industrial alcohol.
- **Key Issue:**
 - The central question is whether states have the autonomy to regulate industrial alcohol or if exclusive control lies with the Centre.
- **Legal Interpretation:**
 - Subjects in the [Concurrent List](#) **can be regulated by both states and the Centre**, but state laws cannot conflict with central legislation.

- The IDRA, 1951, which lists industrial alcohol, **implies central control over the subject matter.**

What are the Arguments of the States?

- **Interpretation of Entry 8:**
 - It is argued that the phrase "intoxicating liquors" in Entry 8 of the State List **encompasses all liquids containing alcohol.**
 - Emphasis is placed on the historical usage of terms such as 'liquor', 'spirit', and 'intoxicant' in pre-constitutional excise laws.
- **Scope of Union's Power:**
 - The contention is made that **Entry 52 of the Union List does not extend** to the regulation of **"finished products" like industrial alcohol post-denaturation.**
 - It is asserted that such control falls under **Entry 33 of the Concurrent List.** To exercise exclusive authority over industrial alcohol regulation, the **Centre would need to issue an order under Section 18-G of the IDRA.** Without such an order, states retain jurisdiction.
 - The term **'denatured alcohol'** refers to **alcohol products adulterated with toxic and/or bad tasting additives** (e.g., methanol, benzene, pyridine, castor oil, gasoline and acetone), **making it unsuitable for human consumption.**
- **Preservation of States' Powers:**
 - Caution is expressed against **diminishing states' authority.** Citing the ***ITC Ltd v Agricultural Produce Market Committee Case, 2002***, which emphasises states are not subordinate to the Centre.
 - It stresses the need to uphold states' constitutional powers and avoid interpretations that weaken their autonomy.

What are the Other Similar Cases?

- ***Synthetics & Chemicals Ltd v. State of Uttar Pradesh Case, 1989:***
 - A **7-judge Constitution Bench** held that states' powers, as per Entry 8 of the State List, were limited to regulating **"intoxicating liquors"** which are **different from industrial alcohol.**
 - Essentially, the SC said that **only the Centre can impose levies or taxes on industrial alcohol**, which is not meant for human consumption.
 - The SC failed to consider its own prior Constitution Bench decision in ***Ch Tika Ramji v State of UP Case, 1956.***
- ***Ch Tika Ramji v State of UP Case, 1956:***
 - The SC upheld Uttar Pradesh's legislation regulating the sugarcane industry against a challenge claiming exclusive central jurisdiction under **Section 18-G of the Industries (Development and Regulation) Act, 1951 (IDRA).**
 - The ruling affirmed states' authority to legislate in industries even in the presence of central laws, setting a crucial precedent for federal governance.

What is Excise Duty?

- Excise duty is an **indirect tax imposed on goods for their production**, licensing, and sale. It is paid to the Government of India by producers of goods and applies to **domestically manufactured goods**, unlike **Customs duty which is levied on goods coming from outside the country.**
 - Previously, excise duty at the central level was levied as **Central Excise Duty, Additional Excise Duty**, etc. However, the introduction of [Goods and Services Tax \(GST\) in July 2017](#) combined many types of excise duty. **Currently, excise duty is only applicable to petroleum and liquor.**
 - Excise duty was imposed on **manufactured goods** at the time of their removal, while GST was imposed on the **supply of goods and services.**

- **Excise duty levied on alcohol is a key component of a state's revenue**, with states often adding excise duty on alcohol consumption to drive its income up.
 - For example, in 2023, Karnataka hiked the Additional Excise Duty (AED) on Indian Made Liquor (IML) by 20%.

| Feature | Absolute Alcohol | Denatured Alcohol |
|---------------|--|--|
| Composition | Pure ethanol (C ₂ H ₅ OH) with minimal or no additives/denaturants | Ethanol (C ₂ H ₅ OH) with a high concentration of additives/denaturants |
| Safety | Drinkable but should be consumed with extreme caution | Poisonous and unfit for consumption |
| Additives | May contain trace amounts of impurities | Contains high amounts of additives like methanol, which make it toxic. |
| Applications | Laboratory use (e.g., disinfecting surfaces, extracting chemicals), medical applications (e.g., sterilising instruments) | Industrial use (e.g., fuel, cleaning solvents), cannot be used in medical or laboratory settings due to toxicity |
| Smell & Taste | Characteristic alcoholic odour, slightly sweet taste | Foul odour, bitter taste |
| Taxation | May be subject to higher taxes due to its purity | Lower tax rate or tax-exempt due to its unsuitability for drinking |

Drishti Mains Question:

Q. Discuss the significance of the ongoing Supreme Court case regarding the authority of states to regulate and impose excise duty on industrial alcohol. How might the outcome impact state-federal relations and the economy?

UPSC Civil Services Examination Previous Year Question (PYQ)

Mains

Q. Enumerate the indirect taxes which have been subsumed in the Goods and Services Tax (GST) in India. Also, comment on the revenue implications of the GST introduced in India since July 2017. **(2019)**

Q. Explain the salient features of the Constitution (One Hundred and First Amendment) Act, 2016. Do you think it is efficacious enough "to remove cascading effect of taxes and provide for common national market for goods and services"? **(2017)**

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