



## SC Allows States to Regulate Industrial Alcohol

For Prelims: [Supreme Court, Important Judgements, Constitutional Bench, Centre-State Relations, Industrial Alcohol, 7th Schedule, Excise Duty, GST](#)

For Mains: [Federalism in India, Important Supreme Court Judgements, Cooperative Federalism, Challenges to the Federalism, Financial Relations between Centre and States](#)

[Source: IE](#)

### Why in News?

Recently, the [Supreme Court's](#) nine-judge [Constitution bench](#) held in a 8:1 ruling that states have the authority to regulate [industrial alcohol](#), reversing a 1990 decision (*Synthetics & Chemicals Ltd v. State of Uttar Pradesh Case, 1989*) that favored central government control.

### What is the Constitutional Bench of the Supreme Court?

- **About:**
  - A [Constitution Bench](#) consists of five or more judges in the Supreme Court, convened only for specific legal matters. These benches are not a routine phenomenon.
- **Circumstances for Formation:**
  - **Article 145(3):** The minimum number of judges required for deciding cases involving substantial constitutional questions or references under [Article 143](#) is five.
  - **Conflicting Judgments:** When conflicting decisions arise from different three-judge benches, a larger bench (Constitution Bench) is formed to resolve the issue.

### Industrial Alcohol

- **About:** Industrial alcohol is essentially impure alcohol that is used as an industrial solvent.
  - Mixing chemicals such as benzene, pyridine, gasoline, etc. in ethanol (**a process called denaturation**) turns it into industrial alcohol, significantly lowering its prices and making it unfit for human consumption.
- **Applications:** Used in pharmaceuticals, perfumes, cosmetics, and cleaning liquids.
  - Sometimes it is also used to make illicit liquor, cheap and dangerous intoxicants whose consumption poses severe risks, including blindness and death.

### What has the SC Bench Ruled on Industrial Alcohol?

- **Expanding the Definition:** The majority Bench has overturned the 1990 ruling in *Synthetics & Chemicals vs State of Uttar Pradesh*, which limited the definition of "intoxicating liquor" to potable alcohol and barred states from taxing industrial alcohol.

- **Majority Opinion:** The Bench clarified that "**intoxicating liquor**" includes more than just alcoholic beverages or potable alcohol. All types of alcohol that can negatively impact public health are covered by this definition.
  - The court emphasised that substances like **alcohol, opium, and drugs can be misused and ruled that Parliament cannot override state powers over intoxicating liquors**, stating that "intoxicating" can also mean "poisonous," allowing for broader classification.
- **Dissenting Opinion:** Justice B.V. Nagarathna expressed disagreement with the majority ruling regarding the regulation of industrial alcohol arguing that merely because there can be a potential misuse of "industrial alcohol", **Entry 8 - List II** cannot be stretched to include such "industrial alcohol".
  - Permitting states to regulate industrial alcohol could result in misinterpretations of the legislative intent behind alcohol regulation.

## Centre vs States' Arguments on Industrial Alcohol Regulation

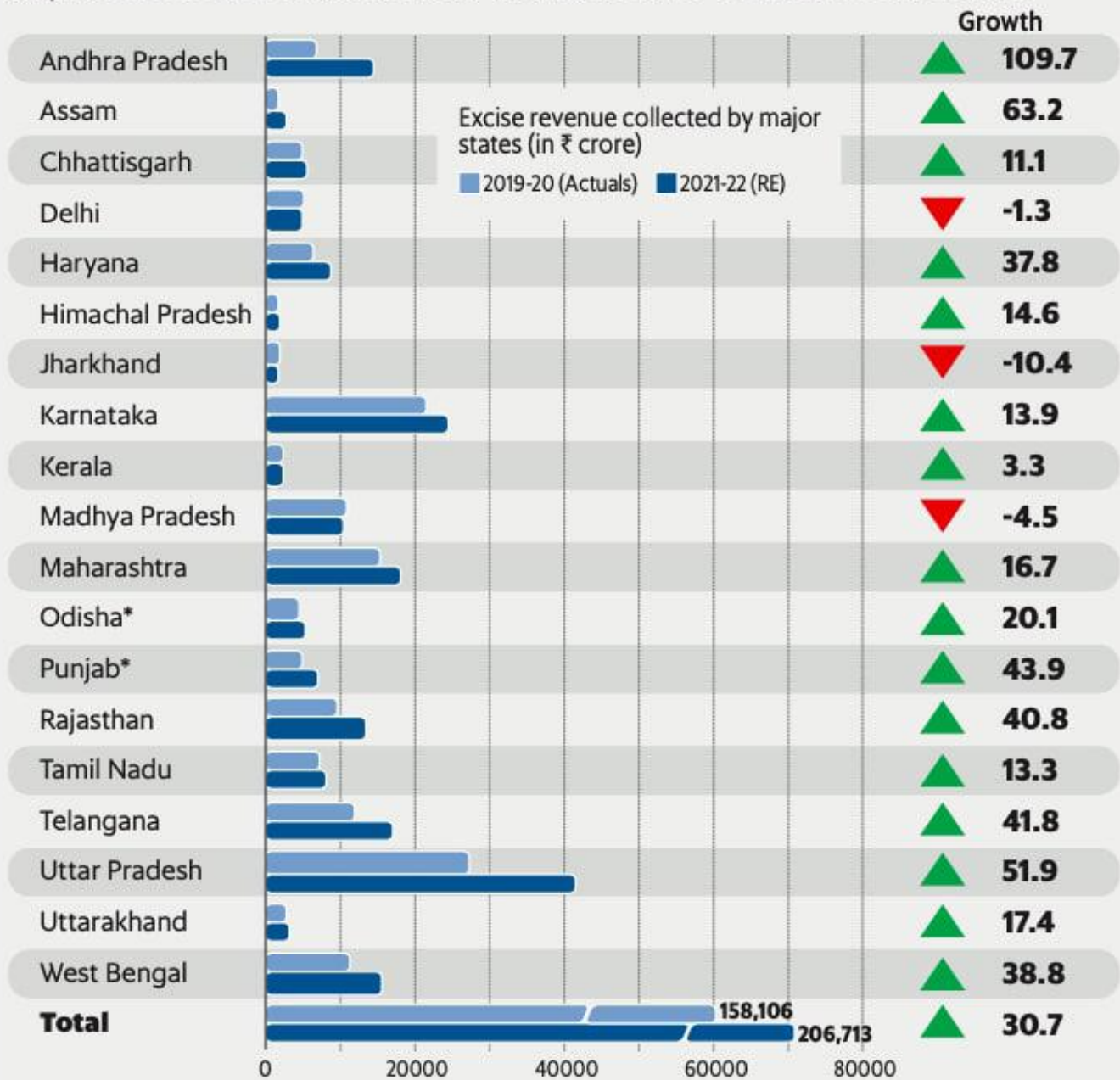
- **Central Government's Argument:**
  - Classifies industrial alcohol as an "industry" under **Entry 52** of the Union List, allowing the Centre to regulate industries deemed in public interest.
  - Asserts that trade, commerce, supply, and distribution of industrial alcohol fall under **Entry 33(a)** of the Concurrent List, permitting central oversight.
  - The Centre contends that **industrial alcohol** falls under the jurisdiction of the Industries (Development and Regulation) Act, 1961, asserting it "occupied the field" for regulation. Thus, states cannot impose their regulations on this subject.
- **States' Argument:**
  - Argue for regulation under **Entry 8** of the State List, asserting the right to tax intoxicating liquors, which includes industrial alcohol.
  - States emphasize the necessity of maintaining authority to combat illegal consumption and generate crucial revenue, especially after the implementation of GST.

## Importance of Taxing Alcohol for States

- **Revenue Generation:** Taxing alcohol is a vital source of revenue for states. For example, in 2023, Karnataka raised the Additional Excise Duty (AED) on Indian Made Liquor (IML) by 20%.
- **Financial Dependency:** States like Maharashtra and Kerala derive a significant portion of their revenue from alcohol taxes, contributing around 30-40% of their total excise revenue.
- **Public Services Funding:** Alcohol taxes are used to fund essential public services, including healthcare and education.

# THE GOLDEN GOOSE

Major states collected more than ₹2 trillion under state excise in 2021-22.



\*BE figure for 21-22 used as RE figure was not available

Source: RBI, PRS

## Industries (Development and Regulation) Act, 1951

- **The Industries (Development and Regulation) Act, 1951** provides the legal and conceptual framework for industrial development and regulation in India.
- **The act's main goals are to:**
  - Control and direct the growth of the nation's industries,
  - Promote fair resource distribution,
  - Avoid economic power concentration,
  - Guarantee balanced and controlled industrial expansion.
- **The act gives the central government the power to:**
  - Regulate the production, supply, and distribution of certain industries
  - Impose restrictions on the establishment of new industries

- Grant licences to the industries to operate
- Create and run industries when it thinks it's in the best interests of the general public
- Take measures to stop the concentration of economic power in a small number of hands

## What are the Other Similar Cases?

- **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.
- **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.

## What will be the Impact of this Ruling?

- **Pending Litigations:** The ruling will significantly influence ongoing litigations concerning protective taxes or special fees imposed by state governments, as prior judgments had stayed such levies.
- **State Regulatory Power:** States now possess authority over the regulation and taxation of industrial alcohol, which is expected to lead to varied tax regimes across states.
- **Revenue Generation:** States can leverage this ruling to enhance revenue streams, especially crucial post-GST, as they were previously restricted from taxing industrial alcohol.
- **Industry Perspective:** Industry bodies view the ruling positively, suggesting it clarifies regulatory controls and taxation for the Indian Made Foreign Liquor (IMFL) sector, reducing ambiguity for manufacturers.
- **Operational Costs:** Potentially, states may increase taxes on industrial alcohol, impacting operational costs for industries reliant on it, which could lead to pricing disparities.

## Conclusion

- The Supreme Court's recent ruling grants states the authority to regulate industrial alcohol, allowing them to levy taxes and enhance local control over production and distribution.
- This decision strengthens states' fiscal autonomy post-GST, enables stricter regulation to prevent illegal consumption, and emphasises states' legislative rights in managing local public health impacts.

### **Drishti Mains Question**

Discuss the implications of the Supreme Court's ruling on industrial alcohol regulation for state revenue generation and public health management in India.

