

SUPREME COURT OF INDIA

Commissioner of Central Excise, Bombay

Vs.

M/s. Reliance Industries Limited

C.A.No.3226 of 1998

(S. N. Variava and Arijit Pasayat JJ.)

19.08.2004

JUDGMENT

Arijit Pasayat, J.

1. The Commissioner of Central Excise, Bombay calls in question the legality of the order passed by the Customs Excise and Gold (Control) Appellate Tribunal, Delhi (hereinafter referred to as the 'CEGAT') quashing the order in original dated 21.5.1993 passed by the Collector Excise Bombay - III (in short the 'Collector').

2. Background facts giving rise to the present appeal are as follows:

“A show-cause notice dated 28/29.10.1985 was issued to the respondent alleging short payment of duty on account of non-disclosure of 126.66 MTs. of production of Polyester Filament Yarn (in short 'POY') in the RG-I register and removal without payment of duty thereon. The short payment was stated to be Rs.1, 06, 07,775/-. Similarly, another allegation related to removal of 5.65 MTs. of POY without payment of Rs.4,75,187.50/-. Though there were several charges only two of them namely charge Nos. (iv) And (v) relating to the aforesaid allegations were confirmed. The collector confirmed the demand of duty of Rs. 1, 06, 07,775/- raised in para (iv) of the impugned show cause notice. He also confirmed the demand of duty raised under para (v) of the said show-cause notice to the extent of Rs.2,99,406.25/-. He imposed penalty of Rs.25,00,000/- under Rule 173Q of the Central Excise Rules, 1944 (in short the 'Rules') besides ordering for confiscation of the land, building, plant, machinery etc. used in connection with the offending goods in respect of which the demand of duty had been confirmed above. However, he has granted to the assessee an option to pay a fine of Rs. 10, 00,000/- in lieu of confiscation.”

3. So far as para (iv) of the show cause notice is concerned, as noted above that related to the allegation that the respondent, (hereinafter referred to as the 'assessee'), had not accounted in the RG-I register for the production of POY on bobbins of one kg. and less to the tune of 126.66 MTs, for the period October 1982 to April, 1985 and had removed them without

determining the Central Excise Duty as required under the provisions of the *Central Excise Act, 1944* (in short the 'Act') and Rules 173 F and 173 G (1) read with Rule 9 (1) of the Rules resulting in short payment of Central Excise Duty to the tune of Rs. 1, 06, 07,775/-.

4. So far as para (v) of the show cause notice is concerned it was alleged that assessee had removed 5.65 MTs. of POY during October, 1982 to April, 1985 without determining the duty leviable and without payment of duty as required under the pretext of samples for texturisation resulting in short payment of duty to the tune of Rs.4,73,187.50/-. However, the Collector confirmed the duty to the extent of Rs.2,99,406.25/-. The Collector held that tubes of 1 Kg. and less were taken to the finishing room though there was no denial of the fact that there is a market for tubes of one kg. and less. But the assessee took the stand that it did not market any such tube keeping in view its reputation and market credibility. They were removed as waste. The Collector found that according to the directions given on 22.11.1983, the assessee was required to maintain separate records for the different kinds of waste and the log sheets indicated that the bobbins of the yarn were not waste, as claimed.

5. Order of the Collector was challenged before the CEGAT. The primary stand of the assessee before the CEGAT was that the demand as raised is beyond the period of limitation and in order to attract the extended period of limitation, allegation of suppression, non-disclosure or fraud was to be made. There was no such specific allegation and, therefore, the extended period of limitation was not applicable. In any event, it was submitted what was sold can not be termed as yarn and was waste. Several materials which were placed before the Collector to substantiate the stand that no yarn was sold, has not been considered. Though the basis of allegation was that market enquiry revealed item sold to be yarn and not waste, there was no evidence to support the conclusion. Accordingly, both on the ground of limitation and lack of material to show that the yarn was sold the levy was not proper. Central Excise authorities took the stand that ample material existed to show that assessee had suppressed the sale and had removed the dutiable goods without payment of duty. There were specific allegations made to apply extended period of limitation. The Collector was justified in rejecting the unsupportable pleas of the assessee.

6. CEGAT accepted the stand of the assessee and set aside the Collector's order.

7. In support of the appeal learned counsel for the appellant submitted that the CEGAT has lost sight of relevant aspects. It is not as if there was no allegation of mis-declaration or unauthorized removal. The specific case of the authorities was that what was cleared was taken as waste but it was sold as yarn. There was definite indication in the show cause notice about the intention to evade duty. The Tribunal did not notice that in order to show what was being taken out was waste, separate register was required to be maintained in terms of a direction given on 22.11.1983, but that was not done. In the classification list which was filed, there was no mention of the size of the alleged waste. Allegation was mis-declaration so far as yarn is concerned, and not of waste as was observed by the CEGAT. It has been specifically observed by the Collector that there can be yarns even up to the weight of 50 gms., and when the issue related to one kg., prima facie the product was yarn. For removal and destruction of waste, particular procedure in terms of Rule 49 is prescribed but that has

not been followed. The effect of presence of the goods in the finishing room and the purpose as to why it was taken there, has not been explained by the assessee. There is no dispute that it can be sold. What was contended was that it was not done by the assessee due to its reputation. In the log sheets, it has been clearly indicated to be yarn, but the effect of such mention as yarn was not considered by the CEGAT. If the stand was that the goods in question were waste the assessee was required to prove it. When there is unauthorized removal, obviously the goods were to be treated as yarn. Above being the position extended period of limitation was applicable.

8. Per contra, learned counsel for the assessee submitted that there was approval of the classification list. There was no suppression or mis-declaration as claimed by the authorities. Duty as waste has been paid and it had not been shown that as to how there was any intention to evade payments of duty. Voluminous documents were placed before the Collector which were not considered and, therefore, CEGAT was justified in setting aside the order of the Collector.

9. We find that Tribunal has not approached the controversy in the proper perspective. Various aspects which have been highlighted above and specifically noted by the Collector were really not considered by the CEGAT. Its conclusions that there was no allegation of fraud, mis-declaration or intention to evade duty, prima facie do not appear to be correct. The material being wound on tubes was yarn. It did not cease to be yarn because it broke off before the required weight was achieved. It only became waste if it got entangled or messed up or if the tubes of less weight were cut. It was for the assessee to show categorically that this had happened. The log sheets deal with tubes. But without question the weight shown in the log sheets is of yarn. This prima facie indicates that tubes having yarn of less than 1 kg. are also being logged. Thus the Collector was right that the log sheets show presence of yarn on tubes, even of 1 kg. or less. The Collector had specifically noted that, if the assessee had destroyed the tubes of 1 kg. or less of POY, the reason why production was shown in the daily log sheets was not explained. Thus fresh hearing of the appeal by the CEGAT would be the appropriate course. The relevant aspects like presence of the articles in the finishing room, effect of mention in the log sheets and effect of non-maintenance of required records and the allegations contained in the show-cause notice to apply extended period of limitation must be considered in proper perspective. At the same time, if the assessee wants to place reliance on any material on record, the CEGAT should also consider it.

10. Accordingly, so far as para (iv) of the show cause notice is concerned, we remit the matter back to the CEGAT for fresh hearing and adjudication in accordance with law. It would consider the relevant aspects on the basis of materials already on record and to be placed by the parties in support of their respective stands, and to take a decision afresh in accordance with law.

11. So far as para (v) of show cause notice is concerned, the view of the CEGAT appears to be correct as the assessee had disclosed as to what was being taken for extrication, and it was indicated in the documents which were verified by the authorities. That being so the order of the CEGAT so far as the para (v) of the show cause notice is concerned stands.

12. The ultimate result is that the CEGAT shall hear the matter afresh so far as para (iv) of the show cause notice is concerned, relating to alleged unauthorised removal of POY in smaller bobbins weighing one kg. or less and the evasion of duty thereof, if any, is concerned.

13. The appeal is disposed of accordingly without any order as to costs.