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14.05 hrs.

*The Lok Sabha re-assembled after Lunch at eight minutes
past Fourteen of the Clock.*

(Mr. Deputy-Speaker *in the Chair*)

CENTRAL EXCISE TARIFF (AMENDMENT) BILL, 2004

Title: Consideration of Central Excise Tariff (Amendment) Bill, 2004.(Bill passed).

MR. DEPUTY-SPEAKER: Now, the House will take up Item No. 17. Shri P. Chidambaram, the Minister of Finance, to move that the Bill further to amend the Central Excise Tariff Act, 1985, be taken into consideration.

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM): Sir, I beg to *move:

"That the Bill further to amend the Central Excise Tariff Act, 1985, be taken into consideration."

MR. DEPUTY SPEAKER : Motion moved :

"That the Bill further to amend the Central Excise Tariff Act, 1985, be taken into consideration."

* Moved with the Recommendation of the President.

SHRI P.S. GADHAVI (KUTCH): Sir, I rise to support this Central Excise Tariff (Amendment) Bill, 2004. I congratulate the hon. Finance Minister for bringing this Bill for amending the Central Excise Tariff Act, 1985. This Bill was moved during the regime of the NDA Government, but due to the dissolution of Lok Sabha, it lapsed.

Sir, the Central Excise Tariff Act, 1985, contains two Schedules, namely, the First Schedule and the Second Schedule. The Schedules are, at present, based on 'six digit classification code' in line with the Harmonised System of Nomenclature.

Sir, this Bill seeks to put in place an eight-digit Harmonised System of Nomenclature (HSN) for Central Excise. It is a welcome thing. At present, the Revenue Department has also developed an eight-digit classification code based on HSN for the purposes of excisable goods in India since February, 2003. On the same lines, by passing of this Bill, Excise Department would adopt the eight-digit HSN.

प्रो. रासा सिंह रावत : उपाध्यक्ष महोदय, गृह मंत्री जी ने लोक सभा को श्रीनगर की घटना के बारे में जानकारी देनी थी। जब जीरो ऑवर के समय यह बात उठाई गयी थी तब कहा गया था कि गृह मंत्री जी इसकी जानकारी देंगे।

MR. DEPUTY-SPEAKER: It is scheduled to be taken up at 1430 hours, not now.

SHRI P.S. GADHAVI : As a different system of eight-digit HSN followed by the Customs Department will be a cause for dispute particularly in the case of goods appearing in 'other category', it might be disadvantageous to a particular industry. Therefore, this will be definitely helpful to those. For instance, in the case of a good that is produced locally and is also being imported, the import of such goods should attract a countervailing duty equivalent to the Excise Duty paid by the manufacture of the same good in India. However, the two duties could be different, if Excise and Customs Departments classify the same good differently. The automobile industry had such a problem with the classification of station wagon.

A common system of classification, therefore, would take care of such problems and it will also be essential for duty drawback under VAT . It would also facilitate collection of very specific data and the electronic processing of the same.

As rightly stated by the Finance Minister, about 80,000 assesseees contribute over Rs.1 lakh crore to our exchequer. This is a manageable number. If we can sell tickets to over 80,000 people for a cricket match, why cannot we have a virtual stadium where 80,000 assesseees can have sit slots? This is going to be possible by passing of this Bill.

This Bill is a welcome step. I congratulate the Finance Minister for bringing this Bill and I support this Bill

SHRI K.S. RAO (ELURU): Sir, I am happy to note that a colleague sitting on the other side of the House also is fair enough to compliment our Finance Minister for bringing this Bill.

SHRI BIKRAM KESHARI DEO (KALAHANDI): It was originally our Bill.

SHRI K.S. RAO : I am expressing happiness over the gesture.

Basically, this Bill is mainly to bring some uniformity in the nomenclature of the items so that there would not any confusion or there would not be any increase in the work of assessing the duties and getting revenue both from Customs and Excise.

That the Finance Minister should get to these things immediately and repeal the Acts which are obsolete and irrelevant is very nice of him. But I only wanted to bring to the notice of the House the fact that there are so many of such Bills which are obsolete in various other Ministries also. I wish the other Ministers also take the clue from this and see that all those Bills which are obsolete and irrelevant in today's conditions are repealed and Bills are brought to meet the requirements of the present society.

In this context, I just want to bring to the notice of the Finance Minister the issue of agreements like GATT, WTO, etc. With a view to liberalise and globalise the economy, it is true that most of the developed countries want all the developing countries and the underdeveloped countries to accept the imports and to reduce the duties.

Primarily, every nation will be interested in their own interest. They cannot sacrifice the interests of their own nation. They do not have love for other nations. They see that free trade is accepted or import duty on their commodities is reduced and all those things, which are not in the interest of our nation. They think only in the interest of their nation. They wanted to market their own commodities which are surplus and which are manufactured in their country. In the name of globalisation and free trade, they wanted all these things rubbed on in our country. It is the duty of the Finance Minister to protect the nation's interest wherever it goes against our interest.

Under the GATT, developed countries wanted our country or the developing countries to reduce the import duty so that they can bring all their commodities into our country and to market them. They have their own advanced technology; they have their machinery. Their manufacturing cost is very high because their inputs are very high. What are the inputs? The inputs are only manpower. If with our advanced technology, the cost is about Rs.20,000 per month, with the same technology there, the cost is about Rs.4 lakh per month. That means, the manpower input that is put into the manufacture of the machinery in America is 20 times more to the extent of manpower component compared to the manpower expenditure here. That means by importing a machinery, a thousand people are employed there, whereas 20,000 people are getting unemployed in our country. Developed countries are talking about free trade. When their own interest is affected, they coin a phrase called "anti-dumping duty". When the America found that the indiscriminate import of cars from Japan was going to affect their automobile industry, they brought the anti-dumping duty.

Today, in our country, till the other day, we have been exporting a lot of shrimps. This industry is flourishing in a big way in our country. Most of the coastal areas, particularly thousands of kilometres which are lying on the East side and on the West side, used to export thousands of crores worth of shrimps. Today, they have brought "anti-dumping duty" on some pretext or the other. They are not taking our commodity as freely as we are taking their commodity. This also has to be taken into account. The Finance Minister need not be so considerate in accepting all those imports from such countries when they are curbing our exports.

They are discussing about import and export of commodities or raw material. The biggest strength of this country is human resources. Our wealth is human resources. We have very competent, very intelligent, well-trained and very skilled manpower in the world. Why should they restrict our people going to America? Why should they say that only one lakh people or only 60,000 people could come to America? When they want their commodities to come here freely with no duty, why should they not permit our manpower, our strength, our wealth and our commodity to go there freely? Why should there be restriction? Nobody is touching this aspect. While accepting free trade, liberalisation and globalisation, this must be applied to the manpower also. There should not be any restriction on giving Visa. I wish the Government, along with the Finance Minister, would take this point also into account in subsequent discussions. They may say that our strength is this, your strength is this; my source is this, your source is this; my wealth is this, and your wealth is this. When you want free trade, why do you restrict my people from going there? Let them also go there liberally. If they create any problem, you send them back. When our people are also helping to improve their economy, when they are taking the cream from our country, still why should there be any restriction? I want the Government to give a thought to this.

Our country is basically an agro-based country. Seventy-five per cent of our people live in rural areas. At least 60 per cent of the people depend on agro economy, while only two or three per cent people of America are in the field of agriculture. They are giving lot of subsidy for producing agricultural commodities. They wanted to dump all their agricultural commodities here. Suppose, they dump indiscriminately all those agricultural products in this country,

what will happen to our agriculturists? What happens to his product? In the meanwhile, if the Government permits import of grains or import of pulses or import of oilseeds, immediately, the rates of those products of our agriculturists will come down. He will then be put to a loss. This type of situation is leading to suicide cases. Why is the agriculturist committing suicide? It is because he is not getting the right price for his product. If he gets a right price for his product, he is contented with that. He is not enamoured that he should get crores of rupees or big buildings and so on. He never imagines about all those things. He only wants a right price for his product. This also must be taken into account while permitting import of all those products, which are being manufactured in the rural areas and small-scale industries.

The moment you accept the import of pulses, import of manufactured goods, they are all crippled. They will get unemployed. The money will go waste. It will become a non-performing asset in the banks. What is the wealth of a nation? The wealth of a nation is the sweat of the human beings transformed into commodities. Why are we calling a particular nation a rich nation? It is because of the buildings, science and technology, machinery, roads and so on. All these are considered as wealth. I can also manufacture. Our countrymen can also do all these things. We do not need to depend on those countries for import of all those commodities. What we need is the technology. We are ready to take the technology. If the R&D were to be in short supply here in this country, if my country and my Government were to give prominence to research and development and if that were to be given patronage very well, then development is very high in this country. I am prepared to take the technology. Why should my people be made idle? So, the Government must think in terms of discriminating between the import of technology and import of equipment or import of commodities. So, they must be very careful in deciding about the rate of customs duties on items that are going to affect our country. There is no level playing field. Take the example of China. If we were to permit the commodities to be imported indiscriminately from China, the entire economy of this country will come to a standstill. They are manufacturing certain items at cheap rates and even publicity is given at a cheap cost.

The other day, I had gone to Dubai. They wanted me to come and see one of their heavy machinery items. The driver of that heavy machinery was a post-graduate. He was not uneducated. He was not an ordinary graduate; he was not an engineering graduate. He was a post-graduate. So, my appeal to the hon. Minister is that we must concentrate on improving the skills of the people of this country. If we were to improve the skills of this country, automatically the cost of the goods that are manufactured, will come down. Then we can face the competition from the international market. But that is not being emphasized. So, I want the hon. Finance Minister to see that more allocation is made to the Ministry of Human Resource Development. We should change the type of education and bring the type of education, which caters to the present day needs of the country. So, it is not necessary that one must be a degree holder or a post-graduate engineer, doctor and all that. The moment a student comes out of tenth standard, he must have the confidence that he can live on his own. He need not be a parasite to the Government; he need not be a parasite to his parents. He need not have to beg from anybody. He should have the confidence that he will not be a drain to the Government resources. That confidence is not there in the students who are coming out of our technological institutes. So, I appreciate and admire the Government for bringing in this Bill and repealing all those Acts which are irrelevant and obsolete. I want the hon. Minister to concentrate on those items, which are going to affect this country and the people, by reducing this customs duty on various products particularly the products which are being manufactured by agriculturists and small-scale industries.

SHRI B. MAHTAB (CUTTACK): Sir, I stand here to support the Central Excise Tariff (Amendment) Bill, 2004 which has been moved by the hon. Finance Minister.

As has been rightly said, the Central Excise Tariff Act, 1985 contains two Schedules, and the Schedules are, at present, based on 6-digit classification code in line with the Harmonised System of Nomenclature. The Department of Revenue has now developed 8-digit classification code based on HSN for the purposes of classification of excisable goods in India. The DGFT (Directorate General of Foreign Trade) and the DGCIS (Directorate-General of Commercial Intelligence and Statistics) have already adopted 8-digit classification code for the purpose of import trade control policy and collection of statistics.

The Bill once enacted, will reduce the transaction costs and classification disputes and, in general, facilitate the

trade. The Amendment Bill had been moved by the NDA Government earlier but it had lapsed with the dissolution of the 13th Lok Sabha. In effect, the Central Excise would adopt the classification system being used by the Customs Department which had moved to an 8-digit commodity classification system in February, 2003. As of now, the Central Excise Tariff Act follows a 6-digit classification. That is based on the HSN system of classification of goods. But that is different. The difference is well acknowledged. CEGAT had ruled in a case that classification under customs tariff could not be applied under the Central Excise Tariff Act.

Therefore, in practice, the manufacturers have to follow codes for Central excise different from one being followed by importers for countervailing duty, and exporters for duty drawbacks. This creates disputes, particularly, in the case of goods appearing in 'other' category. That might even disadvantage a particular industry.

For instance, take the case of a good that is produced locally and is also being imported. The import of such a good should attract countervailing duty equivalent to the excise duty paid on the manufacturer for manufacture of the same good in India. But the two duties could be different -- excise and customs -- classifying the same good differently. The automobile industry had such a problem with the classification of station wagons.

A common system of classification takes care of such problems and is essential for duty drawbacks under VAT. It would facilitate collection of very specific data and the electronic processing of the same. But before that, we would have to put in place a practical classification that does not blindly follow the HSN but addresses our peculiarities. This code in line with the existing 8-digit classification code for customs and Exim policy would go a long way in eliminating problems due to divergence of different classification and will facilitate the electronic data processing.

MR. DEPUTY-SPEAKER: Mr. Mahtab, one minute please. It is 2.30 pm. Now, let the Minister of Home Affairs make a statement. You may continue your speech after his statement is over.

14.31 hrs.

CENTRAL EXCISE TARIFF (AMENDMENT)

BILL - contd.

MR. DEPUTY-SPEAKER: Shri Mahtab, you can continue now.

SHRI B. MAHTAB (CUTTACK): The basic idea behind enactment of this Bill is that besides aligning the excise code with the code followed by the customs, it would also enable to collect more specific data on commodities of special significance.

The Bill proposes to incorporate standard units of measurement which were internationally accepted standard units. What I understand here is that a lot of cases, as has been said, are pending and from the report which we gathered relating to the Central excise cases in Supreme Court, is around 1777 cases have been pending, and in different High Courts 4879 cases are pending. These involve more than Rs.4,000 crore. Similarly, arrears in Central excise, as on 31st March, 2004, were Rs.12,583 crore, which is provisional of course, and when you compare it with last year's arrears, it was around Rs.11,500 crore.

This enactment, of course, has a specific purpose only but we would like to know from the hon. Finance Minister, will it help in minimising the cases in different courts and also in expediting in recovery of the arrears that are due on the parties.

At the end I should express that I support this Bill.

SHRI VARKALA RADHAKRISHNAN (CHIRAYINKIL): Sir, it appears to be a very voluminous Bill and the main purpose is for a transition from six digits to eight digits to suit the convenience of international import rate. This Bill has been brought here for this purpose.

It was a long-pending demand of the Revenue Department for a change over to eight digits system. I fully agree with it but at the same time we will have to think aloud in matters of taxation, especially when we are on the verge of introduction of Value Added Tax system in the States. When it comes into force, the resources of the States will be very much reduced. So far as States are concerned, their main income is based on Sales Tax. For the State of Kerala, nearly more than 40 per cent of the revenue is from the Sales Tax. Even that is abolished and when it is shifted to VAT, definitely the States will be the losers in many ways. The exchequer will be more or less reduced and we may not be able even to pay the wages of the employees in the State.

That is the position. Of course, the Centre may come to the rescue of the States with certain new proposals or with some compensation. But compensation could not be a process for long. The Centre cannot finance the States in

perpetuity. So, the main question is of change over in the tax system. Regarding certain items of excise duty which is now collected by the Centre, must be transferred to the States and the States also will definitely bring to the notice of the Government the items which can be left to the States for the change over from sales tax to VAT.

Now the Central Government is collecting service tax even for conducting tutorial colleges. Such items can be given to the States. There are many items which are coming under the purview of this Act but they could be shifted to the States. Otherwise, the financial condition of the States will be in peril, if I may say so. Therefore, this is high time for the Central Government to have a re-thinking for changing the entire tax structure, especially the Central Excise. Without a change, the States may not be able to pull on. I think our hon. Finance Minister is quite aware of this fact and he had several discussions with the Finance Ministers of respective States. I hope that they have also put in proposals before the Union Government for its consideration which of the items can be transferred to the States for tax collection. I am not arguing for an economically weak Centre. But at the same time, there are items on which, tax can be collected effectively by the States. Now those sources are not fully utilised by the Union Government. If it is transferred to State Governments, they will be able to collect tax much more effectively.

Moreover, certain policies are also detrimental to the States. For example, I will cite one instance of excise duty which is levied on palm oil in Kerala. Palm oil is imported from Malaysia and other countries and every time we impose import duty. The policy of the Central Government, now-a-days, is to reduce tariff or import duty on palm oil. The net result is that the coconut farmers in Kerala are put to hardship. The coconut producers of copra and coconut oil are facing crisis in the market because of this indiscriminate import of palm oil and also because import duty is reduced year by year. The net result is that lakhs of coconut growers in Kerala are put to hardship and some of them are even forced to commit suicide. The incidents of suicide by farmers is the order of the day because of this policy. So, it is high time that the Union Government re-consider the question of levying excise duty on certain items. I would like to mention that there are so many items which may be equally shared by the Union Government as well as by the State Government.

Now taxes on prepared food stuffs like beverages, vinegar, tobacco, tobacco substitutes are being collected by the Union Government. Some of these items can be transferred to State Governments for their existence in the event of sales tax being withdrawn.

Then, I will talk about articles of stone like plaster, cement, asbestos sheets, mica, and similar materials. Now on cement, excise duty is levied. You will be surprised to see that a sack of cement purchased from the market for a particular price would cost more by 10 per cent or 15 per cent the next day.

It would, thereby, reduce concessions. Even the schemes under MPLAD could not be implemented because of this policy of reduction in the cost of cement. This is the position in the State of Kerala.

I would like to request the hon. Finance Minister – because he is the most competent person to take a decision in this matter – to look into this aspect of sharing of taxes between the States and the Union Government. The Government, I am sure, will come before this House with a proposal for overhauling the present tariff and Excise Duty structure. All these aspects should be taken into consideration and a federal approach should be adopted in collection of taxes so that the very federal nature of our polity could be strengthened.

Sir, with these few words, I support the Bill.

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM): Sir, I am grateful to hon. Members from all sections of the House for offering their support to this Bill.

The purpose of this Bill is very limited. On the custom side we already have an eight-digit classification. It is, therefore, necessary that on the excise side also we have the same eight-digit classification. What we have found is that eight-digit classification helps both Trade and Revenue Department to identify a particular product and the heading under which it falls. Immediately the number of disputes comes down very sharply. There is transparency and there is reduction in the number of disputes. All these will facilitate trade. Sir, I am grateful to hon. Members for the support they have offered to this Bill and I am sure that this kind of support will be extended in the future also.

Sir, some comments were made about some other taxes. Although they do not directly concern this Bill, let me assure hon. Members that VAT is a law to replace sales tax. VAT has nothing to do with either Excise Duty or Customs Duty. All States have agreed that VAT will be introduced. Hon. Member, Shri Radhakrishnan would be happy to note that VAT movement is spearheaded by none less than the Finance Minister of West Bengal. Therefore, it is a matter on which there is broad consensus. I do not think we should say anything in this House which will break that consensus. All States have agreed that VAT will be introduced. I have held several round of meetings with the Finance Ministers of States and we are confident that working together we can introduce VAT on

the 1st of April, 2005. Please have no fears that introduction of VAT will bring about a revenue loss. The State of Haryana, one of our smaller States but obviously very progressive in taxation, introduced VAT two years ago. What is their experience? Their experience is that income through VAT has increased by twenty per cent over the previous year. If there is a loss, I have said, the Central Government will compensate that according to a formula. So, I do not think, we should make any statement which will come in the way. There is a broad consensus amongst all the States, including the State of Kerala, that VAT should be introduced on the 1st of April, 2005. I am glad that the hon. Member mentioned about it because it gave me an opportunity to appeal to all sides of the House to please co-operate on this issue. A major tax reform is being attempted. It had been attempted by the previous Government. They took the process a little forward and by that time the Government changed. I want to take it further and see the culmination of this process on the 1st of April, 2005. This Bill will help in improving our trade. Our exports are growing by 25 per cent. Shri Rao mentioned that other countries are not taking our products. But that is not correct. Our exports are growing this year so far at 25 per cent in dollar terms. Therefore, this Bill will help trade and revenue and will also help in dispute resolution. I think it will also help in augmenting revenue.

Sir, I have some amendments to make which I will move later.

MR. DEPUTY-SPEAKER: The question is:

"That the Bill further to amend the Central Excise Tariff Act, 1985, be taken into consideration."

The motion was adopted.

MR. DEPUTY-SPEAKER: The House will now take up clause-by-clause consideration of the Bill.

Clause 2 Insertion of new Section 5

MR. DEPUTY-SPEAKER: The question is:

"That clause 2 stand part of the Bill."

The motion was adopted.

Clause 2 was added to the Bill.

Clause 3 Substitution of new schedules for

First schedule and Second schedule

Amendments made:

Page 265,--

- i. line 3, for "16%" substitute "8%"
- ii. line 10, for "Nil" substitute "8%"
- iii. line 11, for "Nil" substitute "8%"
- iv. line 20, for "16%" substitute "8%"
- v. line 21, for "16%" substitute "8%"
- vi. line 24, for "Nil" substitute "8%"
- vii. line 25, for "Nil" substitute "8%"
- viii. line 32, for "16%" substitute "8%"
- ix. line 34, for "Nil" substitute "8%"
- x. line 38, for "Nil" substitute "8%"
- xi. line 39, for "Nil" substitute "8%"
- xii. line 40, for "Nil" substitute "8%" (1)

Page 369,--

after line 39, insertâ€

"10. In relation to the products of this Section,
the process of drawing or redrawing a rod, wire
or any other similar article, into wire shall
amount to 'manufacture'." (2)

Page 514,--

- i. line 11, *for "Nil" substitute "8%"*
- ii. line 13, *for "Nil" substitute "8%"*
- iii. line 14, *for "Nil" substitute "8%"*
- iv. line 15, *for "Nil" substitute "8%"* (3)

Page 536, line 9,--

for "Nil"

substitute "8%" (4)

(Shri P. Chidambaram)

MR. DEPUTY-SPEAKER: The question is:

That clause 3, as amended, stand part of the Bill.

The motion was adopted.

Clause 3, as amended, was added to the Bill.

Clause 1, the Enacting Formula and the Long Title were added to the Bill.

SHRI P. CHIDAMBARAM: I beg to move:

"That the Bill, as amended, be passed."

MR. DEPUTY-SPEAKER: The question is:

"That the Bill, as amended, be passed."

The motion was adopted.
