

CHAPTER-2: EXCISE POLICY

2.1 Introduction

The annual Excise Policy is formulated by the Excise Commissioner and the Principal Secretary, Excise Department, the Head of the Department for administering the production, pricing and sale of liquor during a given year. The draft policy is then submitted to the Cabinet for approval. Upon approval by the Cabinet, the Excise Policy is issued by the Principal Secretary.

The Excise Policies announced during the period (2001-18) mainly contained provisions related to determination of the Ex-distillery price (EDP)/ Ex-brewery price (EBP) for IMFL and Beer, excise duty, additional excise duty, Wholesalers' and Retailers' margins, penal provisions to enforce excise policies, settlement of liquor shops, fixation of minimum guaranteed quantity (MGQ) of country liquor, creation of a special zone, etc.

2.2 Implementation of excise policies of Uttar Pradesh (2001-02 to 2019-20)

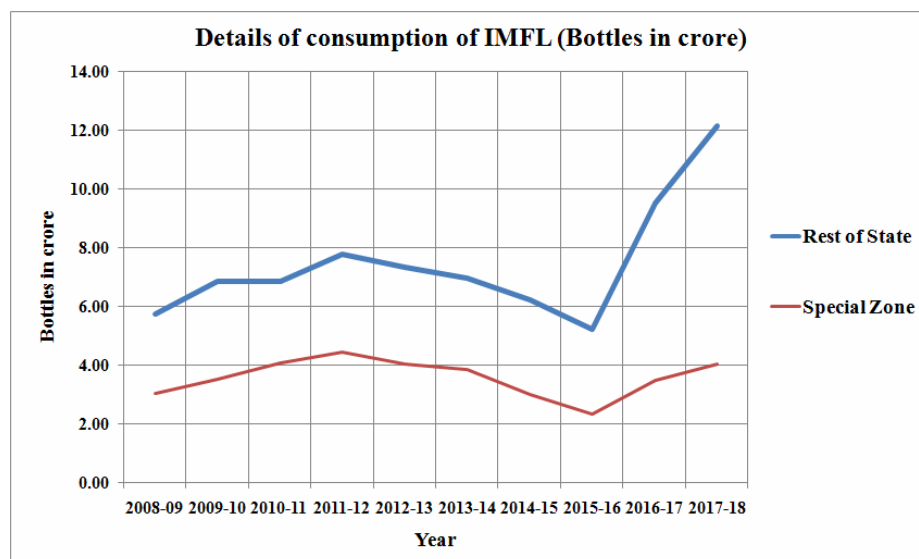
Audit reviewed the excise policies of the State of Uttar Pradesh which were implemented between 2001-02 and 2019-20. The review revealed the following:

1. Excise Policy (April 2001) aimed at opening the entry of new liquor professionals with a view to end the monopoly of the liquor syndicates. This measure was however subsequently reversed completely in the Excise Policy of 2009-10. The 2009-10 policy also introduced a zonal system for settlement of wholesale of Country Liquor and retailing licensing rights of all the liquors in special zone. Under the new system, the state was divided into two zones viz. a special extended zone of Meerut comprising districts of the Meerut Zone and of the Bareilly Commissionerate, and other zones in the rest of the state which included four administrative zones of Varanasi, Gorakhpur, Lucknow and Agra.
2. The objective of creation of the Special Zone (2009-10) was to check smuggling of liquor into the state from the neighbouring states. The special zone consisted of 15 districts (finally 18 districts due to creation of three new districts carved out of erstwhile districts of Ghaziabad, Moradabad and Muzaffarnagar). However, out of 13 western border districts of the state, only 11 districts were included in the special zone. Two districts (Aligarh and Mathura bordering Haryana and Rajasthan) were not included, the reasons for which are not on record. Further, *seven* districts, which did not share borders with any of the neighbouring states, were included in the special zone. It is not clear how the exclusion of two border districts in the special zone helped in checking liquor smuggling. Therefore, the creation of the Special Zone was not based on any clear criteria.
3. As per the Excise policy 2009-10, the retail rights over all shops in the Special Zone (Meerut) which totalled 22 *per cent* of total liquor shops in the state, were exclusively given to a single player (*Ms Amethyst Town Planners Pvt. Ltd* which had a joint venture with the Uttar

Pradesh Sahkari Chini Mills Sangh Ltd., subsequently Ms Accurate Foods and Beverages Pvt. Ltd. in the year 2011-12). In other zones, multiple players were allowed (based on public lottery) to operate in the retail sale of liquor. The creation of monopoly in the wholesale trade of Country Liquor at the zonal level in the entire state and monopoly of retail sale of liquor in the special zone was against the principles of fair play and transparency.

4. We further noted that the creation of a special zone did not meet the stated objectives as the consumption of IMFL declined continuously from 12.20 crore bottles in 2011-12 to 7.5 crores bottles in 2015-16 (decrease of 38.52 per cent). Similarly, consumption of beer also declined from 27.16 crore bottles in 2015-16 to 25.35 crore bottles in 2016-17 (decrease of 6.66 per cent). The revenue realised from IMFL declined from ₹ 3,672.32 crore to ₹ 3,292.96 crore during 2013-14 to 2015-16. A chart showing trend of consumption of IMFL during the period 2008-09 to 2017-18 in the special zone and in the rest of the state is given below:

Chart 2.1



The trends of consumption of IMFL in both the Special Zone and the Rest of the State mirror each other till 2015-16. 2016-17 onwards, the increase in consumption of IMFL in the rest of the State was much higher than in the Special Zone. The consumption of IMFL in the special zone during 2010-11 and 2017-18 remained static at an average of four crore bottles with slight variations during the period. Contrary to this, consumption in rest of the state during the same period enhanced from seven crore bottle to 12 crore bottles. Thus, creation of a Special Zone did not have much impact on sales, and consequently upon the revenues during the period it was in existence. In fact, the period saw continuous decline in sale of IMFL across the state till 2015-16. This hints at large scale smuggling in the earlier years.

5. Further, licenses for retail shops in all the four zones were renewed continuously for nine (2009-18) years without resorting to any form of open tendering on annual basis eliminating any possibility of

competition in production and sale of liquor at reasonable rates which also compromised with the financial interest of the state as is evidenced in persistent failure to achieve Budget Estimate targets during 2012-18.

6. In the Excise Policy of 2018-19, the Excise Department accepted the fact that licensing system of retail shops in the special zone and zone-wise wholesale licensing system of country liquor had lost its relevance due to poor revenue growth in the year 2015-16 and 2016-17 and therefore, this system was abolished. Thus, the intended benefit of creation of special zone for retail and zone-wise wholesale licensing system of country liquor could not be achieved but instead created monopoly in retail sale of liquor in the Special Zone.

Besides the failure of the special zone, other deficiencies in the Excise policies and procedures of the Excise Department during 2008-18 were also noticed in audit. These have been discussed in the following Chapters 3 to 5.

Follow up action by the State Excise Department on Audit Observations

The Excise Policies of 2018-19 and 2019-20 provided for the following measures, which address some of the audit concerns:

1. Those shops, whose consumption had enhanced during 2018-19 over previous year by 40 *per cent*, 30 *per cent* and 6 *per cent* for IMFL, Beer and Country Liquor shops, were eligible for renewal in 2019-20. This, in a way, indirectly provides for MGQ for IMFL and Beer at the individual shop level.
2. EDP/EBP of IMFL and Beer should not be more than EDP/ EBP of the same brand in the neighbouring states. If they failed to do so, the said brand would be cancelled (Excise Policy of 2018-19) and the security of ₹ one lakh would be forfeited (Excise Policy of 2019-20).
3. Allowance of additional cost for pilfer proof cap for small packs of IMFL was disallowed in the Excise Policy 2019-20.
4. Allowances of additional cost of 7.50 ml for 180 ml and 3.75 ml for 90 ml small bottles of IMFL were stopped in the Excise Policy 2019-20.

