

A M/S. COASTAL PAPER LTD.
v.
COMMNR. OF CENTRAL EXCISE, VISAKHAPATNAM
(Civil Appeal No.4908 of 2005)

B JULY 21, 2015

[A.K. SIKRI AND R. F. NARIMAN, JJ.]

C *Central Excise Tariff Act, 1985: Notification No. 22/94-CE dated 01.03.1994 – Entitlement to exemption under – Paper manufactured out of pulp of waste gunny bags/jute waste – Revenue denied exemption on the ground that pulp of waste gunny bags/jute waste is nothing but pulp of rags – Held: Assessee entitled to exemption under the said*
D *Notification – Pulp from the waste of jute bags or gunny bags would not be covered by the term ‘rags’ appearing in Notification dated 01-03-1994 as it could never be the intention to exclude non-conventional material from the benefit of the said Notification when that was precisely the*
E *purpose for which the said Notification was issued to encourage use of non-conventional material for the purposes of manufacturing paper or paper products.*

F *Interpretation of statutes: Purposive interpretation – Exemption notification – Held: It is necessary to go behind the objective for which Notification itself is issued.*

Allowing the appeal, the Court

G **HELD: 1. The expression ‘rags’ appearing in the Notification has to be construed having regard to the attendant circumstances, the context in which the same is used in the said Notification as well as the purpose for which this term has appeared in the Notification. At**

the same time, it is also necessary to go behind the objective for which Notification itself is issued thereby giving it a purposive interpretation, which has become cardinal rule of interpretation. Right from 1977, the Central Government prescribed concessional rates of excise duty for paper made from non-conventional raw material, subject to certain conditions. The purpose for issuing such Notifications is clear, namely, to encourage the manufacturers of the paper and paper products to use non-conventional technology in contrast with the conventional technology of using pulping bamboo or wheat. The reason is too obvious. Use of bamboo or wheat for the manufacture of paper and paper products needs cutting of trees which in turn has the devastating effect of deforestation. It leads to degradation of environment and the adverse impact of deforestation with serious consequences are now well-known. On the other hand with the adoption of non-conventional methods of production by taking pulp from the waste of gunny bags/jute waste, mesta, rice straw, wheat straw, bagasse etc., not only the said waste is utilised in a useful and constructive manner, it saves the environment as well. Such a benevolent purpose for issuing these Notifications has been emphasized by the Finance Ministers themselves from time to time in the budget speeches. [paras 12, 13] [500-D-H; 501-A-D]

2. The tenor and language of various Notifications issued in this behalf from time to time also reflect the experience which was gained over a period of time. Whereas in the beginning, Notification(s) prescribed the 'Positive List' of the materials that had to be used to get the benefit of concessional rate of duty, the thrust underwent a conceptual transformation and changed to the 'Negative List', i.e. mentioning only those materials

A use whereof will not entail the benefit, thereby making
the benefit available to all other forms of non-
conventional materials. This was because of the reason
that experience has shown that it was not proper to
mention the non-conventional material by putting them
B in a straitjacket and to provide that all kinds of non-
conventional materials used for the manufacture of
paper should qualify for concessional rate excepting
only those which need not be given such a benefit. This
C thrust, therefore, from '*Positive List*' to '*Negative List*' is
of great significance and has to be kept in mind. The pulp
made from jute, jute waste including hessian waste and
old gunny bags waste are specifically included in the
'*Positive List*' contained in Notification dated 17.09.1990.
D Thus, as per the said Notification if the paper is
manufactured from the pulp made from the waste of the
aforesaid materials, the benefit of concessional rate was
admissible. To put it otherwise, it has always been
clearly understood that jute or jute waste including old
E gunny bag waste is non-conventional material. Once that
is accepted, the intention could not be to exclude this
non-conventional material with the insertion of the word
'rags' in the '*Negative List*'. [paras 14, 15] [501-E-H; 502-
A-C]

F 3. Notification 22/94-CE mentions 'bamboo, hard
woods, soft woods, reeds (other than Sarkanda) or rags'.
What is intended by mentioning that pulp made from the
aforesaid material would not entail benefit. Obviously,
G all other materials, namely, bamboo, hard woods, soft
woods, and reeds are conventional raw materials. These
are the materials which have direct bearing on cutting
of trees and in turn on environment. Therefore, 'rags' has
to be read *ejusdem generis*. It has to be the specie of the
H earlier kind of materials mentioned therein. Otherwise,
it would not make any sense. Admittedly, jute waste or

for that matter gunny bag waste have no adverse impact on environment. Significantly, while mentioning reeds, the Sarkanda is specifically excluded therefrom. Prior to 1984, the exemption to paper made from unconventional raw materials was available only when the paper is manufactured from the specified non-conventional raw materials. For example, Notification No. 46/83-CE dated 01-03-1983 prescribed concessional rate of excise duty for paper containing not less than fifty per cent by weight of pulp made from bagasse, jute stalks, cereal straw, elephant grass (*Imperata Cylindrica*), mesta (Kneaf) or waste paper. Thus, jute stalks was specified as a non-conventional raw material in the notification itself. However, vide Budget of 1984, the scope of the exemption to paper made from non-conventional raw materials was widened. Thus, right from the year 1984, the coverage of the Notification was widened inasmuch as any materials other than the specified ones would be considered as non-conventional raw materials and the paper made therefrom would be eligible for the exemption. Thus, all the above materials and the notifications clearly suggest that the Government itself distinguished between jute bags/gunny bags and rags and the exemption was being extended to paper made from old jute/gunny bags. [paras 16, 17, 19] [502-D-H; 503-A, B, D-E; 504-C-D]

H.M.M Limited v. Collector of Central Excise, New Delhi 1996 (7) Suppl. SCR 535; (1996) 11 SCC 332; *Collector of Central Excise and Others v. Himalayan Cooperative Milk Product Union Ltd. and Others* 2000 (4) Suppl. SCR 431; (2000) 8 SCC 642; *Rohit Pulp and Paper Mills Ltd. v. Collector of Central Excise* 1990 (47) ELT 491 (SC) – relied on.

Rohit Pulp and Paper Mills Ltd. v. Collector of Central

A *Excise, Baroda* 1990 (2) SCR 797: (1990) 3 SCC 447 – referred to.

B 4. Almost all the books on the subject uniformly define ‘rag’ or ‘rag pulp’ as one which is made from cotton waste or cotton textile material. [para 27] [511-B]

C *The Dictionary of Paper* by American Paper and Pulp Association; ‘Pulp and Paper Chemistry and Chemical Technology’ by James P. Casey; *Dictionary of Paper* by TAPPI; *Indian Standard Glossary of Terms used in Paper Trade and Industry – IS 4661 : 1999* – referred to.

Case Law Reference

D	1990 (2) SCR 797	Referred to	Para 10
	1996 (7) Suppl. SCR 535	Relied on	Para 20
	2000 (4) Suppl. SCR 431	Relied on	Para 21
E	1990 (47) ELT 491 (SC)	Relied on	Para 21

CIVIL APPELLATE JURISDICTION: Civil Appeal No. 4908 of 2005.

F From the Judgment and Order No. 239 of 2005 dated 04.02.2005 of the Customs, Excise and Service Tax Appellate Tribunal, South Zonal Bench, Bangalore in Appeal No. E/669/03.

G V. Lakshmikumar, M.P. Devanath, Vivek Sharma, L. Charanaya, R. Ramchandran, Aditya Bhattacharya, Hemant Bajaj, Ar. Anandh K. and Ambarish Pandey for the Appellant.

K. Radhakrishnan, P.K. Mullick, Shirin Khajuria and B. Krishna Prasad for the Respondent.

H The Judgment of the Court was delivered by
A.K. SIKRI, J. 1. The appellant (hereinafter referred to as

the "assessee") is a paper mill which is engaged, inter alia, in the manufacture of paper. For the manufacture of paper, the assessee uses various conventional raw materials and also non-conventional raw materials, namely, waste gunny bags, jute waste etc. The assessee is exigible to Central Excise on the aforesaid product, namely, paper manufactured by it, which the assessee has been paying to the respondent (hereinafter referred to as the "Revenue") from time to time. In order to encourage production of paper by use of non-conventional raw material, the Government of India issued Notification No. 22/94-CE dated 01.03.1994 which assures concessional rate of duty at 5% for "paper and paperboard or articles made from non-conventional material". The condition which is contained in the said Notification that needs to be fulfilled in order to avail the benefit thereof to pay the concessional rate of duty reads as under:

"If such paper and paperboard or articles made therefrom have been manufactured, starting from the stage of pulp, in a factory, and such pulp contains not less than 75 per cent by weight of pulp made from materials other than bamboo, hard woods, soft woods, reeds (other than sarkanda) or rags."

2) As per the aforesaid Notification, following conditions are to be satisfied in order to avail the benefit:

(i) Manufacture of paper and paperboard or articles made therefrom should start from stage of pulp, in a factory,

(ii) Such pulp should contain not less than 75% by weight of pulp made from materials other than bamboo, hard woods, soft woods, reeds (other than sarkanda) or rags.

It, thus, specifies certain materials which are excluded from the Notification, meaning thereby, if the pulp is made from those

A specific materials, namely, bamboo hard woods, soft woods, reeds (other than sarkanda) or rags then the manufacturer would not be entitled to the benefit of this Notification.

3) The assessee herein is manufacturing paper out of pulp of waste gunny bags/jute waste and on the manufacture of paper from the pulp of the aforesaid waste, the assessee wants to pay concessional rate of excise duty as its contention is that pulp of waste gunny bags or jute waste does not fall in any of the materials mentioned in the Notification. The Revenue, on the other hand, has taken the position that the pulp of waste gunny bags/jute waste is nothing but pulp of 'rags' and since the Notification, particularly, disentitles the benefit thereof if the pulp is made from rags, the assessee is not covered by the said Notification. The question, therefore, that falls for consideration is as to whether pulp of waste gunny bags/jute waste is to be treated as the pulp made from the material 'rags'. Before we answer this question, it is deemed necessary to take note of the other related Notifications touching upon the subject matter as well as history of the present litigation which has lauded the matter to this Court.

4) Notification No. 22/94-CE dated 01.03.1994, with which we are concerned, is not the first Notification which permitted concessional rate of excise duty in case of manufacture of paper or paper products by using non-conventional raw material. First Notification, in this behalf, was issued on 01.03.1973, i.e. Notification No. 42/73-CE wherein such kind of lesser rate of duties was prescribed in respect of all sorts of paper other than newsprint and all varieties of boards, containing not less than 40% by weight of bagasse, jute stalks or cereals straw in the form of pulp. This Notification was replaced by another Notification No. 128/77-CE dated 18-06-1977 where the manufacture of the paper (other than some specified kinds of papers mentioned therein) contained not less than 50% by weight of pulp made from bagasse, jute stalks,

cereals straw or waste paper. Certain other conditions were also mentioned in this Notification pertaining to the description of paper mills manufacturing such paper with which we are not concerned. There have been further Notifications from time to time modifying/amending the aforesaid conditions which again need not be referred to as not relevant for our purposes. It would, however, be necessary to refer to the Notification 48/91-CE dated 25.07.1991 which held the field prior to issuance of Notification No. 22/94-CE with which are concerned. In this Notification No. 48/91-CE, concessional rate of duty was provided in respect of writing and printing paper falling under the heading No. 48.02 and uncoated kraft paper, falling under heading No. 48.04 of the First Schedule to the Central Excise Tariff Act, 1985 (for short, 'CETA, 1985') on certain conditions mentioned in the proviso contained in the said Notification which was to the following effect.

"Provided that such paper contains not less than 75% by weight of pulp made from jute, jute waste (including hessian waste and old gunny bag waste), mesta, rice straw, wheat straw or bagasse or mixture thereof or mixture of two or more of the pulps of the aforementioned materials."

The purpose of mentioning to the aforesaid Notification is to point out this Notification listed those materials, the use whereof to manufacture paper and paper products entitled the manufacturer to get the benefit of the Notification. Thus the requirement was to show that the pulp was made from any of the said materials or from the mixtures thereof. It can be termed as '*Positive List*'. In contrast, Notification No. 22/94-CE did not contain the list of those materials from which pulp was required to be made and used for the purpose of manufacture of paper. On the contrary, this Notification contained excluded category of materials, i.e., if the pulp was made from those specified materials (which included rags as well) then the

A benefit of Notification was not available. The effect of this Notification is that if the pulp is made from any other non-conventional material which is not spelt out in the proviso, it would qualify for concessional rate of duty in terms of the said Notification. The materials mentioned in this list, for the sake of convenience, can be classified as '*Negative List*'. Now the requirement was to show that paper is not manufactured from the pulp of any of the enlisted material. Thus, according to Notification No. 22/94-CE, the exemption is available if the paper is made from pulp which contains not less than 75% by weight made from non-conventional materials. The prohibited material which disqualifies from said concessional rate is bamboo or hardwood or softwood or reed or rags.

5) There have been some amendments in the Notification No. 22/94-CE in the subsequent years. During the financial years 1995-96, 1997-98 and 1999-2000 (till October 1999), the concessional rate of duty is provided for paper made of pulp containing not less than 75% by weight of pulp made from materials other than bamboo, hard wood, soft wood, reeds or rags. But in respect of the year 1996-97, the concession was given to paper made of pulp containing not less than 50% by weight of pulp made from materials other than bamboo, hard wood, soft wood, reeds or rags.

6) Reverting to the case of the assessee, it has been using old or used gunny bags/jute waste for the manufacture of paper. It was availing the benefit of the aforesaid notification and paying concessional rate of duty. However, on 28.04.2000, a show-cause notice was issued by the Revenue to the appellant stating therein that the paper manufactured by using jute bags/gunny bags are not eligible for exemption under the said notifications or successor notifications whereby the aforesaid notification was amended from time to time. Extended period of limitation was invoked under proviso to Section 11A of the Central Excise Act, 1944 (for short, "Act") and demand of

differential central excise duty for the period from 01.04.1995 to 31.10.1999 was given. This show cause notice was followed by two more show cause notices dated 16.05.2000 and 13.03.2001 covering the period from November, 1999 to May, 2000. The assessee contested the stand taken by the Revenue in these show cause notices, taking the position that pulp made out of jute bags/gunny bags entitled the assessee to avail the benefit of the said Notification as the paper from the waste of jute bags was non-conventional method. In support, the assessee also gave material in the form of technical literature and expert opinion. Personal hearing was provided by the Commissioner of Central Excise, Visakhapatnam. Thereafter, the Commissioner passed Order-in-Original dated 02.05.2005 accepting the contention of the assessee and dropping all the three show cause notices. He also held that show cause notice dated 28.04.2000 is barred by limitation as well under Section 11A of the Act as the Revenue was not entitled to invoke the proviso to Section 11A and claim extended period of limitation.

7) A perusal of the order of the Commissioner would disclose that the Commissioner was persuaded by the fact that the purpose of issuing such Notification was to encourage the use of waste from non-conventional materials as raw materials for the purpose of manufacture and in, particular, use of such raw materials like jute waste, mesta, baggase, hessain, old gunny bag waste, rice straw, wheat straw etc. and reduce the use of bamboo, hard wood, soft wood etc. to save forest. He also noted that before 1994, Notifications contained list of those materials use whereof qualified for the concessional rate (i.e. the 'Positive List') and from 1994, the 'Negative List' was prescribed by excluding only the set of raw materials, use of which did not qualify for the benefit of the Notification. The Commissioner also referred to the speech of the Finance Minister to emphasize that the Notification has evolved in a eco-friendly manner with more and more encouragement for

A use of non-conventional materials. Going by the aforesaid spirit
of the Notification, when it is found that jute and gunny bags
were included in the '*Positive List*' and waste therefrom is widely
known as non-conventional method of producing paper and
paper products, these materials should not be treated as 'rags',
B inasmuch as while including rags in the '*Negative List*' intention
could not be to encompass waste of gunny bags and jute bags
within said expression. In the Order-in-Original passed by the
Commissioner, he pointed out that there is no definition of 'rags'
C in the Notification and, similarly, there is no definition of jute
pulp in any Notification which could help in tracing any
description of gunny bags waste. The Commissioner opined
that for this reason, it was prudent to fall back upon the definition
or standard text or other notifications which define these words.
D Thereafter, he referred to the 'Glossary of Terms used in Paper
Trade and Industry' for the adoption of definition/description of
jute, jute paper, jute pulp, rag pulps, rags etc. and on that basis
concluded as under:

E "37. The meaning of the word Rags as they have not been
defined in the notification itself, has to be derived from
the contemporaneous evidence. From the definitions of
Rag pulp, jute pulp available in the IS Glossary of Terms
used in Paper Trade and Industry, the definition of Rags
F appended with the Notification No. 8/96-CE and the
definition of rag in various judgments mentioned in para
26.A it conveys the meaning, in unambiguous terms, that
old used gunny bags would not be equated with rags.

G 38. The show cause notice has gone to add that jute waste
is not gunny bag waste and as the party has not mentioned
in their record jute waste and not gunny bag waste, there
has been suppression of information. So long as we hold
that rags are not gunny bag waste and gunny bags are
not excluded raw materials for the purpose of concession,
H it does not matter how the gunny bag is described in

documents. The amendments to Central Excise A
Notification No. 48/91 dated 25.7.91 vide 30/93 shows
unambiguously that Jute Waste shall include old gunny bag
waste. Therefore, it still remains correct that gunny bag
waste can be described as waste of jute products and in
extension would be includible in Jute Waste. Therefore, B
there is no mis-declaration in raw material account. In
addition, this description by itself would not prove the point
of the show cause notice. As the basic premises on which
the SCN stands is not available, other allegations of
suppression and application of extended period and C
attraction under Section 11AC and 11AB or violations
under Rule 226 and 173Q are not sustainable.

39. Therefore, the allegation listed in Para 42 of the show
cause notice regarding violation of Rule 173B by D
misdeclaring gunny waste as jute waste, Rule 173G
regarding willful suppression of Raw Material Account.
Rule 9(1) regarding discharge of appropriate duty and
173F regarding determination of correct rate of duty
pertaining to clearances of goods out of gunny bag pulp E
do not stand on basis of above evidence of disclosure.

8) The Revenue was not satisfied with the aforesaid
outcome and, therefore, preferred an appeal against the order
of the Commissioner before the Customs, Excise and Service F
Tax Appellate Tribunal (for short, 'CESTAT'). The CESTAT has,
vide impugned order dated 04.02.2005, upset the decision of
the Commissioner on merits, holding that the waste of jute/
gunny bags amounts to 'rags' and, therefore, pulp made out of G
it and use for manufacture of paper would not be covered by
the said Notification.

9) While arriving at this conclusion, the Tribunal remarked
that inferences drawn by the Commissioner from the Finance
Minister's Budget speech or Board's circular do not appear H

A to be flowing either from the said speech or from Board's
clarification and the reasoning of the Commissioner in this
respect was false. It also rejected the contention of the
assessee predicated on HSN Chapter Headings. According
to the Tribunal, pulp out of rags was specifically excluded from
B the Notification. 'Rag' is understood to be worn out, soiled and
torn of a textile material. In view thereof, it was not necessary
to refer to any dictionary, Glossary of Terms used in Paper
and Paper Industry or words and phrases to find out the
meaning of 'rags'. The relevant portion, discussing this aspect
C reads as under:

"11. We are unable to agree with this contention. There
is no denying the fact that gunny bags/jute bags are articles
of textiles. Admittedly, such jute bags which shows signs
D of wear and tear are excluded from heading 63.09 and
are classified with the corresponding new articles under
heading 63.05. But there is another category of old gunny
bags which are so worn out, soiled or torn beyond clearing
or repairs and are generally fit only for the recovery of the
E fibres for the manufacture of paper etc. This is the separate
category of old gunny bags which is different from gunny
bags showing only signs of wear. Thus a rag is one which
is worn out, soiled and torn of a textile material. If that is
the meaning of rags, there is no need to refer to any
F dictionary, glossary of terms used in paper and paper
industry or S.B. Sarkar's Words and Phrases to find out
the meaning of rags. The respondent uses torn, soiled
etc. gunny bags to make pulp. Gunny bag is a textile
material. We agree with the Revenue's contention that
G rags can be made of any textile material or textile articles
and are not limited to pieces of cotton or articles made of
cotton."

H 10) However, on the issue of limitation, the Tribunal has

concurred with the order of the Commissioner and rejected the appeal of the Revenue to that extent. The net result is that the demand contained in show cause notice which pertained to the period from 01.04.1995 to 31.10.1999 is concerned, the same is treated as time barred. Insofar as learned counsel for the assessee is concerned, in his endeavour to demonstrate that waste of jute bags/gunny bags cannot be termed as 'rags' in the sense the term is used in the Notification, he laid great stress on the principle of purposive interpretation that needs to be given to the Notification. Thus main thrust of his argument was that the objective of the Notification to give its benefit to those who are using waste from non-conventional materials. He submitted that it was well-known that jute/gunny bags were the non-conventional methods which was well recognised in the commercial world. To put it in nutshell, he based his arguments on the reasons given by the Commissioner. He also submitted that the reasons given by the Tribunal were faulty and in the absence of any definition of 'rags' in the Notification, dictionary meaning could be relied upon as was held by the Supreme Court in the case of *Rohit Pulp and Paper Mills Ltd. v. Collector of Central Excise, Baroda*¹.

11) Mr. K. Radhakrishnan, learned senior counsel appearing for the respondent, likewise, did the same exercise but in reverse, i.e., he supported the reasons given by the Tribunal with the submission that it was a blemished decision of the Commissioner based on faulty reasoning which has rightly been reversed by the Tribunal. Apart from relying upon the reasons which persuaded the Tribunal to conclude the matter in favour of the Revenue, he strenuously argued that since the excise duty is leviable on the product, any assessee taking advantage of the exemption notification had to strictly

¹ (1990) 3 SCC 447

A come within the four corners of the said Notification to get the benefit thereof. Adopting this line of argument, he also submitted that the Notification mentions the word 'rags' simplicitor without any qualifications or exceptions. Therefore, wherever it is found that pulp is from the waste material known as 'rags', the said product would come in the excepted category. He emphasized that since it could not be denied that waste of gunny bags/jute bags is known as 'rags', if the paper is manufactured from the pulp from the waste of gunny bags/jute bags, the assessee would be disentitled to claim the benefit of the Notification.

12) We have considered the aforesaid submissions with reference to record and the plethora of material produced before us by both the sides. It cannot be denied that if one has to look into the ordinary meaning of the expression 'rags' and on that basis construe the Notification in question, the assessee would not be entitled to the concessional rate of excise duty inasmuch as the waste of gunny bags or jute bags would be called 'rags' in ordinary sense of the term. However, whether case can be decided with such simplistic overtones, is the question. We are of the view that the expression 'rags' appearing in the Notification has to be construed having regard to the attendant circumstances, the context in which the same is used in the said Notification as well as the purpose for which this term has appeared in the Notification. At the same time, it is also necessary to go behind the objective for which Notification itself is issued thereby giving it a purposive interpretation, which has become cardinal rule of interpretation. In our opinion, it is only after examining all these factors that the final decision should be arrived at.

13) Right from 1977, the Central Government prescribed concessional rates of excise duty for paper made from non-conventional raw material, subject to certain conditions. History of these Notifications, in brief, has already been traversed by

us in the beginning. The purpose for issuing such Notifications is clear, namely, to encourage the manufacturers of the paper and paper products to use non-conventional technology in contrast with the conventional technology of using pulping bamboo or wheat. The reason is too obvious. Use of bamboo or wheat for the manufacture of paper and paper products needs cutting of trees which in turn has the devastating effect of deforestation. It leads to degradation of environment and the adverse impact of deforestation with serious consequences are now well-known. On the other hand with the adoption of non-conventional methods of production by taking pulp from the waste of gunny bags/jute waste, mesta, rice straw, wheat straw, bagasse etc., not only the said waste is utilised in a useful and constructive manner, it saves environment as well. Such a benevolent purpose for issuing these Notifications has been emphasized by the Finance Ministers themselves from time to time in the budget speeches.

14) The tenor and language of various Notifications issued in this behalf from time to time also reflect the experience which was gained over a period of time. Whereas in the beginning, Notification(s) prescribed the '*Positive List*' of the materials that had to be used to get the benefit of concessional rate of duty, the thrust underwent a conceptual transformation and changed to the '*Negative List*', i.e. mentioning only those materials use whereof will not entail the benefit, thereby making the benefit available to all other forms of non-conventional materials. This was because of the reason that experience has shown that it was not proper to mention the non-conventional material by putting them in a straitjacket and to provide that all kinds of non-conventional materials used for the manufacture of paper should qualify for concessional rate excepting only those which need not be given such a benefit. This thrust, therefore, from '*Positive List*' to '*Negative List*' is of great significance and has to be kept in mind.

A 15) Proceeding further therefrom, it is important to note that the pulp made from jute, jute waste including hessian waste and old gunny bags waste are specifically included in the '*Positive List*' contained in Notification dated 17.09.1990. Thus, as per the said Notification if the paper is manufactured
B from the pulp made from the waste of the aforesaid materials, the benefit of concessional rate was admissible. To put it otherwise, it has always been clearly understood that jute or jute waste including old gunny bag waste is non-conventional material. Once that is accepted, could the intention behind
C Notification No. 22/1994-CE be to exclude this non-conventional material with the insertion of the word 'rags' in the '*Negative List*'. It seems difficult to comprehend such a kind of outcome or situation.

D 16) With the aforesaid introduction, we reproduce the '*Negative List*' of the materials specified in the Notification 22/94-CE. It mentions 'bamboo, hard woods, soft woods, reeds (other than Sarkanda) or rags'. What is intended by mentioning that pulp made from the aforesaid material would not entail
E benefit. Obviously, all other materials, namely, bamboo, hard woods, soft woods, and reeds are conventional raw materials. These are the materials which have direct bearing on cutting of trees and in turn on environment. Therefore, 'rags' has to be read *ejusdem generis*. It has to be the specie of the earlier
F kind of materials mentioned therein. Otherwise, it would not make any sense. Admittedly, jute waste or for that matter gunny bag waste have no adverse impact on environment. Significantly, while mentioning reeds, the Sarkanda is specifically excluded therefrom.
G

H 17) It needs to be emphasized that prior to 1984, the exemption to paper made from unconventional raw materials was available only when the paper is manufactured from the specified non-conventional raw materials. For example, Notification No. 46/83-CE dated 01-03-1983 prescribed

concessional rate of excise duty for paper containing not less than fifty per cent by weight of pulp made from bagasse, jute stalks, cereal straw, elephant grass (*Imperata Cylindrica*), mesta (Kneaf) or waste paper. Thus, jute stalks was specified as a non-conventional raw material in the notification itself. However, vide Budget of 1984, the scope of the exemption to paper made from non-conventional raw materials was widened and relevant portion of Notification No. 25/84-CE dated 01-03-1984 reads as under:

“In exercise of the powers the Central Government hereby exempts paper and paperboards manufactured out of pulp containing not less than 50 per cent by weight of pulp made from materials (other than bamboo, hardwoods, softwoods, reeds or rags)...”

Thus, right from the year 1984, the coverage of the Notification was widened inasmuch as any materials other than the specified ones would be considered as non-conventional raw materials and the paper made therefrom would be eligible for the exemption. This is also evident from the Finance Minister's speech while presenting the Finance Bill, 1984, relevant portion of which reads as under:

“108... As a further measure of relief, I proposed to reduce the basic excise duty on printing and writing paper and also kraft paper produced by large paper mills by Rs. 425 per metric tonne, and corresponding concessions are being given on the duty leviable on such paper when unconventional raw materials are used in their manufacture. Simultaneously, the range of permissible unconventional raw materials is being expanded.”

18) The Budget Explanatory Notes to Finance Bill, 1984 (at para 8.6) reads as under:

“8.6 Another change made is with regard to extending

A the scope of unconventional raw materials by paper mills
for the purpose of duty concessions. It has not been
provided that the concessions would be available for use
of any raw materials (other than bamboo, hard woods,
soft woods, reeds and rags) to the extent of at least 50%
B by weight of pulp in the manufacture of paper (with few
exceptions) or paperboard. In other words, so long as
the percentage by weight of pulp bamboo, hard woods,
soft woods, reeds or rags is not more than 50%, the
concessional rates of excise duty would apply.”

C
19) Thus, all the above materials and the notifications
clearly suggest that the Government itself distinguished
between jute bags/gunny bags and rags and the exemption
was being extended to paper made from old jute/gunny bags.

D
20) No doubt, such exemption Notifications call for strict
interpretation. However, at the same time when the expression
'rags' is not defined in the Notification, it has to be assigned a
particular meaning which defines the purpose for which such
E a Notification was issued giving by plain meaning, even when
there is a total disconnect between the said meaning and the
Notification, may lead to absurd results as it would exclude
the non-conventional material in the form of waste from jute
bags or gunny bags even when this very material was there in
F the 'Positive List' and qualified for exemption. This Court has
held in the case of *H.M.M Limited v. Collector of Central
Excise, New Delhi*² that the benefit of Notifications has to be
interpreted by going into the purpose of beneficial notifications
and that one does not have to go only by the language
G employed therein.

21) To the same effect is the judgment of this Court in
Collector of Central Excise and Others v. Himalayan

Cooperative Milk Product Union Ltd. and Others³ where A
this Court remarked that 'purpose and policy decision behind
the notification should not be defeated by giving it some
meaning other than what is clearly and plainly flowing from it.
At this stage, it would also be pertinent to refer to another
judgment of this Court in **Rohit Pulp and Paper Mills Ltd. v. B**
Collector of Central Excise⁴, wherein the Court held that there
would be circumstances where a generic word is to be given
limited meaning by reason of its context. We would like to
borrow the following discussions therefrom:

C
"10. The principle of statutory interpretation by which a
generic word receives a limited interpretation by reason
of its context is well established. In the context with which
we are concerned, we can legitimately draw upon the
"noscitur a sociis" principle. This expression simply D
means that "the meaning of a word is to be judged by the
company it keeps." Gajendragadkar, J. explained the
scope of the rule in *State v. Hospital Mazdoor Sabha*
(1960-2 S.C.R. 866) in the following words:

E
"This rule, according to Maxwell, means that, when two
or more words which are susceptible of analogous
meaning are coupled together they are understood to
be used in their cognate sense. They take as it were
their colour from each other, that is, the more general is F
restricted to a sense analogous to a less general. The
same rule is thus interpreted in "Words and Phrases"
(Vo. XIV, p. 207): "Associated words take their meaning
from one another under the doctrine of noscitur a sociis,
the philosophy of which is that the meaning of a doubtful G
word may be ascertained by reference to the meaning
of words associated with it; such doctrine is broader than

3. (2000) 8 SCC 642

4 1990 (47) ELT 491 (SC)

A the maxim *Ejusdem Generis*.” In fact the latter maxim “is
only an illustration or specific application of the broader
maxim *noscitur a sociis*”. The argument is that certain
essential features or attributes are invariably associated
B with the words “business and trade” as understood in
the popular and conventional sense, and it is the colour
of these attributes which is taken by the other words used
in the definition though their normal import may be much
wider. We are not impressed by this argument. It must
be borne in mind that *noscitur a sociis* is merely a rule of
C construction and it cannot prevail in cases where it is
clear that the wider words have been deliberately used
in order to make the scope of the defined word
correspondingly wider. It is only where the intention of
the Legislature in associating wider words with words of
D narrower significance is doubtful, or otherwise not clear
that the present rule of construction can be usefully
applied. It can also be applied where the meaning of the
words of wider import is doubtful; but, where the object
of the Legislature in using wider words is clear and free
E of ambiguity, the rule of construction in question cannot
be pressed into service.”

This principle has been applied in a number of contexts
in judicial decisions where the Court is clear in its mind
F that the larger meaning of the word in question could not
have been intended in the context in which it has been
used. The cases are too numerous to need discussion
here. It should be sufficient to refer to one of them by way
of illustration. In *Rainbow Steels Ltd. v. C.S.T.*, (1981) 2
G SCC 141 this Court had to understand the meaning of
the word ‘old’ in the context of an entry in a taxing tariff
which read thus:

H “Old, discarded, unserviceable or absolute machinery,

stores or vehicles including waste products " A

Though the tariff item started with the use of the wide word 'old', the Court came to the conclusion that "in order to fall within the expression 'old machinery' occurring in the entry, the machinery must be old machinery in the sense that it has become non-functional or non-usable". B
In other words, not the mere age of the machinery, which would be relevant in the wider sense, but the condition of the machinery analogous to that indicated by the words following it, was considered relevant for the purposes of C
the statute.

11. The maxim of *noscitur a sociis* has been described by Diplock, C.J. as a "treacherous one unless one knows the *societas* to which the *socii* belong" (vide: Letang v. D
Coopex, 1965-1 Q.B. 232). The learned Solicitor General also warns that one should not be carried away by labels and Latin maxims when the word to be interpreted is clear and has a wide meaning. We entirely E
agree that these maxims and precedents are not to be mechanically applied; they are of assistance only in so far as they furnish guidance by compendiously summing up principles based on rules of common sense and logic. F
As explained in *Collector of Central Excise v. Parle Exports (P) Ltd.*, 1989 (38) E.L.T. 741 (S.C.) = (1989-1 S.C.C. 345 at p.357) and *Tata Oil Mills Co. Ltd. v. C.C.E.*, 1989 (43) E.L.T. 183 (S.C.) = (1989-4 SCC 541 at p. 545-6) in interpreting the scope of any notification, the Court has first to keep in mind the object and purpose of the notification. All parts of it should be read harmoniously G
in aid of, and not in derogation, of that purpose. In this case, the aim and object of the notification is to grant a concession to small scale factories which manufacture paper with unconventional raw materials. The question H

A naturally arises: Could there have been any particular
object intended to be achieved by introducing the
exceptions set out in the proviso? Instead of proceeding
on the premise that it is not necessary to look for any
reason in a taxing statute, it is necessary to have a closer
B look at the wording of the proviso. If the proviso had
referred only to 'coated paper', no special object or
purpose would have been discernible and perhaps there
would have been no justification to look beyond it and
enter into a speculation as to why the notification should
C have thought of exempting only 'coated paper'
manufactured by these factories from the purview of the
exemption. But the notification excepts not one but a
group of items. If the items mentioned in the group were
D totally dissimilar and it were impossible to see any
common thread running through them again, it may be
permissible to give the exceptions their widest latitude.
But when four of them-undoubtedly, at least three of them-
can be brought under an intelligible classification and it
E is also conceivable that the Government might well have
thought that these small scale factories should not be
eligible for the concession contemplated by the
notification where they manufacture paper catering to
industrial purposes, there is a purpose in the limitation
F prescribed and there is no reason why the rationally
logical restriction should not be placed on the proviso
based on this classification. In our view, the only
reasonable way of interpreting the proviso is by
understanding the words 'coated paper' in a narrower
G sense consistent with the other expressions used therein."

22) The aforesaid discussion would be sufficient to hold
that pulp from the waste of jute bags or gunny bags would not
be covered by the term 'rags' appearing in Notification dated
H 01-03-1994 as it could never be the intention to exclude non-

conventional material from the benefit of the aforesaid A
Notification when that was precisely the purpose for which this
Notification was issued to encourage use of non-conventional
material for the purposes of manufacturing paper or paper
products. Still, we would now like to take note of the dictionary
meaning that is assigned to the aforesaid terms, that too from B
the '*Dictionary of Paper*' by American Paper and Pulp
Association, which obviously is the most relevant and
authenticated dictionary for the purpose of the present case
as what is in vogue and understood in paper industry is C
contained in such a dictionary.

23) The Dictionary of Paper by American Paper and Pulp
Association clearly makes a distinction between rag pulp and
jute. Relevant portion of the book (contained at pages 22 and
26) is reproduced below: D

"Cotton fibre or rag pulps are used principally in the
manufacture of fine and technical papers as listed below,
and in the manufacture of roofing papers.."

Jute Pulp is used in the manufacture of wrapping paper
and tag stock. It is also used to some extent in buff drawing
paper. The major supply of jute comes from old sacking,
burlap and string..." E

Jute ... Old gunny and sacking are used as raw materials
in papermaking" F

24) The book '*Pulp and Paper Chemistry and Chemical
Technology*' by James P. Casey again distinguishes between
rags and jute in the following manner: G

"Use of Rags for Papermaking

High-grade cotton and, to some extent, linen rags are used
to make the best grades of bond, writing and technical H

A papers, where permanence, high strength, and distinctive quality are of interest.

Pulping of Jute

B Whole jute is rarely used for pulp and papermaking. Salvaged products, such as old jute sacks and burlap, are the materials available to the paper mills. Waste jute is cut into small pieces and dusted before cooking.. Jute pulps are used for the manufacture of high-strength bags, wrappings, drawing papers, and tags.”

C 25) Dictionary of Paper by TAPPI defines ‘rag pulps’ as under:

D “Papermaking fibers made from new or old cotton textile cuttings. The term may also apply to cotton linters, i.e., the short fibers which adhere to the cotton seed after the ginning process. Rag pulps are used in papers where permanence and durability are needed, e.g., ledger, blueprint, map, currency papers etc.”

E 26) Indian Standard Glossary of Terms used in Paper Trade and Industry – IS 4661 : 1999 defines ‘jute’ and ‘rag pulp’ as under:

F “Jute : (a) An Indian bast fibre, white jute (*Corchorus Capsularis*) and tossa jute (*C. Olitorius*) which is used for the manufacture of coarse sacking and bags (gunny sack). Old gunny and sacking are used as raw materials in papermaking...

G Rag Pulps: Papermaking fibres of cotton made from materials like new or old cotton textile cuttings or cotton linters, mill run, fly cotton, cotton waste etc. Rag pulps are used in papers where permanence and durability are needed, for example, ledger, blueprint, map, currency

H

papers etc." A.

27) Thus, almost all the books on the subject uniformly define 'rag' or 'rag pulp' as one which is made from cotton waste or cotton textile material. On the other hand, the learned counsel appearing for the Revenue could not point out to a single dictionary or could take us through any technical literature which even remotely suggests that jute gunny bags come under the category of 'rags' in the context of paper technology. B

28) The Tribunal has simply brushed aside the aforesaid material with a mere observation that it is not relevant and this approach of the Tribunal cannot be justified. C

29) The upshot of the aforesaid discussion is to hold that the impugned decision of the Tribunal does not stand judicial scrutiny and warrants to be set aside. We, thus, allow this appeal, quash the order of the Tribunal and restore the order that was passed by the Commissioner. D

No costs. E

Devika Gujral

Appeal allowed.