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Case Comment on the Judgement of State of U.P. Vs. Lalta Prasad Vaish

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ABSTRACT

In 8:1 decision delivered on 23 October 2024, a nine-judge Constitution Bench led by CJI D.Y. Chandrachud reversed the earlier interpretation in Synthetics & Chemicals (1990), broadening the scope of “intoxicating liquors” under Entry 8 of the State List to include industrial alcohol (including denatured and rectified spirits). The Court held that this broader definition enables state legislatures to regulate, licence, and levy fees—including on industrial alcohol—since it can potentially be converted into potable liquor, thereby impacting public health and state revenue. The ruling emphasized harmonizing Entries 8 (State) and 52 (Union List), rejecting the notion that Parliament, via Section 18G of the Industries (Development and Regulation) Act, 1951, had an exclusive domain over industrial alcohol. Justice Nagarathna dissented, arguing that industrial alcohol—being non-potable—should remain under Union control and that the doctrine of occupied field applies under Union List Entry 52. The decision marks a pivotal shift in federal power dynamics, empowering states to curb the illicit conversion of industrial alcohol, bolster public health safeguards, and augment revenue through excise fees.

I. INTRODUCTION

Citation: 2024 INSC 812

Appellant: State of Uttar Pradesh

Respondent: Lalta Prasad Vaish

Court: Supreme Court of India Case

Type: Civil Appeal, Constitution Judgment

Date: October 28, 2024

II. FACTS

The case primarily deals with the issue of constitutional distribution of legislative power concerning alcohol and the core deals with issue of interplay between union and state government’s power to regulate and tax alcohol, particularly industrial alcohol. The case is

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related with fundamental issue of overlapping entries in union and state list as mentioned in schedule seven of constitution. Case interprets several key entries in the seventh schedule of the constitution, the seventh schedule divides the legislative power, the lawmaking power between union and state by dividing subject of law making into union, state and concurrent list.

Entry 8 of List II grants States authority over the production, manufacture, possession, transport, purchase, and sale of intoxicating liquors, whereas Entry 52 of List I empowers Parliament to regulate industries deemed necessary for Union control in the public interest. Alcohol can be categorized as potable for consumption or non-potable for industrial use. The case specifically examines regulatory responsibilities related to taxation and industrial alcohol.

Wholesalers engaged in the sale of specially modified alcohol calculated state-imposed ad valorem license fees. Respondents challenged these fees, arguing that the State lacked jurisdiction over industrial alcohol, citing *Synthetics & Chemicals Ltd. v. State of U.P.*, which limited State control over industrial alcohol. The State of Uttar Pradesh, exercising its regulatory authority under Entry 8 of List II, imposed a levy on the sale and transport of denatured alcohol. However, the respondent, M/S Lalta Prasad Vaish and Sons, contended that the Industries (Development and Regulation) Act, 1951 (IDRA), vested regulatory power over industrial alcohol with the Union.

III. ISSUES

1. Whether Uttar Pradesh as a state holds legislative power and competence to impose a license fee on denatured spirits like alcohol?
2. Whether a clear distinction lies between legislative control as divided by constitution's schedule lists between portable and industrial alcohol?
3. Whether Section 18-G of the Industries (Development and Regulation) Act, 1951 (IDRA) ousts the states' power to regulate industrial alcohol and provides union to regulate industrial alcohol?

IV. LEGAL PROVISIONS

1. Section 18 G of Industries (Development and Regulation) Act, 1951- (hereinafter referred as IRDA) grants the Union power over scheduled industries, including alcohol production.
2. Seventh Schedule of Constitution of India - Entry 52 of List 1 and Entry 8 of List 2, with reference to Entry 33 of List 3.

3. Previous Judicial Precedents:

- (a) Synthetics and Chemical Limited vs. State of Uttar Pradesh (1990)
- (b) Vam Organic Chemical Limited vs. State of Uttar Pradesh (1997)

V. ARGUMENTS

Arguments from the side of appellant: The appellant structured their arguments on the basis that the state holds the power to impose fee to prevent the diversion of industrial, non-potable alcohol for portable alcohol uses. This fee is imposed as a regulatory measure to oversee industrial alcohol usage and not as a tax. Their main contention was that the decision of the Supreme Court related to Synthetic Chemicals case (S7) judgment should be revisited as the interpretation was flawed.

Arguments from the side of respondent: The foundation of respondent's argument was laid on the fact that state government lacks competence to regulate denatured spirit like alcohol as it's an industrial product and Section 18G provides union a foolproof, exclusive control over this subject matter. The tax being levied on such transaction is not a regulatory charge and should be deemed unconstitutional as there is no clear nexus between the fee levied and administrative costs being incurred by the state.

VI. JUDGEMENT

The Supreme Court overturned Synthetics in an 8:1 majority decision, holding that states do have legislative authority over industrial alcohol. In his majority opinion, Chief Justice Chandrachud came to the conclusion that both industrial and consumable alcohol could be considered "intoxicating liquors" under Entry 8 of the State List. The states' regulatory scope was expanded because the term encompasses alcohol that can be harmful to public health.

VII. ANALYSIS

The judgment of *State of Uttar Pradesh vs. Lalta Prasad Vaish (2024)* acted as a final verdict on the long going debate and spanning multiple appeals and special leave petitions related to conflict in overlapping interpretation of similar entries related to portable and non-portable alcohol. The court suggests that the parliament is ought to maintain federal balance in system by having wide scope of interpretation of such entries. The ruling reiterates the importance of cooperative federalism, where both the union and states must work in tandem rather than in conflict. While the majority upheld state regulation to prevent misuse of industrial alcohol, it also struck down the arbitrary license fee imposed by Uttar Pradesh. This distinction ensures that states cannot use regulatory powers as a means to impose indirect taxation, which would

otherwise encroach upon the union's exclusive domain.

Journey to resolve this conflict began with *Synthetics and Chemicals limited vs. State of Uttar Pradesh (1980)*, a two-judge bench case that initially interpreted Entry 8 broadly to include both portable and non-portable alcohol. This was challenged leading to *Synthetics and Chemicals Limited vs. State of Uttar Pradesh (1990)*, a 7-judge bench decision which significantly narrowed the scope of Entry 8 ruling that intoxicating liquors referred only to portable alcohol which is fit for human consumption. This decision however sparked a wave of litigation and conflicting interpretations over the years. The 1990 decision led to a series of cases with varying interpretations: *Sri Bhileshwar Khand Udyog Kedut Sahakari Mandali vs. State of Gujrat (1992)* and *Gujchem Distillers India versus state of Gujarat (1992)* attempted to reconcile the 1990 ruling with the state's power to regulate industrial alcohol to prevent its diversion for portable use. *State of Andra Pradesh vs. McDowell (1996)* and *VAM Organic Chemicals vs. State of Uttar Pradesh (1997)* and its sequel *VAM Organic Chemicals vs. State of Uttar Pradesh (2004)* which dealt with licensing and fees for denaturing alcohol.

Bihar Distillery versus Union of India (1997) further complicated matters by suggesting a purpose-based distinction where the union would control alcohol for industrial use while states would control alcohol for portable use. *Government of Haryana vs. Haryana Brewery (1997)* led to the current nine judge bench referral the court recognized the need to clarify the inconsistencies and settle the long-standing dispute. The current nine judge bench decision therefore is a culmination of decades of legal wrangling.

The majority view overrules Synthetics's decision and takes a broader view of Entry 8 of list II by arguing that intoxicating liquors isn't limited to just portable alcohol but includes any alcohol that could be misused or diverted for consumption even industrial alcohol. The court emphasizes the need for a wide interpretation of legislative entries to maintain the federal balance the court also clarifies the scope of Entry 52 of list one. It holds that the Union's power to control industries isn't absolute and the parliament must specifically define the extent of control it's assuming over an industry. Simply declaring an industry to be under union's control doesn't automatically restrict the state's power in all aspects. The court rejects the idea that the IDRA, by merely including fermentation industries automatically gives the union complete control over all aspects of alcohol including those traditionally regulated by the states. The court emphasizes the need to reconcile overlapping entries harmoniously avoiding interpretations that render other entries redundant. The majority opinion also delves into the meaning of intoxicating Liquors in entry 8 of list 2 it examines previous cases like *FN Balsara vs. state of Bombay (1951)* which interpreted liquor broadly and *Southern*

Pharmaceuticals and chemical vs. state of Kerala (1981) which focused on preventing the misuse of alcohol in medicinal and toilet preparations. The court's analysis of FN Balsara is particularly interesting it highlights how the original interpretation of the Bombay High Court was too narrow and the Supreme Court's subsequent reversal emphasized the need to prevent the misuse of alcohol even in non-beverage forms. The judgment also addresses the 2016 amendment to item 26 of DRA's first schedule which excluded portable alcohol from the Union's control. The court interprets this amendment in light of its broader interpretation of Entry 8 effectively limiting the Union's control over alcohol to non-portable varieties. The court also discusses *Tika Ramji vs. State of Uttar Pradesh (1956)* which established a three-fold classification of industrial activity pre-production production and postproduction. However, the current judgment finds *Tika Ramji* largely irrelevant to the alcohol dispute because of its broader interpretation of Entry 8. Finally, the judgment addresses the role of section 18 G of the IDRA which allows the central government to regulate the supply and distribution of articles related to scheduled industries. The court clarifies that the mere existence of section 18 G doesn't automatically oust the state's power. A specific notified order under Section 18 G is necessary to occupy the field. The dissenting opinion takes a different stance as justice agrees with the Synthetic's decision, arguing that the state legislators lack the competence to legislate on industrial alcohol due to the IDRA's control over fermentation industries.

VIII. CONCLUSION

This clarifies the constitutional balance of power regarding alcohol regulation and taxation resolving decades of uncertainty. It also impacts various state excise laws and the functioning of industries that use alcohol as a raw material. The decision will undoubtedly shape future litigation and policy decisions related to alcohol in India. The case underscores the complexities of interpreting constitutional provisions and the importance of harmonizing seemingly conflicting entries the detailed analysis of the Court both in the majority and dissenting opinions provides valuable insights into the intricacies of Indian federalism and the ongoing evolution of its legal framework.

The case also emphasizes the constitutional interpretation norm of harmonious construction. In order to ensure that State and Union interests coexist without making any provisions redundant, the Court carefully reconciles Entries 8 and 52. This strategy is in line with the larger legal theory of purposive interpretation, which aims to preserve the Constitution's word and spirit. In the end, the ruling not only ends an extensive legal dispute but also offers a

template for similar legislative disputes in the future.

The decision enhances India's constitutional framework and fosters legal certainty in industrial regulation by upholding a balance between state autonomy and national economic interests.
