Tariff Revision Committee

Interim Report

May—1965

DIRECTORATE OF COMMERCIAL PUBLICITY, MINISTRY OF COMMERCE, GOVERNMENT OF INDIA, NEW DELHI

Composition of the Committee

1.	Shri S. Subramanian, Indian Statistical Service .	Chairman
2.	Shri P. Chentsal Rao, Secretary, Federation of Indian Chambers of Commerce & Industry, New Delhi .	Member
3.	Mr. R. V. Leyden, General Manager, Voltas Ltd., Bombay, representing the Associated Chambers of Commerce, Calcutta	,,
4.	Shri Y. A. Fazalbhoy, Managing Director, General Radio & Appliances Ltd., Bombay, representing the All India Manufacturers' Organisation, Bombay . . .	,,
5.	Shri Gulabchand G. Siraj, President, All India Exporters' Chamber, Bombay	,,
6.	Shri R. C. Shah, President, All India Importers, Association, Bombay	,,
7.	Shri M. Panchappa, Deputy Secretary, Ministry of Finance, (Department of Revenue), New Delhi . .	,,
8.	Dr. B. D. Kalelkar, Deputy Director General (Engg.) Ministry of Industry & Supply, (Directorate General of Technical Development), New Delhi	,,
9.	Shri C. Balasubramaniam, Deputy Secretary, Ministry of Industry & Supply, (Department of Industry), New Delhi	,,
10.	Shri S. C. Mukherjee, Deputy Iron & Steel Controller, Calcutta	,,
11.	Shri S. P. Gugnani, Deputy Secretary, Ministry of Steel & Mines, (Department of Mines & Metals), New Delhi	,,
12.	Shri S. D. Bhambri, Deputy Secretary, Ministry of Petroleum and Chemicals, New Delhi	,,
13.	Shri J. Banerjee, Director, Export Assistance, Ministry of Commerce, New Delhi . . .	,,
14.	Shri V.A. Padmanabhan, Officer on Special Duty (GATT), Ministry of Commerce, New Delhi	,,
15.	Dr. P.K. Mukherjee, Additional Economic & Statistical Adviser, Ministry of Food & Agriculture, New Delhi	,,

16.	Dr. P. V. Gunishastri, Director (Review & Research), Tariff Commission, Bombay . .	Member
17.	Shri K. L. Saxsena, Director of Statistics, Office of the Chief Controller of Imports & Exports, New Delhi .	,,
18.	Shri S. P. Jain, Director General, Department of Commercial Intelligence & Statistics, Calcutta .	,,
19.	Shri E. S. Krishnamoorthy, Ex-Chairman, Central Board of Revenue	,,
20.	Shri S. Venkatesan, Indian Revenue Service . .	Member-Secretary

CONTENTS

CHAPTER I

Genesis and Progress of Work

The Tariff Revision Committee was constituted by the Government of India in the late Ministry of International Trade by their Resolution No. 10(8)/63-GATT, dated the 17th March, 1964, to conduct a comprehensive enquiry into the structure of the Indian Customs Tariff and recommend the lines on which it might be revised and improved.

2. The terms of reference of the Committee are as follows:—

(1) To examine the present structure of the Indian Customs Tariff (Import and Export) Schedule with reference to the composition of products and pattern of India's import and export trade.

(2) In the light of the examination made under item (1) and having regard to the international developments and changed pattern of trade, to recommend whether the Import Tariff Schedule should be based on the Brussels Tariff Nomenclature or other international nomenclature or whether India may continue to have its separate Import Tariff Schedule after necessary improvement.

(3) To advise the Government of India regarding the lines on which the Customs Tariff Schedule should be revised, with particular reference to the need for—

(a) the creation of additional tariff items for articles of recent development and of commercial importance;

(b) revision of the classification of machinery, iron and steel and textiles in the context of the changed pattern of trade; and

(c) provision for assessment of parts of articles.

(4) To recommend suitable amendments to the classifications and nomenclature of the Export Tariff Schedule.

(5) To review the substantive provisions of the Indian Tariff Act, 1934, Tariff (Amendment) Act, 1949 as well as other relevant legislations and to recommend modifications or amendments required in respect of them.

(6) To make such other recommendations as may seem germane to the objective of the enquiry.

The Committee is not concerned, under the Resolution, with the rates of duty on individual products.

3. The present membership of the Committee, which represents important commercial and industrial organisations as well as the Government departments mainly concerned with Customs matters and import duties, has been shown on pages (i) and (ii).

4. Our terms of reference not only cover a wide range, but also demand close study and expert knowledge, particularly in connection with the preparation of a complete tariff schedule. We considered that the best method of approach would be to set up compact Sub-committees to deal with particular subjects or groups of commodities, taking assistance wherever necessary from persons outside the Committee but expert in their respective lines. These Sub-committees are functioning on the broad lines laid down by the Committee and the results of their work have been submitted for our consideration and approval from time to time.

5. The main Committee has held three meetings so far. At our first meeting, held at New Delhi on the 3rd September, 1964, we decided what should be our general method of work. In his inaugural speech, the Union Minister of Commerce, Shri Manubhai Shah, emphasised the need to modernise the nomenclature to bring it in line with the new emerging trends and developments in our national economy and on a par with the rest of the modern world and international usage. Stressing the need to eliminate existing anomalies and deficiencies, the Minister also indicated that although the Committee was not concerned with the rates of duty on individual articles, it would be free to advise Government confidentially even on fundamentals of tariff rates or duties. This would however be more for the knowledge of Government, than for publication in the report. We have found the latitude thus given

to us to be of great value in making a coherent study of the problems before us.

6. We felt that, while the opinion of the public and of the concerned Government Departments should be elicited by issuing a questionnaire, we should also start our studies straightway. As the most important issue before us was to decide the basis of the revised tariff, we set up a Sub-committee to make a comparative study of the merits of the different possible Classifications, and to recommend what should be the basis of the new tariff. Since the classification of articles of machinery had given rise to a number of problems, we also set up a Sub-committee to go into the classification of articles of machinery in the light of the existing tariff and the other Classifications, *viz.* the B.T.N., S.I.T.C., (Revised) or R.I.T.C., and the I.T.C. Schedule, and evolve a model section of the tariff which should preferably be more compact than the existing one.

7. The second meeting of the Committee was held in Calcutta on the 17th December 1964. The resolution setting up the Committee permits it to co-opt members as might be necessary from time to time. We accordingly co-opted Shri E. S. Krishnamoorthy, a former Chairman of the Central Board of Revenue, as we felt that his knowledge and experience would be of great value in our work. We considered the reports of the two Sub-committees and found that there was agreement between the conclusions reached by them. For reasons which have been detailed in Chapter III, the Sub-committee on the principles of classification had recommended that the Brussels Tariff Nomenclature (B.T.N.) should form the basis for the new Indian Customs Tariff, while in drafting the detailed sub-headings, full use could be made of the sub-headings in the Revised Indian Trade Classification (R.I.T.C.). The Machinery Sub-committee had come to the conclusion that the Machinery Chapter of the new tariff might be based on the B.T.N. with suitable sub-headings (and if necessary, contractions) to give effect to our special needs.

8. While agreeing tentatively with the views of the two Sub-committees, we decided to submit an interim report to Government, so that we might be able to proceed with the detailed drafting work with some assurance that our approach was acceptable to Government.

9. The Committee also set up six other Sub-committees which, along with the Machinery Sub-committee, would deal with the different groups of commodities and evolve the draft chapters

relating to them, on the lines laid down by the Committee. It also had discussions with the Collectors of Customs, Calcutta and Bombay at its second and third meetings respectively. The Collector of Customs, Calcutta, agreed that the B.T.N. was definitely more suitable than the other Classifications as the basis of a tariff because of its precision. He, however, stressed the importance of aligning the Tariff and the I.T.C. Schedules, and if possible the Statistical Classification as well. The Collector of Customs, Bombay, while agreeing with the Committee's approach of adopting the B.T.N. as the basis of the new tariff, emhasised the advantages of a simple and easily intelligible Tariff Schedule and suggested that items which were unimportant from the point of view of our country, might be either deleted or, if this was not possible, merged together. He drew particular attention to the need for giving adequate opportunity to those who would be called upon to operate the new tariff in practice, to express their views on the draft Tariff Schedule. He also considered that it would be necessary to examine the adequacy of the technically qualified staff available in the Custom Houses in relation to the requirements for handling specialized sections of the new tariff like those relating to metals, machinery and chemicals.

10. The third meeting of the Committee was held in Bombay on the 26th March, 1965. At this meeting the Committee finalised its interim report.

CHAPTER II

Examination of the Terminology, Classification and Structure of the Existing Indian Customs Tariff

Before deciding how the tariff classification should be revised, it would be profitable to identify some of the drawbacks which have been noticed in the existing classification. The export tariff is not considered here, as it presents a much more limited problem. What is considered is the import customs tariff, forming the First Schedule to the Indian Tariff Act, 1934, and referred to in brief as the "Tariff Schedule". This Schedule broadly follows the draft customs nomenclature of the League of Nations evolved in 1931. Though the Schedule has been amended a number of times since its enactment for purposes of granting protection to indigenous industries, for raising additional revenue, for honouring international commitments, and so on, its basic framework is the same as that adopted in 1934.

2. There have been complaints that the nomenclature of the Tariff Schedule contains some anomalies, complexities and uncertainties which result in illogical classifications and delays and difficulties in the clearance of goods. It is evident that so long as a tariff contains differing rates of duty, there is always some scope for disputes; and no country has succeeded in totally eliminating such disputes. Nevertheless, it cannot be gainsaid that the Tariff Schedule suffers from a number of shortcomings, some of which no doubt have originated from, or been accentuated by, differences in the circumstances which prevailed in 1934 and those which prevail 30 years later. We are giving below details of some of these shortcomings with a view to providing a possible basis in preparing a revised tariff:—

(1) *Lack of adaptation to changes in the pattern of trade*

It may be necessary for trade agreement or protective purposes to have separate tariff headings for articles, imports of which are small. It is, however, generally not desirable that there should be too many items of negligible revenue in the long term. Nor is it desirable that a very large volume of trade should come under a single tariff heading, as that would make it difficult to distinguish between different articles which may be able to bear different rates of duty, or may require different degrees of incentive or disincentive to their importation, through the fixing of appropriate rates of duty. The following table shows the order of the duty realizations in 1963-64 under different tariff headings:—

Order of Duty Realizations	No. of Items (including protective items shown in brackets)
Upto Rs. 5 lakhs	392(13)
Between 5 & 10 lakhs	29(2)
Between 10 & 25 lakhs	37(6)
Between 25 & 50 lakhs	40(8)
Between 50 lakhs & 1 crore	21(3)
Between 1 crore & 5 crores	31(4)
Between 5 crores & 10 crores	7(1)
Over 10 crores	6(—)
TOTAL	563(37)

It will be seen that, against an overall average revenue collection of about Rs. 60 lakhs for each tariff item, over two-thirds of the tariff items accounted for less than Rs. 5 lakhs each. In many cases the figure was far less than Rs. 5 lakhs, and the revenue collected was either a few hundred rupees or nil. Some examples of headings which are practically inoperative are No. 17(3) 'Sugar-candy', 22(7) 'Vinegar in casks', 28(10) 'Saccharine tablets', 32(4) 'Candles', 42 'Furniture of wickerwork or bamboo', 49(5) 'Ghoonsis and muktakesis', 50(4) 'Ropes cotton', 63(29) 'Enamelled ironware', 70(9) 'Type metal', 71(7) 'Hurricane Lanterns', 72(17) 'Metal working machinery other than machine tools' and 75(13) 'Parts of mechanically propelled vehicles and accessories N.O.S.'. The total revenue collection in 1963-64 under all these 12 headings together was only Rs. 4,902·00, or less than two-millionths of the total revenue. This imbalance in the structure of the tariff, which is no doubt due in a large measure to the change in the pattern of our imports, will

have to be remedied when evolving a new tariff. We are, however, conscious at the same time that in any tariff such an imbalance is likely to exist to some extent.

(2) *Unnecessary sub-division of tariff headings*

This is connected to some extent with (1) above. The reasons which necessitated the introduction of several rates of duty in respect of certain groups of articles no longer obtain, though such differing rates, and the separate tariff headings introduced to provide for the different rates, continue to exist. This is seen especially in Section XV "Base metals and articles made therefrom". In pursuance of the policy of discriminating protection to the iron and steel industry, as recommended by the late Tariff Board, various distinctions were made in the tariff—between galvanised and non-galvanised, fabricated and non-fabricated and British and non-British goods; goods made of cast iron or iron or steel; tramway rails and other rails; rails of less than 30 lbs. per yard and over, and rails of a lesser weight; and so on. Each of these categorisations provided for the levy of different rates of duty. The iron and steel industry is no longer under tariff protection and imports are resorted to only to bridge the gap between demand and indigenous supply. The elaborate tariff headings and sub-headings which were considered necessary in the past may not now be necessary in the same degree of detail, whereas there may be a need to provide for new sub-divisions in certain other cases.

(3) *Failure to take account of new products*

This is also connected with (1) above. While the range and variety of imported goods has been continuously expanding in the post-war period and many new products have come into existence, there has been no corresponding elaboration of the customs Tariff Schedule. Consequently, even some quite important products of industry have to be classified under one or other of the "N.O.S." provisions. For example, plastics (except phenol formaldehyde moulding powder and P.V.C. sheets, unsupported) are assessed under the general residuary item 87; earth moving machinery and material handling equipment like mobile cranes, and fork-lift trucks are assessable as 'conveyances N.O.S.' under item 75 I.C.T.

The Tariff Schedule also contains some odd gaps even in respect of articles which are not very new. An example is the case of domestic sewing machines. There is no single heading for a complete domestic sewing machine; the head and hand attachment are specified in item 72(11)(a) which carries one rate of duty, while

"other parts" fall under item 72(11)(b) with another rate. We understand that there are historical reasons for the headings being worded in this manner, but we nevertheless think it anomalous that such a common and comparatively simple article should have had to be constructively dismantled prior to assessment, and assessed at two different rates, as we understand was the case until recently. [The Central Board of Excise and Customs have since ruled that a complete sewing machine should be assessed under item 72(11)(a)]. Similarly, there is no specific heading for a complete vehicular diesel engine, which has been ruled to be assessable under item 75(10)(i), covering certain specified engine components.

In drafting a new tariff, these and other less obvious shortcomings would have to be rectified.

(4) *Excessive Scope of "N.O.S." provisions*

The present Tariff Schedule contains a number of "N.O.S." items (that is, residual items with a "not otherwise specified" clause) such as item 63(28) "All sorts of Iron and Steel and manufactures thereof not otherwise specified", items 73 and 77 relating to electrical and non-electrical instruments, apparatus and appliances and item 87, the general residuary item. Such residual items are no doubt necessary, since individual tariff items cannot conveniently specify all conceivable articles. Nevertheless, the scope of some of these "N.O.S." or miscellaneous items is far too wide. It has been pointed out, for instance, that about 12 per cent of the customs revenue realised in 1963-64 came from the general miscellaneous item No. 87 "All other articles not otherwise specified". Classification under such residual items results from a process of elimination or exclusion, and sometimes results in unforeseen classifications. For example, semi-finished hosiery needles are classifiable as iron and steel manufactures N.O.S. under item 63(28) on which the rate of duty is 60 per cent *ad valorem*, unfinished clinical thermometers are classifiable as glass and glassware N.O.S. under item 60 on which the rate of duty is 60 per cent *ad valorem*, and fork-lift trucks and mobile cranes are assessable as conveyances N.O.S. under item 75 I.C.T. at the rate of 50 per cent *ad valorem*. Similarly, raw materials like silicon, raw asbestos, oil extended synthetic rubber etc. are classifiable under the residuary item 87 on which the rate of duty is 60 per cent *ad valorem*.

In all the above cases the hardship resulting from the application of a higher rate of duty, which was not appropriate or not intended to apply, had to be alleviated by the issue of notifications under the Customs law, making them free of duty or subject to appropriate reduced rates of duty.

We consider it necessary that the tariff headings in general should be made as specific as possible, so that the volume of articles assessed under the residual heads may be kept to the minimum. This will ensure that the rates of duty levied are fixed with close reference to the nature of the articles, and anomalous cases like those referred to are avoided.

(5) *Tariff loopholes due to lack of precision*

As indicated under sub-paragraph (1), quite a number of the 563 headings in the Tariff Schedule are ineffective in practice. The effective tariff headings which remain have been found inadequate both in number and in their precision and degree of detail, and both importers and the Customs authorities frequently find themselves in doubt regarding the scope of various headings. For instance, art silk yarn and thread have been specified in item 47(2) I.C.T., while twine is assessable under item 53. Since there are no definite criteria to distinguish between yarn, thread and twine, considerable difficulty has been experienced in determining which of the two headings would apply in particular cases.

Again, "Scientific instruments" [item 77(2)] have not been further specified, nor "Optical instruments" [item 77(4)], with the result that quite elaborate and complicated measuring instruments are sometimes excluded from the lower rates of duty applicable to these items, whereas a simple magnifying glass gets the benefit. We do not propose to multiply instances, but we have to observe that many more such examples could be given.

Apart from causing difficulty to the ordinary importer, lack of precision in wording also provides loopholes which less scrupulous importers have been only too prone to exploit. It is an accepted principle that fiscal statutes should be construed strictly in favour of the assessee and that the latter is entitled to base his stand on the wording of the tariff, irrespective of what the intention of its framers might have been. However, in the larger public interest it is undesirable that such intentions should be made ineffective by faulty wording, particularly because the I.T.C. Schedule is also connected with the Tariff Schedule, and loopholes in wording can result in the evasion of I.T.C. regulations. We therefore consider that expressions commonly used in Customs terminology, such as machinery, instruments, appliances and equipment should be amplified or defined as precisely as possible.

We agree that no system of nomenclature is likely to eliminate doubts and disputes completely; but it is clearly necessary and

possible to make the tariff headings sufficiently precise and detailed so as to reduce the scope for disputes to the minimum. We also agree with the demand for a general simplification of the Tariff Schedule. However, we would point out at the same time that simplicity in application does not necessarily go with simplicity of wording. We have dealt with this point at greater length in paragraph 8 of Chapter III of this report. For the present we would only say that, in order to facilitate classification and avoid disputes, more detailed and more numerous headings are required for important articles of import rather than apparently simple headings with a wide and undefined scope.

(6) *Provision for assessment of parts of articles*

By the Indian Tariff (Amendment) Act, 1963, the Tariff Schedule was amended to provide for component parts of various articles being assessed under the same items as the articles themselves. However, there are still some items in the tariff which refer to the whole article and not to its parts *e.g.* items 63(18), 70(11), 77(6), 77(7) etc. In cases where the items refer to the complete article and not to its parts, doubts arise regarding the appropriate item or items under which the parts should be assessed. It would make the tariff more precise, if provision were made for assessment of the parts of such articles, either in the specific items or through a general provision.

(7) *Assessment of articles of machinery*

The assessment of machinery and component parts has in particular given rise to a number of problems, and it was because of this fact, apart from the importance of machinery to the economy, that one of the two Sub-committees which the Committee set up at its very first meeting was concerned with the classification of articles of machinery. We have dealt separately and in detail, in chapter IV, with the problems attending the classification of machinery.

3. In the Resolution setting up the Committee, it was stated that the Committee is not required to go into the question of the rates of duty applicable in respect of individual products or the different classes of products and it will not be concerned with the level of duty applicable under the Customs Tariff. We think therefore that it would not be appropriate for us, in this report, to make any recommendations for adjustments in the rates of duty on specific articles. At the same time it is not possible in practice to keep our study of tariff classification entirely free of any reference to rates of duty as such, particularly as the representatives of the trade

and industry who co-operated in the Committee's work raised numerous valid points turning on anomalies in tariff rates. We have accordingly considered that it would be useful to refer in somewhat general terms to such types of anomalies or inconsistencies which would have to be avoided in framing the new Tariff.

(i) *Too many rates of duty*

The Customs Re-organisation Committee, which submitted its report in 1958, referred to the existence in the Tariff Schedule of too wide a range of *ad valorem* rates of duty, which must inevitably add to the difficulties in the day-to-day application of the tariff, particularly when tariff descriptions carrying different duties could apply to the same article. They had said:—

> "Almost all multiples of 5 upto 100 are to be found in these rates. We appreciate that a Customs tariff should normally make a distinction between various categories of goods, as for example, (1) essential and non-essential consumer articles, (2) raw materials for essential and non-essential industries, (3) protected and non-protected items, but the reasons for prescribing different *ad valorem* rates of duty for articles falling within the same category is not clear."

We appreciate that this multiplicity of rates is in many cases due to the rates on individual items having been altered separately, at different times, for revenue purposes. It is, however, obviously necessary, when a comprehensive review of the tariff is being undertaken, to harmonise the rates of duty on different articles and avoid unnecessary distinctions.

(ii) *Iron and Steel*

The specific rates of duty on certain articles of iron and steel were fixed several years ago. Because of a steady rise in prices, the relationship between the specific and *ad valorem* rates of duty has been upset, with the result that where there are alternative specific and *ad valorem* rates of duty, the specific rates have lost all significance, having become wholly ineffective, as the duty at the *ad valorem* rate is invariably higher than the specific duty. Owing to the use of alternative *ad valorem* and specific rates of duty, it has also been found necessary to issue exemption notifications, to prevent the 'favourable' rate of duty on British goods becoming higher than the rate on non-British goods. In the process of rationalisation of the tariff, such redundant specific rates of duty should be eliminated. The ineffective distinctions between British and non-British goods can also be given up.

CHAPTER III

Basis of the New Tariff

The first and most important point which the Committee had to decide was whether the existing framework of the Tariff Schedule should be preserved, with amendments and improvements wherever necessary, or whether the revised tariff should be based on a Standard Classification like the Brussels Tariff Nomenclature (B.T.N.) or the Standard International Trade Classification (S.I.T.C.) (Revised), or the Revised Indian Trade Classification (R.I.T.C.), which is based on the S.I.T.C. (Revised) but considerably amplified and amended to take account of India's pattern of Trade.

2. The features of the various Classifications have been described in the note at Appendix I. These were considered by the Sub-committee on the principles of classification, of which Mr. R. V. Leyden was the Convener. This Sub-committee recommended that the B.T.N. should form the basis for the new Indian Customs Tariff, and that this tariff should maintain the basic structure of the B.T.N., subject to the contraction of the main headings wherever necessary, and also expansion of the main headings by the introduction of sub-headings to suit the pattern of our trade as it exists and as it may be expected to develop in the foreseeable future. In determining these sub-headings, the R.I.T.C. should be of great value. The detailed reasons for the Sub-committee's conclusion were as below:—

(i) The B.T.N. has been designed *inter alia* with a view to the international comparability of tariffs and has been adopted by a large number of countries as the basis of their tariffs.

(ii) While it is quite comprehensive, the number of headings (1097) is manageable, in contrast to the R.I.T.C. with its 5000 headings.

(iii) It is correlated to the Statistical Classifications of trade data such as the S.I.T.C. (Revised) and the R.I.T.C.

(iv) It has the same origin as, and is broadly similar to, the present Indian Customs Tariff, and therefore, a transition from the present tariff to a new one based on the B.T.N. would not be too difficult.

(v) It is backed by readily available technical guidance in the form of exhaustive Explanatory Notes, Classification Opinions etc., which are under constant review by expert bodies to ensure that they are always abreast of technological progress. There are also Alphabetical Indexes to facilitate easy location of any goods in the Nomenclature as well as in the Explanatory Notes.

(vi) Being a scientific system of four-digit classification, capable of being expanded to a further number of digits on the same pattern, it would also facilitate the application of modern data processing devices when they are adopted in India.

(vii) It has already been agreed between the U.N.O., and the Customs Co-operation Council that it is the B.T.N. which should be recommended for adoption as a basis for Customs tariffs.

3. As stated in Chapter I, the Committee, at its second meeting, tentatively accepted the conclusions of the Sub-committee. It did not take a final decision at that stage, as the replies to the questionnaire were still due and it was not possible to take fully into account the opinion of the public and Government departments.

4. The Committee has since seen an analysis of the replies received to the part of the questionnaire dealing with the basis of the revised tariff. A copy of this is at Appendix II. It will be seen from this statement that practically all those who have expressed any views on this point are in favour of basing the new tariff on one of the two standard nomenclatures, namely the B.T.N., or the S.I.T.C. (Revised), (or the R.I.T.C., which is the S.I.T.C., Revised, adapted for India's needs). While the majority opinion is in favour of a tariff based on the B.T.N., the formula proposed by the Sub-committee, namely a tariff based on the B.T.N. with modifications and making use of the R.I.T.C. for its sub-headings, would to some extent meet the views even of those bodies and persons who have suggested a tariff based on the S.I.T.C., Revised or the R.I.T.C.

5. After considering all aspects, our conclusion is broadly what it was before. We would, however, make it clear that the broad structure of the B.T.N. should be accepted in principle although it may not be practicable to adopt the B.T.N. as it is and in all its details. The general structure of the B.T.N., and the sequence and broad scope of its sections and chapters, will serve to provide a convenient frame of reference, which in fact would in many cases approximate to the provisions of the existing tariff. In several cases, the wording of the B.T.N. headings could also be adopted. The device of having section and chapter notes, to impart precision without making the individual headings too lengthy, can also be usefully adopted. Subject to these considerations, the freedom should be retained to evolve headings in accordance with the requirements of our economy, making free use of the headings in the R.I.T.C.

6. We would like to explain some of the reasons which have led us to prefer the B.T.N. as a base and not the S.I.T.C. Revised. We observe that each of these classifications has been evolved as a result of the sustained efforts of experts of several countries. Though each has been evolved for a different purpose, steps have been taken to correlate them. It has also been agreed between the United Nations and the Customs Co-operation Council, the bodies administering the two Classifications, that it is the B.T.N. which should be recommended for tariff purposes.

7. So far as the public in India are concerned, the S.I.T.C., Revised, is likely to be of greater appeal, since it is more or less familiar to them. But this is only a transient advantage. If proper steps are taken, as should be done, to enable the public to familiarise themselves in advance with a B.T.N.—based tariff, it will become equally familiar to all concerned, particularly because under the scheme which we have proposed, the individual headings would be fully correlated with the statistical headings of the R.I.T.C.

8. We further consider that as a base for tariff purposes, the B.T.N. has the following important advantages over the S.I.T.C., Revised:—

(1) **Precision**—The B.T.N. has been evolved as a basis for Customs Tariffs, where the interpretation of the various headings can involve substantial differences in the duty leviable. Therefore, it has been so worded as to be as exact and precise as possible, even though this involves the use of comparatively long headings in places, and detailed Section and Chapter notes. We would observe here that simplicity in a Customs tariff can only be relative. Particularly in an economy like that of India, whose industries are in the

process of development, the goods that are imported range from the simplest to the most sophisticated product. Many of them are balancing or semi-finished components, to complement indigenous production. Our Customs duties have therefore to provide the necessary gradation to allow for the present needs of the economy while providing a sufficient incentive for local manufacturers to supply such needs in time. The Customs tariff must therefore have the necessary flexibility to allow for differentiation in duties between articles, or different stages of manufacture of the same article, to achieve these twin objects. To provide this flexibility, it is necessary that the tariff should be fairly detailed. (Even otherwise, for I.T.C. and statistical purposes, a fairly detailed classification is necessary). With a detailed classification and different rates of duty, the need for precision in definition is very great. Otherwise, there is room for doubts, disputes and delays. A detailed classification which leaves as little scope for doubt as possible, would help not merely to resolve disputes but also to avoid them, by enabling the importer to know in advance what the tariff classification would be. To achieve this object, it will be necessary to be detailed to the point, at times, of appearing complicated. It is the experience of Customs administrations that this degree of detail and "complication" is preferable to a surface simplicity which leaves wide scope for differences of interpretation and opinion. In this respect, the B.T.N. differs markedly from the S.I.T.C., Revised, whose headings, having no fiscal implications, have been worded in brief and comparatively less precise terms. The examples given below of how the same commodities are defined in the B.T.N. and in the S.I.T.C., Revised, respectively will bring out the force of this point:

B.T.N. Heading and Description		Corresponding S.I.T.C. (R) Heading and Description	
15·12	Animal or vegetable fats and oils, hydrogenated, whether or not refined but not further prepared.	431·2	Hydrogenated oils and fats.
29·38	Provitamins, and vitamins, natural or reproduced by synthesis, including concentrates and inter-mixtures, whether or not in any solvent.	541·1	Vitamins and provitamins.
70·18	Clock and watch glasses and similar glasses (including glass of a kind used for sunglasses but excluding glass suitable for corrective lenses), curved, bent, hollowed, and the like; glass spheres and segments of spheres, of a kind used for the manufacture of clock and watch glasses and the like.	664·9(3)	Clock and watch glasses etc.

(2) **Aids to interpretation**—Even after making the headings as detailed and precise as possible, it would be too optimistic to believe that disputes can be avoided altogether. To provide for resolving such disputes, an elaborate system has been set up by the Customs Co-operation Council. This includes publications like the Explanatory Notes and Classification Opinions and arrangements whereby doubts regarding classification are referred to the Nomenclature Committee and the Council itself. Even if these arrangements are not made legally binding with reference to the revised Indian Tariff, they would be of great help in coming to a decision on matters of interpretation.

(3) **International comparability**—We learn that nearly a hundred countries have based, or are proposing to base, their tariffs on the B.T.N. A statement showing the position as in April, 1964, is at Appendix III. Naturally, the B.T.N. has become the "language" for international customs discussions. In tariff negotiations, almost all countries (including India) have come to express their offers and request lists in terms of the B.T.N. In a matter like the Customs tariff whose significance so obviously extends beyond national frontiers, we consider that there are clear advantages in falling in line with the great majority of countries.

9. It would also appear that at least one country which had based its tariff on the S.I.T.C. Revised has been forced to think of going over to the B.T.N. A communication from the New Zealand Ministry of External Affairs, received by our Mission in Wellington, states that "Operation of the S.I.T.C., Revised as a Customs tariff has revealed numerous shortcomings not foreseen when the decision to adopt this form of Tariff was made. There is a proposal to adopt a B.T.N. Tariff, but preliminary steps have still to be taken....."

10. It seems to us that a basis which has been found acceptable to nearly a hundred countries, in all stages of development, should be capable of adoption by India, which had already based its tariff on the League of Nations Draft Nomenclature, the forerunner of the B.T.N. There is a feeling that the B.T.N. as it stands would not be suitable for Indian conditions, being too detailed in certain parts and not sufficiently so in others; but this particular objection is, we consider, fully taken care of by the freedom allowed to contract or expand the Nomenclature according to national needs. The relative unfamiliarity of the B.T.N. has been responsible for the lurking hesitation to accept it; but as we have explained earlier, this unfamiliarity would be a passing phase. One other difficulty which has been pointed out is that the acceptance of the B.T.N. as a basis might

lay on obligation on the customs administration and the Government to accept tariff rulings and opinions with which they may not always agree. To this we would say that the use of the B.T.N. carries no obligation whatever as regards the rate of duty to be levied on any article. The Nomenclature is concerned exclusively with the question as to which heading is considered more appropriate to cover a particular article. It seems to us that the prospect of having such technical problems discussed by technical experts of a number of countries, who would not be affected by the duty implications in any particular country, should be welcome to the public, and even to the Government. We feel that, if the Government does not wish to formally bind itself, through a provision in law, to the rulings and opinions of the Customs Co-operation Council and its Nomenclature Committee, it can benefit by making use of them to the greatest possible extent while reserving to itself or the Customs authorities, as the case may be, the power to take a decision. We have no doubt that a suitable formula can be devised for this purpose.

11. Our conclusion therefore is that the revised Indian Customs Tariff should adopt the broad structure of the B.T.N. with suitable contractions and expansions as may be necessary in the light of the country's trade pattern, development needs and other factors, and that in the matter of expansion, i.e., opening of sub-headings, reference should be freely made to the R.I.T.C. This would provide a happy compromise as well as the best solution.

12. We might add at this point that the transformation of the existing Indian Customs Tariff into the general form of the B.T.N. would not be a routine operation, but one requiring an intelligent appreciation of the rationale of classification and its applications. Although the broad rate structure of the Tariff Schedule has to be maintained, a certain degree of rationalisation is essential; if an attempt were made to maintain exactly the same rate of duty as exists at present on every individual article, this would result in needless complication of the Schedule. We have indicated, in Chapter VI, the manner in which we propose to proceed in order to construct a new tariff on rational lines.

CHAPTER IV

The Classification of Articles of Machinery

One of the most important sections of the tariff is that dealing with articles of machinery. Its revenue importance is considerable; the two main machinery items in the Tariff Schedule, namely Nos. 72 and 72(3), by themselves accounted for 17·2 per cent of the total customs revenue in 1963-64. Apart from its revenue significance, one has to take into account the intrinsic importance of machinery in a fast developing economy, and the need to ensure that its importation is not hindered by inadequate classification. It may be added that a large proportion of the difficulties in assessment occur in connection with the items of machinery.

2. The wording of items 72 and 72(3) of the existing tariff, which account for the bulk of the imports of machinery and plant is based on the report of the Lloyd Committee of 1922. This report has been reproduced in Chapter V in the last few editions of the Indian Customs Tariff Guide. The Committee's report is a model of compression and lucidity but its recommendations, although relevant to the period when there was practically no manufacture of machinery in the country, are inapplicable to the conditions in present-day India, with its greatly transformed economy.

3. We do not propose, in this interim report, to comment at length on the conclusions of the Lloyd Committee. We do, however, feel that it would be useful to set out its main conclusions, which were as follows:—

(1) The Committee tried broadly to bring within the favourable machinery rate of duty as much as possible of the equipment of industrial plants, while keeping out as far as was practicable, such portions as were suitable for other uses. The Committee was not

in favour of extending the machinery rate to importations by industrial concerns as against importations by stock-holders, that is, of a system of assessment based on the end use to which an individual importer would put the goods. [This is, however, qualified by (6) below].

(2) Equipment essential to the erection of a factory, but not to the actual operation of the system installed—for example, electric lamps, wiring, fire bricks and building material—was excluded from the definition of machinery.

(3) It was decided to exclude "non-industrial machines of low horse power", viz. those requiring less than ¼ horse-power for their operation, and also machines to be worked by manual or animal labour. No reason has been given for the ¼ horse-power rule, except that it was necessary in order to give proper effect to the intentions of the framers of the tariff of 1894 (hardly a valid argument in 1965).

(4) Control and transmission gear used for transmission of power from the power-house to the machine, lighting system, tram-car, etc. was also to be covered by the definition.

(5) As regards component parts, two main provisions were made. The first of these was that component parts in general should (i) be essential for the working of the machine or apparatus, and (ii) have been given for that purpose some special shape or quality which would not be essential for their use for any other purpose. The latter clause does not mean, as is sometimes thought, that the article is incapable of use for any other purpose, but only that it has been manufactured as a component part of a particular machine or type of machine. The somewhat involved wording adopted by the Committee to deal with a situation which was fairly difficult has however resulted in undeserved criticism from those who do not fully appreciate the difficulty involved in framing a satisfactory definition.

(6) The second and equally important provision regarding 'component parts', which is embodied in the proviso to item 72(3) of the I.C.T., is that even interchangeable articles (which do not have the required "special shape or quality") can be assessed at the favourable machinery rate, provided they are imported as parts of a *complete* machine in an unassembled condition. No provision was made for a portion of a machine being imported, and complemented by local manufacture; this is an instance of an approach which was wholly adequate in 1922 being found woefully inadequate to meet

present requirements, as it serves to discourage actively the manufacture of machinery in the country. The proviso, however, permits articles like transformer oil and lubricants, which are more in the nature of consumable stores to get the benefit of the machinery rate of duty when imported for the first installation of the machine.

(7) A point which is not explicitly mentioned in the report, but has been taken to be implicit in it, is that the machinery and component parts must be in a finished form, and must not require further manufacture or processing. This would exclude components which are in a substantially finished form and castings and forgings, etc. which are not ready for use. Such articles are usually held to be assessable as "iron and steel manufactures" under item 63(28) I.C.T. at a considerably higher rate. This is again a case where the tariff actively discourages manufacture in India.

4. The above statement of the Lloyd Committee's conclusions will show that in two important respects, viz. as regards incomplete plants and unfinished component parts, the effect of its recommendations, as incorporated in the existing tariff, was to discourage the growth of an Indian machine building industry. It is obvious that a tariff which is in line with our present needs would encourage the importation of incomplete plants which can be completed with components manufactured in India, and of unfinished or semi-finished components, which would be finished in India. This would also help to save vitally needed foreign exchange. It was in recognition of the inadequacy of the existing tariff from these points of view that provision has been made through notifications or executive instructions for giving the benefit of assessment at the machinery rate to incomplete machinery and semi-finished or nearly finished component parts.

5. We lay some stress on the point that some of the conclusions of the Lloyd Committee no longer remain valid, because the present tariff definitions appear sometimes to have invested those conclusions with too much sanctity altogether, as if they were based on certain immutable hypotheses. In actual fact the classification recommended by that Committee was intended merely to give effect to the fiscal policy of the period without going into every article in detail. We would refer in particular to the division of machinery into machinery requiring $\frac{1}{4}$ horse-power or more, and machinery requiring less than $\frac{1}{4}$ horse-power. As indicated in para 3(3) above, even the Machinery Committee could give no more specific justification for this definition than that it was the intention of the framers of the tariff of 1894. It has however become customary to think of machinery of below $\frac{1}{4}$

horse-power as falling in a distinctly separate category from other machinery. We feel that separate provision for machinery of below ¼ horse power is not necessary in the tariff unless there are strong reasons for maintaining fiscal differentiation, by applying different rates to such machinery, from machinery of ¼ horse-power and over.

6. Because of the importance of machinery, and the fact that the machinery section ot the tariff had attracted the greatest criticism, the very first Sub-committee set up by the Committee was concerned with the classification of articles of machinery. As desired by the Sub-committee, the Secretariat of the Committee prepared a draft chapter relating to the articles of machinery covered by Chapter 84 of the B.T.N., showing broadly the type of tariff which would result if, as recommended by the other Sub-committee under Mr. R. V. Leyden which dealt with the principles of classification, the B.T.N. tariff were finally adopted with suitable modifications to meet the needs of India's developing economy. At the second meeting of the Committee, it was decided that this draft chapter, with slight amplifications and amendments, should be circulated to the public for their information and comments. This has since been done.

7. In coming to its conclusions, the Machinery Sub-committee noted that the B.T.N. provided for the solution of the main difficulties referred to in paragraph 4 above. Under the B.T.N., an incomplete machine is to be assessed under the same heading as the complete machine, provided it has the essential character of such a complete machine. Machinery parts which are not finished ready for use (but not rough forging of iron or steel) are to be classified under the headings for the finished parts. The B.T.N. therefore helps immediately to overcome two of the major difficulties experienced with the existing tariff. The desirable points in the Lloyd Committee's conclusions referred to in sub-paras (1) and (2) of paragraph 3 above are preserved under the B.T.N. In certain respects the scope of the machinery items as recommended by the Lloyd Committee is wider than those of the relevant B.T.N. headings. For instance, according to the Lloyd Committee's report the favourable rate is applicable even to articles in the nature of consumable stores, when imported for first installation, and also to fire-bricks with special qualities and tools specially designed for the working of a machine. We would not venture to express any firm opinion on the claims of such individual articles for a favourable rate of duty. They do not necessarily fall within the definition of machinery, but if it is desired on policy grounds that they should get the benefit of a low rate of duty, this could no doubt be provided for. On the whole, we consider that for machinery as for other

commodities, a tariff having a broad structure of the B.T.N. with modifications here and there would provide the best solution.

8. In considering the suitability of the B.T.N. as the basis of the tariff, our Machinery Sub-committee had the benefit of the first hand impressions of its Convener, Shri Chentsal Rao, who had the opportunity of a discussion with officials of the Customs Co-operation Council during his recent visit to Brussels in another connection. Shri Chentsal Rao gathered, *inter alia* that if the Government of India considered that certain headings in the Nomenclature were not precise, and could suggest improvements, the Council Secretariat would be quite prepared to give the most careful consideration to the suggestions, and if necessary, to initiate action to carry out the necessary amendments. They also offered their general co-operation in regard to the finalisation of the new tariff. At its second meeting the Committee felt that, as a test case, the Government of India might suggest to the Council Secretariat some amendments to the B.T.N., for example, in heading No. 84.17, which is somewhat ambiguous. A reference on these lines has since been made to the Council Secretariat through our Mission in Brussels.

CHAPTER V

Correspondence between the Tariff, I.T.C. and Statistical Classifications

Although our terms of reference do not mention the I.T.C. Classification, we refer to it because of the view widely expressed by representatives of trade as well as Government, that it would be quite useful to correlate the Customs tariff with the I.T.C. Schedule, and if possible, with the Statistical Classification as well. This aspect has been considered by Shri P. M. Mukerji in his report as Officer on Special Duty, and by the Mudaliar Committee. Among the salient points made by Shri Mukerji in his Report were:

(1) The Import Trade Control Schedule is based on considerations of foreign exchange and of allowing the entry of only such imports as are vitally necessary for the economy of the country as well as the availability of goods of indigenous manufacture. The Customs Tariff, on the other hand, has essentially revenue considerations in view and the protective features pertaining to certain categories of goods manufactured in the country.

(2) Infusion of the two systems may cause difficulties, since, in the absence of a timely ruling from the Customs as to the classification of the items, licensing work may be held up and *vice-versa*. In the case of Import Trade Control, it would be necessary to take a decision as to the classification of an item prior to importation on the basis of such literature and samples as may be available. While, on the other hand, Customs are rather concerned with goods after importation when a more systematic scrutiny would be possible. In several cases, where there have been differences in the matter of classification of items from the point of view of tariff and import trade control, executive instructions have been issued by the Import Trade Control authorities for the purpose of clearance of goods, and this indicates that unification is not the remedy for existing difficulties.

2. In conclusion, Shri Mukerji considered that a complete merger of the Import Trade Control Schedule and the Indian Customs Tariff, though seemingly attractive, should not be the goal. It should, however, be ensured that the two systems worked in close liaison with each other. Where details are not mentioned in the Import Trade Control Schedule, obviously reliance will be placed on customs practice and usage. The fundamental need, according to Shri Mukerji, was to establish adequate understanding between the I.T.C. and the Customs authorities and to establish machinery for a quicker resolution of difficulties of interpretation and classification of items, both prior and subsequent to importation. This point has been pursued in somewhat greater detail by the Mudaliar Committee and we would not like to burden our Interim Report with detailed comments on these matters, and in particular, on the best form of machinery for the resolution of difficulties. We propose to devote a whole Chapter in our final Report to the subject of best machinery for the resolution of disputes.

3. Upon the whole, it seems to us, from the different views expressed, that while correspondence of the headings in the Tariff and the I.T.C. Schedules is certainly desirable, it involves at the same time certain difficulties, due mainly to the facts that (a) the two Schedules are administered by different Ministries for different purposes, and (b) the Tariff Schedule, being part of a statutory Act, is less flexible and more difficult to amend than the I.T.C. Schedule. While reserving our considered views for our final report, we would point out here that, if our recommendation regarding the basis of the revised tariff is accepted, correspondence can be achieved to a reasonable extent. It may be noted that there can be different degrees of correspondence, which we call for convenience "correlation" and "alignment". By "correlation" of two classifications we mean that each heading in one classification corresponds, and is cross referenced, to one or more headings in the other. By "alignment" we mean a closer degree of agreement, where both classifications have the same sequence and the same numbering system, but one being in general more detailed than the other. In other words, one or the other classification would have more digits and more subdivisions, but the main headings in both classifications would have the same serial numbers and the same scope.

4. We have been informed that the Revised Indian Trade Classification has been put into effect from 1st April 1965. We also understand that it is proposed to recast the I.T.C. Schedule and base it on the R.I.T.C., since the I.T.C. policy relies largely on import statistics. If the R.I.T.C. could be modified so as to align it with the B.T.N., it would be possible to align all the three classifications.

If, however, in view of the agreement between the United Nations and the Customs Co-operation Council to which we have referred in Chapter III, it is considered that the S.I.T.C., Revised, should be preferred to the B.T.N. for statistical purposes, it would still be possible to have a proper correlation of the R.I.T.C. and the new tariff, with a few changes in the R.I.T.C. The question would then arise whether the I.T.C. Schedule should be aligned with the Tariff Schedule and correlated to the R.I.T.C., or whether it should be aligned with the R.I.T.C. and correlated to the Tariff Schedule. We think that the former would be the better course. Alignment of the Tariff and the I.T.C. Schedules would greatly simplify matters in the Custom Houses, where a large number of consignments have to be classified every day for tariff and I.T.C. purposes. The occasions when it is necessary to refer to the statistics of imports of goods falling under particular Serial Numbers of the I.T.C. Schedule are much less frequent, arising more from the requirements of policy formulation than in the course of every day transactions. It would not cause any appreciable inconvenience to the I.T.C. authorities on those few occasions to have to refer to the import statistics through a correlation code rather than through direct alignment of the I.T.C. Schedule and the Statistical Classification. We have included in Appendix IV a few hypothetical examples showing classification of certain goods under a system where the Tariff and the I.T.C. Schedules are aligned, and are also correlated to the R.I.T.C.

5. It would be advisable to hold over the introduction of the R.I.T.C. for I.T.C. purposes till a final decision can be taken regarding the possibility of aligning the I.T.C. Schedule with the Tariff Schedule. The introduction of a new I.T.C. Schedule is a complex matter, which would affect the public to a great extent. There is also a possibility of the R.I.T.C. having to undergo some amendment in the light of actual working and of new factors which may come to light while drafting the new Tariff Schedule. Whichever view prevails, however, there would be no bar to the acceptance of a tariff structurally based broadly on the B.T.N. but with subheadings based on the R.I.T.C. wherever necessary.

CHAPTER VI

Method to be followed in constructing the new tariff

In the light of the conclusions of the Committee, the Sub-committees are proceeding to construct the revised draft tariff in the following manner:—

(a) The basic structure of the B.T.N., with its 21 Sections, 99 Chapters and 1095 main headings, will be maintained, except that some of the main headings, which are unimportant in our trade, would be merged together. In this process, advantage should be taken of the assistance available from the Customs Co-operation Council. Except for the changes necessitated by such contractions, the main headings will broadly maintain the sequence and wording in the B.T.N.

(b) The main headings will be split up wherever necessary into sub-headings covering specific commodities which are important in India's trade. The headings and sub-headings in the R.I.T.C. will be freely referred to for this purpose.

(c) Sub-headings will also be created wherever necessary for preserving the levels of duty applicable under the present tariff. Separate sub-headings will be provided for important articles which are assessed at concessional rates of duty under exemption notifications (where the notifications are of a durable nature). In the interests of rationalisation, where a particular sub-heading has to be split up purely for the purpose of showing the existing differences in the rates of duty, and there appears to be no special justification (such as protective duties or trade agreements) for such splitting up, it will be recommended that sub-headings may be merged to

the extent possible with such rates of duty as Government may decide.

(d) In the above process, the considerations laid down by the Committee, any difficulties known to have been experienced in the past and also suggestions received by the Committee will be taken into account.

2. The Sub-committees have been advised that in respect of any changes in the rates of duty, which in the opinion of the Sub-committee are necessary in order to remove tariff anomalies or for similar reasons [*i.e.* those not covered by para 1(c) above], they may bring the matter separately to the notice of the Secretariat of the Committee.

CHAPTER VII

Conclusion

We have explained in Chapter I the reasons which have led us to submit this interim report to Government. While we are satisfied that the basis which we have proposed for the construction of a new Tariff is the best in the circumstances, we are aware that there can always be room for difference of opinion in a matter like this. The exercise of evolving a detailed Tariff Classification would be most profitable if the fundamental basis proposed is accepted at the very outset. Otherwise the effort put in may be wasted. While, therefore, we are proceeding on the lines which appear best to us, and which we have explained, we also look for the acceptance by Government of our general line of approach, as explained in Chapter VI, so that the detailed drafting work may be pursued with the assurance that it will be profitable.

2. Secondly, for the reasons stated in Chapter V, we would strongly recommend to the Government that the introduction of a new I.T.C. Schedule should be held over until the lines of the new Tariff Schedule have been settled. We also suggest that in the meantime, full consideration may be given to the possibility of adopting an I.T.C. Schedule which will be fully aligned with the new Tariff Schedule. The revision of the I.T.C. Schedule can, with advantage, be undertaken in full co-ordination with the Secretariat of the Committee, so as to ensure that there is as much correspondence as is practicable between the two Schedules.

3. An important consideration which should be borne in mind at this stage itself is the need of adjusting our international obligations in conformity with the proposed revision of the Tariff Schedule. There is the possibility that some of the incidental changes in rates

of duty which will become inevitable because of the change of classification may result in increases not consistent with obligations undertaken by the country in its Trade Agreements with other countries, including the G.A.T.T. The rates incorporated in Trade Agreement schedules are invariably related to the classification descriptions based on our own statutory schedule. It, therefore, seems necessary that revised Trade Agreement schedules should also be taken in hand side by side. We should then be in a position to negotiate with the contracting parties to our Trade Agreements with a view to substituting revised schedules for the concessions now figuring in the Agreements. Objections from contracting parties may be expected to particular points.

4. The Committee's plan for the revision of the Tariff Schedule is to construct a complete Schedule out of the sections which will be prepared by the seven Sub-committees. The draft will be made available to the Custom Houses so that its suitability with reference to the day-to-day working of the Custom Houses may be examined in detail. It is also desirable that the draft should be discussed with the Secretariat of the Customs Co-operation Council and amendments made where necessary to take advantage of the work done in evolving the B.T.N. The draft nomenclature as so revised would be published, and the Committee will then consult Chambers of Commerce and trade interests concerned, as well as Government departments and Customs officials, with a view to its finalisation. The published draft would itself indicate the tariff descriptions which were the subject of Trade Agreement concessions and the changes in classification proposed. When the draft is made, published copies will be given to the foreign parties to our Agreements, and they would then have full opportunity to comment on them. The objections of the contracting parties, if any, would be taken into account by the Committee in formulating the final version. The Committee cannot at this time anticipate all the problems that may be encountered in carrying out this project. In the course of our work, it is our intention to refer to Government from time to time additional points, which in the Committee's view, require Government's decision.

5. As we have reached a significant stage in our work, we also wish to express our appreciation of the co-operation received from the members of the public, the Customs authorities and other concerned Departments, and all others who have assisted us in our work and in preparing and presenting this report.

(Sd.) S. SUBRAMANIAN.

(Sd.) P. CHENTSAL RAO.

(Sd.) R. V. LEYDEN.

(Sd.) Y. A. FAZALBHOY.

(Sd.) GULABCHAND G. SIRAJ.

(Sd.) R. C. SHAH.

(Sd.) M. PANCHAPPA.

(Sd.) B. D. KALELKAR.

(Sd.) C. BALASUBRAMANIAM.

(Sd.) S. C. MUKHERJEE.

(Sd.) S. P. GUGNANI.

(Sd.) S. D. BHAMBRI.

(Sd.) J. BANERJEE.

(Sd.) V. A. PADMANABHAN.

(Sd.) P. K. MUKHERJEE.

(Sd.) P. V. GUNISHASTRI.

(Sd.) K. L. SAXSENA.

(Sd.) S. P. JAIN.

(Sd.) E. S. KRISHNAMOORTHY.

(Sd.) S. VENKATESAN.

NEW DELHI.
May 5, 1965.

APPENDIX I

Background Note on the Different Systems of Classification

I. **Introduction:**

The new Indian tariff classification might be based on the Brussels Tariff Nomenclature, the Standard International Trade Classification, Revised, the Revised Indian Trade Classification, or the existing Indian Customs Tariff itself, but with necessary improvements. An attempt has been made below to compare the suitability of these various classifications for the purpose in view.

II. **Characteristics and essential features of a tariff classification:**

In comparing the various possible classifications, one may take into account certain broad characteristics such as (a) Sequence of headings; (b) Precision in definition and degree of detail; (c) Simplicity of wording; (d) International comparability; (e) Bearing of the nomenclature on the emerging trends in the national economy, including the promotion of exports; and (f) Provision of machinery for settling doubts and disputes.

(a) **Sequence and general arrangement of headings:**

The Brussels Tariff Nomenclature (B.T.N.) is incorporated in the Brussels Convention of the 15th December, 1950, on Nomenclature for the Classification of goods in Customs Tariffs. It is administered by the Customs Co-operation Council, an inter-governmental organization having its headquarters in Brussels. At present nearly 100 countries have already based or are proposing to base their tariffs on the B.T.N.

The B.T.N. contains 1097 headings, grouped under chapters and sections. There are 21 Sections, the main ones covering live animals

and animal products, vegetable products etc., foodstuffs etc., products of various industries such as chemical, plastics, leather, wood, paper and textiles; precious metals and stones, and base metals and articles thereof; machinery, vehicles; and optical and other instruments and apparatus. The general principle adopted is to classify in the same chapter all goods obtained from the same or similar raw materials and to arrange them progressively within each chapter, starting from the raw material and progressing to the finished article. Countries adopting a "Brussels type" nomenclature are at liberty to introduce sub-headings, according to their needs, under the main B.T.N. headings, provided always that such sub-headings are so drafted that they relate only to the products classified in the relevant B.T.N. main heading. Countries can also 'contract' the nomenclature, if required, by merging together a number of allied headings but this has to be done in consultation with the Customs Co-operation Council, and without interfering with the basic structure and principles of the Nomenclature.

The Standard International Trade Classification (Revised) (S.I.T.C. Revised) is a statistical classification evolved from the original Standard International Trade Classification of 1950. It has been drawn up by the United Nations Secretariat for compilation of trade-by-commodity data by its member countries.

The S.I.T.C. (Revised) lists 1312 basic items under 10 Sections. These cover food and live animals, beverages and tobacco, crude materials, mineral fuels, animal and vegetable oils and fats, chemicals, manufactured goods classified chiefly by material, machinery and transport equipment, and miscellaneous manufactured articles. Designed basically for the compilation of international trade statistics, the division is on the basis of broad economic categories.

While there is a slight similarity in the sequence of sections in the B.T.N. and S.I.T.C. (R), the two classifications, being designed for different aims, could not follow identical lines either in general plan or in details. Some practical illustrations of the differences resulting from these factors are given below:—

Chapter 41 of the B.T.N. covers "Raw hides and skins (other than furskins) and Leather". It includes both raw hides and skins, and leather of various kinds. In the S.I.T.C. (R), however, "Hides and Skins (except furskins) undressed" are covered by Division 21, in the Section on "Crude Materials, Inedible, Except Fuels", while "Leather" falls in Division 61 on "Leather, Leather Manufactures, n.e.s. and, dressed furskins" in the Section on "Manufactured Goods Classified Chiefly by Material". Thus, while in the B.T.N. raw hides and skins are grouped with leather, as having a common origin

though being at different stages of manufacture, in the S.I.T.C. (R) the stage of manufacture has been considered more important, and this has resulted in the two varieties of goods being placed in widely separated Sections.

Chapter 31 of the B.T.N. bears the title "Fertilizers" and covers all fertilizers, whatever their origin. However, in the S.I.T.C. (R), crude fertilizers such as "Natural fertilizers of animal or vegetable origin, not chemically treated" and "Natural sodium nitrate" are included in Division 27 "Crude Fertilizers and Crude Minerals", under the Section on "Crude Materials, Inedible, Except Fuels", whereas "Fertilizers Manufactured" occur in Division 56 under the Section on "Chemicals". In this case the B.T.N. gives more importance to the function of the article, as a fertilizer, whereas the S.I.T.C.(R) is still concerned with the nature of the article, viz. whether it is crude or manufactured.

The Revised Indian Trade Classification (R.I.T.C.) has been drawn up within the framework of the S.I.T.C. (Revised) for compiling Indian import and export trade statistics. To meet national requirements, the 1312 basic items of that classification have been further split up and 5000 commodities have been separately specified in the R.I.T.C. Generally, the articles for which there has not been much trade during recent years have been omitted, and new items have been included at the suggestion of the trade and various government departments. The classification is proposed to be introduced from the 1st April, 1965. Broadly speaking, what has been said about the S.I.T.C. (R) applies to this also.

The Indian Customs Tariff (I.C.T.) contains 563 items arranged in 22 sections. As it is based on the Draft Geneva Nomenclature, on which the B.T.N. is also based, the sequence of items in the I.C.T. is broadly similar to that in the B.T.N. The wording of the items is however not based on the Geneva Nomenclature and therefore differs considerably from that in the B.T.N.

(b) and (c) **Precision in definition (and degree of detail) and simplicity in wording:**

These two aspects are considered together, as they are interrelated, and are perhaps not entirely compatible. A workable tariff should be capable of being understood by laymen and should therefore avoid complexity in wording. At the same time, in order to ensure that the heading most appropriate to any given product is accurately and easily determined, its wording has to be as exact and precise as possible, even though this may involve detailed definitions at places.

The framers of the B.T.N. took particular pains to ensure accuracy in definition and to this end they tried to make the B.T.N. headings as precise as possible. Various "Legal Notes" are also given at the beginning of different Sections and Chapters, laying down the scope of the items occurring thereunder. The "Interpretative Rules" also assist in deciding which of several alternative headings should be adopted in a particular case. Goods which are not specifically covered by any existing heading are to be classified under the heading for the goods to which they are most akin. Thus the B.T.N. avoids the grouping of non-specified items under a single omnibus item such as item No. 87, I.C.T. With a view to further ensuring accuracy in interpretation in its practical application, the B.T.N. is supported by (i) "Explanatory Notes" (ii) "Alphabetical Indexes" and (iii) a "Compendium of Classification Opinions". These, discussed in greater length under the para regarding "Machinery for settlement of disputes", supply a continuous record of the official interpretation of the Nomenclature and provide valuable guidance both to the trading community and to the Customs Administration regarding the practical application of the Nomenclature.

As the S.I.T.C. (R) and R.I.T.C. are designed mainly for compilation of trade statistics, where taxation is not involved and the possibility of disputes is remote, the emphasis is more on simplicity of wording. While the S.I.T.C. (R) seeks to maintain a one-to-one correspondence with the headings in the B.T.N., the description of items is not in such great detail as in the B.T.N. For purpose of achieving further precision, it has been laid down that the legal notes in the B.T.N., and the rulings of the Customs Co-operation Council in respect of the practical application of the B.T.N., are applicable in respect of the S.I.T.C. (R) also. Thus in case of doubt as to the scope of the heading in the S.I.T.C. (R), the notes and rulings on the corresponding B.T.N. heading would be referred to.

The I.C.T. lists only 563 items and is therefore not as comprehensive in its coverage of commodities as the other classifications. Moreover, the wording of many of the items goes back to 1934 or even earlier and is necessarily not adapted to cover some of the commodities entering into modern trade.

(d) **International Comparability:**

A broad uniformity in the tariff nomenclatures of the nations can promote the flow of international trade as it would help to ensure uniformity and certainty of meaning in trade contracts between importers and exporters and correct interpretation of trade agreements.

The B.T.N. was designed *inter alia* with a view to the international comparability of tariff nomenclature. This object has been substantially fulfilled, since, as stated earlier, about 100 countries have by now either adopted "Brussels type" tariffs or are preparing to introduce such tariffs.

The S.I.T.C. (R) was primarily framed for the logical arrangement of statistical data relating to international trade to ensure comparability of such statistics among the trading nations. By 1960 governments of countries accounting for 80 per cent of world trade were compiling trade-by-commodity data according to the original S.I.T.C. A number of countries of Latin America and countries of the British Commonwealth have also adopted the original S.I.T.C. as the basis of their Customs nomenclature. However, considering the purpose and characteristics of each of the classifications, the United Nations and the Customs Co-operation Council have agreed to recommend that States should use the B.T.N. for Customs purposes and the S.I.T.C. (Revised) for establishing statistical data.

While both the B.T.N. and the S.I.T.C. (R) (and through it the R.I.T.C.) have an international basis, direct comparability with other Customs Tariffs is attained to the greatest extent with the B.T.N.

The I.C.T. is based on the Draft Geneva Nomenclature of 1931. It has a somewhat remote relationship with the B.T.N., which was based to some extent on the same Nomenclature. However, the Brussels Nomenclature has effectively taken the place of the Geneva Nomenclature, and a tariff based on the latter has little prospect of international comparability.

(e) **Bearing on the emerging trends in the national economy with particular reference to promotion of exports:**

As developing countries expand their industries more and more, the pattern of their import and export trade changes correspondingly. Machinery and industrial raw materials become more and more important in their import trade and import of non-essential consumer goods tends to be restricted due to balance of payments difficulties. The tariff of the country has to take into account the pattern of imports, the need to protect developing industries, etc. It would have added value if it helps to make the manufacturer, and exporter conversant with the tariff classifications likely to be applied by foreign countries to which exports are made.

As regards its relevance to the pattern of our imports, the B.T.N. would have certain advantages in respect of new products, and the kind of articles which enter into the trade of the developed countries.

This is because to a considerable extent the B.T.N. has been formulated with reference to the trade of those countries. In certain respects it may be found rather too detailed, particularly as regards the non-essential consumer goods whose importation into India is severely restricted. The possibility of contraction in such cases has already been referred to.

Similar remarks would apply to the S.I.T.C. (R). The R.I.T.C., having been formulated in the light of the composition of India's trade, would approximate more closely to the pattern of our imports than would the B.T.N. or the S.I.T.C.(R). It might, however, be too detailed in certain respects.

The I.C.T., as mentioned earlier, has become out of date so far as India's import trade is concerned. It may be mentioned that about half the import revenue comes from 6 of the items in the I.C.T., whereas two-thirds of the items yield negligible or small amounts of revenue. The pattern of this tariff is not, therefore, in line with the pattern of India's import trade.

The needs of our export trade are also relevant. If our import tariff is based on an internationally accepted model, our importers, manufacturers and exporters would become familiar with that model, and this would enable them to understand more easily the regulations applicable in foreign countries to the goods which they export. For this purpose, both the B.T.N. and the S.I.T.C. (R) (and through it the R.I.T.C.) have advantages, as explained in sub-paragraph (d) above.

(f) Machinery for clarification of doubts and settlement of disputes:

Howsoever detailed and accurate a tariff classification may be, doubts and disputes in its practical application cannot be avoided. The nature of the machinery provided for resolving such doubts and disputes, and the confidence which the public at large would have in that machinery are therefore of considerable importance.

To reduce the scope for doubts or disputes, the Brussels Nomenclature is supported by the following publications designed to facilitate its application and ensure uniformity in its interpretation:—

(i) **Explanatory Notes:**

These constitute the official interpretation of the Nomenclature as approved by the Customs Co-operation Council and provide a full commentary on the scope of each heading, giving a list of the main products included

and excluded, together with the appropriate technical description of goods concerned and their appearance, properties, method of production and uses, as well as practical guidance for their indentification. These Notes are kept under constant review to ensure that they are always abreast of technological progress.

(ii) **Alphabetical Indexes:**

These are designed to facilitate easy location in the Nomenclature and Explanatory Notes of reference to all products or articles mentioned therein.

(iii) **Compendium of Classification Opinions:**

This publication is also constantly brought up to date and lists all classification opinions adopted by the Customs Co-operation Council as a result of the study of classification questions submitted by the Customs administrations.

Where a doubt arises which cannot be settled by reference to the above material, the question can be referred to the Secretariat of the Customs Co-operation Council, and if necessary to the Nomenclature Committee and ultimately to the Council itself.

Doubts in regard to classification under the S.I.T.C. (R) are expected to be resolved by referring to the legal notes, explanatory notes etc., applicable to the corresponding items of the B.T.N. If the dobuts cannot be resolved in this manner, a reference may be made to the U.N. Statistical Office for a ruling. The S.I.T.C. (R) does not, for obvious reasons, provide a detailed machinery for resolving differences of opinion, such as is necessary with a tariff nomenclature such as the B.T.N.

So far as the R.I.T.C. is concerned, the procedure in regard to the S.I.T.C. (R) may be adopted to the extent it is applicable. [viz. upto the level of the headings in the S.I.T.C.(R)]. For decisions as between national sub-headings, executive rulings would have to be given.

Doubts regarding the interpretation of the I.C.T. are at present resolved by the Customs House authorities. More doubtful cases go up to the Central Board of Excise and Customs and the Government of India in the Ministry of Finance (Department of Revenue). In giving rulings various technical authorities such as the Chief Chemist, Central Revenues, and the Department of Technical Development, are consulted. Reference is also made to the Ministry of Law on legal issues.

APPENDIX II

Analysis of Views* Expressed Regarding the Basis of the New Tariff

1. *In favour of B.T.N.*

S. No.	Names of Bodies/Persons	Remarks
1	Associated Chambers of Commerce & Industry of India, Calcutta	Have recommended adoption of B.T.N. with modifications on the lines of R.I.T.C. to suit the special conditions prevailing in India.
2	All India Manufacturers' Organisation, Bombay . .	Consider that the B.T.N., drawn up for the specific purpose of Customs with its explanatory notes, alphabetical index and compendium of classification opinions would be a better choice than the S.I.T.C. (R) or R.I.T.C. A liberal utilisation of the various sub-headings in the R.I.T.C., has, however, been suggested to suit India's pattern of trade.
3	All India Importers' Association, Bombay . .	Have recommended adoption of the B.T.N. with necessary expansions and contractions to suit India's foreign trade.
4	All India Exporters' Chamber, Bombay . .	Do.
5	All India Instrument Manufacturers and Dealers Association, Bombay.	Consider adoption of the B.T.N. to be advantageous. In the interest of the instrument trade, the Association has recommended the addition of sub-headings under chapter 90 of section XVIII of B.T.N. to cover electronic and nucleonic test equipment, apparatus, instruments etc.
6	Indo-German Chamber of Commerce, Bombay . .	Have recommended the B.T.N. without change in the existing headings, but adopting sub-headings.

*Based on replies received upto the 24th February, 1965.

S. No.	Name of Bodies/Persons	Remarks
7	Indian Engineering Association, Calcutta	Have recommended the adoption of B.T.N.
8	Engineering Association of India, Calcutta	Feel that it would be in the interest of the country to adopt B.T.N.
9	Ministry of Steel & Mines (Deptt. of Mines and Metals), New Delhi.	Have recommended adoption of the B.T.N. in full, but added that it may be necessary to give a proper definition to the term "Mining Machinery".
10	Director of Statistics, C.C.I. & E., New Delhi	Has stated that in view of the decision of the sub-committee on the principles of classification, he agrees that the B.T.N. should be the basis for the new tariff, with suitable contractions and expansions, and making full use of the R.I.T.C.
11	Wheels India Ltd., Madras	Have recommended adoption of the B.T.N. without expansion or contraction but with amplification of the headings relating to starters, dynamos etc.
12	Dr. R. L. Agarwal, University of Gorakhpur, Gorakhpur	Has recommended the adoption of the B.T.N. as it is an internationally standardised tariff structure with several advantages.
	2. *In favour of S.I.T.C.*	
1	Burmah-Shell Oil Storage and Distributing Co Ltd., New Delhi	Have stated that the B.T.N. is designed to suit western countries and would not suit the Indian conditions. Have recommended adoption of S.I.T.C., since it is comprehensive, importers are aleady familiar with it, and the I.T.C. Schedule is proposed to be correlated with the S.I.T.C.
	3. *In favour of R.I.T.C.*	
1	Federation of Custom House Agents' Associations in India, Bombay.	Do not favour B.T.N. Have recommended adoption of the R.I.T.C. which they consider is more or less based on the B.T.N., keeps in view our special requirements, and is going to be adopted for statistical purposes.

Serial No.	Names of Bodies/Persons	REMARKS
2	Indian Chemical Manufacturers' Association, Calcutta	The Association considers that in the light of international economic developments, changed pattern of trade and the needs of a rapidly growing economy, the R.I.T.C., is better suited to the Indian economy than the B.T.N. or S.I.T.C. (R.) Have suggested some modifications to the R.I.T.C.
3	The Delhi Watch Traders' Syndicate, Delhi	They have expressed views only regarding watches and clocks, and have recommended the adoption of the R.I.T.C., for these articles.
4	Larsen & Toubro Ltd., Bombay	Do not consider B.T.N. to be suitable to India as we have many restrictions on imports. Have recommended adoption of a tariff based on the R.I.T.C.
	4. *In favour of indigenous tariff Schedule*	
1	Bharat Chamber of Commerce, Calcutta	Although the Chamber is in general agreement with the approach made in the B.T.N., they consider that the adoption of the B.T.N. can wait. As the Customs Administration and the trade are used to the present tariff, the Chamber favours the continuance of the existing tariff with necessary improvements, with the help of B.T.N.
2	Heavy Electricals Ltd., Bhopal	Favour retention of the present tariff with necessary improvements to include additional items. The items should be more precisely defined.
3	T.I. Cycles of India, Madras	Are not interested in the adoption of B.T.N. Favour the retention of the present tariff in the light of their experience.

APPENDIX III.

List of Countries which have adopted or propose to adopt a tariff based on the B.T.N.

1. TARIFFS IN FORCE

AFRICA	AMERICA	ASIA	AUSTRALASIA	EUROPE
Algeria	Bolivia	Cambodia	French Polynesia	Austria (*)
Burundi	Brazil (United States of) (1)	Iraq	(Tahiti, Society Is.,	Belgium (*)
Cameroons (Fed. Rep. of)		Israel (**)	Marquesas Is.,	Denmark (*)
Central African Republic	Cuba	Japan	Cambier Is., Tuba Is.,	Finland (*)
Chad (Rep. of)	French Guiana	Jordon (Kingdom of)	Tuamotu Arch. Rapa Is.,	France (*)
Comoro Is. (Arch. of)	Guadeloupe	Laos (Kingdom of)	etc.)	Germany (Fed. Rep. of) (*)
Congo (Brazzavillie) (Rep. of)	Haiti (**)	Lebanon (**)	New Caledonia and dependencies.	Greece (**)
Congo (Leopoldville)	Martinique	Pakistan (**)		Iceland
Dahomey (Rep. of)	St. Pierre and Miquelon (1)	Philippines (1)		Ireland (*)
Gabon (Rep. of)		Syrian Arab (Republic) (**)		Italy (*)
Guinea (Rep. of)	Surinam			Liechtenstein
Ivory Coast (Rep. of (**)		Thailand (Kingdom of)		Luxembourg (*)
Libya (Kingdom of)				Monaco
Madagascar (Malagasy Rep.)				Netherlands (*)
Mali (Rep. of)				Norway (*)
Mauritania (Islamic Rep. of)				Portugal (*)
Morocco (Kingdom of)				Spain (*)
Niger (Rep. of)				Sweeden (*)
Reunion				Switzerland
Rwanda (**)				Turkey (*)

AFRICA	AMERICA	ASIA	AUSTRALASIA	EUROPE
Senegal (Rep. of) Spanish Provinces in Africa (Ifni, Sahara, Rio Muni, Fernando Po) Togo (Rep. of) Tunisia (Rep. of) United Arab Republic (**) Upper Volta (Republic of)				United Kingdom (*) Yugoslavaia. (*)
Nigeria (Fed. of) Portuguese Provinces in Africa (Angola, Mozambique) Somali (Republic of) South Africa (Rep. of) Sudan (Rep. of)	Argentina (Rep.) Chile Colombia Jamaica Paraguay Peru Uruguay	Indonesia (**) Iran (*) Saudi Arabia Vietnam (Rep. of)	Australia (**)	

(1) 1950 Nomenclature

(*) Member of the Customs Co-operation Council and a Party to its Nomenclature Convention.

(**) Member of the Customs Co-operation Council, not being party to its Nomenclature Convention.

APPENDIX IV

Correlation of Allied Classifications

Customs Tariff (Revised and based on B.T.N.)		Rate of duty	I.T.C. Schedule (Revised—hypothetical)		Corresponding R.I.T.C. Items	
16.04	Prepared or preserved fish, including caviar or caviar substitutes		16·04	Prepared or preserved fish, including caviar or caviar substitutes.	032·0	Fish in airtight containers, n.e.s. and fish preparations, whether or not in airtight containers (including crustacea and molluscs)
	(Main heading)			(Main heading)	032·01	Prepared or preserved fish, including caviar substitute:—(Main heading)
16·041	Canned fish	Revenue 20%	16·0410	Canned fish	032·0101	Fish, canned, n.e.s.
	[Corresponding to I.T.C. 16(1) and 16(3)]			(Corresponding to IV (66) I.T.C.)		
16·042	Preserved fish, in containers other than cans, and fish preparations, n.e.s.		16·0421	Preserved fish, in containers other than cans, n.e.s.	032.0102	Fish in other containers, n.e.s.
		Revenue 35%		[Corresponding to IV (3) I.T.C.(Part)]		
	[Corresponiing to I.C.T. 3(1)] . .		16·0422	Fish preparations, n.e.s. . . . [Corresponding to IV (3) I.T.C.(Part)]	032·0103	Fish preparations in airtight containers.
					032.0104	Fish preparations not in airtight containers.

Customs Tariff (Revised and based on B.T.N.)	Rate of duty	I.T.C. Schedule (Revised-hypothetical)		Corresponding R.I.T.C. items	
24·010 Unmanufactured tobacco; tobacco refuse	Preferential Revenue Standard Rs. 50 per kg. "Preferential" Rs. 50 per kg.	24.010	Unmanufactured tobacco; (Corresponds to ITC 96/IV) (Main heading)	121·0	Tobacco unmanufactured (including scrap tobacco and tobacco stems) (Main heading)
(Corresponding to ICT24(3))		24·0101	Unmanufactured tobacco for the manufacture of bidis, cigars or cheroots, hookah tobacco or chewing tobacco	121 0001	For manufacture of bidis
				121 0002	For manufacture of chewing-tobacco
				121·0007	For manufacture of cigars and cheroots (excluding bidis)
				121 0008	For manufacture of Hookah tobacco
		24·0102	Unmanufactured tobacco, Sun cured Natu (country)	121·0003	Sun cured Natu (country)
		24·0103	Unmanufactured tobacco, Virginia, flue cured	121·0004	Virginia, flue cured
		24·0104	Unmanufactured tobacco, Virginia, sun cured	121·0005	Virginia, sun cured
		24·0105	Unmanufactured tobacco n.e.s.	121·0006	Burley tobacco
				121·0009	Tobacco, unmanufactured, n.e.s, (including stalks and stems)
			(All the above sub-headings correspond to parts of No. 96/IV I.T.C.)		

Customs Tariff (Revised and based on B.T.N.)		Rate of duty	I.T.C. Schedule (Revised-hypothetical)		Corresponding R.I.T.C. items	
24·02	Manufactured tobacco; tobacco extracts and essences(Main heading)		24·021	Manufactured tobacco; tobacco extracts and essences (Main heading)	122·1	Cigars and cheroots (Main heading)
					122·1001	Bidis*
24·021	Cigars and cheroots	Rev. 40 % plus Rs. 36·40 per kg.	24·0210	Cigars and cheroots	122·1009	Others.
	[Corresponds to I.C.T. 24(1)] . .			(Corresponds to 94/IV I.T.C.)		
24·022	Cigarettes . . . . . [Corresponds to I.C.T. 24(2).	Rev. 40% plus Rs. 41 per thousand or Rs. 36·40 per kg., whichever is higher.	24·0220	Cigarettes . . . (Corresponds to 95/IV I.T.C.)	122·2	Cigarettes (Main heading)
					122·2000	Cigarettes
24·023	Manufactured tobacco n.e.s. . .	Rev. Rs. 60 per kg.	24·023	Manufactured tobacco n.e.s.	122·3	Tobacco, manufactured (including smoking and chewing tobacco, snuff) (Main heading)
	(Corresponds to I.C.T. 24) . .		24·0231	Bidis (Corresponds to 122·1001 or new sub-heading under 122·3)		
			24·0232	Chewing tobacco	122·3001	Chewing tobacco
			24·0233	Snuff	122·3004	Snuff
			24·0234	Others . . .	122·3002	Hookah or gudaku
					122·3003	Jarda, scented tobacco
					122·3009	Tobacco, manufactured, n.e.s.
			(All the above sub-headings correspond to parts of 93/IV I.T.C.)			

*Bidis should more appropriately be classified under R.I.T.C. heading 122·3, with a separate sub-heading such as 122·3005. (For tariff purposes bidis are classifiable as tobacco manufactures, n.e.s., and not as cigars).

Notes.—These examples relate to a system in which both the Tariff Schedule and the I.T.C. Schedule are based on the B.T.N., while the R.I.T.C., based on the S.I.T.C. (Revised), remains as the statistical classification. It is anticipated that such an I.T.C. Schedule would be more detailed than the Tariff Schedule, but not more detailed than the R.I.T.C. The Tariff Schedule and the I.T.C. Schedule could be 'aligned', *i.e.*, their main headings would have the same sequence, numbers and wording. The sequence and wording of the R.I.T.C. would be different, but there would be correlation between this and the other two schedules. In actual practice, the process of adaptation of the B.T.N. to the needs of India would necessitate some departure from the above pattern.

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