

CHAPTER-3: LICENSING OF RETAIL SHOPS

A Special Zone, Meerut¹, was demarcated² in the State for licensing of liquor shops (February 2009) under Rule 3 of the ‘Uttar Pradesh Demarcation and Regulation of Special Zone for Exclusive Privilege of Excise Shops Rules, 2009’. It comprised 15 districts³ (subsequently 18 districts⁴ due to creation of three new districts carved out from former Ghaziabad, Moradabad and Muzaffarnagar districts). Under these Rules, the Excise Commissioner got the power to grant a license to any person for the exclusive privilege of selling by retail of any liquor⁵ within that zone. Settlement of retail shops of Country Liquor in this special zone was also to be carried out in a manner so that the MGQ was more by one *per cent* in the zone in comparison to other regions of the state. This was done with the objective of realising higher revenue in proportion to the rest of the regions of the state. For this purpose, additional one *per cent* of MGQ of Country Liquor was also allotted to the districts covered in the special zone for the year 2009-10.

3.1 Irregular creation of the Special Zone

One of the objectives for creating a special zone was to prevent cross border smuggling of liquor with the neighbouring states. However, audit observed that

- seven districts⁶ (shaded Yellow in the map) included in the special zone did not share borders with any of the neighbouring states.
- 25 other districts⁷ (including two districts of Aligarh and Mathura which shared borders with Haryana and Rajasthan - shaded in red) - shaded in magenta in the map - which shared borders with the neighbouring states were not included in the special zone

The districts covered in the special zone shaded with green and yellow and rest of the districts excluded from special zone (light blue) are depicted in the map shown in **Chart - 3.1**.

¹ Budaun, Baghpat, Bareilly, Bijnora, Bulandshahar, Ghaziabad, Gautam Buddha Nagar, Jyotiba Phule Nagar, Meerut, Moradabad, Muzaffarnagar, Pilibhit, Rampur, Saharanpur and Shahjahanpur.

² Notification No. 25480/ten-license-151/special zone/2009-10, Allahabad dated 12 February, 2009.

³ Budaun, Baghpat, Bareilly, Bijnora, Bulandshahar, Ghaziabad, Gautam Buddha Nagar, Jyotiba Phule Nagar, Meerut, Moradabad, Muzaffarnagar, Pilibhit, Rampur, Saharanpur and Shahjahanpur.

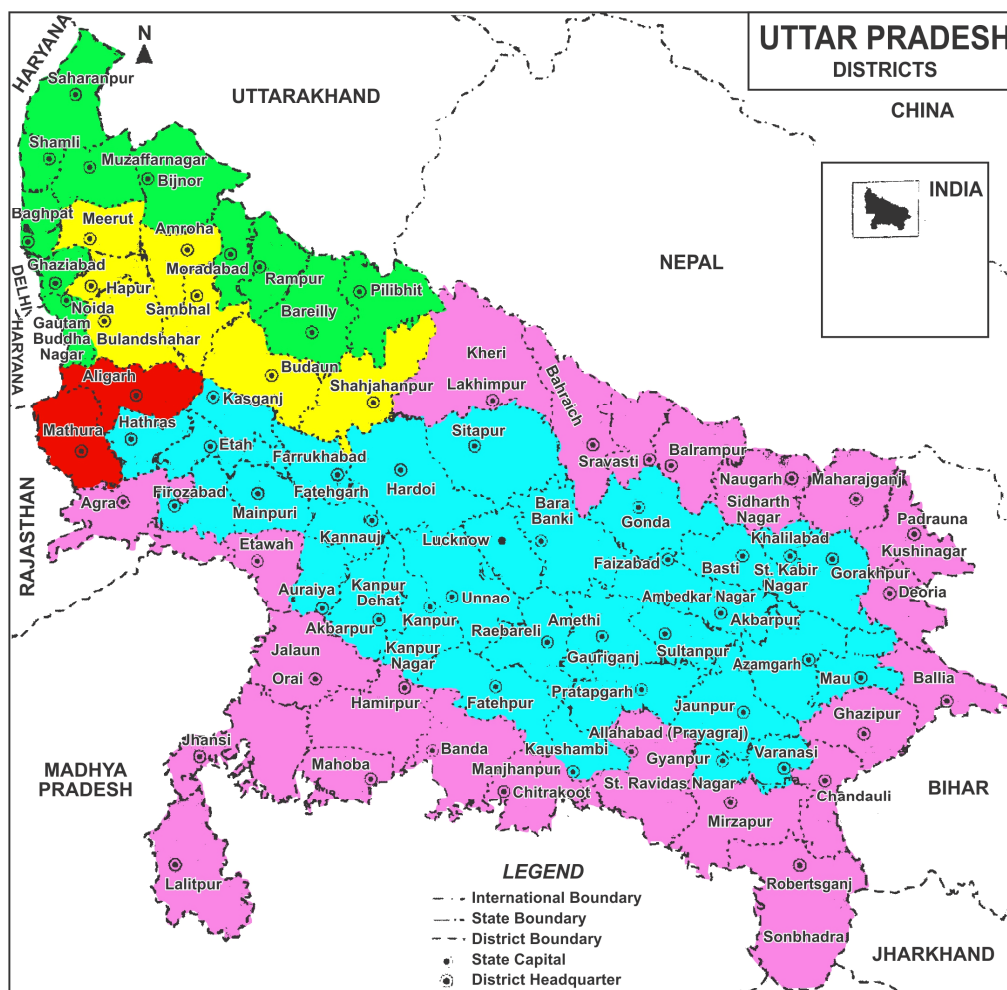
⁴ Bhim Nagar (Sambhal), Punsheel Nagar (Hapur) and Prabuddha Nagar (Shamli) were carved from Moradabad, Ghaziabad and Muzaffarnagar respectively in the month of September 2011.

⁵ It includes Country liquor, IMFL and Beer.

⁶ Budaun, Bhim Nagar (Sambhal), Bulandshahar, Jyotibaphule Nagar, Meerut, Punsheel Nagar (Hapur) and Shahjahanpur.

⁷ Agra, Allahabad (Now Prayagraj) &(Uttar Pradesh Government Gazette Notification of *Rajasave Anubhag-5*, No.-76/2018/1574/1-5-2018-72/2017 Lucknow dated 18 October 2018. Further used as Allahabad), Aligarh, Bahraich, Balrampur, Ballia, Banda Chandauli, Chitrakoot, Deoria, Etawah, Ghazipur, Hamirpur, Jalaun, Jhansi, Kushinagar, Lalitpur, Lakhimpur, Mahoba, Maharajganj, Mathura, Mirzapur, Siddharth Nagar, Sonebhadra and Shrawasti.

Chart - 3.1



Source: Information available on the basis of audit findings.

The inclusion of seven districts with no state borders in the special zone and non-inclusion of 25 border districts in the special zone was justified by the Excise Department on the ground that it was an innovative experimental special policy being proposed for the first time.

Audit scrutiny of the policy files of Excise Department revealed that the reasoning behind the decision to include in or exclude districts from the Special Zone was that if the policy of creation of special zone was found successful, other districts would be considered for inclusion in the special zone. Although creation of special zone was declared successful in the proposal of the Excise Policy 2010-11, no district was either included in the special zone nor excluded from it during the period from 2010-11 to 2017-18.

3.2 Non-achievement of the objectives of creation of the Special Zone

The creation of special zone had certain objectives as laid out in the excise policy proposal (February 2009). The status of attainment of these objectives is summarised in **Table - 3.1**.

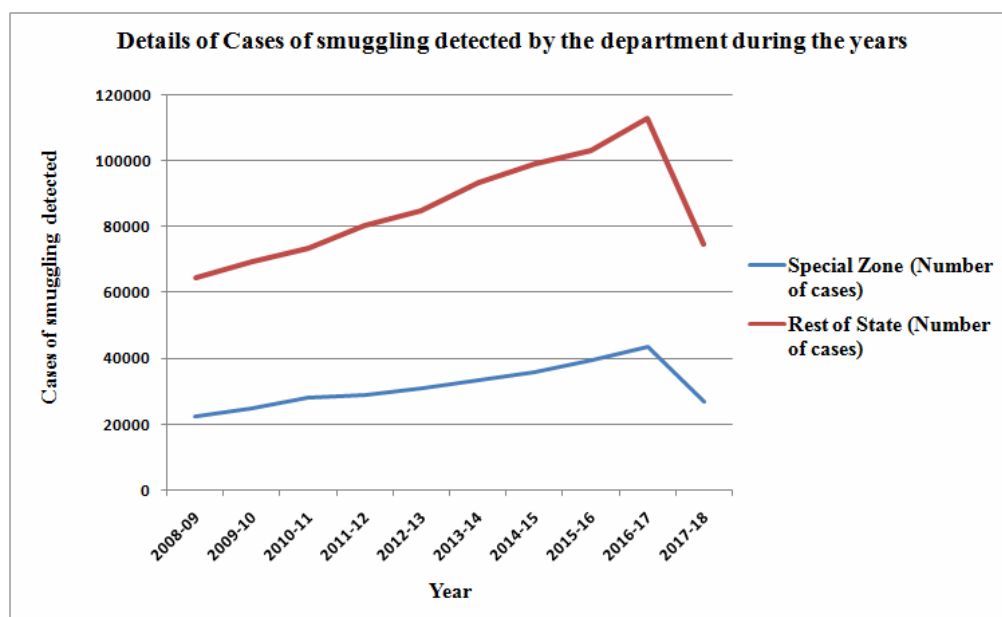
Table - 3.1
Details of attainment of objective of creation of special zone

Objective	Audit observation
<p>Public health, safety and public order: Illegal centres of liquor are developed due to smuggling of low cost liquors from Haryana, Delhi and Uttarakhand. Sometimes due to mixing of methyl alcohol in such liquor, there were casualties of human lives. This causes law and order issues.</p>	<p>No justification was available for allowing exclusive privileges of whole sale of Country Liquor and retail selling of liquors to a single licensee within the special zone and how such a measure would reduce the illicit trade in liquor. The details of smuggling cases are depicted in Chart 3.2 below the table:</p>
<p>Public interest: Due to smuggling of illegal liquor, there was shortfall in revenue realised from sale of liquor in comparison to budget estimates which adversely affected the public welfare schemes.</p>	<p>Audit noticed that the consumption of IMFL declined continuously from 2012-13 to 2015-16. (from 12.20 crore bottles in 2011-12 to 7.5 crores bottles in 2015-16). Similarly, consumption of beer also declined from 27.16 crore bottles in 2015-16 to 25.35 crore bottles in 2016-17. The revenue realized from sale of IMFL declined from ` 3,672.32 crore to ` 3,292.96 crore during 2013-14 to 2015-16. Thus, the creation of Special Zone and allowing a single licensee in this zone neither had any improvement in sale of liquor nor in the revenue realized from the sale of liquor in this zone. The details of trend of consumption of IMFL are depicted in Chart 2.1 in Chapter 2.</p> <p>Further, the proportion of smuggling cases detected in the rest of the state were the same as detected in the Special Zone. The trends are depicted in chart 3.2 following this table.</p>
<p>Financial: MGQ of Country Liquor was required to be fixed at a higher percentage in the special zone compared to rest of the state.</p>	<p>Additional one <i>per cent</i> MGQ was raised in the special zone during the year 2009-10 (First year of the creation of the special zone) due to which revenue increased. From the next year onwards, however, no extra percentage of MGQ was assigned to the special zone. Even average enhancement of 6.35 <i>per cent</i> MGQ over the year was not done and, it was raised by only three <i>per cent</i> in 2010-11 and by one <i>per cent</i> in 2011-12 as compared to 7.05 <i>per cent</i> increase during 2009-10.</p> <p>The provision for additional MGQ, as envisaged in the policy, was not implemented in the special zone except in the very first year of implementation in spite of its visible effectiveness, without assigning any justifications/ reasons.</p>
<p>Jurisdiction: Special zone was created by including districts covered in Meerut Zone and Bareilly Charge. The reason behind this was mentioned as the districts bordering with Delhi, Uttarakhand and Haryana are sensitive and smuggling prone areas, hence included in the special zone.</p>	<p>The inclusion of seven districts with no state borders in the special zone and non-inclusion of 25 border districts including Aligarh and Mathura-bordering Haryana in special zone signifies lack of coherent criterion for demarcation. (commented upon in detail in para 3.1)</p>

Objective	Audit observation
<p>Experimental basis:</p> <p>This special zone was created on experimental basis and it was required to be reviewed on the basis of its success or failure</p>	<p>The retail license to a single company was extended on a yearly basis from 2009-10 to 2017-18 by the Government in the excise policies of different years without any justification/statistics for the same available in the concerned files at the Government/ Department level.</p> <p>Proposal submitted for the excise policy of 2010-11 stated that this policy was successful. However, it was not extended to the rest of Uttar Pradesh.</p>

Source: Information available on the basis of audit findings.

Chart - 3.2



Scrutiny of files related to the Excise Policy 2018-19 revealed that the Department had decided (January 2018) not to extend the scheme of special zone any further owing to poor revenue growth in the State.

Audit reported the matter to the Department and the Government (June 2018 and March 2019). In the exit conference, the Government and the Department stated (July 2018) that due to the above mentioned reasons, the system of special zone was not found fit and was abolished in the Excise Policy issued by the Government for the year 2018-19⁸. However, the Government and the Department remained silent on why the special zone was not abolished earlier, if its objectives were not being achieved.

⁸ Para 2(1) of the excise policy for the year 2018-19.