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CUSTOMS. EXCISE & SERVICE TAX APPELLATE TRIBUNAL.
PRINCIPAL BENCH, WEST BLOCK No.2, R.K.PURAM, NEW DELHI - 110066
CUSTOMS APPEAL BRANCH

Appeal No. ST/271 /2008 - CU[DB] Date 15/04/2009

Assistant Registrar
C.E.S.T.A.T, New Delhi

To :
M/S MODI-MUNDIPHARMA PVT. LTD.
MEERUT-MUZAFFARNAGAR ROAD,MODIPURAM-250110 (U.P.)

M/S MODI-MUNDIPHARMA PVT. LTD. Appellant
Vs
C.C.E. MEERUT I Respondent

I am directed to transmit herewith a certified copy of **Final order No.** ST/120 2009 CU[DB] dated

passed by the Tribunal under Section 129, (B) of the Customs Act,1962 & Financial Act 1994 relating to Service Tax

Assistant Registrar
(Customs Appeal Branch)

Copy to :
1. Respondent
   C.C.E. MEERUT I
   EXCISE CHOWK, UNIVERSITY ROAD, MANGAL PANDEY NAGAR, MEERUT - 250005.
2. Adv. / Consult
   MR.RAJESH CHHIBBER
   FA/9, NEW KAVI NAGAR, GHAZIABAD
3. S.D.R
4. J.C.D.R.
5. Bar association, CESTAT, New Delhi
6. M/s. Deeparchi Publications, M-93, Marg. 46, Saket, New Delhi 110017
7. M/s Centax Publictions (P) Ltd., 1512-B, Bhishm Pitamah marg, Opp. ICICI Bank of Defence Colony, New - 3
8. Excise & Customs cases, B-37, Sector -1, NOIDA - 201301 Gautam Budh Nagar, (U.P.)
9. Raghuraman's 44-B, Regal Flat,Shipra Suncity, Indirapuram - 201010,Ghaziabad, DT, U.P.
10. Nidheshak publications, I.P.Estate, new Delhi
11. Taxmann Allied Service Pvt Ltd., 21/35, West Punjabi Bagh, New Delhi - 110026
12. Commercial Laws of India Pvt Ltd Post Bag No. 1033, No.70(Old No. 88), Thyagaraya Road, T. Nagar,Chennai
13. Taxindiaonline.com Pvt.Ltd, B-XI/8183,Vasant Kunj, New Delhi - 110070
14. Easy Service Tax Online Dot Com Pvt.Ltd.407A,Iscon Mall,Above Star India Bazar,Satellite Road,Ahmedabad-15
15. LAWCRUX Advisors (P) Ltd, Law House,1-8,Sector - 10, Faridabad 121003 (Haryana)
16. Office Copy
17. Guard file

Assistant Registrar
(Customs Appeal Branch)

IN THE CUSTOMS, EXCISE & SERVICE TAX APPELLATE TRIBUNAL,
WEST BLOCK NO. 2, R.K. PURAM, NEW DELHI

COURT – III

SERVICE TAX APPEAL NO. 271 OF 2008

[Arising out of Order-in-Original No. 05/Commr/Mrt-I/2008 dated 13.02.2008 passed by the Commissioner, Central Excise, Meerut-I, Meerut]

For approval and signature:

Hon'ble Mr. M. Veeraiyan, Member (Technical);
Hon'ble Mr. P.K. Das, Member (Judicial)

1.	Whether Press Reporters may be allowed to see the order for publication as per Rule 27 of the CESTAT (Procedure) Rules, 1982?	NO
2.	Whether it would be released under Rule 27 of the CESTAT (Procedure) Rules, 1982 for publication in any authoritative report or not?	Yes
3.	Whether their Lordships wish to see the fair copy of the order?	Seen
4.	Whether order is to be circulated to the Departmental authorities?	Yes

M/s. Modi-Mundipharma Pvt. Ltd., Appellant

Vs.

CCE, Meerut Respondent

Appearance:

Shri J. Vellapally, Sr. Advocate &
Shri Rajesh Chibber, Advocate for the appellant;
Shri R.K. Verma, D.R. for the Revenue

Coram:

Hon'ble Mr. M. Veeraiyan, Member (Technical);
Hon'ble Mr. P.K. Das, Member (Judicial),

Date of hearing/decision: 1st April, 2009

FINAL ORDER NO. 57/2009 dated ________

Per M. Veeraiyan:

The appellant filed this appeal against the order of the Commissioner No. 05/Commr/Mrt-I/2008 dated 13.2.2008.

2. Heard both sides.

3. The relevant facts are that the appellant is engaged in the manufacture of medicines; that they entered into collaboration agreement dated 19.11.90 with M/s. Mundipharma A.G. Switzerland; that they received "Know-How" in the form of certain information, data, drawing and secret formula for the manufacture of variety of P.P. medicines; that based on such 'Know-How', the process and the formula, the appellant has been manufacturing products in the brand names which are registered in their own name in India; that for the services rendered by the foreign based M/s. Mundipharma A.G. Switzerland, royalty shall be paid at rates prescribed in the said agreement for the period 5 years/ 10 years from the commencement of production of the concerned medicine; that the appellant subsequently entered into another agreement dated 19.5.2004 modifying certain clauses in the agreement dated 14.11.90 and provided for enhancement of rates of royalty; that the Commissioner in pursuance

of show cause notice dated 26.6.2007 held that the appellant is receiving services under Intellectual Property Rights and, accordingly, confirmed demand of service tax amounting to Rs. 44,47,045/- relating to the period 10.9.2004 to 30.9.2006 along with interest and also imposed penalties under different sections of the Finance Act.

4.1 Learned Sr. Advocate, appearing for the appellant, submits that the appellant received 'Know-How' on the process and the secret formula for manufacture which was received as a one time arrangement in pursuance of agreement dated 14.11.90. The agreement provided for payment for the said service over a period of time based on the quantum of sales effected of products manufactured using the said formula. They were not receiving any services over the period and consequently no services were received during the period of demand. The entire payment made and are likely to be ~~received~~ made in future relates to only services already received before introduction of service tax in 1994 on any of the services and consequently before introduction of tax on IPR service w.e.f. 10.9.2004.

4.2 He also submits that the secret formula known to Mundi-pharma A.G. Switzerland cannot be treated as a property to be governed by Intellectual Property Laws. They are not property as Mundi-pharma A.G. does not get right in respect of the said knowledge. The appellant was permitted to use the secret information in pursuance of the agreement and for the said purpose royalty was paid to Mundi-pharma

A.G. Switzerland. This transfer of Know-how is not a transfer of IPR protected by any Indian Law to attract the service tax as IPR services.

4.3 He also submits that even if services are held to have been received such services prior to 18.4.2006 are not taxable in the hand of recipient as held by the Bombay High Court in the case of Indian National Shipowners Association vs. UOI, reported in AIT – 2008 – 475 – HC. In other words, the amount of royalty paid was by way of deferred payment for Know-how received much earlier to introduction of service tax on IPR services.

5.1 Learned D.R. draws our attention to the various provisions of agreement dated 14.11.90 and dated 19.5.2004 and submits that the use of formula and the Know-how will amount to continuous use of services provided by M/s. Mundi-pharma A.G. Switzerland. He, particularly, draws our attention to Para 2.5 of the agreement by which the appellant was allowed exclusive license to be used for the purpose of manufacture, use and sale of preparations during life of patent. He also submits that the appellant is entitled to use the formula in the manufacturing till the termination of the agreement. He relies on the decision of the Tribunal in the case of Indian Farmers Fertilizer Co-op. Ltd. vs. CCE, Bareilly, reported in 2007 (5) S.T.R. 281 (Tri.-Del.). The relevant portion of decision reads as follows:-

"14. As noted above, "know-how" as an intellectual property is sometimes also referred to a trade secret which enables its user to derive commercial benefit from it. A trade secret is a formula, practice, process, design, instrument, pattern or compilation of information used by a business to obtain an advantage over competitors within the same industry or profession. Such trade secrets are sometimes referred to as "confidential information". A person having "know-how" as a trade secret would protect such confidential information by non-compete or non-disclosure contracts. Unlike patent or trade mark, the attribute of protection of confidential information in the know-how gives perpetual monopoly in such secret information which does not expire over a period of time as is usual for the protection in form of validity period granted to patents and copyrights. Where trade secrets are recognized, the creator of property regarded as trade secret is entitled to regard some special knowledge as intellectual property. A trade secret is such sort of information, that is not generally known to the relevant portion of the public, that confers some sort of economic benefit on its holder and which is the subject of reasonable efforts to maintain its secrecy. Trade secrets are, however, not protected by law in the same manner as trademarks or patents. A significant difference, is that trade secret is protected without disclosure of the secret. So long as the owner of the trade secret can prove that reasonable efforts have been made to keep the information confidential, the information remains a trade secret and generally remains legally protected as such. However, where trade secret owner has not exercised reasonable effort at protecting the confidential information, there is risk of loosing the trade secret, even if competitor obtains the information illegally. Know-how in the nature of trade secret as an intellectual property would, therefore, be information including a formulae, pattern compilation, programme device, method, technique or process, that derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by other person who can obtain economic value from its disclosure or use, and is the subject of efforts that are reasonable under the circumstances, to maintain its secrecy."

5.2 He also submits that when a foreign company render services, the recipient is liable to pay service tax from 1.1.2005 as held by the Larger Bench of the Tribunal in the case of Hindustan Zinc Ltd. vs. CCE, Jaipur, reported in 2008 (11) STR 338 (LB-CESTAT).

6. We have carefully considered the submissions from both sides. We also perused the agreement and the show cause notice. In the show cause notice it is alleged that the appellant was granted exclusive right to manufacture, use and sell within the territory, the preparation utilizing the know how and scientific and technical information and the teachings of the patents on payment of royalty. It is also alleged in the show cause notice that the appellant was receiving know-how during the disputed period. However, from the agreement it is noticed that there is no evidence of continuous providing of information, know-how in relation to the manufacture. Further, it is not disputed that the appellant was manufacturing and selling products in the brand names, Pyricontin, Diacontin, Fecontin, Metocontin, Morcontin, Nitrocontin, & Unicontin which are claimed to be registered brand names of the appellant company. In other words, they are not using the brand name of Mundipharma A.G. Switzerland. Receipt of Know-how appears to be a one time affair. There is no evidence that their know-how is supplemented by Mundipharam A.G. Switzerland. Therefore, we are in

agreement with the submissions on behalf of the appellant that royalty payment in the form of deferred payment for know-how received in 1990. Whether payment for such services rendered is made in one lump sum or made in instalments or based on quantum of sales by the appellant on an annual basis is not relevant to consider as to when the services were actually rendered. From the available evidences on record, we accept the submission of the learned Sr. Advocate that the services were rendered in 1990 and for the said services payments were being made periodically as provided in the agreement.

7. Therefore, we hold that no services were being rendered and received during the disputed period. In view of the above, order of the Commissioner cannot be sustained and the same is set aside and the appeal is allowed with consequential relief. Since we are allowing the appeal on this short ground, we are not going into other issues raised by both sides.

(Dictated & pronounced in the Open Court.)

(M.VEERAIYAN)
MEMBER (TECHNICAL)

(P.K. DAS)
MEMBER (JUDICIAL)

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