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Tax alert: Supreme Court classifies aluminium shelving for mushroom growing as ‘aluminium structures’, not ‘parts’ of agricultural machinery

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Supreme Court (SC) has set aside the CESTAT (Customs, Excise and Service Tax Appellate Tribunal) order and held that aluminium shelving, imported for mushroom cultivation, is correctly classified as ‘Aluminium Structures’ under Customs Tariff Item (CTI) 76109010; the classification under CTI 84369900 (parts of agricultural machinery) has been rejected.

In a nutshell

Classification must be determined “as imported”, based on the nature, condition and essential characteristics of the goods. End-use becomes relevant only where tariff heading expressly allows consideration of use.

The Court restricted the application of the common/trade parlance test. It applies only where the statute is silent and cannot override explicit guidance from tariff headings, Section/Chapter Notes and HSN Explanatory Notes.

The mushroom growing apparatus was found not to be “machinery” in its own right. Accordingly, the aluminium shelving, which merely provides structural support and does not complement any machinery in performing its essential functions, cannot be regarded as a “part” of machinery under Chapter 84.

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Background:

- M/s Welkin Foods ("the respondent") imported aluminium shelving along with floor drains and an automatic watering system for mushroom growing, vide Bill of Entry dated 9 November 2016, under Customs Tariff Item (CTI) 84369900 as "parts" of agricultural machinery falling under Chapter 84.
- During post-clearance audit, the Revenue raised an objection on adopted classification of aluminium shelving and contended its classification under CTI 76109010. It was alleged that the shelving was a fixed aluminium structure, did not possess the characteristics of a machine or a mechanical appliance, and that its end use in mushroom cultivation was not relevant for classification purposes. On this basis, a show cause notice dated 8 August 2018 was issued under Section 28(1) of the Customs Act, 1962, proposing reclassification of the aluminium shelving under CTI 76109010 and recovery of differential Customs duty amounting to INR 21,01,983 along with applicable interest.
- The Joint Commissioner of Customs, ICD-Import, Tughlakabad, vide Order-in-Original dated 28 February 2019, confirmed the proposed reclassification and demand and held that Customs Tariff Heading (CTH) 7610 covers all types of aluminium structures irrespective of their use or design; that aluminium shelving did not qualify as agricultural machinery or as parts thereof, under Chapter 84, and that every individual component used for mushroom cultivation was not essentially an agricultural machinery.
- The Respondent's appeal before the Commissioner of Customs (Appeals) was dismissed vide Order-in-Appeal dated 28 December 2020. The appellate authority affirmed the findings of the adjudicating authority and reiterated that the aluminium shelving did not possess the essential characteristics of a machine or a part of a machine and could not be classified under Chapter 84 merely on account of its use in mushroom cultivation.
- Aggrieved by the decision, the respondent filed an appeal before CESTAT. The tribunal allowed the appeal and overturned the decision of the appellate as well as the adjudicating authority. The CESTAT held that aluminium shelving was classifiable under CTI 84369900 and relied on the following aspects of the matter:
  - The respondent is engaged in mushroom cultivation and imported the subject goods from a supplier catering exclusively to the mushroom cultivation industry.
  - The aluminium shelving was specially designed to operate with mushroom cultivation equipment and was not ordinary shelving.
  - The shelving formed an essential and integral part of the mushroom cultivation apparatus.
  - The aluminium shelving is not capable of use as general-purpose aluminium structures.
  - In common trade parlance, the aluminium shelving is known as mushroom growing racks.
  - While Chapter 76 generally covers aluminium structures, Chapter 84 applies to machinery and equipment used for agricultural purposes.
- The Revenue, being aggrieved by the CESTAT's order, preferred an appeal before the Supreme Court (SC).

Supreme Court judgement

- The dispute before the SC primarily concerned the classification of aluminium shelving imported for use in mushroom cultivation. The SC examined the scope and limits of the common/trade parlance test and when end-use may be considered in tariff classification.

Key principles culled out by the SC

- **Common/trade parlance test**: By drawing reference from decisions such as ***Dunlop India Ltd. v. Union of***

India[1]**, *Oswal Agro Mills Ltd.***[2]**, and *Wockhardt Life Sciences Ltd.***[3]**,** SC states that common parlance test applies only where the statute is silent or lacks explicit/implicit guidance. This cannot override tariff headings, Section/Chapter Notes or HSN Explanatory Notes. The SC outlined cumulative conditions (as mentioned below) for invoking this test and cautioned against simplistic understanding of tariff terms. (**In para 66 of the judgement):**

  - The statute does not define the term or lay down clear criteria for classification;
  - The tariff heading does not use technical or scientific language;
  - Applying the test does not conflict with the overall statutory scheme.

- Relying on ***Atul Glass Industries (P) Ltd.***[4], the SC also cautioned that words used in tariff entries must not be understood in an overly simplified or superficial manner.
- Most critically, the SC reaffirmed that the common parlance test cannot be used to override the statute. Goods must be classified based on their essential characteristics as defined by law, regardless of how they are described, marketed, or known in trade or common parlance.

- **End-use:** In para 96 of the judgement, the SC has analysed the legal position regarding consideration of 'use' when dealing with classification disputes**:**
  - Relying on settled law laid down in ***Indian Aluminium Cables Ltd. v. Union of India***[5] and ***Commissioner of Central Excise v. Carrier Aircon Ltd.***[6], the Court held that use becomes relevant only when the tariff entry itself expressly, or by necessary implication, adopts "use" as a criterion.
  - Th SC noted that following conditions need to be fulfilled to classify goods based on 'intended use'
    - Where the relevant tariff heading expressly allows consideration of use.
    - Where use is a relevant factor, the intended use claimed by the importer must be consistent with the use specified in the tariff heading.
  - The SC also emphasised the fact that Customs duty is attracted at the time of import, and therefore classification must be determined based on the nature, condition and characteristics of the goods at the time of import and not how it is intended to be used after import.
- While applying the above principles to the facts of the case, the SC answered the following specific questions:
  - Whether subject goods can be classified as 'Aluminium Structures' under CTI 76109010?
    - In paragraphs 117 to 122 of its judgment, the SC held that aluminium shelving satisfied the description of "structures" classifiable under CTI 76109010. However, the SC clarified that such classification was not determinative by itself, as goods falling under Section XVI (Chapters 84–88) are expressly excluded from Section XV, which includes Heading 7610. Consequently, the Court emphasised that if the goods were found to qualify as parts of agricultural machinery under Heading 8436, they would stand excluded from classification under Heading 7610.
  - Whether the subject goods can be classified as 'Parts of Agricultural Machinery' under CTI 84369900?
    - The Supreme Court answered this issue in the negative, holding that the aluminium shelving does

[1] Dunlop India Ltd vs Union of India, reported in [(1976) 2 SCC 241]

[2] Oswal Agro Mills Ltd & Ors v. Collector of Central Excise & Ors, reported in [1993 Supp (3) SCC 716]

3 Commissioner of Central Excise v. Wockhardt Life Sciences Limited, reported in [(2012) 5 SCC 585]

4 Atul Glass Industries (Pvt) Ltd. & Ors v. Collector of Central Excise & Ors, reported in [(1986) 3 SCC 480]

5 Indian Aluminium Cables Ltd vs Union of India & Ors, reported in [(1985) 3 SCC 284]

6 Commissioner of Central Excise, Delhi vs Carrier Aircon Ltd, reported in (2006) 5 SCC 596

not qualify as “parts” of agricultural machinery under CTI 84369900, as it does not complement the machinery to perform any specific or essential functions as and merely serves as a supporting structure.

- Whether the mushroom growing apparatus can be considered as ‘machinery’ in its own right. If the apparatus does not qualify as ‘machinery’, then classification under Chapter Heading 8436 fails at this initial stage?
    - The Supreme Court noted that Chapter Heading 8436 is an ***eo nomine entry***, classifying goods as “machinery” by description and not merely by end-use. It held that goods must therefore first qualify as machinery in their own right before any consideration of parts or ancillary classification can arise. On examining the mushroom growing or germination setup, the SC observed that it does not perform any mechanical operation, lacks an independent functional role, and is in substance, a combination of separate machines and systems, with the aluminium structure merely providing support. Accordingly, the SC concluded that the subject goods are ‘structures’ cannot be regarded as ‘parts’ of machinery, and classification under Heading 8436 fails at the threshold.

- Accordingly, the SC held that the imported aluminium shelving’s cannot be classified under CTH 84369900 and are correctly classified under CTH 76109010 as claimed the Revenue.

Our comments:

This decision reinforces sequential application of the GRI (beginning with GRI 1) and the importance of tariff text, Section/Chapter Notes and HSN Explanatory Notes over trade parlance or intended end-use. Importers should expect stricter scrutiny where goods are structural components integrated into larger setups.

For classification claims under Chapter 84 or 85 (including “parts”), documentary evidence must demonstrate functional integrality i.e., the component must enable or complete a specific mechanical function of a machine, beyond providing mere support. It is recommended to maintain robust technical literature (datasheets, assembly drawings), installation manuals, and expert certifications to substantiate claims where “use” is part of the tariff criterion and avoid relying solely on end-use or trade descriptions.

Wider Industry Impact:

This judgment has **far-reaching implications** beyond agriculture. SC judgment on ‘structure versus part’ principle has reignited a long-standing debate with far-reaching implications across several businesses. Industries such as **data centres, IT companies, telecom operators, automobiles, and industrial automation setups,** routinely import **racks, shelves, frames, rails, and other static assemblies,** which are often classified as **parts of machinery**. Post this judgment, such classifications may face challenge if these components are found to be **structural in nature** and not performing an essential mechanical or electrical function. Companies should proactively:

- **Reassess HS codes** for imported structural assemblies (server racks, trays, mounting frames, etc.).
- **Evaluate duty impact** where reclassification to headings like **7610 (aluminium structures)** or similar structural headings could increase Customs duty liability.
- **Update compliance protocols** to ensure classification arguments are backed by functional analysis rather than trade parlance or intended use.

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