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**FINAL  
REPORT  
OF  
THE  
SELECTIVITY  
COMMITTEE  
MAY - 1965**

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Directorate of Commercial Publicity,  
Ministry of Commerce,  
New Delhi

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**SELECTIVITY COMMITTEE**  
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DIRECTORATE OF COMMERCIAL PUBLICITY  
MINISTRY OF COMMERCE, GOVERNMENT OF INDIA, NEW DELHI

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## FINAL REPORT OF THE SELECTIVITY COMMITTEE

### I. Introduction

At its 10th meeting, held in Ernakulam on November 23, 1963, the Board of Trade, while taking note of the dangers inherent in a situation in which excessive and unhealthy *inter-se* competition was allowed to develop among a large number of Indian exporters in the same commodities in the same markets, expressed the view that it would be necessary to evolve a selective approach whereby a group of competent and quality-conscious exporters working in co-operation would specialise in export trade with a particular region. The Board decided to set up a Committee to examine the matter and make recommendations on the manner in which such a selective approach could be built into the export effort. Accordingly, a Committee was constituted for the above purpose with the following composition :—

#### *Chairman*

1. Shri A. Ramaswami Mudaliar.

#### *Members*

2. Dr. P. S. Lokanathan.
3. Shri B. N. Adarkar, Additional Secretary, Ministry of Finance.
4. Shri Govind Narain, Chairman, Minerals & Metals Trading Corporation.
5. Shri H. D. Shourie, Joint Secretary, Ministry of Commerce\*.
6. Shri C. R. Krishnaswamy Rao Sahib, Joint Director, Ministry of Commerce, Member-Secretary.

2. The Committee held five meetings in which the question of selectivity in export trade was discussed in its various aspects.

In the light of these discussions the committee made certain recommendations for the consideration of the Board of Trade. We understand that Government invited the views of the Export Promotion Councils, Commodity Boards, Chambers of Commerce and other trade

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\*Until Shri Shourie left the Ministry to assume the Director-General-ship of the Indian Institute of Foreign Trade.

organisations. In the light of these views, certain modifications to our original recommendations were proposed. The modified recommendations were placed before the Board of Trade at its 18th meeting, and the Committee was requested to consider the modifications in the light of the views expressed, and to make its further recommendations for facilitating a final decision. The Committee accordingly held a further meeting and, after taking into account the views expressed, presents this modified report for the consideration of the Board of Trade.

## II. The Approach

3. The need for introducing a measure of selectivity in the export sector having been accepted by the Board of Trade, it will not be necessary for us to dilate upon it. In part, this need has been brought into focus as a result of the country emerging as an exporter of a number of new manufactured products. This has naturally opened up opportunities of trade to many persons who hitherto had had no experience in this line. While this phenomenon is altogether to be welcomed, a chaotic situation cannot be allowed to develop wherein a number of exporters of inadequate competence and doubtful business ethics engage themselves in cut-throat competition in limited markets to the detriment of the country's interest; or in which a number of fair-weather exporters embark wantonly upon exports in the hope of obtaining quick gains at the risk of spoiling chances of building up trade on a sound and lasting basis. Unhealthy trends of this kind would have to be prevented, if possible; and to the extent that they do appear, would have to be curbed. One method of doing so would obviously be to introduce an element of screening and selection amongst our exporters in the context of the grant of aids and facilities for export.

4. We observe, in this context, that as part of the export-aid programme exports of certain products are linked with imports of certain other commodities. Sometimes this arrangement has resulted in persons whose only concern was with the import of the commodities in question taking to exports of products in which they had neither interest nor experience, with the sole object of enjoying the benefit of the imports. Since such developments are obviously fraught with danger to the orderly promotion of foreign trade, it is essential that in the operation of these schemes, the export aids are extended selectively only to those who have a genuine interest in export trade and the capacity to undertake it.

5. It would be incorrect, however, to conceive of the principle of selectivity solely in terms of the somewhat negative approach of eliminating the bad exporter. A broader justification of the selective approach rests in the knowledge of the fact that in the intensely competitive trading situation that prevails in the world today, overseas marketing is a highly specialised business and that only such trading units can be expected to "deliver the goods" in this sphere of commercial activity as have the necessary expertise, capacity and resources. As pointed out by the Study Team on Techniques of International Trade (which visited West Germany, U.S.A. and Japan in September-October, 1963),

“if Indian manufacturers and exporters are to compete effectively in the world market, they will have to match international trading houses in the strength of their organisational structure, in the scale of their operations and in the excellence of their marketing skills”. It follows, therefore, that any foreign trade promotional policy should deliberately provide for the building up of a cadre of efficient business houses who have accepted a total commitment to concentrate on export trade and who possess the required qualifications and adequate resources to undertake overseas trading in a large measure, in a sustained manner, and over a long period.

6. Apprehensions are expressed from time to time that any measure of selectivity would necessarily involve an element of discrimination, encourage the creation of undesirable vested interests and inhibit the entry of fresh capital and talent into this vital sector. These fears would prove to be groundless so long as the selectivity is based on a system of well-defined criteria, and so long as in its practical application, there is no bar on the entry of new units into the field of selection, and special assistance or facilities are always linked to and made contingent upon special obligations. In making our recommendations, therefore, we have kept these considerations in view and have throughout conceived of the selective approach as a means of extending positive support for efficient trading and in no sense a device for imposing restraints on freedom of enterprise.

7. In brief, therefore, our proposals have been formulated with the following objectives in view:—

- (a) Encouragement for the formation of efficient marketing units;
- (b) Grant of facilities for specialisation in export trading;
- (c) Avoidance of excessive and unhealthy *inter-se* competition; and
- (d) Maintenance of high standards of business ethics.

### III. The Background

8. Before we set out our proposals it would only be appropriate to mention that some measure of selectivity has already been introduced in the implementation of Government trade promotional policies. The Scheme of recognition of certain business houses as “Export Houses” perhaps represents the most direct attempt made towards achieving a degree of selectivity in the export promotion effort. This scheme was primarily formulated with a view to developing specialisation and high standards of performance in export trade. As originally conceived in 1958, the scheme prescribed rigid criteria that a business house would have to satisfy before it could qualify for recognition as an export house; later many of the conditions were relaxed, with the result that any Company of standing dealing in a wide range of articles for export could apply for recognition. Under the rules export houses are eligible for special assistance for conducting market surveys for undertaking export publicity and for opening offices abroad; they are also eligible for the

facility of a lump sum allotment of foreign exchange to cover the business travel requirements of their representatives. Thus far over 50 export houses have been recognised. Some of these have always been exporters of our traditional commodities; and the subsequent export performance of some of the others has been distinctly disappointing. It cannot be said therefore that the scheme has succeeded in its principal objective of building up a specialised cadre of exporting concerns.

9. A second instance of the operation of the selectivity approach is provided by the requirement of registration under the various Export Promotion Schemes. At present, to qualify for grant of benefits under these Schemes an exporter is required to be registered with the appropriate authority which in most cases would be the concerned Export Promotion Council. Any exporter with export performance, good record and experience is ordinarily eligible for registration, and even an applicant with no previous experience of export in a particular line may be registered if the registering authority is satisfied about the applicant's general background of trading and industrial experience or of export of other products. It seems generally conceded that the qualifications prescribed for registration are not specific enough and the practices followed in disposing of applications for registration are not rigorous enough to introduce the required degree of selectivity. Furthermore, the principle of selectivity is vitiated by the existing rule in many schemes under which when an exporter of a single product such as sewing machines is registered with the appropriate authority (namely the Engineering Export Promotion Council), he is deemed to be registered for the export of all engineering products from a pin to a locomotive.

10. Other measures have also been adopted for introducing a measure of selectivity; in particular, attempts have been made to set up organisations of selected exporters for trading with Western Europe where the size and sophistication of the market demands that sufficient organisational strength be developed for successful business operations in that region. Other measures in which the element of selectivity is implicit include the grant of facilities for business visits and opening of foreign offices abroad on a selective basis, selection of participants in trade fairs and exhibitions, etc.

#### IV. Proposals

11. In our view, the concept of selectivity could best be applied over the export sector by categorising the ranks of exporters into a three-tier pattern. At the lowest level would be the registered exporters grouped into suitable panels; the second level would be occupied by Export Houses recognised by the Government on the basis of certain well-defined criteria. The third level—which would necessarily have somewhat limited application—would consist of Consortia of Exporters in a product or group of products. Our suggested Scheme is further elucidated in the following paragraphs:

##### (i) REGISTERED EXPORTERS AND PANELS

12. In the application of the selectivity principle to exporters it might be convenient to distinguish between the traditional and non-

traditional commodities figuring in our export trade. The former category would include our staple export items such as tea, jute manufactures, spices etc., while the second category would comprise in particular the new manufactures such as engineering products, chemicals, plastic goods, etc. So far as the non-traditional commodities are concerned, exports are by and large assisted by the grant of various forms of incentives which offer a convenient means of introducing a measure of selectivity in export trade. We have already seen how to qualify for the grant of these incentives an exporter is required to register himself with the appropriate registering authority; but the requirement of registration as at present conceived and applied does not provide for the desired measure of selectivity. We feel that the criteria for registration should not only be more specific but also separate and distinct for each of the products or group of products.

While the criteria for registration could take into account various aspects, the most important would be the exporters' ability to deliver the goods, *i.e.* his production, if he is a manufacturer exporter, and his tie-up arrangements, if he is a merchant-exporter. It is clear, however, that the criteria for this purpose should take into account the nature and scale of operations of the exporters. It will be convenient to categorise exporters according to the four categories mentioned below, applying to them the criteria shown under each:—

- (1) *Industrial units licensed under the Industries (Development and Regulation) Act, and registered non-scheduled industrial units.*

For these, their actual production and installed capacity may be taken into consideration.

- (2) *Approved or registered small scale units.*

For these, the criterion could be their annual production in the immediate past.

- (3) *Cottage and handicraft industrial units in the decentralised sector.*

In their case, the criterion could be the type and quality of goods produced, and, to the extent this can be ascertained, the quantum of production.

- (4) *Merchant-exporters.*

In their case, their tie-up arrangements with producing units may be taken into account.

In addition, any or all of the following criteria may be taken into account, having regard to the category of the exporter:—

- (a) Quantum of export turnover in a specified product or a broad group of related products. (While previous performance would be a desirable qualification, even newcomers, who have no previous record of exports, could be considered for registration if they are found suitable in other respects).
- (b) Quality specifications of the products, including inspection and testing facilities available prior to export.



- (c) Record of commercial disputes, if any, in which the exporter has been concerned, and their settlement; general standing in trade (including bank references).
- (d) Overseas channels of trade and customer servicing facilities.

The criteria, and hence the rules of registration, should be formulated by the Export Promotion Council concerned for the different products (or broad groups of allied products) with reference to the nature of each product or group of products and the domestic and international trade practices that prevail in respect of that product or group of products. The rules should be subject to Government approval and after they have been approved they should be applied in disposing of applications for registration under the appropriate Export Promotion Scheme. It follows that omnibus registration will be given up and that applicants will be registered only in respect of that product or group of products for which they are qualified in terms of the respective rules.

In laying down the rules for registration, the Committee has taken into account the need for flexibility, as well as the need to avoid unnecessary paper work. In order that the rules may be appropriate to the commodities covered, it would be necessary to have separate rules for a distinct product or group of products. In order, however, that there may not be a large volume of unproductive paper work, it should not be necessary to have separate rules for every individual product; a single registration should suffice for a broad group of similar products, such as drugs.

13. If the Scheme of registration of exporters is suitably amended on the above lines it will be possible to ensure that only exporters of standing and reputation with sufficient capacity and resources to undertake export trade are allowed the benefits under the appropriate Export Promotion Schemes. In order to ensure, however, that a certain measure of discipline is observed by these registered exporters in their export trading practices it would be necessary to supplement these proposals so as to provide for the creation of an organisational forum for bringing together all registered exporters of a single product (or a broad group of allied products). For this purpose, all the registered exporters of a product or group of products should be formed into a panel within the frame-work of the concerned Export Promotion Council. Thus under this Scheme there will be a panel of bicycle exporters under the Engineering Export Promotion Council, consisting of all exporters registered with the Council for export of bicycles; likewise there will be a panel of drugs exporters under the Chemicals and Allied Products Export Promotion Council, and so on.

The Committee notes that it may be desirable for an exporter to specialise in exports not only of a particular product or group of products, but also in a particular market or markets, as trading conditions often vary widely in different markets. Export Promotion Council should, therefore, encourage market-wise specialisation. In suitable cases, they may create sub-panels within the same commodity panels, for dealing with different regions of the globe.

14. Each panel or sub-panel should evolve its own Convention of Trading, which may, among other matters, cover all or any of the following aspects :

- (a) Quality standards.
- (b) Export allotments, global or regional.
- (c) Agreements on delivery schedules, payment terms, commissions, packing and after-sales service, and other customer services.
- (d) Specification of the range of brands to be handled by each exporter or group of exporters, wherever appropriate.

Where necessary, price regulation may also be resorted to, but with the approval of the Central Government.

Only such export transactions as conform to the Convention of Trading and are effected by registered exporters should qualify for the grant of import entitlements against their exports. Any member of the Panel who consistently violates the Convention of Trading should be subject to expulsion from the Panel. In order to enable the Panel to function effectively and enforce the Convention of Trading among its members, it should have the power to require its members to file particulars of their export contracts for scrutiny by such authority as it may nominate in consultation with the Government.

Apart from import entitlements, competent registered exporters, selected on the basis of their performance, may be assisted by Government in other ways to enable them to overcome difficulties in production, improve their standards, and increase their exports on a planned basis wherever possible.

15. In the case of our traditional export commodities, the grant of incentives does not normally arise. In cases where the trade has developed on sound lines, and is proceeding satisfactorily, no particular action would be called for.

If, however, unhealthy practices, are found to develop, suitable action will have to be taken. The exact measures called for in any particular case would depend on the nature of the commodity, the trading practices that have developed in that commodity, and the circumstances demanding intervention. Broadly speaking, observance of all or any of the following requirements might be required:—

- (a) Registration of exporters on the basis of well-defined criteria such as previous performance.
- (b) Fixation of maximum and minimum prices.
- (c) Quantity-wise limitation on exports and fixation of quotas.
- (d) Registration of export contracts.
- (e) Pre-shipment inspection and quality control.
- (f) Regulation of trading practices such as prohibition of consignment sales, etc.

We observe that action on the above lines has already been taken in certain sectors of trade where the circumstances justified such action, for instance, trading in mica, export of Bleeding Madras etc. Other commo-

dities already subject to some form of regulation include coir, tobacco, etc. Some of these requirements e.g. quality control, are already provided for under various enactments. Where the necessary regulation cannot be achieved through existing enactments, it may be necessary to resort to direct export control, under the Imports and Exports (Control) Act and the Exports (Control) Order. Such control should, however, be resorted to only when it is found to be necessary, in the light of trading practices which have developed or are developing; and the criteria should be laid down with care so as not to act harshly on competent exporters, particularly the smaller ones.

16. There is a limited range of products such as cotton textiles which though figuring in our traditional exports are assisted by the grant of special incentives. In such cases the procedure suggested by us for non-traditional commodities could be applied whenever circumstances so warrant.

#### (ii) EXPORT HOUSES

17. In our Scheme, the second tier in the export complex will be occupied by recognised Export Houses. The justification for a Scheme of this kind arises from the fact that unless positive steps are taken to build up a number of Merchant Houses, concentrating almost exclusively on exports, specialising in trading in different commodities and with different regions, with the capacity to acquire the required marketing skills and the resources to undertake export business in a large volume and on a sustained basis, it would be impossible to compete successfully with the highly efficient and experienced foreign businessmen that today operate in the world market. We have already observed that the Scheme of recognition of Export Houses as at present being implemented has not by and large achieved the success expected of it. In the first place the Scheme does not appear to be selective enough; secondly the recognition of Export Houses is not specific enough with reference to particular commodities (or markets) and thirdly the requirement of good performance as a condition for continuance of recognition has not been sufficiently emphasised. We feel that the Scheme should be suitably amended to remove the lacunae and defects referred to above. We suggest that the Scheme be operated on the following lines:—

- (a) As at present, only companies incorporated under the Companies Act and Co-operative Marketing Societies or Federations registered under the appropriate law should be eligible for recognition as Export Houses. It is very necessary to ensure that corporate bodies in whose favour special assistance may have to be considered are subject to the discipline of the Companies Act. While there is no objection to private limited companies being eligible for recognition along with the public limited companies, partnership firms and proprietary concerns should be kept out.
- (b) The competence, credit-worthiness and resources of the applicant body should be taken into account for the purposes of recognition. No purpose will be served by recognising as an Export House any corporate body whose resources are inadequate for export trading on a large scale.

- (c) The Scheme of recognition of Export Houses should be re-oriented to make it more specific with reference to commodities. In other words, recognition should be accorded with reference to a particular group of commodities. Such a stipulation is called for by the need to develop sufficient specialisation, since it would be difficult to expect any single Export House to cover adequately the entire world in a wide range of different products. There are some advantages in confining recognition with reference to specific markets as well as specific commodities. We do not, however, press this, since we note that there is a general feeling against a restriction in regard to markets, as exporters do not like to be in the position of depending entirely on a particular market. As regards commodities, an Export House may be recognised in respect of a group of commodities selected by it which it can be expected to handle successfully. There should, however, be no question of according recognition in respect of export of traditional commodities to traditional markets since there are already well established Merchant Houses in these sectors of trade.
- (d) Only Business Houses of standing and possessing the following qualifications should be eligible for recognition:—
- (i) Substantial experience in handling the commodities in question for export generally and preferably to the selected markets; and
  - (ii) In the case of manufacturing concerns, the exports should normally constitute a substantial proportion of their production; this condition could however be relaxed in cases where the actual quantum of production available for export is substantial, even if it does not form a high proportion of the total production. In the case of trading concerns, export turnover should constitute a substantial proportion of total turnover.
- (e) Recognition should be accorded in the first instance for a limited and specified period, say three years. Renewal of recognition should depend upon good performance and may, in deserving cases, be for periods of upto 10 years at a time. It should also be made clear that recognition may be withdrawn at any time if the Government are satisfied that the Export House has failed to maintain high standards of integrity and business ethics in its trading operations, for instance, by shipment of shoddy goods, failure to abide by terms of contract etc.

At present Export Houses are eligible for the following facilities:

- (i) Lump sum releases of foreign exchange for business visits abroad by their representatives.
- (ii) Grants-in-aid (under the Code of Grants-in-aid) for undertaking market surveys and export publicity.
- (iii) Grants-in-aid under the Code of Grants-in-aid in cases where three or more Export Houses set up a joint foreign office or

where an Export House and an approved organisation such as an Export Promotion Council set up a foreign office jointly.

The above concessions should continue. Each Export House should be required to draw up a detailed export programme in consultation with the Government immediately after recognition has been accorded; such a programme might cover a wide range of activities including opening of foreign offices, export publicity etc., as well as the anticipated fulfilment of specific export targets. While approving the programmes the Government should be prepared to indicate in advance the assistance that would be accorded to the Export Houses on the successful completion of the programme, so that the Export House can go ahead with its implementation on the basis of that assurance.

18. We feel that the Scheme of Recognition of Export Houses if suitably modified on the above lines might be expected to make a contribution to the approach of selectivity and lead to the fostering and development of business houses specially oriented towards the export of our non-traditional commodities and specialising in marketing to various regions of the globe. As regards business concerns which have already been recognised as Export Houses under the present scheme we suggest that they may be given a reasonable time to organise their activities so as to conform to the above pattern, failing which recognition may be withdrawn.

### (iii) CONSORTIUM OF EXPORTERS

19. At the third and highest level in our suggested three-tier system we would place Consortia of Exporters which may be formed for the sale of identical or complementary products to overseas markets. Such consortia would be composed of all or a group of exporters in a single commodity or batch of commodities, and would be in a position to negotiate with foreign businessmen as a single entity and parcel out foreign orders amongst their constituent members. We realise that the formation of such consortia can only be a gradual process and that in any case it may not extend over the whole range of our export trade. Wherever, however, exporters show the necessary discipline and sense of unity required for the formation of such consortia it would be desirable for the Government to assist in their establishment financially or otherwise as may be necessary. Some attempts to set up such consortia appear to have already been made in limited fields such as cotton textiles. The advantages of such organisations in eliminating *inter se* competition, increasing foreign exchange earnings and facilitating orderly marketing are obvious; and they are of special advantage in those lines where the trade has to deal with Monopoly Purchasers or where foreign buyers have organised themselves for joint purchase. Consortia of exporters could, of course, cover both traditional and non-traditional export commodities.

20. The detailed constitution of such consortia would, of course, have to be drawn up in the light of the circumstances prevailing in each case. All that can be said is that the membership should be as wide as possible and that an equitable scheme of allocation of business should be drawn up in advance.

## (iv) GENERAL

21. We understand that in addition to the registration of exporters, it is proposed that each Export Promotion Council will prepare lists of exporters/producers of the products coming within its scope, classified as below:—

- (1) Selected competent exporters who have achieved a specified minimum export of a sizable amount, depending on the commodity;
- (2) Medium and small scale exporters, who have developed a particular brand or quality of goods with export potentialities; and
- (3) Large producing units in the organised sector which can export but which do not have appreciable exports at present.

In making out the lists, Export Promotion Councils/Commodity Boards will include also suitable exporters/producers who are not as yet registered with them, but who have potentialities of export.

The intention is that on the basis of the above lists, Government will take necessary steps for the encouragement of competent units, by helping to remove difficulties in production, improving the quality of their products, and starting to export or increasing the volume of their exports.

We commend this proposal, which will help to complement the recommendations we have already made.

22. We have set out our recommendations in the preceding section. We would like to make it clear, however, that of necessity our recommendations only touch a limited segment of the problem relating to the development of our export trade on sound and healthy lines. These recommendations would have to be supplemented by suitable action on a number of other planes and in different directions; in particular we would emphasise the need to keep a watch over the quality of goods exported from India. No single measure could be expected to be more successful in eliminating the undesirable trade than a properly conceived and effectively implemented scheme of pre-shipment inspection and quality control. We observe that the necessary legislation for this purpose has already been enacted and would only urge that the application of its provisions should be pursued with all possible vigour.

NEW DELHI;

Dated: May 10, 1965.

Sd/-

(A. Ramaswami Mudaliar)  
Chairman.

Sd/-

(P. S. Lokanathan).

Sd/-

(B. N. Adarkar).

Sd/-

(Govind Narain).

Sd/-

(C. R. Krishnaswamy Rao Sahib).

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