Speech by Mr. J.O. Krag, Minister for Economic Affairs (Denmark),
delivered in Plenary Session on 10 November 1954

The present provisional code of behaviour governing our mutual commercial relations was established when the attempt made in Havana proved too ambitious. We have now come here to consider whether that code of behaviour is the one best suited to solve our problems of to-day and to-morrow.

The principles which should guide us are, I think, the same to-day as those so aptly expressed in the preamble of the General Agreement. In the preamble it is recognized that our relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living ensuring full employment and a large and steadily growing volume of real income and effective demand, developing the full use of the resources of the world and expanding the production and exchange of goods. It is further stated that we desire to contribute to these objectives by entering into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce.

What progress has been made towards our objectives since these questions were taken up in 1944, and more particularly since GATT came into existence?

With regard to quantitative restrictions we all know that the main results have been achieved in the first instance on a regional basis.

As regards tariffs the main result has been to hold the line. There have been reductions of duties, some of importance, but there have also been important increases. Without GATT, the increases would probably have been much greater, and we should in any case not have had the present degree of stability.

The preamble also speaks about a substantial reduction of other barriers to trade. This must be the most difficult of all tasks, since practically nothing has been reached with regard to combating the restrictive influence of such important measures as state trading and subsidies.

If I appear to be drawing up a catalogue of sins of omission of our governments, it is not in a negative spirit, but in order to seek guidance for the review through which we hope to give GATT a more prominent part to play in economic co-operation on a world-wide basis at the same time as we consolidate and extend the important results obtained through the OEEC.

The Danish attitude is of course conditioned by Denmark's economic structure and the problems we meet in our foreign economic relations. Denmark is a country with a fairly high level of agricultural and industrial
development and specialization, a small country with low tariffs and no state trading. In spite of such progress as has been made in some respects, our exports, where processed agricultural products take the first place, are meeting increasing protection. In the OEEC, the liberalization of foodstuffs lags seriously behind, many countries have increased their tariffs on those products to record heights, and practically all state trading is to be found in this sector.

The sum total of all these restrictive measures is that many of our main export commodities encounter obstacles which they cannot surmount. Our export earnings are therefore considerably smaller than they would be if competitive ability alone were allowed to determine the international pattern of production and trade.

With her big share of world exports of processed agricultural products and her dependence on foreign trade, Denmark is particularly hard hit by the rising wave of agricultural protection.

In this review, I can pledge our support to a concerted attack on all the barriers to trade. It is of particular importance for Denmark that we do not proceed in an unbalanced manner which would remove us still further from the real reciprocity which each of our countries must strive to achieve, in the sense of the same access to the markets of our trade partners as they enjoy on our market. The danger I mentioned would arise if we decided to outlaw quotas without taking simultaneous and effective steps not only to prevent a switch to other measures with similar effects but also to remove or reduce these other barriers, which are to-day, in our view, more harmful to our mutual trade and to the international division of labour than ever before.

Let us learn both from the positive results and from the short-comings of the OEEC, which has had a long experience with regard to abolishing quantitative restrictions on trade between its members. It has achieved no small measure of success in this respect, but this has undoubtedly been directly responsible for the introduction of higher tariff rates or state trading practices. It seems highly doubtful to me whether anything is gained by replacing one form of trade barriers by others which may limit imports as much as quotas and may be more difficult to remove since they are specifically imbedded in legislation giving rise to a safer growth of vested interests.

The conclusion I draw from this analysis is not that we should abstain from doing anything about quotas, it is that we should also, and at the same time, do something about the other barriers. The ability of some countries to remove quotas does, by force of necessity, to some extent depend on action being taken by other countries, especially the large trading nations, in the field of tariffs, restrictive state trading and subsidies. The inter-relationship between these various measures was brought out more clearly in the ITO Charter than in the present GATT rules. The practical experience gained in the OEEC strengthens our conviction that the new GATT rules must remedy this deficiency.
At the same time, we are not ready to jeopardise the results achieved in
the OEEC. We have no desire to make those efforts towards a wider market
an exclusive affair and should only be glad to see other countries join in
those efforts. But to press forward with a lowering of the anachronistic
economic frontiers which divide Europe into a large number of units, some
of which are very small, can, I think only be in the common interest. I do
not think it correct to consider the results achieved so far as a kind of
preferential system. My own country, and many with it, extend the same
treatment to most nations outside Europe, except the dollar area, and efforts
are under way to mitigate that discrimination.

I shall now make a few remarks about each of the measures where we find
new progress essential in the GATT.

The need for a substantial reduction of tariffs as expressed in the
preamble has not been satisfied. At the end of the tariff negotiations at
Torquay, it was generally agreed that the potentialities of bilateral
negotiations had by and large been exhausted. It was also realised that
the principle enunciated in the adopted tariff negotiations procedure -
that the binding of a low tariff was to be considered equivalent to the
reduction of a high tariff - was in practice not applied to more than a
very limited extent. The European low-tariff countries therefore considered
new forms of tariff reductions which would yield results more consistent
with the objectives proclaimed in the General Agreement, and a detailed
plan was prepared. Denmark and some other countries have already in
principle endorsed this plan which we consider only a modest step in the
right direction, but the majority of the Contracting Parties are still
hesitant.

In our view, the most-favoured-nation clause is one of the cornerstones
in GATT. We are against an erosion of that principle, and I think our
attitude to the question of the preferential system is well known. We fully
share the views expressed by the delegate for the Netherlands regarding the
desirability of reducing the existing margins of preference.

Recently, a new phenomenon has arisen in the tariff field which we
view with concern. That is the system of tariffs on a sliding scale vary­
ing in reverse proportion to the import price. Such a tariff is, in our
opinion, not compatible with the most-favoured-nation clause and the spirit
of GATT. It is a case of different customs treatment of the same commodity.
The tariff aims at levelling out the difference between the costs of pro­
duction in the importing country and the various import prices. The normal
value is fixed at a level equal to the cost of production in the importing
country - and in practice this probably means the high cost of production
in the less efficient marginal production units. It involves discrimination
between supplying countries, to the detriment of the most efficient suppliers.
We shall revert to this question during the Review.

I have already mentioned the question of state trading. While this
system was originally used to ensure a fair and reasonable distribution of
commodities in short supply, it has now in many cases become a method of
regulating imports, especially of foodstuffs. In many respects it has the
same effects on international trade as quantitative restrictions, and it is
characteristic that this system has in some countries become more widely used after the OEEC launched its attack on quotas. Furthermore, it is an instrument which easily leads to discrimination between various supplying countries. Where state trading restricts imports, it should be a matter of concern to GATT, and we hope that adequate rules will be agreed during the Review, including rules similar to those in the ITO Charter.

Subsidies, too, tend to distort the normal pattern of international trade to the detriment of more efficient producers in other countries.

A particularly difficult problem is the price support schemes practised by several countries, especially in agriculture. Such schemes create an artificially high domestic price level for price-supported commodities and a strong incentive to increase production while domestic consumption is being limited by high prices. When price support schemes are applied on a large scale by a big country, the repercussions on international trade are of a considerable magnitude. By means of tariffs or quotas imports from normal suppliers are limited or cut off, and the surpluses accumulated necessitate special measures of export-promotion harming normal exporters.

My Government will endeavour to obtain that during the Review steps be taken to reduce effectively the use of subsidies influencing the pattern of trade.

All the forms of protection I have mentioned are being applied to a greater extent to the trade in agricultural products than to other sectors of international trade. Now that the end of the transitional period may be within reach and the question of new and possibly tightened rules for the application of quantitative restrictions for balance-of-payments reasons is placed on the agenda, there are indications that some parties may wish to establish special and less stringent rules authorizing certain quantitative restrictions for the protection of agriculture. My Government would regret such attempts and the solution will be an important factor in determining our attitude to the whole result of the Review. We cannot admit that the international division of labour should be particularly inhibited in the agricultural sector where differences in natural conditions of production are particularly pronounced, and where it is especially important for the maximization of the sum of the national products of all our nations that the international division of labour be permitted to play. From a national point of view it is important for us that no discrimination be authorized ex ante against contracting parties who depend to a substantial degree on their exports of agricultural products.

I listened with particular interest to the statements by Mr. Thorneycroft and Dr. Erhard on the question of agricultural protection. Mr. Thorneycroft, as I understood him, was against
introducing special clauses with regard to agricultural quotas. That is an important statement for us. I only wish to add that we shall not be much better off if the same restriction of imports is achieved by any alternative measure.

Dr. Erhard, it seemed to me, was more reserved, in that he spoke about the need for a transitional period and pointed to the tariff road as the proper substitute for quantitative limitations on imports, under which I may perhaps include state trading. If this is a notice of new tariff increases in Germany's agricultural sector, this cannot but provoke the most serious concern in Denmark. We consider many of the existing tariffs very high, and we had hoped that Germany's positive attitude to the gradual creation of a wider and freer European market would have led her to a lowering of tariffs.

I am well aware that agricultural problems are not only of an economic, but also of a social and political character. But the same is true of many of the industrial problems, for Denmark especially in the present demographic situation, where the number of new entrants into the productive age-groups during the coming five-year period will be about fifty per cent higher than the normal rate.

So far I have spoken of questions that are today the main concern of my own country.

We are, however, well aware of the fact that the GATT is a worldwide agreement comprising countries with a great variety of special problems and a varied degree of economic development. My Government is of the opinion that it is most important that the GATT in its new form will be adhered to by a very large number of the nations of the world. We realize that this goal and the desire to move forward in a balanced attack on the different obstacles to trade will necessitate some degree of compromise to meet the needs of countries with low living standards that are still lagging behind in economic development. My Government will study any proposals that may be submitted in this field and cooperate in trying to find fair and reasonable solutions in the form of special provisions or exceptions. We hope, however, that the less developed countries will agree that it is in their own long-term interest to aim at solutions that will make possible their ultimate adoption of the same rules as are agreed for other nations. It would be harmful to all of us, if the underdeveloped countries used escape clauses to establish behind high tariff walls industries and development programmes which were out of balance with conditions in the outside world. The world as a whole can only benefit from an increased industrialization of underdeveloped countries, and world trade has always increased when new areas of development were added to the old. But if this industrialization process is not planned very carefully with regard to its harmonization with the outer world, then we are all going to lose.

Before concluding, let me say that Denmark is in favour of making fully effective whatever obligations we agree on to succeed Part II of the General Agreement, since the status of provisional applications creates uncertainty about the scope of the Agreement and imposes dissimilar obligations on the contracting parties varying with the extent to which their legislation was in harmony with GATT rules at the time of accession.
We also feel it important to ensure a more permanent framework for the cooperation under GATT. The Contracting Parties should meet at regular intervals as the highest responsible body; representative bodies should be formed to undertake consultations and in some cases take decisions between sessions. We fully realize the difficulties and limitations which will arise unless we find a way in which one can take full account of the trinity of trade, finance, and internal economic policy whenever we deal, in an international organization, with either a trade problem or a question in the payments field. At the moment, I do not see how a satisfactory solution, ensuring the synthesis of the approach, can be found. We attach particular importance to this problem, which is both one of organization and of the will to cooperate.

In connection with the question of the future organization, I wish to say that we are in principle in agreement with the idea that GATT should be given authority to take up new functions in matters affecting international trade, as and when the need arises.