REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION UNDER ARTICLE XII:4 WITH

DENMARK

1. In accordance with its terms of reference the Committee has conducted the consultations with Denmark under paragraph 4(b) of Article XII. The Committee had before it: (a) a basic document (MGT(60)50), together with eight annexed tables, and (b) documents provided by the International Monetary Fund, as noted in paragraph 2 below. In conducting the consultations the Committee followed the "Plan" recommended by the CONTRACTING PARTIES. The consultation was completed on 18 October 1960. The present report summarizes the main points of discussion during the consultation.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with Denmark. In accordance with the agreed procedure the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Denmark. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision relating to the last consultation with Denmark under Article XIV of the Fund agreement and the background material prepared in connection with that consultation.

"With respect to Part I of the Plan for Consultations, relating to balance of payments position and prospects, and with respect to Part III, relating to system and methods of the restrictions, the Fund draws the attention of the CONTRACTING PARTIES to the Executive Board decision of August 17, 1960, taken at the conclusion of its recent consultation with Denmark, and particularly to paragraph 5, which reads as follows:

1 See Annex II
The Fund welcomes the steps which have been taken to eliminate discrimination and the substantial progress made in removing other restrictions. The Fund notes that Denmark has undertaken to reduce restrictions gradually over the next three years but hopes that faster progress may be possible. The Fund notes that Denmark has terminated several bilateral payments agreements and urges that further progress be made in terminating those still remaining.

"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, the Fund draws attention to the decision taken at the conclusion of its last consultation with Denmark. The Fund has no additional alternative measures to suggest at this time."

**Balance-of-payments position and prospects**

3. The representative of Denmark opened the consultation with a detailed statement on recent developments in the Danish economy, the country's balance-of-payments position and prospects, the measures of trade liberalization taken in the past year and the commercial policy to be pursued in the future. The full text of the statement is given in Annex I. In the part of the statement relevant to Part I of the Plan for Consultation he described the remarkable progress made in the Danish economy in recent years, which was based on the booming conditions favourable to the expansion of industrial production. The boom also had had the effect of lessening the difficulty of adaptation required by trade liberalization, which in turn had helped to keep prices stable. As regards the balance of payments, there had been a deficit of Kr.300 million in the first six months of 1960 compared with a surplus of Kr.400 million in the previous year. This deterioration, however, had been caused mainly by non-recurrent factors, and industrial exports were expected to continue to expand. The balance of payments, though it might be influenced by internal financial policy, was naturally dependent on the prevailing economic conditions in the world, and on the commercial and agricultural policies of other countries. In the Danish economic policy emphasis was placed on industrial development in an effort to increase exports of industrial products. While the prospects were not too dark, it was still considered necessary to maintain an element of control in order to safeguard exchange reserves and ensure financial stability. It was thus necessary to proceed with caution with respect to the final abolition of quantitative restrictions maintained for balance-of-payments reasons. Other comments by the Danish representative are noted in the relevant sections below.

4. Members of the Committee thanked the Danish representative for the candid and informative statement and expressed appreciation of the progress so far made. Requested to comment on the factors behind the deficit in 1960 and future prospects, the representative of Denmark explained that the balance-of-payments deficit of Kr.300 million in the first half of 1960 was attributable in substantial part to three main factors which were mostly fortuitous and non-recurring. First, the very poor harvest probably was responsible for a loss of between Kr.100 and 150 million. Secondly, speculation in steel inventories caused by the steel strike in the United States and price movements caused an increase in payments of some Kr.100 million. Thirdly, speculative imports in anticipation of the increases in customs tariffs which took place on 1 March 1960 must have raised payments by between Kr.50 and 100 million. For the second half
of 1960 an even balance was expected. As for future prospects, it would appear that while exports of industrial products were likely to increase there was less certainty about agricultural exports or receipts from invisibles. Imports should continue to rise, although at a slower rate than now; this was expected in view of the slowing down of the pace of industrial expansion and the internal fiscal and monetary measures recently taken.

5. In answer to questions, the Danish representative confirmed that there had been some worsening of the terms of trade in the first half of 1960 owing to a fall in agricultural prices, but this had since stabilized owing to a drop in the prices at which certain industrial raw materials were actually imported. A policy of diversification was being earnestly pursued, but there was still a long way to go. Agriculture was still responsible for about 50 per cent of exports and it would be a long time before Denmark could rely on her industrial exports to provide a more diversified pattern of external income. A reduction in the barriers to the agricultural exports of Danish products would under all circumstances be of great value to the balance of payments.

6. A member of the Committee noted that the improvement in Denmark's balance of payments in 1959 appeared to have resulted to a large extent from a substantial inflow of capital, which amounted to some Kr.400 million, compared with significant deficits on this account in the two preceding years. He asked if a continued capital inflow was expected in future. The representative of Denmark explained that the considerable improvement on capital account in 1959 was due mainly to a reversal in public policy concerning borrowing from abroad. Taking advantage of the easing of the international capital market, the authorities contracted three major loans in the past year in order to foster the reserves, the inadequacy of which had been a limiting factor in the implementation of governmental policies. On the other hand, in comparing the figures for the two years, allowance must be made for the wide margins of error which were inevitable in estimating capital movements. For 1960 no substantial net debit or credit was expected on official capital account, but it was the policy of the Government to encourage the inflow of private capital in the form of direct investments. In reply to a question, the representative of Denmark stated that approximately 40 per cent of Denmark's total exports went to the Seven and about 33 per cent to the Six. Of its total agricultural exports, exports to the Seven accounted for around 45 per cent and those to the Six about 40 per cent. A member of the Committee observed that, as acknowledged by the Danish representative, improved access to EFTA markets would contribute to a further improvement in Danish exports.

Alternative measures to restore equilibrium

7. In his opening statement the Danish representative referred to the rapid expansion of the Danish economy in the last few years and to his Government's intention to consolidate the gain and to foster further expansion.
Nevertheless, in view of the limited monetary reserves available, the Government had considered it necessary to take measures to restrain demand and to slow down the rate of expansion for the time being. In spite of strong pressures for tax relief a very substantial surplus was expected to be achieved in the 1960 Budget. Tight conditions had been allowed to prevail on the monetary and capital market (see Annex I).

8. It was noted that among the steps taken were the restraining of the increase in building and construction activities, a rise in the National Bank's discount rate, and the absorption of liquidity by the Bank through open market operations.

9. Members of the Committee noted the view of the International Monetary Fund that the forces of expansion in Denmark were still strong and its hope "that the authorities will exercise the utmost caution in their monetary and fiscal policies and will stand ready to take further appropriate measures, if necessary, to prevent the pressure of demand from becoming excessive". They enquired whether the Danish authorities were contemplating any such measures. The representative of Denmark considered that the measures which had so far been taken by the Danish authorities had not had time to exert their effects on the economy and should be found quite adequate when their effects were fully felt. Having regard to the strong effects of fiscal and monetary measures they should not be used excessively for fear of precipitating a contraction of the economy. The present policy of diversifying the economy and industrialization must be pursued and consequently the level of investment must be sustained. A significant slackening of economic activity in the country would not be in the interest of development, nor would it be conducive to the maintenance or furthering of trade liberalization. The representative of Denmark agreed to the suggestion made by a member of the Committee that the existence of a high level of internal demand tended to express itself in an increased demand for imports and was also reflected in the availability of resources that could be released for export production. Further liberalization would admittedly contribute to easing this pressure, but the increase in the import bill must be considered an immediate factor in the balance of payments. Another member of the Committee thought that while the Danish economy was developing at a healthy pace, the fine balance could easily be upset by any precipitous action. The low level of reserves provided a very limited margin for absorbing any widening in the trade deficit, and the Danish Government had to proceed with a certain measure of caution.

10. A member enquired whether the Danish authorities contemplated the adoption of such taxation techniques as "pay-as-you-earn" which would link budgetary revenue more directly and promptly to changes in income. The Danish representative replied that, under the present Danish budgetary system, extra taxes could be levied at any time so that any desirable budgetary aims could be made to exert a direct effect on disposable income.
11. In reply to a question regarding the expected effect of the tax relief provided for in the Budget for 1960/61, the representative of Denmark stated that the tax relief mentioned amounted to D.kr.250 million and any expansionary force which it might have created must by now have spent itself. The Budget for the fiscal year 1960/61 envisaged the continuation of a policy designed to exert a contractionary effect on the economy. Failing any changes in taxes in the coming months the present budget was expected to produce a surplus of D.kr.1,000 million on current and investment account. When capital transactions were included, the overall cash surplus was expected to amount to about D.kr.400 million, or D.kr.150 million higher than the estimated result in the previous fiscal year.

12. Reference was made to the Danish system under which wages were linked to a cost-of-living index, and to the resulting rises in the cost-of-living bonus in recent years, and the question was raised whether this system was considered desirable in view of the need to avoid inflation. The Danish representative thought that, although this system might entail automatic rises in wages when prices rose, it was one of the factors making it possible for trade unions to accept longer-term wage agreements, usually lasting two to three years; in the absence of this system, labour would no doubt have insisted on more frequent wage negotiations. It was a moot point, in the view of the Danish representative, whether a higher or lower rate of wage increase would have resulted over the past years if this system had not existed.

13. A member of the Committee recalled the view recently expressed by the Managing Director of the International Monetary Fund that "a country should have reserves large enough to give it a sufficient margin for the pursuit of its domestic economic and financial policies, but not so large as to free it from the necessity of having to observe a modicum of monetary discipline," and his further comment that "an increase in reserves, however, is a type of investment for which genuine savings, from domestic or foreign sources, are required, and if those savings are used to accumulate foreign reserves they cannot be used for other investment ... in the domestic economy". An adequate level of reserves must be considered an essential condition for the implementation of long-term economic policy, and investment in reserves should be regarded as a legitimate claim on the country's capital resources no less than other types of investment. The objective of the Danish Government to increase the country's foreign exchange holdings was therefore equally justifiable on grounds of internal economic policy, but in view of the high level of gross domestic investment as a proportion of the gross national product, it seemed conceivable that more attention might profitably be paid to this objective, even at the expense of some temporary reduction in the level of other forms of investment. The representative of Denmark commented that its past experiences of violent fluctuations in its terms of trade had taught Denmark, a country depending heavily on foreign trade, to place
emphasis on the accumulation of external reserves, and that the lack of reserves had sometimes made the intensification of fiscal and monetary measures unavoidable. Any future fall in the level of economic activity abroad would have an even more direct effect on Denmark's balance of payments, now that access to the Danish market had been further widened by the reductions in the customs tariff in respect of the EFTA countries and by trade liberalization. In the view of his Government, it would, however, be regrettable not to take advantage of the present opportunity of broadened markets and high level of activity to lay the foundation for further economic expansion.

System and Methods of Restriction

14. In his opening statement the representative of Denmark explained that at the beginning of 1959 his Government had adopted the "negative list" method of restriction, which meant that all goods could be imported from the "free-list" countries without a licence unless they were mentioned on the negative restricted list. The geographical application of the "free-list" had been extended to imports from the former EPU area, including the sterling area, and the dollar area. On 1 March 1960, a considerable liberalization took place. As a result, 67 per cent of total Danish industrial production, compared with 33 per cent prior to 1 March 1960, was now exposed to competition from liberalized imports. Denmark planned to liberalize a further group of products corresponding to 5 per cent of domestic industrial production before July 1963, and the whole liberalization programme, in line with the EFTA Convention provisions, should be carried through within the next ten years. For restricted imports, global quotas had been established which were applicable to all the "free-list" countries. The representative of Denmark, in this part of his statement, also described the criteria and methods used in allocating licences among applicant importers (see Annex I).

15. In reply to questions, the representative of Denmark recalled that the Currency Measures Act, which was the basis for the present system of import controls applied by Denmark, had been enacted in 1931 and had been prolonged since then on an annual basis. The short duration of these revalidations was due to the liberal forces in the country which were eager to retain a vigilant rein on the use of restrictive measures. This spirit was also reflected in various provisions of the Act. The title of this Act had undergone several changes and was during the war and early post-war years "Supply of Goods Act", reflecting the main preoccupation of the day in a world of shortages.
16. A member of the Committee referring to the programme of liberalization noted in paragraph 14 above, enquired whether the intention to retain restrictions in future, in some cases beyond three years and conceivably up to ten years from now, was related to an evaluation of the future balance-of-payments situation, or whether the programme embraced residual restrictions which Denmark intended to maintain after its total emergence from the present balance-of-payments difficulties. The representative of Denmark stated that his Government had no intention of applying import restrictions when these were no longer justified on balance-of-payments grounds. Restrictions would be dismantled as soon and as completely as permitted by the monetary reserve situation in strict observance of the provisions of paragraph 2(b) of Article XII of GATT. Danish commercial policy, as had been affirmed by the Danish delegation at the last consultation, was not based on the principle of reciprocity, and further liberalization of Danish imports would not be conditional upon the removal of agricultural restrictions by other countries. It was the firm belief of the Danish Government, however, that improvements in the Danish balance of payments would depend greatly on the agricultural policies of other countries. The ten-year maximum period used in estimating the situation also took account of the EFTA Convention provisions obliging its signatories to eliminate intra-Association restrictions within that period; the improved access to these markets should be beneficial to Denmark's export earnings. The Committee welcomed this statement by the Danish representative including the statement that it was intended that the measures of liberalization laid down in the EFTA Convention would be applied by the Danish authorities by the gradual extension of global quotas to all contracting parties not members of EFTA.

17. The Committee discussed with the Danish representative various aspects of the Danish import control system where a distinction was drawn between areas or countries. In discussing the Import Title System, the representative of Denmark reaffirmed his Government's intention to abolish this system by the set date. Although the Government had decided to maintain the effective premium rate at 4 per cent instead of reducing it to 2 per cent on 1 January 1961, as originally intended, this merely meant an adjustment in timing and the scheme would be totally abolished by 1 January 1962. The Danish representative agreed with members of the Committee that since the advent of convertibility, the scheme had become an anachronism. Extending this system to cover exports to all sources would make the eventual elimination of the system more difficult; pending its expiration, consequently, it would continue to be applied to dollar exports only.

18. In clarification of the reference to bilateral agreements in Section 2 of the "basic document" for the consultation, the Danish representative stated that there were no products which could be imported "only" under bilateral agreements; all products which were the subject of bilateral
quotas could also be imported from other sources. Only about 1 per cent of total Danish imports came in under bilateral quotas, and these comprised products such as wine and grapes which had traditionally been supplied by certain particular countries. While single country quotas were thus provided, representations by any contracting parties for a fair share in the Danish market would always be given due consideration. These products were on the restricted list, and owing to the prevalent agricultural protectionism outside Denmark there were serious difficulties in transferring them to the global quota list. Some members of the Committee commented that whilst the use of bilateral quotas was not necessarily inconsistent with the GATT provisions concerning non-discrimination, their existence must perforce make observance of those provisions extremely difficult. The Danish representative assured these members that the Danish Government was prepared to abide by all the relevant provisions of Article XIII; in particular it would be willing to consider, or consult on, any representations regarding the allocation of quotas between sources of supply.

19. The representative of Japan referred to the special treatment accorded by Denmark to Japanese products and questioned the reasons for this differentiation and its intended duration. In reply the Danish representative recalled the discussions of the CONTRACTING PARTIES concerning the problem of "market disruption". In order to avoid creating any serious problems, Denmark had decided to withhold its recent trade liberalization from certain countries. In fact, however, imports from these countries were being admitted freely, either under open licensing or under liberally granted quotas. The purpose of this was purely to enable a watch to be kept on the flow of imports from these countries. As the representative of Japan would readily admit, a liberal régime was in effect being applied to Danish imports from Japan. The general problem could not be solved except through joint and concerted action among all contracting parties. The pressure on particular markets would be lessened if more markets were open to imports from the countries in question. This, as well as other suggestions, were being considered by the CONTRACTING PARTIES and, pending a solution, Denmark could hardly do more than adhere to its present policy of according liberal treatment to Japanese products subject to licensing control. The representative of Japan said that since this consultation was not a suitable occasion for discussing this problem he would not pursue this matter further, but would report the discussion to his Government.

20. A member of the Committee, noting the exclusive reference to industrial products in the Danish representative's statement on the programme of liberalization, asked whether the intention of the Danish Government was to exempt agricultural products from future liberalization. The Danish representative affirmed that the agricultural products on the restricted list were being restricted on balance-of-payments grounds. A low priority
was given to them in the plan for liberalization principally because these products were heavily subsidized in many countries, whereas adequate countervailing and anti-dumping measures were not available under Danish legislation, nor in the view of the Danish Government were they adequately provided for under GATT. Had there been no governmental intervention in other countries, Denmark would have been fully competitive in these products. As it was, Denmark was not prepared to expend its inadequate foreign exchange resources on imports of such products. The member of the Committee asked if the Danish Government had given any thought to improving its anti-dumping or countervailing duty legislation or had given consideration to the fact that some contracting parties granted no subsidies on their agricultural exports. The representative of Denmark replied that the legislation in force in Denmark was in accordance with the rules embodied in GATT. In the view of his Government, there would be advantage in revising the GATT provisions concerning anti-dumping.

Effects of the Restrictions

21. Several members of the Committee asked questions on the possibility of quantitative restrictions being removed on certain specified commodities such as apples, pears, canned peaches, vegetable oils, footwear and leather goods, and questioned the basis on which these items were singled out for restrictive licensing, whereas in many cases other items, apparently of a roughly equal degree of "essentiality", were not so restricted. The representative of Denmark thought that it would seem to be outside the scope of this consultation to comment on the status of individual commodities at this consultation. He could only confirm that restrictions on footwear would be removed at the latest on 1 July 1963. Imports of vegetable oils were allowed up to a certain percentage of the requirements of margarine producers, and the restriction was applied for the purpose of conserving foreign exchange.

22. A member referred to the provisions of paragraph 3(b) of Article XII and noted that selection of products for restriction should be based on the criterion of essentiality rather than of domestic availability. He enquired particularly what, if any, progress had been made towards liberalization of restrictions on agricultural products as the Danish balance of payments improved. The Danish representative thought that in circumstances of pecuniary stringency it was natural for a nation to wish to curb spending on what was not lacking as well as on what was not essential. While local production might benefit from the incidental protective effects of the restrictions, no imports were restricted for protective reasons.

23. Members of the Committee, noting the Danish statement that no imports into Denmark were prohibited on commercial grounds, enquired as to the grounds on which imports of some products nonetheless did appear to be prohibited.
Reference was made to the provisions of paragraph 3(c)(ii) of Article XII; on the basis of which it was suggested that Denmark should consider the possibility of granting minimum import facilities for all restricted products. In this connexion particular mention was made of apples and pears which did not seem to have been imported in recent years. A member of the Committee suggested that, in order to prepare the market for eventual liberalization, the Danish Government should establish and progressively increase global quotas for these products. The Danish representative undertook to bring these representations to the attention of his Government.

24. A member of the Committee recalled that in 1959 the representative of Denmark had advised the Committee that his Government had undertaken various price studies in order to ensure that the maintenance of quantitative restrictions did not result in fostering uneconomic production. He asked if these studies were being continued and whether any further developments had occurred in this field. The representative of Denmark replied that at the time of the last consultation his Government had not formulated any programme of liberalization. Now that substantial further liberalization had taken place, and a firm programme for the gradual removal of the remaining restrictions had been adopted, such price studies were no longer of the same importance. The Government had issued advance notices to domestic industry about the abolition of restrictions on a number of commodities, in order to ensure the avoidance of "hard-core" problems in the sectors in question. Members of the Committee observed that no such advance notices seemed to have been issued with respect to any agricultural products. The Danish representative said that, while no such notices regarding particular agricultural products had been issued, all Danish producers, whether industrial or agricultural, had been put on general notice that they could not rely on the continuation of the present import restrictions, which were to be dismantled as the balance of payments improved.

25. In reply to questions, the Danish representative advanced the belief that on present indications and by virtue of the positive measures being taken Denmark should stand a fair chance of being able to avoid any problems of transition when the time came for it to abandon all restrictions applied on balance-of-payments grounds. The Danish Government was unable to predict the future state of the Danish economy, but it was confident that hard-core problems could be avoided in agriculture as well as in industry, although much would depend on the time when Denmark would emerge from the balance-of-payments difficulties. For the present, restrictions on agricultural products were applied for balance-of-payments reasons. Danish agricultural producers were fully competitive but were faced with protected markets and a world market on which prices were distorted by subsidies, price support and other forms of protection. Whether import controls would be removed for all the agricultural products, however, would depend on developments in the world markets, the commercial policies of the important trading nations, the outcome of the deliberations at Committee II on Expansion of Trade, and the Common Agricultural Policy and other dispositions of EEC.
General

26. Members of the Committee expressed appreciation for the open and positive manner in which the Danish delegation had participated in this consultation. The Committee was glad to note the vigorous expansion in the Danish economy. They also noted the less favourable situation which had developed in the Danish balance of payments since the last quarter of 1959 and they welcomed the restraining measures that had been taken to maintain stability. It was generally hoped that the efforts at diversification of production would bring about expanded exports which would lead to a further increase in the foreign exchange reserves. The Committee welcomed the measures of liberalization taken in March 1960, and the elimination of dollar discrimination. The Committee hoped that Denmark would find it possible to remove the remaining restrictions at a faster rate than envisaged in the programme outlined by the Danish delegation at this consultation; they noted the intention of Denmark to proceed with the removal of restrictions as quickly as the balance-of-payments position permitted as required by the provisions of Article XII:2(b), and to observe all the relevant provisions of Article XIII with regard to the use of quantitative restrictions and proceed with the elimination of quantitative restrictions pursuant to the EFTA Convention in a way not discriminating against contracting parties not members of the Association.

27. The representative of Denmark stated that his delegation had taken careful note of the views and suggestions that had been expressed at this consultation, both on the general policy and the various aspects of restrictions and that these would be reported to his Government, which would no doubt give them careful consideration.
ANNEX I

Opening Statement by the Representative of Denmark

The documents which have been supplied to the Committee contain most of the information needed to understand the structure of Denmark's economy and to enable us to have a fruitful exchange of views on the Danish external and internal financial situation, its prospects, and the system of the import restrictions applied in my country.

In my introductory statement I shall limit myself to elaborating some points which have an important bearing on the balance-of-payments situation in Denmark and on future developments in this field. I will also deal with the internal fiscal and monetary measures adopted by Denmark to preserve equilibrium in the Danish economy.

In the past months of 1960 the Danish economy has continued the remarkably improved trend which began in 1958. In the course of these two years industrial production increased by about 20 per cent; the number of workers in the industrial sector increased by approximately 10 per cent; and for the first time over a long period full employment has been reached.

The favourable development has paved the way for making good progress towards the solution of many of the most urgent problems with which Danish economy is faced. The boom has given an excellent climate for the process of adaptation initiated by the liberalization carried through on 1 March of this year.

Furthermore the upswing has given a considerable and very much needed impetus to industrial expansion. This has been apparent mainly in the considerable industrial investments which are necessary in view of the stagnating agricultural exports caused by extensive agricultural protectionism in other countries.

Finally the rigorous economic growth has facilitated the absorption into the labour force of the first instalment of the "big generations".

The progress which has taken place with regard to the solution to these problems has on the other hand also contributed to a great extent to the maintenance of the tempo of economic progress. Thus the more liberal policy with regard to imports made it easier to keep prices stable.

The Danish economy has shown rather modest progress for many years. The expansion taking place recently clearly shows the great progress which in suitable circumstances can be made towards solving our basic economic problems. With the background of the creation of greater markets in Europe, it has been the opinion of the Danish Government that it is also of paramount importance in the coming years to maintain a solid rate of expansion in the economy. It is also, I might add, the line of action which offers the greatest prospect...
towards a more liberal import regime than the one we have today. However, economic expansion must be controlled in order to maintain internal financial stability and to safeguard our modest exchange reserves. It must be recalled that Danish monetary reserves amount to only 1,600 million kroner or to the equivalent of imports during six to seven weeks. With this target in mind the Danish Government in this year endeavoured to restrain the forces of expansion. In its fiscal policy it has achieved, in spite of strong pressure for tax reliefs, a very substantial surplus in the Budget, which is expected to amount to more than one billion kroner in 1960. Incidentally, this surplus has also diminished the liquid resources of the banking system. At the same time the Government has imposed restrictions on new housing and has kept the volume of public building under strict control.

Tight conditions have been allowed to prevail on the monetary and capital market. At the moment the rate of interest is higher than it was a year ago. In the year 1959 the surplus in the balance of payments amounted to about 200 million kroner every six months. During the first half of 1960 there was a deficit of more than 300 million kroner, though partly caused by non-recurrent factors, in particular the extremely bad harvest of 1959.

For the months immediately before us we do not feel that the prospects are too dark. Looking further ahead the uncertainties are of course much more substantial. We hope to be able to go on achieving a high rate of increase in our industrial exports. The rate of increase in comparison with the preceding year has been generally of the order of 10-15 per cent during the last four to five years. On the other hand the prices of our agricultural exports are subject to violent fluctuations. It is also fairly obvious that industrial expansion has its own problems, however beneficial this development might be. Here I am thinking about the demands for higher money incomes, put forward by various social groups.

You will all appreciate that under these circumstances, and taking into account the very modest currency reserves the Danish Government is obliged to pursue a cautious policy. This applies to the internal as well as to the external field of action. We think therefore that we cannot go further than we have in the very bold liberalization programme adopted on 1 March 1960.

After these observations on the Danish economy in general I would like to comment briefly on some aspects of our import system. At the beginning of 1959 we established a negative list, that is to say all goods can be imported from the free list countries without a licence, unless they are mentioned on the restricted list. The geographical application of the free list was extended to the former EPU area, amongst others the Sterling area, and the Dollar area.

On 1 March 1960, a considerable liberalization took place. As can be seen from the annexes to the secretariat paper, the liberalization towards OEEC countries amounts to 95 per cent against 86 per cent, and towards the Dollar area to 97 per cent against 89 per cent before that date. I know
that these figures are not illustrative. Perhaps I can give you a clearer picture of the magnitude of the recent liberalization by measuring it in relation to Danish domestic production.

If we add the value of production of the commodities enumerated in the free list we find that after 1 March it amounts to 87 per cent of total industrial production. Before that date the percentage was thirty-three. That is to say on 1 March 1960 an additional 50 per cent of Danish industrial production was exposed to free foreign competition. When the remaining restricted imports can be liberalized is difficult to say today, but at a minimum it should be carried through within the next ten years, according to the programme of the EFTA Convention. In fact a further 5 per cent of Danish industrial production is planned to be liberalized before 1 July 1963. It is our hope that the EFTA Convention will give a basis for greater specialization in production and foreign trade and will therefore give rise to more extensive Danish exports, and in turn provide the basis for further Danish liberalization.

In anticipation of this development the Government has issued an advance notice to domestic industry about the abolition of restrictions with regard to a number of commodities. This has been done in order to avoid hard core problems in the sectors in question. In general it may be said that the Danish authorities in their administration of the import regulations endeavour to create the necessary competition on the Danish market and to permit the highest possible importation, taking into account the balance-of-payments position.

For the goods not liberalized we have established global quotas. The geographical extent is the same as that of the free list. It is not our intention in the abolishment of these global quotas to take advantage of the possibilities which we may have under Article XXIV to discriminate against contracting parties who are not members of the EFTA.

During earlier consultations there has been some discussion about the way in which these global quotas are administered. Perhaps it would be expedient for me to give some further elucidation on this point.

As can be seen from the paper prepared by the secretariat, the allocation of licences takes place under two different systems.

In some cases it is obvious that it is impossible to allocate licences according to imports in a previous year. This applies for instance to commodities of a specific character: auxiliary articles and appliances for industrial investment purposes, transformers, etc. In that case we fix a quota for these items according to our general availabilities of foreign currency. Within that framework Danish firms are granted or refused the licences they request. Each application is treated on its merits in relation to the importance of the commodity to the Danish economy. It should be kept in mind that if all applications should be complied with, it would be tantamount to a liberalization, which we cannot afford under the present circumstances.
Other commodities of a more general character, for example industrial consumer goods, are dealt with in another way. In these instances the licences are divided amongst importers, by and large according to the firms' imports in some basic year.

Within the framework of both methods newcomers have a possibility of being acknowledged as importers.

As has been said repeatedly, our balance of payments is dependent on the one hand upon our internal economic policy and on the other hand upon conditions prevailing in other countries. As to the first point we are fully aware of the importance of maintaining a balanced expansion. But ultimately the external aspects are of supreme importance. Time and again since the war our endeavours to increase our liberalization have been inhibited by the slow growth of our agricultural exports. This year, however, we have been able to take a bold step forward because we felt that the EFTA Treaty contained possibilities for increasing Danish exports. Still problems for Danish agricultural exports persist and our foreign exchange reserves are weak. Therefore we have to proceed step by step towards the final abolition of quantitative restrictions which are maintained for balance-of-payments reasons.
ANNEX II

IMF Executive Board Decision of 17 August 1960 relating to Denmark

1. The Government of Denmark has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. A vigorous expansion of industrial production and employment was the predominant feature of the Danish economy in 1959. The expansion continued during the early part of 1960 though at a slightly less rapid rate. In the first four months of 1960 industrial production averaged 7-8 per cent higher than in the corresponding period of 1959. At the end of May 1960 unemployment of insured workers was at the unprecedented low figure of 1.4 per cent. Labor incomes rose by about 10 per cent in 1959. Agricultural incomes also rose in 1959 mainly owing to an increase in export prices. Domestic prices have remained relatively stable: between April 1959 and April 1960 the cost of living index rose by 2 per cent.

3. The surplus in the goods and services account of the balance of payments was reduced from about D.kr. 850 million in 1958 to about D.kr. 50 million in 1959. Mainly as a result of a substantial net inflow of capital from abroad the net foreign assets of the banking system continued to rise until the end of October 1959 when they amounted to D.kr. 1,622 million. Thereafter the reserves declined. Since the end of April 1960 they have remained at about D.kr. 1,200 million, representing approximately five weeks' imports.

4. To prevent the growth in consumption and investment from imposing too great a strain on resources, the Government has taken steps to restrain the increase in building and construction activity and the National Bank has raised the discount rate and absorbed liquidity by its open market operations. The sharp fall in foreign exchange reserves and the maintenance by the Government of a cash surplus in the over-all budget have further curtailed liquidity. To enable the banks to meet seasonal strains on liquidity, it was announced on May 12, 1960 that they could borrow from the National Bank against a wide range of bonds and shares. The Fund believes that the forces of expansion in Denmark are still strong and hopes that the authorities will exercise the utmost caution in their monetary and fiscal policies and will stand ready to take further appropriate measures, if necessary, to prevent the pressure of demand from becoming excessive.
5. The Fund welcomes the steps which have been taken to eliminate discrimination and the substantial progress made in removing other restrictions. The Fund notes that Denmark has undertaken to reduce restrictions gradually over the next three years but hopes that faster progress may be possible. The Fund notes that Denmark has terminated several bilateral payments agreements and urges the further progress be made in terminating those still remaining.

6. In concluding the 1960 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Denmark.