CONSULTATIONS UNDER ARTICLE XII: 4(b)

Draft Report on the Consultation with Denmark

Introduction

In accordance with the Decision taken at the plenary meeting of the CONTRACTING PARTIES on 17 November 1956, the Consultations Committee has conducted the consultation with Denmark under paragraph 4(b) of Article XII.

The Committee had before it:

(a) a basic document prepared by the secretariat in collaboration with the Danish authorities describing the system and methods of the balance-of-payments import restrictions in operation in Denmark. The document also contains a statement under Part II - "Effects on Trade", submitted by the Danish authorities;

(b) documents provided by the International Monetary Fund.

All these documents should be regarded as supplementary material to be annexed to this report.

In conducting the consultation the Committee followed the Plan recommended by the CONTRACTING PARTIES for the consultations.

The present report summarizes the main points of the discussion during the consultation.
Consultation with the International Monetary Fund

Pursuant to the provisions of paragraph 2 of Article XV of the General Agreement, the CONTRACTING PARTIES invited the International Monetary Fund to consult with them in connexion with this consultation with Denmark.

As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results of and background material concerning its recent consultation with Denmark concluded on 13 March 1957. The results of the Fund's consultation with Denmark are reproduced in document QRC/4.

In accordance with the procedure agreed upon by the Consultations Committee, the representative of the Fund was invited, after the opening address of the Chairman, to make a statement concerning the balance-of-payments position of Denmark. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its recent consultation with Denmark which was concluded on 13 March 1957. This documentation has been distributed to the members of this Committee.

"With respect to Section I of the Plan for Consultations, relating to balance-of-payments position and prospect, the general level of restrictions of Denmark which are under reference does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves.

"With respect to Section II of the Plan, relating to alternative measures to restore equilibrium, the attention of the Committee is drawn to the results of the last Fund consultation with Denmark. The Fund has no additional alternative measures to suggest at this time."

1 A copy of the Chairman’s opening address will be attached to the letter transmitting the reports on all the consultations to the contracting parties.
Opening Statement by the Representative of Denmark

The full text of the opening statement of the representative of Denmark is attached to this report as Annex I, and is summarized in the following paragraphs.

For Denmark foreign trade is of greater importance than for most other countries. Almost one-third of what is produced in Denmark is exported, and one-third of the commodities used for consumption and for investment originate in other countries and must be imported. (For the United States of America the corresponding figure is only 4 to 5 per cent.) Denmark lacks many natural resources and has no coal, oil, iron or steel, and her dependence on foreign trade is also a result of specialization of production, the main emphasis being on agriculture.

The fact that the average import ratio is about 30 per cent is an important factor in the Danish economy and is accentuated by the fact that the marginal ratio of imports is much higher, perhaps about 60 per cent. Therefore, if the gross national product should rise by say $100 million, imports would at the same time increase by about $60 million.

Notwithstanding her exceptional reliance on foreign trade, Denmark possesses no adequate reserves of foreign exchange to overcome short-term adverse movements in the terms of trade or modifications in marketing opportunities abroad. During the first part of 1957 the holdings of foreign currencies decreased rapidly because of higher prices for oil and coal combined with lower prices for agricultural exports. The gold and dollar reserves currently amount to about £12.5 million while the total liquid reserve of foreign assets including, inter alia, the remaining credit facilities in the EPU, total £17.5 million, enough only to cover about two weeks' imports.

In such conditions it is therefore evidence of Denmark's free trade policy that import restrictions have not been tightened and the Government has as far as possible had recourse to internal monetary and fiscal measures.
That this policy has been consistently followed by the Danish Government is demonstrated by the fact that the Danish tariff, among the lowest in the world, has not been increased since the first world war, except on a few textile products. As some 80 per cent of the total revenue from import duties is derived from specific duties, their incidence has in fact decreased. In the field of quantitative restrictions, continuous progress has been achieved since 1949 and it is the intention of the Danish Government to pursue this policy of liberalization as far as foreign exchange reserves permit.

Denmark is relying mainly on restrictive credit and fiscal policies to correct its balance-of-payments situation. In the field of credit, the rate of interest on long-term loans has been raised and banks have undertaken to ration credit. Fiscal measures have been focussed on indirect taxation on consumption and on a reduction in the amount of government expenditure to achieve budgetary surpluses. The new Government intends to increase the purchase tax on luxury goods, to introduce compulsory saving for higher incomes and to curtail public expenditure to an even greater degree. These measures, by reducing domestic consumption, are expected to stimulate exports. Likewise, the expansion of industries producing for the export trade is being encouraged by exempting corporation savings from income tax and by increasing depreciation allowances. Owing to an appreciable increase in the birth rate between 1941 and 1951 a large increase of manpower is foreseen. This additional influx, together with a rapid decline in the labour force employed in agriculture, makes industrialization all the more necessary. Such increased investments in industry are, however, exerting pressure on foreign exchange holdings.

These internal measures cannot in a small country lead to an overall expansion of the economy which depends so very greatly on export markets.
Owing to widely prevailing protectionism, agriculture - representing about 60 per cent of total Danish exports - has not benefited from the recent large-scale expansion of trade and payments. The lack of expansion in the trade in agricultural products is caused by quantitative restrictions, state trading, customs duties, preferential tariff systems, minimum prices and by production and export subsidies, which have for example led to substantial surplus disposals by the United States. Concerning industrial products, while foreign competition is allowed on the Danish market on equal terms with domestic producers, high tariffs abroad do not afford Danish producers similar opportunities to expand their sales abroad. Exports are furthermore hampered by dual pricing practices applied by other countries, for instance in the case of steel products, and by the weak bargaining position of Denmark in bilateral negotiations. Since 1953, industrial exports have nevertheless increased by 75 per cent in volume while exports of agricultural products have tended to stagnate. Industrialization in the Danish economy has already caused the proportion of industrial exports to increase, from 25 per cent in the pre-war period to about 40 per cent at present.

In conclusion, the Danish representative said that by and large the balance-of-payments difficulties in Denmark were the result of the protectionist policies followed by other countries. If Danish exports were given a better opportunity to enter more freely and to compete in foreign markets then it would be possible for Denmark to abolish the remaining quantitative restrictions. It was the Danish view that all barriers must be dealt with simultaneously. It was for the countries possessing large foreign exchange reserves to take the lead by eliminating, not only quantitative restrictions, but also other barriers to trade, including certain state trading practices. Improvements in Denmark's balance-of-payments position would be followed by relaxation of import controls in the form of a more liberal issue of licences in the controlled sector and by the widening of the scope of the liberalized sector. It was hoped that the consultations would bring out clearly that the ultimate abolition of the restrictions depended on the readiness of other countries to admit Danish goods liberally.
Balance-of-Payments Situation and Prospects

Proceeding with the consultation under the headings of the Plan, the Danish delegate indicated that in 1956 the overall balance of payments had shown a surplus of some Kr. 100 million. This surplus resulted mainly from a favourable balance with the dollar area which had, however, decreased from Kr. 400 m. in 1953 to about Kr. 200 m. in 1956. On the other hand, in 1956 the balance with the EPU area had improved and the deficit of Kr. 600 m. in 1954 had been reduced to Kr. 100 million. Payments with the rest of the world tended to balance and sometimes had small surpluses. Forecasts for 1957 indicated another decline in the surplus with the dollar zone combined with an increase in the deficit with the EPU. Payments with the rest of the world being almost balanced, an overall deficit of 200 to 300 million kroner could be expected in the current year.

The Danish representative further pointed out that in the first months of 1957 the balance-of-payments situation had deteriorated. Prices of oil and coal, which represented some 20 per cent of total imports, increased as a result of the Suez crisis and this had caused a severe drain on the gold and dollar reserves. Concurrently export prices for some agricultural commodities had declined; prices of eggs suffered from the competition of subsidized eggs, and prices of butter and bacon in the United Kingdom, the most important Danish export market, had declined. As a result, the terms of trade had significantly worsened. Concerning the future, prices for coal and oil had already become stabilized and would perhaps decline later in the year, while in the agricultural field prices had, in the previous month, shown a tendency to increase.

Expected Effects on the Balance-of Payments of any Relaxation of Import Restriction

It was hard (the Danish representative said) to anticipate the effects of further relaxation of import controls, but with reserves equal to only two weeks of imports the Danish Government could not afford to take great risks.
Liberalization measures introduced in recent years had modified the pattern of imports in favour of the dollar area as against the EPU area. From 1953 to 1956 imports from the EPU area had risen from Kr. 5,800 m. to Kr. 7,000 m.; dollar imports had, in the same period, increased from Kr. 350 m. to approximately Kr. 1,000 m. This appreciable increase was in part due to the liberalization of certain items, but could also be partly explained by the more liberal issue of licences for restricted imports, preparing the way to formal liberalization. The liberal licensing policy applied had resulted in a greater percentage increase in non-liberalized imports from the dollar area during the period than in liberalized imports.

Prospects of Relaxation or Elimination of the Restrictions

In response to a question, the Danish representative clarified a point in his introductory statement when he had said that the abolition of the last quantitative restrictions would depend on measures taken by other governments; this, he explained, did not mean that further liberalization of imports would be made conditional upon reciprocity. It was realized that the only way for Denmark to attain a satisfactory level of reserves was to expand exports. This was in turn to a great extent dependent on the action taken by other governments; present practices had a dampening effect on Danish exports. It was the intention of his Government to continue with the liberalization programme within the possibilities of the balance-of-payments situation. The fact that, notwithstanding a serious decline in already very low reserves at the beginning of 1957, no increased restrictive measures had been taken on imports, was sufficient proof of the intentions of his Government.

A member of the Committee pointed out that the figures cited by the Danish representative had shown that, in spite of the formal maintenance of restrictions, imports could nevertheless expand considerably if licences were issued freely. The rapid rise in Danish imports from the dollar area
in the past few years showed that liberal import policies had been applied, within the limitations imposed by the balance-of-payments position. Other representatives noted that although there were admittedly some advantages in maintaining merely formal controls which permitted immediate action by the authorities if necessary, this practice was not a satisfactory substitute for the suppression of licensing requirements whenever possible. Licensing controls created uncertainty among traders who in addition were in some cases insufficiently informed about import possibilities.

Representatives from the dollar area pointed out that the current trend towards an equal degree of hardness of all currencies, sometimes referred to as "de facto convertibility" was increasingly blurring the distinction that existed previously between the regional balances of payments with the EPU area, the dollar area and the rest of the world. The 25 per cent element of credit in the EPU mechanism was of limited significance, particularly in view of the fact that credit would eventually fall due and be settled in gold. Accordingly, it no longer seemed appropriate to be unduly concerned about the effects of a reduction of imports from the EPU area in favour of an increase in imports from the dollar area. Freedom of choice in selecting the source of imports would improve the Danish competitive position on world markets. This was, for example, true for imports of aluminium, resins, nickel, crude and vegetable oils, which were primary materials used in the manufacture of certain export commodities and which were still restricted from the dollar area. Would it therefore not be appropriate to extend the application of the Regional Lists to cover the whole world and to transform bilateral quotas into global quotas? The Danish representative agreed that the distinction between the various regional balances of payments was no longer of such importance as it had been. However, as the Danish reserves were still extremely low the addition to the foreign exchange liquidities of an admittedly small credit margin of 25 per cent in the EPU settlements could not be neglected. In addition, it
was only for major imports, such as those of oil (which accounted for roughly 10 per cent of total imports) that considerations of diversion of trade were taken into account. The 40 per cent increase in imports from the dollar area in 1955-56, as compared with only 10 per cent in the case of imports from EPU areas clearly showed that the Danish Government had been aware of the benefits to be gained from cheaper imports.

One representative then pointed out that, in a world from which the gold standard with its adjustment mechanism had disappeared, it was not realistic to consider only the overall balance of payments. The regional payments system established by the EPU had considerably contributed to the expansion and stability of the Western European markets. This regional stability was the product of the maintenance of equilibrium in the regional balances of payments of the member countries. Every measure that might endanger this regional stability must be viewed in the light of the consequences it might have on the liberalization levels of the EPU countries.

**Alternative Measures to Restore Equilibrium**

A member of the Committee, referring to the results of the consultations of Denmark with the Fund, stressed the need further to restrict government expenditure and the desirability to check consumption and to encourage productive investment. He understood that it was the intention of the Danish Government to adopt such measures, and expressed the hope that Denmark would be successful in restoring equilibrium in its balance of payments by such alternative measures.

**System and Methods of the Restrictions**

The Danish representative pointed out that Annex VII to the basic document did not contain only the commodities of the Regional Licensing List as stated in page 5 of that document, but all commodities subject to licensing requirements when imported from EPU countries. For the convenience of the Committee, he would furnish the secretariat with a list of the regionalized commodities to which the products listed in Annex X should be added. In reply to a question
by the Australian delegate he indicated that wheat and flour were on the Regional Licensing List and were not imported under bilateral trade agreements.

Replying to questions, he explained that the licensing authorities had, in the past during a certain period, used the terms "external" and "internal" quotas when referring to the two control methods used for imports of goods contained in the Regional Licensing List. The word "external" meant that the quotas were made known to importers and were in the nature of a firm licensing programme, generally based on one or more representative years. The term "internal quotas" referred to the licensing estimates for goods for which applications for licences were dealt with on their merits. These figures were known to administrative officials only and could be easily modified. He could not indicate what proportion of imports under the Regional Licensing List was subject to each of the two systems of restrictions, i.e. to the global quotas system and to the system of individual application. Indeed the procedure was being modified from time to time. He estimated, however, that approximately half of the imports took place under each system.

The Danish representative then supplied information on the licensing policy applied for goods contained in the Regional Licensing List. Under the case by case method of issuing licences for goods in this category, after licences had been granted for the total amount of the estimates, applications might still be accepted after due investigation of the nature of the request. On the other hand, even before fulfilment of the tentative licensing plan, applications might be refused if, after examination, it was found that the commodity to be imported did not justify the outlay of foreign exchange. Various members of the Committee stressed the fact that the fixing of firm quotas gave traders more certainty and facilitated the conclusion of commercial contracts, whereas licensing according to merits of the application caused considerably difficulties.
In response to a question on the criteria used for selecting commodities to transfer to the General Free List, the Danish representative said that if the licensing authorities estimated that there was a large latent import demand for a particular commodity, the item would not be freed in view of the possible effects on the balance of payments. This was, for example, the case with passenger cars. When considering the type of commodity, raw materials generally received priority over capital equipment, which in turn enjoyed preference over consumer goods. When asked what the criteria were applied for admitting imports from the dollar area of goods contained in the two Regional Lists, the Danish delegate explained that price was an important, but not the only, consideration. The licensing authorities wished to avoid a substantial diversion of imports away from the EPU area in favour of the dollar area. In the case of oil, for example, although dollar and non-dollar prices were approximately the same, imports from dollar sources were not permitted in order to safeguard the hard currency reserves. On the other hand, the licensing authorities were inclined to admit imports if for a particular commodity one source of supply offered a distinct price advantage. But again, where there was a large latent demand for such a commodity, balance-of-payments considerations would predominate and the price advantage be disregarded. In order to test the latent demand for restricted imports the Danish Government issued licences more freely for one selected item. Even so, it was not invariably possible to obtain a precise estimate of the demand, because only the formal transfer of a commodity to a free list assured traders of free entry, thereby setting in motion various processes such as the introduction of intensive sales promotion devices and the establishment of branches which could then lead to a very substantial increase in imports.

As set out in the basic document, the General Free List, while applicable to imports from the EPU and dollar areas, was not formally being applied to the rest of the world, although in practice imports were subject to a liberal regime. A member of the Committee enquired about the reasons for
maintaining such a special régime, especially in view of the fact that Danish trade with the non-EPU and non-dollar countries was almost balanced. The Danish representative said that he knew of no example where applications for licences had been refused for imports of commodities on the General Free List. A question was put as to whether Open General Licensing also applied to goods originating in the non-EPU non-dollar trade agreement partners which were not specified in Section (f)iii of the basic document. The Danish representative explained that although the Regional Free List and the Regional Licensing List applied formally to the EPU area only, they were in practice also applicable to non-dollar non-EPU countries.

One representative called attention to the fact that the maintenance of bilateral trade agreements might be hampering further progress in the relaxation of restrictions. Such was perhaps the case with citrus fruits which were imported under trade agreements, and not admitted from the dollar area. The Danish representative replied that only 2.5 per cent of total imports were still governed by bilateral quotas, and that these agreements did not prevent the Government from taking further liberalization measures. Progress in this field was hindered by the restrictive systems applied by some of Denmark's trade partners which consisted in admitting foreign goods only if equivalent export opportunities were being afforded for their own goods. This was the case with the trade arrangements maintained with the Eastern European countries. The trade agreements concluded with OEEC partners included only a few quotas for goods which, for balance-of-payments reasons, could be admitted only in limited quantities, but which had traditionally figured in mutual trading. Such quotas were fixed in accordance with the traditional pattern of trade. Progress in the elimination of bilateral quotas had been achieved by the establishment of global quotas applicable to groups of countries or areas. His Government intended to pursue this policy.

Restrictions on citrus fruits were wholly justified on balance-of-payments grounds for they were consumer items and as such did not enjoy licensing priority.
A member of the Committee enquired whether the issue of licences was in certain cases made conditional upon the exportation of domestic products of a similar nature and equivalent value. The Danish representative stated that all provisions to that effect had been abolished.

It was noted that as from 1 January 1957 the system of granting exporters to the dollar area transferable import rights (Titles to Import Licences) had been extended to cover some additional non-essential commodities, although at the same time the premium paid to importers had been reduced. As the new measure was likely to exert additional restrictive effects on imports, a member of the Committee wished to know whether hope could be entertained that the restrictive effects of the scheme would be reduced and its protective incidence lessened. The Danish representative answered that the system permitted a wide range of commodities to be imported from EPU countries provided the importer was prepared to acquire import titles by paying a surtax of 80 per cent. The main item subject to the import titles scheme was motor cars, for which the Government intended to raise the purchase tax by 80 per cent. This would permit the withdrawal of this item from the scheme. It was for technical reasons only that some new relatively unimportant commodities had lately been made subject to the procedure.

The delegate for Canada said that he had been concerned by the complexity of the control system and the numerous variations in each licensing method. This intricacy could lead to confusion and deter foreign exporters from prospecting the Danish market. He therefore urged that consideration be given to a simplification of the restrictive system. The Danish representative agreed that the import restriction system was far from simple. Such a situation resulted partly from the fact that it had been developed in cooperation with traders' associations, and partly from historical reasons. As, concurrently with every improvement in the reserves, steps had been taken to free imports and grant licences more liberally, a variety of control techniques had been
evolved. Importers, however, were always afforded full opportunity to obtain all necessary information on quotas and import possibilities.

Steps taken to reduce the Protective Effects of the Restrictions

The Danish representative stated that in attempting to encourage industrialization, his Government fully realized that there could be no interest in protecting uneconomic industries which, in any case, owing to the size of the Danish market, would have to compete on world markets. To lessen the protective effects of the restrictions a technique had been adopted of amalgamating quotas with a narrow commodity classification into quotas covering a large range of products. This compelled the domestic producers to face the competition of imports and lessened the incidental protective effect of the import regulations. In addition, as indicated in the basic document on 25 May 1956 the Controller of Monopolies, in collaboration with the Directorate of Supply, had been instructed to compare prices in Denmark with those in other countries, of commodities to which the quantitative restrictions afforded incidental protection. It was the policy of the Danish Government to reduce excessive price differences and to foster competitiveness by admitting more imports. At this stage it was hard to assess the effects of these recent measures.

A member of the Committee enquired whether the existence of domestic production was an over-riding factor in refusing, or in granting, licences. This member instanced an application for the importation of machinery or equipment on the Regional Licensing List. The Danish representative said that if the differences in price and quality between the foreign product and the domestic product was small, the licence might be refused on balance-of-payments grounds. Indeed, if the national product was sufficiently competitive, outlays of foreign exchange for imports of the same commodity were unjustified. If, on the other hand, there was a large difference in price the licensing authorities might prefer to grant the licence.
In reply to a question, the Danish representative indicated that he did not think it could be said that Denmark had hard-core problems. Liberalization had already reached a very high level and the Danish economy was kept competitive by means of the procedures which he had described. The Act on Trade Control Measures and Commodity Supplies, which formed the statutory basis of the present controls, was temporary and specified that all measures should aim at and prepare for a return to normal conditions of economic life. Being of a provisional character this legislation prevented the Danish producers from considering themselves entitled to permanent restrictive import regulations.

A representative wished to know whether the Danish Government had experienced restrictive effects of foreign import regulations on its exports of industrial goods and whether in the recent past it had noticed any changes. The Danish representative stated that over the last four years the volume of exports of industrial products, particularly of machinery, had increased by 75 per cent. Very dissimilar trends, however, had been noticed in various export markets. Exports to most Western European countries had considerably increased. On the other hand, exports to some of the bilateral agreement partners and to Norway and Sweden had been stagnating. In his opinion, the rapid expansion of industrial exports was to be attributed to the investment boom in Europe over the last four years rather than to liberalization measures.

General

Several members of the Committee stressed the usefulness and excellence of the basic paper prepared by the secretariat and of the background information submitted by the Fund. This extensive documentation had greatly assisted the discussions and had helped to contribute to the quality of the debate. The very informative introductory statement made by the Danish delegate had, by focusing attention on the structure and difficulties of the Danish economy, permitted members of the Committee to understand more
fully the balance-of-payments problems with which Denmark was confronted, particularly in view of the very low level of reserves. It was furthermore noted with gratification that the Government was relying on internal measures to cope with the recent deterioration in the payments position, and hope was expressed that Denmark would continue to relax its restrictions and further reduce its reliance on bilateralism.

The delegate for Canada wish to stress the importance which his Government attached to further relaxation of the restrictions, particularly in view of the fact that roughly one half of the imports of dollar goods in Denmark were still under licensing control. The liberalization of oats, barley, canned foods, asbestos and electrical meters was of particular interest to his Government.

The delegate of the United States wished to associate himself with the remarks made by his Canadian colleague concerning the rather complex import control system in Denmark. He said his Government fully appreciated the balance-of-payments and other difficulties which Denmark was experiencing, and hoped that some improvement would take place to afford opportunities for further liberalization of imports from the dollar area. He hoped also that there would be less reliance on bilateralism, and that discriminatory treatment could be reduced or eliminated.

In a brief final statement the Danish representative said that his Government believed in reciprocity, and hoped that other countries would assist Denmark in every way possible to increase her export trade. He would bring to the attention of his Government the observations made by other members during this consultation.