CONSULTATIONS UNDER ARTICLE XII:4(b)

Draft Report on the Consultation with Norway

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 Norway under paragraph 4(b) of Article XII.

The Committee had before it:

(a) a basic document prepared by the secretariat in collaboration with the Norwegian authorities describing the system and methods of the balance-of-payments import restrictions in operation in Norway. The document also contains a statement under Part II - "Effects on Trade", submitted by the Norwegian 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 the CONTRACTING PARTIES had invited the Fund to consult with them concerning this consultation. The results of the Fund's consultations with Norway are reproduced in Document QRC/4.

In accordance with the procedure agreed upon by the Consultations Committee, the representative of the Fund was invited, at the beginning of the consultation, to make a statement concerning the balance-of-payments position of Norway. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its 1956 consultation with Norway which was concluded on 25 July, 1956. The Fund's 1957 consultation with Norway has not yet been completed, although it is anticipated that it will be concluded shortly.

"As some time has elapsed since the conclusion of its last consultation with Norway, the Fund has also provided a supplementary paper on Norway dated 1 May 1957, to supply background information on subsequent developments in the internal situation, the balance of payments, and the restrictive system. This paper, together with the background material from the 1956 consultation, and the results of the 1956 consultation have 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 prospects, pending the conclusion of its 1957 consultation with Norway, the Fund sees no reason to alter the appraisal of the situation contained in the results of its 1956 consultation which have been transmitted to the CONTRACTING PARTIES.

"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 Norway. The Fund has no additional alternative measures to suggest at this time".
Opening statement by the Representative of Norway

In opening the discussion the Norwegian representative stated that Norway was confronted with the special external problems common to all countries with a small internal market and a highly specialized economy, heavily dependent on foreign trade. In 1956 approximately 40 per cent of the Gross National Product went into foreign trade; trade per capita therefore was one of the highest in the world.

With an economy so dependent on foreign trade, and extremely sensitive to the terms of trade and to fluctuations in the world market, there was a need for adequate exchange reserves to provide for unforeseen contingencies. Since the level of the reserves were at present relatively low a policy of caution in the import field was necessary. The considerable improvement in the balance-of-payments position in the past two years could be ascribed to the favourable developments in Norway's terms of trade and to the gradually increased returns from the heavy investment in the export industry which had taken place since the war.

The improvement in the balance-of-payments position had enabled Norway to take a series of new liberalization measures. On latest calculations 80.8 per cent of total private imports from the EPU, on the basis of 1948 imports, had been liberalized. Excluding tankers, which Norway did not consider as commodities in the ordinary sense of the word, the percentage would be 94.3. Thus, the remaining restrictions on imports equalled 5.7 per cent. Most of the commodities within this group were subject to a liberal regime of licensing, and a large number of them were imported under the global quota system. On 1 July 1956 a dollar free list had been introduced covering 83.7 per cent of the imports on private account from the United States and Canada in 1953. On the same date the global quota list was extended to include the dollar area (with the exception of passenger cars and delivery trucks). The possibility of removing the remaining restrictions depended on the future balance-of-payments situation. His Government, however, hoped to take steps in this direction in the course of the current year and with that end in view the Ministry of Commerce had recently submitted to trade and industrial circles lists of commodities with the notice that these goods might be liberalized at any time.
Committee Discussion:

Balance-of-Payments Position and Prospects

The Norwegian representative referred to the International Monetary Fund background paper which summarized the National Budget forecasts for the balance of payments in 1957. It was assumed that in volume imports would increase by 4 per cent and exports by 5 per cent, while net freight earnings were expected to rise by 14 per cent due to both increased tonnage and higher average freight rates. He pointed out to the Committee that these estimates were based on the assumption that there would be no changes in the total terms of trade in 1957 as compared with 1956. In actual fact there had been a slight worsening in the commodity terms of trade in the first quarter of 1957 but this had been compensated for by higher freight rates. Following these assumptions the forecast showed a deficit on goods and services (including dividends and interest payments) of N. Kr. 140 million. Developments in the first quarter of 1957, however, have led the authorities to believe that the deficit would be greater.

As a consequence of a catch smaller than predicted, export receipts for fish and fish products might be N. Kr. 140 million lower than the Budget estimate. This would be partly offset, however, as a result of increased exports of whaling products, which, due to a relatively favourable season, were now expected to be N. Kr. 75 million higher than the estimate. Total export income for 1957 might therefore now be estimated at a value of some N. Kr. 50 million less than that predicted in the National Budget. While the increase in the volume of commodity imports in the first quarter approached the National Budget estimate of 4 per cent, at the same time import prices had risen 7 per cent above the 1956 average and it was now expected that the total value of imports for 1957 would be N. Kr. 150 million above the Budget estimate. Freight incomes in the first quarter, on an annual basis, almost exactly corresponded to the Budget prediction and there appeared no reason to change those estimates. The net effect of these movements therefore would be a further deterioration of the balance on current account to the extent of some N. Kr. 200 million. He pointed out that this was a very preliminary revision as for several other items on that account no revised estimates had been made.
The official forecast for the balance of payments in 1957 implied that the estimated increase in currency reserves would be N. Kr. 300 million. In 1955 and 1956 currency reserves increased by N. Kr. 340 million and N. Kr. 800 million respectively and in both these years there were deficits on current account; net capital inflow from abroad accounted for the increases. Capital inflow was expected to continue during 1957 but if the deficit on current account should be N. Kr. 200 million higher the increase in reserves would be very small, around N. Kr. 100 million. The reserves at present were considered to be inadequate; on 31 March 1957 they stood at N. Kr. 1,950 million, which represented twelve weeks' imports (excluding ships). In spite of the fact that the need for a high level of exchange reserves was more necessary in view of the special structure of the Norwegian economy, they were, with the exception of Denmark and Iceland, the lowest in Europe.

His Government was particularly concerned with the current deterioration in Norway's commodity terms of trade since the present high level of freight rates could not be expected to be maintained. In addition the deterioration in the commodity terms of trade could act as a tendency to force a reduction in freight rates. Of the improvement in the balance-of-payments situation in 1956, which amounted to approximately N. Kr. 1,000 million, two-thirds of the increase could be attributed to improved terms of trade which were 17 per cent more in Norway's favour as compared with 1938. The remaining third resulted from changes in the volume of trade.

His Government had drawn up a long-term budget for the years 1958-1961 which included balance-of-payments forecasts for the same period. Obviously in such a study the assumptions made with respect to the terms of trade would be quite decisive and it was found reasonable to use those prevailing in 1955 which, though favourable compared with the immediate post-war years, were 5-6 per cent adverse as compared with 1956. With an estimated annual increase of 3 to 3.5 per cent in the volume of commodity imports and 4.5 per cent for exports and allowing for an annual increase of 7-8 per cent in the shipping fleet it was concluded that the deficit on current account for the whole period would be US $ 175 million. The deficit, however, would show gradual improvement from year to year amounting to US $ 70 million in 1958 and declining to US $ 7 million by 1961. On capital account the total amortization of debt from
1958-1961 was estimated at US $ 180 million. These commitments together with the projected deficit on current account over the period amounted to US $ 355 million and would have to be financed by an inflow of capital from abroad. Net loans on ship imports totalled US $ 170 million and, in addition, credits already secured amounted to US $ 70 million. The remaining US $ 115 million represented the inflow of new and unknown capital, which would be necessary during the period to avoid a reduction in the exchange reserves.

The forecast, which was of a similar character to that made in the National Budget served as a guidance for economic policy and gave a good indication of the inter-relation of various factors in the Norwegian economy. It was not a programme as such and did not show what the future levels of consumption and investment should be but rather what they could be, given various assumptions. In the forecast no increase in the exchange reserves had been relied on to alleviate the situation. However, if the terms of trade did improve as against that assumed, and/or capital inflow was increased, there would be a strengthening of the reserves. The estimates with respect to commodity imports were based on the assumption that further liberalization measures would be carried out in the period.

A member of the Committee enquired whether the estimates were based on the assumption that there would be increased liberalization of trade during the period or on the assumption that any such liberalization would be treated from time to time on an ad hoc basis. In reply the Norwegian representative stated that no specific assumption had been made in that respect but that it was the intention to proceed as soon as possible with liberalization, and the import estimates in the long-term programme took into account the fact that such progress would be made. For reasons explained in the basic document, liberalization measures would be extremely difficult to take for two items in particular, namely ships and passenger cars. It had been estimated that if passenger cars were placed on the free list additional importations in the first year of operation would be 30-35,000 units at a cost of some N. Kr. 200 - 250 million.

Another member of the Committee sought clarification of a statement in the IMF background paper of 1 May 1957 to the effect that in recent years there had been a large unexplained capital inflow which had been entered as "Errors and Omissions" in the balance of payments. In reply the Norwegian representative
stated that that was a standard balancing item in balance-of-payments statistics and a committee of experts had worked in the past few years to examine and classify the statistics in an endeavour to find partial explanations and their studies had resulted in some reductions to the figure. For the most part it might be explained by inflows of short-term private capital for which no reliable statistics were available.

The United States representative referred to the percentage of liberalization of 80.8 per cent for total private imports from the EPU area calculated on the basis of 1948 imports as against 83.7% for the dollar area. He pointed out that these figures were not comparable for many well known reasons and that there were still a very substantial number of items liberalized from the EPU area and in respect of which there was discrimination against imports from the dollar area. The Norwegian representative stated that the comparison of percentages as such could not give the exact situation with respect to liberalization of imports and was of little value in the comparison of the extent of liberalization by other OEEC members. An alternative method of calculating the real degree of liberalization would be to ascertain what percentage freed imports were of the Gross National Product. Such an exercise was once undertaken by his Government and among OEEC countries Norway was found to have the highest percentage.

Members of the Committee welcomed the substantial improvement in Norway's balance-of-payments position and expressed appreciation of the action taken by the Norwegian Government in the past year in further liberalizing its imports both from the EPU and the dollar area. The hope was also expressed that such relaxations would continue.

Alternative measures to Restore Equilibrium

The Norwegian representative informed the Committee of fiscal and monetary measures his Government had taken to restrain internal investment and demand. The most important were taken early in 1955 when it was clear that the balance-of-payments deficit would continue. The Government raised the discount rate of 2.5 per cent to 3.5 per cent and issued directives to the banking system to pursue a more restrictive credit policy. A portion of the Savings Banks' reserves and liquid assets were blocked and the lending activities of the State Bank were restrained. A 10 per cent tax was levied on all building and
construction activities, with some minor exceptions, and also on motor vehicles, tractors and new contracts for ships. To further strengthen the measures the Government, in December 1955, reached agreement with the Central and Private Banks and the Insurance Companies to set a ceiling on credits granted for 1956 and 1957. The 1956–1957 Budget would be balanced and possibly show a small surplus. The projected 1957–1958 Budget at present provided for a small deficit on Capital Account but this had already been secured by external loans. At the beginning of 1957 a new tax system (pay as you earn) was introduced and it was expected to be more efficacious in restraining internal demand. Despite certain internal pressures to remove some of the measures the Norwegian Government had decided that the situation justified their maintenance.

The United Kingdom representative referred to the 10 per cent tax on cars that had been introduced and enquired whether the Norwegian Government had ever considered the institution of such taxes as an alternative to quantitative restrictions. He quoted the example of Denmark where, having a similar population, cars had been liberalized for several years with a premium of 80 per cent in the form of a luxury tax and car sales in Denmark had reached the level of 25,000 annually. The Norwegian representative replied that such an alternative had not yet been considered by his Government. However, he appreciated the interest of car exporting countries and expressed the hope that the problem of fully liberalizing imports of cars could be eventually solved by the imposition of such taxes.

System and Methods of the Restrictions

The Norwegian representative drew attention to a new table giving a revised breakdown of imports according to import systems, which was to replace a similar table in the basic document. A member of the Committee sought clarification on the licensing treatment afforded to commodities listed in Annex IV(B) of the basic document prepared by the secretariat which related to non-liberalized imports on Government Account. He enquired which of those commodities were subject to bilateral agreements and which were licensed on Government Account. The Norwegian representative replied that he would make the necessary investigations and inform the Committee.
In reply to a question by the representative of Japan, the Norwegian representative stated that applications for licences under the global quota list to import from countries outside the global quota area, which comprised countries within the EPU and their associated monetary areas and the dollar area, were treated on a "case by case" basis. The representative of the United States stated that there were several items on the global quota list imports of which were permitted only from the EPU area. Since the intention of placing commodities on this list was to protect the balance of payments by controlling the overall quantity of imports of particular commodities, it was difficult to see any balance-of-payments justification for the discrimination. The Norwegian representative replied that if all global quotas were to be extended to the dollar area the quotas would have to be increased.

The United Kingdom representative enquired about the meaning of the statement on page 7 (English text) of the basic document to the effect that compensation and barter arrangements were entered into because the exchange of goods could not take place in a more regular and normal way with the country concerned etc. The Norwegian representative explained that this type of arrangement was made necessary by obstructions to Norway’s exports in the form of import licensing requirements or other impediments and was limited to different practical cases in order to regain markets lost since the war and to ensure entry into other markets.

"Text to be inserted later"

A member of the Committee said he had observed that there had been no progress in dismantling bilateral agreements and expressed the hope that there would be some advance in this direction in the near future.

A member of the Committee expressed concern that the annual review of global quotas could result in some disruptions in trade. He enquired whether established trade interests would be taken into account at such reviews. The
Norwegian representative replied that in the last few years the review had resulted in changes in an upward direction only in that quotas had either been increased or items subject to quotas had been transferred to the free lists. The member then remarked that the annual review, if not equitably administered, could create problems for certain trade interests.

In response to a question by the United States representative the Norwegian representative stated that the inclusion of items in Annex V of the basic document, which related to non-liberalized imports for which licences are liberally granted, was an indication that they would be liberalized in the near future. It was not possible at present to indicate whether imports of these items from the dollar area would be liberalized at the same time as those from the EEU area. That would be considered in the light of the circumstances prevailing at the time. While appreciative of the progress made during 1956 towards reducing discrimination against the dollar area the representative of the United States enquired whether those items that have been liberally licensed could not now be transferred to the free lists since this liberal policy had been pursued for almost a year and throughout that period the balance-of-payments position had improved. The Norwegian representative referred to earlier statements made to the Committee on the need to exercise caution with respect to Norway's import policy particularly in regard to imports from the dollar area in view of the uncertainties of Norwegian exports to the highly competitive and sensitive dollar markets.

Effects on Trade

The Norwegian representative stated that as with most countries it had been found difficult to assess the degree of hardship that might be expected upon a relaxation or elimination of the restrictions and that such hardship was difficult to avoid. On 1 April 1957, however, some commodities comprising 2 per cent of total private imports were put on a so-called "hard core" list. Producers were warned that these items were to be transferred to the free list and that they must prepare in advance for the increased competition that would result. These producers would then make considerable efforts to increase their productivity and their ability to compete with imports. The majority of items not yet liberalized could not be classified as "hard core" and in fact only a few commodities such as glassware, paints and lacquers could be so classified.
The basic document and the replies to the Annual GATT Questionnaires had already mentioned steps taken by the Norwegian Government to minimize the incidental protective effects of the restrictions. Other policy measures taken with this end in view were operated through the system of allocating foreign exchange to give preference to importers of machinery for the export industry as well as to assist certain other industries to prepare for increased competition from imports when the restrictions were eventually removed. In addition it had been the policy not to liberalize importations of raw materials unless the finished goods themselves were liberalized.

A member of the Committee enquired to what extent the Norwegian Government was taking into consideration the obligation in Article XII:3(c)(ii) "not to apply restrictions so as to prevent unreasonably the importation of any description of goods in minimum commercial quantities". The Norwegian representative referred to the statements in the basic document on measures taken to avoid damage to the trade interests of other countries and said that he could add no more to what was said in that document.

The United States representative observed that there were several types of commodities which, for social and other reasons the Norwegian Government was not prepared to liberalize. These commodities, such as fresh fruit and dairy products were the type of goods his delegation had in mind when referring to "hard core items". He enquired whether the Norwegian Government considered them as such, and if so, whether and how the Norwegian Government intended to deal with them in terms of GATT and the "hard core" waiver. The Norwegian representative replied that there were some agricultural products which could be considered as "hard core items"; he was unable to indicate at this stage the intentions of his Government.

Several members of the Committee stated that their Governments had been favourably impressed by the internal measures taken by Norway to restore equilibrium and to reduce their balance-of-payments difficulties; by the various measures taken to minimize protective effects of the restrictions; and by the progress made in Norway to relax restrictions. They also expressed gratification concerning the present situation in Norway and the hope that the improvement would be reflected in further liberalization, and that full liberalization would be attained as soon as possible.
One delegate referred to the arrangements entered into by Norway for the import of cars, outside the global quota of 8,000 cars. In particular, arrangements covering the import of 3,000 cars had been made with a Swedish firm in return for corresponding Norwegian exports to Sweden, although these exports met with no licensing or currency difficulties of the kind described on page 7 of the basic document. He considered that these arrangements appeared likely to distort the normal pattern of trade and to provide an inducement to the Norwegian authorities to maintain restrictions on imports of cars longer than might be necessary on payments grounds in order to protect the Norwegian exports concerned.

Should the Norwegian authorities find it necessary to reduce the global quota after 1957, he suggested that they should reconsider the special arrangements then in force in order to avoid further disturbing the normal pattern of trade.

Another delegate thought that, on the facts given, there appeared to be a prima facie case, on balance-of-payments grounds, for the global quota to be raised to at least 11,000 cars for 1957.

The Norwegian delegate replied that the arrangements were intended to provide additional imports of cars at no direct cost in foreign currency. The global quota for 1957, which was twice the level of the 1956 quota, was as high as the balance of payments permitted at present. In his view the arrangements were not discriminatory in that the Norwegian authorities were prepared to agree to similar deals with other countries and some had in fact been made. Norwegian exports under the deals were fully competitive, and the cars imported in return had to be at normal prices. It was the intention of the Norwegian authorities, as the payments position allowed, to increase the global quota progressively and to aim at complete liberalization of cars in the period 1958-60.

The global quota for 1958 had not yet been considered and the arrangements with the Swedish included a reservation with regard to the amount to be imported in 1958. The views expressed would be reported to his Government.