Draft Report on the Consultation with Denmark

1. In accordance with its terms of reference, the Committee has conducted the consultation with Denmark under Article XII:4(b). The Committee had before it: (a) a basic document prepared by the secretariat on the basis of data supplied by the Danish Government; and (b) documents provided by the International Monetary Fund. In conducting the consultation the Committee followed "the plan" recommended by the CONTRACTING PARTIES. The consultation was completed on 3 July 1959. The present report summarizes the main points discussed 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. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results and background material from its last consultation with Denmark which was concluded on 25 June 1959. 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. This statement was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from the last consultation with Denmark under Article XIV of the Fund Agreement, which consultation was concluded on June 25, 1959.

"With respect to Part I of the Plan for Consultations, relating to balance of payments position and prospects, and also with respect to Part III, relating to system and methods of the restrictions, the Fund draws the attention of the CONTRACTING PARTIES to the results of its 1958 consultation with Denmark under Article XIV of the Fund Agreement and particularly to paragraph 4, which reads as follows:

'4. Since the last consultations, Denmark has made substantial progress in removing restrictions and reducing discrimination, and the restrictive system has been substantially simplified. The Fund welcomes the introduction of non-resident convertibility and the substantial reduction of discrimination and urges Denmark to take further steps which
would progressively remove restrictions and
eliminate discrimination, including those arising
from bilateralism. The Fund expresses satisfaction
over the decision to eliminate the import title
system, but hopes that it will be possible to shorten
the termination period.'

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

Opening Statement by the Danish Representative

3. At the opening of the consultation, the representative of Denmark
made a statement, the full text of which is given in Annex I. He
emphasized the exceptional heavy dependence of the Danish economy on
foreign trade, which represented about one-third of the gross national
product. This fact, together with a high degree of specialization in
agriculture made the country extremely sensitive to fluctuations in
world market prices. While the terms of trade had developed not
unfavourably to Denmark in the last two years, it must be noted that
Danish exports of agricultural products had not benefited from the
large-scale expansion of trade in the post-war world; agricultural
exports, in fact, had remained constant over the last five or six
years. This situation, in the view of the Danish representative, was
due to the protectionism prevailing in many countries as well as to
the inelastic demand for livestock products. Various measures of price
support and protection, by closing domestic markets and by creating
surpluses which were often exported under heavy subsidy, severely
effect ed Danish exports.

4. In the circumstances, Denmark had considered it necessary to adjust
the structure of its economy and deliberated to expand industrial
production and exports. As a result of these efforts, exports of
industrial products had more than doubled in five years. Today, industrial
products represented almost 50 per cent of total Danish exports
compared to 25 per cent before the war. The necessary investments
had resulted, however, in considerable pressure on the balance of
payments. Exports of industrial goods could have been further expanded were it not for the high tariff rates and other obstacles met in certain markets.

5. In the first half of 1957, Denmark's current account balance deteriorated markedly and reserves fell to a low level. In mid-1957 the Government took various internal measures to redress the imbalance, but avoided the use of additional import restrictions. As a result of these measures and an improvement in the terms of trade, the balance of payments greatly improved. In 1958, export proceeds increased by 7-8 per cent, purely owing to a higher volume of industrial exports; agricultural exports remained stagnant.

6. Current estimates showed that there would again be a surplus in the balance of payments in 1959. The drought that had occurred in the last two months, however, might cause a crop failure which would have serious repercussions for Denmark's external financial position. Denmark's gold and foreign exchange holdings, even after the recent favourable development in export earnings, remained modest, corresponding to about two month's imports. Nevertheless, there had been in the past year further relaxations of restrictions; licensing of imports in the restricted sector was considerably increased, global quotas were extended, and the import control system was substantially simplified.

7. The representative of Denmark then described the various measures taken to reduce incidental protective effects of the restrictions applied for balance of payments reasons, and gave instances in which price studies had been initiated with a view to limiting uneconomic production. He further described the import control system resulting from the recent measures of simplification, and particularly the changes in the control of dollar imports. As a result, the free list for the dollar area had been brought into line with that for the EPU area and Finland. For a wide range of products subject to global quotas, holders of licences were allowed also to utilize their licence for imports from the dollar area.
9. The demand for investment goods arising from the structural change in the Danish economy led to heavy outlays of foreign exchange. Since it was difficult to expand exports, the available reserves had to be economized. For this general reason, Denmark felt that in relaxing the remaining quantitative restrictions, it should move cautiously. The basic policy of the Danish Government was, however, to pursue its endeavours to abolish quantitative restrictions. In conclusion, the Danish representative expressed the hope that the other countries would help to create conditions under which Denmark would be able to expand its exports and thereby to improve its balance of payments, so as to enable it to abolish its import restrictions.

Balance of Payments Situation and Prospects

10. In discussing the Danish balance of payments, the Committee referred to the documents supplied by the International Monetary Fund and a supplementary table supplied by the Danish delegation showing estimates for 1959 (see substantial Annex II). Requested to comment on the assumptions underlying the estimated increase in imports and exports in 1959, the representative of Denmark explained that the estimated increase in exports was based on several factors. Prices for preserved meat and dairy products had risen between 5 and 6 percent in comparison to 1958. This was one of the factors which were/expected to raise export earnings by about D.kr. 150 million. On the other hand, the increase in agricultural exports to the United States in the past year had been due mainly to larger sales of one single item, namely ham. As American hog producers had stopped up production, no further increase in this export to that market was expected. The increase in industrial exports which had averaged between 15 and 16 percent per annum during the last five years was expected to continue; and an increase of approximately D.kr. 300 million was estimated for 1959. Exports of other products were expected to increase by D.kr. 100 million. The increase in import expenditures was calculated on the expectation of larger volumes imported at slightly lower prices. An increase in the import of capital goods is expected owing to the continued efforts at industrialization.
A continued high level of economic activity were expected to increase the volume of raw material and fuel imports. Larger quantities of fodder and goodstuffs had to be imported because of the poor harvest last year and the situation might worsen because of the recent drought. Imports into Denmark during the first six months of 1959 amounted to approximately D.kr. 5.2 billion which was in line with the estimate of D.kr. 10.75 billion for the year as a whole, although it might be noted that imports into Denmark were traditionally higher in the autumn than in the spring.

11. The large increase in earnings from foreign travel in 1958 was largely due to travel expenditures and purchases of Danish goods in the border traffic with Sweden and Germany. It was not expected that these expenditures would further increase. On the other hand, the increase in foreign private investments in Denmark was expected to continue through the present year.

12. Members of the Committee congratulated Denmark on the improvements in her external financial position during the last two years and the strides made in diversifying her economy. The statistics on employment and yields, it was noted by a member, would seem to indicate that Denmark had doubled her productivity when compared with prewar standards. This very desirable increase in productivity might have been responsible for the slight unemployment which Denmark experienced. If agricultural exports had been stagnant, the increase in industrial production and exports had been impressive. The Danish representative, in his opening statement, seemed to have laid great stress on the agricultural policies of other countries as responsible factors for the stagnation in Danish exports and its difficulties. In the view of the member of the Committee, however, some of the protective measures, notably minimum prices, by raising farm income and purchasing power, might well have helped raising the exports of countries such as Denmark. Further, these measures generally contributed to the maintenance of more stable prices, a factor which would on balance seem to be beneficial to agricultural exporting countries. The Danish representative observed that not only the Danish economy but the standard of living of the countries maintaining price or income support programmes would have benefited more from the prosperity resulting from this programmes if they
permitted the free import of products such as butter at world prices. Price stability would seem to have little value to exporting countries when access to national markets was severely affected on account of internal prices being maintained at levels substantially higher than world prices.

13. Some members of the Committee considered that while the commercial policies of other countries undoubted would have some effects on the external earnings and balance of payments of Denmark, it would be unwarranted for the latter to justify its use of import restrictions simple on the ground that others retained measures of protection. One member felt that such an attitude would be indeed unpromising in view of the fact that substantial tariff adjustments were not to be expected before the conclusion of the GATT negotiations in 1961 and a reversal of the present agricultural policies might be even more remote. The Danish representative agreed with members of the Committee that the protectionist policies of other countries could be considered relevant for the Danish policy in the use of import restrictions only on account of their effects on Denmark's export earnings and consequently on its balance of payments and monetary reserves. He assured the Committee that the restrictions would be relaxed and removed as and when the balance-of-payments position permitted. Denmark's past record showed a close relationship between the level of its restrictions and its external financial reserve position. The level of the restrictions was adjusted fifteen times during the last 10 years, generally in the direction of relaxation and a higher degree of liberalization.
14. A member of the Committee observed that whilst Danish imports from Western European countries had fallen between 1953 and 1958 from 85 to 79 per cent of its total imports, its imports from the dollar area had risen from 5 per cent of total imports in 1953 to 10 per cent in 1958, having reached the higher level of 11 per cent in 1957, and enquired about the causes and factors behind this development. The member expressed the view that in going ahead with dollar liberalization before achieving the level of intra-European liberalization required of it under OEEC, Denmark had placed more emphasis on its commitments under the GATT than those under that regional arrangement. Whether further general liberalization could be engaged in without endangering its balance of payments would seem to depend on whether Denmark's dollar imports were at present subject to effective restriction. The representative of Denmark pointed out that although the increase in dollar imports had been spectacular, imports from European countries and other areas had risen just as impressively; total imports had risen by nearly 35 per cent during the period. The higher percentage rise in dollar imports might partly be explained by the severe restrictions applied on dollar imports in the early 1950's. The recent decline of 10 per cent in imports from the dollar area was not due to a tightening of restrictions on dollar goods, but was due to falling prices of raw material, notably fuel oil and coal; there had been no decrease in the volume of dollar imports in 1958. On the other hand, the measures of dollar liberalization taken this year were expected to have some effects on the balance of payments; the Danish Government, in taking this step, was fully aware that some risk might be involved.

15. Members of the Committee noted the steady improvement in the Danish balance of payments since the middle of 1957 and referred to the "results" of the consultation between the IMF and Denmark quoted in paragraph 2 above, in which the Fund "urges Denmark to take further steps which would progressively remove restrictions and eliminate discrimination...." They expressed the hope that the Government of Denmark would take this into consideration in formulating its commercial policy and that it would examine the possibility of removing further import restrictions and, taking account of the recent change in the status of currencies, consider
whether it was still necessary to retain discrimination in the application of balance-of-payments import restrictions. The Danish representative recalled the various steps which his Government had taken since the middle of 1957 in spite of difficulties and as a result of which 66 per cent of its dollar imports had been freed from licensing control as compared with 5 per cent in 1953. The present external reserves barely represented two months' imports; 50 per cent of Danish exports consisted of industrial products which had achieved no assured foothold in foreign markets. The Danish Government was of the view that it would be in the interest of all to proceed with due caution rather than to make hasty moves which might need to be retracked. Having called attention to these factors which, in his view, justified a policy of caution, the Danish representative reassured the Committee that it remained the basic policy of his Government, as it was the expressed intention of the legislation on which the restrictions are based, that import restrictions should be removed as and when the balance-of-payments situation permitted. The views that had been expressed by members of the Committee would be conveyed to the Danish Government for careful consideration.

Internal Financial Policies and other Alternative Measures to Restore Equilibrium

16. Members of the Committee expressed appreciation and admiration for the exemplary and effective way in which internal measures were taken by Denmark in 1957 to deal with internal imbalance and recently to deal with problems of the money market. Some members expressed concern at certain recent developments in Denmark, particularly the expansion of credit and the possibility of inflation having regard to such factors and as the direct linking of wages to the cost of living index. The representative of Denmark stated that developments in the field of prices and economic activity were closely watched by the Government and that government policy was reviewed almost on a day-to-day basis (for example, a decision was taken in May to suspend all public works for three months). The current wages agreement would ensure stability in the labour market until 1961, and progressive taxation would help to neutralize any increases in personal earnings.
To avoid an expansion of the money and credit base on account of increased gold and foreign exchange earnings, effective use was being made by the central bank of such devices and short-term bond issue and open market operations. The experience of 1957 showed that internal measures were practical and could be effective. While it was difficult to predict what course of action would be adopted in future circumstances, the Danish Government felt confident that there would be no recourse to the use of intensified import restrictions in the near future. One member of the Committee thought, however, that it was misleading to regard internal measures as panacea for all ills.

17. A member of the Committee wished to know what favourable factors or measures had been responsible for the impressive expansion of Danish industrial production and exports which had contributed so much to the improvement of the balance of payments and in what manner the foreign price studies, which would be useful in ascertaining the competitiveness and efficiency of Danish industries, were conducted. The representative of Denmark described his Government's policy regarding foreign investment in Denmark and the circumstances which had favoured the inflow of capital. As regards the channelling of investment into the different industries, although there was no investment control or any other means of government intervention, the Government was not unmindful of the importance of preventing the growth of uneconomic industries. Import restrictions were administered in such a way as to ensure the present of foreign competition in cases where industries appeared to be unduly stimulated by shortages or high selling prices in the domestic market. The so-called "Paragraph 2 Studies" of prices had been instituted partly also for the purpose of comparing efficiency. They were therefore concerned with prices prevailing in countries which were the most efficient producers of the goods in question and whose demand conditions were similar to Denmark's.

18. One member of the Committee referred to the contention of the Danish delegation that part of the country's difficulties were
attributable to its being a low-tariff country, and suggested that to raise its tariff level might be an alternative method of achieving equilibrium. The fact that France, for example, was able recently to remove a substantial part of its import restrictions without running into renewed difficulties, it had been said, demonstrated the advantage of having an adequate import tariff. The Danish representative replied that his Government was not unaware of this theoretical alternative which was one of the subjects being contemplated. It was, however, no easy matter to abandon a tradition of long standing and public opinion in Denmark was widely divided on this subject; consequently it would be unprofitable to speculate on this as a practical possibility.
System and Methods of Import Restriction

19. Members of the Committee welcomed the recent measures taken by Denmark in relaxing restrictions and in reducing discrimination. Some members pointed out that, for purposes of currency prescription under its exchange restrictions, countries were divided into two broad categories only, viz, bilateral account countries and the convertible area (i.e. all non-bilateral-account countries), whereas for purposes of import restriction there appeared to remain a more minute division of countries. They felt that the restoration of currency convertibility had removed all need for drawing distinctions among this latter group of countries and hoped that they would soon be eliminated. The representative of Denmark contended that no such distinction now existed in the treatment of imports not subject to restriction, goods not on the restricted list being admitted from all non-bilateral-account countries without discrimination. Discrimination existed only in the treatment of certain restricted imports from the dollar area.

20. The Japanese representative enquired why the liberalization measures had not been extended to Japan and whether Denmark expected any adverse effects on its balance of payments if such an extension were granted. The representative of Denmark stated that liberalization had been fully extended to imports from Japan and a number of other countries. Licences for such imports were granted freely under the "Open General Licensing" procedures. This arrangement was being maintained in order to provide the authorities with advance knowledge of the movements of trade with these countries. Certain members of the Committee reiterated their view that the requirement of a licence, even though automatically issued, inevitably involved additional costs to traders in terms of operational expenses, delays and above all a sense of uncertainty. The Danish representative maintained that the "Open General Licensing" procedure was as fully publicized and firmly established as the free listing of imports, and except for the requirement of a licence, there was no difference in the treatment of such imports from the dollar-FAU-Finland group and the few other countries. The trading community was fully aware of their right to receive licences for the goods in question and this right was not subject to withdrawal by purely administrative action.

21. It was noted that licences for import under restriction were issued separately for imports from the dollar area and the former FAU area (and Finland) and that licences for the latter were not valid for imports from the former unless specially authorised. Asked to comment on the basis and
reasons for maintaining this distinction,
the Danish representative stated that since early 1953 provision had been made for the issue of licences which were valid for both areas and for the conversion of non-dollar licences into dollar licences. This procedure had not applied to all products subject to restriction, for several reasons: for some products it was impracticable to amalgamate the quotas and licences for the two areas; certain non-dollar global quotas represented recently converted bilateral quotas and were reserved for a more limited group of countries out of consideration for the traditional suppliers; and, in agreement with the view expressed by certain other contracting parties, Denmark believed that any extension of the area coverage of a global quota should in principle be always accompanied by an increase in the size of the quota.

22. In answer to further questions the Danish representative stated that in the issue of regional licences no account was taken of bilateral commitments; that in converting bilateral quotas into global quotas calculation was generally based on the size of past imports from the constituent countries rather than that of the bilateral quotas; and that it would not be practicable to globalize all the remaining bilateral quotas although imports under bilateral arrangements now amounted to no more than 1 per cent of total imports.

23. A member of the Committee observed that there was a substantial difference between the sizes of the quotas available to European countries and those available to the dollar area; that some of the items for which quotas were provided for intra-European imports only appeared to be products which could not be profitably imported from outside Europe; and that consequently, there would probably be little risk if these quotas were extended to cover non-European imports. The representative of Denmark pointed out that the inclusion of a product in the intra-European quota list did not preclude its importation from other sources under bilateral agreements or other procedures. The extension of certain quotas to the dollar area, on present estimates, might place an additional burden on the balance of payments. As it has been agreed that non-discrimination should not be achieved at the cost of intra-European liberalization, the retention of this discrepancy in the treatment of imports from the dollar area would have to be tolerated for the time being.

24. In clarification of a point in the secretariat document, the representative of Denmark confirmed that imports of goods not subject to the "Open General Licensing" procedure from countries not parties to bilateral agreements, were admitted under individual licences which were at present liberally granted.
In discussing the administrative procedures for the issue of licences the representative of Denmark explained that for such goods as machinery, appliances and capital goods applications for licences were considered individually on their merits, the principal criterion being that their importation would be in the general interest of the economy. There was at present no prescribed limitation on the licensing of imports applied for by end-users. The global quota system applied principally to consumer goods, and quotas were allocated among importers at the beginning of each year on the basis of their imports in a previous reference period, usually the two or three preceding years. In most cases a part of the quota, usually amounting to 10 per cent of the total, was kept for new-comers. The fact that quotas were allocated each year on a new basis, that provision was made for new-comers and that unused licences would be re-allocated among other importers, combined to ensure that established importers could not secure a monopolistic position through the pre-empting of licences issued for any particular goods.

It was pointed out by a member of the Committee that certain goods subject to global quotas apparently also required individual licences, which created additional uncertainty for the trading community. The Danish representative explained that this requirement was necessary in view of the administrative difficulties in defining the categories into which the goods were to be classified. In general, the procedure was to admit consumer goods under global quotas and to allocate individual licences for machinery and other durable goods. On the other hand, there might also be global quotas for appliances in general, thus leaving the choice of goods to be imported to importers. A member of the Committee felt, in order to simplify the system, more goods now imported under individual licensing procedures should be admitted under global quotas. The Danish representative pointed out that in view of the large number of global quotas which this would entail, such a step would further complicate the system rather than simplify it. Global quotas would be established for all goods for which there existed an import demand of ascertainable size and the Danish authorities were ready to consider any cases of hardship or difficulty which might be raised by foreign exporters.
27. Members of the Committee urged the Danish Government to take further steps to ensure the fullest publicity of its import control procedures and the quotas. They considered it essential for foreign exporters should have direct knowledge of the controls in force and import opportunities in Denmark.

28. Several members asked for clarification concerning the quantity of Danish foreign trade effected under bilateral agreements. The Danish delegate explained that Danish bilateral agreements mostly contained payments arrangements rather than quota provisions, and that not all imports from Eastern Europe, for example, came into Denmark under bilateral quotas; but most imports from these sources were under the "Open General Licensing" procedure, and were therefore not included in the trade returns as bilateral agreement imports.

29. A member of the Committee, referring to the progress that had been made in reducing the share of Danish total imports effected under bilateral agreements from 2.5 per cent in 1957 to 1.0 per cent in 1959, expressed the hope that the remaining bilateral agreements would soon be terminated.

Some members thought that they could not completely agree that all bilateral agreements should be terminated and their own countries were quite satisfied with their present agreements with Denmark. The representative of France observed that Denmark was a creditor vis-à-vis most of its bilateral partners and that its exports under bilateral agreements amounted to about 2 to 3 per cent of total exports, facts which indicated that these agreements actually helped to improve the Danish balance of payments and increased its ability to liberalize imports. Members of the Committee observed that the continuation of bilateral agreements in present circumstances was contrary to the principals of GATT.

30. Members of the Committee discussed with the Danish delegation the justification of the continuation of the "import title" system in present circumstances, and suggested that the Danish Government should consider its elimination at an early date. The Danish representative admitted that this was a clear case of multiple currency practices, and stated that, despite strong opposition by national trade organizations, the Danish
Government had decided to revoke the system in successive stages over a three-year period. The premium had been reduced from 8 to 6 per cent at the beginning of 1959 and would be reduced by 2 per cent at the beginning of each subsequent year. The scheme would thus be totally eliminated by 1962. A member of the Committee suggested that while the premium rate was being reduced a further reduction in the discriminatory incidence might be achieved through extending its application to imports from all sources. The Danish representative thought that such a course, rather than reducing the scope of the system, would be extending it, in the sense that more trade would thereby be placed on an unsound basis. The decision to do away with the import title system by steps was taken in order to enable a gradual readjustment of trade and also to minimize damages to domestic industries. The amount of trade affected by this scheme was at any rate relatively small, being in the region of D.Kr.15 to 20 million per annum. One member of the Committee suggested that the abolition of the scheme could be accelerated by reducing the number of import items covered at the same time when the premium rate was being lowered.

Effects of the Restrictions

21. Members of the Committee recalled the view that had repeatedly been expressed by the CONTRACTING PARTIES regarding the importance of minimizing the incidental protective effects of balance-of-payments import restrictions, especially when they had been maintained for a long period. The Danish representative referred to the statement contained in Part II of the secretariat paper and specially called attention to the price studies which had been undertaken for a number of industrial and agricultural products. If it was found that import restrictions resulted in prices being out of line with world market prices "shock imports" might be admitted; this practice should have the effect of limiting the expansion of uncompetitive production.

32. The Danish representative, in answer to a question, explained the reasons for consulting with trade and industry organization in the drawing up of the import budget, and assured the Committee that this procedure would not unduly result in import control policy being influenced by protective considerations.
While the information obtained in this way was important to the authorities the latter were under the legal obligation imposed by the Currency Measures Act to base their decisions on balance-of-payments considerations only.

33. On the question whether Denmark expected to have a "hard core" problem the Danish representative stated that although it was difficult to predict what future problems might arise in this connexion, the CONTRACTING PARTIES should derive reassurance from the intensive efforts being made by his Government in minimizing the incidental protective effects through such devices as the price studies.

General

34. Members of the Committee generally expressed satisfaction at the progress that had been made by Denmark in the removal of restrictions and in the reduction of discrimination, and expressed the hope that further steps would be taken as urged by the IMF at the conclusion with its latest consultation with Denmark in the light of the newly restored status of currency convertibility. They also hoped that more information on the actual working of the Danish import control system would be made available to the CONTRACTING PARTIES.

35. The representative of Denmark stated that his delegation had taken careful note of all the views and suggestions, both on the general policy of restrictions and discrimination and on the procedures and methods of restrictions, that had been advanced by members of the Committee, and that all these would be conveyed to the Danish Government, which would no doubt give them due consideration.

Annexes

I Opening Statement by the Representative of Denmark.

II Additional Balance-of-Payments Statistics supplied by the Danish delegation.

III Results of the latest IMF - Denmark Consultation.