1. In accordance with its terms of reference the Committee conducted the consultation with Norway under Article XII:4(b). The Committee had before it: (a) a basic document, including two "negative lists" of restricted imports and a global quota list for 1960; and (b) a document provided by the International Monetary Fund as mentioned in paragraph 2 below. In conducting the consultation the Committee followed the "Plan" recommended by the CONTRACTING PARTIES. The consultation was completed on 20 October 1960. The present report summarizes the main points of discussion during the consultation.

Consultation with the International Monetary Fund

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

"At the time of the CONTRACTING PARTIES' 1959 consultation with Norway the Fund transmitted to the CONTRACTING PARTIES the Executive Board decision relating to the last consultation with Norway under Article XIV of the Fund Agreement and the background material prepared in connexion with that consultation. The Fund has also provided a supplementary paper, dated October 4, 1960, to supply background information on recent developments.

"With respect to Part I of the Plan for Consultations, relating to balance-of-payments position and prospects, and with respect to Part III, relating to system and methods of the restrictions, since the conclusion of the last consultation under Article XIV of the Fund Agreement on September 21, 1959, Norway has made further progress in reducing restrictions and discrimination. The Fund is shortly to conduct its 1960 consultation with Norway and expects to transmit to the CONTRACTING PARTIES the Executive Board decision relating to that consultation when it becomes available."
"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, pending the conclusion of its next consultation with Norway, the Fund has no comments on alternative measures."

Opening Statement by the Norwegian Representative

3. The representative of Norway opened the discussion with a statement on recent developments in the Norwegian economy and changes in the import policy. The text of the statement is attached as Annex I to this report. In the statement the Norwegian representative stressed the outward-looking nature of the Norwegian economy. Nearly 40 per cent of the gross national product being related to external trade, Norway naturally had a direct interest in the maintenance of prosperous and stable conditions in the world economy and in the propagation of liberal policies governing trade and shipping. Riding on the tide of the boom most sectors of the Norwegian economy had expanded rapidly since early 1959; the rise in GNP in 1960 was estimated to reach 6 per cent. Since 1958 there had been also a continuous improvement in the balance of payments, with the current account deficit diminishing from about Kr.1,000 million in 1958, to about Kr.540 million in 1959 and to an estimated Kr.300 million in 1960. Despite deficits, foreign exchange reserves had been increasing, principally because of the inflow of funds connected with imports of ships, and were likely to show an increase for 1960 as a whole.

4. The representative of Norway referred to the explanation given in Section 7 of the basic document of why in the face of such improvements Norway still considered it necessary to apply balance-of-payments import restrictions. As noted there, the import of certain categories of ships was regulated in order to stipulate conditions of financing with a view to ensuring that payments for this major item of imports would be spread over a number of years. Without this regulation uncontrolled purchases of ships might play considerable havoc with the balance of payments. Other restricted imports were of relatively little importance; many restrictions had in fact been removed in the past year and, barring untoward events, full liberalization for industrial products could be expected shortly. The representative of Norway also called attention to the obligations undertaken by his Government under the EFTA Convention pursuant to which most imports would soon be freed from restriction. As was well known the benefits of such liberalization would be enjoyed by all countries in the Norwegian global quota area.

Balance-of-Payments Position and Prospects

5. Noting that the main feature of the Norwegian balance of payments was a persistent, though diminishing, current account deficit offset by capital imports, a member of the Committee wished to know what in the opinion of the
Norwegian authorities were the principal factors behind this continuing deficit and whether a reversal could be expected for the coming years. The Norwegian representative stated that the estimate of a Kr. 300 million deficit for 1960 given in his opening statement had been made some time ago and that trade returns for September would seem to indicate a higher figure; in September imports reached a record level and exports showed a tendency to slow down. As regards 1961, assuming the present buoyant demand conditions continued to hold, imports might be estimated at 5 per cent higher, and exports some 6½ per cent higher, than in 1960. On these assumptions the total deficit on goods and services account should be of the order of Kr. 400 million; that is, about Kr. 100 million higher than the present estimated deficit for 1960.

6. Some members of the Committee noted that the present regulation governing the import of ships seemed to reflect a general policy that investment in shipping must be financed by foreign capital and enquired whether this control was retained because of a shortage of domestic capital which must be conserved for investment in other sectors or whether it reflected a fear that foreign capital would not come in freely in the absence of this compulsion so that the cost of ship purchases would place immediate burdens on the current balance of payments. The representative of Norway replied that the regulation of ship imports was applied merely to ensure that finance was arranged in a desirable manner, which at present did mean the availability of foreign funds which could be amortized over a reasonably long period. Ship purchases fluctuated widely from year to year and a very high level of foreign exchange reserves would be required if ship-owners were free to purchase ships without assured compensatory finance. Interest rates in Norway being relatively low, the abolition of the regulation would undoubtedly be followed by a switch to the domestic capital market, thus greatly reducing, if not totally eliminating, the gross capital inflow on this account while amortization payments on outstanding loans continued to be chargeable on the balance of payments. At any rate it had been a long-established tradition that ship purchases were financed by banks and ship-builders abroad. To upset this tradition in the name of liberalism would only have the effect of endangering the liberalization of other imports. A member of the Committee considered that there was no reason why the domestic capital market must be insulated from this demand for investment funds, even in the name of tradition, and wished to know whether this policy would be persisted in even when the Norwegian authorities no longer considered the foreign exchange reserves inadequate to meet ship imports.

7. The representative of Norway maintained that the balance of payments of Norway could at present be viewed with equanimity only if there was assurance that payments for ships would be defrayed through borrowing. In answer to questions put by another member of the Committee the Norwegian representative stated that there was no Governmental planning in shipping, the expansion or contraction of the fleet being purely the result of commercial considerations of ship-owners. Exports of ships were insignificant and consisted
almost exclusively of used ships, sometimes given up in partial payment for new bottoms purchased. In the light of this discussion some members expressed the view that there appeared to be no reason why the import of ships could not be liberalized without endangering the balance of payments, having regard to the fact that financing of such purchases would always be on a long-term basis and that foreign capital would doubtless continue to be made available for the purpose.

8. In response to various questions concerning other capital movements and invisible transactions the Norwegian representative informed the Committee that at present about 2.4 million gross registered tons of ships contracted by Norwegian ship-owners were under construction abroad and about 1.1 million tons in Norwegian ship-yards. Following the long depression in freight rates there had been a decline in orders for new ships, especially for tankers. There were still at present about 600,000 tons of ships laid up. As regards movements of capital other than ship financing, there had been in the first half of 1960 a net inflow both on official and private accounts. Such transactions being usually related to projects of considerable size, it was difficult to prognosticate as to the trend in future.

9. Members of the Committee observed that, according to statistics supplied by the Norwegian representative, at least 73 per cent of Norwegian imports came from Western European sources (1958: EFTA countries 38 per cent, EEC countries 35 per cent) and over 64 per cent of its exports went to European markets (EFTA 37 per cent, EEC 27 per cent). The propinquity of markets, by shortening the periods of contracting and delivery, must greatly lessen any risks which might attend upon a policy of import liberalization, by allowing the authorities earlier notice of any resultant upsurge in import demand. By contrast to such countries as Australia and New Zealand, which were located at great distances from their principal markets, Norway's need for external reserves should be less in proportion to the size of its foreign trade. Furthermore, Norway's exports consisted to a large extent of such products as aluminium, pulp and paper, for which there generally existed well organized markets making for stability of export receipts.

10. A further important item in Norway's foreign exchange earnings was that of shipping freight receipts. Freight rates, which had been considerably depressed for the past three years, had now risen somewhat and it seemed clear that the trough had been passed. This adverse factor, under which the Norwegian economy had been labouring, but which had not prevented a steady increase in reserves, therefore seemed to be diminishing. Being solidly based on ship imports, the inflow of long-term capital seemed to be a reliable source of steady contribution to the balance of payments. In the view of some members of the Committee, Norway's present external reserves, equivalent to the value of four months' imports, must be regarded as fully adequate to
allow further relaxation of import restrictions. It was observed that many contracting parties with reserves markedly less ample than this, and in some cases (e.g. the United Kingdom) with other responsibilities as to the use of their reserves, had already moved to a position where they no longer invoked Article XII of the General Agreement.

11. The representative of Norway said that he was not in agreement with some of the arguments above as to the adequacy of the Norwegian reserves. He stressed the fact that the Norwegian Government attached great importance to the maintenance of a high and stable level of employment. This overriding consideration precluded internal adjustment through excessive deflation or contraction. To the extent that a high level of economic activity and income would be maintained even in the face of general recession, a higher level of external reserves must be available in order to avoid the need to reimpose import restriction. These considerations notwithstanding, the Norwegian Government had in recent months taken significant measures of trade liberalization and would not hesitate to take further steps as soon as these should be warranted by the balance-of-payments situation. Most members of the Committee, as noted in the concluding paragraphs of this report, considered that such steps were already fully warranted by the present reserve position and prospects.

Internal Measures to Restore Equilibrium

12. It was noted by a member of the Committee that the labour market in Norway had been under severe strains in recent months; not only had unemployment virtually disappeared, but various industries were faced with labour shortage. This appeared to be a situation requiring restraining action in line with the Norwegian intention referred to by the Fund in its decision mentioned in paragraph 2 above. Moreover, he pointed to the possible connexion, one which on a priori grounds would be expected, between the steep rise in imports and these increased pressures on the internal economy which had appeared concurrently in 1960. He enquired as to the policy provided for in the Budget for 1961, which had recently been presented to the Norwegian Parliament. The representative of Norway described for the Committee in considerable detail the 1961 Budget, which appeared to have a slightly restrictive character. The general view in Norway was that the economy was on an even keel, with production growing at an optimum rate, prices fairly stable and trade deficits at a tolerable level; a neutral budgetary policy was therefore in order. A member of the Committee questioned the possibility of reconciling this view with the fact that Norway still found it necessary to impose import restrictions for the protection of its foreign financial reserves.
13. Some members of the Committee enquired as to the views of the Norwegian Government regarding the connexion between internal policies, import demand, and the need to maintain import restrictions for balance-of-payments reasons. They enquired whether it was not common ground that import demand was likely to increase if domestic demand was maintained at a higher level than domestic capacity could meet; and whether in such circumstances it was not desirable that internal measures should be taken to rectify the payments imbalance rather than by seeking to deal with it through the import licensing system.

14. The representative of Norway pointed out that, ships apart, restricted imports constituted only about three per cent of total imports though he agreed that, in the absence of restrictions, the items in question would perhaps amount to a percentage larger than that. As might be seen in the documents before the Committee, extensive relaxation of restriction had taken place recently, and these measures, although applying only to selected groups of products, were on the whole more favourable to the expansion of trade than any total elimination of restrictions accompanied by a contraction of demand in Norway. Industrial production in the first seven months of 1960 was about 7.5 per cent higher than in the corresponding period of 1959 and GNP for the year as a whole was expected to be higher by about 6 per cent than in 1959. Nevertheless, prices had been kept stable and imports and reserves had also shown some improvements over last year. These circumstances would seem hardly to indicate a dose of deflationary budgeting. Moreover, account had to be taken of the continued depression in shipping. Although the situation had improved as compared to last year, about 600,000 tons of Norwegian shipping remained idle.

15. A member of the Committee thought that the policy of the Norwegian authorities to peg the re-discount rate at a low level must have placed an unnecessary limitation on the use of monetary adjustments as a means of economic policy. A policy permitting the interest rate to reflect to a larger extent the supply and demand of investment capital for all types of investment, including investment in shipping, should contribute to a more economic utilization of capital resources and might, incidentally, also have the effect of making import restrictions on ships unnecessary. The representative of Norway explained that, for a number of economic and social reasons, his Government had to adhere to a policy of low interest rates. Nevertheless, interest rates had risen in Norway in recent years. The practice of obtaining finance for ship imports from abroad had made it possible for Norway to expand and re-equip its shipping fleet to a better extent than otherwise would have been possible. In the view of the Norwegian representative the monetary policies pursued by his Government rather than retarding import liberalization had, through assisting economic growth in Norway, assisted in the development of trade and in the reduction of restrictions.
16. A member of the Committee enquired about the present composition of the Norwegian economy and any policy directed at diversification and increasing the country's export capacity. The Norwegian representative stated the composition of the Norwegian GDP to be as follows:

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry, fishery</td>
<td>11.1</td>
</tr>
<tr>
<td>Industry, power and construction</td>
<td>34.9</td>
</tr>
<tr>
<td>Shipping</td>
<td>11.4</td>
</tr>
<tr>
<td>Other transports</td>
<td>5.5</td>
</tr>
<tr>
<td>Distribution</td>
<td>16.7</td>
</tr>
<tr>
<td>Other</td>
<td>20.7</td>
</tr>
</tbody>
</table>

As to the most promising branches of industry for further expansion the Norwegian representative named non-ferrous metals, hydraulic power generation, more highly processed paper, and fish processing, especially frozen fish.

**System and Methods of the Restrictions**

17. Members of the Committee expressed appreciation and gratification at the progress made by Norway since the last consultation in removing restrictions and the elimination of discrimination. They noted with regret, however, the fact that a wide range of industrial products and almost all agricultural goods still remained subject to restriction. Moreover, the licensing system remained complex and cumbersome.

18. In reply to questions, the representative of Norway explained that the "negative list" submitted to the Committee was not a list of products subject to effective restriction but a list of all products subject to licensing control. It listed not only those items subject to discretionary licensing or quota restriction, but also all items benefiting from the régime of liberal or free licensing. It included also those agricultural items which were subject to licensing by the Ministry of Commerce. Most of the non-agricultural products still subject to effective import controls (i.e. goods on the "negative list" not yet benefiting from liberal licensing) could be imported under global quotas from the "global-quota area" which comprised all countries except Eastern European countries, mainland China, Formosa, Israel, Japan, North and South Korea and North Vietnam. There were no items subject to a bilateral quota which were not at the same time importable under a global quota.

19. Members of the Committee enquired about the criteria used in establishing bilateral quotas and about the effect of such quotas on import opportunities for the exporting countries in the global-quota area. The representative of Norway explained that bilateral quotas had been negotiated only in cases where bilateral arrangements were unavoidable or needed in order to preserve traditional patterns of trade, and in no case did Norway reserve its market exclusively to any of its bilateral trading partners. Imports under bilateral
quotas should in most cases be regarded as additional imports which could not have taken place otherwise. In the industrial sector, bilateral quotas of any importance for products admitted under global quotas existed only for toys, glassware and chinaware. Other commodities figuring prominently in Norway's import trade under bilateral agreements were sugar, coffee and crispbread.

20. Members of the Committee noted that Norway, since the last consultation, had placed its payments with Yugoslavia on a convertible basis, but that payments relations with Brazil were still subject to bilateral clearing although the Norwegian kronor was convertible in payments relations with most western countries. The representative of Canada thought that the clearing arrangement with Brazil must have resulted in a considerable competitive advantage for Norwegian imports into that country over suppliers in other countries which did not benefit from the exchange premium applying to bilateral account currencies. Canada, for example, had almost completely lost its previously important market for codfish in that country to Norway. Producers and exporters of this commodity in Canada had consequently suffered serious damage. It might be recalled that at the last consultation between Norway and the Fund, concluded on 21 September 1959, the Fund had expressed the hope "... that further consideration will be given to the possibility of extending free list facilities and to making further progress in reducing reliance on bilateral payments agreements". In the light of this, it was to be hoped that Norway would review its bilateral payments agreements and would, whenever possible, place its payments relations on a multilateral basis. The representative of Norway stated that, in principle, his Government was in favour of multilateralizing trade and payments with all countries. The existing bilateral arrangements with Brazil had been maintained for special reasons and had to be adhered to as long as other countries with similar export and import patterns in their trade with Brazil continued to conduct trade and payments on such basis. The representative of Norway noted in this context that in recent months the actual exchange rate for the "Nor-Dollars" at exchange auctions in Brazil had been above the free dollar rate, which meant that temporarily at least, Norwegian suppliers enjoyed no competitive advantage over suppliers in the dollar area.

21. Members of the Committee discussed with the Norwegian representative the effects of the Norwegian import quota for coffee which appeared to be excessively favourable to Brazilian exporters. The representative of Norway explained that under the quota arrangement with Brazil, 75 per cent of total coffee imports into Norway were reserved for exports from Brazil. However, there was no ceiling on coffee imports into Norway and since 1 April 1960, when coffee was removed from State trading, import requirements were determined by a panel of private importers. In his view, this bilateral quota merely served to assure to Brazil its traditional share in the Norwegian coffee market, a share which it might otherwise not have been possible to maintain in present circumstances.
22. Members of the Committee noted that although a few agricultural products were included in the global quota list, most agricultural products were on an agricultural restricted list. They enquired as to the marked discrepancy between the rate of liberalization in the industrial and the agricultural sectors, and whether it was sought to justify these agricultural restrictions on grounds of balance-of-payments difficulties. They enquired about prospects and plans which the Norwegian Government might have for the liberalization of such agricultural imports. The representative of Norway explained that the particularly difficult conditions for farming in Norway had long necessitated some measure of agricultural protection and this protection, in the form of restrictions or income support was likely to be needed for some time to come. Although active consideration had been given to the protection of agriculture through means other than import restrictions, the matter needed further discussion with farm representatives and no decision on alternative measures for protection had so far been taken. Members of the Committee expressed the hope that whatever protective policy might be applied would aim at minimizing potential hard-core problems in this sector of the economy so as to enable the Government to fulfil its obligations under GATT when balance-of-payments difficulties disappeared.

23. Some members of the Committee noted that a number of agricultural commodities, not produced in sufficient quantities in Norway, such as vegetable oils, were also subject to import control. It appeared unlikely that total import outlay for vegetable oils would be significantly higher if these products were to be free-listed rather than admitted as at present under global quotas. It seemed desirable that import controls in the agricultural as well as in the industrial sector which were not essential for the protection of the balance of payments should be removed at the earliest possible time both in the interest of trade and in order not to contribute to price distortions in the protected market which were likely to create additional difficulties for the eventual complete elimination of restrictions.

24. Members of the Committee, in discussing the seasonal opening of the Norwegian market for certain agricultural products, suggested that longer notice should be given of the opening and closing of the market. The present practice of giving two to four weeks notice of the lifting of restrictions and one week's notice of the re-introduction of restrictions was not sufficiently long to permit distant overseas suppliers to gain an adequate share of the market. The fact that some overseas supplies were imported into Norway via the entrepôt trade in neighbouring countries could not be considered a fully satisfactory alternative. Longer notice of import possibilities, a wider interchangeability of global quotas in the restricted sector (which
such as had been introduced for certain industrial products, allowed switching by importers from products in more plentiful supply to products in shorter supply) and the elimination of licence fees, would serve to make the Norwegian market more competitive and benefit the trade and consumers alike.

25. Members of the Committee asked in this connexion whether Norway, during the season when imports were permitted, operated other non-tariff measures which would have the effect of limiting agricultural imports. The representative of Norway stated that Norway operated no such devices which would have the effect of restricting agricultural imports which were admitted during open season. He explained that Norway had adopted the present system of import control, providing for virtually free entry of agricultural products at certain times of the year, in order to achieve, through this flexibility, as great a degree of import liberalization as possible in the present circumstances.

26. The representative of Japan stated that Japan was not included in the global quota area. Since there was no financial or other justification under the General Agreement for this discrimination he asked the Norwegian authorities to review their import policy vis-à-vis Japan with a view to admitting imports from that country on an equal basis with imports from other contracting parties. The representative of Norway stated that his country was aware of the desirability of removing discriminatory restrictions applied against imports from Japan de jure as well as de facto. However, the problem involved the general problem of "market disruption" and a solution could be found only through joint and concerted efforts. It was difficult for a small country like Norway to take the lead in this matter. Imports from Japan were treated liberally and had increased considerably since 1956. Excluding ships, this increase had been at a rate of about 35 per cent per year, and there had also been considerable imports of ships from Japan.

Effects of the Restrictions

27. The Committee welcomed the statement by the Norwegian authorities that they "had drawn the attention of industry to the fact that it cannot expect any further warnings in advance of liberalization of the remaining non-liberalized commodities", although it appeared that this statement was not meant to apply to the agricultural sector. Members of the Committee asked whether an indication could be given of possible hard-core problems in the event of the balance-of-payments restrictions being discontinued in the near future. The representative of Norway explained that it was as yet too early to draw up a list, but it could be anticipated that protection in one form or another would have to be given to agriculture. His Government, however, was determined to proceed with its programme of import liberalization as rapidly as conditions permitted. In the first round of quota enlargements which had taken place on 1 July 1960 under the EFTA Agreement, Norway had in a number of cases exceeded the minimum quota increase of 20 per cent, and in
certain cases quotas had been increased by as much as 50 per cent. Similarly, existing quotas had often been so large in relation to import demand that the increases had been more than enough to meet all import requirements. Thus, even if Norway would not be able to liberalize at a faster rate than provided for under the EFTA Agreement, import liberalization for the majority of goods still subject to restriction would be reached long before the expiry of the transitional ten-year period. He stressed that, in any event, the import liberalization requirement under the EFTA Convention was conceived as a minimum requirement and that Norway would liberalize imports in accordance with her obligations under international agreements, including those under GATT. The measures of liberalization laid down in the EFTA Convention would be applied by the Norwegian authorities to all contracting parties. He also pointed out that his Government was giving constant consideration to the avoidance of hard-core problems in employing the present control measures. The Committee welcomed these statements.

General

28. Members of the Committee expressed appreciation for the frank and co-operative manner with which the Norwegian delegation had participated in the consultation. The Committee was glad to note the substantial improvement in Norway's external financial position in the past year. The Committee considered that the most recent deterioration in the payments position was largely due to a number of special factors and that, given a continuing attention by the Norwegian authorities to the relationship between internal demand pressures and the demand for imports, there need be no undue concern on this score. It recognized, however, that considerable fluctuations could occur in the current account in the future, due to the sensitiveness of Norwegian exports to cyclical movements in international trade. The Committee welcomed the measures of liberalization and the reduction of discrimination that had been achieved by Norway in the past year. It was noted, however, that import restrictions, including in some cases discriminatory restrictions, were still applied to a number of products, although these covered at present only 3 per cent of Norway's imports. The Committee expressed the hope that having regard to the improved balance-of-payments situation the Norwegian Government would soon proceed with further reductions in their restrictions and with the elimination of remaining discrimination. Most members of the Committee considered that restrictions applied to a number of items other than ships could not have contributed to a substantial saving in terms of import expenditure and that further liberalization should involve little additional burden for the balance of payments. It was noted that Norway appeared to be approaching the position in which it might no longer require to invoke the provisions of Article XII of the General Agreement, and the Norwegian Government was accordingly invited to pay particular attention to the avoidance of hard-core problems, notably in the agricultural sector, in preparation for the time when full liberalization was called for.
29. The representative of Norway stated that his delegation had taken note of the views and suggestions that had been expressed at the consultation, both on the general policy and the methods of restrictions, and that these would be reported to his Government which would no doubt give them careful consideration.