Committee on Balance-of-Payments Restrictions

DRAFT REPORT ON THE CONSULTATION UNDER ARTICLE XII:4 WITH

DENMARK

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

Consultation with the International Monetary Fund

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

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

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

'The Fund welcomes the steps which have been taken to eliminate discrimination and the substantial progress made in removing other restrictions. The Fund notes that Denmark has undertaken to reduce restrictions gradually over the next three years but hopes that faster progress may be possible. The Fund notes that Denmark has terminated several bilateral payments agreements and urges that further progress be made in terminating those still remaining.'
"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, the Fund draws attention to the decision taken at the conclusion of its last consultation with Denmark. The Fund has no additional alternative measures to suggest at this time."

Balance of payments and prospects

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

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

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

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

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

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

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

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

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

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

System and Methods of Restriction

14. In his opening statement the representative of Denmark explained that at the beginning of 1959 his Government had adopted the "negative list" method of restriction, which meant that all goods could be imported from the "free-list" countries without a licence unless they were mentioned on the negative restricted list. The geographical application of the "free-list" had been extended to imports from the former EPU area, including the sterling area, and the dollar area. On 1 March 1960, a considerable liberalization raised the level of freed imports, representing 95 per cent of private imports from OEEC countries and 97 per cent of private imports from the dollar area, calculated on the usual basis employed in OEEC discussions. At the present level of liberalization 87 per cent of total Danish industrial production, compared with 33 per cent prior to 1 March 1960 had been exposed to competition from abroad. Denmark planned to liberalize a further group of products corresponding to 5 per cent of domestic industrial production before July 1963, and the whole liberalization programme, in line with the EFTA Convention provisions, should be carried through within the next ten years. For restricted imports, global quotas had been established which were applicable to all the "free-list" countries. The representative of Denmark, in this part of his statement, also described the criteria and methods used in allocating licences among applicant importers (see Annex I).

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

17. In discussing the Import Title System, the representative of Denemark reaffirmed his Government's intention to abolish this system by the set date. Although the Government had decided to maintain the effective premium rate at 4 per cent instead of reducing it to 2 per cent on 1 January 1961, as originally intended, this merely meant an adjustment in timing and the scheme would be totally abolished by 1 January 1962. The Danish representative agreed with members of the Committee that since the advent of convertibility, the scheme had become an anachronism. While extending this system to cover exports to all sources would remove the criticism of discrimination, this would make the eventual elimination of the system more difficult; pending its expiration, consequently, it had continued to be applied to dollar exports only.

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

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

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

**Effects of the Restrictions**

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

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

23. Members of the Committee, noting the Danish statement that no imports into Denmark were prohibited on commercial grounds, enquired as to the grounds on which imports of some products nonetheless did appear to be prohibited.
Reference was made to the provisions of paragraph 3(c)(ii) of Article XII; on the basis of which it was suggested that Denmark should consider the possibility of granting minimum import facilities for all restricted products. In this connexion particular mention was made of apples and pears which did not seem to have been imported in recent years. A member of the Committee suggested that, in order to prepare the market for eventual liberalization, the Danish Government should establish and progressively increase global quotas for these products. What could be said was that Denmark was certain that, given a market undistorted by subsidies, price support and other forms of protectionism, its producers could be successful on the world market without the benefit of any irrational means of production.

24. A member of the Committee recalled that in 1959 the representative of Denmark had advised the Committee that his Government had undertaken various price studies in order to ensure that the maintenance of quantitative restrictions did not result in fostering uneconomic production. He asked if these studies were being continued and whether any further developments had occurred in this field. The representative of Denmark replied that at the time of the last consultation his Government had not formulated any programme of liberalization. Now that substantial further liberalization had taken place, and a firm programme for the gradual removal of the remaining restrictions had been adopted, such price studies were no longer of the same importance. The Government had issued advance notice to domestic industry about the abolition of restrictions on a number of commodities, in order to ensure the avoidance of "hard-core" problems in the sectors in question.

25. In reply to questions, the Danish representative advanced the belief that on present indications and by virtue of the positive measures being taken Denmark should stand a fair chance of being able to avoid any problems of transition when the time came for it to abandon all restrictions applied on balance-of-payments grounds. Whether import controls would be removed for all the agricultural products, however, would depend on developments in the world markets, the commercial policies of the important trading nations, the outcome of the deliberations at Committee II on Expansion of Trade, and the Common Agricultural Policy and other dispositions of EEC. The Danish Government was unable to predict the future state of the Danish economy, but there was no indication that it would have to retain quantitative restrictions even on a few "hard-core" items. For the present, restrictions on agricultural products were applied for balance-of-payments reasons. Denmark did not expect to have any hard-core problems in the agricultural sector; Danish agricultural producers were fully competitive but were faced with protected markets and a world market on which prices were distorted by subsidies, price support and other forms of protection.
26. Members of the Committee expressed appreciation for the open and positive manner in which the Danish delegation participated in this consultation. The Committee was glad to note the vigorous expansion in the Danish economy. At the same time they welcomed the restraining measures that had been taken to maintain stability. It was generally hoped that the efforts at diversification of production would bring about expanded exports which would lead to a further increase in the foreign exchange reserves. The Committee welcomed the measures of liberalization taken in March 1960, and the elimination of dollar discrimination. The Committee hoped that Denmark would find it possible to remove the remaining restrictions at a faster rate than envisaged in the programme outlined by the Danish delegation at this consultation; they noted the intention of Denmark to proceed with the removal of restrictions as quickly as the balance-of-payments position permitted as required by the provisions of Article XII:2(b), and to observe all the relevant provisions of Article XIII with regard to the use of quantitative restrictions and in action pursuant to the EFTA Convention.

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