1. In accordance with its terms of reference the Committee conducted the consultation with Denmark under paragraph 4(b) of Article XII. The Committee had before it the following documents: (a) a "basic document" (MGT(61)26), together with ten annexed tables; and (b) documents provided by the International Monetary Fund as noted in paragraph 3 below.

2. In conducting the consultation the Committee followed the "Plan" recommended by the CONTRACTING PARTIES. The consultation was completed on 30 October 1961. The present report summarizes the main points discussed.

Consultation with the International Monetary Fund

3. 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 calls the attention of the CONTRACTING PARTIES to the Executive Board decision of August 11, 1961, taken

1See Annex II.
at the conclusion of its recent consultation with Denmark and particularly to paragraph 5, which reads as follows:

'The Fund welcomes the continued progress made in liberalizing the restrictive system and urges Denmark to take corrective measures to strengthen its external position and thus to allow the elimination of balance of payments restrictions. The Fund notes that Denmark is considering the further reduction of discrimination in its import licensing régime. The clearing arrangement with Greece has been terminated and a similar arrangement with Turkey will shortly be ended. The Fund considers that the elimination of payments agreements with Brazil and Colombia is both feasible and desirable.'

"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, attention is drawn to the decision of August 11, 1961. The Fund has no additional alternative measures to suggest at this time."

**Balance-of-payments position and prospects**

4. The text of the statement made by the representative of Denmark at the opening of the consultation is appended as Annex I to this report. The following summarize the points in the Danish statement dealing with recent economic developments in Denmark and in its balance-of-payments position and prospects (other points in the statement are summarized in the appropriate later sections of the report). During 1961 the Danish economy continued the remarkable expansion that started in 1958. Substantial progress had been made during the period in meeting structural difficulties hampering economic growth. Many of the apprehensions entertained prior to the onset of the expansion had not materialized. The ease in adjustment had partly been due to very large gains in productivity, but had also been enhanced by fiscal and monetary policies which contributed to stability in domestic demand, and by a liberal foreign trade policy which contributed to stability in prices and discouraged uneconomic production.

5. Since the beginning of 1961, however, the situation had become more difficult. The trend of falling import prices was disappearing and this had again made apparent the adverse effect of the difficulties in the way of an expansion of Danish exports on the Danish balance of payments. Increases in wages might well have outrun the rise in productivity and there had been substantial public intervention to raise agricultural
incomes. As a result the former budgetary cash surplus had been changed to a deficit, and a deterioration in the balance of payments was expected owing to the rise in consumption and higher costs in the wake of increased incomes. The Danish balance of payments had thus weakened in 1961, particularly since September. This trend was expected to continue and would result in a further loss of reserves. An economic policy aimed at restraining domestic demand without curtailing economic expansion or impeding industrial development had therefore been carried out gradually. While these policy measures were being implemented there would be foreign exchange losses. The representative of Denmark stressed that the continued rapid development of industry represented the best assurance for an early termination of Danish import restrictions, and that further liberalization had to be introduced at a prudent pace if this aim were to be attained.

6. A member of the Committee noted that there had been a very substantial increase in industrial exports from Denmark over the past year, to the extent that they had for the first time exceeded agricultural exports. Asked to comment on the possible effects of this new development on the balance of payments the representative of Denmark noted that this gratifying development was the result of a deliberate policy of diversifying Danish production and promoting expansion in the industrial sector. This policy was designed to reduce Denmark's dependence on agricultural exports for which there seemed little prospect of expansion owing to protective agricultural policies of other countries and widespread export subsidies. There were indications - in particular, present conditions in the markets for butter, meat, bacon and eggs - that world demand for Danish agricultural exports was declining. As a consequence of the policy of industrial development and diversification there had been in the last ten years a 10 to 20 per cent increase in industrial exports almost every year despite fluctuations and periods of levelling off in world economic activity. The problem of maintaining economic growth at an acceptable rate remained grave; as an example it was mentioned that the financing of the import bill resulting from a 1 per cent rise in gross national product required an increase of 5 to 7 per cent in
industrial exports; to meet the requirement of a 3 per cent per annum rise in GNE, an annual increase in industrial exports of 15 to 20 per cent would thus be needed.

7. In further discussing Danish exports, the representative of Denmark confirmed that total Danish exports had risen in 1960 by only 6½ per cent over the 1959 level although industrial exports had risen by 11½ per cent, and explained that this merely reflected the fact that agricultural exports had been stagnant.¹

8. Commenting on the fact that Danish net receipts on "foreign travel" were somewhat lower in the first half of 1961 than in the corresponding period in 1960, the Danish representative explained that the low figure for the first half of 1961 reflected losses in tourist income caused by labour disputes.

9. A member of the Committee noted that, in spite of a worsening of the balance of payments on goods and services account, Denmark’s foreign reserves had fallen by only DKr153 million in the first half of 1961 compared with a fall of DKr341 million in the corresponding period in 1960, a situation which could only be attributed to improvements on capital account. Requested to supply information on the nature of the capital inflow, the Danish representative explained that there had been no increase in 1961 in the inflow of capital on public account. In the private sector, loans floated abroad by a Danish telephone company and direct investment in Danish oil refineries, as well as certain other fields, were factors which substantially raised total private capital inflow in the first seven months of the year.

¹According to Danish statistics the figures (in DKr million) are:

<table>
<thead>
<tr>
<th></th>
<th>1959</th>
<th>1960</th>
<th>Increases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural exports</td>
<td>4,545</td>
<td>4,568</td>
<td>0.5 per cent</td>
</tr>
<tr>
<td>Industrial exports</td>
<td>4,461</td>
<td>4,959</td>
<td>11.2 per cent</td>
</tr>
<tr>
<td>Other</td>
<td>500</td>
<td>578</td>
<td>15.6 per cent</td>
</tr>
<tr>
<td>Total</td>
<td>9,506</td>
<td>10,105</td>
<td>6.3 per cent</td>
</tr>
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Movements of short-term capital were generally in line with the requirements of commercial transactions, there being no sign of any substantial inflow related solely to the high rate of interest. In other words, most of the capital that came into Denmark in recent months was accounted for by the few large investment transactions. There were other investment prospects currently under consideration, but whether the recent high level of private capital inflow was likely to continue remained to be seen.

Alternative measures to restore equilibrium

10. The representative of Denmark referred in his opening statement to the measure of price stability which had been achieved up to last year through domestic, fiscal and monetary policies, and to the more difficult problems which had appeared since the beginning of 1961. Since then there had been an increase in money income, partly as a result of wage increases in connexion with the renewal of collective wage agreements in the spring and partly due to income support measures in the agricultural sector. To meet this situation various measures had been taken, for instance: the re-discount rate had been increased from 5.5 to 6.5 per cent in the spring of 1961; the governmental construction programme had been reduced; there were likely to be higher indirect taxes and higher prices for public services; commercial banks had been asked to refrain from expanding credit. With the expected rise in taxable incomes and a consequential higher revenue from income tax, a budgetary surplus was likely to be achieved again.

11. In reply to questions concerning the effects of the recent wage increases and measures of income support, the Danish representative stated that in the absence of accurate statistics one might estimate the overall increase in salaries and wages since the beginning of this year to be of the order of 9 to 10 per cent. Part of this increase would be counter-balanced by the increase in productivity. The proposed increase in indirect taxes, which fell mainly on consumer goods, and in prices of public utilities and services would certainly absorb a part of the augmented money income. As mentioned earlier, import liberalization would also be regarded as a means of reducing upward pressures on prices.
12. The Danish representative stated that the newly-negotiated wage agreements were valid for a period of two years and, consequently, apart from cost-of-living adjustments, which were provided for in the agreements, and "wage drifts", which might develop to a greater or smaller extent depending on the strength of the labour market and factors calling for adjustment during the validity of existing wage agreements, there should be no substantial increase in the wage bill in 1962.

13. As regards income support in farming, the primary consideration of maintaining price stability had led to the adoption of the method of direct cash payments to farmers, in preference to other methods, which were more likely to affect the quantity of products available for export.

14. Members of the Committee discussed with the Danish representative various other aspects of the Danish monetary and fiscal policies. The Danish representative, in response to questions, noted that the precise effects of the monetary and fiscal measures taken earlier this year on investment, consumption, etc., would be particularly difficult to assess because of the disturbance to the economy caused by the extensive labour disputes this spring. However, although the stoppages had caused a slowing down in investment, the recent rise in imports of machinery and equipment certainly indicated a resumption of a healthy level of industrial investment, despite the rise in the rates of interest.

15. As regards the precise nature of the contemplated fiscal measures, it was noted that these consisted principally of an increase in the turnover tax on beer, spirits and petrol and increases in railway fares and post office charges. These measures were expected to result in an increase of some Dkr250 to 300 million, or 6 per cent, in budgetary revenue.

16. It was suggested by a Member of the Committee that, having regard to the likelihood of a reduced budgetary surplus and increased money income, attention might be given to measures designed to stimulate personal and corporate saving. The representative of Denmark noted that the increase in personal income had apparently already led to an increase in saving; furthermore, the question of savings was under consideration in Denmark at present, and governmental action was likely to be taken early next year to provide further fiscal inducements to encourage saving.
System and methods of restrictions

17. In his opening statement the representative of Denmark described the successive steps of relaxing and removing import restrictions taken since March 1960. As a result of action taken at that time, the percentage of liberalization had been increased from 86 to 95 per cent, and the proportion of Danish industrial production exposed to foreign competition through liberalization had been increased from 33 per cent to 87 per cent. Certain restrictions had been relaxed on 1 January and 1 July 1961, and further relaxation would be made in July 1962 and July 1963. The remaining restrictions, covering 8 per cent of total Danish industrial production, would be removed at least as quickly as required by Denmark's international obligations. In the meantime the free-list and global quota area had been extended to include virtually all non-State-trading countries. The Danish representative further stated that his Government was confident that the problems which at present made it impossible to extend the free-list treatment to all non-State-trading countries would be solved in the near future. He emphasized, however, that solutions in this regard depended partly on a multilateral approach to the problems, which were common for many contracting parties, although in some cases ways and means of overcoming the present problems might be found by Denmark itself. To prepare for full liberalization, quotas for goods on the restricted list were gradually enlarged; in the last two years industrial quotas had been increased by about 40 per cent each year.

18. In reply to a question, the representative of Denmark reaffirmed his Government's intention of abolishing the Danish "Exchange Retention Scheme" by the end of this year.

19. Members of the Committee discussed with the Danish representative the administrative system of allocating quotas among importers. Attention was drawn to the method of allocating licences among imports on the basis of performance in a previous "representative period", which, it appeared, might result in the fragmentation of a quota to such small proportions as to make it inutilizable. The representative of Denmark explained that the method of allocation with reference to previous performance applied only to a part
of each individual quota; the remaining portion of the quota would normally be available for allocation to individual importers on an ad hoc basis and in a most flexible manner. As regards the alleged danger of fragmentation, it should be pointed out that import licences were valid for a period of eighteen months, which enabled the accumulation of licences of small values for use together and that unused licences were renewable and could be re-allocated to facilitate their utilization.

20. In reply to a question, the Danish representative stressed that the absence of imports from a particular country in a given "representative period" would in no way preclude that country from participation in a quota. All licences issued were valid for all countries in the quota area, and importers were free to choose their sources of supply within that area on purely commercial considerations. Consequently the question of discriminations simply could not arise.

21. Members of the Committee enquired whether the statement in the basic document for the consultation that, "as a rule values or quantities of regional quotas are made known to the trade organizations concerned" implied that such information was not made known to other interested parties; they pointed out that exporters in other countries should also be entitled to receive information on trade opportunities. In reply the representative of Denmark stated that, while it was true that such information was not made public, nevertheless it was available to diplomatic and commercial representatives of all exporting countries expressing an interest and requesting it.

22. According to information supplied by the Danish delegation, coarse grains and feedingstuffs (barley, oats, maize, buckwheat, millet, canary seed and grain sorghums, other cereals, bran, sharps and other residues derived from the sifting, milling or working of cereals or of leguminous vegetables; maize-cake and residues of starch manufactures) had been placed again under import control. Members of the Committee expressed concern over this development which, in their view, constituted a retrogressive step in Danish import policy, and was not in keeping with the record of progress made thus far in the liberalization of Danish imports. The Danish representative
explained that the restriction of imports of barley and other feed grains had been introduced in order to limit bacon production; in view of the falling prices for bacon on the London market, generated by excess supply, production had to be restrained in order to maintain Danish export income; the price elasticity and the Danish position on the British market were such that a strengthening of the market could normally be achieved through the regulation of Danish supply. In view of the present bacon market it was difficult to say when the import control would be terminated. In reply to a comment that the limitation placed on the availability of cheaper imported grains might adversely affect Denmark's competitive position on the world market for bacon, the Danish representative noted that, Denmark being a marginal importer of feed grains, the effect of the import restriction on costs and prices would be negligible. The aim of regulating the supply of bacon could equally have been achieved through the allocation of production quotas, but for administrative convenience this had been avoided, and reliance placed upon the limitation of the supply of feed. Production quotas, it should be noted, would at any rate have exerted a similar effect on grain imports to that of the restrictions imposed.

23. Some Members of the Committee noted that, without prejudice to the question of consistency of this action with the provisions of GATT, they would only hope that this restriction would be temporary and would be removed as soon as possible. The Danish representative said that the restriction of coarse grain imports had been applied also in order to prevent a serious drop in internal grain prices resulting from the rather big harvest in Denmark in 1961. Such a drop in grain prices would have encouraged pig production to an undesirable extent. The measure amounted in effect to a minimum price scheme, and the restriction would be removed as soon as grain prices in Denmark rose above the level prescribed in the Danish Grain Act.

24. In discussing the use of bilateral trade agreements, members of the Committee noted that, according to the documentation for the consultation, imports under such arrangements were of declining significance and amounted to approximately 1 per cent of total Danish imports in 1960. They recalled the statement in the Fund Decision (see paragraph 3 above) that "the Fund
considers the elimination of payments agreements with Brazil and Colombia both feasible and desirable", and asked about Denmark's policy in regard to the use of bilateral trade agreements. The representative of Denmark expressed the hope that his Government would soon be in a position to overcome the difficulties which compelled reliance on bilateral trade agreements. The bilateral trade agreement with Brazil had been extended in order to assure access to the Brazilian market for stock fish from the Faroe Islands. Members of the Committee pointed out that many governments had recently discontinued bilateral trading arrangements with Brazil without causing perceptible damage to their trade, and suggested that Denmark might consider following those examples. The representative of Denmark assured Members of the Committee that this would be given consideration by his Government.

25. A Member of the Committee mentioned that exporters in his country had expressed concern over quotas for citrus juices provided for in bilateral trade agreements concluded by Denmark with certain countries, inasmuch as this could result in discrimination if similar access were not open to other contracting parties. The representative of Denmark assured the Committee that in cases where trade was partly covered by bilateral arrangements, import quotas were always available to all contracting parties in accordance with the provisions of Article XIII. Another Member noted that in the case of a limited number of products imports were regulated by a series of bilateral quotas. He suggested that Denmark might consider replacing these by global quotas. A third Member welcomed the establishment of global quotas for apples and pears which represented an encouraging progress and expressed the hope that the quotas could be increased in the coming year and eventually lead to the liberalization of these products.

Effects of the restrictions

26. The representative of Denmark also noted in his opening statement that imports of liberalized goods had been running at a high level in the first half of 1961, and that in the light of previous experience a sudden liberalization of restricted imports would have a serious adverse effect on Denmark's payments position. However, despite present balance-of-payments
difficulties it was the policy of the Danish Government to liberalize the remaining goods in accordance with the original plan. It was hoped that it would be possible to accelerate liberalization in the future; but too rapid liberalization might result in losses of foreign currency, create problems of adaptation and impair the rate of growth.

27. Members of the Committee referred to the statement in the "basic document" for the consultation that "the need for restrictions on agricultural imports arises because of the possibility that subsidized products might be imported from time to time, with consequent damage to foreign exchange reserves", and suggested that any difficulties on the Danish market caused by such imports should more appropriately be dealt with on a case-by-case basis under the relevant provisions of the Agreement rather than by a policy of applying across-the-board restrictions to virtually the entire range of agricultural imports. The representative of Denmark replied that Danish experience had shown that anti-dumping duties and countervailing duties could not be relied upon in all circumstances to deal with problems of this nature; while such legislation existed in Denmark it had not been found practicable to make use of it. If some positive results should emerge from the work of Committee II his Government would certainly be prepared to join in any proposed common approach which would render possible the elimination of quantitative restrictions on agricultural products. At present a programme for the liberalization of Danish agricultural imports could result in a serious deterioration in the balance of payments. Industrial imports had been given priority in the Danish programme of liberalization mainly because of the need to provide competitive incentive to raise productivity in the Danish industry, which had not in all sectors, attained a high level of efficiency. Danish agriculture, on the other hand, was highly efficient and needed no such stimulation from foreign competition, which was in most cases based on governmental subsidization. It was therefore natural that the available reserves of foreign exchange should in the first instance be used in making possible a liberalization of industrial products. Members of the Committee expressed the hope that Denmark would keep under close examination the possibility of removing restrictions on agricultural imports. It was suggested that the matter might gain urgency with any further improvement in the Danish balance of payments.
General

28. The Committee expressed appreciation of the detailed information provided by the Danish delegation and of the frank and full answers given by the Danish representative to the various questions put by members of the Committee.

29. The Committee welcomed the continued progress made by Denmark in liberalizing imports and the intention of the Danish authorities continuously to enlarge import quotas, to remove further restrictions early in 1962 and to discontinue the exchange retention scheme by the end of 1961. The Committee noted that the various monetary and fiscal measures taken by Denmark in the past years had contributed to restraining demand and maintaining price stability in the face of rapid economic growth, and hoped that such policies would continue to be applied and if necessary reinforced in order to restore the measure of stability in prices and costs which had prevailed up to 1960 and to strengthen the balance of payments. Since the recent worsening of the balance of payments was attributable primarily to the increase in imports an improvement in the overall balance of payments could be expected once the effects of the recent internal measures to restrain demand were felt. The Danish Government should continuously, in the light of its balance-of-payments position, examine the possibility of accelerating its liberalization programme.

30. Certain Members of the Committee expressed concern at the reasons given by the Danish delegation for the maintenance of restrictions on agricultural products. They hoped that efforts would be made by the Danish authorities, irrespective of measures and policies that might be applied by other countries, to find solutions for the problems hampering the removal of such restrictions. It was to be hoped that when Denmark ceased to have difficulties in its balance of payments there would indeed be no need to retain residual restrictions of a "hard-core" nature.

31. The representative of Denmark stated that his delegation had taken note of the views and suggestions that had been expressed at this consultation and that it would convey these to the attention of his Government.

ANNEXES

I. Opening statement by the Danish representative

II. Decision of the IMF Executive Board