

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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REPORT OF THE WORKING PARTY ON THE DANISH TEMPORARY IMPORT SURCHARGE

I. Introduction

1. In accordance with its terms of reference the Working Party has examined the Danish temporary import surcharge notified in document L/3602 and discussed in the Council of Representatives on 9 November 1971 (C/M/74). For this purpose the Working Party met from 14 to 17 December under the Chairmanship of Mr. P.T. Eastham (Canada).

2. The terms of reference of the Working Party were as follows:

Without prejudice to the legal issues involved

(a) to examine, in the light of the provisions of the General Agreement and of the discussion in the Council, the Danish temporary import surcharge introduced on 21 October 1971 as notified in L/3602 and Add.1. In executing this task the Working Party will take into account, inter alia, the nature of the balance-of-payments difficulties, the rationale for the surcharge and the modalities of its implementation; the anticipated effects on trade; the possible effect on the economies of other contracting parties; and, in particular, the effect on the economies of the developing countries;

(b) to consult with the International Monetary Fund in pursuant of Article XV;

(c) to submit a report for consideration by the Council at a meeting as soon as possible after the necessary determination by the International Monetary Fund is available; and

(d) to continue to be available for consultations as necessary.

3. The Working Party had before it the following documents: L/3602 and Addendum 1 submitted by Denmark, as well as background papers supplied by the International Monetary Fund dated 12 February and 24 November 1971.

II. Consultation with the International Monetary Fund

4. Pursuant to the provisions of Article XV of the General Agreement, the International Monetary Fund had been invited to consult with the Working Party on the balance of payments and monetary reserve aspects of the matters under consideration. The representative of the Fund made the following statement:

"The Fund shared the concern of the Danish authorities about the considerable deterioration of Denmark's external payments position in 1969-70, and in the regular consultation with Denmark note has been taken of the successive measures taken by the Government to restrain internal demand and thereby to check this deterioration. The various measures taken by the Government are described in the paper entitled 'Recent Economic Developments' which was prepared in connexion with the 1970 consultation report on Denmark and has been made available to the CONTRACTING PARTIES. The Fund has also transmitted to the CONTRACTING PARTIES a supplementary paper on recent developments. In this paper attention is called to the fact that in the course of 1971 the balance of payments has responded to the policies of constraint; it has also benefited from a moderation of import demand induced by a cyclical downward adjustment in inventory investment. The deficit on current account, some \$540 million in calendar year 1970, is tentatively calculated to have narrowed to a seasonally adjusted annual rate of less than \$350 million in the period covering the second and third quarters of 1971. In spite of this reduction, the current account deficit, together with expenditures of about \$80 million a year for instalments due on public foreign loans and for lending to developing countries, remains well above the amount that the Danish authorities expect to be able to finance from long-term capital inflow.

"Thus, as the new Danish Government took office in early October 1971, the authorities felt that it was necessary to bring about a further reduction in the current account deficit. The Government has stated its firm intention to maintain the parity of the krone and has decided to implement a series of measures to correct the balance of payments. These include, inter alia, the maintenance of the restrictive monetary and fiscal policies which have already been in force for some time, including continued restraint on the growth of public expenditure. The trend of internal demand is not, in the view of the Government, such as to require a further tightening of monetary and fiscal policy, which would tend to exacerbate the problems of rising unemployment and stagnating investment.

"The circumstances outlined above indicated the need for additional measures to reduce the current account deficit with minimum delay. The temporary import surcharge introduced on October 21, 1971, which covers about 55 per cent of Danish imports, is intended for this purpose. At the present time this import surcharge does not go beyond the extent necessary to bring about the desired improvement in the balance of payments. The Fund welcomes the announced provisions for a phasing out of the import surcharge with reductions in the rate on July 1, 1972 and on January 1, 1973 and its removal on April 1, 1973. The Fund will conduct its next Article VIII consultation with the Danish authorities before the end of 1972 and will then review all aspects of Denmark's balance-of-payments position taking into account the developing international situation."

III. Consideration of particular aspects and problems

The Balance-of-Payments Difficulties of Denmark

5. The representative of Denmark first outlined the details of the 10 per cent surcharge. He emphasized its temporary nature in that a clear time-table had been set for its phasing out, with the rate to be reduced to 7 per cent on 1 July 1972, to 4 per cent on 1 January 1973 and to be completely eliminated on 1 April 1973. Originally the surcharge had covered about 53 per cent of Denmark's imports but a bill regarding additional exemptions which would reduce the percentage to about 50 per cent, had just been approved by the Danish parliament. The surcharge had, so far, applied to imports from all contracting parties but after 1 January 1972, when Denmark implemented the Generalized System of Preferences, all goods covered by the Danish system, when originating from the ninety-one countries members of the Group of 77 on 1 July 1971, would be exempted. The combined effect of this exemption and the general exemption already in force for raw materials and foodstuffs would be that developing countries, for all practical purposes, would not be hit by the surcharge. The Danish representative stressed that the introduction of the surcharge was a step not taken lightly by Denmark, a country for which foreign trade accounted for 25 per cent of its gross national product. Denmark fully recognized that the General Agreement did not contain any provisions concerning import surcharges for countries in balance-of-payments difficulties but the Danish representative believed that the action had been taken in accordance with the spirit of Article XII, and that it was in the best interests of all Denmark's trading partners that quantitative restrictions had not been applied. He realized the difficulty that the temporary surcharge created for Denmark's trading partners.

6. The representative of Denmark pointed out that only once in the last ten years (1963) had Denmark had a balance-of-payments surplus on current account. The persistent deficit in the trade balance was only partially offset by earnings on invisibles. In the first half of the 1960's the trade deficit had been equivalent to 1.6 per cent of gross national product, in the second half 2.3 per cent and in 1970, 6.8 per cent. A major reason for the continuous large deficits was structural, relating to the problems faced by Denmark's agricultural exports in its principal export markets and the consequent need to switch rapidly to industrial production. It was foreseen that many of these structural difficulties would disappear when Denmark became a member of the EEC. The surcharge was only one part of a programme of economic measures designed to correct these problems; Danish fiscal policy was one of the strictest in Europe and North America and the credit policy was exceptionally tight. These other policies had begun to show their effects on the balance of payments, but too slowly. Another factor had been the sensitivity of the Danish economy to the current unrest in the international currency markets. It was this combination of currency unrest, a large balance-of-payments deficit and very small exchange reserves, which had led the Danish Government to take action. Provisional estimates suggested that the action taken would

reduce the current account deficit in 1972 by 50 per cent, from DKr 2.5-2-75 billion to DKr 1.25-1.5 billion, which would then be roughly equal to the recent levels of long-term capital imports. The International Monetary Fund report had stated that the measures did not go beyond the extent necessary to bring about the desired improvement in the balance of payments. (The full text of the Danish statement is annexed.)

7. All members of the Working Party recognized that Denmark had been running a large and continuous deficit on current account and that this was due exclusively to a deficit on the trade account. They also noted, however, that recently the situation had been improving. It was noted that the statistics for the first three quarters of 1971 when compared with the corresponding period of 1970 showed that exports had increased 8.5 per cent while imports were up only 5 per cent, and accordingly the deficit on current account had been reduced from about \$400 million to \$350 million. The representative of Denmark observed that the risk element implied in the currency crisis precipitated on 15 August seemed much more important than the small noted improvement in the current balance. One member questioned whether trade measures were warranted at a time when a country's rate of growth of exports exceeded its rate of growth of imports and its overall trade deficit was declining.

8. It was noted that there was no provision in the GATT for recourse to import surcharges for balance-of-payments difficulties. Concern was expressed that such measures should not be made to appear acceptable. In any event, the surcharge, to the extent that it raised the incidence of customs charges beyond the maximum rates bound under Article II, was not compatible with the provisions of the General Agreement. Some delegations however, thought that import surcharges could be an acceptable way of dealing with balance-of-payments difficulties, subject to the general criteria for the imposition of quantitative restrictions for balance-of-payments purposes.

9. The Danish representative said that his country's action had been taken in the spirit of Article XII. In his view, the Danish situation met the criteria of both Article XII:2(a)(i) and 2(a)(ii) in that Denmark had very low monetary reserves, which over the last three years had not amounted to more than forty-five days normal imports, and at the same time seemed threatened with a serious decline in these reserves.

10. One member said the criteria of Article XII:2(a) had not been satisfied. He pointed to the statistical material in the International Monetary Fund surveys of the Danish economy which showed that Danish monetary reserves were rising slightly, not falling. This representative also referred to the reduction of the Danish current account deficit as shown in the International Monetary Fund reports as well as the increase in reserves Denmark could expect on 1 January 1972 due to

a new allocation of Special Drawing Rights; for all those reasons, this member could not agree that the Danish action was necessary "to forestall the imminent threat of, or to stop, a serious decline in its monetary reserves". With respect to the Article XII:2(a)(ii) text, the same member acknowledged that Danish reserves were indeed low, but pointed out that the level of Denmark's reserves had been of this same general level for several years, therefore, that neither of the criteria of Article XII:2(a) had been met. The representative of Denmark emphasized that the comments he had made earlier regarding the combination of factors inducing the Danish Government to introduce the surcharge were also relevant when considering whether the criteria of Article XII had been met. As to the composition of reserves, he stressed that what might have been considered as adequate reserves in the past could not be regarded as such in the present international monetary situation. Furthermore, in evaluating the level of reserves account had to be taken of the rapid increase in net short-term debt partly of a volatile nature which had taken place in recent years.

11. It was noted that the surcharge had been imposed in an international situation marked by a great deal of uncertainty and the fluctuation of most currencies. It was noted that the Danish krone was now valued about 3 to 4 per cent above its official parity with the dollar but had seen an effective devaluation vis-à-vis the currencies of some of Denmark's major trading partners.

12. Some members asked whether an exchange rate adjustment had been considered, since the current account deficit had existed for a long period of time and indeed, perhaps as a result of a deliberate policy to encourage capital inflow. It appeared that Denmark had taken a short-term step to reverse a basic balance-of-payments disequilibrium. In reply to these questions, the representative of Denmark said that an exchange rate adjustment would not have been an appropriate measure in the Danish situation.

13. Referring to the remark by the Danish representative that the increase in short-term external debt had been a factor in the decision to implement the surcharge, some members questioned the seriousness of this debt from a balance-of-payments point of view. It was noted that other industrial countries had short-term obligations of comparable magnitude. In this context it was suggested that re-consolidation of the short-term debt might be an appropriate alternative measure. In reply the Danish representative said that repeated current account deficits had led to an expansion in short-term debt and that an objective of the surcharge was to reduce the current account deficit to the extent that it could be covered by long-term borrowing. The composition as well as the size of the short-term debt was important in that a substantial part consisted of Eurodollar debts to foreign banks which, as past experience had shown, were very susceptible to exchange market crises. The Danish Government had recently acted to increase the foreign exchange reserves by substantial borrowing on the international market, but the possibilities for increasing long-term borrowing were dependent upon conditions in the international capital markets.

14. Some members commented on certain internal factors in the Danish economy that might be contributing to the balance-of-payments deficit. For example, the rate of increase in prices and wages in Denmark had for some time been among the highest in Europe. Public expenditure had been growing at a much higher rate than private consumption. They pointed out that if the surcharge were not accompanied by internal measures of adequate severity, its effect would be inflationary, thus worsening, rather than improving the present situation. The Danish representative said that a more active use of incomes policies had not been seriously considered as most current wage agreements extended into 1973. He pointed out that due to the very large increase in income taxation there would be no significant increase in real disposable income. The increase in public expenditure would be covered by the budget surplus and there was no question of deficit financing. The 10 per cent surcharge was not needed to obtain a budgetary surplus. Foreign borrowing had not had any effect on central government expenditure which was financed from domestic revenue, and strong efforts were being made to control the borrowing by local authorities. It was not expected that the surcharge would aggravate existing demand pressure but, on the contrary, that it would have a net deflationary impact. In Denmark there was a linkage between wages and prices, but the import surcharge was not expected to affect wages until autumn 1972. In the interim period the full deflationary effect of the price rises would be in effect.

Modalities of the Implementation of the Surcharge

15. Many delegations, commented favourably on the fact that a definite time-table had been set for the removal of the surcharge thereby showing its temporary nature. At the same time, they expressed concern that the time-table established by the Danish authorities contained an element of rigidity. They urged the Danish authorities to remove the surcharge at an earlier date than that provided in the relevant legislation if improved conditions, including those in the international monetary field, should so warrant.

16. The question was asked whether the Danish Government had the flexibility to remove the surcharge earlier than provided for or whether it would be necessary to seek new authority from Parliament. Information was also sought on the criteria used in determining the timing and size of the stages in the time-table. The representative of Denmark replied that the main criterion for the time-table was that the first half of the year was traditionally the most unfavourable period for the Danish balance of payments, and that it would be necessary to obtain new parliamentary authority to modify the time-table.

17. In reply to a question concerning the date on which new products would be included among the exemptions to the surcharge, the representative of Denmark said that the respective bill had just been approved by Parliament and would enter into effect immediately with retroactive effect from 21 October 1971.

18. Turning to the question of the goods to be subjected to the surcharge, members of the Working Party noted that most of the exempted goods were raw materials, foodstuffs and some semi-manufactured products; they asked on what criteria the list had been drawn up. In this connexion, some members noted that some foodstuffs had not been exempted. Products not exempted which caused special concerns on the part of some countries included some vegetables, fruit, canned foodstuffs and wine. The representative of Denmark said that in general raw materials and some semi-manufactured products had been exempted. Denmark was a country without raw materials, and as had already been explained, the imposition of a surcharge would be counter-productive for Danish exports. Omissions occurring in the first list of exemptions had made it necessary to pass a new law expanding the list of exemptions, mostly of products used by exporting industries. Generally speaking, foodstuffs had been exempted because of the effect on the cost of living and wages, but he could not indicate what the specific criteria had been in individual cases. The new list of exemptions would be made available to contracting parties without delay. It was noted that the surcharge imposed by Denmark could not be considered to be general as a number of goods were exempted and more would get that benefit when the GSP entered into effect.

19. Another member, whose country was an important trading partner of Denmark, pointed out that the import surcharge in the way it had been designed, contained elements of a protective nature since most exceptions were in the field of raw and semi-processed materials while the main part of finished products were subject to the 10 per cent surcharge. Danish import competing manufactures thus seemed to be given a strong advantage. The representative of Denmark, basing his comments on the experience of the 1967 devaluation of the krone and the fact that a strict time-table for removal of the surcharge existed, did not agree that the surcharge would result in significant import substitution but rather in import postponement.

20. In reply to another question the representative of Denmark said that the surcharge was imposed on the customs value of the commodity, that is, on the c.i.f. price without the normal tariff.

21. Asked if the products sold to Danish purchasers by means of contracts entered into prior to 21 October 1971, were affected by the surcharge, the representative of Denmark said that those goods falling within Chapter 84 and number 85.01 and number 85.11 of the Tariff Act might be exempted from the temporary import surcharge provided that the dutiable value of each item of the goods exceeded Dkr 5,000 and that a binding contract for purchase or hire of the goods had been concluded before 21 October 1971.

22. Without prejudice to the legal issues involved, the Working Party noted that as from the introduction of the Danish general preference scheme on 1 January 1972, products included in that scheme would be exempted from the surcharge when imported from members of the Group of Seventy-Seven. Several members of the Working Party welcomed this decision of the Danish Government noting that this had been one of the recommendations of the Group of Three. Other members of the Working Party expressed concern that the exemption did not extend to all developing countries. Some other members said that the discrimination created by these exemptions gave their delegations cause for concern. Denmark emphasized the moral obligation which it had undertaken as part of the Generalized System of Preferences to allow free entry for the products covered by the scheme.

Anticipated Effects of the Surcharge on Trade and Possible Repercussions
on the Economies of Other Contracting Parties -
in Particular on Developing Countries

23. In response to questions, the representative of Denmark said that prior to imposing the surcharge, Denmark had an estimated current account deficit for 1972 of DKr 2.5 to 2.75 billion. With the imposition of the surcharge the estimated deficit for 1972 would be between DKr 1.25 and 1.5 billion.
24. In discussing the effects of the surcharge, the representative of Denmark supplied the following data, based on the existing legislation and without considering the effect of the legislation that had just been approved by the Danish Parliament. The countries most hurt by the surcharge were the other EFTA countries and the member countries of the EEC. About 60 per cent of Denmark's imports from those countries were affected by the surcharge. These percentages would decrease somewhat as a consequence of the new legislation recently enacted. In the case of the United States, 47 per cent of Danish imports from that country were affected. About 2.5 per cent of the total exports from EFTA countries were subject to the surcharge; this figure was less than 1 per cent of the total exports of the EEC countries and 0.3 per cent of total United States exports.
25. The representative of Spain indicated that on the basis of 1969 figures, 50.8 per cent of Spanish exports to Denmark would be affected. According to 1970 figures 53.4 per cent of those exports were affected and, if the first nine months of 1971 were taken into consideration 70.21 per cent of the Spanish exports were affected.
26. The representative of Greece indicated that on the basis of 1969 figures about 75 per cent of Greek exports to Denmark would be affected.
27. The representative of the EEC said that about 60 per cent of their exports to Denmark were affected by the surcharge and that they represented about 2 per cent of the Community's total exports. Moreover, the effect of the surcharge was aggravated by the fact that certain EEC currencies had been revalued de facto vis-à-vis the Danish krone.
28. The representative of the United Kingdom said that in 1970 his country had exported £220 million worth of goods to Denmark. This accounted for nearly 14 per cent of Denmark's total imports and 2.7 per cent of his country's total exports. Sixty-two per cent of the United Kingdom's exports to Denmark, on the basis of the list of exemptions in operation before the 15 December, were liable to the surcharge.
29. The representative of Japan stated that in 1970 Japanese exports to Denmark amounted to US\$64 million constituting 0.3 per cent of total Japanese exports. Seventy-three per cent of its exports to Denmark were subject to the surcharge, or about 0.2 per cent of the total exports of his country.

30. The representative of Sweden said that 9.8 per cent of his country's total exports in 1970 had been to Denmark. From 1969 to 1970 imports to Sweden from Denmark rose by 20 per cent and Swedish exports to Denmark by 17.2 per cent. During the period 1960/1970, Swedish total exports had increased by 165 per cent while exports to Denmark had grown by 295 per cent. Taking into account the list of further exemptions just adopted by the Danish Parliament, it was estimated that approximately 61 per cent of Swedish exports to Denmark would be affected. This corresponded to around 6 per cent of overall Swedish exports. Before the new exemptions, these figures were 66.7 per cent and 6.5 per cent respectively. Sweden thus was the country most affected by the surcharge.

31. The representative of the United Kingdom speaking on behalf of Hong Kong, stated that Hong Kong's exports to Denmark consisted almost entirely of manufactured products and that, on the basis of 1970 figures, 96 per cent of them would be affected. There would be double discrimination against Hong Kong, a developing dependent territory, in favour of competitors exempted both from the surcharge and from import duty under the general preference scheme.

32. The representative of Australia said that 50-55 per cent of its exports to Denmark were affected by the surcharge but, more significantly, the surcharge fell heavily on one particular group of Australian exports, namely fresh and preserved fruits which constituted one third of total Australian exports to Denmark. He further pointed out that the dependent territories of Papua/New Guinea were not included in the list of beneficiaries under the Danish system.

33. In reply to a question, the representative of Denmark said that the value of their total imports was US\$4-4.5 billion. About 10 per cent of their imports came from developing countries - that is \$400-450 million worth of goods. About 90 per cent of those imports had been exempted from the surcharge from the outset; thus, \$40-45 million had been subject to the surcharge initially. This amount would be somewhat reduced with the new legislation recently enacted. Most of the balance would be covered by the GSP, and thus the effect on developing countries would be negligible.

34. Some beneficiary developing countries expressed the hope that if and when it appeared that exports of particular products not included in the general preference scheme were, in fact, adversely affected as a result of the surcharge, Denmark would give sympathetic consideration to specific requests for exemption of such products from the surcharge.

IV. Conclusions

35. The Working Party took note of the findings of the International Monetary Fund and recognized that Denmark was in a serious balance-of-payments situation.
36. Denmark, taking into account the findings of the International Monetary Fund, considered that, although the implementation of an import surcharge was not explicitly covered by any provision of the GATT, such action had been taken in the spirit of Article XII:2(a). Quantitative restrictions provided for in Article XII would have had a more serious effect on the interests of its trading partners. A number of other contracting parties had taken similar actions when confronted with situations of this kind.
37. The Working Party noted that the surcharge, to the extent that it raised the incidence of customs charges beyond the maximum rates bound under Article II, was not compatible with the provisions of the General Agreement.
38. The Working Party, noting the contrary views of the Danish delegation, expressed its concern that Denmark had chosen to introduce the 10 per cent import surcharge at this time, given the present delicate international trade and monetary situation which should induce extreme caution in order to avoid the spreading of the present crisis. The Danish representative pointed out that the timing was heavily influenced by circumstances outside the control of the Danish Government.
39. In view of the situation faced by the Government of Denmark, some members considered that recourse to the surcharge was not inappropriate. Some other members were of the view that the measure was not appropriate. Still other members expressed doubts as to the need to have recourse to the measure at the time when it was taken.
40. The Danish Government was urged to remove the surcharge at an earlier date than that provided in the relevant legislation, if improved conditions, including those in the international monetary field, should so warrant.
41. Without prejudice to the legal issues involved, the Working Party noted that, as from the introduction of the Danish general preference scheme on 1 January 1972, products included in that scheme would be exempted from the surcharge when imported from members of the Group of Seventy-Seven. Several members of the Working Party welcomed this decision of the Danish Government noting that this had been one of the recommendations of the Group of Three. Other members of the Working Party expressed concern that the exemption did not extend to all developing countries. Some other members said that the discrimination created by these exemptions gave their delegations cause for concern. Denmark emphasized the moral obligation which it had undertaken as part of the Generalized System of Preferences to allow free entry for the products covered by the scheme.

42. Some beneficiary developing countries expressed the hope that if and when it appeared that exports of particular products not included in the general preference scheme were, in fact, adversely affected as a result of the surcharge, Denmark would give sympathetic consideration to specific requests for exemption of such products from the surcharge.

43. It was understood that these conclusions in no way prejudiced the rights of contracting parties under the General Agreement.

ANNEX

Statement by the Danish Representative
14 December 1971

I should like to explain in perhaps somewhat greater detail than I could when the matter was discussed in the Council, the temporary surcharge imposed by Denmark.

Let me first give you the facts about the surcharge itself. On 21 October 1971 Denmark introduced a temporary surcharge of 10 per cent ad valorem on imports of a large number of goods mostly in the industrial sector. The contracting parties were informed even before the bill had passed Parliament in a letter dated 19 October, addressed to the Director-General.

The temporary nature of the measure is underlined by the fact that a clear time-table has been fixed for the phasing out of the surcharge. Thus on 1 July 1972, in a little over six months, the surcharge will be reduced to 7 per cent ad valorem, on 1 January 1973 it will go down to 4 per cent and it will completely disappear on 1 April 1973.

Originally the surcharge covered about fifty-three of Denmark's total imports. Recently consideration has been given to the possibility of increasing the list of exceptions, and today Parliament is having its third reading of a bill which - if passed - will reduce the coverage of the surcharge to about 50 per cent of total imports. If as expected the bill passes Parliament today the list of new exceptions which will be given retroactive effect until 21 October, (the day the surcharge entered into effect), will be circulated to contracting parties as soon as this is technically feasible.

So far the surcharge has been levied on imports from all countries including Denmark's EFTA-partners. However, on 8 December, the Danish Parliamentary Customs Committee unanimously approved the proposal of the Danish Government for a generalized system of preferences on imports from developing countries, and on 9 December the Ministry of Finance issued the executive order whereby the system will enter into force on 1 January 1972. According to this system all goods within BTN Chapters 25-99 will be exempted from customs duty and for a small number of products in BTN Chapters 1-24 the customs duties will be reduced.

In accordance with the recommendation made by the Group of Three to the Danish Government all goods covered by the system will be exempted from the temporary import surcharge when imported from developing countries beneficiaries under the generalized system of preferences. These are the ninety-one countries members of the "Group of Seventy-Seven" on 1 July 1971. I should like to add that this list of beneficiary-countries is of a preliminary nature and will be reconsidered in the light of further international consultations on the subject and of decisions taken by other donor countries. The combined effect of the introduction of the Danish system of generalized preferences and the exemptions from the surcharge already in force as regards raw materials and foodstuffs will be that developing countries beneficiaries under the system will, for all practical purposes, not be hit by the surcharge.

As I said when this matter was discussed in the Council, a step like the one taken by the Danish Government is not taken lightly. This is particularly true for a country like Denmark so dependent upon her foreign trade, which accounts for about 25 per cent of her gross national product. We fully realize the difficulties a general surcharge - although temporary - creates for our trading partners particularly our closest neighbours. We also acknowledge the fact that the General Agreement does not contain any provisions concerning general surcharges for countries in balance-of-payments difficulties although we believe that we are acting in good accordance with the spirit of Article XII and at the same time in the best interests of all concerned when not resorting to quantitative restrictions.

This being said, there are situations, and we believe that this is one, where a country has to take action to safeguard its economy.

Over the past ten years Denmark has only once - in 1963 - had a balance-of-payments surplus on current account. The persistent deficit in the trade balance is only partially offset by earnings on invisibles. In the first half of the 1960's the trade deficit was equivalent to 1.6 per cent of gross national product. Through the second half of the decade the deficit averaged 2.3 per cent of the gross national product. In 1970 the trade deficit was equivalent to 6.8 per cent of gross national product. If members of the Working Party want a dramatic illustration of the difference between the Danish situation and that of the United States you only have for a moment to imagine a United States trade deficit equivalent to 2.3 per cent - not to say - 6.8 per cent of gross national product. If my figures are correct this would mean trade deficits in absolute terms of \$25 billion or \$70 billion respectively. These figures would be lower if based on the current account deficit rather than the trade deficit but the overall picture would be the same.

The main reason, although not the only one, for these constantly large Danish deficits is the structural weakness of Denmark's foreign trade which in turn stems from the problems which Denmark's agricultural exports have encountered in our principal export markets. These problems have had two major consequences. On the one hand the earnings of the agricultural sector have been reduced and have by themselves weakened our trade balance and on the other Denmark has had to embark upon a major restructuring of her economy - switching from agriculture to industry - at a faster rate than most other countries. This process, which has to be financed very largely by capital imports is well under way but not yet completed as amply demonstrated by our balance of payments.

You may ask why the problems I have described have not been tackled by other economic measures than those directly connected with the foreign balance. The answer is: they have been and are still being.

The Danish fiscal policy is presumably the strictest in Europe. Total taxation expressed in per cent of gross factor income rose from a little over 41 per cent in 1969 to close to 50 per cent in 1971. At the same time the rate of increase in public sector expenditure in real terms were diminishing although still at a high level. The surplus on current, investment and lending budgets

of the public sector amount to DKr 6 billion corresponding to 4 to 5 per cent of the gross national product.

The credit policy is also unusually tight, the short-term interest rate being 10 per cent and the long-term rate 11 per cent, while at the same time restrictive ceilings are maintained for the lending commitments of private banks.

The policies thus pursued by the Danish Government have started this year to show their effect on the balance of payments although much too slowly.

As pointed out in the excellent paper prepared by the International Monetary Fund on recent economic developments in Denmark, dated 24 November 1971, the reduction in the trade deficit has thus far in 1971 been modest and the deficit is estimated at approximately \$700 million on an f.o.b. basis as compared to \$789 million in 1970.

The current account deficit for the first three quarters of 1971 is approximately \$365 million compared with \$400 million for 1970.

As a result of Denmark's large foreign trade the Danish economy is very sensitive to unrest in international currency markets and was therefore vulnerable to the extraordinary situation which arose when the United States suspended the gold convertibility of the dollar. In Denmark's case the uncertainty which this step created with respect to the future possibilities of capital imports is of particular importance.

Faced with the combination of currency unrest, a large balance-of-payments deficit and very small exchange reserves the new Danish Government saw no alternative to take action to bring about a quick reduction of the current account deficit.

Provisional estimates suggest that the temporary import surcharge will reduce the deficit on the balance of payments to one half of the present level. A deficit of that order will be roughly equal to the level of long-term capital imports seen in the last few years. If that level can be maintained, Denmark expects to achieve equilibrium on the basic balance. Part of the improvement in 1972 will be temporary, because it will be offset by a transient reduction of stocks of imported goods, but on the assumption of Danish membership of the European Communities from 1 January 1973, there should be a fair chance of maintaining most of the improvement of the balance-of-payments position envisaged in 1972.

The temporary import surcharge is only one link in the chain of the Government's endeavours to improve the balance of payments. It is the intention of the Danish Government to implement a programme of action for economic stabilization including:

- (i) Maintenance of the extremely severe fiscal and monetary policies;
- (ii) consistent restraint on public spending, which means that urgent reforms must be financed by shifting priorities in public sector budgets;
- (iii) a more active employment policy, designed to increase mobility on the labour market;
- (iv) changes in the rules governing depreciations allowances with a view to encouraging business and industrial investments;
- (v) establishment of a Capital Market Board to assist the Government in channelling the scarce capital availabilities into industries catering to export markets;
- (vi) improvement of the budget position and prevention of abuses of investment incentives by increasing the rates of taxation on capital, capital gains and inheritance.

If I should try to summarize I hope that the following points have emerged of what I have been saying:

1. The persistence and seriousness of Denmark's balance-of-payments position and the fact that the trade sector is the one mainly involved.
2. The large short-term foreign debt and the small exchange reserves of Denmark.
3. The severe efforts already taken as regards fiscal and monetary policies.
4. The programme of action complementary to the import surcharge.
5. The temporary nature of the import surcharge as evidenced by the time-table for the phasing out of the charge.
6. The exemption of practically all the trade of developing countries.

I have listened this morning with very great interest to the statement made by the representative of the International Monetary Fund.

I noticed that the finding of the Fund was that at the present time the Danish import surcharge does not go beyond the extent necessary to bring about the desired improvement in the balance of payments.

This finding comes as no surprise to me. I think it is a logical conclusion based upon all the facts of the case stated inter alia in the excellent background papers of the Fund to which I beg to refer.

I have no doubt that the Working Party as a result of its deliberations will arrive at a similar conclusion.