

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION WITH DENMARK

1. In accordance with its terms of reference, the Committee has conducted the consultation with Denmark under Article XII:4(b). The Committee had before it: (a) a basic document prepared by the secretariat on the basis of data supplied by the Danish Government; and (b) documents provided by the International Monetary Fund. In conducting the consultation the Committee followed "the plan" recommended by the CONTRACTING PARTIES. The consultation was completed on 2 July 1959. The present report summarizes the main points discussed during the consultation.

### Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with Denmark. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results<sup>1</sup> and background material from its last consultation with Denmark which was concluded on 25 June 1959. In accordance with the agreed procedure the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Denmark. This statement was as follows:

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

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

4. Since the last consultations Denmark has made substantial progress in removing restrictions and reducing discrimination, and the restrictive system has been substantially simplified. The Fund welcomes the introduction of non-resident convertibility and the substantial reduction of discrimination and urges Denmark to take further steps which would progressively

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<sup>1</sup> See Annex II.

remove restrictions and eliminate discrimination, including those arising from bilateralism. The Fund expresses satisfaction over the decision to eliminate the import title system, but hopes that it will be possible to shorten the termination period.'

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

#### Opening Statement by the Danish Representative

3. At the opening of the consultation, the representative of Denmark made a statement, the full text of which is given in Annex I. He emphasized the exceptionally heavy dependence of the Danish economy on foreign trade, which represented about one-third of the gross national product. This fact, together with highly specialized production, mainly in the agricultural sector, made the country extremely sensitive to fluctuations in world market prices. While the terms of trade had developed not unfavourably to Denmark in the last two years, it must be noted that Danish exports of agricultural products had not benefited from the large-scale expansion of trade in the post-war world; agricultural exports, in fact, had remained constant over the last five or six years. This situation, in the view of the Danish representative, was due to the protectionism prevailing in many countries. Various measures of price support and protection, by closing domestic markets and by creating surpluses which were often exported under heavy subsidy, severely affected Danish exports.
4. In the circumstances, Denmark had found it necessary to adjust the structure of its economy and to expand industrial production and exports. As a result of these efforts, exports of industrial products had more than doubled in five years. Today, industrial products represented almost 50 per cent of total Danish exports compared to 25 per cent before the war. The necessary investments had resulted, however, in a considerable pressure on the balance of payments. Exports of industrial goods could have been further expanded were it not for the high tariff rates and other obstacles met in certain markets.
5. In the first half of 1957, Denmark's current account balance deteriorated markedly and reserves fell to a low level. In mid-1957 the Government took various internal measures to redress the imbalance, but avoided the use of additional import restrictions. As a result of these measures and an improvement in the terms of trade, the balance of payments greatly improved. In 1958, export proceeds increased by 7 to 8 per cent, purely owing to a higher volume of industrial exports; agricultural exports remained stagnant.
6. Current estimates showed that there would again be a surplus in the balance of payment in 1959. The drought that had occurred in the last two months, however, might cause a crop failure which would have serious repercussions for Denmark's external financial position. Denmark's net gold and foreign exchange holdings, even after the recent favourable development in export earnings, remained modest, corresponding to about two months' imports. Nevertheless, there had been in the past year further relaxations of restrictions; licensing of imports in the restricted sector was considerably increased, global quotas were extended, and the import control system was substantially simplified.

7. The representative of Denmark then described the various measures taken to reduce incidental protective effects of the restrictions applied for balance-of-payments reasons, and gave instances in which price studies had been initiated with a view to limiting uneconomic production. He further described the import control system resulting from the recent measures of simplification, and particularly the changes in the control of dollar imports. As a result, the free list for the dollar area had been brought into line with that for the EPU area and Finland. Most of the goods on the free list may be imported freely from other countries under the "Open General Licensing" procedure. For a wide range of products subject to global quotas, holders of licences were allowed also to utilize their licences for imports from the dollar area. For other products subject to global quotas, this possibility is limited to the portion of the quotas which was added since 1958, and the limitation was intended to safeguard the interest of the previous beneficiaries of the quotas.

8. The demand for investment goods arising from the structural change in the Danish economy led to heavy outlays of foreign exchange. Since it was difficult to obtain the needed foreign exchange from increased exports, the available reserves had to be economized. For this general reason, Denmark felt that in relaxing the remaining quantitative restrictions, it should move cautiously. The basic policy of the Danish Government was, however, to pursue its endeavours to abolish quantitative restrictions. In conclusion, the Danish representative expressed the hope that the other countries would help to create conditions under which Denmark would be able to expand its exports and thereby to improve its balance of payments, so as to enable it to abolish its import restrictions.

#### Balance-of-Payments Situation and Prospects

9. In discussing the Danish balance of payments, the Committee referred to the documents supplied by the International Monetary Fund and a supplementary table supplied by the Danish delegation showing estimates for 1959. Requested to comment on the assumptions underlying the estimated substantial increase in exports and imports and its trade deficit in 1959, the representative of Denmark explained that the estimated increase in export earnings of about DKr.550 million was based on several factors. Prices for preserved meat and dairy products had risen between 5 and 6 per cent in comparison to 1958. On the other hand, the increase in agricultural exports to the United States in the past year had been due mainly to larger sales of one single item, namely canned ham. As American hog producers had stepped up production, no further increase in this export to that market was expected in 1959. The increase in industrial exports which had averaged between 15 and 16 per cent per annum during the last five years was expected to continue; and an increase of approximately DKr.300 million was estimated for 1959. Exports of other products were expected to increase by DKr.100 million. The increase in expenditure on imports was calculated on the expectation of larger volumes imported at slightly lower prices. An increase in the import of capital goods was expected owing to continued industrialization. A continued high level of economic activity was expected to increase the volume of raw material and fuel imports. Larger quantities of fodder and foodstuffs had to be imported because of the poor harvest last year and import requirements might be further increased as a consequence of the recent drought. Imports into Denmark during the first six months of 1959 amounted to approximately DKr.5.2 billion which was in line with the estimate of DKr.10.75 billion for the year as a whole, although it might be noted that imports into Denmark were traditionally higher in the autumn than in the spring.

10. Under the heading of "invisibles" lower freight rates caused the fall in 1958 in net earnings from shipping and these would probably remain at the 1958 level in 1959. The large increase in earnings from foreign travel in 1958 was largely due to travel expenditures and purchases of Danish goods in the border traffic with Sweden and Germany. These were not expected to increase, but rather to decrease. On the other hand, under the heading of "Capital Movements", the increase in foreign private investment in Denmark in 1958 was expected to continue through the present year. The Danish representative agreed that the final item in the Supplementary Table showed only foreign exchange holdings and did not include gold holdings.

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

12. Some members of the Committee considered that while the commercial policies of other countries would have some effects on the external earnings and balance of payments of Denmark, it would be unwarranted for the latter to maintain its use of import restrictions solely on the ground that others retained measures of protection. The Danish representative agreed with members of the Committee that the protectionist policies of other countries could be considered relevant to Danish policy on the use of import restrictions only to the extent that they affected Denmark's export earnings and consequently the balance of payments and monetary reserves. He assured the Committee that the restrictions would be relaxed and removed in accordance with Denmark's obligations under the General Agreement as and when the balance-of-payments position permitted. Denmark's past record showed a close relationship between the level of its restrictions and its external financial reserve position. The level of the restrictions was adjusted fifteen times during the last ten years, generally in the direction of relaxation and a higher degree of liberalization.

13. A member of the Committee observed that whilst Danish imports from Western European countries had fallen between 1953 and 1958 from 85 to 79 per cent of its total imports, imports from the dollar area had risen from 5 per cent of total imports in 1953 to 10 per cent in 1958, having reached the higher level of 11 per cent in 1957; he enquired about the causes and factors behind this development. The representative of Denmark pointed out that although the increase in dollar imports had been spectacular, imports from European countries and other areas had risen just as impressively; total imports had risen by nearly 35 per cent during the period. The higher percentage rise in dollar imports might partly be explained by the severe restrictions applied on dollar imports in the early 1950's. The recent decline of 10 per cent in imports from the dollar area was not due to a tightening of restrictions on dollar goods, but was due to falling prices of raw materials, notably fuel oil and coal; further, dollar imports had been exceptionally high in 1957 on account of the Suez crisis. On the other hand, the measures of dollar liberalization taken this year were expected to have some effects on the balance of payments; the Danish Government, in taking this step, was fully aware that some risk might be involved.

14. Members of the Committee noted the steady improvement in the Danish balance of payments since the middle of 1957 and considered that Denmark's prospects for the future were favourable. They stressed the "results" of the consultation between the IMF and Denmark quoted in paragraph 2 above, in which the Fund "urges Denmark to take further steps which would progressively remove restrictions and eliminate discrimination ....." They expressed the hope that the Government of Denmark would take this into consideration in formulating its commercial policy and that it would examine the possibility of removing further import restrictions and, taking account of the recent change in the status of currencies, would as rapidly as possible remove the remaining discrimination in the application of balance-of-payments import restrictions. The Danish representative recalled the various steps which his Government had taken since the middle of 1957 in spite of difficulties and as a result of which 89 per cent of its dollar imports had been freed from licensing control in 1959 as compared with the situation in 1953 when no dollar imports were liberalized. The present net external reserves barely represented two months' imports; 50 per cent of Danish exports consisted of industrial products which had achieved no assured foothold in foreign markets. The Danish Government was of the view that it would be in the interest of all to proceed with due caution rather than to make hasty moves which might need to be retracted. Having called attention to these factors which, in his view, justified a policy of caution, the Danish representative reassured the Committee that it remained the basic policy of his Government, as it was the expressed intention of the legislation on which the restrictions are based, that import restrictions should be removed as and when the balance-of-payments situation permitted, and that any further liberalization would be on a non-discriminatory basis.

#### Internal Financial Policies and other Alternative Measures to Restore Equilibrium

15. Members of the Committee expressed appreciation and admiration for the exemplary and effective way in which internal measures were taken by Denmark in 1957 to deal with internal imbalance and recently to deal with problems of the money market. Some members expressed concern at certain recent developments in Denmark, particularly the expansion of credit and the possibility of

inflation; in this connexion they had regard to such factors as the direct linking of wages to the cost of living index. The representative of Denmark stated that developments in the field of prices and economic activity were closely watched by the Government and that government policy in the monetary field was reviewed almost on a day-to-day basis (for example, a decision was taken in May to suspend all public works for three months). The current wages agreement would ensure stability in the labour market until 1961, and progressive taxation would help to neutralize any increases in personal earnings. To avoid an expansion of the money and credit base on account of increased gold and foreign exchange earnings, effective use was being made by the central bank of such devices as short-term bond issues and open market operations. The experience of 1957 showed that internal measures were practicable and could be effective. While it was difficult to predict what course of action would be adopted in future circumstances, the Danish Government felt confident that there would be no recourse to the use of intensified import restrictions in the near future. One member of the Committee thought, however, that it was misleading to regard internal measures as a panacea.

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

17. One member of the Committee referred to the statement of the Danish delegation that part of the country's difficulties were attributable to its being a low-tariff country, and suggested that to raise its tariff level might be an alternative method of achieving equilibrium. The Danish representative replied that his Government was not unaware of this theoretical alternative which was one of the subjects being contemplated. It was, however, no easy matter to abandon a tradition of long standing and public opinion in Denmark was widely divided on this subject; consequently it would be unprofitable to speculate on this at this stage.

#### System and Methods of Import Restriction

18. Members of the Committee welcomed the recent measures taken by Denmark in relaxing restrictions and in reducing discrimination, and commended the action taken to bring the dollar and OEEC liberalization lists into line in the light

of the moves towards convertibility. Some members pointed out that for purposes of currency prescription under the Danish exchange restrictions, countries were divided into two broad categories only, viz, bilateral account countries and the convertible area (i.e. all non-bilateral-account countries), whereas for purposes of import restrictions there appeared still to be three categories of countries. They pointed out that external convertibility had removed all payments advantages in buying from one country rather than another and expressed the hope that the remaining restrictions would soon be eliminated. The representative of Denmark contended that no such distinction now existed in the treatment of imports not subject to restriction, goods on the free list being admitted from all non-bilateral-account countries without discrimination. Discrimination on dollar area goods existed only in the treatment of certain restricted imports.

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

20. It was stated that Denmark maintains two kinds of "global" quotas: "individual" (mainly for producers goods, capital and raw materials) and "general" (mainly for consumer goods). With respect to the former, the representative of Denmark explained that for such goods as machinery, appliances and capital goods applications for licences were considered individually on their merits, the principal criterion being that their importation would be in the general interest of the economy. There was at present no prescribed limitation on the licensing of imports applied for by end-users, and such licences were usable interchangeably within the whole area of the EMA, Finland and the dollar area. The second type of "global" quota was that used generally for consumer goods. Quotas for consumer goods were allocated among importers at the beginning of each year on the basis of their imports in a previous reference period, usually the two or three preceding years. In most cases a part of the quota, usually amounting to 10 per cent of the total, was kept for newcomers. The fact that quotas were allocated each year on a new basis, that provision was made for newcomers and that unused licences would be re-allocated among other importers, combined to ensure that established importers could not secure a monopolistic position through the pre-emption of licences issued for any particular goods.

21. Except for amounts corresponding to the increases made since 1958, these "general" licences were issued separately for imports from the dollar area and the former EPU area (and Finland) and licences for the latter were not valid for imports from the former unless specially authorized. Only for the 1959 increases in the quotas were interchangeable licences issued. The Danish representative explained that the reason for not opening all of these "general" global quotas to the dollar area was that certain non-dollar global quotas represented no more than the sum of the previous imports under bilateral quotas and access to them was reserved for the former bilateral partners out of consideration for the traditional suppliers. He pointed out, however, that a part of the global quota was interchangeable with the dollar area and the other part was open to the dollar area with respect to extensions of the quotas since 1958. The Danish view, like that of certain other contracting parties, was that an increase in the number of countries having access to a global quota should always be accompanied by an increase in the size of the quota to avoid intensifying restrictions against the existing beneficiaries.

22. Asked about the criteria for fixing the size of global quotas, the Danish representative stated that in converting bilateral quotas into global quotas calculation was generally based on the size of actual past imports from the constituent countries rather than that of the bilateral quotas. The reason was that those quotas often represented an inflated estimate of possible imports. It would not be practicable to globalize all the remaining bilateral quotas although imports under bilateral arrangements now amounted to no more than 1 per cent of total imports.

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

24. A member of the Committee thought that the requirement of individual licences for certain imports subject to global quotas created additional uncertainty for the trading community. The Danish representative explained that this requirement was necessary in view of the administrative difficulties in defining the categories into which the goods were to be classified. In general, the procedure was to admit consumer goods under global quotas and to allocate individual licences for machinery and other capital goods. On the other hand, there might also be global quotas for larger categories of consumer goods such as appliances, thus leaving the choice of goods to be imported to importers. Another member of the Committee felt that, in order to simplify the system, more goods now imported under individual licensing procedures should be admitted under normal global quotas. The Danish representative pointed out that

in view of the large number of global quotas which this would entail, such a step would further complicate the system rather than simplify it. Global quotas would be established for all goods for which there existed an import demand of ascertainable size and the Danish authorities were ready to consider any cases of hardship or difficulty which might be raised by foreign exporters.

25. In clarification of a point in the secretariat document, the representative of Denmark confirmed that imports not subject to the "Open General Licensing" procedure from countries which were neither parties to bilateral agreements, nor former EPU countries or Finland, were admitted under individual licences which were at present liberally granted.

26. Members of the Committee urged the Danish Government to take further steps to ensure the fullest publicity of its import control procedures and the quotas. They considered it essential that foreign exporters should have direct knowledge of the controls in force and import opportunities in Denmark. The Danish representative replied that the Directorate of Supplies issued notices to importers when there were any changes in the control system or when quotas were opened. The notices were, however, published in the Danish language only.

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

28. Members of the Committee discussed with the Danish delegation the justification for the continuation of the "import title" system in present circumstances and suggested that, in accordance with the results of the Fund consultation, the Danish Government should explore the possibility of shortening the termination period. The Danish representative admitted that this was a clear case of a multiple currency practice and stated that, despite strong opposition by national trade organizations, the Danish Government had decided to revoke the system in successive stages over a three-year period. The premium had been reduced from 8 to 6 per cent at the beginning of 1956 and it would be reduced by 2 per cent at the beginning of each year as from 1960, so that the scheme would be totally eliminated by 1962. A member of the Committee suggested that while the premium rate was being reduced a further reduction in the discriminatory incidence might be achieved through extending its application to imports from all sources. The Danish representative thought that such a course, rather than reducing the scope of the system, would be extending it, in the sense that more trade would thereby be placed on an unsound basis. The decision to do away with the import title system by steps was taken in order to enable a gradual readjustment of trade and also to minimize damage to some exporting industries in which substantial investment had been made in the light of the import title system. The amount of trade affected by this scheme was at any rate relatively small, being in the region of DKr.15 to DKr.20 million per annum. One member of the Committee suggested that the abolition of the scheme might be accelerated by reducing the number of import items covered simultaneously with the programme for reducing the premium rate.

### Effects of the Restrictions

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

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

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

### General

32. Summing up the discussion, the Chairman said that Denmark had to be congratulated on the progress she had made in the removal of restrictions and in the reduction of discrimination. The hope had been expressed that further steps would be taken, as urged by the IMF at the conclusion of its latest consultation with Denmark, in the light of the newly restored status of external currency convertibility. The hope had also been expressed that more information on the actual working of the Danish import control system would be made available to the CONTRACTING PARTIES.

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

### Annexes

- I. Opening Statement by the Representative of Denmark.
- II. Results of the latest IMF - Denmark Consultation.

Annex I: Opening Statement by the Representative of DENMARK

The Danish balance-of-payments position must be viewed in the light of the structure of the Danish economy.

Being a country without such essential natural resources as coal, oil, iron and steel, our economy depends to an exceptionally large extent upon the maintenance of a high level of foreign trade. Our foreign trade now represents about one third of the national product. Imports into Denmark amount to almost D.Kr.11 billion and exports amount to a little more than D.Kr.9 billion; the gross national product approximates D.Kr.33 billion.

Our dependence upon foreign trade is also a result of specialization of production, the main emphasis being on agriculture. Our export industries are also rather specialized.

The high level of our foreign trade means that the terms of trade have a considerable influence on our economy. Our balance of payments is thus extremely sensitive to fluctuations in world market prices, both for our imports and exports. Fortunately the terms of trade have developed in a direction not unfavourable to Denmark during the last two years.

As regards the structure of our export trade, the Committee is, of course, aware that agricultural commodities have traditionally predominated in Danish exports. However, our exports of agricultural commodities have not benefited from the large-scale expansion of trade which has been a prerequisite for the general prosperity of the post-war world. In fact, exports of agricultural products have remained constant over the last five to six years. It is a well known fact to this Committee that this deplorable situation is due to the protectionism prevailing in most of our export markets and this is aggravated by the inelastic demand for livestock products.

Permit me to draw to your attention once again the wide range of protectionist measures with which our agricultural exports are confronted: quantitative restrictions, State trading, excessive tariff barriers, preferential tariff systems, minimum prices, export subsidies and various systems of subsidizing production. It has been a most discouraging experience for us to see how the natural pattern of production and trade has been distorted in the agricultural sector through such measures, a development which was so excellently illustrated in the Haberler Report. These measures tend to close markets to our products and in some cases they even lead to over-production and consequently to exports of heavily subsidized products to traditional Danish markets abroad.

We do hope that eventually the abolition of protectionism will be achieved not only for the benefit of Denmark but also for the advantage of our trading partners. Realizing that this cannot be achieved overnight, and faced with the imperative necessity to expand our export trade, we have had to adjust the structure of the Danish economy by expanding our industrial production over and above what would otherwise have been the case, with the aim of increasing our industrial exports.

These efforts have led to a considerably higher export of industrial products; about 110 per cent higher than five years ago when calculated on the basis of 1955 prices. The result is that today industrial exports make up almost 50 per cent of our total exports as compared to approximately 25 per cent before the war. The investment made necessary by the expansion in this sector has established a considerable pressure on the balance of payments.

I do not hesitate to say that the considerable increase of industrial exports could have been even higher had it not been for external conditions having a dampening effect on the expansion of industrial exports. The high tariff rates maintained by other countries do not offer Danish producers adequate opportunities to expand their exports or to offset potential losses in the home market by increased sales in export markets.

In the course of 1957 major changes had taken place in the Danish external situation. Before that year economic development had led to a considerable reduction in the foreign currency reserves. Leaving aside the debt to the EPU, our holdings amounted to only D.Kr.600 million, enabling us to pay for merely three weeks' imports.

During the summer of 1957, measures were taken to correct the deteriorating balance-of-payments position. I would like to stress that the Government avoided recourse to intensifying quantitative restrictions in this situation but relied on fiscal and monetary measures to bring about an improvement in the external position.

Different taxes on consumer goods were introduced and a compulsory stabilization loan was taken up amounting to D.Kr.400 million for a two-year period. Since 1957 there has been a steady amelioration in our foreign exchange reserves.

The table on the Danish balance-of-payments, which will be distributed among the members of this Committee shortly, shows that the trade balance has improved from a deficit of about D.Kr.1,350 million in 1957 to a deficit of not more than about D.Kr.650 million in 1958. This favourable development is to be attributed to the internal measures adopted in 1957 and to a favourable change in the terms of trade.

In 1958 export proceeds increased by 7-8 per cent; at the same time the value of imports showed a slight reduction. We estimate that there has been an advance of about 10 per cent in the volume of exports and of about 6-7 per cent in the volume of imports.

As I said a moment ago, this rise in the exports has affected industrial goods exclusively, as the exports of agricultural products have been in a state of stagnation during the past five years, not on account of our inability to compete, but - excuse me for a repetition - as a consequence of agricultural protectionism in almost all countries.

During the last few years the increase in our industrial exports has amounted to 10-15 per cent annually. This favourable evolution is even more remarkable as it did coincide with the recession which has been felt in many countries.

The estimate for 1959 shows that we expect in this year again to have a surplus in our balance of payments. The surplus is however diminishing and unfortunately we shall have to review this estimate as the prospects for the harvest have to be seen now in the light of the drought which we have suffered in the last two months. At the moment we cannot evaluate the extent of the damage but I have to point out that a crop-failure will have serious repercussions on the Danish external financial situation.

The favourable development in the Danish export earnings has led to higher foreign currency reserves. At this moment they amount to about D.Kr.1,800 million, but it should be noted that Denmark owes the other EPU countries about D.Kr.450 million. This debt has now been consolidated and must be repaid over the relatively short time of the next three years. The level of the holdings corresponds to about two months' imports. In spite of this improved state of the reserves they are still rather modest, especially if seen against the background of the prospects for a bad harvest.

As I said before, the measures taken to remedy the balance of payments did not include quantitative restrictions. The improvement in the balance of payments has led to relaxation of several quantitative restrictions. A considerable increase in the licensing of the imports within the restricted sector has taken place and the global quotas have been extended. Also, the rules governing the administration have been modified in various ways.

In order to avoid as much as possible the incidental protective effects of the restrictions applied for balance-of-payments reasons, the Danish legislation prescribes that the Controller of Monopolies in collaboration with the Directorate of Supply shall compare prices in Denmark and in other countries, of commodities the production or processing of which is afforded incidental protection in Denmark, as a result of quantitative restrictions. The Minister of Commerce is required by law to provide a Parliamentary Committee with price data collected. Under these provisions price studies have been initiated for a number of commodity groups. Reports on the results of such price studies have been prepared for: refrigerators, radiators, bathtubs, boilers for central heating plants, oil burners, certain domestic articles, electric ranges and electric cookers, steel sinks and steel tables, wheat flour, installation pipes and tubes of steel, table potatoes, mountings for locks and building requisites, builders' hardware and window glass.

These studies will eventually form an important element in the administration of the quantitative restrictions. Whenever the prices for Danish-made goods differ substantially from the same goods produced abroad an increased import of the latter will be admitted.

The import system has been substantially simplified. Previously the general rule was that the import of all goods was prohibited unless they were on the lists governing the licensing procedure; at present the system is based on the principle that imports of all goods are free unless they are on the restricted list. There is a negative list for imports from the OEEC area, Finland and the

dollar area. If a commodity is not on the list, it may be imported freely from the countries in question. Most of the goods which may be imported freely from the OEEC area, Finland and the dollar area may be imported from other countries under a system of Open General Licensing. Therefore, while the free list for imports does not apply to the other countries, in practice imports of most of the commodities in question are free from all countries.

At the end of 1958 Denmark introduced, together with other Western European countries, non-resident convertibility. This measure was followed by an extension of the liberalization vis-à-vis the dollar area.

In 1958 the liberalization percentage for dollar imports was increased from 55 to 66. During the first months of this year the liberalization was further increased, raising the liberalization percentage to 89. The liberalization percentage vis-à-vis the OEEC area is 86. The same goods are liberalized from the OEEC area, the dollar area and Finland; thus, the previous discrimination in liberalization has been abolished. The reason for the differences in the percentages is that the calculation of the liberalization percentage with regard to the OEEC area is based upon private imports in 1948 and upon 1953 with regard to the dollar area.

For the non-liberalized goods licences are in most cases granted on the basis of regional quotas as far as imports from the OEEC area and Finland are concerned.

For a wide range of commodities, subject to global quotas, holders of licences are allowed also to utilize their licences for imports from the dollar area.

For other products subject to global quotas, this possibility is limited to the increase in the global quotas which has taken place since 1958. In many cases this gives the importers a considerable latitude in the utilization of the licences. This limitation in the freedom is due to the commitments we have entered into in order to safeguard the interests of the traditional suppliers when we replaced the bilateral quotas with global quotas.

The structural change which is taking place in the Danish economy increases the demand for the importation of investment goods which again causes a heavy outlay of foreign currency. It is difficult to obtain this through an expansion of exports. We therefore are under the necessity to economize with the available holdings of foreign currency.

It is for this general reason that we ought to move very cautiously in relaxing the remaining quantitative restrictions. It would be in nobody's interest that we should be pressed to liberalize more than warranted by the circumstances, as a step backwards would have heavy repercussions on the trade pattern. We have still to take into account that the Danish currency reserves are very limited compared with our foreign trade.

If we could expand our exports sufficiently to overcome our balance-of-payments difficulties we would be able to abolish quantitative restrictions more rapidly. Such expansion depends, however, to a large extent upon external factors beyond our control, namely the protectionism prevailing in other countries. It is therefore not possible for me to express here an opinion about the possible schedule for the abolishment of our quantitative restrictions.

It is the decided policy of my Government, however, to pursue its endeavours to abolish our quantitative restrictions, I can assure you. In this connexion, I wish to refer to the Danish Act of Currency Measures which in its section 4 expressly states that imports shall be as large as balance-of-payments considerations permit.

We hope that these consultations will help to make it clear that it is first and foremost up to our trade partners to create the marketing possibilities for our export goods which are a prerequisite for the ultimate abolition of our quantitative restrictions and for an expanding Danish economy which would be able to buy more foreign goods than today.

I do hope that other countries, and in particular those countries with great reserves of foreign currency will take the lead in the drive for the expansion of trade and in eliminating not only quantitative restrictions, including State trading, but also all other barriers to trade.

Annex II: Results of the last Consultation between the IMF and DENMARK  
concluded on 25 June 1959

1. The Government of Denmark has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. As a result of the various measures taken in mid-1957, together with a favourable change in terms of trade, Denmark's balance of payments position has been greatly strengthened. In 1958 the foreign exchange reserves rose by over \$100 million at the same time as \$25.5 million of the \$34 million drawing on the Fund was repaid. The increase in reserves has continued in the first quarter of 1959, although at a reduced rate.

3. Production, consumption, and investment have been expanding since the summer of 1958. The accumulation of foreign exchange reserves has led to a considerable easing of the money market. The introduction of short-term deposit certificates by the National Bank absorbed funds from the market and together with open market operations helped to maintain an orderly interest rate structure. In view of the increase in domestic demand there is likely to be growing pressure on the cost level which in 1958 remained relatively stable. Moreover, the Government has eased its fiscal policy. In these circumstances it is of importance that the authorities through fiscal and monetary policies endeavour to keep the expansionary development within reasonable limits.

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

5. In concluding the 1958 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Denmark.