

1999 Country Reports on Economic Policy and Trade Practices

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DENMARK

Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999	1/
<i>Income, Production and Employment:</i>				
Nominal GDP 2/	145,280	148,400	148,800	
Real GDP Growth (pct) 2/ 3/	3.1	2.7	1.3	
GDP by Sector 2/:				
Agriculture	4,871	4,146	4,300	
Manufacturing	25,174	26,028	25,500	
Services	66,899	69,808	69,500	
Government	33,434	34,385	34,700	
Per Capita GDP (US\$) 2/	27,493	27,995	28,000	
Labor Force (000s)	2,849	2,867	2,864	
Unemployment Rate (pct)	7.7	6.4	5.6	
<i>Money and Prices (annual percentage growth):</i>				
Money Supply Growth (pct)	5.2	3.0	5.0	
Consumer Price Inflation (pct)	2.2	1.8	2.5	
Exchange Rate (DKK/US\$ annual average)				
Official	6.61	6.70	7.00	
<i>Balance of Payments and Trade:</i>				
Total Exports FOB 4/	48,590	48,179	47,000	
Exports to U.S. 4/	2,260	2,283	2,400	
Total Imports CIF 4/	44,405	46,092	44,000	
Imports from U.S. 4/	2,134	2,185	2,000	
Trade Balance 4/	4,185	2,087	3,000	
Balance with U.S. 4/	126	98	400	
External Public Debt	40,544	42,000	40,000	
Fiscal Deficit/GDP (pct) 5/	-0.1	-0.9	-2.9	
Current Account Surplus/GDP (pct) 5/	0.5	-1.4	0.0	
Debt Service Payments/GDP (pct) 5/	2.0	2.1	1.9	
Gold and Foreign Exchange Reserves	19,620	15,139	24,000	
Aid From U.S.	N/A	N/A	N/A	

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- 1/ 1999 figures are all estimates based on available data as of November.
 - 2/ GDP measured as "Gross Value Added by Industry."
 - 3/ Percentage changes calculated in local currency.
 - 4/ Merchandise trade (excluding European Union agricultural export subsidies).
 - 5/ Gross Domestic Product.

1. General Policy Framework

Denmark is a small, highly industrialized "value-added" country with a long tradition of extensive foreign trade, free capital movement, and political stability. It also has an efficient and well-educated labor force, and a modern infrastructure effectively linking Denmark with the rest of Europe. Denmark's natural resources are concentrated in oil and gas fields in the North Sea which have, together with renewable energy, made Denmark a net exporter of energy.

The Danish economy remains strong, with a public budget surplus and, in the first half of 1999, a small surplus on the balance of payments. However, its extensive foreign trade makes the economy vulnerable to foreign "shocks," including the 1998 Asian and Russian financial crises which particularly impacted on Danish agricultural exports. As a result, the Danish current account turned negative in 1998. As economic growth declined in 1999 with a consequent reduction in imports, the balance of payments again shifted to a small surplus. The government pursues a carefully monitored economic policy including a fiscal policy of small public expenditure increases and a tight monetary and exchange rate policy.

Developments during the first half of 1999 in some key economic indicators -- reduced private consumption and the surplus, albeit small, on the current account -- suggest that the Government's austerity measures introduced in the summer of 1998 are now working. The 1998 measures, particularly aimed at curbing private consumption and restoring a balance of payments surplus, include reduction of tax credits for debt interest payments in order to discourage new loan taking. The measures, over the longer run, also aim at increasing the incentive to work for low income earners by reducing taxation in the middle bracket of the progressive income tax system. The Government projects that the surplus in the public budget in 1999 will increase to almost three percent of GDP, mostly as a result of increased revenues and reduced expenditures due to increased employment and reduced unemployment. Focus is now on the inflation rate which, although stable at about 2.5 percent, has shifted from being one of the lowest in the European Union (EU) to one of the highest rates. Furthermore, it is entirely fueled domestically with wage inflation running above four percent.

Denmark welcomes foreign investment, and is home to roughly 250 subsidiaries of U.S. companies. Denmark also welcomes foreign firms focused on doing business in the former East Bloc countries. In that respect, Denmark has a number of preferential joint venture investment and investment guarantee programs and also makes available Danish and EU grants for improving

the environment in those countries. The American Chamber of Commerce in Denmark was established in 1999 and a number of leading Danish and American firms are members of the Danish-American Business Forum, which aims at promoting direct investment and exchanges of know-how.

Denmark has opted out of the European Monetary Union's (EMU) third phase (establishment of a joint EU currency and relinquishment of jurisdiction over monetary policy), although Denmark's economic performance is well within the established convergence criteria for EMU membership.

2. Exchange Rate Policy

Denmark is a member of the European Monetary System (EMS) and its Exchange Rate Mechanism (ERM). Since the early 1980s until 1999, the government linked the krone closely to the German mark through the ERM and since January 1, 1999 (through the ERM2) to the common EU currency, the Euro. In September 1999, the trade-weighted value of the krone was 3.5 percent lower than in September 1998, due mostly to the krone's depreciation against the yen and the dollar. Since September 1998, the krone has depreciated some eight percent against the dollar (from DKK 6.49 to DKK 7.08 to \$1.00). The increase in the dollar rate is likely one of several factors behind the 9.5 percent drop in U.S. exports to Denmark (as measured by the Danish Bureau of Statistics) in the first eight months of 1999.

3. Structural Policies

Danish price policies are based on market forces. Entities with the ability to fix prices because of their market dominance are regulated by the Government's Competition Agency. Denmark during 1997 changed its competition legislation from the former "control" principle to the internationally recognized "prohibition" principle.

The highest marginal individual income tax rate, including the gross labor market contribution "tax," is about 65 percent, and applies to all taxpayers with earnings exceeding some \$37,200 (1999). Foreign executives and researchers working in Denmark on a contract may for a period of up to five years benefit from more lenient income taxation (a flat 33 percent tax on gross income). Danish employers are almost alone in the EU in paying virtually no non-wage compensation. Most sick leave and unemployment insurance costs are paid by the government. Employees pay their contribution to unemployment insurance out of their wages, while a major part of unemployment benefits is financed from general revenues.

The Danish Value Added Tax (VAT), at 25 percent, is the highest in the EU. As VAT revenues constitute more than one-quarter of total central government revenues, a reduction would have severe budgetary consequences. The government therefore has no plans to reduce the VAT, and hopes that EU VAT rate harmonization will raise the VAT rates of other EU countries. Environmental taxes are increasingly being imposed on industry (with some roll-back

for anti-pollution efforts) and on consumers. The corporate tax rate is 32 percent. Favorable depreciation rules and other deductions exist.

4. Debt Management Policies

Denmark ran a balance of payments surplus from 1990 through 1997. Consequently, foreign debt gradually fell from over 40 percent of GDP in 1990 to 25 percent in 1997. With a deficit of about \$2 billion on the balance of payments in 1998 and a similar amount in appreciation of the value of krone-denominated bonds held abroad, the foreign debt's share of GDP increased to 26 percent in 1998. Net interest payments on the foreign debt in 1998 cost Denmark some six percent of its export earnings. Standard and Poor's and Moody's Investors Service rate Denmark AA+ and Aa1, respectively.

Denmark's public sector is a net external debtor, while the private sector is largely in balance. At the end of 1998, the public sector foreign debt, including foreign exchange reserves and krone-denominated bonds held by foreigners, totaled some \$42 billion and the private sector foreign debt totaled about \$4 billion.

During 1998, central government debt denominated in foreign currencies dropped about 15 percent to \$13 billion. Of the total debt, 77 percent was denominated in German marks, 10 percent in European ECU, eight percent in French francs, and 1.5 percent in dollars. The Danish central government debt has an average term of two years.

Denmark's central government deficits are not monetized and the Danish monetary policy is aimed at maintaining a fixed krone in relation to the Euro. Monetary policy is pursued through the Central Bank (Nationalbanken) which sets the day-to-day interest rate on financial sector entities' current account deposits in the Central Bank and/or offer 14-day transactions where the entities either borrow in the Central Bank against collateral in securities or buy Government deposit certificates. Under normal circumstances, there are no limitations on the liquidity. Responding to the European Central Bank's raising of interest rates in early November 1999, the Danish Central Bank raised the official discount rate and the current account rate by 0.25 percent to 3.0 percent. At the same time, the Central Bank's lending rate and the rate on deposit certificates was raised by 0.45 percent to 3.3 percent.

5. Significant Barriers to U.S. Exports

Denmark imposes few restrictions on import of goods and services or on investment. Denmark generally adheres to GATT/WTO codes and EU legislation that impact on trade and investment. U.S. industrial product exporters face no special Danish import restrictions or licensing requirements. Agricultural goods must compete with domestic production, protected under the EU's Common Agricultural Policy.

Denmark provides national and, in most cases, non-discriminatory treatment to all foreign investment. Ownership restrictions apply only in a few sectors: hydrocarbon exploration (which usually requires limited government participation, but not on a "carried-interest" basis); arms production (non-Danes may hold a maximum of 40 percent of equity and 20 percent of voting rights); aircraft (non-EU citizens or airlines may not directly own or exercise control over aircraft registered in Denmark); and ships registered in the Danish International Ships Register (a Danish legal entity or physical person must own a significant share -- about 20 percent -- and exercise significant control over the ship or the ship must be on bareboat charter to a Danish firm).

Danish law provides a reciprocity test for foreign direct investment in the financial sector, but that has not been an obstacle to U.S. investment. Two U.S. banks -- Republic National Bank of New York and the State Street Bank Trust Company -- have representative offices in Denmark. A number of other U.S. financial entities operate in Denmark through subsidiaries in other European countries, including Citicorp (through its UK subsidiary), GE Capital Equipment Finance (through Sweden), and Ford Credit Europe (through the UK).

The government liberalized Danish telecommunications services in 1997; however, the network -- the raw copper -- remained controlled by the former Government-owned Tele Danmark A/S. The large U.S. company Ameritech took over a controlling interest (42 percent) of Tele Danmark A/S in October 1997 in the largest foreign investment ever in Denmark, worth about four billion dollars. Access for other telecom operators to the raw copper opened in 1999. A number of foreign operators, including Sweden's Telia and France's Mobilix, are making strong inroads into the Danish market, which increases competition. Sonofon, a private cellular mobile telephone network with U.S. Bell South participation, competes with Tele Danmark A/S in that area.

Danish government procurement practices meet the requirements of the GATT/WTO Public Procurement Code and EU public procurement legislation. Denmark has implemented all EU government procurement directives. A 1993 administrative note advised the Danish central and local governments of the EU/U.S. agreement on reciprocal access to certain public procurement.

In compliance with EU rules, the government and its entities apply environmental and energy criteria on an equal basis with other terms -- price, quality and delivery -- in procurement of goods and services. This may eventually restrict U.S. companies' ability to compete in the Danish public procurement market. For example, the EU "Ecolabel" and EU "Ecoaudit" requirements may be difficult for some U.S. companies to meet. Offsets are used by the Danish Government only in connection with military purchases not covered by the GATT/WTO code and EU legislation. Denmark has no "Buy Danish" laws.

There is no record of any U.S. firm complaining about Danish customs procedures. Denmark has an effective, modern and swift customs administration.

U.S. firms resident in Denmark generally receive national treatment regarding access to Danish R&D programs. In some programs, however, Denmark requires cooperation with a Danish company. There is no record of any complaints by U.S. companies in this area.

6. Export Subsidies Policies

EU agricultural export subsidies to Denmark totaled \$371 million (some 15 percent of the value of Danish agricultural exports to non-EU countries) in 1998. Danish government support for agricultural export promotion programs is insignificant. Denmark has no direct subsidies for its non-agricultural exports except for shipbuilding. Denmark welcomed the 1994 OECD agreement to phase out shipbuilding subsidies internationally and would like this agreement, or eventually an updated one, to be ratified by the United States.

The Government does not directly subsidize exports by small and medium size companies. Denmark does, however, have programs that indirectly assist export promotion, and establishment of export networks for small and medium sized companies, research and development, and regional development aimed at increasing exports. Denmark has one of the EU's lowest rates of state aid to industry (less than two percent of GDP). Danish subsidization of its shipbuilding industry is within the ceiling set in the EU Shipbuilding Directive (nine percent of the contract value) and accounts for about one-third of total Danish state aid to industry. The shipbuilding subsidies have not prevented the closure of many of Denmark's shipbuilders in the face of increased low-priced production in South Korea and elsewhere.

Denmark also has a well-functioning export credit and insurance system. In its foreign development assistance, Denmark requires that 50 percent of all bilateral assistance be used for Danish-produced goods and services. These programs apply equally to foreign firms that produce in and export from Denmark.

7. Protection of U.S. Intellectual Property

Denmark is a party to and enforces a large number of international conventions and treaties concerning protection of intellectual property rights, including the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement).

Patents: Denmark is a member of the World Intellectual Property Organization, and adheres to the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty, the Strasbourg Convention and the Budapest Convention. Denmark has ratified the European Patent Convention and the EU Patent Convention.

Trademarks: Denmark is a party to the 1957 Nice Arrangement and to this arrangement's 1967 revision. Denmark has implemented the EU trademark directive aimed at harmonizing EU member countries' legislation. Denmark strongly supports efforts to establish an EU-wide

trademark system. Following a European Court decision in 1998 that “regional trademark consumption” applies within the EU, Denmark is stopping use of the “global consumption principle.” Denmark has enacted legislation implementing EU regulations for the protection of the topography of semiconductor products, which also extends protection to legal U.S. persons.

Copyrights: Denmark is a party to the 1886 Berne Convention and its subsequent revisions, the 1952 Universal Copyright Convention and its 1971 revision, the 1961 International Convention for the Protection of Performers, and the 1971 Convention for the Producers of Phonograms. There is little piracy in Denmark of CDs or audio or video cassettes. However, computer software piracy is more widespread and estimated at over \$100 million annually.

Piracy of other intellectual property, including books, appears limited. There is no evidence of Danish import or export of pirated products.

New Technologies: There are no reports of possible infringement of new technologies.

Impact on U.S. Trade with Denmark: Denmark is named on the “Special 301” Watch List because of its failure to meet its TRIPS obligations to provide unannounced searches and provisional relief as required by TRIPS Article 50. The issue is the subject of bilateral consultations, and the Danish government has created a committee to determine which legislative changes are needed to meet its TRIPS obligations. The United States is also concerned about Denmark's failure to protect, as required by article 39.3 of the TRIPS Agreement, confidential test data submitted to the Danish Environmental Protection Agency for approval of certain chemical products.

Finally, U.S. authors do not receive royalties from Denmark for photocopying of their works used in Danish schools and universities, because the Danish collecting agency COPYDAN will not accept the validity of "en bloc" powers of attorney issued by U.S. publisher and author organizations. This issue is being pursued with the Danish Government.

8. *Worker Rights*

a. Right of Association: Workers in Denmark have the right to associate freely, and all (except those in essential services and civil servants) have the right to strike. Approximately 80 percent of Danish wage earners belong to unions. Trade unions operate free of government interference. They are an essential factor in political life and represent their members effectively. During 1998, 3.2 million workdays were lost due to labor conflicts in connection with the spring 1998 labor contract negotiations(see below) compared with 101,700 in 1997. Greenland and the Faroe Islands have the same respect for worker rights, including full freedom of association, as Denmark.

b. Right to Organize and Bargain Collectively: Workers and employers acknowledge each others' right to organize. Collective bargaining is widespread. Danish law prohibits antiunion

discrimination by employers against union members, and there are mechanisms to resolve disputes. Salaries, benefits, and working conditions are agreed in biennial or triennial negotiations between the various employers' associations and their union counterparts. If negotiations fail, a National Conciliation Board mediates, and its proposal is voted on by both management and labor. If the proposal is turned down, the government may force a legislated solution (usually based upon the mediator's proposal). In 1998, for example, failure to reach agreement resulted in a conflict in the industry sector, which lasted 11 days before the government intervened with legislation. Again in 1999, in connection with public sector contract negotiations, the Government had to intervene to avoid a strike by nurses. In case of a disagreement during the life of a contract, the issue may be referred to the Labor Court. Decisions of that court are binding. Labor contracts that result from collective bargaining are, as a general rule, also used as guidelines in the non-union sector.

Labor relations in the non-EU parts of Denmark -- Greenland and the Faroe Islands -- are generally conducted in the same manner as in Denmark.

c. Prohibition of Forced or Compulsory Labor: Forced or compulsory labor is prohibited and does not exist in Denmark.

d. Minimum Age for Employment of Children: The minimum age for full-time employment is 15 years. Denmark has implemented EU Council Directive 94/33/EU, which tightened Danish employment rules for those under 18 years of age, and set a minimum of 13 years of age for any type of work. The law is enforced by the Danish Working Environment Service (DWES), an autonomous arm of the Ministry of Labor. Danish export industries do not use child labor.

e. Acceptable Conditions of Work: There is no legally mandated work week or national minimum wage. The work week set by labor contracts is 37 hours. The lowest wage in any national labor agreement is equal to about \$11 per hour. Danish law provides for five weeks of paid vacation each year. However, both private and public sector contract agreements since 1998 provide for 2 to 3 extra holidays plus up to 3 extra days off each year for wage earners with children. Danish law also prescribes conditions of work, including safety and health; duties of employers, supervisors, and employees; work performance; rest periods and days off; medical examinations; and maternity leave. The DWES ensures compliance with work place legislation. Danish law provides for government-funded parental and educational leave programs.

Similar conditions, except for leave programs, are found in Greenland and the Faroe Islands, but in these areas the workweek is 40 hours. Unemployment benefits in Greenland are either contained in labor contract agreements or come from the general social security system. A general unemployment insurance system in the Faroe Islands has been in force since 1992. Sick pay and maternity pay, as in Denmark, fall under the social security system.

f. Rights in Sectors with U.S. Investment: Worker rights in those goods-producing sectors in which U.S. capital is invested do not differ from the conditions in other sectors.

**Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad
on an Historical Cost Basis -- 1998**

(Millions of U.S. Dollars)

Category	Amount
Petroleum	286
Total Manufacturing	638
Food & Kindred Products	160
Chemicals & Allied Products	60
Primary & Fabricated Metals	(1)
Industrial Machinery and Equipment	5
Electric & Electronic Equipment	216
Transportation Equipment	-8
Other Manufacturing	(1)
Wholesale Trade	(1)
Banking	(2)
Finance/Insurance/Real Estate	(1)
Services	34
Other Industries	54
TOTAL ALL INDUSTRIES	2,628

(1) Suppressed to avoid disclosing data of individual companies.

(2) Less than \$500,000 (+/-).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.