THE COUNTRY

***DENMARK**, A Brief Outline*

Denmark is one of the Scandinavian countries in northern Europe, with a land border to *Germany* to the south, while *Sweden* to the east and *Norway* to the north are separated from **Denmark** by narrow seaways, the *Kattegat−Skagerrak* to the north, and *Øresund* to the east.

The oldest monarchy in the world and a constitutional monarchy since 1849, the **Kingdom of Denmark** is the smallest of the Nordic countries in terms of total area . But in terms of population and GDP (Dkr 1,014 billion in 1996), it is the second largest after *Sweden*.

The country has an area of 43,093 sq.km., and a population of 5,275,121 (1997), and is made up of the *Jutland* peninsula and 406 islands, of which 90 are inhabited. Denmark also includes the ***Faroe Islands*** (with an area of 1,399 sq.km. and a population of 46,800) and ***Greenland*** (with an area of 2,175,600 sq.km. and a population of 55,400).

Denmark has a generally flat to unulating countryside, with low hills, lakes and woodlands in a setting of cultivated farmland. The highest point is only 173 meters above sea level. In relation to itd size, **Denmark** has an unusually long coastline, 7,314 km. The climate is temperate, with an average annual temperature of about 8ºC. February is the coldest month, average temperature of −0.4ºC, and July the warmwst at +16ºC. Average annual precipitation is 664 mm.

Population density is 120,6 inhabitants per sq.km., and obout 70 per cent of the population are urban dwellers, with 1.7 million living in th Greate Copenhagen area. Other main cities are **Aarhus** (200,000 inhabitants), **Odense** (134,000) and **Aalborg** (113,000).

The beloved figure of the Siren it's one of Copenhagen's main interest points.

Population by region on 1 January

	1985	**1990**	**1995**	**1997**
Jutland	2 351 022	2 378 348	2 418 846	2 444 564
Funen	454 278	459 354	467 695	471 422
Zealand	2 138 904	2 134 816	2 169 015	2 198 829
Lolland−Falster	119 740	116 991	115 226	115 288
Bornholm	47 164	45 900	44 936	45 018
Total	**5 111 108**	**5 135 409**	**5 215 718**	**5 275 121**

Urban areas with over 35 000 inhabitants on 1 January	**1979**	**1985**	**1996**
	Population		
Copenhagen, incl. suburbs	1 395 534	1 358 540	1 362 264
Of which:			
Copenhagen	*505 982*	*478 615*	*476 751*
Frederiksberg	*88 834*	*88 030*	*88 789*
Gentofte	*67 669*	*66 767*	*66 706*
Århus	182 778	194 345	213 826
Odense	136 358	136 803	144 518
Aalborg	114 686	113 865	118 500
Esbjerg	69 305	70 975	73 331
Randers	56 350	55 780	55 916
Kolding	42 720	41 770	52 207
Horsens	46 830	46 586	47 755
Vejle	42 932	43 867	47 374
Helsingør	44 173	43 581	44 007
Roskilde	40 427	39 663	42 154
Næstved	38 252	38 177	38 761
Silkeborg	32 988	33 775	36 487

As in other industrialized countries the age distribution has changed in recent decades. During the 1980s the proportion of population aged 0−24 years fell from 35,2% to 27,1%. Over the same period the actively employed population aged 25−60 years increased from 52,0% to 55,0%.

Aerial view of Copenhagen, with Inderhavn channel in first sight, and the Renacentist building of the Stock Exchange at the left hand.

Population changes 1769−2040			
1769	797 584	**1990**	5 135 409
1801	929 001	**1996**	5 251 027
1850	1 414 648	**1997**	5 275 121
1901	2 449 540		***Total Population***
1930	3 550 656	**Projections**	
1940	3 844 312	**2000**	5 331 600
1950	4 281 275	**2010**	5 497 500
1960	4 585 256	**2020**	5 577 200

1970	4 937 579	**2030**	5 676 300
1980	5 122 065	**2040**	5 655 900

Population by sex and age on 1 January 1997			
	Males	Females	Total
Total	**2 604 937**	**2 670 184**	**5 275 121**
0−6 years	245 236	232 802	478 038
7−14 years	235 134	223 775	458 909
15−17 years	90 172	86 674	176 846
18−24 years	253 356	245 072	498 428
25−66 years	1 495 922	1 464 277	2 960 199
67 years and over	285 117	417 584	702 701

Live births	
1965	*85 796*
1970	*70 802*
1975	*72 071*
1980	*57 293*
1985	*53 749*
1990	*63 433*
1995	*69 771*
1996	*67 638*

Marriages and divorces					
	1970	**1980**	**1990**	**1995**	**1996**
Marriages, total	36 376	26 448	31 513	34 736	35 953
Marriages per 1 000 inhab.	7.4	5.2	6.1	6.6	6.8
Divorces, total	9 524	13 593	13 731	12 976	12 776
Divorces per 1 000 inhab.	1.9	2.7	2.7	2.5	2.4

Physical and political map of Denmark (without Greenland and The Faroe Islands)

Families by type on by 1 January			
	1990	**1994**	**1997**
Families, total	**2 782 461**	**2 849 341**	**2 879 692**
Families without children	***2 105 707***	***2 192 376***	***2 220 753***
Single persons	1 380 097	1 436 491	1 449 353
Males	682 483	714 139	722 841
Females	697 614	722 352	726 512
Married couples	575 003	595 475	605 789
Other couples	150 607	160 410	165 611
Families with children	***661 151***	***642 848***	***644 556***
Single persons	117 402	119 570	119 372

Males	16 218	15 207	14 589
Females	101 184	104 363	104 783
Married couples	449 144	413 745	411 432
Other couples	94 605	109 533	113 752
Children not living at home	***15 603***	***14 117***	***14 383***

Foreign nationals resident in Denmark on 1 January				
	1985	**1990**	**1995**	**1997**
Europe, total	***78 700***	***95 012***	***116 013***	***147 478***
of whom:				
EU countries	24 382	26 795	44 020	48 946
Yugoslavia (former)	7 617	9 535	11 324	32 184
Turkey	18 806	27 929	34 967	36 835
Africa	4 470	6 146	13 481	19 168
North America, total	***4 917***	***5 034***	***5 872***	***6 213***
of whom:				
USA	4 110	4 126	4 815	5 100
South and Central America	1 912	2 209	2 854	3 079
Asia	***16 830***	***35 205***	***47 045***	***50 504***
Oceania	***527***	***618***	***960***	***1 038***
Stateless/not known	***370***	***6 420***	***10 480***	***10 215***
Resident foreign nationals, total	**107 726**	**150 644**	**196 705**	**237 695**

Self Governed Territories

In addition to Denmark itself, the Kingdom of Denmark includes two self−governing territories, The Faroe Islands and Greenland. These north Atlantic possesions have home−rule status under the Danish Constitution, each elects two representatives to the Danish Parliament, **Folketing**, in addition to their respective local government bodies.

The Faroe Islands

The faroe Islands are situated in the North Atlantic Ocean, and about 1,500km to the north−west of Denmark. A part of the Kingdom of Denmark, the islands have had home rule, with their own parliament and government since 1948. The Parliament, the **Lagting**, has legislative power in domestic matters, but foreign and defence policy are shared with Denmark. The Faroe Islands appoint two members of the Danish Folketing, and a commissioner appointed under the Royal Seal id the highest Danish representative on the islands.

When Denmark joined the EU in 1973, the Faroese people voted against membership. This status continues, although the islands have negotiated trade agreements with the EU.

The Faroe islands are made up of 18 islands, with Strømø the largest. The combined area is 1,399 sq.km., and population totals 46,800, with about one third living in the capital, Torshavn.

The Faroe Islands

Economically, the islands depend almost entirely upon fishing and fish processing. In 1993, 47% of the total catch of 226,000 tonnes was taken inside the 200 mile Faroese fishering zone. At the end of 1993, the fishing fleet comprised 203 vessels of overall GRT and a total 54,000 GRT.

In addition, there were a number of vessels under 20 GRT.

External Trade of the Faroe Islands, by countries			
Principal markets			
		IMPORTS	**EXPORTS**
Rank	*Countries of Origin/Destination*	1994 (1,000 DKK)	1994 (1,000 DKK)
1	Denmark	545,097	550,186
2	United Kingdom	165,904	423,981
3	Germany	101,280	236,660
4	France, Monaco	30,130	233,472
5	Italy	20,149	118,446
6	Spain	14,385	95,112
7	Norway	268,330	61,655
8	U.S.A.	21,377	59,578
9	Japan	30,654	55,417
10	Netherlands	33,678	42,467
TOTAL		**1,539,803**	**2,076,343**

The land−based processing industry made up of about 20 filleting factories and a number of smoke houses. The processing industry's capacity is estimated at about 400,000 tonnes per year. The effects of over−fishing and quote restrictions have contributed to a considerable over−capacity in relation to the landings. The main fish varieties are cod, haddock and saithe, and principal markets are Denmark, Germany United Kingdom and France.

Faroese population on 1 January 1998	**1980**	**1985**	**1990**	**1996**	**1997**
0 − 19 years	16 236	15 802	15 574	13 659	13 731
20 − 39 years	12 338	13 683	14 141	11 426	11 571
40 − 64 years	10 331	12 870	12 071	12 284	12 432
65 years and over	4 368	3 399	5 663	6 013	6 050
Total	**43 273**	**45 754**	**47 449**	**43 382**	**43 784**

Greenland

Although it is considered to be the world's largest island, 84% of Greenland is covered by a permanent ice plateau more than 3km thick in places, and only a narrow coastal strip of land is habitble. With an area of 2,175,600 sq.km., Greenland is about the size of Saudi Arabia, and has 55,400 inhabitants. Some 12,500 live in the capital Nuuk, Godthåb, the syte of the government, **Landsstyret**, and home rule parliament, **Landsting**.

GreenlandÂ´s population on 1 January	**1985**	**1990**	**1995**	**1997**
Total population	***52 940***	***55 558***	***55 732***	***55 971***
North Greenland	789	846	881	870
West Greenland	47 575	50 217	50 824	50 983
East Greenland	3 278	3 443	3 488	3 465
Outside administrative divisions	1 298	1 052	539	653
Population by age				
0 − 4 years	4 948	5 500	5 678	4 303
5 − 14 years	*8 153*	*8 720*	*9 700*	*10 232*
15 − 19 years	6 150	3 671	3 512	3 831
20 − 64 years	*31 785*	*35 598*	*34 395*	*34 745*
65 years and over	1 904	2 069	2 447	2 860
Population by place of birth				
Born in Greenland	43 587	46 142	48 412	48 882
Born outside Greenland	9 353	9 416	7 320	7 089

Greenland is part of the Kingdom of Denmark, and has had home rule since 1979. However, foreign policy and defence remain under the central government in Copenhagen. In 1985 Greenland withdrew from the European Union, basing its relations with the EU on an agreement instead.

The introduction of home−rule, has meant that the former state trade monopoly, **Royal Greenland Trade Department**, has been replaced by a Greenland company, **Kalaalit Niuferat**, responsible for imports to the island. Greenland's fish and fish products export company is **Royal Greenland**. Greenland's transition from hunting and whaling society to a modern economy has been based heavily upon developing the fishing industry.

External Trade of Greenland, by countries			
Principal markets			
		IMPORTS	**EXPORTS**
Rank	*Countries of Origin/Destination*	1994 (1,000 DKK)	1994 (1,000 DKK)
1	Denmark	1,677,492	1,535,643
2	France, Monaco	18,794	11
3	Belgium, Luxemburg	6,072	10
4	Netherlands	16,972	–
5	Germany	54,543	13,392
6	United Kingdom	38,146	92,338
7	Norway	91,064	46
8	Sweden	32,156	–
9	Finland	9,412	4
10	U.S.A.	90,007	39,139
11	Canada	17,327	13,486

12	Japan	80,225	265,252
	Other Countries	111,353	70,336
TOTAL		**2,243,594**	**2,029,658**

The fishing fleet of 118 vessesls supply the land−based processing industry. In economic terms prawns are the main catch, followed from frozen, filleted and other processed seafoods. Main markets are *Denmark, United Kingdom* and *Japan.*

Commercial fur hunting is another important activity, and **Greenland** has produced new and innovative designs for the (adult) seaskins furs which are sold internationally.

Narssaq, in the west coast of Greenland.

Little Greenland's cities, suffering a hard weather during all the year, are principally settled at the coast's fiords. Houses painted with bright colours give them a typical look.

Julianehåb, in the meridional sector of Greenland. The fishery industry is well represented in this photography.

ENVIRONMENT

Environment Watch

Politics

Political Structure

Denmark is Europe's oldest monarchy dating back to the reign **of King Gorm the Old** (d. About 935 AD). The present monarch, **Queen Margrethe II**, came to the throne in 1972. The Queen and her Consort, Prince Henrik of Denmark, have two sons, Crown Prince Frederik (b. 1968) and Prince Joachim (b. 1969).

Denmark's first liberal constitution was introduced in 1849, and the two chamber parliamentary system which followed was replaced by the present, single chamber **Folketing** under a constitutional revision in 1953.

Political Summary

Denmark's electoral system is based on universal suffrage, which was introduced in 1915. Its national legislature is the unicameral **Folketing**, a parliament comprising 179 members. Of these, 175 are elected for periods of four years under a system of proportional representation based on multimember constituencies and national allocations. (The remaining four mandates include two from the Faroe Islands and two from **Greenland**, both of which are self−governing territories within the **Kingdom of Denmark**.)

Early dissolution of parliament is permitted under the constitution, which was last amended in 1953. Following the last election, held on September 21, 1994, a **Social Democrat−led** minority coalition was formed. The next election must be held by September 1998. The political parties currently represented in the **Folketing** are:

- **Social Democratic Party** (with 64 seats, including one from Greenland)
- **Liberal Party** (44, including one from Greenland and one from the Faroe Islands)
- **Conservative People's Party** (28, including one from the Faroe Islands)
- **Socialist People's Party** (11)
- **Radical Liberal Party** (9)

- **Progress Party** (7)
- **Unity List** (6)
- **Centre Democrats** (5)
- **Danish People's Party** (4)
- **Others** (1)

The current prime minister is **Poul Nyrup Rasmussen**, leader of the Social Democrats.

Government Stability

With a pre−election atmosphere pervading the Danish political climate, the outlook for government stability remains unsettled in the near term. **Social Democratic** *prime minister* **Poul Nyrup Rasmussen** has until September 1998 to call a general election. But his minority two−party coalition will come under increasing strain ahead of the all−party negotiations on the 1998 finance bill, which will climax in the late autumn of 1997. A snap election either before this time, in September, or during, in November, is possible, particularly as Danish law requires budget legislation to be approved by end−December.

Denmark's 10 parliamentary parties represented in the *179−member national assembly* (**Folketing**) face a packed political calendar in the next 18 months. On the agenda will be at least three national ballots.

These include:

- local county and municipal elections in November 1997;
- a national referendum on the new **European Union** (EU) *treaty* in early 1998;
- and a general election by September 1998 at the very latest.

With a growing number of politicians, political pundits and voters expecting the minority coalition to call an early parliamentary election, the Danish political scene turned decidely static in the first half of **1997**. The government's apparent lack of resolve to proceed with reforms and new legislation of any consequence fuelled the speculation.

Although some legislative bills were entered in the statute books in time for the **Folketing's** summer recess on May 30, most political parties were keen to keep their powder dry for an election that they felt was just around the corner. Both the ruling **Social Democratic Party** and the **Radical Liberal Party**, the small centre party which chose to remain in the coalition with the **Social Democrats** after another small centrist party in the form of the **Centre Democrats** quit government in December 1996, sought to downplay rumours of an imminent poll, however.

It remains to be seen whether **Social Democratic** *prime minister* **Poul Nyrup Rasmussen** will opt for a snap election in the autumn of 1997 or prefer to sit it out until closer to the time when his four−year mandate expires in September 1998. But betting on the latter alternative took on such bad odds that the main opposition **Liberals** at any rate chose to launch their pre−election campaign with a series of media advertisements in April. These included the assertion that unemployment during **Nyrup's** tenure in office in effect had risen by 43,000 persons. This contradicted the official line that 72,000 fewer persons were currently without a job.

Results of the election to the Folketing on 21 September 1994			
	Denmark	**Faroe Islands**	**Greenland**
The electorate	***3 988 787***	***30 953***	***38 113***

Votes cast	**3 360 637**	**19 278**	**22 360**
of which personal	1 710 701	17 840	21 100
Number of personal votes	*51*	*93*	*98*
Votes cast as a percentage af electors	*84.3*	*62.3*	*58.7*
Candidates	**940**	**86**	**8**
Males	662	74	7
Females	278	12	1
Elected	**175**	**2**	**2**
Males	116	2	2
Females	59	–	–

The **Liberals** argue that it is overlooked that 125,000 persons of active working age have opted for taking leave of absence, early retirement or one or another form of social transfer income. In addition, public expenditure on these items is said to have risen nine per cent in fixed prices. The party also states that although the **Nyrup** administration's 1993 tax reform pledged an easier tax burden, taxation has in fact trended higher. The **Liberal** manifesto's final argument is that, although the economy is buoyant, the current−account surplus has shrunk from Dkr24.5bn in 1992 to Dkr13.4bn in 1996. The advertisements' contents demonstrated to the full that figures can be presented in many ways.

The ruling **Social Democrats** immediately responded to the **Liberals'** challenge by coming up with their own figures on the same issues but presented in another light. The official line is that since the *Nyrup government* entered office, all has taken a turn for the better. There is no lack of evidence to support this assertion. Domestic demand has proved sufficiently strong to help reduce the headline unemployment rate without triggering a sharp rise in inflation; the current account has remained in sizeable surplus even in a time of restrained export growth and renewed import demand; and historically low interest rates and record−high equity markets have contributed to a sustained investment revival.

In addition, both general and central government budgets are returning to surplus for the first time in a decade, and the net foreign debt seems to be on the decline. But it is also worth noting that the two *Nyrup administrations* in power since 1993 have had economic luck on their side. Without a well−balanced economic recovery, the political picture may have looked a lot different. **Nyrup's** fortitude was also strengthened by the fact that his was one of the very few post−war Danish governments not to inherit a mess. Thanks to a heavy hand on domestic demand by the previous government, economic growth in 1993 was on the rebound after five depressed years; inflation was in abeyance; and the current account was in solid surplus.

The election on the Folketing on 21 September 1994. Votes cast				
	Votes	**Pct.**	**Candidates**	
			Nominees	*Elected/ Females*
Denmark	**3 327 597**	**100.0**	**940**	**175/59**
A. Social Democratic Party	1 150 048	34.6	106	62/24
B. Social−Liberal Party	152 701	4.6	98	08−abr
C. Conservative People's Party	499 845	15.0	103	27−sep
D. Centre−Democratic Party	94 496	2.8	96	05−feb
F. Socialist People's Party	242 398	7.3	103	13−mar
Q. Christian People's Party	61 507	1.9	104	−/−
V. Liberal Democratic Party	775 176	23.3	99	42/13

Z. Progress Party	214 057	6.4	103	11−mar
Ã	103	11−mar		
Ã . Unity List	104 701	3.1	99	06−ene
Non−party candidates	*32 668*	*1.0*	*29*	*1/−*

In presenting their own case for remaining in government, the **Radical Liberals** have stated that their participation in any coming coalition with the **Social Democrats** after the next election hinges on a written agreement that the government's platform includes fundamental reforms of the welfare state. The party, which is traditionally regarded as the kingmaker in Danish politics, feels that in the short term Denmark can afford current welfare levels but not in the longer run. Although the **Radicals** would like to see agreement with the main opposition **Liberals** and **Conservatives** on this point, they also stressed that if necessary the reforms could be carried out without their participation.

Among items for reform, the **Radicals** singled out a rise in the de facto retirement age from the current 60−61 years to 63−64 years partly via stricter requirements for taking early retirement. The **Radicals** also hold the view that the **Conservatives**, who are generally seen as more middle−of−the−road and less ideologically driven than the **Liberals**, should be asked to take part in a deal with the government on the 1998 budget, even if the two opposition parties pledge that they have closed ranks on this issue.

But there are indications that **Nyrup's** hand may well he forced by the electorate. If opinion polls are anything to go by, voters have grown increasingly weary over several factors.

These include :

- the government's lack of willingness to proceed with reforms;
- the somewhat hesitant stance towards the long−awaited national debate on the new **EU treaty**;
- dischord in the coalition ranks;
- the **Center's Democrats'** exit from the coalition;
- and the internal tumult that engulfed the Conservatives when they disagraced leader was forced to resign over a drink−driving offence in February.

All this factors account for the fact that, according to one survey by the **Greens** *research institute for business daily* **Børsen**, no less than an indicated 47 per cent of all voters want elections to be brought forward to 1997 from the scheduled September 1998 polling date.

However, 43,8 per cent of the respondents stated that they could wait until next year. Strongly criticised and negative trends in the Danish hospital sector, and the countie's slack treatment of the problem, were cited by the interviewed voters as being top of priority in any election campaign if elections were called now. In second place came the environment followed in descending order of preference by unemployment, inmigration, welfare reform, taxation and then the EU, with the last issue attracting less than half the interest found for hospital treatment.

For its part, the left−wing **Socialist Left Party** with its 11 mandates has assumed a crucial role in deciding the ultimate fate of the **Nyrup** administration. At the party's national congress in April, the leadership made it clear that it would not accept a patchwork solution for the 1998 draft budget when all−party negotiations begin in the autumn to find the necessary majority for the government's proposals. Under Danish law, the finance bill for the coming year has to be approved by parliament before it enters the winter recess at the end of December. In a strict sense, prime minister Nyrup will be forced to choose sides by then − either by entering an agreement with the non−socialist parties represented in the **Folketing** or by siding with the **Socialist People's Party** and the party to its left, **Unity List**.

Signs of increased cooperation between the coalition and these two parties manifested themselves in the spring months of 1997, when a series of stricter fiscal measures to dampen domestic demand were agreed on. And the **Socialist People's Party** is certainly pressing for some extensive changes to the next budget, including a new tax reform. Although in 1996 the party voted for an incumbent government's budget proposals for the first time since 1982, **Nyrup** cannot not count on this support being repeated for the 1998 bill unless clear concessions are made to the two left−wing parties. A defeat over the finance bill would almost certainly force **Nyrup** to go to the polls, either in September or in November when the results of the local government elections are known.

Another party which could play a decisive role in choosing a new government is the small centrist **Christian People's Party**. Although it failed to surmount the two per cent voting threshold for parliamentary representation at the last general election in 1994, the party is still pinning its hopes on a return, with isolated opinion polls suggesting it will obtain the minimum four mandates for sitting in the **Folketing**. When it was represented, the party shared government with the **Liberals** and **Conservatives** in a number of centre−right coalitions during much of the 1980s. At the party's national congress in April, party leader **Jan Sjursen** affirmed that it was not ready to assume government responsibility but that it would propose a non−socialist led government following the next election.

Referendums on EC				
	Copen−hagen region	The Islands	*Jutland*	**All Denmark**
Danish accession to the EC package on 27 Feb. 1986:				
The electorate	*461 259*	1 657 516	*1 764 654*	**3 883 429**
Votes cast	*335 244*	1 264 571	*1 327 837*	**2 927 652**
of which invalid	*3 106*	13 210	*13 067*	**29 383**
Percentage voting	*72.7*	76.3	*75.2*	**75.4**
Per cent of valid votes:				
For	*36.3*	54.9	*62.5*	**56.2**
Against	*63.7*	45.1	*37.5*	**43.8**
Danish accession to the treaty on the EC Union on 2 June 1992:				
The electorate	*444 174*	1 697 583	*1 820 248*	**3 962 005**
Votes cast	*362 645*	1 435 310	*1 492 655*	**3 290 610**
of which invalid	*3 552*	12 780	*14 547*	**30 879**
Percentage voting	*81.6*	84.6	*82.0*	**83.1**
Per cent of valid votes:				
For	*38.3*	49.6	*51.6*	**49.3**
Against	*61.7*	50.4	*48.4*	**50.7**
Danish accession to the Edinburgh decision and the Maastricht treaty on 18 May 1993:				
The electorate	*443 444*	1 702 723	*1 828 505*	**3 974 672**
Votes cast	*374 497*	1 489 053	*1 573 390*	**3 436 940**
of which invalid	*4 239*	13 868	*16 528*	**34 635**
Percentage voting	*84.5*	87.5	*86.5*	**86.5**

Per cent of valid votes:				
For	*44.7*	56.5	*59.9*	**56.7**
Against	*55.3*	43.5	*40.1*	**43.3**

Prior to his drink−driving offence, then **Conservative** *leader* **Hans Engell** was the **Christian People's** preferred candidate for prime minister. But his fall from grace ushered in former environment minister and academic **Per Stig Møller** as new **Conservative** *leader*. His lack of credibility in connection with an old drink−driving offence from his youth is such that the **Christians** do not consider him acceptable as a possible candidate. And according to **Sjursen**, **Liberal Party** *leader* **Uffe Ellemann−Jensen** is not middle−of−the−road enough.

A representative cross−section of political opinion polls taken by **Nordic Forecasts** in the four−month period up to end−June bears every indication that the next general election, irrespective of when it is held in the next 12 months or so, will be a closely fought race. The currently represented non−socialist parties, which include the **Liberals**, **Conservatives**, **Centre Democrats**, and the right−wing populist **Progress** and **Danish People's Party**, stand to muster a total of **90** seats. This would give them a majority of just a single mandate in the 179−member unicameral chamber. Of the **179** MPs, **175** are members elected under a system of proportional representation based on multimember constituencies and national allocations.

(The remaining four mandates include two from the **Faroe Islands** and two from **Greenland**, three of which generally go to the **Liberals** and **Conservatives** and the remaining one to the **Social Democrats**.) According to our review of these polls, the ruling **Social Democrats** posted some gains in the immediate aftermath of the **Conservative Party's** confusion surrounding its forced change in leadership. But the **Social Democrats** have since fallen back to around 30 per cent of the popular vote, which remains a long way off the 34.6 per cent share secured in the last election on September 21, 1994. Only if the party succeeds in recouping these losses would **Social Democratic** *leader* **Nyrup** dare to opt for an early poll.

Although the surveys generally suggest that Danish voters have punished the **Conservatives** for the party's run of scandals and tumult, this is partially offset by indicated gains for the **Liberals**. While the **Liberals** continue to challenge the **Social Democrats** for the distinction of being called Denmark's largest political party, support for the **Conservatives** has ebbed to around *12 per cent* of the popular vote. This compares with the *15 per cent* secured at the last election. By contrast, support for the **Liberals** has settled at relatively stable levels of around *30 per cent*, after jumping to some *33 per cent* in the wake of the **Conservatives'** debacle in March. According to one survey by the **Greens** *research institute* for **Børsen**, **Liberal** *leader* and *former foreign minister* **Uffe Ellemann−Jensen** is by far the preferred candidate for the post of prime minister among the Danish business élite.

Of those executives interviewed, *74 per cent* singled out **Ellemann−Jensen**, while only *8.2 per cent* favoured **Conservative** *leader* **Per Stig Møller** for the post. A similar poll taken among a cross−section of voters as a whole pointed to *51 per cent* for **Ellemann−Jensen** and *17.5 per cent* for **Stig Møller**. Prior to **Engell's** drink−driving episode and **Stig Møller's** attempt to deny a similar offence **30** years earlier, **Engell** was the clear favourite to lead a new non−socialist government. Our findings suggest that it will require a seismic shift in popular sentiment and a massive effort on the **Conservatives'** part to regain their former standing and win support for a prime ministerial candidate from their ranks.

To the great relief of **Conservative** supporters and, incidently, the non−socialist parties at large, the party seems to have succeeded in avoiding a debilitating internal power struggle. Even the staunchest supporters of former leader **Engell** unequivocally backed **Stig Møller** as their new top leader. His commanding position is expected to be consolidated by his appointment as new chairman at the party's national congress in September. In the interim, two deputy chairmen will attend to party affairs. To all intents and purposes, **Engell** has fully accepted his new position as administrative group chairman and sparring partner for **Stig Møller**. For his part, **Stig Møller** has insured himself with a written confirmation from the parliamentary group that guards against any possible attempt at toppling him in the future.

Stig Møller's political line is characterised by a steadier course of middle−of−the−road policy than the more fluctuating path taken by **Engell**. This shift in emphasis has raised numerous questions concerning the **Conservatives'** future course and possibility of cooperating with the **Social Democrats**. But **Stig Møller** has flatly rejected any thought of forging closer links with **Nyrup's** party. **Stig Møller's** declared aim is to be part of a new non−socialist government together with the **Liberals**. And the stated reason for this is that the **Social Democrats** are neither willing nor able to implement the type of major reforms in social, economic and labour areas that in **Stig Møller's** view are necessary to steer Denmark into the next decade.

With little more than six months to go before a general election was due to be held in September 1998, **Social Democratic** prime minister **Poul Nyrup Rasmussen** chose to call a snap election on March 11. The election's timing poses a calculated risk for chances of *Nyrup's minority coalition* winning a renewed mandate. It also tests government stability in the sense that poll evidence suggests that it will be a neck−and−neck race, with no single party likely to win an outright majority. The chances of a non−socialist coalition led by the Liberal Party being voted into office are relatively good, however.

The decision by **Social Democratic** *prime minister* **Poul Nyrup Rasmussen** to call an early general election in March 1998 was a calculated gamble which he nearly lost. Returned to power with the questionable support of one mandate from the kingdom's rebellious semi−autonomous territory of the **Faroe Islands**, *Nyrup's two−party minority coalition* must seek consensus every step of the way. Yet a degree of government stability is assured by the weak nature of the opposition, which lost many of its veteran leaders in the wake of the election. Although a snap election can be called at any time, a spell of relative political calm is in store.

Economics

Introduction *The Danish Economy*

After more then 20 years of successive balance of payments deficits, the Danish economy was turned above in the late 1980s and moved into surplus in 1990 − a trend that has been maintained since.

The rate of economic growth slowed somewhat in 1991 while the level of unemployment continued to rise. On the moer positive side, inflation has rmained at a very low level, the lowest of any **OECD** member in 1991 and still among the lowest in the **European Union**. Export−led growth has produced a positive external balance.

The modest growth rate and gradual increase in unemployment have kept the rate of wage increases at the lowest level seen in Denmark since the **1950s** and the consumer prices have been equally restrained.

Denmark's strong export performance in recent years could indicate that the country has improved its competitive posistion considerably after a protracted period of external deficits. The main positive factors have been low wage and consumer prices increases, consistent export growth and a posisitive external balance.

Growth

Annual **GDP** growth will average a firm 2.7 per cent in the six−year period up to and including *2001*. This represents a slight markup compared with the 2.5 per cent projection made in our 3nd Tertial 1996 Denmark Report. Following a buoyant spell, domestic demand will peak in **1998** as purchases of durable goods and new cars reach saturation point and as the beneficial impact of income tax cuts wears off. Gross fixed

investment growth will return to slower rates, driven lower by a combination of completed plant upgrading and higher corporate borrowing rates. By 1999, economic growth will have resumed a more moderate path.

Danish **GDP** passed the Dkr1,000bn mark for the first time in 1996, ushering in a period of steady but hardly spectacular growth. National accounts from **Danmarks Statistik**, the official statistics bureau, revised **1996 GDP** growth up slightly from an earlier 2.3 to 2.4 per cent, with a seasonally−adjusted increase of 3.3 per cent recorded in the fourth quarter compared with a 2.7 per cent rise in the third. The figures pointed to a fairly evenly balanced advance in most **GDP** components: private consumption gained 2.6 per cent; public consumption rose 1.9 per cent; gross fixed investment (**GFI**) expanded 7.7 per cent and exports grew 2.3 per cent. With the possible exception of GFI, these figures were roughly in line with the projections made by Nordic Forecasts in its 3rd Tertial 1996 Denmark Report.

Volume change (%)	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Gross domestic product	2.4	2.9	3.1	2.7	2.5	2.3
Private consumption	2.6	3.0	2.8	2.6	2.3	2.1
Public consumption	1.9	1.7	1.4	1.1	0.9	1.0
Gross fixed investment	7.7	4.1	6.3	3.1	2.5	2.8
Exports (goods, services)	2.3	3.8	4.4	4.8	4.3	3.9
Imports (goods, services)	1.8	4.1	4.3	3.9	3.7	3.4
Stockbuilding (% of GDP)	−0.9	−0.1	0.0	0.2	0.4	−0.2

Nevertheless, it deserves to be noted that private consumption, which totalled Dkr544.1bn in 1996, comprises a disproportionately large component of **GDP**. *(By way of comparison, exports of goods and services totalled Dkr341.6bn, public consumption Dkr254.2bn and business fixed investments Dkr113.1bn.)*

Bearing this in mind, we believe that the favourable trend currently characterising the Danish economy as a whole is set to continue in ensuing years, although export growth will figure more prominently as private consumption takes a respite after nearly five years of relatively strong expansion. All told, present evidence points to **GDP** growth averaging an annual 2.7 per cent in the period up to end−2001, with Danish exports benefitting from a resumed expansion in demand from major ***West European*** trading partners *like France, Germany, Italy and Sweden*.

The fairly rapid pace of growth begs the question whether the Danish economy is exposed to the risk of overheating. **Nordic Forecasts** takes the view that, although the economy will operate at around one per cent below full capacity utilisation in 1997, the Danish authorities will have to remain on guard against the economy overheating. Such a likelihood would pose an inflationary threat and chip away at the current−account **surplus**. In this context, it needs to be recalled that the current−account surplus remains modest in relation to the size of Denmark's foreign debt and related servicing needs.

Speaking at the annual meeting of the **Mortgage Credit Association** in April, *Danmarks Nationalbank* governor ***Bodil Nyboe Andersen*** warned against Denmark's economic success going to people's heads. In the central banker's view, there was need of a tighter financial line by the government to halt inflationary trends and bolster the current−account . The Danish economy was growing at such a rapid pace compared with other European countries that tighter policies would be required in 1998, forecast the central banker. In addition, Danish wages and prices were rising at a faster rate than in neighbouring countries and this posed a severe risk of reducing competitiveness.

Gross domestic product, by type of expenditure			
	1988	**1992**	**1996**

	DKK bn. at current prices		
Private consumption expenditure	*375.8*	*439.3*	*538.1*
General government final consumption	*196.6*	*229.2*	*270.4*
Gross capital formation	*154.9*	*161.0*	*206.7*
Domestic expenditure, total	***727.4***	***829.4***	***1 015.2***
+ Exports of goods and services	*248.4*	*324.2*	*375.3*
− Imports of goods and services	*227.0*	*265.6*	*326.1*
Gross domestic product at market prices	***748.3***	***887.9***	***1 065.7***
Transfers, etc. to/from rest of world (net)	*32.2*	*39.6*	*36.1*
Consumption expenditure, total	*572.5*	*668.4*	*808.5*
Gross saving	***143.6***	***179.9***	***221.1***
	DKK bn. at 1990 prices		
Private consumption expenditure	*405.3*	*422.7*	*479.9*
General government final consumption	*213.3*	*214.1*	*234.4*
Gross capital formation	*167.6*	*159.9*	*201.0*
Domestic use, total	***786.1***	***796.7***	***915.3***
+ Exports of goods and services	*267.1*	*314.9*	*373.1*
− Imports of goods and services	*239.9*	*264.1*	*341.5*
Gross domestic product at market prices	***813.3***	***847.5***	***946.9***

Although Denmark's track−record in avoiding inflationary and current−account problems has proved nothing less than exemplary since 1993 when the Social Democrat−led minority coalition took power, some recent indicators raise questions. For one, property prices have risen by around 10 per cent annually in the past four years, and the situation reflects similarities to the mid−1980s, when the then centre−right government was forced to step in with drastic action to curb spiralling home prices. At that time, economists argued that property prices would not influence private consumption, but they were proved wrong and the situation appears to be repeating itself. With property prices on the rise, it has also become easy for homeowners to borrow money against their mortgages.

This in turn could put pressure on wages and produce a wage−price spiral. Contrary to the general consensus of economists at Danish employer and employee organisations, as well as most of the commercial banks, our assessment of all the latest key indicators suggests there is a pressing need for an immediate tightening in economic policy. In the event that government measures already introduced or planned prove less strict in their contractionary impact than desirable, there are well−grounded fears that it will prove necessary for the Danish central bank to raise interest rates in order to slow the pace of private consumption, accelerating property prices and declining unemployment.

Generation of income at current prices	***1988***	***1996***	***1988***	***1996***
	DKK bn.		Pct.	
Gross value added	*633.8*	*914.5*	*100*	*100*
− Other taxes on production less subsidies	0.0	−2.5	0	0
Gross domestic product at factor cost	*633.8*	*916.9*	*100*	*100*
− Compensation of employees	425.0	562.3	67	61
Gross operating surplus, mixed income	*208.8*	*354.6*	*33*	*39*
− Consumption of fixed capital	115.6	152.3	18	17

Net surplus on output and mixed income	*93.1*	*202.3*	*15*	*22*

With Danish private consumption forecast to grow by as much as three per cent in 1997, such a rate of growth would rank among the highest in the EU. Danish consumer optimism seems to be going from one strength to another. Although the five per cent leap in new car sales recorded in 1996 was impressive, sales in the first five months of 1997 made further gains. Alone in May, sales of new cars jumped to **29,260** units, an *89.4 per cent* leap on the comparable May 1996 total and the highest level ever in a single month. However, it is possible that the surge stemmed from a desire by motorists to make purchases before new environmental taxes favouring motor vehicles with low petrol consumption were due to go into effect from July. As such, new car sales are likely to record a slowdown in the months ahead

In the tourism sector, which ranks as another important indicator of private spending trends, the major charter travel agencies report increases in bookings of between **12** and **15** per cent, with many destinations already sold out. Here again some slowdown is to be expected in subsequent months following government measures to impose new airport taxes on domestic air travel and boost existing levies on flights to foreign destinations. Notwithstanding this, the consumer electronics sector, which posted record sales in 1996 for radio and *TV appliances, mobile phones, video equipment, computers and computer accessories*, also reports major advances in sales so far in 1997.

Underlining that private consumption growth stemmed from service and durable goods and not from an increase in sales of clothing and food items, retail sales recorded only modest volume growth in the spring months of 1997, with monthly advances of less than two per cent on a seasonally−adjusted year−on−year basis.

Gross value added	**1988**	**1996**	**1988**	**1996**
at current prices	DKK bn.		Pct.	
Gross value added, total	**633.8**	**914.5**	**100**	**100**
Agriculture, fishing, mining and quarrying	32.7	42.6	5	5
Manufacturing	*115.9*	*162.4*	*18*	*18*
Electricity, gas, heating, etc.	11.8	20.5	2	2
Construction	*39.0*	*45.1*	*6*	*5*
Internal trade, hotels, restaurants, etc.	94.2	142.9	15	16
Transport, post and telecommunications, etc.	*49.0*	*68.2*	*8*	*7*
Financial intermediation, business activities	145.5	218.1	23	24
Public and personal service activities	*174.4*	*245.6*	*28*	*27*
Financial intermediation services (FISIM)	−28.7	−30.8	−5	−3
Public administration and service	*154.3*	*210.3*	*24*	*23*

The retail sales data tends to underestimate private consumption as computer and telecoms products and services do not figure in the statistics. By all accounts, consumer confidence rebounded in June following a dip in May. With the exception of May, the consumer confidence indicator compiled by **Danmarks Statistik** pointed to steady gains in the first half of 1997. But the more upbeat mood seems to have yielded advances for a limited number of sectors only.

Whereas passenger car sales and charter holiday bookings have boomed, the **Danish Trade and Services Association** has failed to record any notable sales gains in routine daily household purchases. Of the annual **Dkr540b**n or so in private consumption volume, retail sales account for around **Dkr200bn**, of which again some *50 per cent* comprise household goods. In another positive indicator, the number of filed applications for compulsory property repossession fell in the fourth quarter of 1996 by *11 per cent* to **2,168**. The percentage drop was steepest in Jutland, with the Danish islands in the middle, while the decline in the greater Copenhagen area was limited to four per cent. The number of *business bankruptcies* also recorded a drop.

According to an extensive economic survey by the **Greens** *research institute*, Danish business stands on the threshold of a robust revival. Most of the surveyed companies reported rising orders, increasing sales, boosted workforces and upgraded profits for 1997. Although inflation was expected to rise, the increase was seen as modest. The only risks to expected developments were cited as labour conflicts, uncontrolled inflation and production bottlenecks arising from qualified manpower shortages. The survey clearly indicated that optimism was more pronounced in the trade and services sectors than in industry. Low interest rates and rising prices on the existing property market have fuelled a boom in sales of building plots and new single family residential construction.

The last building boom was in 1986, when **11,000** residential housing starts were registered. A trough was reached in 1993 with just **900** housing starts. But the Builders Association forecasts that in 1997 the total will rise to **6,100**. The association appealed to municipalities to speed up planning permission for more potential building sites. But the government and labour market organisations have expressed fears that bottlenecks for qualified manpower would press wages unrealistically higher for certain professional groups. Among the danger zones in this respect is the building sector. This is the stated reason why the government has decided to call a halt to planned state construction orders worth nearly Dkr1bn in 1997.

That Denmark ranks among the world's wealthiest nations is hardly in dispute. Germany's ***IFO*** economic research institute publishes regular reports on per capita **GDP** income among the world's nations. The findings relate to both per capita **GDP** income and **GDP** purchasing parity (i.e. with purchasing power factored in). ***IFO's*** latest per capita **GDP** income ratings put Denmark in fourth place after only Japan, Luxembourg and Switzerland. But if high Danish prices are factored in, Denmark falls to 10th place. In Europe alone, however, only Luxembourg, Switzerland and France fare better than Denmark.

According to the *EU's statistics office* **Eurostat**, Denmark enjoys the second highest standard of living in the 15−member union. In a comparison of per capita **GDP** income, the Danes were 16 per cent above the average, beaten only by Luxembourg at the top of the list. The figures are based on statistics from 1995 and are the most recent calculations of EU living standards. In that year, the Danish standard of living improved by 2.8 per cent. The survey also included non−EU nations, and of these, the USA, Japan, Switzerland, Iceland and Norway were above Denmark.

Denmark can expect to post annual **GDP** growth averaging a respectable 2.5 per cent in the six−year period up to and including **2002**. Although this represents a return to the projections made in our 3rd Tertial 1996 Denmark Report, the slight downward revision compared with the 1st tertial 1997 reflects the altered circumstances arising from the crisis in *southeast Asia*. Growth will slow in line with a more measured pace in domestic demand, with exports set to take over the role of driving the economy. Gross fixed investment will enter a sluggish period before resuming a more expansive course.

Denmark is on course for annual **GDP** growth averaging almost 2.5 per cent in the six−year period up to and including 2002. While the annual average is unchanged on the projection, significant changes have been made to the individual growth components and respective years. This is in line with government measures to curb consumption and the developing economic and financial crises engulfing *Russia, Southeast Asia* and, possibly, *Latin America*. In this unstable climate, growth in both domestic demand and exports will slow before more settled conditions are restored.

Inflation

Consumer price inflation is set to accelerate in 1997−98 before a slowdown in domestic demand relieves some of the upward pressure on prices. *Property* prices will cease to rise as more contractionary fiscal measures are implemented. The 1997 wage settlements point to pay hikes in the 3.5 to four per cent range, although wage drift may propel wage costs towards 4.5 per cent in 1998. With enacted labour−market reforms going some way towards reducing *structural unemployment*, the inflationary risk posed by the prospect of manpower shortages and resulting production bottlenecks is all the greater.

% change	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
CP inflation	2.1	2.4	2.6	2.5	2.3	2.1
Hourly wages	*3.9*	*4.1*	*4.3*	*3.5*	*3.2*	*3.0*
Industrial output	3.3	3.7	3.9	3.6	3.4	3.1
Unemployment	*8.8*	*8.0*	*7.5*	*7.3*	*7.9*	*8.1*
Household savings ratio	3.4	2.1	1.7	2.0	2.3	2.6

Although there is scant chance of the Danish economy overheating in the years ahead, the emphasis on *private consumption* as a means to spur growth poses the challenge of how to deal with rising inflation.

Favourable *employment* and *real wage prospects*, bolstered by continued strength in the *housing market*, will underpin *household demand* and hence *consumer price inflation* in subsequent months. There is a risk that unless corrected, rapidly rising house prices and supportive financial market conditions could lead to inflationary pressures arising from the property market and construction sector. A sharp jump of *2.7 per cent* in the year−on−year *CP inflation* rate in **January** gave rise for concern in government circles, the central bank and among various economic researchers, not least **Nordic Forecasts**.

But some of the concern was dispelled with evidence in successive months that short−term inflation risks were on the decrease. For example, inflation in **February** eased back to a more moderate year−on−year rate of *2.2 per cent*, and then *1.7 per cent* in both **March** and **April**. Main reasons behind the slowdown include a decline in energy prices and stiff competition in key domestic market segments as a result of deregulation .

The **May** increase *of 2.1 per cent* reflected higher taxes on beer and mineral water, as well as half−yearly rental adjustments. Together these factors have not altered our view that headline inflation will accelerate slightly in 1997 *to 2.4 per cent*, before gathering pace in 1998 in line with peaking domestic demand.

Another related challenge facing the authorities is to reduce inflationary pressures to the low levels achieved by core **EU countries**, such as *France, Germany and the Benelux*, not to mention competing **Nordic nations** like *Finland and Sweden*. In relation to these countries, Danish inflation has gradually moved from being among the lowest to one of the highest. This has affected export performance, with a deterioration in the cost−competitiveness of Danish industry serving to restrain exports and resulting in lost market share. Over the past four years, Danish industry's relative international costs have risen by around eight per cent. The resulting rise in export prices has coincided with an upward push in import prices, assisted by a depreciation of the trade−weighted krone.

This has been hardly eased by the fact that the Danish central bank does not subscribe to a publicised inflation target, focusing instead on a fixed exchange rate−regime and leaving the task of controlling inflation primarily in the hands of government. It is worth recalling in this context that although Denmark will not join **EMU's** *third phase of monetary union*, it is obliged to meet EMU's convergence criteria which also include low inflation. Failure to do so will return Denmark to the classic situation that has dogged much of Denmark's postwar economic history − an inflation rate which is higher than that prevailing in competing countries and a current account in substantial deficit.

Although Denmark currently enjoys a relatively low inflation rate, and labour−market reforms have gone some way towards lowering structural unemployment, rapid job creation could lead to a virtual elimination of the existing output gap. This would imply a risk of higher wage inflation, as also referred to in the **OECD's**

1997 economic survey of Denmark published in **June**. In the *Danish central bank's annual report for 1996*, reference was made to the fact that unemployment as a proportion of the total national labour pool fell *to 8.8 per cent* from *10.3 per cent* in 1995. The gross labour force was assessed at **3,024,000** persons. Of these**, 1,504,000** were employed in the private sector, **789,000** in the public sector and **255,000** were self−employed. Total employment was thus gauged at **2,548,000 persons**.

In addition, **167,000** were on early retirement, **63,000** on official leave, leaving **246,00**0 registered as unemployed. A study by the nation's 14 regional labour market boards foresees unemployment declining to **202,000** persons by the fourth quarter of 1997, marking a drop of seven per cent on the same 1996 period.

This would be the lowest level since 1986.

Although cautious in their projections, the boards predict employment to rise. However, there are already more at work in both the public and private sectors than just a few months ago. According to Danmarks Statistik, total fulltime employment has yet to reach 1987 levels, although it already has passed the 1986 threshold when around **2,112,500** were working fulltime.

The question whether pay settlements should apply for a two− or three−year period dominated the 1997 collective wage round. The dispute arose from a 1995 agreement between the **DI** employer organisation and the **CO−Industri** trade union to settle for a three−year contract. And if synchronacity was to be restored to national pay settlements throughout Denmark, **DI** had to aim for a new two−year collective wage agreement from 1998. The official government mediator introduced a new element in negotiations to resolve the thorny issue by calling for pay agreements with a one−year duration.

This paved the way for a return to synchronacity in all wage settlements by the time of the next pay talks, irrespective of whether a two− or three−year timeframe was chosen at that time. Most exposed in the dispute were the construction and transport sectors. As it turned out, a ballot vote among national union members on the mediator's proposal produced an overwhelming majority in favour and a major conflict was averted.

But local pay deals in the wake of the collectively negotiated wage settlements, which resulted in pay hikes to *3.5 to four per cent*, could fuel hourly wages and lead to some pickup in wage drift. In addition, around half of all workers in Denmark's private sector have jobs in firms without collective wage agreements with the trade unions. This is primarily in the area of small companies. Typically these firms follow the nationwide collective deals when setting their own wages. But studies show that indirect wage items are a harder act to follow.

For example, these items include pension contributions, maternity leave pay, etc. As the spring pay round made more allowance for these items than in the past, employees not covered by collective pay deals can expect to fall behind unless they succeed in forcing collective settlements on their employers. This would sharply boost the total wage costs for those firms that have failed to keep up with trends on the organised labour market.

For many years the struggle for a shorter working week has comprised an important goal for the Danish trade union movement in collective wage talks. But in the 1997 wage round, no such pleas were heard. This perhaps has something to do with the fact that only Germany has a slightly shorter official working week than *Denmark's 37 hours*. The **Cologne**−based *German economic research institute* published a study of working hours in a large number of countries. This showed that in **Europe**, **Portugal** and **Switzerland** led with working weeks of a respective **42** and **41** hours. But many European countries including **Finland** had working weeks of **40 hours**. And the Danish working week is the shortest in the Nordic region.

In a labour policy document, the left−wing **Socialist People's Party**, on whose parliamentary support the minority coalition increasingly relies, contested the right of employers to decide working hours, urging that wage−earners craved a shorter working week. While the party stopped short of demanding a *30−hour working week* in the traditional sense, it urged the introduction of **30 hours** as an annual norm. By this it meant that individual workplaces should plan and arrange working hours so that the average for any given year amounted to a weekly **30 hours** for each worker.

The **Danish Industries Federation (DI)** identified a competitive threat in the spring collective wage agreements, concluding that the settlements would harm Danish exporting industries. Whereas it was calculated that the deals amounted to an increase in wage costs of up to four per cent, equivalent German increases were assessed at under two per cent. Although there has been economic expansion in many export markets in recent years, Danish industry has lost market share because of rising competition. And this has forced job levels lower in many export industries. **DI** economists rejected the notion that an increase of up to four per cent in wages was acceptable in a period of economic recovery.

It was argued that a shortage of qualified manpower was beginning to bite and that a fall in industrial exports could lead to a reduced current−account surplus and deterioration in public budgets.

However, professor **Claus Vastrup**, a *former head* of the **Danish Economic Advisory Council** *(more popularly known as the economic wise men*), was more sanguine. The economic expert did not find the collective wage hikes alarming in the short term, as the *Danish krone's* weaker values against the *US dollar*, pound sterling and **Swedish krona** boost export opportunities. In the longer term Denmark has a problem, however, in that competitiveness must be safeguarded via restrained wage increases at a time of krone appreciation, it was noted.

In the absence of imminent inflationary pressures, consumer price inflation poses little risk to measured growth for the time being. The combined effects of *fiscal packages* introduced in **1997** and the **1998 budget** will have scant impact on consumer prices, though some passthrough to net retail prices and service sector prices is to be expected. A question mark hangs over the 1998 collective wage negotiations, however. Failure to exercise pay restraint will push up wage inflation and dent exporting competitiveness at a time when *Danish exporters* are vulnerable to international trade trends in general and the Asian crisis in particular.

The international financial crisis and resulting slump in commodity prices will help subdue *Danish consumer price inflation* in the short term. Working against moderate inflation in the longer run, however, was the lack of restraint shown in the 1998 collective wage round. Rank−and−file union rejection of a new two−year package sparked Denmark's most serious labour conflict in over a decade.

Government intervention to end the dispute left scars on industrial relations, making the task of labour market reform all the more difficult, particularly at a time when unemployment is hitting a low and labour shortages are intensifying.

Currency Briefing

Strict adherence to a fixed exchange−rate regime, representing as it does the cornerstone of Danish monetary policy since 1982, may prove more of a burden than a blessing. At least for the time being, Denmark's opt−out from **European economic and monetary union (EMU)** excludes it from subsuming the krone in the euro that is envisaged to become the *EU's single currency* as of 1999. If **Danmarks Nationalbank** adheres to its defence of a de facto parity rate between the krone and the *D−mark*, the Danish central bank's fixed exchange−rate policy may eventually be undermined by higher inflation and monetary isolation from the mainstream of **Europe**.

Danish monetary policy faces a stern credibility test in the 18 months leading up to the planned creation of a single European currency in 1999. Throughout the post−war period, the main emphasis of monetary policy as conducted by **Danmarks Nationalbank**, the nation's central bank, has been on the krone's exchange rate as opposed to inflation. Control of the latter is viewed primarily as a government matter, with fiscal policy used as a means to prevent inflation getting out of hand. Adjusting the krone's peg in face of domestic imbalances was common until the early 1980s. But with the introduction of a hard currency regime in 1982, **Danmarks Nationalbank** sought to impose the disciplining effects of a fully credible target.

Exchange rates (annual ave)	***1996***	***1997***	***1998***	***1999***	***2000***	***2001***
Dkr/US$	5.80	6.45	6.30	6.15	5.90	5.75
Dkr/Dm	3.85	3.82	3.80	3.83	3.85	3.87

Prior to August 1993, the parity grid implied by the **±2.25** per cent band of the **Exchange Rate Mechanism (ERM)** imposed narrow limits on exchange rate movements. The subsequent widening of the bands to ±15 per cent necessitated a clarification of Danish exchange−rate policy, focusing on a stable nominal exchange rate vis−à−vis the **ERM's** other core countries. Almost by force of circumstances, including not least Denmark's heavy dependence on trade with neighbouring Germany, this has produced a close correlation between the krone and the *D−mark*: while the German currency has depreciated against other major currencies like the US dollar and pound sterling, the krone has appreciated against the *D−mark*.

The deep commitment to a fixed exchange rate makes it virtually impossible for the Danish authorities to prise themselves from the *10−year−old parity rate* between the krone and *D−mark*, even when Denmark's robust economic situation clearly calls for a different stance. Our interpretation of recent central bank statements concludes that **Danmarks Nationalbank** is not ready to abandon the heritage of the past 15 years, with the central bank continuing to work actively to maintain krone stability around the **ERM** parity rate of Dkr3.8144:Dm1. As long as the *D−mark* remains weak, and this trend is likely to continue until it is absorbed in a "soft" euro comprising many of the other **EU** member states' currencies, upward pressure on the krone will remain in evidence.

If **Danmarks Nationalbank** adheres to its parity rate through thick and thin, the fixed exchange−rate regime may eventually be undermined by higher inflation and a deteriorating current−account balance. Another factor worthy of consideration is the competitive impact of a stronger currency. Although Danish wages have risen faster than in many of Denmark's main competing countries, a gradual **krone** appreciation has proved more of a determining factor in defining competitive parameters for Danish exporting companies. From a low point in 1992, the **krone** has rallied with gains of around six percentage points against a cross−section of currencies in a trade−weighted basket.

In a spirited defence of the current line in *Danish monetary policy*, **Danmarks Nationalbank** *governor* **Bodil Nyboe Andersen** stressed that the krone remained at satisfactory levels and that she saw no overriding threat of inflation. Her comments came in response to conflicting economic reports that predicted cuts or hikes in interest rates. The central bank considers it important that the government maintains its goal of two per cent annual inflation. The central banker pointed out that the **krone** has risen against the *D−mark*, but fallen against the *US dollar* and pound sterling. With all things taken into consideration, the **krone** is effectively lower, helping to boost exports and improve the current−account and trade balances.

Andersen also noted that monetary policy would not figure as an element of financial policy efforts to tighten the national budget. In the central banker's view, the objective of monetary policy was to keep the krone stable, and that interest rates were determined by the krone's rate and not economic indicators. She also adhered to the standpoint that monetary and fiscal policies functioned well independently of each other, thus requiring no change. But she added the warning that the central bank would not hesitate to use interest rates to defend the krone, despite any negative effects this might have on homeowners.

With the results of the *Dutch EU presidency's Amsterdam summit* dispelling much of the market uncertainty about whether **EMU** will get off the ground on its scheduled start−up date of January 1, 1999 Danish banks will step up their preparations for a single *European currency*. Although Danish voters chose to remain outside **EMU** when they approved the **Maastricht treaty** in a 1993 referendum, Danish banks will need to establish business systems in the upcoming euro. Since the krone will still be coin of the realm, banks will need to retain existing **krone** systems.

It is estimated that preparation costs for the three largest Danish banks, **Den Danske Bank**, **Unibank** and **BG Bank**, will total around **Dkr300m**. Once **EMU** is launched, electronic payment systems, and bond and other securities trading, will be coducted in euro. Business within Danish borders will be done in both kroner and the euro. **BG Bank** is reported to have 100 part−time employees busy on conversion activities. German banks have said that there are 600 individual points that need to be adjusted to make the transition into **EMU**.

Two major Danish conferences on **EMU**'s third phase and the euro's practical implementation were held in the spring months of 1997. At one of these, **Danish Commercial Bank Association** *chairman* **Thorleif Krarup**, who is also **Unibank** chief executive, observed that the Danish opt−out from **EMU**'s third phase would require tighter Danish finance and monetary policies than would be necessary for **EMU** member countries. But in line with **Liberal Party** *leader* **Uffe Ellemann−Jensen**, the banking association would not attempt to force the government into calling a new referendum on the issue at the present time.

The general public did not seem to be prepared for such a decision right now, and a rejection would mean a setback for the Danish economy that could not be measured in years but in decades, noted the association's chairman. At the other conference, economics professor **Niels Thygesen** concluded that the single currency would provide the single European market with a sharp nudge forward via boosted competition and more uniform price trends. Former Danish *central bank governor* **Erik Hoffmeyer** regretted that the entire **EMU** debate was being conducted by economists as the issue was more a political than an economic one.

Top executives from small and medium−sized Danish companies are largely in favour of the country joining **EMU**. Danish accounting and business consultant **Grothen & Perregaard** surveyed companies in April about Denmark's future business climate and 45 per cent of the respondents answered that they believed they would see gains from **EMU** membership. The survey was part of a larger one coordinated by **Grant Thornton**. Results from other countries showed that the Danish companies were more in favour of **EMU** membership than their counterparts abroad. In another encouraging sign, the board of the Danish metal workers union **Dansk Metalarbejderforbund** voted unanimously to drop the Danish opt−outs to **EMU** and other issues under the Maastricht treaty.

The union board observed that it was regrettable that Denmark was becoming more and more isolated from its European partners because of the opt−outs. The board believed that if Denmark remained on the sidelines, the situation would hurt Danish employment and there would be increased risks of higher interest rates and a weaker krone. Focusing especially on the **EMU** and judicial cooperation opt−outs, the board concluded that the issues remained a problem between politicians and their constituents, and could only be settled with the help of another referendum.

Bundesbank *president* **Hans Tietmeyer** was the guest speaker of an **EMU** seminar organised by *Danish business daily* **Børsen** in March. Addressing 300 top Danish executives, Tietmeyer stated that the earlier the krone fully participated in **EMU** the better it would be. And even if the third phase of monetary union and the creation of the euro began without Danish participation, every effort would be made to forge close links between the Danish central bank and the new European central bank, ensuring that the krone de facto was included in the cooperation, the central banker noted.

This priority was also reflected in agreements to establish narrow trading margins between the *D−mark* and **krone**. **Tietmeyer'**s speech contained great praise for the Danish economy, which together with the *Dutch economy* now forms a model for German efforts.

Former German chancellor **Helmut Schmidt** told an assembled **German−Danish Chamber of Commerce** in

April that he was convinced that both Denmark and Sweden would become part of the euro no more than five years after its practical implementation.

The benefits of taking part in monetary union would prove so immense and the disadvantages of staying out so great that pressure from business and the public at large would force politicians to alter their stance on the issue. In the meantime, the two countries would have to learn the hard way what it meant to stay outside, added **Schmidt** ruefully.

Monetary Policy

Although current government policy precludes **Denmark** from joining **European economic and monetary union (EMU)** at the euro's scheduled launching date in 1999, Danish monetary policy remains focused on maintaining a fixed krone parity vis−−vis the *D−mark*. With **EMU** virtually certain to proceed on time with 11 core member states, Denmark is expected to negotiate with the **new European Central Bank (ECB)** in autumn 1998 on the terms of future exchange−rate cooperation. The fact that **Denmark** meets **EMU's** main convergence criteria creates a good climate for obtaining a favourable agreement to ensure krone stability.

Although the fixed−rate krone line pursued by successive Danish governments since 1982 continues to enjoy top monetary policy priority, the global financial crisis of 1998 provided a foretaste of what the krone could encounter as long as it remains outside the euro. The Danish opt−out from **EMU's** third phase in 1999 will not necessarily produce unbearable consequences for the national economy. But it will result in reduced Danish influence on important economic and financial decisions in the **EU**. Technical preparations to set the parameters for future exchange−rate cooperation and transactions are proceeding on schedule .

Trade

Highly dependent as it is on unrestricted access to world trade, *Denmark's exporting sector* is extremely sensitive to politically motivated sanctions and barriers. This was borne out in **China's** hostile reaction to Danish attempts to censure *Beijing's human rights record*. Danish exporters also risk losing market share if competitive factors related to high wage formation and low productivity growth are not addressed. Increased *North Sea energy production and exports* will offset some of the debilitating effects of deeper import penetration on the trade balance, ensuring that the current account remains in appreciable surplus.

Volume change	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Trade balance (Dkr bn)	49.4	48.1	47.0	49.8	52.1	54.2
Current account (Dkr bn)	13.4	10.5	11.1	12.8	14.2	16.7
Current account (% of GDP)	1.3	1.0	1.0	1.2	1.3	1.4

Although *manufacturing export market* growth is set to record quite impressive gains as world trade enters a period of faster expansion in the next five years, Danish export growth risks somewhat slower advances than anticipated market increases. This will be due in part to a steady decline in Danish exporting competitiveness. Largely a reflection of wage growth above and productivity growth below that of its main trading partners, Denmark stands to lose out on the expected revival in world trade if swift remedial action is not taken . A *Danish foreign ministry report* published in April concluded that *Denmark's exports of merchandise goods grew by **3.1** per cent in **1996** compared with **3.4** per cent in **1995.*** The ministry forecast growth of four per cent in 1997. Agricultural exports were unchanged on 1995 levels.

Imports/Exports			
	1990	**1995**	**1996***
	DKK mio.		
Imports	206 295	255 265	262 937

Exports	228 187	283 447	293 993

It was observed that since 1993, *Danish industry* has lost market share in its major exporting destinations compared with other **EU countries**. On a brighter note and compared with merchandise exports, services have recorded rapid export gains, rising by 9.6 per cent in 1996. Primary factors included boosted shipping earnings and increased exports of energy, including electricity. In a sombre assessment of market trends, the **Danish Industries Federation (DI)** concluded that the Danish exporting industry was faring worse than its main competitors in the struggle for boosted market share. Whereas net exports accounted for four per cent of **GDP** growth in 1994, the proportion had plunged to below 0.5 per cent in 1995 before staging a slight recovery to one per cent in 1996. This trend makes Danish exporters very vulnerable to economic reversals abroad, it was noted.

As a small open trading nation dependent on exports to sustain economic growth, Denmark is also vulnerable to the trade policies of both competing countries and potential market destinations. Danish chewing−gum manufacturer **Dansk Tyggegummifabrik**, more commonly known as ***Dandy***, is expanding in *Eastern Europe* and *Russia* at breakneck speed. But chaotic customs, v.a.t and foreign exchange rules in several countries of **Central and Eastern Europe (CEEC)** are seriously impeding further progress for several Danish firms, including **Dandy**. New Russian v.a.t rules mean that a part of **Dandy's** Danish production of chewing−gum will have to be transferred from Denmark to its large Russian packing plant in **Novgorod**.

Of all the national destinations for Danish exports in 1996, the *Polish market* was the one to record the strongest growth. Danish exports to **Poland** surged by 29.4 per cent to Dkr4.4bn, putting the Polish market in the position of Denmark's 13th largest export destination. It is estimated that present trends will quickly propel **Poland** into Denmark's top 10 list of trading partners. In 1996 the six largest export markets in value terms were:

- **Germany** with Dkr55bn *(−3.8 per cent);*
- **Sweden** with Dkr26.5bn *(+9.0 per cent);*
- the **UK** with Dkr22.4bn *(+11.4 per cent);*
- **Norway** with Dkr16.5bn *(+9.3 per cent);*
- **France** with Dkr13bn *(−4.5 per cent)*
- and the **USA** with Dkr10.8bn *(+5.8 per cent).*

Imports by selected commodities	***1990***	***1995***	***1996****
	In Percentages		
Intermediate goods for			
agriculture and horticulture, total	**3.3**	**2.9**	**2.9**
Intermediate goods for the			
construction industry, total	**7.4**	**7.6**	**7.4**
Intermediate goods for other			
non−agricultural industries, total	**37.3**	**38.0**	**36.0**
of which:			
Paper, paperboard, etc.	3.3	3.0	2.9
Textile fibres, yarns and fabrics	2.4	2.1	2.0
Fuels, lubricants,			
electric energy, total	**6.5**	**4.2**	**4.7**
of which:			

Coal, coke and briquettes	1.4	1.1	1.1
Crude petroleum, oils	2.0	1.5	1.8
Light and medium oils (motor spirits)	1.1	0.5	0.6
Gas oils and fuel oils n.e.c.	1.4	0.7	0.8
Machinery, other capital equipment, total	**11.4**	**11.9**	**11.9**
Transport equipment, total	**7.0**	**7.4**	**7.5**
Goods for household consumption, total	**25.3**	**26.7**	**28.2**

Trading relations between **Denmark** and **China** suffered a blow in 1997, when Copenhagen chose to take on **Beijing** for its human rights record. China succeeded in deflecting a major debate on a Danish−instigated draft resolution directed against China at the regular annual meeting of the **UN's Human Rights Commission** in *Geneva* in April. A majority−backed procedual motion by China headed off the debate. As in 1996, China received the support of **27** countries, while **16** countries backed Denmark and **nine** of the commission's **53** members abstained. Of **EU countries** with major trading interests in China, *France, Germany, Italy and Spain* opposed the Danish move.

Opposition in Denmark included **DI** and major Danish companies with active interests in the *Chinese market*, such as the **East Asiatic Company (EAC), Novo Nordisk** and others. In retaliatory action on the part of the Chinese authorities, planned Chinese visits by various Danish ministers and business delegations were cancelled. But in the longer term, the diplomatic row between **Beijing** and **Copenhagen** is expected to have only minor repercussions on trade relations between the two countries. The Danish food ministry and the Agricultural Council are proceeding with plans for a major trade promotion campaign and a delegation tour of China in November. In the circumstances, it is worth noting that Denmark ran up a sizeable trade deficit of nearly **Dkr3bn** with China in 1996.

Exports by selected commodities	***1990***	***1995***	***1996****
	In Percentages		
Livestock products, total	**10.4**	**10.1**	**10.0**
of which:			
Live cattle, beef and veal	1.2	0.9	0.7
Live pigs and pork	5.6	5.7	5.7
Butter	0.5	0.4	0.4
Cheese	2.0	2.0	2.0
Crop products	**4.1**	**2.8**	**2.6**
Canned meat and milk	**2.8**	**2.0**	**2.0**
Industrial products	**72.5**	**76.2**	**75.0**
of which:			
Textiles and clothing	4.7	4.8	5.0
Machinery and instruments	24.7	25.5	25.5
Furniture	4.2	4.6	4.4
Fish, crustaceans, molluscs	**4.8**	**3.6**	**3.5**

Although Danish industry recorded an overall advance in sales turnover of 2.3 per cent to Dkr406bn in 1996, the value of total industrial exports declined. But Danish exports of agricultural products took another and more positive direction. According to the **Agricultural Council**, sales turnover rose one per cent to Dkr48bn. If the fact is included that EU export subsidies to Danish agriculture were trimmed by Dkr3.1bn, an effective increase of 3.3 per cent was recorded. A large part of the gains in farm−related exports stemmed from the success of Danish *pigmeat producers* to penetrate new and existing markets.

However good these may be, efforts by Danish pig breeders and the major meat exporters to promote production and sales of Danish pigmeat on export markets are not primarily accounting for the large advances currently being recorded among Danish producers. Much of the success must go to disease. Many European pigmeat producing countries, notably *Germany* and *the Netherlands*, suffered from an outbreak of the feared swine fever disease in 1997, while *Taiwan* was hit by a foot−and−mouth epidemic. A large number of animals were slaughtered to prevent the infectuous diseases from spreading. Denmark has successfully eluded these diseases so far and this has proved of substantial benefit to the Danish pigmeat sector, where prices have surged to record levels.

The differing trends in the various components making up Danish exports produced a clash between the government and business organisations in 1997. According to *finance minister* **Mogens Lykketoft**, all the signs suggest that exports in 1997 as a whole will reflect satisfactory growth. This in large part will owe to trends in the *US dollar*, pound sterling and the *Swedish krona*, with the *Danish krone* depreciating against these currencies and making Danish goods exported to these destinations correspondingly cheaper. But **DI** expressed strong disagreement with this assessment. In the employer organisation's view, the latest trends gave no cause for such an upbeat forecast from the finance minister, with **DI** finding it difficult to identify any gains for those exports that were heavily dependent on foreign exchange rates.

The terms of trade					
1985 = 100	**1980**	**1986**	**1990**	**1995**	**1996***
Unit value index					
for exports	68	95	98	96	98
Unit value index					
for imports	68	90	90	88	88
Terms of trade	***100***	***106***	***110***	***110***	***112***

According to the organisation, export growth in 1997 will be exclusively restricted to activities related to oil, natural gas and similar operations depending on production in the *Danish sector of the North Sea*. With industry exports on the decline, competitive pressures were likely to build rather than abate, it was argued. **Lykketoft** responded to this assertion by arguing that it was quite irrelevent for the Danish balance of payments where it derived its income from. The decisive factor was whether present expectations regarding trends were fulfilled and, in the minister's view, there were thus no grounds for unease concerning the balance of payments.

Lykketoft may well have a point. There have been few years in Denmark's recent history like 1996 when virtually all national economists in the private and public sectors sounded the warning that there were good prospects of the Danish current account slipping into deficit during the year. But general economic trends, including favourable inflation and employment, gradually ensured that this shock scenario was transformed into a more optimistic assessment. In fact, the 1996 current account posted a relatively healthy surplus of Dkr13.4bn, marking a Dkr3.2bn improvement on the 1995 surplus. The balance of payments also includes trade balance statistics. These pointed to a surplus of Dkr49.4bn in goods and services compared with Dkr44.8bn in the previous year.

On the debit side, the largest item related to interest payments on the foreign debt. Owing to a favourable bond trend during 1996, the net interest burden eased slightly to Dkr26.8bn. Although foreign debt interest payments are likely to maintain their downward trend in the years ahead, there are signs that the current account as a whole will post slightly reduced surpluses in the next couple of years. In addition to swelling imports to meet burgeoning private consumption, primarily in the form of imported cars, an upsurge in demand for foreign charter holidays will negatively affect the balance of payments as well.

Although sustained domestic demand will fuel imports, the overall rate of import penetration will decline somewhat as a result of higher **North Sea** *energy production*. Oil and natural gas output in the *Danish sector of the North Sea* set new records in 1996. The **Danish Underground Consortium (DUC)**, which numbers **A.P. Møller's Mærsk Olie og Gas**, **Shell** and **Texaco** among its partners, posted a 12 per cent rise in crude oil output and a 22 per cent jump in natural gas production. On the other hand, *Danish state−owned gas distribution company* **DONG** is expected shortly to sign a contract for the import of 2bn cubic meters (cbm) of Norwegian natural gas annually. The first deliveries are scheduled to begin in 1999 and the contract will extend for 20 years.

DONG needs the gas to supply increasing demand for natural gas used in district−heating installations. **DONG** and *Norwegian gas* negotiating committee **GFU** are negotiating about who will own the 120 km segment of pipe that will transport the gas from the Europipe II pipeline to the mainland in Jutland. The line runs so close to the Danish coast that a spur to the mainland would be worth the investment. At the same time, a number of oil fields in the *Danish North Sea* are in stages of preliminary development, but their future depends upon a commitment by Danish buyers to purchase gas from these fields. A pipeline would be needed to transport gas from these sites to the mainland.

Export of goods by market				
	1984	**1989**	**1994**	*1994*
	Pct.	Pct.	Pct.	*Mill DKK*
Germany	**16,6**	**17,9**	**22,4**	***56.484***
Sweden	**12,1**	**12,2**	**10,4**	***26.278***
Great Britain	**11,1**	**12,1**	**8,2**	***20.592***
Norway	**6,7**	**5,7**	**6,5**	***16.309***
France	**4,5**	**6,0**	**5,5**	***13.822***
EC	**43,6**	**5,4**	**49,3**	***124.314***
EFTA	**24,3**	**24,2**	**22,7**	***57.181***
Eastern Europe	**1,8**	**2,0**	**4,0**	***10.163***
USA	**9,7**	**5,6**	**5,5**	***13.889***
Japan	**1,4**	**4,3**	**4,1**	***10.434***
Australia	**0,7**	**0,7**	**0,6**	***1.504***
OECD	**81,1**	**86,2**	**83,1**	***209.777***
ASEAN	**1,0**	**1,0**	**1,4**	***3.646***
OPEC	**5,0**	**2,3**	**1,8**	***4.644***

Notes

- **East Germany** is included under **Germany** and the **EU** both 1984 and 1989 eventhough Germany was not reunited until 1990. Portugal and Spain are also included in the EU countries in 1984.
- Owing to incomplete data or lack of data some parts of Denmark's external trade with the other EU countries cannot be classified by country.
- All former republics of the **Soviet Union** (also east of the Ural Mountains) are included in **Eastern Europe**.
- **EU** consists of France, Monaco, Belgium, Luxemburg, the Netherlands, the Federal Republic of Germany, Italy, Great Britain Ireland, Greece, Portugal and Spain.
- **EFTA** consists of Iceland, Norway, Sweden, Finland, Switzerland and Austria.

- **OECD** consists of France, Monaco, Belgium, Luxemburg, the Netherlands, the Federal Republic of Germany, Italy, Great Britain Ireland, Greece, Portugal, Spain, Foreign Forces in the Federal Republic of Germany, Iceland, Norway, Sweden, Finland, Switzerland, Austria, Turkey, USA (including Puerto Rico), Canada, Japan, Australia and New Zealand.
- **OPEC** consists of Algeria, Lybia, Nigeria, the Gabon, Venezuela, Ecuador, Iraq, Iran, Saudi Arabia, Kuwait, Qatar, the United Arab Emirates and Indonesia.
- **ASEAN** consists of Thailand, Indonesia, Malaysia, Brunei, Singapore and the Philippines.

The severe economic disruption in *southeast Asia* will almost certainly have a negative impact on Denmark's external trade. Most affected will be exports of food produce, with pigmeat and related processed meat items feeling the brunt of sharply curtailed purchasing power on major *Asian markets*, such as *South Korea*. But trade with *Central and Eastern Europe* will expand, compensating for some of the declines on *Asian markets*. Although the current−account surplus is shrinking somewhat, reflecting the strain on the trade balance caused by strong domestic demand for imports, this is a passing phenomenon.

Danish exporters will hardly emerge unscathed from the turmoil sweeping many of their trading partners. But continued trade with established and more secure markets in *Western Europe* should provide some insulation from the worst effects of the crisis. The extent of the disruption is not to be underestimated, however, with food exporters suffering the most from ebbing demand in markets that were otherwise targeted for expansion, such as *Japan*, *Russia* and *South Korea*. The crisis will batter the trade balance, prolonging the period in which the current account languishes in deficit. However, the relapse is still judged to be temporary.

Policy

Policy Summary

A fringe member of the **European Union (EU)** since a second referendum in 1993 grudgingly voted to ratify the *Maastricht treaty* with four fundamental opt−out clauses, Denmark's main policy priority in the medium term will be to return to the mainstream of *European integration*. The political task of winning over a sceptical electorate will call for delicate footwork by the government, irrespective of its composition.

Another referendum to be held after the **EU's intergovernmental conference (IGC)** in 1997 will seek to endorse the **IGC's** results in the form of the *Amsterdam treaty*. Efforts to win approval for doing away with the exemptions, which relate to **economic and monetary union (EMU)**, EU citizenship, as well as defence and judicial cooperation, remain some way off.

An irony is posed by the fact that although Denmark has opted out of **EMU** for the time being, it is one of the few EU member states to be comfortably within one or more of **EMU's** convergence criteria. However, rather than a policy dilemma, this should be regarded as a challenge.

Domestic policy will focus on winning consensus for a series of long overdue reforms involving an inflexible labour market, generous unemployment benefits and excessive welfare provisions. Until this consensus is reached, if at all, social transfer payments will increasingly eat into state expenditure, adding to the already heavy tax burden and deflecting the aim of balancing the budget.

A longer term priority is to find the necessary financial means to cope with an ageing population and a diminishing national labour force.

Domestic Policy

Reflecting the pre−election mood, *the Nyrup administration's domestic policy* has taken on more of the trappings of electioneering. A series of publications released in spring 1997 set out policy priorities in the period up to 2005:

- the emphasis was on job creation,
- fiscal rectitude,
- environmental improvements,
- welfare preservation
- and elimination of the net foreign debt.

In fiscal policy, the government pledged to return to a stricter line, partly to keep the national budget in new−found surplus and partly to make up for underfinancing the 1993 tax reform. First signs of this tighter stance suggested a leftward tilt in policy.

Since **Social Democratic** *leader* **Poul Nyrup Rasmussen** took over the reins of power in 1993 after a decade of successive minority centre−right coalitions, his two governments have shown considerable skill in steering economic policy with the lure of the monetary carrot and the crack of the fiscal whip. By progressively lowering interest rates and, at the same time, offsetting phased income tax cuts with higher environment and energy taxes, **Nyrup** and his *key cabinet ministers* in the form of *finance minister* **Mogens Lykketoft** and *economy minister* **Marianne Jelved** have succeeded in fine−tuning domestic demand. According to the economy ministry's May economic survey, the basic thrust of economic policy remains unchanged:

- it will continue to be firmly directed towards sound public finances;
- maintaining low inflation;
- safeguarding a surplus on the external current account;
- increasing employment;
- and at the same time respecting the environment.

If any signs of economic overheating do emerge in the short term, the government will not hesitate to take the necessary steps to dampen what it judges to be excessive growth in private consumption and/or in the construction sector. In the area of medium−term strategy, the government will focus its efforts on fiscal consolidation. Its aim, as outlined in several reports and surveys unveiled in the spring months of 1997, is to reduce public debt to *40 per cent* of **GDP** and eliminate the net foreign debt by 2005, as well as create the right conditions for an increase in private sector employment and a decrease in the number of transfer recipients.

But after nearly five years of applying this relatively successful policy, some cracks have appeared in the veneer. The measures to meet the goals stated above are set forth by the government as including a tight fiscal and monetary policy, improved labour market structures and the 1994−98 tax reform. But the type of monetary policy hitherto implemented by **Danmarks Nationalbank** can hardly be described as restrictive. This has put the onus on fiscal policy to steer demand. Although a tighter line has been repeatedly signalled, it has in point of fact remained relatively lax up to now. As far as labour market measures are concerned, some progress has been made but not enough. The potential **GDP** growth of an economy depends very much on how fast labour productivity *(output per head)* rises and how fast the national labour force *(number of heads)* grows.

To all intents and purposes, productivity in *Denmark's private non−agricultural sector* either fell or remained flat in 1995−96, although the government expects some gains in 1997−98. Danish labour force growth, particularly in the private sector, is also proving to be nothing short of disappointing. As a product of the rise in the population of working age (16−64) and changes in the participation rate *(employed plus unemployed divided by working−age population)*, growth in the Danish labour force is lagging behind that of many of Denmark's main competitors, notably *France* and the *UK*. Much of the blame for this trend must be pinned on the plethora of early retirement schemes and artifical job−creation programmes sponsored by central and local government in Denmark.

As far as the *1994−98 tax reform* is concerned, this legislation expires next year and the government will soon have to find other measures to put in its place. Fiscal problems in this area are compounded by the fact that the tax reform was underfinanced by around **Dkr5bn** when it was first conceived in 1993. The reform aimed at reducing marginal income tax rates and shifting more of the tax burden to indirect taxation, mainly in the environment and energy areas. The underfinancing arises from the fact that the basic income tax rate will be lowered from 10 to eight per cent in 1998, while the social security contribution levied on gross income earned by wage−earners and the self−employed will remain unchanged at eight per cent. This means in effect that central government is on the lookout for additional funds with which to plug this revenue gap even before a real tightening in fiscal policy comes into play.

Evidence of the government applying the fiscal brakes built up in the course of 1997. A minor tax package agreed with the left−wing **Socialist People's Party** and **Unity List** in May included measures to raise duties on *cars, domestic flights and property stamp duties.* A new element was a Dkr75 travel tax on domestic flights, which was promptly attacked as discriminatory by the airlines in view of the fact that part of the hikes were offset by cuts in rail and bus fares. All in all, the measures will yield an estimated Dkr2.2bn in extra revenues per year by the time they are fully phased in during 1998. This would amount to around 0.25 per cent of **GDP**.

As in previous years, it looks as if the government is aiming for a 1998 budget that curbs **GDP** expansion by 0.5 per cent. But as borne out by the final outcome of the 1996 budget, its fiscal impact has proved much smaller than originally estimated by the government. Whereas in August 1995, when the government first unveiled its 1996 budget proposals, it was calculated that the budget would restrict 1996 **GDP** growth by 0.5 per cent, the finance ministry's May 1997 budget review showed that the 1996 budget in fact stimulated **GDP** growth by 0.25 per cent. In response to this challenge, finance minister **Lykketoft** promised that his ministry was preparing a 1998 budget that would not help fuel inflation or overheat the economy.

The pledge to tighten fiscal policy also comes in response to repeated pleas by **Danmarks Nationalbank**, the **Danish Economic Advisory Council** and **the Danish Industries Federation (DI)** to clamp down on spending. Addressing the **Mortgage Bank Association's** *annual meeting* in April, *central bank governor* **Bodil Nyboe Andersen** stated that the economy risked being derailed if private consumption growth and property price increases of an annual 10 per cent were not braked. One measure recommended was to raise property taxes as a means to halt the acceleration in house prices. Both **finance minister Lykketoft** and *economy minister* **Jelved** agree with the central banker on the means to cool down the economy. But they doubt whether a political majority can be mustered to achieve this.

When details of the draft finance bill for 1998 are announced in August, it is possible that restrictive measures will include stricter home mortgage deductibility rules and an increase in rental value taxes for homeowners. Given the close relationship between home mortgage borrowing and household spending patterns in Denmark, such moves would automatically dampen property prices and private consumption. While the left−wing parties seem to favour such an approach, the **Conservatives** and **Christian Democrats** refuse to add to the burden of homeowners. The **Conservatives** urge a clampdown on all new jobs in the public sector, as well as an immediate freeze on public expenditure.

At the same time, *finance minister* **Lykketoft** has seen to it that local county and municipal administrations will have to tighten their budgets in 1998, irrespective of the negative repercussions this may have on voter sentiment in the November 1997 local government elections. Tight allocations from central to local government in the form of block grants and subsidies will force municipalities to either save on local services or raise municipal taxes by up to a national average of **0.6** per cent in 1998. However, since the local government budgets for 1999 are first drawn up in autumn 1998, some municipalities may choose to sweat it out until then for fear of upsetting their taxpayers.

At first glance, the government's track−record in curbing public debt and transforming a budget deficit into surplus is reassuring by any standards, including the *EU's strict Maastricht* criteria. Despite repeated budget deficits in the years from 1993 to the start of 1997, the public debt ratio has declined from *80.2 per cent* of **GDP** to an estimated *70.2 per cent* in the same period. The improved public finances, primarily generated by increased fiscal revenues arising from stronger corporate performance and higher employment, has eased some of the burden on state funding, with the central bank well ahead in its gross state borrowing requirement for 1997. This has proved one of the main factors behind both the general and central government budgets returning to surplus in 1997.

The **general government budget** is officially projected to post a *surplus of Dkr7bn*, or *0.7 per cent* of **GDP**, in 1997 before rising to an estimated Dkr8bn, or 0.7 per cent, in 1998. The **central government's current, investment and lending (CIL) budget** is also forecast to shift into *surplus, of Dkr4.8bn*, or 0.4 per cent of GDP, in 1997. Nordic Forecasts believes the CIL surplus will be somewhat larger, rising from Dkr6.1bn, or 0.6 per cent of GDP, in 1997 to Dkr13.5bn, or 1.2 per cent, by 1999 as a result of higher central government tax revenues.

But on closer reading, the type of fiscal policy implemented in order to strengthen the budget raises certain issues. First, the return to surplus does not mean there is room for increased public spending in view of the fact that the budget's positive balance mainly stems from *Denmark's heavy tax* burden. Virtually all the improvement in public finances over the past four years can be ascribed to higher growth and swelling tax receipts, and not structural changes to the budget. This may pose problems over time as it will make it increasingly difficult to finance future increases in spending on such public services as elderly care without recourse to higher taxes. Second and relatedly, recent budgets have been bolstered by one−off measures, which have done nothing to alter the underlying structural trend.

For example, the 1997 **central government budget** as approved last December contained one−off budget strengthening items totalling some *Dkr17bn*. Such a pattern could be repeated in the 1998 draft budget in the form of state sell−offs of certain selected assets, such as part or all of the government's majority stake in national telecoms company **Tele Danmark** . Finally, the lack of extensive structural reform in the labour market will make the need for fiscal tightening in the 1998 budget all the more relevant because of an expected risk of bottlenecks in the labour market. The government has revised its unemployment projections for 1997−98 down to a respective *7.8* and *7.4 per cent*. This suggests that a more radical overall of the existing labour market structure than attempted up to now is urgently needed if manpower shortages and production bottlenecks are to be avoided.

The *non−socialist parties* have long demanded much tighter rules covering costly early retirement schemes for those members of employment insurance funds aged 60 and over. And the **Radical Liberals** have been well disposed towards the idea. Although the **Social Democrats** have refused to tamper with the schemes in the past, it has surprisingly changed course with the presentation of new proposals for older workers. Slated for abolition are semi−retirement schemes, with thresholds for job insurance fund members raised to a minimum 25 years of membership in 30 years of working life from a respective 20 and 25 years before being considered eligible for early retirement.

The schemes are also to be made more flexible to ensure that more remain active members of the labour market. On the other hand, legislation will prohibit discrimination on grounds of age in line with current laws designed to uphold gender and ethnic equality in the workplace. And general efforts to activate persons aged over 60 are to be promoted. Critics find that the early retirement proposal is designed to force all Danish wage−earners and the self−employed to join an employment fund at the latest while they are still in their early 30s. The employer organisations have joined the non−socialist opposition parties and individual politicians from the coalition partners in pressing for an abolition of or at least a reduction in the provisions for taking early retirement.

As part of a series of reports and surveys that bore more of the mark of electioneeing than of implementable policy, the coalition government unveiled a long−term programme in April. Entitled **Denmark Foremost 2005**, the manifesto amounted to a checklist from senior cabinet ministers, assessing Denmark's current status and prospects and how well it fared in a number of key areas. The aim was to make Denmark a shining example for other countries in the world to follow. At a meeting hosted by the prime minister and his finance and economy ministers, a large number of senior businessmen, researchers and union representatives praised the government for its stated good intentions.

But all sides also criticised the programme for failing to back up its words with actions. Singled out for special criticism was the educational system and Danish school−pupils' bad reading abilities compared with children of the same age in other countries. *Denmark's former EU budget commissioner* **Henning Christophersen** stated that the programme's comparisons with the *USA, Japan, Germany* and the *Netherlands* were insufficient. Countries in **Latin America** and **the Far East** had also to be included. **Den Danske Bank** *chief executive* **Knud Sørensen** was not convinced that the government programme would have any noticeable consequences on policy−making and that it contained little of substance.

With an early election in the air, and with campaigning already showing signs of getting underway, the government's scope for introducing unpopular policy measures is limited. Bearing this in mind, the government's strategy is clear: the longer it survives, the better its chances are of pulling off an election victory on the back of economic prosperity. Thus, potentially unpopular policies aimed at streamlining early retirement, the social security system and housing support are almost certain to be shelved until the elections are over.

The pertinent question is whether this strategy will be allowed time to work. Although the government is buying time, the political calendar is filled with potential defeats and setbacks which could force the government to make unpopular decisions or see the coalition break up before voter sentiment swings in its favour (if at all). In any event, elections are a looming prospect, and the political climate will remain confrontational and unproductive in terms of substantive policy−making until then.

Irrespective of the new government's composition, its domestic policy will be dictated by the need to pursue a tighter fiscal line than has been in evidence in the past two years. With public−sector employment recording sharp gains, it will be the task of the new administration to trim public expenditure. It will thus prove difficult for any of the political parties − whether on the right or the left − to fulfil election promises of improving key public services, such as child care, schooling, elderly care and hospitals. Helping the new government, however, will be surpluses in both the general and central government budget balances.

Finding a parliamentary majority for its domestic policy programme will test the new government's skills to the utmost. The coalition survived the first test, when approval was secured for a package of fiscal measures to rein in domestic demand over the next four years. The next challenge is winning support for the 1999 budget bill, which prescribes a mild diet to trim public expenditure by around Dkr5bn. In the current unstable economic climate, there is little room for further fiscal tightening, at least until the global financial crisis has blown over. Providing a cushion will be continued surpluses in government budget balances.

Europe Policy

The *Dutch EU presidency's Amsterdam summit* marked a crossroads in the *Danish government's Europe policy*. With the emphasis shifting from fiscal rigour aimed at meeting EMU criteria to fighting unemployment, the *Nyrup administration's labour policy* was vindicated. But the intergovernmental conference **(IGC)** left Denmark's Maastricht opt−outs high and dry. Denmark now risks increasing isolation and receding integration in two key policy areas: *immigration* and *defence*. Any referendum to be held in the near future will deal with soft issues, such as **EU** enlargement, avoiding the crucial but contentious opt−outs.

Leaders of the *EU's 15 member states*, including **Denmark**, met in Amsterdam for a *June summit* aimed at forging a new *EU treaty* and marking the climax of 15 months of intensive negotiations in the **intergovernmental conference (IGC).** The prime ministers and heads of state had four main treaty issues to resolve:

- Reform of institutions and decision−making ahead of the **EU's** proposed enlargement into **Central** and **Eastern Europe**, which Denmark strongly backs;
- *New EU−wide rules* on **immigration**, **asylum** and **visa policy**, with opt−outs for the *British*, *Danes* and *Irish*;
- *Franco−German* plans for an eventual merger of the **EU** and **its Western European Union (WEU)** defence arm, which Denmark's defence opt−out excludes it from taking part in;
- and Rules for flexibility, whereby some countries can cooperate more closely without being held back by others.

As it turned out, the results in all four areas were meagre, at least as far as **EU** proponents were concerned.

Deferred were institutional reform and the **WEU** issue; decisions on immigration and asylum were made subject to a minimum five−year period of unanimity; and a majority vote enabling some **EU** states to move together without waiting for others was limited to selected policy areas. The modest content of the Amsterdam treaty made abundantly clear that, after the traumatic experience of the *1992 Maastricht treaty* (which was initially rejected by Denmark and barely scraped through ratification in *France*, *Germany* and the *UK*), the political sights have been considerably lowered. Denmark no longer stands alone as a country mistrustful about ceding national sovereignty.

Nevertheless, the treaty's watered−down content and the **IGC's** by and large inconclusive achievements were warmly welcomed by some governments, including the Danish. More than anything else, the ambiguity and relative harmlessness of the treaty's contents make it easier for the incumbent Danish government to sell it to a population that has proved more sceptical towards the concept of **EU** integration than virtually anywhere else in **Western Europe**, with the possible exception of the British. The results, thin as they were, also went a long way towards accommodating **Danish** *premier* **Poul Nyrup Rasmussen's** repeated insistence on including soft issues such as fighting unemployment and safeguarding the environment in the treaty's final text.

Vindicated was **Nyrup's** desire for a shift in emphasis towards creating jobs on a pan−European scale. That this also marked a shift away from fiscal discipline as embodied in **Maastricht's EMU** criteria was not necessarily the Danish government's intention. This was more to the liking of the French, falling as it did into the lap *of France's new Socialist−led government*. But in relation to hard issues, such as the creation of a single European currency, immigration curbs and a common European defence and foreign policy platform, the new priorities accorded unemployment, the environment and enlargement played right into the hands of the Danish delegation.

Agreement on a new **EU** treaty and the end to the **IGC's** marathon session marked a small step further down the road towards **EU** integration. But for Denmark, the step represents a major one that could well prove perilous. According to the **EU's** opinion poll institute, **Europinion**, Danes *have become more positive towards the **EU** in the past 12 months and now feel better informed about **EU** issues*. This is in direct contrast to the **EU** as a whole. This especially applies to those countries which have been less eurosceptical than Denmark. The positive **EU** stance generally deteriorated in the last three months of 1996, although some improvement was discerned at the start of 1997.

Mad cow disease and the ban of exports of British beef to the other EU states has had a negative impact in the UK. Other countries were negatively influenced by the unrest surrounding **EMU's** projected start; others in turn were critical towards the **EU's** lack of foreign policy initiative in **Zaire** and **Rwanda**. Danes were felt to be the best informed, with 56 per cent of those surveyed stating that they were "very" or "well" informed about the **EU**. Only **Greece** (with 70 per cent) pipped Denmark's 63 per cent to the post of top ranking in the sweepstakes for those who followed **EU** trends with great interest.

Having said that, the Amsterdam treaty overshadows the fact that Denmark's four opt−outs from **EU** currency, defence, judicial and nationality cooperation still pose substantial road−blocks in the path of increased integration. *Denmark's **EU** environment commissioner* **Ritt Bjerregaard** has made no attempt to restrain her criticism of the *Danish government's **EU** policy*. **Bjerregaard's** assault on the government singled out party colleague and *prime minister* **Nyrup** for a lack of willingness to tackle the Danish opt−outs from the *Maastricht treaty*. Denmark was not benefitting from the exemptions and risked being marginalised in **EU** cooperation, she argued.

Singled out for removal were the opt−outs related to **EMU's** third phase involving the creation of a single European currency and a common policy towards refugees and immigration. The commissioner also attacked the government for its opposition to greater **EU** flexibility. In the commissioner's view, this only seemed to win the government's support when it fitted in with government wishes, as in the question of environmental guarantees. She also urged Danish politicians to follow *economy minister* **Marianne Jelved's** lead in coming out and openly saying that they were in favour of **EMU**, and that it would be extremely costly to remain outside the union.

On her return from **Amsterdam**, Jelved stated that she expected Denmark to hold a national referendum sometime in early 1998 when voters would be asked to decide on the results of the new treaty in the wake of the **IGC's** recommendations. However, the precise timing is complicated by an ongoing legal battle pitting Danish EU−opponents against the government in the Danish courts. Ten individuals have brought a suit against *prime minister* **Nyrup**, accusing him of violating the Danish constitution by signing the Maastricht treaty and thereby allegedly relinquishing Danish sovereignty. A decision will be appealed, regardless of the outcome of the case, meaning that the case will go before the **Danish Supreme Court**.

In **Jelved's** view, a referendum could only be held after the supreme court had made its ruling and this process could drag out for several months. If the Danes should reject the new Amsterdam treaty, the situation will be further complicated by the fact that they will not get the same opportunity to vote again in another referendum containing any new opt−outs to points in the treaty as was the case in 1993. When Danish voters approved the *Maastricht treaty*, it contained Danish opt−outs to **European monetary union (EMU),** common defence, common citizenship and cross−border police/judicial operations. Allowances for these exemptions were made in the *Amsterdam treaty* in the form of protocols attached to the document.

The main conclusion of a Danish foreign ministry memorandum on Denmark's future in the **EU**, based on a preservation of the four Danish opt−outs and released prior to the Amsterdam summit, was that the country risked increasing isolation from the mainstream of **EU** integration. The report stated that Denmark had not succeeded in preventing the other **EU** members from making further efforts to deal with issues that touched on or came under the Danish opt−outs. However, the memorandum also noted that the other **EU** members disagreed on many issues and that this could delay an expansion of existing cooperation.

Danish participation in the **Schengen Convention** covering unrestricted travel across borders in a number of countries, and continued resistance to participation in a common refugee and political asylum cooperation, were also cited in the report as expected to generate major problems for Denmark's **EU** policy. *Denmark's chief* **IGC** negotiator, *ambassador* **Niels Ersbøll**, confirmed there were growing reservations among politicians about Denmark continuing to exclude itself from cooperation on asylum, refugees and international crime. Denmark would become a magnet for asylum−seekers and the nation would be left to its own devices to guard against the flow, the senior diplomat warned.

During a meeting of EU foreign ministers prior to the *Amsterdam meeting*, Denmark, Ireland and the UK came under renewed pressure from the other member countries concerning the immigration and asylum issues. A majority of member states wanted these areas transferred to supranational control with majority voting status, while Denmark, Ireland and the UK continued to fight for a preservation at interstate level, which demands unanimity. If the Danish opt−out in this area was to continue to prevail, the other countries demanded acceptance to proceed further with their plans irrespective of Denmark's exemption. As it turned out, the related arrangements agreed on in Amsterdam pose problems for Denmark, which is obliged to hold a referendum on any decision that transfers sovereignty from Denmark to **EU** institutions.

Communitarisation of asylum, visa and immigration issues, whereby these matters would switch over to majority voting after a minimum five years of unanimity, would involve such a transfer. Following Denmark's No to the *Maastricht treaty* when it was first presented to the Danish electorate in 1992, the **Nyrup** administration is loathe to run the risk of a referendum turning sour again. All the more so on such a sensitive national issue as immigration in a small country of predominantly indigenous population. But nor as a small nation with relatively open borders does it want to be frozen out of all negotiations and decisions relating to asylum and immigration. It thus sought and secured a special arrangement, whereby it has six months to decide on any matter related to these issues arising in **EU** discussions and fora.

The first Danish opinion poll taken in the wake of the Amsterdam summit pointed to a close race between supporters and opponents of the new treaty. According to a survey of 815 respondents by the **Greens** *research institute for* **Børsen**, an indicated **28.7** per cent of those polled were in favour of endorsing the *Amsterdam treaty* in a new Danish referendum, while **22** per cent were against. More importantly perhaps, the survey showed that every other of the respondents was in doubt about the treaty. The poll registered strong opposition among left−wing voters, suggesting that *prime minister* **Nyrup** will find it difficult to sell the treaty's new employment provisions. Of those surveyed, 53.8 per cent did not believe that the treaty provisions would create more jobs in **EU** member states, with only 21.3 per cent stating that they would.

If the results of this first poll are anything to go by, the battle for winning acceptance in the next referendum will be fought and won on the issue of enlargement to encompass several of the **EU's Central** and **East European** applicants. Of those interviewed, 56.6 per cent supported enlargement, while 31.2 per cent were against. In an earlier poll by the same research institute on public opinion towards the four opt−outs, 58 per cent of those surveyed rejected common **EU** citizenship, while around 53 per cent remained opposed to **EMU** and a single currency, with a similar proportion rejecting defence cooperation. Some 47 per cent were opposed to police and justice cooperation.

In addition to winning public support for the treaty, a crucial requirement of the **Nyrup** government will be to muster a sufficiently large parliamentary majority in favour of approving the treaty's contents. This is because the treaty will be put before the Danish parliament in October 1997 before it is turned over to the public in a national referendum by February or March 1998.

As matters stand in the **Folketing**, the opposition **Liberals, Conservatives** and **Christian Democrats** stand behind the ruling **Social Democrats** and **Radical Liberals**, although the latter two parties suffer from a relatively large dissenting group among their rank−and−file supporters, as well as isolated **MPs**. Opposed are the right−wing populist **Progress** and **Danish People's** parties, joining forces in an exceptional alliance with the left−wing **Socialist People's Party** and **Unity List**.

In the latter constellation, it will prove of paramount importance for the **Nyrup** administration to win the backing of the **Socialist People's Party**. Although the party's grassroots supporters tend to be adamently anti−EU, there is a slight chance that the parliamentary party will find the treaty's employment and environmental provisions palatable enough to swallow the treaty whole. Party leader **Holger K. Nielsen** recalls that there is a clear agreement with a majority of voters in the last referendum to respect.

With **EU** policy still a burning issue in the left−wing party's ranks, many of its members continue to disagree over the merits of its participation in the so−called national compromise forged by the majority of Denmark's political parties ahead of the last Maastricht referendum in 1993. This decision is generally credited as having proved instrumental in the slender majority for Denmark's conditional participation.

At the *Amsterdam summit*, Denmark and the four neutral **EU** member states of *Austria, Finland, Ireland* and *Sweden* supported a successful move by the **UK** to deflect attempts to integrate the **WEU** defence arm into the **EU**. With the **WEU** issue put on a back−burner for the time being, attention will switch to Denmark's **NATO** defence commitments.

The present mood within the defence alliance tips in favour of expanding the alliance eastwards to include the *Czech Republic, Hungary* and *Poland,* but not *Romania, Slovenia*, nor the three small Baltic republics − at least not in the first round due to be announced at the ***NATO summit*** in **Madrid** in July. However, the Danish side is pressing for the *Madrid summit* to decide on a package solution to provide the three Baltic states with some form of observer status, which would make it easier for them to become full members at a later stage.

Prime minister **Nyrup** has declared that Denmark is steadfast in its determination to see **NATO** enlarged eastwards, at the same time refusing to tone down his government's eagerness to see the three Baltic states accepted as **NATO** candidates as well. But in the present situation, Denmark stands relatively isolated in **NATO** and **EU** circles concerning its firm support of *Estonia, Latvia* and *Lithuania.*

This topic will almost certainly figure prominently in talks between *prime minister* **Nyrup** and **US** *president* **Bill Clinton,** when the two meet in **Copenhagen** in July just after the Madrid summit. An earlier scheduled visit by **Clinton**, marking the first time ever an incumbent **US** president would have stopped over in Denmark, was postponed owing to a knee−injury suffered by the president in March.

The decision to hold an election just two months before Danes vote on May 28 in a referendum on ratification of the **EU's** *Amsterdam treaty* presents a serious test for the *new government's Europe policy*. With its pro−EU stance, a *Liberal−led administration* may find it more difficult to drum up support for the treaty than the **Social Democrats**, were they returned to power, in view of widespread scepticism among the socialist parties. Disgruntled socialist supporters could well vote against the treaty out of spite for a government led by ***Liberal*** **Uffe Ellemann−Jensen**, who makes no bones of his **EU** sympathies.

In Denmark's fourth referendum on an **EU** treaty in 12 years, voters approved the *Amsterdam treaty* by *55.1 per cent* in **favour** to *44.9 per cent* **against**. The positive result vindicated the *Nyrup administration's cautiously proactive Europe policy* and marked a personal triumph for **Nyrup Rasmussen**. There is little prospect of further plebiscites on the **EU** issue being held in the foreseeable future. However, Denmark's four exemptions from closer cooperation in the monetary, citizenship, judicial and security spheres remain a thorn in the side of government efforts to promote integration between Denmark and the rest of the EU.

Market

Market Insight

Favourable economic fundamentals and adherence to a fixed exchange−rate policy have contributed to a steady narrowing of the interest−rate differential between benchmark *Danish* and *German* lending instruments. However, Denmark's exclusion from **EMU** will ensure that a premium on long−dated Danish interest rates will continue to apply. But several factors, including a link−up between the **Copenhagen** and **Stockholm stock exchanges**, will boost the internationalisation of Danish financial and capital markets.

Interest rates (% end−year)	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
3−month interbank	3.50	3.75	4.50	4.25	4.00	3.65
10−year bond yield	6.52	6.95	7.60	7.25	7.05	6.80

Partly as a result of strict adherence to the fixed exchange−rate regime and partly in line with renewed economic vigour, Danish interest rates have outpaced the general downward trend in **Europe**, by all accounts reaching a trough in mid−1997. Since spring 1995, short rates have declined by 3.5 percentage points, while long rates have fallen by 2.75 percentage points. With the krone's bilateral exchange rate against the *D−mark* closely shadowing the **ERM's** *central parity*, the short−term interest−rate differential with **Germany** is about 50 basis points (bp).

As there seems little doubt that **Danmarks Nationalbank's** overall monetary strategy is still to keep the *krone/D−mark* rate on a tight leash, Danish short interest rates are likely to track their German equivalents unless (or until) the krone comes under heavy pressure. In the long end of the market, the yield spread between equivalent Danish and German 10−year benchmark government bonds has narrowed by some *20bp* to *65 bp* in the past three months. Given the likelihood that key Danish economic indicators will remain favourable for the time being, it is estimated that the long−term yield spread will narrow slightly in the three−month term.

Unless economic fundamentals improve significantly beyond present expectations, further falls in the interest−rate differential will be limited to the Danish decision to stay outside **EMU's** third phase. This will in all likelihood entail a lasting premium on long−term interest rates. Five−year forward interest rates for the period **1999−2004** indicate that market rates incorporate such a premium. Offsetting this cost will require stricter discipline both in the formulation of fiscal policy and in wage and price setting. However, monetary tightening is perfectly feasible within the **ERM** framework, if inflationary pressures build the Danish central bank would prefer to see the government stepping in with tighter fiscal measures.

In the absence of sufficient fiscal moves to squeeze domestic demand, **Danmarks Nationalbank** could well shoulder the burden by tightening monetary policy independently. This would probably take the form of widening the current 50 bp repurchase (repo) rate spread and allowing the *krone/D−mark* parity to appreciate towards the lower end in the **ERM's** ±15 per cent band. This would effectively take the pressure out of growth and inflation if such a situation arose.

The present financial market mood would appear to be more stimulatory than at any time during the **1990s**. In response to this, the Danish banking and securities trading regulator, **Finanstilsynet**, has warned banks about liberal lending practices and the potential dangers of logging losses on money lent out. The banks have been using interest rates to attract customers, but the regulator is worried that the institutions may not demand enough security from customers who want to borrow money. Danish banks submitted their 1996 annual reports in the early spring, showing that earnings from interest were on the decline.

Early indications from the banks point to a continuation of the trend in 1997. It would become alarming if banks reduced collateral demands in order to compete with each other, although at the moment it appears that they are competing on loan price terms alone. One leading bank, **Jyske Bank**, complained that banks were being almost irresponsible in their lending to major industrial customers, with the risks outweighing the potential gains.

A number of factors will help to ease the authorities' dilemma in applying a suitable interest−rate policy in the near term. First and most importantly, **Danmarks Nationalbank** is well ahead in its gross borrowing requirement for 1997, which is estimated at approximately Dkr62bn. This marks a sharp downward revision on earlier estimates of around Dkr72bn and reflects improved public finances. Since the start of 1997, the **central bank** has sold government bonds and treasury bills worth around Dkr45bn. This means sales will have to total only Dkr17bn in the rest of 1997 to cover the borrowing needs. This indicates that there will be sufficient liquidity in the markets to support a positive attitude towards Danish bonds. Secondly, the net foreign debt is showing signs of stabilising and perhaps entering a downward phase.

In the Danish central bank's annual report for 1996, the nation's financial balance−sheet in terms of abroad was drawn up as follows: assets of Dkr828bn and debt of Dkr1,089bn. This produced a net debt of Dkr261bn, or Dkr5bn less than at end−1995. It was concluded that the national debt had peaked, or at any rate would only marginally rise in 1997. On the other hand, the central bank saw no prospects for a direct fall in state debt in the next few years, as well as no corresponding decline in debt interest payments. The foreign debt has stabilised at Dkr101.5bn and is expected to rise only marginally to Dkr 101.6 bn in 1997.

An additional positive factor takes the form of currently low lending rates which are making Danish borrowing instruments more attractive to both domestic and foreign borrowers alike. An unprecedented reduction in the minimum coupon rate from six to four per cent in October 1996 set the stage for a boom in new bond issues bearing a four per cent coupon, which continued well into 1997. The official Danish minimum lending rate was trimmed from six to four per cent with effect from October 22, 1996. The minimum rate is the nominal rate applying to new bonds issued by the Danish mortgage credit institutions. But it also applies to commercial bonds, debt instruments and other money claims.

As confirmed by the **Copenhagen Stock Exchange (CSE)** in June 1997, the minimum coupon rate will remain at four per cent until December 31, 1997, provided the market rate does not change significantly in the interim. The extraordinary reduction of the coupon rate resulted in a wave of commercial loan issues on the part of Danish as well as foreign borrowers. Issuers have included sovereign borrowers like the *Swedish* and *Finnish governments*, supranational institutions like the **World Bank**, as well as foreign and domestic Danish utilities and private companies. Among the first to seize the opportunity of lower coupon rates was **Deutsche Bank**, Germany's largest commercial bank. Deutsche offered in cooperation with **Spar Nord**, a north Jutland savings bank, a six−year DKK500m bond bearing the new four per cent coupon.

Since the rate was cut to four per cent, the number of major private and semi−institutional companies to launch new bond issues with typical maturities of four to 10 years has steadily increased. And investor interest has proved so overwhelming that many of the issues have been increased in volume shortly after their initial introduction. More often than not, these bonds have been booked by the major Danish commercial banks, with the largest, **Den Danske Bank**, accounting for many of the deals. For example, **Den Danske** unveiled at the start of December an issue totalling Dkr200m for the **Øresund** company building the fixed road−and−rail link between *Denmark* and *Sweden*. The offering is guaranteed by the Danish state and has a maturity running to 2003.

An issue for Norwegian power utility **Statkraft** expiring in 2002 was increased by Dkr300m to Dkr1.1bn and subsequently boosted by an additional Dkr200m to DKr1.3bn. A stream of similar issues has followed. One of the main factors behind the interest in the bonds is a favourable combination of the taxation of private investors in Denmark and the supply of short−term Danish government bonds. In view of the fact that the capital gain from investments in bonds at or above the minimum coupon level is not taxable, the bonds provide Danish private investors with a guaranteed tax−free capital gain. Hence their attraction from a fiscal point of view.

Finally, the Danish financial and capital markets are in the throes of structural changes that portend a more internationalised and open trading environment. The *stock exchanges* of **Copenhagen** and **Stockholm** signed a letter of intent in June to merge their trading systems and create an integrated securities market with combined capitalisation of almost **US$300bn**. In the first cross−border link−up of its kind among European bourses, the alliance foresees that the **Swedish SAX** trading system will be introduced in **Copenhagen**. **SAX** is more transparent than the current system and contains a small order system that is more user−friendly for small investors.

The long−term objective is to offer trading in shares, interest−bearing securities and derivatives via a single channel and common regulatory framework. Although the other *Nordic exchanges* of **Oslo** and **Helsinki** were offered the opportunity to participate in the cooperation, they declined in the first instance, citing reservations about a scheme that in their view would be dominated by **Stockholm**. Cooperation between the two bourses will also spread costs on a broader base and add liquidity to the markets. The competition between Danish and Swedish brokers will hardly see any fundamental changes, however. With the aid of remote trading, the major *Danish* and *Swedish brokers* have already established themselves in each others' markets, where they compete tooth and nail for trades.

Market Forces

Restructuring, repositioning and relocation will constitute the main market forces affecting Danish business trends in the years ahead. Competitive pressures, profitability considerations and strategic factors will speed up this process. In the financial services sector, concentration will produce fewer but more powerful universal finance entities, incorporating banking, home mortgage and insurance activities. Although market liberalisation in key areas, such as *energy*, *power, telecommunications* and *transport*, will be prone to political backlashes, events will proceed in the general direction of freer competition and reduced state intervention.

The contours of Danish business will shift dramatically in the next five years, with a number of salient factors determining the general trend. In line with an international trend towards larger corporate entities, Danish companies in various sectors have embarked on a gameplan of building critical mass with the help of restructuring, mergers, acquisitions, alliances and joint ventures. Leading companies taking this course of action in varying forms include *brewery group* **Carlsberg**, *food and beverages* concern **Danisco**, mixed *industrials conglomerate* **FLS** and *healthcare group* **Novo Nordisk**.

In a breakaway move but also reflecting a desire for restructuring its operations, textile services and industrial distribution company **Sophus Berendsen (SB)** has chosen to break the group into two parts. The demerger creates a new investment company, which will hold 90 per cent of **SB's** 36 per cent stake in UK−listed services company **Rentokil**. The remaining **Rentokil** holding with its laundry and distribution operations will be placed in another company retaining the **Sophus Berendsen** name. The restructuring takes effect from January 1998.

In another departure from previous practice, **Bang & Olufsen**, internationally renowned under the **B&O** trademark for its upmarket design of radio and TV appliances, has given the green light for a new chapter in its retail sales strategy. In recent years it has bid farewell to around 700 ordinary radio and TV dealers with a view to launching an extensive network of franchise outlets that exclusively sell **B&O** products. With the result that in the next three years, the international network will span 420 retail outlets selling **B&O** appliances on a franchise basis.

Of these, around 300 will be new. Unveiling a long−term strategic plan in May, international contract cleaning and related industrial services group **ISS** is shifting emphasis away from cleaning operations and towards more specialised service functions. In 1996 **ISS** suffered a bout of financial turbulence unleashed by its earlier and since divested operations in the **USA**. **Cheminova Holding**, parent company of chemicals producer **Cheminova** which has ***Arhus University*** as its chief shareholder, is to focus more on its core business activities and sources of income in plant protection, insulation materials capable of withstanding high temperatures, absorption materials and securities portfolios.

But other considerations, including market dominance and price competitiveness, play a crucial role as well. In the energy sector, for example, electricity and heating utilities are leading an attack on the sales monopoly enjoyed by state−owned natural gas company **DONG**. Behind the drive is the fact that **DONG's** prices are well above the average prevailing on the world market. **DONG** boosted 1996 sales by 22.9 per cent to Dkr8.5bn, while net profits surged 46.9 per cent to Dkr1.2bn. Circumstances have been aggravated by the go−ahead from *environment and energy minister* **Svend Auken** for plans by Danish power utility **Elkraft** to build a major new power plant fuelled by natural gas exclusively. And **Elkraft** is demanding a completely different and more competitive price structure from **DONG**. If not, the alternative will be to import the necessary gas volumes. It is estimated that the smaller Danish combined power−heating (**CPH**) plants could save up to 20−30 per cent on their energy bills by importing cheaper natural gas from foreign suppliers.

This would prove of benefit to both private and industrial consumers alike in the form of cheaper electricity prices. **DONG** has resisted moves to challenge its status, fighting to preserve its exclusive rights to distribution, storage and negotiated natural gas prices in Denmark. Also in the energy sector, north Zealand electricity utility **NESA**, which has been in both the public and political eye during much of 1997, presents a tempting target for foreign energy companies intent on penetrating the potentially lucrative Danish power market. With sales rising eight per cent to Dkr2.6bn in 1996, profits soared 109 per cent to Dkr117.6m, while net profits surged 127 per cent to Dkr73.1m. However, potential foreign bidders will have to hang fire as efforts by **NESA's** majority shareholder, **Gentofte Municipality**, to sell its stake and raise up to Dkr3bn were thwarted by special legislation designed to prevent such a sell−off.

In the telecoms sector, national provider **Tele Danmark** has been hit by fiercer competition especially in the mobile phone market. This competitive climate will turn hotter in view of the fact that several foreign and domestic companies have also been awarded licences to run telephony−based operations in Denmark. Licences for a new *mobile telephone network* **(DCS 1800)** were awarded in March to **Mobil, Sonofon, France Telecom *and* Sweden's Telia**, in addition to **Tele Danmark**.This increased competition is expected to cut minute rates for mobile phone calls by up to a half in the very near future.

Tele Danmark is already feeling the heat: while it boost group sales by 23 per cent to Dkr23.3bn in 1996, profits fell seven per cent to Dkr5.1bn with net profits shedding 11 per cent to Dkr3.1bn. Although **Tele Danmark's** domestic rival **GN Store Nord** fared better, the company expects 1997 to be a very tough year. Industrial companies are not faring well and participation in telephone sales via its dominant stake in Sonofon is placing heavy demands on the group. **Tele Danmark** has conceded that Danish telecoms liberalisation and resulting competition will result in estimated revenue losses of around Dkr1.9bn in 1997.

In the financial services sector, restructuring has been driven by the imperative that a large part of future profits growth may well depend on cost−cutting at a time of narrow margins, little overall market growth, and fierce competition in the domestic Danish market, both from insurers and other new entrants. But the sheer pace of recent restructuring suggests most of the more frenetic merger activity in financial services is probably over, at least for the time being. A second wave featuring more cross−border activity and international link−ups is not to be ruled out, with some of the Danish banks still presenting themselves as attractive targets for larger foreign predators. A case in point **is BG Bank**. As Denmark's third−largest commercial bank, **BG Bank** has been in protracted negotiations with the nation's largest mortgage credit bank **Nykredit** and insurance company **Topdanmark** with a view to turning a loose alliance between the three into a full−scale merger of their operations.

But **BG Bank** and **Nykredit** agreed in June to break off the alliance, leaving the bank and **Topdanmark** to continue their cooperation. As one of *Denmark's top three banks*, **BG Bank**, with its extensive retail branch network and corporate giro services, is an attractive proposition. It advanced net interest and fee income by three per cent in 1996 to Dkr6.2bn, while a decline in costs and loan−loss provisions meant that the bank's core income surged by nearly 50 per cent to Dkr1.7bn. The bank's management foresees sharper competition leading to further cuts in present staffing levels and higher fees.

For its part, **Topdanmark** gained market shares in accident, life and general insurance policies as well as in pension schemes during 1996. With total premium income rising eight per cent to Dkr4.4bn, net profits soared 946 per cent to Dkr272m. **Danica**, the *insurance company* controlled by leading commercial bank **Den Danske Bank**, boosted gross premium income from accident and life insurance by 26 per cent to Dkr7.8bn in 1996. The largest increase was within accident insurance, which gained 29 per cent to Dkr6.6bn. Reasons include a rise in demand for medical insurance covering senior executives and key personnel in cases where serious illness can be treated in private clinics to avoid the long waiting−lists experienced in Denmark's national health system.

But the Danish life insurance companies are facing serious competition from their Swedish rivals. According to the findings of a study of Swedish insurance premiums, considerable savings are to be made by taking out a Swedish policy. For example, a 50−year−old woman who wishes to take out a life insurance policy worth Dkr500,000 has to pay an annual premium of over Dkr3,000 if she opts for a Danish insurer. An equivalent insurance policy with major Swedish insurer **Skandia**, for example, costs only Skr1,127, or around Dkr1,000. Such savings could spark a competitive price war on the Danish life insurance market.

While Swedish insurers may well be poised to penetrate the Danish insurance market, **Den Danske Bank** has chosen a path of acquisition and retail branch expansion in the Nordic region with which to build critical mass in an area which is seen as a "home market". **Den Danske** acquired the controlling stake in Swedish provincial bank **Östgöta Enskilda Bank** with a balance−sheet total of Skr14.9bn and 29 branches in southern Sweden. The purchase was augmented with an offer to acquire the outstanding minority stake. The final cost of the entire transaction works out at Skr2.8bn, or around Dkr2.4bn. The acquisition forms part of the Danish bank's strategy to expand in the Nordic countries and marks the first stage of a drive to extend services to Swedish retail customers.

The deal, while on the expensive side, is strategically beneficial in the sense that around 2000, the bridge that will link Copenhagen to southern Sweden is due to be completed. The link will give the Danish parent easy physical access to its **Östgöta** branches and industrial customers in the region. The move by **Den Danske Bank** may well trigger other cross−border takeovers among the banks. The two largest commercial banks in Sweden, **Skandinaviska Enskilda Banken** and **Svenska Handelsbanken**, may feel pressure to follow suit and start to shop for Danish banks. However, many of the Danish banks have built−in protection against takeover bids due to complex ownership structures and dominant voting rights linked to equity.

Also taking up the price challenge is **Scandinavian Airlines System (SAS)**, the national carrier for *Denmark, Norway* and *Sweden*. The struggle for market share among traditional airlines and between these and cut−price competitors intensified greatly in 1997. This has cleared the way for charter tourists to travel to holiday destinations in some of the remotest parts of the world at around half the previous price. **SAS** has announced that it is taking up the gauntlet with immediate effect. Price cuts will range from 10 to 35 per cent, with the typical airfare costing around 25 per cent less. It is also offering a range of new and very competitive round−trip fares. Although the price war is proving fierce for the airlines and hard on their finances, business and tourist passengers stand to benefit.

In the wake of deregulation, a shoal of competitors, including the UK's **Virgin**, Denmark's **Mærsk** and Norway's **Braathens SAFE**, have challenged **SAS's** dominance of the Scandinavian market by launching competing services on high−margin routes such as *Copenhagen−Brussels* and *Stockholm−Oslo*. In a bid to strengthen their hand, **SAS** and German alliance partner **Lufthansa** entered a broader, global alliance with three other airlines. The network aims to strengthen the companies' competitive abilities, especially against the planned link−up between **British Airways** and **American Airlines**. **SAS** and **Lufthansa** joined forces with **Air Canada**, **Thai International** and **United Airlines** of the US. Brazilian company **Varig**. It is hoped that **South African Airways**, **All−Nippon Airways** and **British Midland** will join the group at a later date. The nine companies hold a combined 13 per cent share of global air traffic.

In another example of an alliance with repercussions in the Nordic region as a whole, Danish brewery group **Carlsberg** concluded a joint−venture deal with US soft drinks giant **Coca−Cola** in March. Under the name of **Coca−Cola Nordic Beverages (CCNB)**, the planned new company will have the rights for production, distribution, sales and marketing of **Coca−Cola** products in *Denmark* and *Sweden* initially, with the cooperation expected to extend to include Norway and, possibly, Finland at a later stage. To allow this, **Coca−Cola** must first terminate licencing agreements in Norway and Finland before these two markets can be included in **CCNB's** reach.

Although Carlsberg has stated that it does not expect the deal to encounter any competition problems with either **EU** or national authorities, the **EU Commission** decided to extend a routine investigation into the planned joint venture for a further four months. The outcome of the investigation is thus first expected to be disclosed in September. The venture, in which **Coca−Cola** holds a 49 per cent stake, is important to **Carlsberg** in strategic terms. With both the Swedish and Norwegian markets for **Coca−Cola** products calculated to be about 1.5 times the size of the Danish market, the venture opens up growth opportunities for **Carlsberg** in markets where continued expansion in sales of non−alcoholic beverages is anticipated.

As far as alcoholic beverages are concerned, Danish east coast ports and their retailers stand to lose millions of kroner if the **European Court** upholds a ruling that will make Sweden's state monopoly on alcohol sales illegal. In the north Zealand port of **Helsingør** alone, 16 shops survive solely on their sales of beer, wine and spirits to Swedish daytrippers, while the town's other retail outlets are also strongly dependent on revenues from the sale of food and beverage products to Swedes. Apart from **Helsingør**, towns such as **Frederikshavn** and **Dragør** and parts of **Copenhagen** also derive substantial income from Swedish shoppers crossing the **Øresund** to snap up bargains in Denmark.

The imminent problems for Danish retail trade on Denmark's borders became apparent following a preliminary **European Court** ruling which stated that the Swedish state retail alcohol monopoly contravened **EU** regulations. In a related development, local business associations in south Jutland have begun a study to determine the consequences of a future EU ban on sales of duty−free sales aboard ferries between Danish and German ports. Sales of spirits on the boats will stop in 1999. Danish ferry ports in the region are concerned about potential job losses in the area and the impact on regional tourism. Around 1.8m people travel on the routes each year, with many of the trips subsidised by Danish businesses.

Creating greater dynamism in the private sector will be essential for Denmark's long−term growth prospects. Efforts to galvanise Danish market forces will prove more effective if targeted at the overall framework for creating enterprise and wealth. Such efforts would include improving the legislative framework for competition; dismantling government support schemes for business; speeding up the transfer of resources from the public to the private sector; and lowering the overall taxation of capital and labour income. Failure to pursue this course of action risks the exodus of Danish businesses to more attractive locations.

The more uncertain direction in market forces taken as a result of the unsettled global economic climate will spur the need for Danish industry to reposition itself for the future. Most exposed to restructuring will be Denmark's key food and beverage sector, not least the troubled pigmeat industry, but also including such household names as **MD Foods' Lurpak** butter and **Carlsberg's** beer products. Also affected will be the financial services sector, where commercial banks will need other legs to stand on if declining income from core banking operations is to be augmented. One solution will be expansion in the other Nordic countries.

Legal

Industry Laws

A circumspect industrial policy of dispensing aid to selected industrial sectors in the form of state subsidies, grants or soft loans risks undermining Denmark's reputation as a free marketeer. On the lookout for more one−off measures to prevent government finances from reverting to deficit, it is not to be ruled out that the **Social Democrat**−led coalition will resort to state sell−offs in certain key assets, such as telecoms group **Tele Danmark**.

Denmark's reputation as a trading nation is built on a tradition of free market principles and unrestricted competition. As such, state participation in industry is limited. No nationalisation law is on the statute books and no company has ever been nationalised. It hardly comes as a surprise then that Denmark has spent several years fighting state subsidies to national shipbuilding industries. Thus it is all the more important to note for the record that Denmark also belongs in the category of those **EU** countries which have been criticised for expanding state support to selected sectors, such as *manufacturing industry, agriculture, transport* and *fisheries*. In a report published by the **European Commission** in April, Denmark was cited as having posted the highest growth in state subsidies of all **EU** countries in 1992−94.

In *Denmark, France, Germany* and *Ireland*, the amount of state aid rose and accounted for almost 60 per cent of the total volume of aid to manufacturing industry. Aid levels were reported to be lowest in the *UK, Spain* and the *Netherlands*. For the EU as a while, state subsidies totalled Dkr316bn. Germany was singled out as the worst offender, paying out a total of Dkr129bn in the two−year period. The criticism of Denmark noted that whereas Danish state support in 1990−92 was limited to Dkr2.5bn, it grew to Dkr3.8bn in 1992−94. Overall, the report concluded that the rising trend was very likely to be confirmed by figures for 1994−96. The **European Parliament** is renewing efforts to halt state subsidy programmes worth a total Dkr12bn for shipbuilding industries particularly in *Germany, Greece* and *Spain*.

That some form of support is needed in certain sectors, such as shipbuilding and other depressed industries, is hardly in dispute. Danish shipyards are steering into a new critical period as a result of deteriorating competitive parameters vis−à−vis major shipyards in the **Far East** and state subsidised yards in Europe. According to one Danish publication, foreign shipyards have won orders for over 40 vessels destined for Danish shipowners. The Danish yards have orders for 25 vessels from Danish customers and for 21 vessels from foreign shipowners. New orders are urgently needed if a serious crisis is not to ensue once the current orders have been dispatched. In response to the daunting prospect, Danish shipyards have chosen various paths.

In one, the Funen−based **Lindø** shipyard owned by Danish shipping group **A.P. Møller (APM)** will limit future activities to building large tankers and container ships. The shipyard has extended its sphere of influence to include the **Baltij** shipyard in the Lithuanian port of **Klaipeda**. The yard will deliver orders for small vessels, such as refrigerated ships, container feeders, supply ships and tugs. In another, the **Lauritzen** holding company behind Danish shipping firms **J. Lauritzen** and **DFDS**, several industrial companies and beleagured shipyard **Danyard**, has sold off some of its industrial interests, including a 48 per cent stake in **Danyard** to a Malaysian shipping magnet.

State aid is also on the increase in certain EU member states because governments are employing the subsidies to prepare state−owned entities for privatisation, as in the case of Italy's **ENI** and **IRI** industrial holding companies and France's **Credit Lyonnais** and **Air France**. In Denmark's case, however, the need to keep the state budget in surplus means that the government may have to resort to one−off measures, such as sell−offs of selected state assets. Not to be ruled out is a full or partial sell−off of the government's stakes in the partially privatised telecoms group **Tele Danmark** and other sizeable shareholdings still controlled by the state.

Combined these holdings are assessed to have a present market capitalisation of Dkr25bn, or equivalent to 2.5 per cent of annual Danish **GDP** currently running at around Dkr1,000bn. And they can also be compared to the total public deficit of Dkr16.2bn run up by central and local government in 1996. Selling off part or all of the government's 51 per cent majority stake in **Tele Danmark** would considerably lighten the load in connection with the coming 1998 draft budget.

However, it also needs to be recalled that a sale by the state would sever it from an anticipated major source of revenue. With the exception of the sale of a minority stake in **Tele Danmark**, which raised nearly Dkr20bn in 1994, the state assets sold by successive governments so far in the 1990s have totalled around Dkr5bn. These have included postal bank and giro services group **GiroBank**, computer processing company **Datacentralen** and Copenhagen's airport **Københavns Lufthavne**.

It has been estimated that the sale of a 25−30 per cent stake in **Tele Danmark** would generate Dkr9−10bn in revenues for the state, although the gains made by shares listed on the **Copenhagen Stock Exchange** in 1997 suggest that the proceeds could be substantially greater. But critics of any state sales argue that such transactions only provide a temporary respite before a more negative reaction sets in as fiscal revenues decline in line with an anticipated slowdown in domestic demand. The state has several other holdings up its sleeve that it could sell. However, their total value is estimated at less than Dkr5bn.

Taxation Rules

Although government projections forecast a decline in the Danish tax burden, it remains relatively high compared with other **OECD** countries. With public expenditure calculated to post steady increases owing to a rising proportion of elderly persons in the national demographic makeup, the tax burden stands a greater chance of becoming heavier than lighter in the years ahead. This is irrespective of whether fiscal revenues derive from personal income taxation or indirect taxes.

In its May economic review, the economy ministry projected that both Danish public expenditure and the general tax burden were in steady decline. Expenditure was described as falling from 66.2 per cent of **GDP** in 1993 to an estimated 57.7 per cent in 1998, while the tax burden was expected to decrease over the same period from 52.4 to 51.0 per cent of **GDP**. However, the Danish tax burden remains relatively high by international comparison. This partly owes to the fact that some services *(i.e. healthcare)* are provided free of charge by the Danish public sector, whereas in some other countries these are funded privately (i.e. through insurance policies).

Another explanatory factor is that public transfer payments are liable to tax in Denmark. With the introduction of the 1993 tax reform as of 1994, certain public benefit systems related to social pensions and social assistance became tax liable for the first time. Hence the tax burden increased by around two per cent of **GDP** in 1994, in spite of a phased reduction in income taxation as part of the reform, which expires in 1998. With present calculations pointing to a rise in public expenditure by some four per cent of **GDP** from **1995** to **2030**, mainly to accommodate an increasing proportion of elderly persons as part of general demographic trends, it is more than likely that the Danish authorities will face a serious fiscal crunch in the period up to **2010.**

The expiring tax reform in 1998 presents the government with the problem of what to put in its place. In connection with its 1993 tax reform, the government introduced a new element in the form of the so−called labour market contribution. This social security contribution, as it is more commonly known in other countries, effectively amounted to a tax on all gross income earned by wage−earners and the self−employed. The rate in the first applicable year of 1994 was set at five per cent of gross income, rising in stages to eight per cent in 1997. In order to win parliamentary approval for the new tax, the minority government pledged that revenues would be earmarked for three funds related to unemployment benefits, officially−sponsored job programmes and sick−leave payouts.

The coalition also agreed that the actual tax rate would be cut in the event of a decline in unemployment. As matters have turned out, unemployment has officially fallen by some 100,000 persons. But the government has backed off its pledge to cut the gross tax rate. Reluctant to discard or dilute a very unpopular tax that generates estimated annual revenues in excess of Dkr50bn and rising, the rate for 1998 was set at an unchanged eight per cent for employees, while employers will have to bear an increased rate of **0.33** per cent compared with **0.19** per cent in 1997. If the present government has its way, it sees nothing to prevent the rate rising to *25 per cent* in the next decade, with decreases in the personal income system offsetting part of the heavier burden.

Rising domestic demand has taken some of the pressure off central government to generate sufficient fiscal revenue to fuel the mechanics of the welfare state. This is illustrated by the success with which the state cashes in on property sales at a time of burgeoning demand. Whereas sharper competition among Denmark's real estate agents has reduced their fees in connection with home sales, and whereas low interest rates have proved of benefit in converting home mortgages to cheaper loans when property exchanges hands, the state has succeeded in maintaining its share of the revenues. And the state is also profiting from rising property prices. Home sales generate state revenues of around an annual Dkr2bn. For example, property sold with a value of **Dkr1m** (which is currently the norm) provides the state with an income of **Dkr37,500**.

Of this, Dkr25,000 takes the form of fees and charges in connection with the exchange of mortgage deeds, stamp duties and building reports. The remainder stems from **value−added tax (v.a.t)** paid by attorneys, real estate agents and advertisements to sell the property. Out of the total transaction costs of around Dkr110,000 involved in the sale of a property worth Dkr1m, 34 per cent thus goes into the state's coffers. This proportion is expected to rise in 1997−98, with a virtual doubling in stamp duties as part of the government's May fiscal package expected to yield an additional **Dkr800m** or more. However, it would be foolish of the government to assume that domestic demand will prove robust enough to continue contributing to fiscal revenues with the same intensity in subsequent years, particularly as the current economic cycle of growth draws to a close and is replaced by a downturn.

In addition to domestic pressures, Denmark faces increasing international pressure to ease its tax burden, particularly in the sphere of indirect taxation. The **European Commission** has taken up the issue of harmonising v.a.t rates among member countries with a view to promoting a level playing field for competition. The entire question is complicated by the fact that Denmark is the only EU country to apply a uniform rate of 25 per cent, shunning differentiated rates. Although Sweden applies a 25 per cent rate similar to Denmark in being the **EU's** highest, it also levies lower rates of six and 12 per cent on certain products and services.

Apart from certain low rates applying to selected products such as basic food items, v.a.t rates vary in the upper range from Finland's *22 per cent*, Belgian's and Ireland's *21 per cent*, France's *20.6 per cent*, Austria's *20 per cent*, Italy's *19 per cent* and Greece's *18 per cent*, to Holland's and Britain's *17.5 per cent*, Spain's *16 per cent* and Germany's and Luxembourg's *15 per cent* in the lower range. There are also clear differences in the extent to which v.a.t generates revenues for the national budgets of the respective states. Denmark's view is that it does not wish to introduce differentiated rates for administrative reasons and that it cannot afford to reduce rates from the current *25 per cent*. Each percentage point of v.a.t generates around an annual Dkr4bn in revenues for the Danish state, with the earmarked total for 1997 officially estimated at over Dkr105bn.

Legislative Update

After four years of intense technical discussions and political negotiations, a new **Competition Act** was finally approved in May. Taking effect from January 1, 1998, the new law is based on the prohibition principle, rather than control as exercised previously. The changes empower the authorities to intervene in and prohibit agreements deemed to be anti−competitive − including the right to instigate criminal proceedings against a company suspected of abusing a position of influence. The new rules, which are designed specifically to meet **EU** regulations barring restrictive practices and abuse of market dominance, apply equally to enterprises in the public and private sectors.

In line with previous legislation, the new law does not govern mergers. Newly−merged enterprises will be obliged to notify the national competition watchdog, or **Competition Agency**, as it will henceforth be called, and it will be left to the discretion of the agency whether or not to refer the case to the relevant **EU** competition authorities for further examination.

As a follow−up to the labour ministry's action programme for a clean working environment by 2005, first announced in 1995, a new *Working Environment Law* was approved in May. The new legislation, to be implemented in phases during the period up to end−2000, introduces stricter occupational health and safety measures and is preventive−oriented. The law, which has been sharply criticised by employer organisations as interventionist and bureaucratic, aims to minimise or avoid:

- fatal accidents caused by working environment factors;
- occupational exposure to carcinogenic chemicals and occupational brain damage due to exposure to organic solvents or heavy metals;
- occupational injuries to children and young persons;
- injury caused by heavy lifting and occupational diseases due to monotonous, repetitive work; damage to health caused by work−related pyschosocial risk factors;
- diseases or serious problems caused by a poor indoor workplace climate;
- and hearing damage due to noisy work. Official statistics show that there has been a steady increase in reported occupational accidents causing death or serious injury in the past six years.

A bill to revise the tax treatment of financial instruments was approved by the **Folketing** in May. The legislation, tabled by the tax ministry in March, covers the taxation of capital gains and losses on cash receivables, payables and financial instruments. As approved, the revisions applying to financial instruments − **forward contracts, call** and **put options** − take retroactive effect from January 1, 1997, while the rules on taxation of gains and losses on cash receivables and payments will enter into force on January 1, 1998.

Covered by the new law are: gains and losses on disposal or redemption of cash receivables **(monetary assets)**, including bonds, mortgages secured against assets, as well as non−secured mortgages and loans to related parties; gains and losses on the release from payables **(liabilities)**, and gains and losses on forward contracts and call and put options, irrespective of the tax treatment of the underlying assets. Not applicable are: gains and losses on receivables and releases from payables realised on the sale of real property if the vendor is a real estate agent; gains from the first sale of a flat after being parcelled out as a resident−owned flat; gains and losses on convertible bonds; and gains and losses on premium bonds.

A government bill was passed in March, making it easier for foreign companies to conduct sales operations from Denmark. The legislation, which takes effect on January 1, 1998, marks a deregulation of the requirements for foreign firms performing v.a.t−liable activities in Denmark without a permanent business address in the country. The purpose behind the v.a.t relief is to make Denmark a more attractive country in which to conduct business activities. With the bill's enactment, the requirement for joint− and multi−liability for companies established in an **EU** country is repealed.

Henceforth the representative will only have to act as an administrative link between the foreign company and the Danish authorities. Under the former requirements, foreign firms had to register for v.a.t, with the registration made through a representative resident in Denmark. The representative and the foreign company were jointly and severally liable for v.a.t payments to the authorities, making it costly for a foreign firm in some incidences.

Inward Investment

Setting up in Denmark

Foreign investment in Denmark has increased steadily in recent years, in line with the general trend towards a more international approach by the business community, and a growing perception of the advantages offered by a location about mid−way between the northern and southern extremities of the expanded **European Union**.

A number of surveys carried out by independent institutions in the last few years have indicated that :

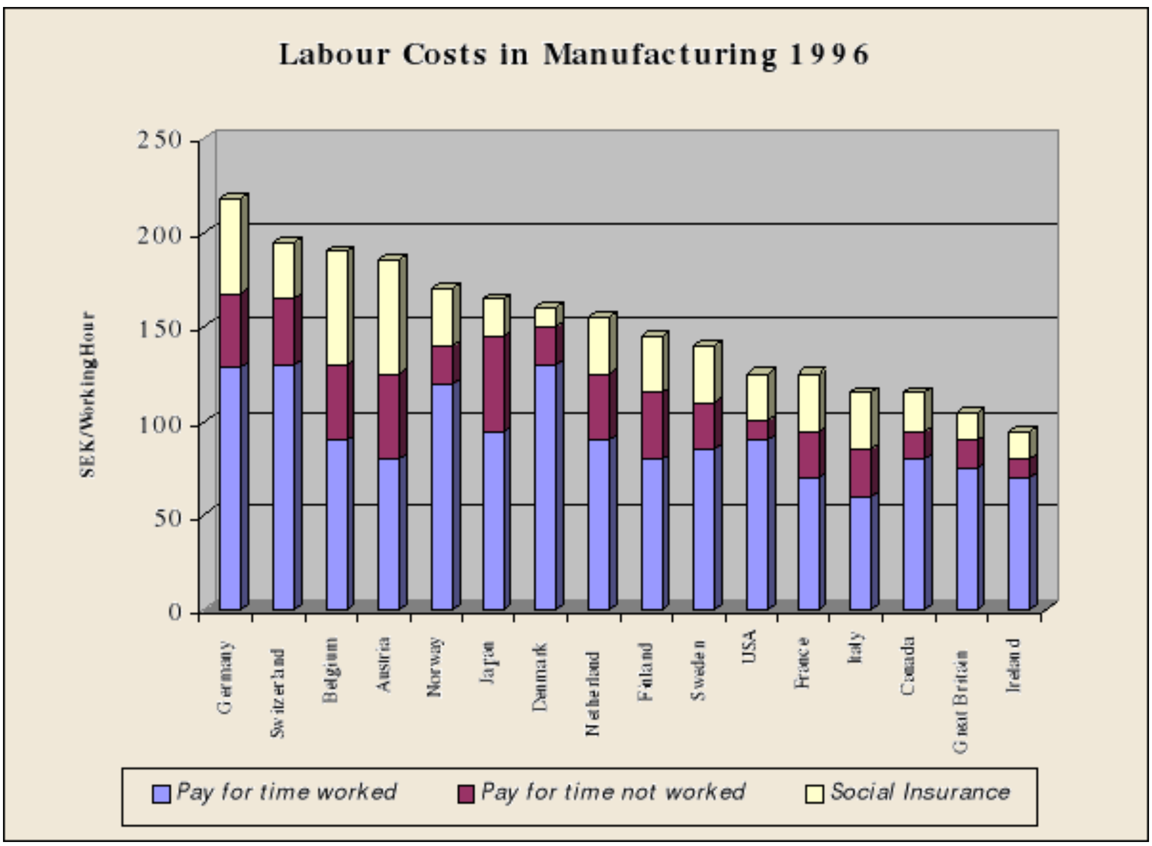
- Production facilities sited in Denmark by foreign companies frequently prove to be more competitive than their Danish competitors,
- Foreign owned companies have a high level of acceptability by labour unions and wage earners.

Direct corporate investment is encouraged by the Danish government, and full range of services and information for potential investors is available through the *Invest in Denmark Program.*

Denmark's advantage as a location for inward investment is well documented in the **World Competitiviness Report 1993,** prepared by the *Institute of Management Dvelopement* and the *World Economic Forum*. The 1993 edition of this annual study is concluded that Denmark was the most competitivi nation in the **OECD** −behind Japan and the *United States*, but ahead of both *Switzerland*, *Germany* and *the Nederlands*.

The **IMD/World Economic Forum** report is compiled from answers given by more than 2.000 company managers in 24 OECD countries. Denmark received a high rating for economic factors like low inflation, the low inflation, the low corporte tax (34%), infrastructure (fourth best in OECD), excellent logistics and a clean environment.

Denmark was also rated for the first among all OECD countries for the people factor, which considered skills, motivation, training and labour market conditions.



Location Denmark

Denmark lies at the crosroads of three major markets :

- ***The European Union,***
- ***Scandinavia***
- ***Eastern Europe***

And its the gateway to the Baltic sea, which is emerging as one of Europe's prime growth areas.

General view from Central European, Nordic and East European Countries.

Denmark has a strategic location for distribution services, a factor which has already made several international corporations choose Denmark as a main distribution centre for their goods. Over **2,000** foreign firms are currently operating in Denmark.

Danish companies provide fast, efficient transport services by road, rail and air across the *Continent* and throughout *Scandinavia*.

Copenhagen International Airport is one of the most modern in Europe, with frequent services to all continents. Freeport facilities and bonded warehouses are available for assembly and onward shipment, and base port rates apply.

Denmark has one of the highest living standards in the world, with a *clean environment, many cultural, sports and leisure activities,* and a *school system* which includes international schools offering *instruction in English, French, German and Japanese.*

To improve and protect the environment the **Danish government** has decided to set up **Green City Denmark**, to serve as a showcase demonstration to the world the capability of Danish environmental technology and know−how. **Green City Denmark** includes municipalities of *Herning, Ikast, Videbæk and Silkeborg.*

Green City Denmark has been set up as a national network in which all interested companies and municipalities can participate.

Financial Services

With **73** *commercial Banks* and **118** *savings Banks* operating 2,570 locations, Denmark is well banked. The total includes five branches or subsidiaries of foreign banks, while other foreign banks have established representative offices in Denmark.

Mergers at the beginning of the **1990s** resulted in the formation of two dominant banking groups, **Den Danske Bank** and **Unibank**, with well over half of the banking market. However, the smaller banks and saving banks continue to florish, many of them based almost entirely upon local or regional business.

In line with the needs of the business communtity for international services to handle the banking side of export trade, Danish banks have developed international connections. The larger banking business have set up their own offices in the main international banking centres like ***London, New York, Singapore*** and ***Tokyo***, and smaller banks operate through corresponding banks in these and other centres.

The removal of currency restrictions and gradual liberalization in European banking during the **1980s** has encouraged the banks to widen the range of services they offer to include *stockbroking, merchant banking,* and in some cases even *travel and insurance,* wraped in the label financial supermarkets.

Internationally, the most prominent sector of Danish financial services is a bond market which is generally rated as the seventh largest globally, and fourth largest in Europe. The volume and liquidity of the bond market has attracted a growing volume of new issues from other companies, and made copenhagen an important centre for *bond trading*.

Bonds, shares and derivatives (futures and options) are all traded through the **Copenhagen Stock Exchange**. This exchange was an international leader in computerised trading, and the first to dematerialise shares and bonds into electronic entries, without any corresponding physical paper. Administration of shares, bonds, etc., is managed by the **Danish Securities Centre**, where all transactions and documentation of ownership is recorded.

Danish banks have managed to avoid most of crises which have hit banks in many countries in recent years. Several have been forced to close, and both large and small banks have reported losses. However, the safeguards built into the Danish banking system have prevented any significant losses to depositors, and bankswhich have encountered difficulty have been rescued by the banking community without state aid, and none of the major banks have been forced to close or merge since the structural changes and mergers at hte beginning of the decade.

Banking employment has also fallen, as the financial services sector generally has cut back on staff *(through norml departures and dismisals)* to become more competitive. From a peak of over **70,000** in 1998, total financial sector employment has fallen by more than **10,000** and a further gradual reduction is expected.

Other cost−cutting measures have been implemented, with the closure of branch offices, and the application of a less liberal lending policy. The banks have also invested heavily in computer systems to achieve higher productivity.

In insurance, the **Third Non−life** and **Third life** insurance directives came into force in mid−1994, giving insurance acces to the entire **Single European Market**. At the end of 1993 there were **194** non−life insurance companies operating in Denmark, **68** limited companies, **86** mutuals and **40** foreign companies. Premium incomes after deduction of reinsurances, amounted **to DKK 20,901 million.**

In life insurance, there were **41** companies active, **37** limited companies, three mutuals and two foreign companies. Their total income amounted to **DKK 40,577 million**, with 53% derived from investments.

Legal and business services

Denmark's large volume of foreign trade, **EU** membership and diversified business activities could not function without the professional services of accountants and lawyers. The leading international accountancy groups, **Arthur Andersen**, **Price Waterhouse**, **KPMG** and others have offices in Denmark providing a full range of accountancy services.

These firms, and several of the leading banks, have prepared information guides which five a qualified and often quite detailed presentation of basic business problems, with general outlines *of tax legislation and practice, labour, office space and other expenses*, and similar information. In most cases these booklets are avalaible on request, free of charge.

While most Danish law practices operate almost entirely within national boundaries, a growing number have set up offices abroad to assist Danish companies in their main export markets. Several Danish law firms have offices in London (and one British firm has its own office in **Copenhagen**) and others have partnerships or branch offices in eastern European countries as well as in EU member−states.

Investment Climate

With Danish companies continuing to invest more abroad than their foreign counterparts in *Denmark*, the challenge facing the Danish authorities to attract more foreign investment to *Denmark* will be all the greater. Their efforts will be assisted by an influx of capital from cash−rich Norwegian companies intent on staking out claims in a Nordic member of the **EU**. In addition to fresh investment opportunities arising in connection with the fixed link being built between *Denmark* and *Sweden*, new fiscal incentives are in the pipeline.

The trend of Danish direct investments abroad outstripping those of foreign companies in Denmark, as first discerned by **Nordic Forecasts** in its 2nd Tertial 1996 Denmark Report and reported subsequently, was maintained with similar intensity in the first quarter of 1997. A review by **Danmarks Nationalbank** of Danish investments abroad and foreign investments in Denmark published in June, showed that Danish investments in the form of direct capital transfers abroad totalled **Dkr4.9bn** in the first quarter. This was on a par with the **Dkr4.8bn** recorded in the fourth quarter of 1996. In 1996 as a whole, Danish direct investments abroad totalled **Dkr18.9bn**, almost matching the Dkr20.5bn recorded in 1995. By contrast, **foreign direct investments (FDI)** in Denmark eased to Dkr2.8bn in the first quarter of 1997 from Dkr3.6bn in fourth quarter 1996.

In 1996 as a whole, **FDI** in Denmark amounted to **Dkr11bn**, nearly half the **Dkr19.5bn** total of 1995. Other *EU countries* accounted for *75 per cent* of the Danish investments abroad in first quarter 1997, little changed from the proportion registered in the whole of 1996. As in 1995−96, by far the majority of **FDI** in Denmark originated from other *EU member states*. However, it is worth noting that Danish direct investments in *North, South and Central America* registered strong gains in first quarter 1997, with Danish investments in the **USA** alone totalling nearly **Dkr0.5bn**, almost half the 1996 total of **Dkr1.1bn** and compared with just **Dkr67m** in fourth quarter 1996. Direct investments by US companies in Denmark fell to **Dkr201m** in the first three months of 1997 from **Dkr349m** in the final 1996 quarter.

That the Danish investment authorities, who are organised in the **Invest in Denmark office** under the *business and industry ministry and Copenhagen Capacity*, the agency entrusted with promoting the Danish capital, have their work cut out to attract more foreign investment, must come as little surprise.

Although the annual world competitiveness yearbook for 1997 from the Lausanne−based International **Institute for Management Development (IMD)** singled out Denmark and the Netherlands as role models for promoting growth and curbing unemployment, the rankings also reflected some slippage for Denmark compared with 1996. In the institute's competitive rankings of 46 countries, the **USA**, **Singapore** and **Hong Kong** topped the list in first, second and third place respectively. These were followed in descending order by **Finland**, **Norway, the Netherlands, Switzerland** and, in eighth place, **Denmark**.

Whereas both **Finland** and **Norway** moved up from respective positions of 15th and sixth in 1996, Denmark slipped from fifth place. The *North European* trend was described as setting a model precedent. However, a **UN** report released in 1997 showed that Denmark was the worst−off country in the EU to attract investments from the **Asian tiger economies** *of Hong Kong, Taiwan, Singapore and South Korea*. Only one out of a total of 153 investments by these countries in the **EU** went to Denmark in 1996. The Danish market was regarded as simply being too small, while the cost−efficiency ratio was seen as not attractive enough compared with several other **EU countries**.

But certain Danish companies and operations pose an attractive target for foreign capital investment. After a relentless bid war to acquire a majority stake in Danish asphalt company **Phønix Contractor**, which pitted Danish road construction companies against the Norwegian building group **Rieber & Søn**, the Norwegian bidder finally emerged triumphant. The stakes were high, with the Danish firms fighting for vital market share in the overcrowded Danish asphalt market. In this struggle, road construction and roofing material group **Icopal** proved the most resilient.

But it too was finally forced to relent. **Rieber's** victory was toasted by **Phønix's** *1,000−strong workforce* in the **Jutland** town of **Vejle**, who view the Norwegian triumph as a guarantee for preserving jobs. **Phønix's** net profits surged by *760 per cent to Dkr43m in 1996*. **Rieber** is not the only Norwegian company intent on investing in Denmark. Steady inflows of Norwegian capital buoyed by offshore oil revenues have boosted the number of Norwegian−owned companies in Denmark to around 200, with the largest operators including Norway's state−owned oil and gas group **Statoil** and energy and chemicals concern **Norsk Hydro**. The latter opened a new coated aluminium piping plant in south Jutland in May.

Neither are Swedish companies lagging behind in an investment drive into Denmark. As in many parts of the world, mail order firms are recording sharp gains in Denmark. Initially serving the Danish market from Sweden, mail order group Ellos built up annual sales turnover totalling Dkr200m in Denmark. As of **March,**

Ellos, which in May was acquired by **Redoute,** the mail order arm of French retail group **Pinault Printemps Redoute**, established a presence in Copenhagen with the aim of further expansion in the Danish market. Danish retail chains have also successfully begun to expand abroad. According to retail trade publication **Detailbladet**, a total of *29 Danish retail chains* operate 1,955 outlets abroad. Although *35 foreign retail chains are represented in Denmark*, their Danish outlets amount to only 540.

On a more alarming note, the major combine harvester and farm machinery manufacturer based in the Jutland town of **Randers**, **Dronningeborg Industries**, joined those Danish companies that are transferring more of their production abroad as a means to tap cheaper manpower. In the first move, production of electrical installations and assembly of various contacts for combine harvesters are being transferred to an Italian sub−contractor. Angry and somewhat bitter sentiments were also aroused last October when Swedish whitegoods giant **Electrolux** closed its Danish freezer manufacturing plant with the loss of 300 jobs. Increased competition was cited as the reason. **Electrolux** has since opened a new freezer plant in **Hungary**.

Reflecting the drawing power of *Central and East European countries*, Danish industry's interest in investing in the **CEEC** scaled new peaks in 1996.

According to the **Danish Investment Fund for Eastern and Central Europe (IØ),** Danish participation in 30 new projects was recorded in 1996, while investments in 13 other projects were boosted, marking total Danish investments of **Dkr1.7bn**. **Poland** has proved the main beneficiary since 1989, increasing an initial number of 15 Danish−backed investments to 77 in 1996. **Slovakia** and **Lithuania** took second and third places respectively in 1996, attracting five and three new investment projects apiece. Since the **IØ's** creation in 1989, the **Czech Republic** has come to occupy second place after Poland with 20 Danish investments, followed by **Lithuania** with 15, **Russia** (14), **Latvia** (12) and **Hungary** (10).

Since 1989, the **IØ** has helped finance a total of 171 business investments in the **CEEC**. The fund backs around 70 per cent of all Danish business investments in the region. Another example of expansion eastwards involves the Danish operations of **UK** company **United Biscuits**, which in 1993 acquired Danish biscuit−maker **Oxford Biscuits**. The Danish company continued under its old name at its **Hjørring** plant in north Jutland. **United Biscuits** will henceforth concentrate its Nordic production in **Hjørring** and the Finnish capital of **Helsinki**, launching at the same time a major sales campaign to meet rising demand among *Russians* and *Ukrainians* for biscuit products. Currently at an annual level of **Dkr100m**, sales of **United Biscuits'** products in Russia are projected to rise by *30−40 per cent*.

Also based in north Jutland, digital mobil phone manufacturer **Dancall** has faced turbulent times in almost all its relatively short existance. In 1993 **Dancall** was bought out of receivership by **UK** consumer electronics group **Amstrad**, which paid less than Dkr60m to rescue the company. Since that time its fortunes have proved mixed, although a technological breakthrough points to a brighter future. As the first in the world, **Dancall** has launched a mobile phone handset which functions in *Europe*, *America and Asia* alike owing to an innovation which allows it to shift frequencies and networks. The breakthough means an expansion in existing production facilities and an additional 2−300 jobs.

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From the start of June, Denmark's first fixed link for railway traffic over and under the **Great Belt** between the islands of *Zealand and Funen* was opened. The link cuts the rail−travel time between **Copenhagen** and

Arhus by about half, to two−and−a−half hours, and marks the start of a new bout of competition between Denmark's national railways and the airlines. A **6.8km** bridge to link the two islands by motorway is set to be completed in 1998. In the meantime, work on a 16km fixed road−and−rail link across the **Øresund** between the Danish capital and Sweden's **Malmö** is proceeding as planned. The bridge−and−tunnel network, which is expected to boost commerce and help spur the development of a medical−industrial complex with the help of international investment in the region, is set to open for traffic in 2000.

The creation of the **Ørestad** urban region following completion of the fixed link across the **Øresund** is also expected to put pressure on the greater *Copenhagen area's congress facilities*, one of which is the **Bella Center**. This served as the motivating factor behind a decision to start construction on a new centre with a capacity for 4,500 visitors, set to be completed in 1999. At the same time, the **Bella Center's** floorspace is being expanded at a cost of Dkr130m. Following completion, the **Bella Center** will rank as the Nordic region's largest congress centre.

In the fiscal area, moves are afoot to make the investment climate in Denmark more attractive. In a speech at the *Danish Chamber of Commerce's annual meeting*, business and industry minister **Jan Trøjborg** aired plans to reduce corporate taxation from the current 34 per cent rate. Motivating factors include similar cuts in Germany and Sweden, Denmark's two most important export markets; a need to attract more foreign companies; and recognition of the fact that a substantial parliamentary majority is in favour of such a move.

For their part, the opposition **Liberals** and **Conservatives** have drawn up proposals to abolish share taxation rules introduced by the government in 1993. Before the new rules came into force, all minority shareholders were freely allowed to sell their shares after three years of ownership, with profits from the sales classed as tax free. In addition to tightening these rules, the new legislation also raised the tax on earnings from the sale of majority shareholdings from *25 to 40 per cent* following a seven−year ownership period. The opposition parties argue that scrapping the 1993 legislation will promote private investment in Danish equity.

Practical Information

Banks

Normally open 9:30 to 4 p.m., although some banks in residential suburbs have introduced other opening hours for the convenience of local residents.

Business hours

Offices : Normally open from 8−9 a.m. to 4−5 p.m.

Shops : open at 9−10 a.m. and close at 5:30 to 7 p.m. on weekdays, Saturday closing 1−2 p.m. Some shopping areas have introduced late Saturday closing (4−5 p.m.) on the first and last Saturday of the month.

Casinos

There are six licensed casinos in Denmark − Copenhagen, Elsinore, Odense, Aalborg, Aarhus and Vejle. The entrance fee is charged at day, week and monthly rates, and only persons over 18 are allowed to enter. Cameras, video cameras, electronic equipment including mobile telephones cannot be taken inside. Only Danish currency is used in games, but major credit cards and foreign currency are accepted. All winings are tax−free.

Cheques/Credit Cards

Personal cheques drawn on foreign banks are normally not accepted. Eurocheques and traveller cheques can be cashed at banks. Credit Cards are accepted wher the appropiate sign is displayed, and the number is increasing.

Currency

The krone is Denmark's unit of currency. One krone = 100 øre. Amounts less than one krone are rounded to the nearest 25 øre, which is the samallest coin in circulation. Coin denominations are 25 øre, 50 øre, and 1, 2, 5, 10 and 20 kroner. Bank notes are in denominations DKK 50, 100, 500 and 1,000.

Driving

In built−up areas, the sped limit is 50 km/h. Highways and main roads 80 km/h, and motorways 110 km/h. Use of safety belts is compulsory, and dipped headlights must be switch on while driving at all times, day or night.

Electricity

The mains voltage in Denmark is 220V AC, and appliance sockets use plugs with two round pins. Danish power sockets are normally not fitted with a pin to earth.

Emergency

Directions to obtain emergency medical and dental assistance can be obtined by dialling 112 (Alarm−free of charge), from hotel staff or hospitals.

Hotels

Apart from the peak tourist season or when major trade fairs or exhibitions are taking place it is normally not difficult to find hotel accommodarion in the Danish capital or main cities. Prices vary according to standard, but generally reflect the average price level prevailing throughout northern Europe. Bookings can be made in advance by telephone, or arranged trough travel companies.

Medicine

Lager towns have a dispensing chemist's service open at all hours for emergency dispensing. For less urgent medicines, look for the sign : Apotek.

Parking

Parking restrictions are in force in all larger towns. In Copenhagen, coin−operated parking meters have been replaced for coin−operated computers, which issue a ticket for a given parking period when coins are inserted. The ticket must be put inside the car, displayed so that it can be seen trough the windscreen. In some areas parking discs are required when parking is free of charge but restricted duration.

Postal

Post Offices are open normally 10 a.m. to 5 p.m. (12 noon on Saturdays).

Telephone

The code for international calls in Denmark is 00, followed by the national code of the country concerned, and the individual number.

Time differences

Denmark uses Central European Time, which is one hour ahead of Greenwich Mean Time, and two hours ahead when European Summer Time is in force. Central United States Time is 7 hours behind Danish Standard Time, while Japan is 8 hours ahead.

Tips

Tipping has been abolished in Denmark, even in restaurants and taxis. A service charge is included in hotel an restaurant bills.

VAT

Denmark has a single Value Added Tax rate of 25%. Shop prices include VAT, but business prices are often quoted without VAT, since the tax is deductable. Foreign visitors can reclaim VAT paid in Denmark on private purchases (minimum value for Scandinavians is DKK 1,200, for other nationalities DKK 600) and many retail stores are able to help customers with this service. However, citizens of European Union member−states cannot reclaim VAT.

Weights and measurements

Denmark uses metric system for weights and measures. One inch = 2,54 cm; one sq.ft = 0,093 sq.m; One lb (American) = 0,454 kg, one ton = 907 kg; One gallon = 3,786 litres; One cu. Inch = 16,387 cu.cm.

Meeting the Danes

Foreigners familiar with Denmark often describe as informal, both in contacts with others and in dress. Business meetings usually call for business attire, but it is not unusual for business visitors to be welcomed by danes in more informal dress.

Ease of contact at all levels of the business community is a feature in almost every enterprise. Information and meetings can be arranged with ease, and this extends to the public sector and administration as well.

The informality does not stop Danes from expectin their visitors or guests to be punctual, and arrive at the time which has been agreed for a meeting. If unexpected circumstances appear likely to cause a delay of more than 10−15 minutes a visitor should call to notify the person he or she is meeting of the delay, and possibly set a new time.

Punctuality applies in private contacts as well. Dinner invitations are arranged on the assumption that guests will arrive at about the time indicated. When invited to a private home for a dinner or other form of hospitality it is usual for the guest to bring flowers, chocolate or other small gift for the hostess as a mark of appreciation. In Denmark, lunch is normally at about 12 or 12:30 and the evening meal at about 6 to 7 p.m.

English is spoken almost universally in Denmark, and is the first foreign language taught in the Danish school system. Some Danish companies have adopted English as the standard language for all company communications, even internally. Many Danes are flurnt in German as well, while other languages like French, Spanish, Italian are spoken to a lesser degree.

Smoking is an issue in Denmark, as in other countries. Is is advisable and polite gesture to ask wether it is acceptable before lighting up in someone' s office or home, and a refusal might have to be accepted. Smoking is prohibited on all domestic flights, on flights between the Nordic countries and in buses. Smoking is not allowed at meetings in public buildings if a single person asks that there be no smoking. It is possible to book smoke−free rooms in Danish hotels.

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