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# European Trade Liberalisation and the stillborn Nordic Customs Union in the 1950s

ABSTRACT

*Historical research on the aborted Nordic customs union of the 1950s has emphasised the conflicting commercial interests of the countries involved. This study identifies the common commercial interests that from 1954 committed governments to further progress in the customs union issue. It argues that increased frustration over the 'hardening' of the European commercial regime made the governments opt for a customs union to develop Nordic manufacturing industries.*

In July 1957 a Nordic committee of experts, the Nordic Economic Cooperation Council (NECC), submitted a well-considered plan for a Nordic customs union for manufactured goods. At that point in time the customs union issue had been on the Nordic political agenda for a decade. The three Scandinavian countries made up the core group. Iceland remained on the outskirts, as her economic structure would demand special arrangements. Foreign political predicaments allowed Finland to join the agenda only in 1956. A former committee of experts, the Common Nordic Committee for Economic Cooperation (CNC), which was set up in February 1948, had tabled expert reports on the issue in 1950 and 1954. On both occasions further political progress had been vetoed by the Norwegian government. Still, on both occasions the Norwegian government wanted the expert investigations to continue. Thus the NECC, consisting of high-ranking officials in close contact with their governments, replaced the CNC in 1954. The NECC soon made progress and had by 1957 worked out a detailed Nordic tariff scheme. A change in attitude seems to have taken place in 1954.

Ever since Bo Stråth's dissertation in 1978, historical research on the Nordic customs union issue has focused mainly on conflicting national interests, demonstrating that the efforts were instrumental in order to receive Marshall Aid.[1] Norway has, not unexpectedly, caught the historians' attention. Stråth interpreted the Norwegian initiative in 1954 as an attempt to replace Marshall Aid with Swedish investments. There was no fundamental change of opinion in Oslo, he argues. In 1995, Vibeke Sørensen presented an interpretation that emphasised the social dem-

1 Stråth, B., *Nordic Industry and Nordic Economic Cooperation*, Stockholm: Almquist & Wiksell International 1978, 65–81.

ocratic rationale behind the customs union.[2] Developing manufacturing industries was necessary to catch up with European developments and sustain 'the Scandinavian model', she argues. This study substantiates her interpretation even further. It does not oppose the social democratic rationale, yet it emphasises the common commercial interests originating in the perceptions of an unfriendly commercial environment in Europe. Frustrations over the international commercial regime made the Nordic governments join forces.

Firstly, the study elaborates on the character of the European commercial regime in order to identify common Nordic perceptions. It addresses the liberalisation of trade and payments in the Organisation for European Economic Cooperation (OEEC), the tariff bargaining within the General Agreement on Tariffs and Trade (GATT) and the European 'Low Tariff Club' (LTC), and the Anglo-Scandinavian economic committee (UNISCAN). Secondly, it elaborates on the customs union plan in order to identify how conflicting commercial interests were handled.

## The OEEC trade liberalisation program and the failure of the ITO, 1948–51

When the OEEC was established in 1948 each national economy of the 17 member states was defended by currency control and import quotas. Intra-European trade was regulated by a web of bilateral trade and payment agreements. European governments had eluded US efforts to transform the OEEC into a customs union but still feared demands for multilateral trade liberalisation. To meet American demands, the British government suggested that import quotas should be liberalised on a multilateral basis. In November 1949, the Council of Ministers decided to set up a Trade Liberalisation Program (TLP), which obliged the member states to remove their quota restrictions by the end of 1951. Through stages governments would have to present 'free lists' of goods that were released from quota restrictions.

The decision called for a vigorous first step. Already by December 15 1949, governments were obliged to release goods equivalent to 50% of the value of their private European imports in 1948. Unsurprisingly, on the target date it turned out that they had attached conditions to their 'free lists'. As all governments were chasing scarce dollars and guarding their bilateral balances of payments, it was evident that effective 'free lists' would depend upon an OEEC that also multilateralised payments. As the Bretton Woods convertibility was still a long way away, this had to be enforced through a clearing mechanism, which also provided deficit countries with cheap credits. Therefore the Council in January 1950 made further implementation of the TLP dependent on the establishment of the EPU, which was negotiated during the summer of 1950. As the EPU was in place the TLP was anchored in a Code of Liberalisation.

The British government had proposed the TLP to accommodate US demands for 'integration', while also deliberately addressing British interests.[3] As Britain

2 Sørensen, V., Nordic Cooperation – A Social Democratic Alternative to Europe?, *Interdependence Versus Integration. Denmark, Scandinavia and Western Europe 1945–1960*, Ed. T.B. Olesen, Odense: Odense University Press 1995, 40–61.

3 Milward, A.S., *Britain's Place in the World. A Historical Inquiry into Import Controls 1945–60*, London: Routledge 1996, 46–58.

purchased about 25% of her imports on government account and the average tariff level contributed to 20%–25%, she would still maintain her means of protection. France, which defended her domestic economy in much the same way as Britain, also saw her interests served by attacking quotas on private imports.[4] Italy had devised a new and extremely protective customs tariff after the war and relied almost exclusively on tariffs as protective measures.[5] The Federal Republic of Germany had somewhat lower tariffs and less state trade, but Bonn was still weak and ambivalent.[6] Thus, as the TLP covered only import quotas on private account while excluding tariffs and trade on government account, it would reduce the level of protection in low-tariff countries immediately, while the liberalising effect for the high-tariff countries would be insignificant in the short term.[7] Furthermore, compared to the smaller countries, Britain and France also traded less with Europe as a share of their total foreign trade. Britain succeeded in retaining Commonwealth preferences and bringing the Sterling Area under the EPU regulations. Correspondingly, France was successful in including the French Franc Zone. The small low-tariff countries would pay higher costs for achieving 'European integration' than the larger high-tariff countries. The larger European countries accommodated US demands partly at the expense of the smaller countries.

Scandinavia belonged, with the Benelux countries and Switzerland, to the low-tariff countries in the OEEC. Measured ad valorem, the weighted average tariff rates on manufactures in France, the FRG, Italy and Britain were, respectively (in percentage terms), 18, 26, 25 and 23 in 1950. The equivalent figures for Belgium, the Netherlands, Sweden and Denmark were 11, 11, 9 and 3.[8] The tariff cleavage is further supported by the evidence in Table 1, which provides a cross-country comparison of duty incidence for specific items in 1952. Aware of the problems involved in the measurement of tariff protection, this nevertheless suggests a division between the small and the large European countries in terms of protection.[9]

Small-state governments felt uncomfortable with the British invention but acknowledged its defensive nature because the American demands were seen to be worse. Nonetheless, they complained about the lack of balanced reciprocity. The Netherlands soon put the problem of tariff disparities on the agenda while Denmark complained that their agricultural exports were excluded because they were conducted on government account. Denmark and the Netherlands, supported by Norway and Sweden, eventually threatened to veto quota liberalisation and de-

4 Lynch, F., *France and the International Economy. From Vichy to the Treaty of Rome,* London: Routledge 1997, 131–143.

5 Holbik, K., *Italy in International Co-operation,* Padua 1959, 80–86.

6 Bührer, W., *Westdeutschland in der OEEC. Eingliederung, Krise, Bewährung 1947–1961*, München: Oldenburg 1997, 179–229, 243–252.

7 Diebold, W., *Trade and Payments in Western Europe. A Study in Economic Cooperation, 1947–1951*, New York: Harpers & Brothers publishers 1952,164.

8 Asbeek Brusse, W., *Tariffs, Trade and European Integration 1947–1957. From Study Group to Common Market*, New York: St. Martin's Press 1997, 31.

9 Belassa, B., *Trade Liberalization among Industrial Countries: Objectives and Alternatives*, New York: McGraw-Hill 1967, 44–68.

**Table 1.** Average ad valorem percentage incidence of import duties, 1952

| Items | Benelux | Denmark | Sweden | Norway | FRG | UK | France | Italy |
|---|---|---|---|---|---|---|---|---|
| Cotton, yarn and thread | 4 | 1 | 2 | 7 | 16 | 13 | 17 | 25 |
| Synthetic yarn and thread | 11 | 11 | 6 | 14 | 19 | 41 | 18 | 28 |
| Newsprint | 10 | 0 | 0 | n.a. | 12 | 10 | 25 | 17 |
| Rubber tyres and tubes | 24 | 12 | 17 | 6 | 30 | 27 | 19 | 24 |
| Woollen and worsted fabrics | 16 | 4 | 6 | 21 | 22 | 21 | 18 | 22 |
| Plate glass | 16 | 14 | 12 | 34 | 25 | 12 | 20 | 31 |
| Internal combustion engines | 9 | 1 | 4 | 19 | 15 | 16 | 18 | 26 |
| Tractors | 9 | 5 | 10 | 1 | 20 | 23 | 22 | 36 |
| Machine tools | 6 | 5 | 7 | 17 | 9 | 18 | 16 | 17 |
| Cars | 24 | 7 | 15 | 30 | 32 | 33 | 30 | 40 |
| Bicycles | 18 | 6 | 23 | 37 | 15 | 20 | 30 | 50 |
| Clothing | 24 | 6 | 11 | 26 | 24 | 24 | 23 | 28 |
| Watches and parts | 9 | 10 | 3 | 6 | 14 | 33 | 15 | 7 |
| Toys and games | 81 | 8 | 15 | 19 | 20 | 23 | 32 | 33 |

Source: Milward, Alan S., *The European Rescue of the Nation-state*, London: Routledge 1992, 178.

manded changes to the TLP regulations.[10] The Netherlands, Denmark and Norway were running current trade deficits and the two latter countries argued that they were 'structural debtors' in need of special treatment. At an early stage the Scandinavians unsuccessfully argued for a system of 'global quotas', which would have allowed a ceiling of quota free imports to be fixed according to a country's balance of payments.[11] Most proposals were effectively blocked by France, Italy and Britain. Less affected by the lack of reciprocity and from the outset inclined to 'shirking', the Norwegians dragged their feet mainly because they saw their expansionist policy jeopardised. Expecting trade surpluses at the time, the Swedish were not as vociferous in their demands, which for the most part were not unlike those of the Norwegians. As opposed to Sweden, which argued as a debtor, Belgium, also running a strong trade surplus, maintained her creditor's interests by demanding hard payments. One can hardly speak of a united force among the low-tariff states, although the Dutch attempted to moderate the Belgians. When negotiating the EPU, Norway and Belgium were fierce opponents. Moreover, Norway and Sweden were less enthusiastic about the Danish and Dutch attempts to draw up a common list of liberalised goods that would include agricultural products.[12] The common denominator among the low-tariff countries was that they

10 Historical Archives of the European Union, Florence (henceforth HAEU), OEEC, C/M(50)4(Final), Minutes of 86th Council meeting on 31st January and 1st February 1950; C/M(50)26(Final), Minutes of 108th Council meeting on 15th September 1950; C/M(50)28(Final), Minutes of the 110th Council meeting on 6th October 1950.

11 HAEU, OEEC, C/M(49)22(Final), Minutes of the 75th Council meeting on 31st October 1949, 1st and 2nd November 1949.

12 HAEU, OEEC C(51)62 Liberalization of trade – 75% stage and common list. Report by the Steering Group, 20th February 1951.

awaited a future attack on tariffs via the aborted International Trade Organisation (ITO).

By late 1945 the US government had proposed an international trade organisation as a counterpart to the Bretton Woods institutions. Together they would address payments, quotas, tariffs and preferential trading on a global basis. However, the Bretton Woods agreement was suspended in Europe by the ERP while the 1948 Havana Charter establishing the ITO never materialised. In 1951 the US government decided not to present it for approval by the US Congress. Consequently, the GATT, negotiated in 1947 as a provisional treaty to regulate tariff bargaining, became the counterpart to the OEEC.[13] When the TLP was established in 1949–50, the low-tariff countries had taken it as given that the pending ITO would effectively reduce the tariffs of the larger countries, thereby restoring equity. As the ITO failed to do so, this turned out to be a serious case of poor judgment.

The low-tariff countries had to rely on the GATT, which was merely a weak multilateral framework for old-fashioned tariff bargaining on most-favoured-nation basis. It was temporary and needed to be extended every third year. It had no political powers, allowed the invoking of exemption clauses, and authorised existing preference areas as well as quota restrictions on agricultural imports. As indicated in Table 2, the GATT only modestly reduced tariffs during the period from the Annecy round in 1949 to the Dillon round in 1961. In this period tariff negotiations were carried out on a product-by-product basis, which, from a technical point of view, hampered progress.

**Table 2.** Indicators of GATT efficiency, 1947–1967
I: Total number of concessions exchanged
II: The concessions' trade coverage ($ million)
III: Average depth in tariff cuts in per cent ad valorem

| Conference | Year | I | II | III |
|---|---|---|---|---|
| Geneva | 1947 | 45000 | 10000 | 19 |
| Annecy | 1949 | 5000 | n.a. | 2 |
| Torquay | 1951 | 8700 | n.a. | 3 |
| Geneva | 1956 | 2700 | 25000 | 2 |
| Dillon | 1961 | 4400 | 49000 | 7 |
| Kennedy | 1967 | 8159 | n.a. | 35 |

Source: Brusse, Wendy Asbeek, *Tariffs, Trade and European Integration, 1945–1957. From Study Group to Common Market*, New York: St. Martin's Press 1997, 118.

Yet the significance of the GATT was modest mainly because neither the large OEEC countries nor the USA would relinquish their tariff protection. During the Geneva round in 1947, neither the large nor the small countries paid much at-

13 Most OEEC members became Contracting Parties to GATT between 1948 and 1951. Finland never joined the OEEC but became a Contracting Party to GATT in 1950. Iceland was a member of the OEEC from 1948 but never a Contracting Party to GATT during the OEEC's existence. On the structure and machinery of the OEEC, cfr. OECD, *The European Reconstruction 1948 – 1961. Bibliography on the Marshall Plan and the Organisation for European Economic Co-operation (OEEC)*, Paris: OECD 1996.

tention to tariffs because, as they were levied by weight or volume and not by value, general price increases had rendered them ineffective. Governments knew that their protection was provided by quota restrictions. Consequently they granted a high number of insignificant tariff concessions. However, as the TLP started to make its presence felt, they became more preoccupied with tariff protection. By enacting new customs tariffs, high-tariff countries replaced duties based on weight or volume with duties based on value to catch up with post-war price developments and thus render tariffs more effective. France had already decided this before the Geneva round in 1947 but did not put this into force before the Annecy round in 1949. Italy also did so before the Annecy round, and the FRG before the Torquay round in 1951. Britain did not have to do this because she relied on the existing Commonwealth preferences. Contrary to the anticipation of the low-tariff countries, the large OEEC states resisted the lowering of their tariffs. Nor did it take long for voices of dissatisfaction to be heard. By 1950 the OEEC Secretariat had received 493 complaints that member states were applying protective tariffs. The records show that a vast majority of the complaints came from the low-tariff countries.[14]

## The TLP machinery

The TLP existed until the OEEC was replaced by the OECD in 1961, but had lost its momentum by 1956. It compelled member states to liberalise quota restrictions corresponding to Council decisions containing an index target and a target date calculated on the basis of total imports in 1948. The value of total private imports in 1948 was always used as the denominator in the fraction, not the value of private imports in the year referred to by the index. Table 3 shows the decisions of the Council, also including those taken before the EPU was established. After January 1955, the Council confirmed the index target of 90 in decisions made on October 26 1956 and June 30 1959. Thus it remained at 90 for the rest of the OEEC's existence.

**Table 3.** The TLP schedule

| Decision date | Index target | Target date |
|---|---|---|
| July 4 1949 | As complete as possible | By 1951 |
| August 13 1949 | As complete as possible | October 1 1949 |
| November 2 1949 | 50 | December 15 1949 |
| January 31 1950 | 60 | After EPU is established |
| September 15 1950 | 60 | October 4 1950 |
| October 27 1950 | 75 | February 1 1952 |
| January 14 1955 | 90 | October 1 1955 |

Source: Brusse, Wendy Asbeek, *Tariffs, Trade and European Integration, 1945–1957. From Study Group to Common Market*, New York: St.Martin's Press 1997, 82.

14 Brusse, *Tariffs, Trade and European Integration*, 91-96.

For several reasons the TLP kept the Scandinavian and Benelux countries in an awkward position in terms of commercial regulations.

Firstly, the TLP excluded trade on government account and thus affected the agricultural exporters negatively. In particular, the exclusion of state trade favoured Britain and France. Calculated on a 1948 basis, state agencies accounted for 27% of British and 22% of French imports in 1949.[15] Having expanded her 'free list' in 1952, Britain reached an index of 86. If state trade had been included in the basis for calculation, the index would have dropped to 61.[16] The discrepancy was even greater for France. Whereas Britain reduced her share of state trade greatly by 1954–55, to only 2% of total imports in 1956, France maintained her share. Well above 50% of British food was imported by state agencies in 1949 while the figure was 14% for France in 1951. Britain was responsible for 61% of total state trading in the agricultural sector among OEEC countries in 1951.[17] The exclusion of agriculture affected Denmark and the Netherlands negatively as their strong agricultural economies would have benefited from a freeing of their exports. Approximately 30% of Dutch and 70% of Danish exports consisted of agricultural goods. For Denmark, the British market was the largest, even though constraints were practised through regulations.[18] Denmark and the Netherlands worked to increase their agricultural exports to the FRG. Thus, while Britain reduced her share, Germany increased her agricultural imports on government account.

Secondly, as the TLP excluded tariffs, it was still difficult to conquer the markets of the high-tariff countries. The difficult situation for Denmark and the Netherlands is further illustrated by the tariff rates imposed by high-tariff countries on their export goods.[19] These two countries encountered tariffs of between 18% and 37% in France, 15% and 26% in the FRG, and 11% and 33% in Italy. The British tariff, on the other hand, was under 10%, but British agricultural imports were mainly regulated through Commonwealth preferences.

Thirdly, the larger countries also suspended their liberalisation efforts and reintroduced import quotas. As displayed in Table 3, no decision to extend the 'free lists' was taken between October 1950 and January 1955. The TLP lost momentum in the wake of the Korean boom and the original goal of quota free trade at the end of 1951 became illusory. As the Code of Liberalisation provided for legitimate exemptions if reserves were threatened and the Korean War disturbed international prices, several countries invoked the TLP escape clause. Table 4 displays the achieved indices for selected countries throughout the program. By the end of 1952 the low-tariff countries had reached the target of 75. Sweden even had an index of 85, while the British index was 44 and the French even zero. Having taken vigorous steps towards the removal of quotas Italy had become an exception among the large countries.[20] The Benelux countries delivered joint 'free lists' from 1955.

15 Andres, W., *Der Liberalisierungskodex der OECE für den Warenhandel*, Zürich: Juris-Verlag 1964, 18.

16 Milward, *Britain's Place*, 126.

17 Milward, *Britain's Place*, 62.

18 Nash, E.F. and Attwood, E.A., *The Agricultural Policies of Britain and Denmark. A Study of Reciprocal Trade*, London: 1961, 39.

19 Brusse, *Tariffs, Trade and European integration*, 105.

20 Fauri, F., Free but Protected? Italy and the Liberalisation of Foreign Trade in the 1950s, *Explorations in OEEC History*, Ed. R. Griffiths, Paris: OECD 1997, 139–148.

**Table 4.** Achieved TLP indices by selected countries, 1950–1959
A = June 30, B = December 31

| Country | 1950 | | 1951 | | 1952 | | 1953 | | 1954 | | 1955 | | 1956 | | 1957 | | 1958 | 1599 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B | A | B | A | B | A | B | A | B | B | B |
| BLEU | 56 | 64 | 75 | 75 | 75 | 75 | 87 | 87 | 87 | 88 | 88 | 96 | 96 | 96 | 96 | 96 | 96 | 96 |
| Netherl. | 55 | 66 | 66 | 71 | 75 | 75 | 92 | 93 | 93 | 93 | | | | | | | | |
| Denmark | 53 | 50 | 50 | 65 | 68 | 75 | 76 | 76 | 76 | 76 | 76 | 78 | 86 | 86 | 86 | 86 | 86 | 86 |
| Sweden | 53 | 69 | 75 | 75 | 75 | 85 | 91 | 91 | 91 | 91 | 91 | 94 | 93 | 93 | 93 | 93 | 93 | 93 |
| Norway | 39 | 45 | 51 | 51 | 75 | 75 | 75 | 76 | 76 | 75 | 75 | 75 | 75 | 78 | 81 | 81 | 81 | 81 |
| Iceland | 0 | 15 | 41 | 41 | 41 | 0 | 0 | 29 | 29 | 29 | 29 | 29 | 29 | 29 | 29 | 29 | 29 | 29 |
| France | 58 | 66 | 75 | 76 | 0 | 0 | 0 | 18 | 51 | 65 | 75 | 78 | 82 | 82 | 0 | 0 | 0 | 91 |
| FRG | 47 | 63 | 0 | 0 | 77 | 81 | 90 | 90 | 90 | 90 | 90 | 91 | 92 | 92 | 93 | 93 | 91 | 92 |
| Italy | 54 | 76 | 76 | 77 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 99 | 99 | 99 | 99 | 99 | 98 | 98 |
| UK | 57 | 86 | 90 | 61 | 46 | 44 | 59 | 75 | 80 | 83 | 84 | 85 | 94 | 94 | 94 | 94 | 95 | 97 |
| OEEC | 56 | 67 | 65 | 61 | 66 | 65 | 71 | 77 | 81 | 83 | 84 | 86 | 89 | 89 | 83 | 83 | 83 | 90 |

Base year: 1948, FRG 1949.

Source: Andres, Willy, *Der Liberalisierungskodex der OECE für den Warenhandel*, Zurich: Juris-Verlag 1964, 78.

The FRG suspended her 'free list' between February 1951 and April 1952, but then re-liberalised to an index of 75. For Scandinavia as well as Benelux, trade with the FRG had grown rapidly, and they were detrimentally affected by the German de-liberalisation of February 1951.[21] Again, Denmark and the Netherlands were the countries most detrimentally affected by these restrictive measures, and, complained fiercely.[22] Britain and France suspended their 'free lists' in November 1951 and April 1952 respectively. The British index was reduced from 90 to 61 in November 1951 and again to 46 in March 1952. The UK, however, expanded the 'free list' by the summer of 1953, and reached an index of 75 by October. As wood-pulp exporters, Norway and Sweden were also detrimentally affected when in January 1952 Britain introduced ceiling prices on wood-pulp imports. France did not reach the 75 target until April 1955. However, in a re-liberalisation move, she replaced quotas with a system of domestic duties and taxes to restrain her imports. Although the Scandinavian countries traded less with France than Benelux did, they were affected because they tended to have a surplus with France. This surplus, together with the surplus with Britain, helped them reduce the growing deficit with the FRG. Thus it left them worrying about maintaining their surpluses.

The TLP never worked as the low-tariff countries had anticipated, not even before the balance of payments effects of the Korean War led the large countries to reintroduce quotas. Experts concluded that in manufacturing, about half the quotas in force by 1954 had been introduced for reasons other than balance of payments.[23] The Netherlands and Denmark were continuously complaining that their exports were hit by restrictive state trading. They also maintained that simply because France and Britain imported less on private account in the base year 1948, they would

21 Milward, *Reconstruction*, 421–435; Milward, *The European Rescue*, 119–173.

22 HAEU, OEEC C/M(51)38(Final) Minutes of 175th Council meeting on 17th and 18th October 1951.

23 Frank, I., *The European Common Market: an analysis of commercial policy*, London: Stevens & Son 1961, 62.

reach the index targets more easily. Having traded a great deal with Europe in 1948, the other low-tariff countries also complained about the choice of base year. Thus the Netherlands, Denmark and Norway were lagging behind the TLP schedule, yet all three reached the target in 1952. At that time frustrations among the low-tariff countries had escalated. However, their demands to change the TLP regulations never got beyond the reports of the Steering Board for Trade, established in 1952 to deal with the escalating tension between the member states over the OEEC's commercial policy.

The Council's decision in January 1955 to resume liberalisation by extending the index target to 90 was basically a result of British efforts. The British government saw the consequences of the escalating tension over the lack of reciprocity, and feared a general backlash. Denmark threatened to veto the extension. However, the low-tariff countries once again reluctantly adopted the target.[24] The obligation was to last for a period of 18 months with the proviso that countries could disregard the obligation if they still faced equity problems. As France and Britain had no intention of changing tariff policy, in 1956 the OEEC Secretary General proposed to attack tariffs and state trade, only, however, after a TLP target of 90 had been reached.[25] Once again the high-tariff countries succeeded in pushing the issue of tariff disparities aside to the GATT. They never gave the complaints more than a cursory consideration. The small low-tariff countries were still at a disadvantage.

## The EPU machinery

The EPU agreement was initially valid until 1952 but was revised upwards repeatedly to the end of 1958, when most OEEC members introduced general convertibility on current account. Each member state established a position as either a debtor or a creditor to the EPU, rather than to other member states. Trade would be compensated through clearing operations, while net settlements were multilateralised. The mechanism took into account the different volume of trade as each country received a quota equivalent to 15% of its trade with the OEEC in 1949. The 'hardness' of the quota was a controversial issue, as it would affect the financial position of the member states. As shown in Table 5, the solution was to divide the member state's quota into five tranches, containing different shares of dollars and credits.

The accumulated payment position after the monthly clearing operations determined the 'hardness' of the settlement. Debtor countries having debts lower than 20% of the quota (1st tranche) kept all debt as automatic credit. The credit share decreased if net debt grew in the next tranches. However, within the quota debtors always had access to cheap credits. Countries having a payment surplus provided the Union with automatic credits, even 100% within the first tranche. The schedule of settlements was 'hardened' as the European dollar balance improved. In 1954 the tranches were removed. 50% of the settlements were to be made in dollars and 50% in credits, for both debtors and creditors. From 1955 until the dismantling of the EPU, 75% was to be paid in dollars and only 25%

24 HAEU, OEEC, C/M(55)1(Final) Minutes of 270th Council meeting on 13th to 14th January 1955.

25 HAEU, OEEC, C(56)36 The work of the OEEC. Memorandum by the Secretary-General, 11th February 1956.

**Table 5.** Schedule of settlements in the EPU, 1950–1952

| Cumulative deficit or surplus (% of quota) | Country with cumulative deficit | | Country with cumulative surplus | |
|---|---|---|---|---|
| | Dollars | Credit | Dollars | Credit |
| 1st tranche (0 to 20) | 0 | 100 | 100 | 0 |
| 2nd tranche (21 to 40) | 20 | 80 | 50 | 50 |
| 3rd tranche (41 to 60) | 40 | 60 | 50 | 50 |
| 4th tranche (61 to 80) | 60 | 40 | 50 | 50 |
| 5th tranche (81 to 100) | 80 | 20 | 50 | 50 |
| Overall | 40 | 60 | 60 | 40 |

Source: Eichengreen, Barry, *Reconstructing Europe's Trade and Payments. The European Payments Union* Manchester: Manchester University Press 1993, 25.

was to be given as credit. But due to a greater trade volume, the quotas were also increased on both occasions. Thus the amount of automatic credit remained constant.

During the existence of the EPU 70% of reported transactions were offset by clearing operations. Only 1% was arranged through ad-hoc agreements. The remaining balances amounted to 29% of which 23% were paid in gold and 6% were current credits.[26] The interest rate on outstanding accounts was 2–2.5% for debtors and 2% for creditors. Table 6 displays the net yearly positions of selected countries. The FRG accumulated an increasing net surplus while France and the UK built up a net deficit. On two occasions the OEEC embarked on a specific financial rescue operation with the large countries, with the FRG during the Korean boom and with France during the boom from 1956 onwards.[27] With the exception of the first few years, when Belgium was an extreme creditor, the Benelux and Scandinavian states tended to remain closer to the zero balance. This was a consequence of being small, but was presumably also due to effective domestic adjustment while increasingly opening up their economies.

The EPU was a success. Even for the small low-tariff countries, the trade and financial benefits of the OEEC, which basically rested upon the EPU, outweighed the costs of opening up the domestic market. Certainly, the Scandinavian governments complained time and again that the settlements were too 'hard'. Yet, the automatic credits were especially important for structural debtors such as Denmark and Norway. For example, the Norwegian credit quota amounted to $120 million, twice as much as her net reserves in 1950.[28]

The low-tariff countries acknowledged the profound significance of multilateralising the European dollar deficit. Consequently, they were all critical of the British convertibility plan in 1952, although the plan suggested the elimination of European tariffs as well as quotas. They believed sterling convertibility would be fol-

26 Wexler, I., *The Marshall Plan Revisited. The European Recovery Programme in Economic Perspective*, Westport, Conn.: Greenwood Press 1983, 196.

27 Hentschel, V., Die europäische Zahlungsunion und die deutschen Devisenkrisen 1950/51, *Vierteljahreshefte für Zeitgeschichte* Vol. 37, 1989: 4, 715–758; Pittman, P.M., The French Crisis and the Dissolution of the European Payments Union, 1956–1958, Griffiths, *Explorations*, 219–227.

**Table 6.** Annual net positions of selected countries in the EPU ($ million)

| Country | 1950–51 | 1951–52 | 1952–53 | 1953–54 | 1954–55 | 1955–56 | 1956–57 | 1957–58 | 1958 |
|---|---|---|---|---|---|---|---|---|---|
| BLEU | +236 | +509 | –33 | –55 | +80 | +222 | +14 | +153 | +66 |
| Netherl. | –270 | +477 | +139 | –42 | +84 | –62 | –36 | +86 | +181 |
| Denmark | –68 | +46 | –17 | –92 | –94 | +4 | –43 | +10 | –1 |
| Sweden | –59 | +284 | –44 | –37 | –104 | +6 | +111 | –30 | +11 |
| Norway | –80 | +21 | –59 | –61 | –70 | –27 | +41 | –78 | –30 |
| Iceland | –7 | –6 | –4 | –5 | –2 | –4 | –3 | –3 | –9 |
| France | +194 | –602 | –417 | –149 | +115 | –180 | –969 | –576 | –317 |
| FRG | –281 | +584 | +260 | +518 | +296 | +584 | +1336 | +826 | +350 |
| Italy | –30 | +194 | –223 | –210 | –225 | –125 | –94 | +219 | +73 |
| UK | +604 | –1476 | +371 | +107 | +136 | –327 | –225 | –317 | –267 |

Source: J. Kaplan and G. Schleiminger, *The European Payments Union. Financial Diplomacy in the 1950s*, Oxford: Clarendon Press 1989, 350.

lowed by increased tariff- and quota protection. Even Belgium, which would lose less by winding up the EPU, feared it might strangle intra-European trade.[29] However, parallel to the 'hardening' of the EPU in 1954–55, the Scandinavian governments called for 'good creditor policies' to be monitored by a new cooperative body. A memorandum urged creditors to increase imports by removing quotas, eliminating tariffs, expanding domestic demand and exporting capital.[30] The Scandinavians thereby linked complaints about financial 'hardness' to their complaints about non-reciprocal trade under the TLP. As the Federal Republic of Germany built up an ever-growing trade surplus from 1952, the Scandinavian complaints were directed increasingly towards the Germans, who were accused of exporting unemployment.

## Tariff disparities and the 'Low Tariff Club' (LTC)

Being trapped in the unbalanced regulations of the TLP, the Benelux and Scandinavian countries soon formed an informal LTC with Switzerland, which, individually and collectively, lobbied to push the larger high-tariff countries into more effective liberalisation.[31]

28 HAEU, OEEC, MBC(51)43, European Payments Union. Position of Norway in the EPU, 16 May 1951.

29 Milward, A.S., Motives for Currency Convertibility: The Pound and the Deutschmark, 1950–55, *Interaction in the World Economy: Perspectives from International Economic History. Festschrift in Honour of Wolfram Fischer*, Ed. C.F. Holtfrerich. New York: Harvester Wheatsheaf 1989, 272.

30 Riksarkivet (Norwegian National Archive), Oslo, Handelsdepartementet (Ministry of trade), Kontoret for mellomfolkelig økonomisk samarbeid (Office for international economic cooperation), box 54, Memorandum on Policies to be pursued by Extreme Creditor Countries (Submitted by the Danish, Norwegian and Swedish Delegations to the OEEC Ministerial Examination Group on Convertibility), undated.

31 Cf. Council of Europe, *Low Tariff Club. A Council of Europe Contribution to the Study of the Problem of Lowering Customs Barriers between Member States*, Strasbourg: Council of Europe 1952.

In October 1950, Denmark and the Netherlands threatened to veto the extension of the TLP index to 75 if tariff disparities were not addressed immediately.[32] The high-tariff countries argued that tariff negotiations among the OEEC countries would create a new tariff preference incompatible with the GATT. The LTC reluctantly accepted that the solution to the tariff disparities must be found in the 1950–51 Torquay round. However, the high-tariff countries gave few concessions to appease the LTC when actually bargaining over tariffs. They argued that their high tariffs were needed as leverage to encourage the rather protectionist USA to reduce tariffs.

The OEEC Steering Board for Trade admitted in several reports that tariff disparities were an obstacle to the advancement of the TLP.[33] To overcome the obstacles presented by the high-tariff countries, it recommended that a list of 'European commodities' be drawn up, for which at least 80% of the total OEEC imports were from other member countries. As these commodities were traded mainly within the OEEC, tariffs could be reduced without the high-tariff countries losing substantial bargaining leverage with third countries. The high-tariff countries reluctantly accepted the proposal but deliberately procrastinated on the production of the list. They also deliberately referred to plans by the GATT Secretariat, which suggested an automatic, average tariff reduction of 10% every year over a three-year period.[34] In 1954 it eventually became clear that the Eisenhower administration would not accept this so-called GATT plan.

Having failed again, LTC efforts intensified in 1955. When the Council met in January it was confronted with a British initiative to extend the 'free lists'. Neither on this occasion did the Council make decisions concerning tariff disparities. Once again the high-tariff countries argued that the problems were assessed in GATT, which also prepared for the coming Geneva round. However, the LTC successfully demanded that the TLP target of 90 was to be valid only from the date France's TLP index reached 75, which subsequently occurred on 1 October 1955, and only to last for only 18 months.[35] In the meantime the Steering Board for Trade would be commissioned to report on European tariff disparities, and countries affected by disparities were allowed to disregard the obligation. By May 1955 the LTC handed in its only joint tariff memorandum, demanding automatic tariff reductions during the Geneva round according to the aborted GATT plan, a 'European Com-

32 HAEU, OEEC, C(50)302 Draft Council Resolution concerning customs tariffs, 26th October 1950; C/M(50)29(Final) Minutes of 111th Council meeting on 26th October 1950.

33 HAEU, OEEC, C(52)366 Consideration of the question of customs tariffs. Interim report by the Steering Board for Trade, 8th December 1952; C(53)197 Report by the Steering Board for Trade on the reduction of customs barriers, 10th July 1953; C(53)250 Report by the Steering Board for Trade on the present position and future of liberalisation of trade, 12th October 1953; C(54)315 Report by the Steering Board for Trade on tariff problems and state trading, 1st December 1954; C(56)16 Disparities between customs tariffs. Report by the Steering Board for Trade, 19th January 1956.

34 On the GATT plan, Brusse, W.A., The Americans, GATT, and European Integration, 1947–1957: A Decade of Dilemma, *The United States and the Integration of Europe*, Ed. F.R. Heller and J.R. Gillingham, New York: St. Martin's Press 1996, 221–249; Brusse, W.A., The failure of European tariff plans in GATT (1951–1954), *Die europäische Integration vom Schuman-Plan bis zum Verträgen von Rom*, Ed. G. Trausch. Baden-Baden: Nomos Verlag 1993, 99–114; Brusse, *Tariffs, Trade and European Integration*, 115–142.

35 HAEU, OEEC, C/M(55)1(Final) Minutes of Council meeting on 13th to 14th January 1955.

modity List' to be set up by September 1955, and immediate action to remove prohibitive tariffs among OEEC countries.[36] Not surprisingly, the high-tariff countries paid lip service to demands that related to the Geneva round. While the FRG at least expressed sympathy for the commodity list, France and Britain successfully rejected it when the Council met in June 1955 and February 1956. Consequently, Denmark, on behalf of the LTC, presented a list of goods for which the OEEC should unilaterally reduce tariffs by 25%. However, in July 1956 France and Britain again vetoed automatic European tariff reductions before the transition period of 18 months ended. The LTC retaliated by rejecting to consolidate the TLP index target of 90.

By 1955–56 the conflict over tariff disparities was close to paralysing the political machinery of the OEEC. Continuous frustration had led the Benelux countries to push for a continental customs union through the Beyen plan, and the Scandinavians were making progress on the elaboration of a Nordic customs union. Furthermore, the LTC might paralyse the LTP. Whitehall had acknowledged that European tariffs were the key issue to save the TLP, as well as avoiding future tariff walls of 'the Messina Six' and, fully aware of the progress made in the Nordic customs union issue, possibly 'the Nordic Four'. A British initiative to counteract this worst-case scenario would dominate the OEEC agenda from the summer of 1956. The Council set up a working party to examine Britain's proposal for an OEEC Free Trade Area that would include the pending EEC.[37] Leading the British delegation in Paris, Hugh Ellis-Rees reported back to Whitehall that Britain successfully took the air out of the escalating frustrations but that "especially among officials of the low tariff countries, there is considerable suspicion of H.M.G.'s motives".[38] The low-tariff countries' officials surely hit the nail on the head.

## The Anglo-Scandinavian Economic Committee (UNISCAN)

Throughout the 1950s, the Scandinavian governments met with their British counterpart regularly through the UNISCAN. Following a British initiative, this was founded after a joint Declaration of January 1950. It was meant as a multilateral financial agreement among like-minded governments with a bias towards full employment policies. Britain wanted the Scandinavians to hold sterling and use it in trade with third countries while the Scandinavians saw prospects for preferential treatment in British financial markets. However, in terms of commercial regulation, UNISCAN was made insignificant by the TLP and the EPU.

Whitehall immediately lost interest in the economic aspects of the agreement but wanted to keep it as a junction for political consultations on OEEC and GATT

36 HAEU, OEEC, C(55)130 Tariff policy of member countries. Memorandum on tariff policy transmitted to the Secretariat by the Belgian, Danish, Luxembourg, Norwegian, Dutch, Swedish and Swiss Delegations by the letter of 27th May 1955.

37 HAEU, OEEC, C(56)29(Final) Minutes of 334th Council meeting on 17th, 18th and 19th July 1956.

38 Public Record Office, London (henceforth PRO), Treasury (henceforth T) 234/438, Intel No.128: The O.E.E.C. Ministerial Council, July 17–19, 1956.

matters.[39] Moreover, any Scandinavian hopes of special treatment became illusory as Britain soon saw a deficit in her balance of payments. Internal trade disputes set the agenda on several occasions. Dependent on coal imports from Britain the Scandinavians soon accused the British of dual pricing. Britain introduced ceiling prices on Scandinavian wood-pulp to nullify the impact of Scandinavian export duties, leading to reciprocal accusations during an extra-ordinary session in 1952.

Being trapped in the regulations of the TLP and getting nowhere through the LTC, the Scandinavians lobbied on and off to persuade Britain to change her commercial policy. Not surprisingly, Denmark most often brought up the issue of tariffs and state trading. In 1950 it was argued that not even a successful Torquay round would ease Danish problems.[40] The Scandinavians called for Britain to go for an OEEC tariff reduction scheme. The British counter-argued that the OEEC must concentrate efforts to consolidate the TLP. Faced with Scandinavian threats to reintroduce quotas, in April 1953 Britain admitted the rationale of setting up the 'European Commodity List'.[41] However, the list should not be available before countries had reached the TLP index of 75, which, as it turned out, France would not reach until October 1955. Thus, tariff disparities simply remained unaffected by the UNISCAN talks.

Questions relating to the EPU and currency convertibility increasingly occupied the Anglo-Scandinavian agenda from 1953. Contrary to British assertions, the Scandinavians assumed the UK would defend the parity of a future convertible sterling by tariffs and quotas. Having re-liberalised to 75 in November 1953, the British informed the Scandinavians that this step presupposed a prolongation of the existing EPU regulations. The message pleased the Scandinavians, who feared German demands for 'hardening' the settlements. During the 1954 revision of the EPU, Britain nevertheless favoured a 'harder' gold/credit ratio. A similar discrepancy took place when the EPU was further 'hardened' in 1955. Similarly, in the financial field British policies did not match Scandinavian hopes. Still, the 1949 idea of Scandinavia being associated with the Sterling Area, as Iceland was, reappeared in 1953.[42] But this was nothing but a wishful and ambiguous dream sustained by the fears of a financially strong Germany after the future introduction of convertibility. Irrespective of the political implications of being included in the 'scheduled territories', it is difficult to imagine the three Scandinavian countries pegging their currencies to Sterling, pooling their existing reserves as well as future earnings of foreign currency, and relying on the Sterling pool to meet future requirements.

39 Whitehall also valued UNISCAN as a forum for matters of high politics, cfr. Aunesluoma, J., *Britain, Sweden and the Cold War: Understanding Neutrality*, Basingstoke & New York: Palgrave Macmillan 2003.

40 PRO, T 236/2638, United Kingdom minutes of the second Session of the Anglo-Scandinavian Economic Committee: First Meeting held in the Town Hall, Oslo, at 11 a.m. 23rd November 1950.

41 PRO, T 236/4041, Record of the Eight Meeting of the Anglo-Scandinavian Economic Committee held at the Foreign Office, 30th April 1953.

42 PRO, T 236/5370, Scandinavia and the Sterling Area, 5 November 1949; T 236/5375, Uniscan and convertibility, 15 April 1953; T 236/5376, Norway and the Sterling Area. Note of a meeting held in Stockholm on 18th October 1953, undated; T 236/5378 Scandinavia and the Sterling Area. Note by the Treasury and the Bank of England, 28 April 1959.

To conclude, Britain paid lip service to Scandinavian complaints. "We have in fact been drawing on Scandinavian good will," Sir Roger Makins, a high-ranking Treasury official, admitted in 1951. He recorded that the Scandinavians "desperately want to maintain their enlarged trading connection with the UK and the sterling area and not be forced back into the old pattern of trade which made them so largely dependent on Germany".[43] Reginald Maudling, at the time Economic Secretary to the Treasury, noted in 1954 that the Scandinavians "are all really frightened of Germany's aggressive economic policy. They think this has already done a lot of harm to EPU and they fear that, in conditions of convertibility, the danger may increase. They attach, therefore, particular importance to finding ways of restraining Germany".[44] Indeed, during the early 1950s Britain exploited Scandinavia's scepticism towards growing German influence to maintain her own protectionism. Having accomplished little except that, UNISCAN was abolished when the EFTA came into force in 1960.

## The Nordic customs union

Following a Norwegian initiative, the Nordic governments established the Common Nordic Committee for Economic Cooperation (CNC) in February 1948 in order to elucidate the possibilities for a Nordic customs union. In this committee comprising government experts Iceland was represented, though Finland was not. The CNC submitted a preliminary report in January 1950, which discussed a customs union for industrial goods only.[45] The report revealed that the Icelandic representative had worked more or less as an observer. Because of Iceland's dependence on fishery and very limited industry it was evident that she would need special treatment. Thus the report focused on the three Scandinavian countries. It showed that fiscal concerns were not an obstacle. Customs revenue from Nordic imports was low; amounting in 1947 to only 0.4% of Sweden's state revenue, 0.9% of Denmark's and 1.5% of Norway's. All three countries used tariffs for protection, but since none of them applied ad valorem tariffs, price increases had rendered them ineffective. Tariff incidences from the goods on which duties were imposed had generally gone down between 1938 and 1947. Protection was maintained through import quotas. The report therefore assumed that a customs union could be in place within ten years. During this transitional period, the three governments would avoid internal imbalances by coordinating their use of import quotas. Still, the report did not suggest that they begin to implement the customs union. This was because Norway's home-market industries would face problems that outweighed the gains. Therefore, the Norwegian members of the CNC concluded there was no basis for a Nordic customs union.

The Nordic foreign ministers discussed the report in March and November 1950. Norway maintained the conclusion, but still suggested that the CNC continue de-

43 PRO T 236/3233, Impressions of Scandinavia, 28 June 1951.

44 PRO T 236/3708, Note by the Economic Secretary to the Treasury on a visit to Copenhagen, Stockholm, and Oslo, 19 June 1954.

45 Nordisk økonomisk samarbeid. Foreløpig rapport til regjeringene i Danmark, Island, Norge og Sverige fra Det felles nordiske utvalg for økonomisk samarbeid. Mars 1950, enclosed Stortingsmelding (Government White Paper, henceforth St.meld.) nr.87, 1954 Om økonomisk samarbeid mellom de nordiske land.

liberations with a view to establishing some limited preferential regulation. The ministers mandated the CNC to develop a joint customs nomenclature and identify goods that could be included in a preference area. In cooperation with the industry organisations the CNC worked out a new report, which was submitted in March 1954.[46] This report indicated 21 manufacturing industries for which a customs union had been elucidated. Again the Norwegian experts concluded that gains would not outweigh the costs. The Danish and Swedish experts, on the other hand, suggested proceeding with eight of the industries. As in 1950 Norway's government rejected the taking of any political action. Yet it was again pushing for the governments to carry on with further deliberations. On Norway's initiative the Scandinavian governments replaced the CNC with the NECC in October 1954. The NECC consisted of even higher-ranking officials and was given a more clearly defined mandate. Thus the NECC took on a more political character than the CNC. Iceland did not take part in this round, though it had been an observer from 1948 to 1954. In June 1955 the NECC finished a report that covered almost 60% of intra-Nordic trade in 1953, and in December, a more thorough report on the specific industries was ready. In the summer of 1956, the NECC reached unofficial agreement on a common external tariff for two-thirds of the 1100 positions in the Brussels nomenclature. Preferring production and investment cooperation rather than a customs union, Norway was still the most cautious of the three countries. Disagreements still stalled progress, which was even more complicated by Finland's participation from 1956 on. However, it is obvious that all participating governments were now seriously opting for a customs union. A change in attitude had taken place around 1954, most profoundly in Oslo of course, which subsequently also pulled Finland into the group when allowed by the Kremlin.

In July 1957 the NECC presented the plan for a Nordic common market for manufactured goods.[47] It comprised goods that had made up 80% of internal Nordic trade in 1955, and included suggestions for a Nordic customs tariff. The common external tariff would consist mainly of low and moderate rates below 10%. Internal quotas and tariffs were to be removed and the common external tariff established as the convention came into force. However, for many goods the plan suggested transitional arrangements lasting five to ten years.

The NECC submitted an additional report in September 1958.[48] This expanded the common market to include 99.4% of internal trade in 1955. The expansion included goods that were more labour-intensive and vulnerable in terms of employment, thus increasing their tariffs. Shoes were set at 18%, household glass at 20%, textiles and confectionary goods at 18% to 25%. For the same reason the

46 Nordisk økonomisk samarbeid. Et felles marked. Rapport til regjeringene i Danmark, Island, Norge og Sverige fra Det felles nordiske utvalg for økonomisk samarbeid. Mars 1954, enclosed St. meld. nr.87, 1954 Om økonomisk samarbeid mellom de nordiske land.

47 Nordisk økonomisk samarbeid. Rapport fra Det nordiske økonomiske samarbeidsutvalg. Generell del: Plan for et utvidet økonomisk samarbeid, Oslo1957; Nordisk økonomisk samarbeid. Rapport fra Det nordiske økonomiske samarbeidsutvalg. Spesiell del: Økonomiske samarbeidsproblemer, Oslo1957; Nordisk økonomisk samarbeid. Rapport fra Det nordiske økonomiske samarbeidsutvalg. Spesiell del: Vareområdene, Oslo 1957; Nordisk økonomisk samarbeid. Rapport fra Det nordiske økonomiske samarbeidsutvalg. Bilag I: Forslag til felles tolltariff & Bilag II: Forslag til overgangsordninger, Oslo1957.

48 Nordisk økonomisk samarbeid. Tilleggsrapport fra Det nordiske økonomiske samarbeidsutvalg. Generell Del: vareområdene, Oslo 1958; Nordiskt ekonomiskt samarbete, Tilläggsrapport fran Nordiska ekonomiska samarbetsutskottet. Bilaga III: Statistiskt samarbete, Stockholm 1958.

report suggested extending the transition period for these goods.[49] The expansion of the customs union responded to recent European developments. At this point, Denmark, Sweden and Norway had joined the Paris negotiations on converting the OEEC into a free trade area. A working party had concluded that it was technically possible to include the EEC within the free trade area. This conclusion also applied to the Nordic customs union and the expansion was regarded necessary to simplify the Nordic customs union's adaptation to the free trade area. The problem of Finland not taking part in the Paris negotiations was to be addressed later.

In July 1959, the NECC presented another supplementary report.[50] This did not change the composition of goods in the customs union, but suggested higher tariffs and extended transition periods for external tariff harmonising as well as internal tariff and quota removals. The governments of Norway and Finland, both subject to domestic political opposition, had become more concerned and called for a more cautious transition. As France had vetoed the OEEC free trade area in November 1958, there was no longer a pressing need for the rapid setting up of an adaptive customs union. However, neither the Norwegian nor the Finnish government had abandoned their goal of creating the customs union.

Whereas the NECC's reports emphasised a common destiny, conflicting national interests had dominated the discussions since 1948. A main problem had been the difficulties of economic adaptation. External tariff harmonising would lower them for Norway and Finland and increase them for Sweden and Denmark. Table 7 displays the estimated effect of the customs union on the tariff incidence on the basis of imports from third countries in 1955. Denmark and particularly Finland would be most affected, but in no way dramatically. The difficulties attached to internal liberalisations would be at least as great. Parts of Norwegian and Finnish industry could hardly compete with the Swedish machine and manufacturing industries and the Danish food industries. Norwegian 'home-market industries' had

**Table 7.** Estimated tariff incidence of the Nordic customs union (SVK million)

| | 1 May 1957 | | Schedule 1958 | | Revision 1959 | |
|---|---|---|---|---|---|---|
| | SVK | % | SVK | % | SVK | % |
| Denmark | 120 | 3.0 | 220 | 5.6 | 224 | 5.7 |
| Finland | 272 | 12.1 | 150 | 6.7 | 153 | 6.8 |
| Norway | 230 | 6.2 | 178 | 4.8 | 185 | 5.0 |
| Sweden | 451 | 5.8 | 503 | 6.4 | 514 | 6.6 |
| Total | 1073 | 6.1 | 1051 | 5.9 | 1076 | 6.1 |

Source: Nordiskt ekonomisk samarbete. Tilläggsrapport II från nordisk ekonomiska samarbetsutskottet, Stockholm 1959,12.

49 Agricultural products and foodstuffs, which made up only a small portion of intra-Nordic trade, were excluded. These would need special regulations. An inclusion of fish products in the customs union was, however, almost concluded.

50 Nordiskt ekonomisk samarbete. Tilläggsrapport II från Nordiska ekonomiska samarbetsutskottet, Stockholm 1959.

therefore rejected a common market throughout the 1950s. Finnish industry, which had not taken part in OEEC's liberalisation, would face greater problems. In Finland, 100% of Nordic imports in 1955 were still under import quota regulations on 1 May 1957. In Denmark, Norway and Sweden, the respective shares were 20%, 10% and 0%. The exemptions in the 1957 customs union plan were thus especially intended for Finland.

Another main problem had been that Nordic trade made up only a fairly small share of the countries' foreign trade. Table 8, which displays the four countries' intra-Nordic trade as a share of their total foreign trade, shows that all conducted over 80% of their foreign trade outside the Nordic area, and even more so for Iceland. Establishing a protectionist customs union would thus be counterproductive. Not surprisingly, the customs union would apply low tariff rates.

**Table 8.** Intra-Nordic trade as share of total trade, 1948–1958 (%)

| | 1948 | | 1950 | | 1952 | | 1954 | | 1956 | | 1958 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Imp | Exp | Imp | Exp | Imp | Exp | Imp | Exp | Imp | Exp | Imp | Exp |
| Denmark | 15 | 20 | 15 | 18 | 15 | 17 | 15 | 12 | 14 | 13 | 15 | 13 |
| Finland | 14 | 12 | 15 | 8 | 11 | 11 | 8 | 7 | 9 | 5 | 11 | 7 |
| Norway | 19 | 17 | 19 | 16 | 19 | 17 | 20 | 18 | 18 | 18 | 21 | 16 |
| Sweden | 8 | 17 | 8 | 17 | 8 | 16 | 8 | 17 | 8 | 16 | 8 | 19 |

Source: Stråth, Bo, *Nordic Industry and Nordic Economic Cooperation*, Stockholm: Almquist & Wiksell 1978, 16.

Article XXIV of the GATT (and article 44 of the Havana Charter) exempted the creation of customs unions and free trade areas from the principle of general most-favoured-nation treatment. The argument was that preference areas would, after all, result in a more productive division of international labour, assuming that by reallocations within the area, firms would find lower costs, larger markets, and increased efficiency. It would result in trade creation and bring welfare closer to Pareto-optimum, to use the language of contemporary experts. However, contemporary theories of customs unions had also shown that the result could be the opposite.[51] If member countries imported at a low price from third countries, the trade diversion effect of a customs union may result in welfare losses. Setting up a preference area necessarily means discrimination – giving insiders concessions that do not benefit outsiders. However, Nordic dependence on extra-Nordic markets precluded them from forming an aggressive strategy of trade diversion. The Nordic customs union was aimed toward trade creation. The plan adhered to GATT's conditions.

Even if the public debate on the customs union was framed by the genealogical family rhetoric of Nordism, contemporary socioeconomic interests held in common provided their own inner momentum. The rationale was to establish a commercial climate more favourable than the existing European one, within which

51 Viner, J., *The Customs Union Issue*, London: Carnegie Endowment for International Peace, 1950; Meade, J.E., *The Theory of Customs Unions*, Amsterdam: North-Holland 1955.

new manufacturing industries that would increase value-added could be developed. The NECC's analysis was based on the international commercial problems faced by small European countries. Economic growth in the 1950s had been lower in the Nordic countries than in Europe as a whole. Their share in exports had admittedly increased compared with the large European countries, but these exports were mainly raw materials and unprocessed goods, which yielded a low value-added. Exports of manufactured goods were low in comparison. The three Scandinavian countries' low exports and high imports of manufactured goods from Europe in the early 1950s is displayed in table 9, which distinguishes between foodstuffs, raw materials and manufactured goods according to the OEEC's Code of Liberalisation.

**Table 9.** Scandinavian trade with OEEC countries, 1953 and 1955 ($ million)
F: foodstuffs, R: raw materials, M: manufactured goods

| | Import | | | | | | Export | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| N | 1953 | | | 1955 | | | 1953 | | | 1955 | | |
| | F | R | M | F | R | M | F | R | M | F | R | M |
| Denmark | 101 | 264 | 331 | 103 | 316 | 348 | 520 | 21 | 59 | 558 | 26 | 79 |
| Norway | 27 | 125 | 333 | 28 | 149 | 366 | 54 | 137 | 42 | 68 | 176 | 70 |
| Sweden | 68 | 268 | 578 | 89 | 362 | 715 | 55 | 532 | 194 | 34 | 653 | 276 |
| Total | 196 | 657 | 1242 | 220 | 827 | 1429 | 629 | 690 | 295 | 660 | 855 | 425 |

Source: Just Faaland, *Nordisk tollunion og de europeiske fellesmarkedsplaner*, Bergen: Chr. Michelsens institutt 1958, 57.

As European trade barriers put pressure on Nordic employment, pay rates and welfare plans, the argument of the NECC went, it was necessary to coordinate a joint modernisation strategy to build up manufacturing industries that would increase the Nordic countries' value-added. These were still to be based on the natural resources of minerals, metals and cheap energy. As the strategy was capital-intensive, the member states were to cooperate more closely on financial access, investments, production, technology transfer, research and macroeconomic coordination. A Nordic investment bank had to be established. The presumed existence of a growing Nordic common market would at the same time provide additional weight for the Nordic countries in international commercial negotiations.

Having identified the perception of common commercial interests in the NECC's reports, the next step must be to identify the interests and perceptions that motivated the new momentum from 1954. It was hard strategic socio-economic interests that motivated the commitment to the Nordic customs union from 1954. In particular, the Danish and Norwegian governments now regarded the customs union as the adequate environment for developing competitive manufacturing industries. Joint modernisation policies within a Nordic common market would make it possible to escape the increasing commercial influence of the large European countries.

The Danish Labour government, which had taken office in October 1953, deliberately sought commercial alternatives. Hit particularly hard by the TLP, the lesson was that dependence on agricultural exports must be reduced. The strategy was to speed up industrialisation. As opposed to Denmark, Norway had no agricultural exports. However, Norway, which had protected an uncompetitive home-market industry by import quotas, was forced to liberalise in 1952, after dragging her feet for two years. The Norwegian Labour government sought ways to modernise those industries that would have a chance of surviving foreign competition. As opposed to Denmark and Norway, Sweden had a more developed manufacturing industry. However, as revealed by table 9, Sweden's exports also consisted of raw materials to a large extent. The Swedish government also saw need for a strategy to catch up with European industries. Moreover, the strong Swedish industries – compared with those in Denmark and Norway – were rather more likely to benefit from the internal liberalisation of the customs union. The common denominator was the assumption that the Nordic countries had unexploited, complementary industrial capacities that would flourish in a Nordic common market with concerted policies. The core of the argument was that the Nordic customs union would provide a friendly environment.

Admittedly, these feelings of friendship had a long history. But it was the concern for capital that made the issue more serious in 1954. The Scandinavian governments feared that a premature introduction of currency convertibility would threaten their industrialisation efforts even further.

Denmark and Norway were both 'structural debtors', whose needs were never met through OEEC's trade and payment schemes. Since there was no well-functioning international capital market, the Scandinavians had turned to Britain for capital import in the first place. In 1950, they regarded Britain as friendly and like-minded, and hoped for some Anglo-Scandinavian preference on which to build social democratic policies. In this respect, UNISCAN turned out to be useless. When the Marshall Plan was concluded in 1952, Denmark and Norway became dependent upon automatic credits through the EPU. Therefore they became defenders of what they had found unsatisfactory in 1950. Since 1950, they had claimed that the EPU regulations gave too strong incentives for making dollars through intra-OEEC trade, thereby constraining the capacity of 'structural debtors' to sustain their deficits. Whereas the credit share in the automatic EPU settlements was kept in the revision for 1952, it was reduced in the revision for 1954. The British had informed their Scandinavian counterparts in 1953 that they wished to maintain this arrangement. However, during the negotiations in 1954, the British argued for 'harder' settlements. The Scandinavians correctly interpreted this as a British will to introduce currency convertibility. Britain belonged to 'the convertibility club' with the FRG, and in Scandinavian eyes, they were not to be trusted in this matter either. Convertibility meant that deficits on current account would have to be paid in dollars. Since the balance of payments between the OEEC and the dollar area still involved considerable monetary transfers from the USA, the Scandinavians assumed that European states still would direct their commercial policy toward amassing dollars. Besides, the Scandinavians feared that Britain would have to defend the parity of Sterling in a manner that would harm Scandinavian exports. In future commercial bargaining with Britain, Scandinavia would be relatively weak, as it exported only 8% of Britain's imports, although this made up 25% of total Scandinavian exports.

The main problem was not Britain, however, but the Federal Republic of Germany. The German export boom had resulted in ever-increasing German reserves. Scandinavia traditionally had a significant trade deficit with Germany, paid for by a surplus with Britain.

The European boom from the end of 1953 only enhanced this deficit. While in 1953 both Scandinavia and the FRG took 13.5% of each other's exports, the FRG took 17% of Scandinavian exports in 1955 while the equivalent Scandinavian imports from the FRG remained at 13%. This meant a weaker bargaining position. In this situation even the financially sound Sweden was concerned.[52] Even though the German trade surplus financed the debtor positions of Denmark and Norway within the EPU, the Scandinavians continually called for the Germans to increase their commodity imports as well as their capital exports. In the EPU revisions for 1954 and 1955, however, Bonn pushed stronger than anyone else for a 'harder' EPU. It was evident for the Scandinavians that the Germans would not practice the 'good creditor policy' that their joint memorandum called for.

The experience in 1954, of the 'hardening' of the EPU toward convertibility, explains the change in attitude in Copenhagen and especially in Oslo. The combination of a premature introduction of currency convertibility, a selfish and 'mercantilist' FRG and an unreliable Britain would make it difficult to find financial sources to further Scandinavian industrialisation. A Nordic common market cooperating on production and investments had to be the solution. A financially strong Sweden would play a key role in supplying Denmark and Norway with credits.

Nordic economic cooperation was, from the 1940s, also an idea of social democratic cooperation, because of national socio-political compromises in the three Scandinavian countries in the 1930s.[53] The rhetoric of the 'Scandinavian model', conspicuously present when the Nordic labour market was set up in 1954 and the Nordic Social Convention was agreed in 1955, was compatible with idealistic Nordism as cultivated by the Nordic Council from 1953. Perceptions about a social democratic model mattered in terms of political momentum, as at that point in time all three countries were governed by Labour parties.

The Nordic Social Democratic Cooperation Committee's (SAMAK) meeting in May 1954 gave the first signal for the new joint strategy. Norway's minister of trade, Erik Brofoss, commenced with a discussion of Nordic economic cooperation. After demonstrating the problems mentioned above, he recommended "[that we] discuss whether we can protect ourselves against these difficulties through a closer cooperation in the Nordic countries."[54] Whereas the Norwegian Labour government had previously called only for concrete development projects, he maintained, it would now discuss a free trade association or a customs union more seriously. The fact that Brofoss became a member of the newly appointed NECC after he left his ministry is the clearest evidence of the newborn Norwegian com-

52 Fritz, M., Schweden und der westdeutsche Markt 1945–1955, *Von Marshall Plan zu EWG. Die Eingliederung der Bundesrepublik in die westliche Welt*, Eds. L. Herbst et al. München: Oldenburg 1990, 115.

53 Esping Andersen, G., *Politics against Markets. The Social Democratic Road to Power*, Princeton: Princeton University Press 1985.

54 Arbejderbevægelsens Bibliotek og Arkiv, Copenhagen (henceforth ABA), 500 Socialdemokratiet, Box 327–328, Protokoll fört vid Nordiska Samarbetskommitténs möte den 24 maj 1954 å Liseberg, Göteborg.

mitment. Brofoss played a key role in the NECC as well as in SAMAK, in which discussions did not change their character over the next few years. The main problem was still Norwegian resistance among conservative parties and the so-called 'home-market industries'. As late as in March 1959, after the Paris free trade negotiations had ground to a halt and before the EFTA solution had been secured, Gunnar Lange, Jens Otto Krag and Arne Skaug confirmed that the customs union was still their priority.[55] It would brace a common market from which 'the Scandinavian model' would be further developed.

## Concluding remarks

The study has argued that increased frustration over the 'hardening' of the European commercial regime made the governments opt for a customs union to develop Nordic manufacturing industries from 1954. Established by the large and powerful states, the commercial regulations placed small states in an awkward situation. Britain did not accommodate the interests of the low-tariff countries. Similarly, the Federal Republic of Germany did not accommodate the interests of 'structural debtors'. The situation might worsen under Bretton Woods convertibility. The analysis of the NECC was profoundly structural, and, is similar to the analysis that motivated the countries of Scandinavia and Benelux to set up the Oslo Convention in 1930. However, the customs union plan received its political momentum from shared perceptions within Scandinavian social democracy.

The customs union never came into being. The European commercial agenda changed in 1956–57, as Britain suggested converting the OEEC into a large free trade area. This preferential area would, to a great extent, eliminate the frustrations that motivated the plans for a customs union in the first place. After the French veto against the free trade area in November 1958, Britain led the Scandinavians into the EFTA negotiations. Norway, Sweden and Denmark ratified the Stockholm Convention in 1960.[56] Finland joined the EFTA free trade scheme through an association agreement in 1961, while Iceland joined only in 1970. Already in the first half of the 1960s, the EFTA regulations permitted the growth in intra-Nordic trade encouraged by the customs union plan.[57] From 1961 to 1973, intra-Nordic trade as a share of the total imports of the five Nordic countries increased from 15% to 23%. The ambition of building up Nordic manufacturing industries was realised within EFTA's preferential regulations in the 1960s.[58]

55 ABA, 500 Socialdemokratiet, Box 331, Protokoll fört vid Nordiska Samarbetskommiténs sammantrede i Stockholm 23 mars 1959.

56 Laursen, J. and af Malmborg, M., The Creation of EFTA, *Interdependence Versus Integration. Denmark, Scandinavia and Western Europe 1945–1960*, Olesen, *Interdependence Versus Integration*, 197–212.

57 EFTA Secretariat, *The Trade Effects of EFTA and the EEC, 1959–1967*, Geneva 1972.

58 Ponte Ferreira, M., Integration Effects and Commodity Exports – The Case of the Nordic Countries, *European Economic Integration: A Nordic Perspective*, Eds. J. Fagerberg & L. Lundberg. Aldershot: Avebury 1993, 13–37; Fagerberg, J., Technology, Trade Structure and Economic Integration – An examination of Intra-Nordic, Nordic-EC and intra-EC Trade 1961–1987, Fagerberg & L. Lundberg, *European Economic Integration*, 38–62.