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No Customs Union without Agrarian Solution

by Professor P. Nyboe Andersen,

Danish Minister of Economic Affairs and European Market Relations, Copenhagen

The Nordic countries are characterised by a high degree of homogeneity in their social structures. On the other hand there are significant differences in the four countries' endowment of natural resources. These differences have been decisive for the traditional patterns of their foreign trade. Denmark has developed a highly competitive agricultural sector by exploiting advanced methods of production.

The traditional exports of the Nordic countries have been developed in accordance with comparative advantages based on the increasing demand from the industrial centres of Western Europe. These export opportunities gradually generated expansion in other fields and resulted in a process of modern economic development with its diversification of industrial activities.

The importance of foreign trade has contributed to the outward-looking attitude of Denmark and the other Nordic countries towards cooperation on a broad European scale, and their participation in organisations covering all Western Europe, i.e. the OECD and The Council of Europe.

Past Cooperation in Many Fields

Along with the European collaboration the Nordic countries have developed their own co-

operation in many fields. Geography, a common cultural and historical heritage, common social patterns and to some extent common languages form an ideal background of this team work.

During the last 25 years several Nordic organisations of co-operation have been created. The most important is the Nordic Council, established in 1952 as a basis for the working together in economic, social, cultural and legal fields. A Treaty of Nordic cooperation was not created until 1962 when the five countries concluded the Helsinki Agreement. Other important examples of Nordic collaboration are: The abolition of passports in intra-Nordic traffic in 1952; a free labour market and a convention which assures citizens of the Nordic countries equal social benefits in any other Nordic country.

The existing Nordic cooperation is characterised by permanent growth in the economic relations of the Nordic countries. The dismantling of trade barriers within EFTA has paved the way for a large expansion of intra-Nordic trade, which has grown twice as fast as EFTA trade in general.

Expansion of Intra-Nordic Trade

Total exports of the Nordic countries rose by more than

80 p.c. during the period 1959-1968; this corresponds to an annual growth of 7 to 8 p.c. Intra-Nordic trade has grown much faster, namely by nearly 22 p.c. annually. This is almost the same rate of expansion as inside the Common Market. But the exports of each country represent only 2 p.c. of the other countries' total supply of industrial products. This confirms that there is a considerable scope of expansion in intra-Nordic trade in industrial goods.

The expansion of Danish exports has been based on industrial products, e.g. machinery, clothes, chemicals, and finished goods in general. Denmark has experienced a drastic fall in the share of traditional (agricultural) exports in its total export value, though there is no doubt about the comparative advantage of Denmark's agricultural products. These changes in trade flows have been caused by restrictions in international trade in agricultural products, by the common agricultural policy of the Common Market, and the insufficient outlets to be found within EFTA.

The problems in Danish economy must also be seen in connection with the need to furnish our economy with new jobs for people leaving agriculture because of the substantial increase in productivity in this sector.

To the highly developed industrial products, which account for an increasing share of Danish exports, endowment of natural resources are unimportant, and trade is the main means of exploiting economies of scale for a small country with a small home market. We realise that trade, which is so important to our economy, is not only dependent upon the elimination of customs barriers, but also upon harmonisation of technical regulations, legislation, and other institutional matters. This is one of the important reasons why Denmark wants to participate in a process of close economic integration, if possible on a broad European basis.

New Attempt Towards Nordic Integration

In the fifties when the Six started their economic integration, attempts were made to establish a Nordic Customs Union. Negotiations were carried through in great detail, but this initiative was overtaken by events on a European scale leading to the establishment of the European Free Trade Area (EFTA) with Denmark, Norway and Sweden as members, while Finland became an associate member. Hereby Western Europe was split in two markets, and attempts to bring an end to this division of European markets have hitherto been unsuccessful.

At the beginning of 1968, as a break-through in European integration could not be expected neither on an EFTA basis nor on an EEC basis, the Nordic Governments decided to launch a new attempt to carry economic integration beyond the present situation in their part of Europe. The decision was taken at the Nordic Prime Ministers' meeting in Copenhagen in April 1968. As a guiding principle, this economic cooperation should facilitate the participation of the four countries in a broad European solution. Another important consideration is

that the foreign and security policies of the four countries should not be affected. All Nordic countries favour a maintenance of status quo with regard to their respective positions in foreign and defence policies. On the other hand there is no doubt that the Nordic countries will become more and more dependent upon each other whether an organisation for extended Nordic cooperation is established or not.

The scope is an extended co-operation, not only in traditional economic fields—a customs union, foreign trade policy, agricultural and fishery policies, capital movements, etc.—but also in a number of new fields such as industrial policy, education, technological and scientific research. The idea is to maintain economic progress at the present rate and to strengthen the economies of the Nordic countries with a view to their participation in an extended European market as soon as possible.

Presentation of a Draft Treaty

By the middle of July this year, a committee of high rank Nordic officials presented a Draft Treaty to the Nordic Governments.

The main Nordic institutions proposed in the Draft Treaty are the following: A Ministerial Council, responsible for the Nordic cooperation; a Perma-

nent Committee of high rank officials to prepare the decisions of the Ministerial Council; a Secretariat led by four directors nominated by the Nordic Governments in common, to take the initiatives for the realisation of the aims prescribed by the Treaty.

There is full agreement on the tenor of the Treaty over a very wide field, including economic policy, capital movements, commercial policy, shipping policy, industrial and energy policies, labour market and social security policies, trade legislation and rules of competition, harmonisation of laws, education, research, and development assistance. In many areas proposals are not mentioned in detail, but general principles for cooperation in the individual fields are defined. In order to realise these principles the Draft Treaty provides for procedures and time limits for establishment of guidelines and further for the competence to be assigned to the Nordic organs taking decisions on the implementation of the cooperation. The Council of Ministers will be able to decide what form the cooperation is to take in order to provide sufficient flexibility to cope with future exigencies.

It is proposed that cooperation between the Nordic countries should be intensified and be based upon a customs union.

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It is important to Denmark that collaboration in the customs field should not hamper the competitiveness of Danish industry. The agreement reached on Nordic tariff rates for nearly all manufactures is therefore conditional on Denmark (and Norway) being allowed, for a number of fields, to suspend the application of the respective tariff rates and to maintain national tariff exemptions. It has been proposed that the customs union should enter into force on January 1, 1972. However, for reasons mentioned below Denmark's acceptance of the customs union as a whole and the date of entry into force is also conditional upon clarification about Nordic cooperation in the agricultural field.

The competitiveness of the Nordic industries is to be promoted through further collaboration and harmonisation of the industrial and energy policies of the four countries, including the development of nuclear energy. In order to ensure equal conditions of competition for goods and services, the Draft Treaty implies harmonisation of legislation concerning state subsidies, public procurement, restrictive business practices and technical regulations, and liberalisation of capital movements. The Draft Treaty also aims at equal rights of establishment in the member states for all Nordic citizens thus supplementing the common labour market already existing in the Nordic area.

Agrarian Agreement Still Problematic

In the agricultural sector the principle governing short-range cooperation is that Nordic producers are to cover the natural needs for supplementary imports of food into the Nordic countries. It is proposed to realise this principle by introducing effective preferences enabling import needs to be met primarily by Nordic producers. Various methods have been suggested, but it has not so far been pos-

sible to determine the methods to be applied by the individual countries to different commodity groups, including industrially processed foods. Since the suggested methods will have a varying impact on the expansion of intra-Nordic trade, Denmark finds it impossible on the present basis to evaluate the content and scope of the short term cooperation in the agricultural field. Until this matter has been cleared up, we cannot reach any decision on the customs union as a whole and on the time of its entry into force.

It is agreed that a long-range plan for agricultural cooperation must be adopted in a few years' time with a view to harmonising the agricultural policies of the Nordic countries. This working together will involve not only the establishment of an Agricultural Fund but also the introduction of a uniform system for imports from third countries and uniform rules for intra-Nordic trade.

Other Suggested Arrangements

In the fisheries sector there is agreement among other things on the principles governing a Nordic stabilisation arrangement for prices at the first stage of turnover. In other respects, however, differences of opinion exist, for example about transitional arrangements and the right for Nordic fishermen to undertake transshipment and transit within the fishery limits of the other Nordic countries.

The Nordic countries have agreed on financial cooperation with regard to their common projects. This cooperation, based on a General Fund, an Agricultural Fund, a Fisheries Fund, and a Nordic Investment Bank, aims at rationalising the structures of various sectors of the Nordic economies.

During the first five-year period capital should be provided through the three funds in a total amount of \$425 mn. The Investment Bank should have a basic capital of about \$200

mn and a lending capital of \$500 mn.

However, taking into consideration the enormous tasks of restructuring the Nordic economies in the years to come, the Danish Government is of the opinion that Nordic plans can only be fully realised if they are, in the long run, backed financially by larger amounts than mentioned above.

Proposal of Danish Delegation

In order to solve the above mentioned problems relating to tariffs, agriculture, fisheries and financial cooperation, the Danish delegation has proposed to divide the cooperation envisaged in three phases:

- ☐ Establishment of the institutions for cooperation when the Treaty enters into force.
- ☐ Short-range parts of the cooperation to enter into force at the same time as the Customs Union.
- ☐ The cooperation to be further developed on the basis of decisions taken during the second phase.

This proposal implies that the participating countries will be able to safeguard their interests through balanced solutions, decisions on important issues being interlinked at the various stages.

As mentioned above the extended Nordic economic cooperation aims at providing a more suitable basis for the participation of the Nordic countries in a broad European market and in a broadly based European integration.

Application to EEC Maintained

The Draft Nordic Treaty has been shaped in a manner that will necessitate as few adjustments as possible in the event of Nordic participation in a wider European cooperation. Consequently it is expected that wide-ranging Nordic collaboration can be maintained within the framework of a broad Eu-

ropean Common Market. The Draft Treaty provides for procedures which clearly establish how the Nordic Countries should act, if one, several or all of them obtain membership of or other solutions with the Common Market.

Thus, extended Nordic cooperation will not stand in the way of Denmark's efforts to be-

come a member of the EEC. Denmark maintains its unconditional application for membership simultaneously with Great Britain and we expect that negotiations will be opened simultaneously between the Common Market and all applicants for membership.

In most Western European countries there has been a grow-

ing understanding of the necessity of extending the Common Market and creating a large European market. We believe that the coming years will bring a comprehensive European solution, and I am convinced that Nordic cooperation, which will be developed anyway, will fit usefully into the wider European framework.

Safeguard of Interests Demanded

Interview with Kåre Willoch,
Norwegian Minister of Commerce and Shipping, Oslo

QUESTION: Mr Willoch, Norway has always regarded the formation of a Nordic Economic Union with scepticism. Your government has shown a reserved attitude on the question of the planned Nordic Agrarian Market and Common Agrarian Policy. What would be the problems encountered by the agrarian sector of Norway, if such a Nordic Market would be established?

ANSWER: Firstly, I would like to remind you that we have already free trade in industrialised goods between the Nordic countries which participate in the work of EFTA. Nordic economic cooperation has developed very fast in most other fields as well. The Nordic countries have to a large extent developed their cooperation in a practical, business-like manner; so their cooperation is in many ways more far-reaching than the cooperation between other countries belonging to a similar regional economic grouping.

The share of the other Nordic countries in Norwegian foreign trade increased from about 16 p.c. in 1959 to 26 p.c. in 1968.

The rapid development of trade certainly proves the strength of the Nordic cooperation. It is not only a firm interest, but also a determined will in Norway to maintain and develop further Nordic trade and Nordic cooperation.

Another question is the form of the Nordic cooperation in the future. It is an oversimplification to say that Norway has always regarded the formation of a Nordic Economic Union with scepticism. What is true is that certain Norwegian industries have expressed doubts about a Nordic Customs Union partly because they expect that a common external customs tariff may have unfavourable economic effects on Norwegian production because such a tariff in certain instances is likely to mean increased duties on raw materials. All Norwegian industries are, however, in favour of enlarging Nordic economic cooperation.

It is well known that almost all industrialised countries are facing special problems in agriculture. They seek to solve the problems by various forms of support and protectionism in order to safeguard the living

conditions of their agricultural population. The Nordic countries agree that the extended cooperation, which they are aiming at, should take into account the special problems which the individual countries are facing due to different geographical, climatic and demographic conditions. The problems which Norway is facing in and among the Nordic countries are generally of the same nature as those the country is facing in a more world-wide context.

In particular, I would like to mention that arrangements which mean increased food prices could only be accepted as part of an overall solution which renders equal benefits in other fields.

As you will know, a Nordic committee of high officials has studied and reported on the possibilities of enlarging Nordic economic cooperation. The report of this committee clearly demonstrates that the Norwegian position in no way is a particular obstacle to progress in Nordic cooperation.

QUESTION: The fishing sector plays an important role in