

Regulating commodities in the 1930s

Political pressures, banks, and exporter interests

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Abstract

This paper examines international commodity cartel negotiations in the 1930s. More specifically, it studies the making of the European Timber Exporters' Convention (ETEC) from 1931 until 1935 between timber trading countries and discusses the political pressures that were involved in negotiating the convention. The ETEC, which was valid from 1935 until 1939 between seven to eight countries,¹ hardly falls into the category of 'normal' cartels described in the standard economic theories where cartels are institutions created by firms to serve private interests. This paper shows that various national and international institutions and corporate actors contributed in its creation. These included national governments of timber trading countries; the League of Nations; exporting and importing firms and their trade associations; and banks crediting international timber trade.

The ETEC controlled the output of 80% of softwood timber in global trade.² The biggest three ETEC countries—Finland, Soviet Union, Sweden—produced 77% of all timber exported from the ETEC

¹ Finland, Soviet Union, Sweden, Poland, Austria (absent 1938–1939), Latvia (joined (1937), Yugoslavia, Romania, and Czechoslovakia (absent 1939)

² ELKA; SSY; SSY Board meeting, 14 December 1938, appendix III. CfN; STEF: F1A:406: 'Sawngoods Convention' signed in Copenhagen, 15 November 1935.

countries. The existence of the ETEC has been noticed in the previous research, though it has not been studied at length before.³

This paper examines how the involvement of governments and the League of Nations affected the firms' incentive and interest to contribute in the cartel negotiation in the biggest ETEC country, Finland.⁴ Paper asks did the firms find the involvement of the state in commodity cartels helpful or stressful. Why did the states want to assist in the cartel formation in the first place? What choices the firms did have in cartel negotiation characterised by involvement of the state? Interest towards national experiences and policies in international cartels has again recently started gaining an increasing attention in academia, although connections and networks between state and business in international cartels have been identified since the early literature on international cartels.

Findings can strengthen the understanding of the diversity of actors and motivations concerning how, why, and by whom international commodity cartels were negotiated in the decade of de-globalisation and trade wars. It considers political aspects as the driving forces of cartelisation and sheds light into the political economy in which firms and cartels operated. Previously unexplored broad source material offer opportunities to reconsider whose institutions commodity cartels, in fact, were in the 20th century. The results indicate that firms, which traditionally are considered as key actors in cartels, were sometimes the least enthusiastic partners in cartels, while the governments and

³ Davis, Joseph S. (1946): 'Experience Under Intergovernmental Commodity Agreements, 1902-45' in *Journal of Political Economy*, vol. 54, no. 3, 214–215. Hexner, Ervin (1945): *International Cartels*, 293. Bemann, Martin (2017): 'Cartels, Grossraumwirtschaft and Statistical Knowledge. International Organizations and Their Efforts to Govern Europe's Forest Resources in the 1930s and 1940s.' in *Governing the Rural in Interwar Europe*, 239–240. Söderlund, Ernst (1952): *Swedish Timber Exports 1850-1950. A History of the Swedish Timber Trade Edited for the Swedish Wood Exporters Association*. Paloposki, Toivo J. (1970): *75 Vuotta Sahateollisuuden Yhteistoimintaa: Suomen Sahanomistajayhdistys 1895-1970*, 71–91; Ahvenainen, Jorma (1984): *Suomen Sahateollisuuden Historia*, 354–366; Häggman, Kai (2006): *Metsän Tasavalta*, 101–103. Karlsson, Birgit (2007): 'Nazityskland och Svensk skogsindustri' in *Nazityskland Och Svensk Skogsindustri*. in En (o)Moralisk Handel? Sveriges Ekonomiska Relationer Med Nazityskland., 124; Karlsson, Birgit (2010): 'Cartels in the Swedish and Finnish forest Industries in the interwar period' in *Managing Crises and De-Globalisation: Nordic Foreign Trade and Exchange*, 1919-39.

⁴ This paper presents the key results of my doctoral thesis "Who wants a cartel? Regulating European Timber Trade in the 1930s", which will be available in the University of Helsinki later in 2018.

intergovernmental bodies, seeing a diplomatic potential in international commodity cartels, promoted them vigorously.

This paper concludes that the timber firms in the biggest ETEC country, Finland, found the involvement of the state in making of the ETEC mostly stressful. It compromised the freedom of trade and independency of timber firms. For them, the ETEC was an undesired alliance.

Overview of the ETEC

The negotiations towards creating international regulation scheme in softwood timber trade started in summer 1931, when the three big exporting countries Finland, Sweden, and the Soviet Union met. Together they produced 75% of all softwood timber in the European export market throughout the 1930s, each of the three having an equally big share. Timber was a significant source of foreign income and sector of employment in all three countries.

In spring 1932, the League of Nations invited all timber trading countries to a meeting in order to create an international regulation scheme, shifting the framework of timber trade regulation discussion from the Nordic–Soviet context to European level. The League of Nations and the Austrian government hosted a series of negotiations, until in late 1933 they were ousted from the leadership of the cartel formation by a private network led by Sweden and *Comité Permanent international de la Production, de l'Industrie et du Commerce du Bois* (CIB).⁵ Under private leadership, eight European timber exporting countries managed to create two tacit—and ineffective—gentlemen's agreements, in 1934 and 1935. In late 1935, they signed a formal and binding quota scheme, the ETEC. Despite the seemingly private leadership of the negotiation, the ETEC did not turn out as a private cartel. Governments in all countries, except Sweden, guaranteed that the countries would not exceed their ETEC quotas. Outbreak of World War II dissolved the ETEC in autumn 1939.

⁵ The CIB, European timber office, specialised in gathering statistical data on timber sector, had been founded in 1932 close to the interests of the League of Nations. In 1933, however, the CIB had grown separate from the League of Nations.

The source material indicates that the ETEC negotiations were perceived as nationally significant international engagement. Due to the trade political and diplomatic weight, timber firms had limited possibilities to influence to the coming of the ETEC. The timber trade associations in Finland and Sweden, SSY and STEF, regularly surveyed the support of the timber firms towards it. The results revealed a broad opposition throughout the 1930s, particularly in so Finland. Opposition of the firms, even among the big firms, did not prevent the formation of the ETEC or Finland joining it however, but only shaped its control structures.

The case of ETEC shows how differently the public and private actors perceived when, how, and with whom international cartels could be built. In the early 1930s, the League of Nations saw international cartels as a potential solution to the threats brought about by de-globalisation, protectionism, worldwide depressions, and the rise of dictatorships. It preferred government involvement in the coming European timber regulation scheme, and more broadly, in international cartels in general. From the League's perspective, depression and trade political chaos in the early 1930s needed active arbitration from the state in order to improve. Inability of timber firms to collaborate, due to their large number in a vast geographical area, signalled a need of state intervention. The League's idea was that government's involvement in international cartels enhanced the working of the cartel and brought about transparency, equal opportunity, and coordination.

Material shows that the French government used international cartel negotiations as an arena to conduct tariff wars, and the British government saw an opportunity in cartels to mitigate its own global trade political frictions. The Soviet government perceived, in early 1930s, the idea of international cartel in timber, being one its most important commodities, as a tool to fulfil the goals of economic growth of the Five-Year-Plan. The Nordic governments felt necessary, for diplomatic reasons, to support international, collaborative endeavours that also the European great powers and the League of Nations supported. All these motivations changed over time throughout the 1930s as the political and economic climate changed: by the mid-1930s, the League of Nations did not anymore

pursue for power in timber cartel question, and the British, Soviet, and French motivations had changed. However, as this paper shows, the private actors in Sweden and Finland still were afraid of government intervention and decided to avoid it by promoting the ETEC “voluntarily”.

The private timber sector reacted entirely differently to economic and political uncertainty; depression was not the right time to make cartel commitments. Timber industry, due to its structural features,⁶ was not keen on forming cartels during declining demand, which was a prevailing trend in most of the early 1930s. Moreover, the idea of collaborating with the governments and the League of Nations—or governmentally controlled timber exporters in the Soviet Union and the Central European timber surplus countries— in a cartel was very uninviting for the private timber sector.⁷ Culture and prejudices mattered and distrust had a price tag. The Finnish and Swedish timber firms considered themselves perfectly capable of choosing when and with whom to make their own cartels without the help of state or intergovernmental bodies. Keeping power in the hands of the industry became an important target for Nordic timber industry in the ETEC process.

Finnish and Swedish timber firms sold over 40% of all timber in the European exported market countries. This did not give a dominant position to the Nordic timber firms, however. The material

⁶ Low profit marginal, easy entry to business, low sunk costs, sector was occupied by all firm sizes from small to huge (biggest in Europe), large variety of products, unclear pricing. Kuorelahti, 2014. Theoretical literature how these aspects affect to incentive to form cartels, see: Green, Edward J./Porter, R.H. (1984), ‘Noncooperative collusion under imperfect price information’ in *Econometrica* 52, no. 1, 87–100; Dick, Andrew R. (1996), ‘When are cartels stable contracts?’ in *Journal of Law and Economics* 39, no. 1, 241–283. Bagwell, Kyle/Staiger, Robert W. (1995), *Collusion over the Business Cycle*, Cambridge, MA: National Bureau of Economic Research. Hallagan, William S. (1985), ‘Contracting problems and the adoption of regulatory cartels’ in *Economic Inquiry* 23, no. 1, 37–56. Haltiwanger, John/Harrington, J.E., Jr. (1991), ‘The impact of cyclical demand movements on collusive behavior’ in *The Rand Journal of Economics* 22, no. 1, 89–106. MacKie-Mason, Jeffrey K./Pindyck, Robert S. (2007), ‘Cartel theory and cartel experience in international minerals markets’, in *Cartels, Vol II*, ed. by Margaret C. Levenstein/Stephen W. Salant, Schmitt, Nicolas/Weder, R. (1995), ‘Sunk cost, entry and cartel formation: Theory and evidence’ in *Discussion Papers dp95-13a*, Department of Economics, Simon Fraser University, Burnaby: 1–28. Rotemberg, Julio J./Saloner, G. (1986), ‘A supergame-theoretic model of price wars during booms’ in *The American Economic Review* 76, no. 3, 390–407. Suslow, Valerie Y. (2005), ‘Cartel contract duration: Empirical evidence from inter-war international cartels’ in *Industrial and Corporate Change* 14, no. 5, 705–744. Wiggins, Steven N./Libecap, Gary D. (2007), ‘Firm heterogeneities and cartelization efforts in domestic crude oil (originally published in *Journal of Law* 1987)’, in *Cartels, Vol I*, ed. by Margaret C. Levenstein/Stephen W. Salant,

⁷ Particularly the Finns saw of the Soviets as ‘treacherous Bolsheviks’. Central European timber exporting countries were full of ‘socialist tendencies’ and their export trade often was controlled by the government.

shows that they had limited set of choices in the cartelisation process defined by diplomatic and trade political tensions and led by state powers and intergovernmental actors. The options for the firms were not either to continue or disrupt the unwanted cartel negotiations, but instead, whether to lead the unwanted cartel negotiations or be directed by banks and governments. There were no legal basis for coerced cartels in Sweden and Finland, but still, the industry particularly in Finland felt that the government could improvise coercive laws to bring the ETEC in Finland. The unexceptionally strong presence of the governments and banks and their international networks in the ETEC managed to create an environment in Finland where the firms were not formally forced to join the ETEC, but they did not follow it voluntarily either.

Nordic–Soviet start 1931

The first serious attempt of making an international timber cartel occurred in summer 1931 between the three big producer countries Finland, Sweden, and the Soviet Union. Its context was in a volatile economic and political environment of the early 1930s defined by crises in global economy, timber sector, and in the relations between European countries and the Soviet Union. Boosted by the first Five-Year-Plan in 1928 aiming for aggressive industrial growth, the Soviet Union had established a strong market position in the UK timber markets. From World War I until the late 1920s, the Soviet Union had been largely away from the international timber market which had given an opportunity for the Nordic timber trade to flourish—and establish a profitable collaboration as the British well remembered.⁸ By 1931, however, the days of Nordic dominance in the British timber market were over and the Soviet Union was back in the game.

⁸ *The Times* writes on 10 January 1931 ‘In the trade there is not a great deal of sympathy with the Swedish and Finnish exporters in the difficulties in which they find themselves owing to the Russian imports into Britain, because, they state, these firms showed little consideration for Britain in their wartime prices.’ Cited from a report written by E. L. (commercial assistant) of the Finnish legation on London 19 January 1931. KA; Finnish Ministry of Foreign Affairs; Legation of London; Fa; 5.C.A: Report by ‘E. L.’ 19 January 1931

From the western perspective, the Soviet Union at the turn of the decade seemed like a nasty competitor. It had vast natural resources, cheap or free labour, and it was able to compete with price. At the turn of the decade, the Soviet Union appeared in public as a powerful market leader that can without limits offer cheap products to markets and crush its Nordic competitors. Behind the scenes, however, the Soviets were interested in making better business through limiting the output with Sweden and Finland. The Finnish and Swedish timber sectors perceived the Soviet timber trade policy as madness that could not last for long.⁹ For the same reason, they did not seek to establish cartels between the three neighbours: it did not make sense to invest into partnerships with sectors or countries that would fall in near future. The Nordic response to the growing Soviet threat in the late 1920s was to intensify the Nordic collaboration. The Finnish and Swedish timber trade associations, SSY and STEF, were experienced cartel collaborators for whom cartel was a natural solution to ‘harmful competition’—but only between the Nordic countries, not with the Soviets. Besides intensifying Nordic collaboration, the SSY and STEF launched anti-Soviet campaigns in the UK in 1930–1931.¹⁰

In 1930, the Soviets expressed their interest towards regulating Nordic and Soviet timber output.¹¹ The timber sectors in Sweden and Finland rejected the Soviet’s proposals, so the Soviet’s continued the discussions in other fronts; with the banks and through diplomatic and trade networks. In March 1931, eventually, the Soviet attempts were rewarded. The sources do not tell how the Soviet Union approached the Finnish banks and the newly elected Finnish government, but the outcome was that the Finnish government and the banks commissioned the SSY to accept the Soviet invitation to cartel

⁹ In fact, the Finnish political leadership saw the whole Soviet Union as madness that could not last for long. Finland anticipated the collapse of Soviet regime, which hindered greatly any efforts to build bilateral trade relations, cartels, and diplomatic relations.

¹⁰ Discussions about Nordic–Soviet collaboration had been conducted in 1925, but they had not led anywhere. From the Nordic perspective, they had increased the distrust towards the Soviets.

¹¹ The three countries also had had brief preliminary discussions of private character in the mid-1920s.

negotiation when it came.¹² The invitation arrived in Finland and Sweden in May 1931 and triggered a conflict of interests as the governments wanted, for diplomatic reasons, to accept the Soviet proposal, while the firms did not, for commercial reasons.

The diplomatic background why the Nordic governments encouraged the SSY and STEF to accept the Soviet's invitation was that they were trying to re-build—like many other European government—their bilateral relations with the rapidly transforming Stalin's Soviet Union.¹³ When an invitation from the Soviet government came to the Nordic governments, it was considered politically unwise to reject it. It does not mean that the Nordic governments wanted a timber cartel with the Soviet Union—they might have wanted it as little as the timber firms—but they just did not want to reject the invitation to discuss regulating a commodity which was important for the national economies of all three countries. Therefore, representing an incident of early Cold War, preparations for Nordic–Soviet cartel negotiations were started, against the industry's will, in spring 1931.

The Nordic–Soviet cartel negotiations begun in summer 1931 and lasted until early 1932. The process created practices and structures in Finland and Sweden based on the ability of banks and governments to motivate firms to collaborate in nationally important international cartels. These practices rested upon financial and moral pressures—the first meaning that banks will cut the loans from disobedient firms and the second calling forward the duty of firms to collaborate for the sake of national interests.

¹² The SSY and STEF had recently decided that 'possibilities to collaborate with the Russians do not exist'. They revised the decision. ELKA; SSY; 25: SSY Board meeting 19 March 1931. ' [--] några möjligheter for att samarbete med ryssarna f.n. icke förelågo.'

¹³ Re-establishing the bilateral Soviet-relations was particularly difficult for Finland in 1931. The relations between the neighbours had been cold since the Finnish independency of 1917 and Civil War 1918 which was an attempted socialist coup assisted by the Soviet Union. In 1930 anti-communist *Lapua* movement gained momentum in Finland and put pressures in the country's Soviet relations. Finland was one of the few European countries that did not have a trade agreement with the Soviet Union. Platforms to show goodwill were limited—and timber cartel negotiations had to serve that purpose.

Formal and coercive cartel laws did exist in many European countries in the 1930s, but not in Finland and Sweden.

The inclusion of banks and governments in the timber cartel structures went much further in Finland than in Sweden. The Swedish Bankers' Association assisted the STEF in building adequate cartel loyalty in early autumn 1931, but Finland struggled as late as in December 1931 to convince the big firms to contribute in the coming Nordic–Soviet cartel.¹⁴ Bank assistance resting on threatening with economic sanctions was also considered in Finland as the primary method to pressure firms to sign the ETEC agreement, but the bank coercion had not worked in Finland as effectively as in Sweden. As a result of failed bank control, the Finnish government became the ultimate guarantor of the ETEC quotas in Finland. The SSY and the government agreed that the government imposed export licenses for timber in case it seemed that the Finnish quota would not keep within the limits. The Soviets disrupted the negotiations quite unexpectedly in early 1932, so the Finns did not have to test in reality—not yet, at least—how their cartel control structure based on government's authority would have worked out.

The European turn 1932

A few weeks after the Nordic–Soviet timber cartel negotiations had been declared 'over for good', the Finnish, Swedish, and Soviet governments received a letter from Pietro Stoppani, the secretary of the Economic Section of the League of Nations. He invited all European timber trading nations to a timber conference in 21–23 April 1932.¹⁵ Stoppani was convinced that, firstly, European timber trade

¹⁴ Bankföreningen archive: A2a; Meeting of the Board of Svenska Bankföreningen 19 August 1931. ELKA; SSY; 25: SSY Board meeting 17 and 19 December 1931. 1185: Letter from Risto Rytí to E. F. Wrede 24 December 1931.

¹⁵ Poland had also organised a conference in Warsaw in summer 1931, but the initiation of the Economic Section of the League of Nations managed to put the European timber regulation scheme on the agendas of the exporter and importer countries.

needed a regulation scheme, and secondly, timber exporters could not bring about and maintain cartels through a private initiation.¹⁶

The League of Nations organised two international timber cartel negotiations; the first was in Geneva in April 1932 and the second at the World Economic and Monetary Conference in London in summer 1933. Between these conferences, the Austrian government hosted a similar timber conference in Vienna; it was in June 1932 soon after the Geneva meeting.¹⁷

The Swedish and Finnish timber trade associations, the STEF and SSY, were not happy about Stoppani's idea. International timber cartel negotiations led by the League of Nations and national governments did not fit legally or culturally into the Nordic business environment. The STEF and SSY advised their national governments that the League's timber conference was 'not only unnecessary but unwanted'.¹⁸ However, in the framework of the League of Nations, Swedish and Finnish governments had to consider broader aspects than just firms' interests. Finland and Sweden were major exporting countries—together they exported over 50% of all European timber in 1932 and 30% globally—and from that position they could easily sabotage the European negotiation by not showing up. Obviously, from trade political and diplomatic point of views, Sweden and Finland did not want to appear in the European arenas as uncollaborative countries that sabotaged the League's attempts of bringing about economic rapprochement and deregulation. Moreover, Finland was keen on building alliance particularly with the Nordic countries, which had previously rejected Finland from mutual collaborative frameworks—such as the Oslo convention—because of Finland's

¹⁶ Stoppani wrote: "Timber industry is not concentrated in a few large concerns, but contains a multiplicity of small and medium-sized undertakings. Experience shows that small undertakings, whose costs of production are always uncertain, generally remain outside agreements between producers. It is essential if restrictions are to be of value, that they should cover the whole field; hence such restrictions necessarily involve government intervention, and the agreement of all exporting countries." CfN; STEF; F1A:286: Letter from Pietro Stoppani (Economic section of the League of Nations) to J. L. Ekman 16 February 1932.

¹⁷ The UK and Canada attended the first meeting, but dropped out after that.

¹⁸ CfN; STEF; F1A:286: Letter from J. L. Ekman to Vilhelm Lundvik 16 March 1932. 'Den föreslagna konferensen icke kunde leda till något praktiskt resultat, då ett samarbete i den riktning, som programmet antyder, under nu rådande förhållandena icke ligger inom det möjligas gränser. [--] Centralstyrelsen ansåg sålunda den föreslagna konferensen icke blott opåkallad utan även icke önskvärd.'

isolation and anti-Soviet policies.¹⁹ The European timber regulation scheme united many of these elements.

Sweden and Finland attended the timber negotiations led by the League of Nations—but only to show up and keep up a collaborative façade.²⁰ Making decisions or signing cartel agreements was not in the Nordic agenda. They delayed the negotiations in every possible opportunity by requesting for more time, data, and discussions before proceeding to cartel details. ‘Scandinavian countries were determined to frustrate any government-sponsored regulation scheme’, wrote Egon Glesinger in the World Economic Conference of 1933.²¹ Glesinger was right. The SSY Board wrote down the Finnish negotiation strategy in September 1933; it was best if the timber negotiations would ‘not lead to a result but faded out in the manner that Finland—for political reasons—would not appear as the state whose opposition undermine the agreement’.²² The chief of the Commercial Department of the Swedish Ministry for Foreign Affairs, A. G. Richert, had personally instructed that the Swedish delegation in the World Economic Conference should not oppose any attempts, either of a general or a local character, to create governmentally controlled agreements on timber exports.²³ This was a big change compared to the 1920s and the decade of bilateral, private cartels when the purpose of a negotiation was to reach an agreement, not to hinder it.

In timber negotiations led by the League of Nations and national governments, trade politics and diplomacy dwarfed private interests. Sources show that trade–political interests intertwined with output regulation issues in a new way. The French representatives, for instance, threatened in the

¹⁹ Olsson, Sven-Olof (2010): ‘*Nordic trade cooperation in the 1930s*’ in *Managing Crises and De-Globalisation : Nordic Foreign Trade and Exchange, 1919-39*. Routledge Explorations in Economic History 138

²⁰ Sakari Heikkinen in his book about Finnish paper cartels points out that ‘listening sympathetically’ was a common strategy when the act of negotiating itself was beneficial, but the actual outcome was not. Heikkinen, Sakari (2000): *Paper for the World: The Finnish Paper Mill's Association – Finnpap 1918-1996*, 157.

²¹ Egon Glesinger (1945): ‘Forest Products in a World Economy’ in *Am.Econ.Rev.*, vol. 35, no. 2, Papers and Proceedings of the Fifty-seventh Annual Meeting of the American Economic Association, 122.

²² ELKA: SSY; 26: SSY working committee, 20 September 1933. ‘...under sådant förhållande vore det bästa, ifall det gjorda förslaget icke skulle leda till något resultat utan fås att stranda, helst dock sålunda—detta av politiska skäl—att Finland icke skulle framstå såsom den stat, på vars motstånd frågan fått förfalla.’

²³ RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 3445: pro memoria, 19 June 1933.

League's World Economic and Monetary Conference in 1933 to decrease timber imports from Sweden and Finland if the two Nordic countries opposed the exporters' regulation scheme. Under pressure, the Nordic countries did not oppose. The CEO of the Finnish timber trade association wrote that 'it is not wise to oppose it or otherwise strongly manifest our diverging opinion, so that in the future no one will have a reason to directly blame Finland when, most likely, the results of the committee turn out to be poor.'²⁴ The Nordic representatives remarked that the timber negotiations led by the League of Nations were not going to the right direction at all. Other participants were not there to promote collaboration, alliance, and de-regulation. 'Arguments by the representatives of Switzerland, CIB, and France went as far as threatening the countries with boycott that did want to join the international [timber] agreement. The statements are particularly odd considering that the agenda of the Economic Conference is just the opposite—to free international trade from excessive regulation.'²⁵

Proceeding of the European timber regulation matter was not, however, in the Nordic hands entirely; or in the French hands, either. The biggest obstacle hindering the European timber cartel was the ripening of British protectionism and trade-political reorientation in 1932–1933. The UK was the largest consumer of softwood timber and the way it organised its trade political relations with the world's biggest timber suppliers—Finland, Sweden, Canada, and the Soviet Union—mattered as much as the European timber cartel discussions.

²⁴ ELKA; SSY; 661; Letter from E. F. Wrede to Rainer von Fieandt 3 July 1933. '*Då en underkommission uppenbarligen kommer att tillsättas, är det väl icke opportunt, att vi emotsätta oss densamma tillkomst eller att vi på något sätt kraftigt manifesterar vår motsatta åsikt, så att man icke i framtiden kan skylla direkt på Finland det högst antagligen kläna resultaet av sagda komittés verksamhet.*'

²⁵ ELKA; SSY; 1185; Memo sent to the Finnish Ministry of Foreign Affairs 7 July 1933. '*Asiasta käyty keskustelu ja esitetyt lausunnot osoittavat selvästi, miten laajaa kannatusta nykyisin on sosialistisluontoisilla säännöstelypyrkimyksillä. [- -] Mentiinpä tällä linjalla niinkin pitkälle, että eräissä tapauksissa (Sveitsinedustajan ja CIB:n presidentin lausunnot ja Ranskan pöytäkirjamerkintö) uhattiin niitä maita jonkinlaisella boikottauksella, jotka eivät liittyisi kansainväliseen sopimukseen. Nämä lausunnot joutuvat sitä omutisempaan valoon kun talouskonferenssin tehtävänä on päinvastoin ollut kansainvälisen kaupan vapauttaminen liiallisista rajoituksista.*'

As a result of the Imperial Trade Negotiations in summer 1932 Great Britain started favouring trade with Canada and disfavouring the Soviet Union. During the time of the British reorientation in 1932–1933, the Nordic countries tried to figure out how they should adjust their timber trade interests to the situation. If the UK turned its back to the Soviet Union, would it be unfavourable if Sweden and Finland sought for timber cartel alliance with the Soviet Union? Or was the case that the UK needed Nordic–Soviet timber cartel more than ever? Could Britain dodge Canada’s demands on anti-Soviet laws by showing that Soviet imports were controlled through a ‘private’ agreement? What the UK wanted from Nordic countries and Soviet Union? Options were discussed in 1932 in a high political level.

In summer 1932, the governor of the Bank of Finland, Risto Ryti, who was deeply involved in the timber cartel matter throughout the 1930s, consulted the opinion of the governor of Bank of England, Montagu Norman, concerning how Britain felt about a timber regulation scheme between its major suppliers. Norman consulted the Board of Trade and delivered the message: UK was neutral. Risto Ryti forwarded Norman’s the message to the Finnish timber trade association, SSY, which delivered the policy to the Finnish timber exporters. The British message was used as a guideline in the Finnish timber cartel negotiation team in spring and summer 1932. At the end of the year, the Finns started discussing how to react if the British Cabinet invited them to Nordic–Soviet timber cartel discussions. It shows that international cartels clearly were considered a way to solve global trade-political problems. The SSY consulted also the firms’ opinion towards European timber regulation scheme. The firms broadly opposed it, but Finland attended the negotiations nevertheless.

The Anglo–Soviet crisis took a turn for better in summer 1933 and the two countries re-established their trade agreement and diplomatic relations which had been disrupted in spring 1933. Increased clarity in the political economy of Great Britain encouraged the League of Nations to continue to pursue towards making the European timber cartel. The World Economic and Monetary Conference

in summer 1933 had been a failure, but that did not stop the League of Nations to start arranging a new conference on European timber cartel question later in 1933.

The private turn 1933

However, Swedish timber trade interests and the CIB leaders decided it was time to make an intervention to the League's actions. What brought the Swedish timber trade association and the CIB together was the idea that a private cartel was better to the private timber firms. If the ETEC was coming at any case—as the case indeed seemed in summer 1933—it would be better if the private interests led the process. It was better to lead than be led.²⁶ The Swedish–CIB network invited all European timber exporting countries to a competing timber conference.

Besides the fear of losing power, Sweden became active in bringing about European timber regulation scheme for commercial reasons. The competitive position of Swedish timber had worsened in 1932–1933, which made the idea of international regulation scheme more appealing than before in the Swedish eyes. Controlling the Soviet exports were not the issue anymore—British trade policies had taken care of that—but the growing Finnish output volume worried the Swedes.

The Finns did not want any sort of European timber cartel in autumn 1933, not as a League-led version or as a privately led version. The Finnish government and the private timber trade interests had not been able to decide whether to be in the cartel negotiation process or not, but now, in autumn 1933 they at least could choose which negotiation path they took; the League-led negotiations or the privately organised negotiations. Both were due in December 1933. The Swedish, Finnish and Soviet governments chose the privately led negotiation and suggested the League of Nations that surely two similar conferences were not needed.

²⁶ The leader of the CIB, Egon Glesinger, wrote in the 1940s to Gunnar Myrdal that J. L. Ekman wanted to lead at all costs. 'In all international timber matters, Ekman is anxious to be the leading person and to have far reaching control.' ARAB: Archive of Alva and Gunnar Myrdal; Letter exchange of Gunnar Myrdal 1940–1949, F–J: Letter from Egon Glesinger to Gunnar Myrdal, 22 January 1947.

Eventually, the League of Nations cancelled its timber cartel conference. The first conference led by the CIB–Swedish initiative was organised in December 1933 and the participants tacitly agreed upon regulating their output in 1934 so that it would not exceed the output of 1933. The unwritten gentlemen’s agreement between European exporters was widely published in newspapers and it showed that timber industry, indeed, was able to privately restrict the output without the help of governments or the League of Nations. The gentlemen’s agreement for 1934 was ineffective, but was renewed for 1935, which also turned out ineffective. In 1934–1935, the total European timber output volume grew yearly by around 10%, Finland being one of the worst overproducers. The League of Nations had been right in 1932; private timber sector could not bring about successful international cartels.

Facing the cartel failure and a decline in demand in autumn 1935, the STEF and CIB started to work towards formalising the European timber agreement. The target was to create a formal, written, and binding European timber regulation scheme.

Finnish and Swedish exporters did not very broadly support the idea of formal European timber cartel. The idea of bringing the governments and banks in as the ‘guarantors’ of a private cartel, like in 1931, emerged again. In Sweden, the banks took care of the problem of the STEF-outsiders and the government did not play any role—except in the STEF’s letters to the exporters underlining the national importance of participating in European timber regulation scheme. In late 1935, the STEF reported to its European collaborators that virtually all Swedish timber sector supported the signing of the ETEC. Implementing the ETEC in the Central European countries appeared to have happened easily. They had supported the idea of European regulation scheme since the early 1930s and that had not changed by 1935. There were also coercive cartel laws ensuring that firms’ opposition would not be a problem to nationally important international cartels. The position of the Soviet Union as a timber supplier had worsened since the early 1930s and the ETEC, regulating particularly Finland, seemed to support the Soviet trade policy.

The idea of the ETEC in Finland was more problematic than in the rest of the ETEC countries. Throughout autumn 1935, the SSY tried to convince the big firms to accept export quotas, but their efforts were in vain. Low support did not mean that Finland could walk away from the ETEC. The Finnish timber trade association SSY wrote that it ‘cannot refuse to negotiate, but under the circumstances it cannot take upon itself the responsibility of guaranteeing Finland’s total export’.²⁷ The SSY turned to the banks and asked that they ‘would use their influence to strongly support the association’s efforts to decrease production, and above all, to put pressure on those exporters who have demanded a larger quota.’²⁸ Also the government, seeing that the ETEC did not proceed very smoothly, intervened. Finnish Prime Minister Kivimäki and Minister of Trade and Industry Killinen told that the government would take actions, if needed, to ensure that Finland did not exceed its quota.²⁹ Eventually, as it turned out that the banks could not make the big firms accept their quotas, the Finnish government became the ultimate guarantor of the ETEC. There are indications that the government was expected to use export licenses—like in 1931—to prohibit export exceeding a certain quantity. Formal coercion never happened, however.

Threatening with government intervention was the most powerful coercive tool for the SSY’s cartel committee; and it most cordially hoped that the threat was enough, because, in the end, the threat was empty. The government had no legal basis to force firms to join the ETEC. As long as the firms did not understand it, however, the threat worked.

Finland signed the ETEC in December 1935 with all other ETEC countries knowing that there was about 5 % overproduction to be expected in 1936. The Finnish delegation, of course, did not say a

²⁷ ELKA; SSY; 96: Finnish ETEC delegation meeting 1 November 1935. ‘*Finska Sågverksägareföreningen ej borde vägra förhandla, men att föreningen under förberörda omständigheter icke kunde ikläda sig garanti för Finlands totala export [- -]*’

²⁸ ELKA; SSY; 27: SSY Board meeting, 21 November 1935. ‘*Tässä mielessä kääntyy Suomen Sahanomistajayhdistys Suomen pankkilaitosten puoleen, pyytäen: 1) että pankit vaikutusvaltaansa käyttäen voimakkaasti tukisivat yhdistysten pyrkimyksiä tarpeellisten vähennysten aikaansaamisessa ja ennen kaikkea painostaisivat niitä toiminimiä, jotka ovat vaatineet suurempia määriä kuin niiden keskiarvo edellyttäisi; 2) että pankit eivät missään tapauksessa tekisi mahdolliseksi seisovien sahalaitosten toiminnan uudelleen aloittamista eivätkä uusien yritysten perustamista.*’

²⁹ ELKA; SSY; 1120: Sigurd Löfström’s report to the SSY Board, 6 June 1936.

word about its domestic problems in the European meetings, but quite the contrary, convinced other that Finnish timber exports were totally under control. The SSY, which took care of all practicalities in the ETEC, estimated that the overproduction would be somehow handled during 1936. Maybe the rising stumpage price would naturally decrease the production or maybe the threat of bank and government intervention would at some point sink in and the firms would reduce their output voluntarily.

Conclusion

At the focus of this paper was the negotiation process (1931–1935) of the European Timber Exporters' Convention (ETEC), a quota convention between nine exporting countries 1936–1939. This paper asked if the firms found the collaboration of the state in forming commodity cartels helpful or stressful; why the states wanted to assist in the cartel formation; and what choices the firms had in cartelisation characterised by involvement of the state. The ETEC has not received any broader academic attention despite that, first, softwood timber was one of the most important commodities in global trade in the 1930s, and second, the ETEC controlled 80% of the output globally. The case of ETEC can offer insights into many research themes in business history and political science.

The results aim to increase the understanding of the diversity of actors and motivations concerning how, why, and by whom international commodity cartels were negotiated in the 1930s. This paper has highlighted economic and political aspects as the driving forces of cartelisation and concludes that the trade political and diplomatic interests sometimes were more important than private interests. The ETEC case offer new material to consider whose institutions international commodity cartels were and how political interests towards cartels altered the firms' incentives and interests to collaborate. The results indicate that firms, which traditionally are considered as key actors in cartels, were sometimes the least enthusiastic partners in cartels, while the governments and intergovernmental bodies promoted them vigorously.

The key results suggest that the Finnish state wanted the country to be part of the ETEC negotiation because it served various trade political and diplomatic interests. For many firms, on the contrary, the ETEC was an undesired alliance. The firms found the political interest towards the ETEC and the presence of the government in it more stressful than helpful.

Besides the battle between private and public actors as well as variations of cartel coercion, the ETEC material has a potential in providing new angles to various other research questions concerning international cartels and the 1930s, like small firms in international cartels; Soviet Union in western cartels; the successfulness of the League of Nations' policies in creating appeasement through trade; the role of importers in exporters' cartels; and the relationship between cartels and trade wars. Material also offer insights into early Cold War and other geopolitical lessons as well as explains local experiences in global trends. It can contribute to discussion about economic ideas, strategic thinking of firms and governments, commercial pragmatism, and cultural prejudices creating and destroying international collaboration.

This paper has utilised archive material from Finland, Sweden, and Great Britain, but adding new material from the rest of the ETEC countries and from the League of Nations would shed light into different motivations to build commodity cartels in the 1930s. How, where, and by whom ideas of governmentally controlled commodity cartels were created? How these ideas travelled in Europe—and perhaps were distorted on the way—and were eventually put in action?