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Cartel conquistadors

Banks, Governments and Nordic timber industry 1928-1932

1 Introduction

Nordic timber cartel (NTC) makes an ideal subject of research to a historian interested in the relationship between banks, governments and cartels. It provides an unique collection of materials and an exceptional story about a close relationship between business, finance and state during the years of the Great Depression. Collaboration between banks, governments and cartel *per se* is old news in history research – at the turn of the 1930's Europe was full of collaboration between banks, governments and cartel as trade barriers, protectionism and shocks in the finance forced different actors of economic life to unite their forces. The exceptionality of Nordic case lays in the special difficulties that the NTC faced during the years of economic depression: it met competition over the regulation of timber markets in a form of gradually growing bank control and finally as an unwanted government intervention. There were all sorts of disputes between the banks,

governments and the NTC regarding the regulation of timber trade, of which the biggest one concerned cartel partners. Banks and governments wanted to establish a Nordic-Soviet timber cartel whereas NTC did not, leading to a situation that could very well be described as a cartelization "from above", a.k.a. cartelization promoted and supervised primarily by the banks and governments.

This paper studies the curious interaction between banks, governments and the NTC with a focus on banks. The research question is, what roles did the Finnish banks take during the times of economic crises at the turn of the 1930s' in regards with Nordic timber cartel. Much research has been written about banks, firms and corporate networks in the heartland of collaborative capitalism, namely Germany, and it is stated in those studies that banks had a key role in the German cartelization development during the 2nd industrial revolution (1880-1945). During that time period German banks and industrial enterprises established "the closest possible relations": besides creditors, bank representatives became shareholders, board members and entrepreneurial advisors affecting to managerial development, merging and networking in many of their client companies.¹ As the benefits of game fixing and mutual profits seemed to out-weight the risks of knockout competition, banks became promoters and enablers in the formation of co-operative institutions, such as cartels, and became an important node in a business system based of wide consensus between competitors.

Interaction between cartels and governments, on the other hand, is one of the least explored themes in cartel studies.² Radical changes in the economic system and trade environment caused by the Great Depression in the 1929 put cartels to a very strategic spot: governments throughout the world started to support the building and maintaining of different forms of economic regulation and sought interaction with

1. Fohlin, "The Rise of Interlocking Directorates in Imperial Germany".

2. Wurm, *Business, politics, and international relations : steel, cotton, and international cartels in British politics, 1924-1939*.

them. According to previous research government intervention was primarily economically motivated, and in most parts, it has been beneficial to a cartel performance. In Europe, governments considered cartels as tools in fighting against the ravages of the Great Depression and the public attitude in general supported (state) controlled and regulated competition for the variety of benefits it brought. Citizens were protected from consumer-abusing price agreements, and production planning enabled implementations of employment policy. State presence in export cartels secured the interests of the national economy, and the supervision of international cartels prevented unwelcome changes in the ownership of strategically important companies.³

This study aims to contribute to both discussions, and suggests that banks were more than collaborators to cartels and the government intervention did not alone enhance the performance of cartel nor was it always economically motivated. At the focus of this paper is primarily the Finnish side of the NTC, although the outline of the situation in Sweden is also provided. The co-operation between cartel, banks and governments in Finland seems different from the other European examples, and the findings raise some important questions about business culture and practices that the Nordic variations of collaborative capitalism produced. The banks had a strong impact on cartelization of timber trade, but mainly as being competitors in regulation and by weakening the authority of cartel until the 1930 when the Finnish NTC and banks managed to overcome their differences. After the peace treaty of 1930 Finnish banks started to promote together with Finnish government the Nordic-Soviet timber cartel, against the will of industry. Having a closer look at the dynamics between banks, governments and industry in the most important export cartel in Fin-

3. Tilton, "The Difference Government policy Makes: The Case of Japan"; Fellman, "Growth and Investment: Finnish capitalism, 1850-2005"; Sandvik and Storli, *Controlling Unilever; Whale oil, margarine and Norwegian economic nationalism, 1930-31*.

land during the 1920s' the collaborative element becomes questionable and suggests that we might need further definitions for "Finnish model' of collaborative capitalism.⁴ The results also indicates that we might want to have a a closer look at the SMEs' experiences of collaborative capitalism — in the light of Finnish case they seem to have different story than the big enterprises, from which collaborative capitalism theories are in most cases derived from.⁵

The target of this paper is to give a somewhat different view to the practices that collaborative capitalism produced and to discuss to which extent they, in fact, were "collaborative". This paper provides an outline how and why bank and government control developed in Finnish timber industry and how it affected to the cartel formation. The results of this paper serves as signposts to further investigations that takes more detailed and empirical orientation.

2 The Nordic business environment and the timber industry

According to previous research, the business systems in Sweden and Finland were based on collaboration between those who make, manage and regulate business.⁶ Both Nordic countries were highly cartelized during the interwar era and are considered as examples of collaborative capitalism. Their business life had organic links with banks and governments who offered back-up but also advises and direct intervention to business. However, overlapping interests and actions aiming at mutual benefits between business, politics and finance is generally

4. Fellman, "Growth and Investment: Finnish capitalism, 1850-2005".

5. Fohlin, "The Rise of Interlocking Directorates in Imperial Germany"; Onetti and Pisoni, "Ownership and control in Germany: do cross-shareholdings reflect bank control on large companies?"; Windolf and Beyer, "Co-operative Capitalism: Corporate Networks in Germany and Britain".

6. Fellman, "Growth and Investment: Finnish capitalism, 1850-2005"; Ojala and Karonen, "Business: Rooted in Social Capital over the Centuries"; Sjögren, "Welfare Capitalism: the Swedish economy, 1850-2005."

interpreted as expressions of collaborative orientation of late-comers in industrial development.⁷

Although this interpretation is undoubtedly true, it is worth mentioning that collaborative capitalism refers largely to paper industry when it is mentioned in the context of forest industry. However, paper industry had a whole different dynamics than the timber industry and the overall collaborative business pattern we get from the paper industry, does not necessarily apply to the timber industry. Paper mills were big in many respects: they were capital-intensive huge projects demanding big investments and professional managerial skills. Paper was the most profitable form for wood and paper industry had a prominent employment impact. A timber company, on the contrary, was fairly easy to launch and easy to run down because it was not a gigantic investment. A typical Finnish timber company in 1920's was a small or mid-sized company launched up during the boom. An essential structural difference between paper and timber making a difference to the collaborative orientation was the amount of competing firms. In the paper sector there were only bunch of companies at the turn of the 1930s', and around 100 in timber industry. A small crowd with big investments was more likely to collaborate than the other way around — and it seems to be exactly what happened in paper and timber industry.

The majority of the Finnish timber companies were small or mid-sized companies, and many of them did not want to collaborate at national level, let alone in the Nordic context. Small and mid-size producers felt that a national or a Nordic cartel benefitted only the big producers — which was partly true. In addition to having considerably longer marketing disposal periods than the big companies, the small companies used different prices as well as different agents and marketing channels. Challenges in financing the business were different to small and big companies. The two worlds of the big and small producers took even an organizational form in the 1920-1925

7. Fellman, "Growth and Investment: Finnish capitalism, 1850-2005".

when the small producers established a central organization of their own, the Finnish Wood Processing Association⁸. It was considered as a competitor of the "main" industry union SSY⁹ although it had 25-30 members, and largely small companies, against 67 in SSY.

International timber markets at the turn of the 1930s' were divided mainly between Finland, Sweden and the Soviet Union. They all had approximately the same yearly output of 1,2 mill. stds. The Nordic producers had had a cartel since the 1918, and the Soviet Union had made several attempts from the 1924 onwards to join in. The main market area of Nordic timber was Great Britain, which bought about 40% of the total output. UK was also the most important export market for Finland and Sweden.

The income in national economy of Finland during the late 1920's and early 1930's were divided basically between paper/pulp sector and timber industry.¹⁰

Tab. 1: Value of Finnish exports in 1930 in Finnish marks

Timber	Paper	Pulp	Agriculture	Total
2 mill	1,7 mill	1,4 mill	0,6 mill	5,3 mill

Unlike many timber company owners, the bank and government circles promoted cartelization and urged companies towards controlled and restricted competition. Although the Nordic timber industry was among the first Nordic forest industries to build a cartel, collaboration among timber industrialists was extremely difficult. Not only were there disagreements between the cartel leaders and the banks about a propriert price level but also between member there was a constant debate throughout the whole interwar period whether cartel is

8. Suomen Puunjalostus Liitto (1920-1924), Suomen Puuliitto (1925).

9. Suomen sahanomistajyhdistys, Finnish Timber Exporters Association

10. Archives of Bank of Finland, Risto Ryti, 1571 Ac 11. Statistical Yearbook 1931.

improving timber trade or in fact, making it worse. A big crowd of cartel-antagonists led to a situation where coercion and intimidation through the banks became the most important method for collaboration in timber industry.

3 The Nordic Timber Cartel

The Nordic timber cartel (NTC) has many of those features that have given trouble for economic historians about how to define a cartel or to measure its stability and success. To start with the basics, the Nordic timber cartel existed between the biggest timber exporters in Europe, Sweden and Finland, during a rough time span of 1916-1934. The continuity of the NTC during its' lifespan was interrupted several times by breakdowns and re-formations, which form three periods: 1916, 1918-1921 and 1925-1934. During 1917 and 1922-1924 the cartel was inactive. Margaret C. Levenstein and Valerie Y. Suslow have pointed out that the pattern of breakdowns and re-formations is typical for cartels, but it also raises a question for empiricist whether she observe two short lived cartels, or one long lived cartel.¹¹ Question is pivotal for the NTC material, and not only because of the many breakdowns and re-formations, but also because the Finnish side of the NTC did actually seem to form few cartels with their own distinctive names, i.e Report Association (1925-29) and Finnish Timber Export Control Association (1930-31), which will be discussed in detail later. However, there is a strong argument why agreement does not make a cartel in the case of NTC: if we count all the agreements made in the Swedish-Finnish framework, we talk about tens of agreements.

A cartel, in this study, is understood as a collaborative framework including many agreements and institutions rather than just being one agreement. The Nordic timber cartel existed as pattern of agreements that were bind by one another to the overall architecture of

11. Levenstein and Suslov, "Studies of Cartel Stability: A Comparison of Methodological Approaches", pp. 14.

Nordic price regulation. During the active years of the NTC price and production restriction agreements were created every year between the Swedish and the Finnish, and between 3-5 regions inside both countries. These agreements cannot possibly be perceived as different cartels but as building blocks of one Nordic cartel.

NTC was a big cartel in many ways. After the 1925 it covered around 70-80 % of all timber export and the number of Swedish and Finnish companies involved in it during the 1920s' and 1930s' was approximately 120-170. Many of these companies owned two or several sawmills, so the number of sawmills regulating their prices and production in Sweden and Finland was somewhere between 200-300.¹² According to research bigness brings problems if it coexists with factors reducing the inner cohesion of cartel like heterogeneity of company size and products, low cartel market share, unpredictable demand of produced goods, low barrier of entry as well as lack of control, penalty and specialized institutions.¹³ The NTC had all those problems during the interwar period, but unlike previous research implies, NTC proved to be a long lasting cartel.

Bigness, among NTC leaders, was considered a desired outcome rather than a potential problem. However, the challenges of creating an effective and credible big cartel were not minor, especially since the only way for the NTC to get bigger in the mid-1920's was to persuade as many SME's as possible to join. Most of the big ones were collaborating already, and paradoxically they needed the mass of SMEs' behind them to make their cartel more eminent. Many SME's joined in the NTC in the mid-20's, and although it increased the heterogeneity in cartel, it gave a reason to spread out the word of "stronger, united and collaborative" Nordic producers that had managed to overcome their

12. ELKA SSY: STEF saapuneet asiakirjat, kiertokirjeet ym

13. Levenstein and Suslov, "Studies of Cartel Stability: A Comparison of Methodological Approaches", pp. 17-27; Grossman, "Why One Cartel Fails and Another One Endures: The Joint Executive Committee and the Railroad Express", pp. 117; Spar, *The cooperative edge: the internal politics of international cartels*, pp. 5.

problems. The solution of NTC to heterogeneity problem was, in fact, a clever one: it created a price scale system based on company size and location. Over all, it produced five price groups in both countries and a rather complex price matrix taking into account five price groups, different products and the bulk discounts. The new NTC created also new mechanisms to control the implementation of price groups. The Finnish side of NTC was supervised by the *Report Association*.

Report Association

The Report Association (1925-30) regulated Finnish timber prices during the 1926-1930, and also the production volumes during the 1928-1930. In my view, the *Report Association* was in a way closest to a classic cartel form seen in the Finnish timber industry, at least in theory. Nordic negotiations were carried out in meetings either in Helsinki or in Stockholm and much communication went through letters and faxes. Control mechanisms were built inside the *Report Association* so that the members reported their sales to their own group leaders, who distributed the information to other members. In the case of defection the *Report Association* rules ordered an extensive penalty fee. Interaction between the Swedish and Finnish, that during the period 1918-1921 was difficult, seemed easy in 1925. The reason for this might have been partly on the personal level, but certainly also organizational changes made in STEF to focus more on solving problems rather than discussing about them, benefitted the Nordic collaboration.¹⁴

14. In 1920 STEF leader Carl Berg complains to his SSY colleague Ivan Iverus about agonizing meetings of STEF where the key point seems to be that everyone uses their right to be heard instead of decision being made. During the first period there really was no independent and authorized group for NTC collaboration but basically all decisions needed to be confirmed among STEF members, which slowed down considerably the decision process in NTC, which needed fast decision in many times during 1918-1921. During the first period NTC was constantly "late" in its decisions and slow reactions were partly a reason for its collapse in 1921.

Despite the effort that Swedish and Finnish put into building the NTC to stabilize the notoriously fluctuating markets, the price development during the 1925-1930 was poor, and especially Finnish timber was sold below profitability. No matter how "classical" and well functioning cartel the *Report Association* seems on paper, the reality was that it could not keep Finnish prices under a leash. There were always companies undercutting prices and compromising the group moral. However, a curious feature is that they were not punished although *Report Association*, unlike its' predecessors and successors, had defined a penalty for defection. One theory explaining why control and punishment clause proved to be a paper tiger is that undercutting prices were not always a matter of choice for the companies themselves, and therefore punishing them for that did not necessarily lead to an improvement. Cartel had a competitor in the territory of regulation: companies were pressured to sell below cartel prices by their banks. Banks had become all the more nervous about their loans to timber companies as the economic stagnation started to show its' first signs at late 1920s'.

4 The Banks

*Due to unfortunate accident an unreviewed article about Diesen Wood Ltd. and timber sales was published in yesterday's paper. There was misleading information. For example accusation that banks had forced Diesen Wood to undercut prices, is not true.*¹⁵

Timber export was financed by four Finnish banks: Nordiska Föreningsbanken (29%), Kansallis-Osake-Pankki (27 %), The Bank of Finland (15%) and Helsingfors Aktiebank (12%).¹⁶ Practically all timber

15. Helsingin Sanomat 10.12.1929

16. These figures are from the 1931. About 2% of of all timber export were financed by two other banks, and 4% belong to Enso-Gutzeit and was governed through

companies needed loans to successfully run their businesses and in fact, there were only few timber exporters among mid-size and big companies that were independent from the banks. These companies are referred often in the cartel material as being "*out of our control*", which gives us an explicit hint of the relationship between banks and NTC.

The downward spiral of timber prices since the 1921 was a problem not only for the net sales of timber companies but also for the banks, who credited the timber industry. From the banks' perspective, financing the timber business was absolutely nerve-cracking. Capital invested in the lumber auctions had a long way home, and before the product was refined and ready-to-sell the price and the demand did not necessarily meet the calculations and estimations done before the process.

Material suggests that banks started to adopt a role of regulators after the re-establishment of NTC collaboration and the *Report Association* in 1926. Four different banks had different cultures, and according to material, the most aggressive hands-on intervention occurred in Kansallis-Osake-Pankki. It financed 27% of all Finnish timber export and its' clients consisted largely on SME's owned by Finnish speaking entrepreneurs, while the three other handled mostly the big enterprises of Swedish speaking customers. Kansallis-Osake-Pankki was led by an ardent leader, J.K Paasikivi¹⁷, whose style towards the SME's in timber industry was described as "dictatorial" by British sources.¹⁸ Description could not have been more accurate. Indeed, bank leader Paasikivi governed its' share of Finnish timber industry with an iron grip. He was certain that the timber clients of his bank did not understand how the international timber markets worked and it made

the Ministry of Forest. 2,4% were independent from the above mentioned banks. The bank affiliation of 7% of all export was unknown in the 1931 documentaton.(ELKA, SSY, Hallituksen kokous 14/1931).

17. Also a president of Finland 1946-1956

18. Churchill & Simms archive, London.

him extremely eager to make decisions for them. Paasikivi urged his subordinates in region banks to keep a close watch on timber clients: no new entrepreneurs to industry, and a strict control to the old ones. According to Paasikivi, without bank intervention the timber clients would keep the prices either too high or too low, and they would not be able to show restraint in production planning. Without an ukase from bank, they would spend all the cash recklessly right after the shipping season. He expected a very detailed monthly report from his timber clients about their businesses, and the timber industry surveillance material reveals that the Kansallis-Osake-Pankki was a significant porter of timber industry regulating the entries of new business and price formation for the whole interwar period.

Troubles in timber industry were becoming more and more unbearable in 1928, and the actions took in *Report Association* did not seem to make a difference in the markets. Increased output of cheap Soviet timber kept the price development of Nordic timber poor. At the same time, Great Depression started to show its' first signs as a stagnation in construction industry, which had an immediate effect to timber demand. Loan capital of SME's weathered in full timber yards, and banks were losing money.

The economic crisis at the end of the 1920s' made clear that cartel and banks had very different ideas, expectations and strategies in regulation of timber trade. Banks were primarily concerned about companies capability to pay back their loans whereas the cartel saw that the only way to fight against the downward spiral of timber prices was to stubbornly hold on to a certain level of minimum prices in as wide front as possible. This meant that banks pressured their timber clients to get rid of their stock at the price level of production costs. NTC, on the contrary, was seeking a higher price rate, even with a risk of companies losing some deals. Now, companies obviously got mixed messages about the desired price rate and lived basically between a rock and a hard place — to be punished by cartel or by bank? This dilemma concerned especially the SMEs', who did not have the

immunity for consequences of defection like the big ones. Two conflicting regulation systems was bad publicity and harmed the facade of NTC in the international stage, where messages of credibility, reliability and controlled behaviour reflected to the prices.

The system of two regulators was untenable in the long run, and especially in the late 1920s' when worldwide economic stagnation began to show signs in timber trade, the question of centralized regulation became crucial. In fall 1930, SSY and banks had several meetings where the relationship of banks and the NTC was under discussion, and it was decided that it is better if regulation is in the hands of the industry. A circular letter to the SSY members from January 1931 celebrates the new consensus between the banks and timber industry and declares the beginning of a new era. At the same time, the letter leaves no room for speculations about what was going on between the banks and the cartel before the turn of the decade. The circular letter said:

1. Banks will stop pressuring their clients to undercut NTC prices
2. Banks will demand their clients to follow NTC prices and production restrictions

Banks, on their behalf, demanded that the Finnish timber companies would form a joint selling association that would coordinate selling.¹⁹ However, a joint selling association got buried under more acute tasks and it was never established. As a proof of a new era, Finnish timber industry was re-organized under a *Finnish Timber Export Control Association* which replaced the *Report Association*.²⁰

19. ELKA Armas Saastamoinen, letter exchange.

20. *Finnish Timber Export Control Association* is in fact an original translation. For some reason the NTC decided to translate the name of Control Association in English.

4.1 Bank Cartel: Finnish Timber Export Control Association

Control Association was based on price groups just like *Report Association*, but as a cartel organization its' credibility stemmed out of the authority of the banks, which had a major role in it. All central elements of regulation were designed and executed in collaboration between cartel leaders and banks. Finnish NTC together with the banks did not only define the minimum prices for timber but the quotas for each Finnish timber company, too. Execution of regulation was double-controlled in *Control Association*: members sent a weekly report on their potential deals, open deals, closed deals and status of quota to its' creditor and to the cartel. The archives of Kansallis-Osake-Pankki indicates that the performance of SME's was closely watched and Mr. Paasikivi gave detailed individual gradings to his clients. If supervising the selling prices was time consuming for banks, controlling the quotas was more easy. Banks simply did not grant credits more than a company "deserved" in the lumber auctions.

There were no punishments fees in the rules of *Control Association*. Defection, according to the rules, were dealt between a company and its' creditor, which reveals the overall structure of banks giving guarantees to Finnish NTC on behalf of their clients. From the companies perspective it was the most effective threat that potentially put the whole business on stake: detected defection might have resulted to revoking the credits. As a result, defection is absent in the material of *Control Association*.

Many boundaries that before 1929 were clear, started to blur in 1930. First blurred the borders between banks and NTC when the banks adopted the role of controller as described above. During the 1931 it went further and the distinction between a cartel member and an outsiders vanished. During the era of *Report Association* there were cartel outsiders, whereas from the 1930 onwards the control, supervision and regulation stretched beyond the boundaries of cartel and included Finnish timber companies *in general*, regardless their affil-

iations in industry unions or cartels. This became possible only by blurring the third important boundary: that between bank and state. In summer 1931 it was agreed that the banks controlled not only their cartel clients but also the cartel-outsiders. Undertakings of the NTC members would be reported to the cartel, and as what came to the cartel-outsiders, banks would *"report to the officials of inappropriate market behavior so that further measures could be taken by the state"*.

Things had changed fast since the peace treaty of 1930 between Finnish banks and the Finnish NTC, and by the summer 1931 Finnish banks looking at the "overall good" listened very carefully international opinions on the future of timber markets as well as the governments' view on the matter. Foreign political perspectives, general economic policy and international opinion were demanding closer collaboration between Nordic and Soviet producers, who had been in a war-like situation since the 1928 causing all the more growing instability at the timber markets and unpredictability to the Nordic economies.²¹ According to British observers, timber markets were in early 1931 just inches away from total collapse. British timber importers were one of the most important promoters of Nordic-Soviet timber agreement, and they established a close connection with the Bank of Finland for the purpose. The importer aspect opens a view to one of the most curious roles that the Bank of Finland adopted in regards with timber producer cartel: it became a behind-the-scenes negotiator.

4.2 Banks and importers

Timber was a typical heavy industry product in a sense that it reached its' end-users through a long distribution chain: a Finnish producer sells its' goods to an agent, who sells its' goods to a British importer, who finally sells it to the buyer. One might intuitively think that a furious competition between Nordic and Soviet producers was beneficial for the British timber importers. Low producer prices enabled

21. Archive of Bank of Finland, collection of Risto Ryti, 1571 Ac 11.

bigger profits for the importers, and therefore, the lower the prices were, the happier importers were. To certain extent that was true, but the situation in 1931 was beyond that. The battle between the Soviets and Nordics did not take a form of price war only, but also heavy propaganda machinery was used. In 1930 and 1931 the NTC and Finnish government executed anti-Soviet campaigns in Great Britain against the Soviet timber production. Campaigns were targeted to the British press and to the House of Commons and the key message was to expose the inhumane working conditions in the Soviet timber fields. Propaganda claimed that the "immoral" Soviet timber trade fed and fuelled slavery of political prisoners and suggested that buyers of Soviet timber actually funded the communist dictatorship.²² Propaganda fell on fertile ground and the demand of Soviet timber declined. However, the balance in timber markets was curious and it did not lead to the triumph of Nordic timber, but quite the contrary. The anti-Soviet boom left many British importers with hands full of Soviet timber because their clients — railways among others — refused to buy unethical Soviet goods. Timber yards loaded with products nobody wanted to buy crippled the purchase power of many important importers and ultimately made them unable to invest in Nordic timber. Buyers seeing that timber trade stood in a brink of anarchy turned passive during the fall 1931 and decided to wait and see just the low the Nordic prices go. As a result, nobody was buying Nordic timber either.

It was obvious that a reconciliation between the Nordics and Soviets would benefit the British importers. However, they were not by any means an unanimous front in promoting the Soviet-Nordic cartel

22. It is worth mentioning that the Nordic producers themselves did not have any problem at all using this "immoral" raw material. Many of the Finnish and Swedish companies bought cheap Soviet timber and sold it after light processing as Finnish or Swedish timber. This came public in both Nordic countries in late 1931 and early 1932 and caused a wave of disapproval in political circles. Governments in both countries threatened with a direct intervention in case Soviet import does not stop. Sources: CN, Svenska Trävaruexportföreningen, F1A: 234. Häggman, *Metsän tasavalta*, pp. 30-45.

agreement, but some leading importers, like Churchill & Sims' among others, made it their "*personal mission*" and indeed became an important middleman in the matter. Material suggests that during the spring 1931 Churchill & Sims took a leading role in promoting the Nordic-Soviet agreement through already established close personal connections with Nordic banks, Exportles, Hambros Bank²³ and the Bank of England. Soviet timber trade (as well as Nordic) needed foreign loans to keep the business going, and the idea of the importers was to bind credits to the launching of the Nordic-Soviet cartel negotiations. Especially the Churchill & Sims' acted closely with Hambros Bank, which was ready to reward both the Finnish and the Soviets in case the cartel negotiations were started — and these rewards were also openly discussed with the head of the Bank of Finland, Mr. Risto Ryti.²⁴ Churchill & Sims' saw Nordic banks without a doubt as the primary regulator of Nordic timber industry that easily reached beyond the boundaries of cartel, and therefore pursued to influence the cartel matters through them. Consequently, the letter exchange between British-Finnish bank circle reveals that Great Britain was also considered in Finland as the "*ultimate controller*", whose opinion during the times of timber crisis was listened very carefully. Expression was not an exaggeration: besides that UK bought 40% of the Finnish timber output, it was also the most important exporting market for Finland.²⁵

The role of importers behind Nordic-Soviet cartel negotiations is evident, and once the negotiations were started in June 1931, they guarded personally on the spot of the proceedings of the negotiations.²⁶ During the negotiations, the connection between Finnish and British bank-government circles stayed close. British material from

23. Hambros Bank financed international timber trade and Soviet trade in specific

24. Archives of Bank of Finland, SSY, Churchill & Sims'

25. Fellman, "Growth and Investment: Finnish capitalism, 1850-2005", pp. 173.

26. Churchill & Sims', London

1932 indicates that the head of Bank of Finland Mr. Risto Ryti consulted several times the British Board of Trade and the Bank of England for their opinion on negotiations.²⁷

The British trade policy in general was also for the Soviet-Nordic timber agreement, which explains the involvement of the Bank of England. Great Britain did not want to find itself in a situation where it was dependent on one primary exporter, not with the Nordic bloc and certainly not with the Soviet Union.²⁸ Competition guaranteed best prices and dodged the potential dependency on one primary exporter, but competition of course needed restrictions in the form of a cartel in order to become profitable again for Great Britain.

A situation where three major timber producers did not have a self-regulative agreement was considered alarming and even dangerous by observers, press and the public and also by wide political circles including international agents like the League of Nations. Soviet-Nordic timber agreement seemed the most logical thing to do in 1931: it was expected to happen by the observants, diplomats, banks as well as the governments in Great Britain, the Soviet Union, Finland and Sweden. STEF and SSY leaders and the collective of the NTC, on the contrary, hoped that state and bank supervised cartel negotiations would turn fruitless. It did not want to collaborate with anyone else outside the Nordic bloc, which gave a distinct flavour to the whole process. Although Soviet-Nordic timber cartel agreement eventually evaded despite negotiations in 1931–32, the negotiations itself is an interesting case of an international producer cartel that was primarily promoted by importers, banks and governments. Nordic timber producers opposed collaboration with the Soviets, but the bank-government alliance gave them little choice.

27. British National Archives. T160/555. I want to express my gratitude to Martin Bemann who has kindly let me use his material.

28. Leonard Browetts (Board of Trade) to S.D. Waley (Treasury) in 13.06.1932. British National Archives. T 160/ 555. I want to express my gratitude to Martin Bemann who has kindly let me use his material.

5 The Nordic-Soviet cartel negotiations

"Foreign political and general economic policy would benefit from a cartel agreement defining a fixed production quota for Finland, Sweden and Russia, but I wonder whether it is wise to bind ourselves to international agreements while timber markets are as promiscuous as for the time being."

XII/1931 Jakob von Julin to Risto Ryti²⁹ 19.12.1931 Jakob von Julin to Risto Ryti

The stage for the Nordic-Soviet negotiations was eventually set in June 1931. Meeting between the Nordic timber producers and the Soviet timber sales organization Exportles took place in Berlin and the discussion on timber production regulation was opened with great publicity.

Negotiations were far from those that Nordic producers had been used to in the days of the NTC. Before 1931 they were practical discussion forums, and much of it was carried out in the letter exchange and faxes. Now that there was economic and foreign political passions involved in the negotiations, the hands of producers were tied by their governments (as it was expressed by the contemporaries) and by the banks. One important motivation beyond business encouraging the timber cartel negotiations that have not been under discussion yet, were in the sphere of Finnish political life and its' implications to the Finnish-Soviet relations.

Nordic-Soviet negotiations had a huge political benefit to Finland, who had a chance to prove her friendly attitude towards the Soviet-Union. The Finnish-Soviet relations had been freezingly cold for the past few years because of the rise of the anti-communist Lappo movement that hunted and abused left-wingers (or people claimed to be

29. Archive of Bank of Finland, collection of Risto Ryti, 1571 Ac 11. Jakob von Julin was one of the leading figures of SSY and NTC. Risto Ryti was the Head of Bank of Finland during 1924–1939, and President of Finland during II World War in 1940–1945.

such). In the Soviet Union this was seen as a reaction to economic threat that the Soviet timber production was posing to Finland whose primary export product timber was. The Finnish government did not take a very disapproving stand against the Lappo movement, which gave a reason for the international press to assume that Finland was intentionally aggravating its' gigantic neighbor. Political tension between the Soviet Union and Finland was ultimately unwanted and the longer it lasted the more uncomfortable it turned. The re-election of the Finnish government in March 1931 gave an opportunity for reconsideration of the foreign political direction, and Soviet rapprochement became a prevailing trend. Exportles presented a Nordic-Soviet timber scheme during the spring 1931 to the new government, which did not fail to understand the psychological significance of the proposal and it was agreed that negotiations will be started.³⁰

The ideas between Nordic bloc and the Exportles about how to arrange the regulation were far from each other in many respects, but the biggest issue was control. How can cartel partners be sure that others will stick to their quotas? Besides the obvious trust issues that is involved in all business collaboration, the control and guarantee question represents also, in my view, the biggest difference between private cartel negotiation (such as the NTC in 1918-1930) and state controlled cartel negotiations. It looks like private cartels were more likely to satisfy with compromises and accept the fact that there would be outsiders and defectors, while the state controlled cartels demanded full control over *total* export. Now this was a problem to NTC, which, in fact, did not cover the *total* export: "only" 89% of total export was on its' control. Soviet Union would not continue the negotiations until the control issue was settled, and they certainly would not accept control mechanisms that allowed 11% marginal.³¹ Nordic negotiation

30. Paloposki, *75 vuotta sahateollisuuden yhteistoimintaa : Suomen sahanomistajajyhdistys 1895-1970*, pp. 76.

31. This problem was evident throughout the whole cartelization process of European timber trade. CN, STEF: Konferensen I Geneve. F1A 286.

delegation took this problem quite seriously and in summer 1931 a re-organization of the Nordic timber industry began.

The Swedish STEF tried to find a way to make outsiders cooperate in a very similar way than the Finns in fall 1930, by asking help from the banks (see page 13).³² STEF approached the Swedish Bank Association with a request that Swedish banks would guarantee on behalf of their clients that STEF-outsiders would not exceed their quota. The Swedish banks agreed to this request and send a guarantee on behalf of those who did not sent it voluntarily to STEF.³³ This was a major step from a private and voluntary-based regulation towards a forced cartel. It is particularly striking that STEF persuaded its members to collaborate voluntarily for production decrease in 1931 or "*otherwise state intervention would be unavoidable*". As a result, Swedish timber companies did collaborate, but what was the level of voluntariness under such threat is another question.³⁴

The Finns did not either hesitate to bring the government into the discussion. The regulation leadership in Finnish banks might have been "*dictatorial*", as British observers said, but a state intervention was without a doubt the most effective threat to make the fragmented timber industry to act congruently. As mentioned earlier, Finnish banks along with the governments adopted the leading role in the re-organization process, and it was agreed in summer 1931 between those two that banks would report the undertakings of the cartel-outsiders "*to the officials [- -] so that further measures could be taken by the state*" (see page 14). The bank-government collaboration was bound to Soviet-Nordic cartel process and it shifted the control from the banks to the Finnish government. The overall plan of controlling the Finnish timber production was formalized in a scheme

32. Bankföreningen archive, Protocoll 19.8.1931.

33. CN, Collection of Swedish Bank Association, F1:88. Bankföreningen archive, Protocoll 19.8.1931.

34. J. L. Ekman to Henry McGrady Bell in 4th of May 1948, CN, STEF, Konferens I Geneve 1932, F1A 286.

suggesting that timber trade would be turned to a licensed trade like butter, which had recently become a state-regulated export product in Finland as well as in other Nordic countries.³⁵

Proposal was presented to the trust council of the NTC — a little surprisingly — by the trusted man of Finnish timber industry Axel Solitander³⁶ after the first Soviet-Nordic negotiation in July 1931. The proposal was following:

1. Membership in the Finnish Timber Association SSY should be made obligatory for all Finnish timber companies.
2. Export would be allowed to quality labelled products only, and Finnish state would define how much each label can be exported and to have a right to intervene to course of events if it was necessary.

State intervention was the worst case scenario for the NTC who opposed the plan furiously.³⁷ It is worth pointing out that timber industrialists were not completely alone in their resistance. The Finnish Ministry of Forestry, directing the ownership of Enso-Gutzeit, was also against the Nordic-Soviet agreement, but it did really not make a difference since the "*common good*", e.g. reasons related with the general framework of trade policy and foreign policy demanded the establishment of an agreement. Resistance was in vain and at the end of the 1931, the Solitander memorandum had evolved into a detailed design

35. Butter is a very interesting comparison. It built a heavy machinery of international cartels and multinational companies that posed a threat to domestic producers in Nordic countries. Nordic governments were forced to reconsider their relationship with multinational companies and cartels.(Sandvik and Storli, *Controlling Unilever; Whale oil, margarine and Norwegian economic nationalism, 1930-31*)

36. Solitander was probably the most influential lobbyist of Finnish forest industry. He was the head of Finnish Woodprocessing Association (umbrella organization of every branch associations in forest industry, including SSY) and a former Minister of Trade and Industry (1930-1931).

37. ELKA, SSY, the minutes of the NTC Trust Council (Förtroenderådet)

of a state-governed cartel, a real "*attack of the state*" as Finnish timber industrialists four years later called it.³⁸ The design for the Soviet-Nordic cartel agreement in Finland was as follows:³⁹

- Quota permitted to each country is negotiated between Finland, Sweden and Soviet Union
- SSY defines further quotas for each company
- Banks guarantee that companies stick to their quota
- Banks can do minimal changes in their clients quotas if needed
- Bank of Finland has the ultimate responsibility in fulfilling the agreement
- Finnish Council of State promulgates the agreement
- Finnish Council of State has a right to interfere to the course of events in case companies do not stick to their quotas

Design leaves a little room for free enterprise — but it shows us just how diversiform interwar cartels can be and how varied institutions from public and private sectors could be involved in them. It also shows us how far states were ready to go to secure national interests during a time of economic war of the 1930s'.

Nordic-Soviet agreement was never ratified⁴⁰ and timber trade was not made under state license, but the role of banks as the engines

38. Archive of Paloheimo Ltd., SSY pöytäkirja 1936

39. ELKA, SSY, tuotannonsäännöstely 1932

40. There were two reasons above all for the failure of Nordic-Soviet cartel. Firstly, the Canadian timber export was a real threat in 1930-33 and European exporters did not want to bind themselves with cartel agreement as long as the outcome of British Imperial Preferences in 1933 concerning the import of Canadian timber were unclear. Secondly, Exportles was not satisfied with an equal quota share between Sweden, Finland and the Soviet Union but demanded 40-30-30 % share on her favour, which the Nordics naturally could not agree.

behind cartelization became evident. The cartel control was given to the banks at first, and a little later on, the boundaries of the Finnish NTC was stretched beyond the cartel membership. At the last stage, banks were not controlling their clients *for* the cartel but for the government, who had become the ultimate guarantor of regulation.

Although the head of the Bank of Finland Risto Ryti suggested that the Council of State should have the ultimate responsibility in fulfilling the agreement since *"the powers of the Bank of Finland are more limited than that of the state's"*, he was one of the most influential persons in regards with the Soviet-Nordic cartel. He stayed in close contact with the British importers, Hambros Bank as well with the Bank of England. Many of the bargaining objects on the Nordic side, like an agreement period of three years and a governmental guarantee of a fixed quota, were in fact sketched earlier in the meetings between Risto Ryti and the Bank of England.⁴¹ Nordic bank leaders, representatives of different ministries (e.g. Trade and Foreign Affairs, Forestry) and diplomats were consulted thoroughly before the meeting, which highlights the importance of preparations before the actual Nordic-Soviet meeting.

6 Discussion

This paper has studied interaction between banks, governments and the Nordic timber cartel during the times of economic crises at the turn of the 1930s. The focus of this paper has been on the different roles that the banks took in regards with the Nordic timber cartel.

The results in my paper indicates that the Finnish and Swedish banks had a prominent role in the cartelization of timber producers. However, especially the power of the Finnish bank was not based on business networks with shared ownership and interlocking directorates like German examples of collaborative capitalism suggests, but

41. Archive of Bank of Finland, Risto Ryti, 1571 Ac 11

to a more straightforward economic power that a creditor had over its' client. Material indicates that the NTC and the Finnish banks had somewhat different ideas about a proper price level — producers sought for higher prices with a risk of loosing deals where as the bank were mainly concerned about their credits and encouraged the producers to get rid of their stock at the lowest possible prices — which led to a competition over the regulation of timber trade between the NTC and the banks. The material suggests that the threat that banks posed to the autonomy and self-determination of timber industry was used as an argument for the non-members to join in and consequently boosted the cartelization. The competition over the regulation lasted only two to three years until the 1930 when the Bank of Finland and cartel leaders signed a peace treaty and started acting coheretly in regards with the price question.

Banks were not only competitors to the NTC but from the 1930 the Bank of Finland adopted a role of a messenger or a negotiator in the matter of the Soviet-Nordic timber cartel. International economic and political situation had changed dramatically at the turn of the decade, and the demand for a Nordic-Soviet timber cartel was growing from many directions and out of variety of motivations. The Soviet producers were eager to get integrated to western markets and to operate in a more profitable level, the Finnish political life sought for a Soviet rapprochement politics, the British importers and the general trade policy needed the Nordic and Soviet to stop the cut-throat competition and the international experts and observers stated clearly that without a Nordic-Soviet cartel timber markets will eventually collapse. Nordic producers were more or less against the Nordic-Soviet cartel, which gave a distinct flavour to the whole negotiation process. Material indicates that the Nordic-Soviet process was far from a "normal" producer cartel negotiation: although producers were put in the negotiation table, it was promoted and fostered primarily in the sphere of governments, banks and importers. The British importers as well as the British banks negotiated closely with the Bank of Finland, who

listened carefully the Finnish government. Pressure from the governments and importers to form a Nordic-Soviet cartel led to a situation in the summer 1931 where the boundaries of the NTC became useless and the Bank of Finland became the primary regulator of Finnish timber production: not just the production volumes of the NTC members, but all Finnish timber production was under control. Punishments, or rather a threat of it, was formulated in collaboration with the government of Finland so that bank clients were controlled by their banks and bank-outsiders by states' authorities.

What happens when banks and governments interfere to cartel negotiations? As discussed in the introduction of this paper, government intervention has been seen as a positive phenomenon not only by the contemporaries but also as many scholars. Nordic material suggests that timber producers were against the intervention and also from the scholar point of view one cannot miss the fact that it disturbed the NTC to the extent that it actually collapsed in 1933. The experiences of the state intervention to timber cartel were freezing for the producers and the material suggests that after this "*states' attack*" Nordic timber producers discussed about NTC matters in secrecy, away from the ears and eyes of the banks.

In general, the uncooperative attitude of Nordic timber producers towards basically everything outside the Nordic bloc is striking and raises questions. Besides that they were anti-Soviet, they were anti-government and disliked the idea of bank controlling the cartel or subventing suffering small firms. When the central-European timber producers established an association in 1932 to start rehabilitating the markets, the Swedish and Finnish producers were unanimously against any collaboration with the association and stated that establishing an European timber cartel "*should be hindered in everyway possible*". This antagonism towards subventions and collaboration is particularly striking in the early 1930's when the common European experience was just the opposite: during the times of economic and political crisis industries sought actively for collaboration and warmly

welcomed state and bank aid.

In my view, the rationale behind such absurd attitude was the fact that collaboration, in the end, was difficult even in the Nordic level. It was not an easy task to control the few hundred timber companies in Sweden and Finland. The boundaries of the NTC were fuzzy as several companies were established and ran down during one year agreement period. Keeping up the cartel status quo — who is in, who is out and who is cheating — was extremely difficult and time consuming. The NTC leaders realized that if a collaboration between two Nordic neighbours even with almost identical features in economic, political, cultural and lingual environment was difficult, it might be impossible with the Soviet Union and the Central European producers representing socialist political life and state-owned, state-led and state-controlled timber industries.

The way that the Nordic timber producers were led to the Nordic-Soviet cartel negotiations was considered dictatorial even by the contemporaries. Finnish banks literally forced their timber company clients to agree on production restrictions first of all by demanding a written guarantee on the matter and secondly by granting credits no more than the company quota allowed. Many companies protested, especially the big ones. These uncollaborative practices are mostly unstudied although they apparently were essential features of the Finnish collaborative capitalism. The fact that small and mid-size companies had such strong presence in the NTC makes it also an exceptional case study among collaborative capitalism research, which in most cases is based on "100 biggest companies" scheme. The results of this paper indicates that the SME experience in the big export trade branches are worth investigating for since they seem to offer a paradoxical perspectives of "cooperation by coercion" in the framework of collaborative capitalism.

7 Archives

Archive of Bank of Finland, Helsinki

Archive of Kansallis-Osake-Pankki in Nordea, Helsinki

Finnish National Archives, Helsinki

Finnish Business Records (Elinkeinoelämän Keskusarkisto ELKA), Mikkeli

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