

Who wants a cartel?
Regulating European timber trade in the nineteen-thirties

Elina Kuorelahti

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Abstract

This dissertation studies the making and maintaining of an international cartel; the European Timber Exporters' Convention (ETEC), which regulated the yearly export volumes of seven to nine member states from December 1935 until October 1939. The ETEC is analysed in two levels, the national and international. Analysis on the national level concentrates on the biggest ETEC member, Finland, and to lesser extent Sweden. The dissertation is divided into two parts and six chapters and it proceeds chronologically. The first part explores the formative phase of the ETEC starting from 1931 and the second part follows the ETEC years 1935–1939. The ETEC has been mentioned in some academic works, but the topic has not been studied previously at length.

The main research question is who supported, nationally and internationally, the making and maintaining of the ETEC and why. The key concept of this work is cartel and the main theoretical framework is the economic and organisational theories on cartel formation as well as business historical literature showing that even before the birth of modern competition laws, governments, inter-governmental bodies, and banks regulated, encouraged, or otherwise influenced in the formation of cartels. Besides firms and their role in the cartel, this work studies how banks, national governments, and inter-governmental bodies contributed in the making and maintaining of the ETEC.

Methods and materials used in this work follow the conventions of history research. Research material consists of nearly 17.000 pages of archive documents restored in twelve archives in three countries. Organisations and people who were involved in the making and maintaining of the ETEC have produced the research material; governments, banks, Swedish and Finnish timber trade associations, British timber importing firms, and the League of Nations. Material is analysed by historical methods based on source criticism and triangulation.

The key argument of this dissertation is that, first, the governments and banks in timber trading countries as well as the League of Nations contributed in the making and maintaining of the ETEC, and second, the involvement of these actors worsened the ability of Finnish and Swedish firms to get their voices heard. Trade politics and diplomacy intertwined with the cartel process, particularly strongly between 1931 and 1933, but the Finnish materials suggest that the political tension in the ETEC remained in the background through the nineteen-thirties. The Finnish timber trade association SSY remained concerned throughout the decade over a potential intervention of the government to the negotiations if the SSY and did not deliver satisfactory negotiation results; and this fear catalysed the ETEC-policies within the SSY.

Analysis on the national implementation of the ETEC in Finland shows that a large number of firms—particularly the big ones—opposed the making and maintaining of the ETEC, but national interests discouraged Finland from withdrawing from the ETEC process. This dissertation concludes that many members of the Finnish ETEC organisation, on the one hand, feared government intervention to ETEC matters, but on the other hand, the organisation used the threat of economic sanctions as well as government intervention to pressure on the cartel-opposing Finnish timber firms to accept and follow their ETEC quotas. Banks and the government collaborated to varying degree with the Finnish ETEC organisation, and to some extent also with the Swedish ETEC organisation. This dissertation often discusses pressure in national and international networks in diplomacy, politics, and business. The analysis shows that the self-determination of firms, industry associations, and governments can become compromised through external pressure. Compromised self-determination puts the previous

interpretation of the ETEC as a voluntary cartel in Finland and Sweden in a new light. This work concludes that, for Finnish timber firms, the ETEC was not a question of free choice even though they were not legally coerced to join the international cartel.

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One does not have to have a keen appetite for economics to be interested in this conflict [in timber trade]. Here are all the elements of a drama, of warfare, even of a great sporting event [--]. And it is a game in which no one can prophesy when the whistle will blow to end it.

Knickerbocker, 1931

Introduction

There are three conceivable ways to check the Soviet competition [in timber trade], or to ameliorate its effects upon us. One is war. One is an international boycott. One is an agreement.

War [- -] is absolutely out of the question.

An international boycott is impossible.

There remains agreement.¹

These words belong to a Swedish gentleman, well-informed in international timber trade, who Hubert T. Knickerbocker quotes in his book *The Red Trade Menace* (1930). The quote mentions 'international boycott', which reflects not only the desperation and urgency of the European softwood timber problem at the turn of the decade, but it also reveals the environment in which international cartels in the nineteen-thirties operated. They were, as Clemens Wurm has written, 'a factor in the international economic order and an object of international politics'.²

This dissertation studies the making and maintaining of the European Timber Exporters' Convention (ETEC). The negotiations between the three leading European timber suppliers started in 1932 and, in December 1935, the ETEC was ratified between seven timber-exporting countries. The ETEC regulated the yearly export volumes of the member states until October 1939.

In the early nineteen-thirties, timber cartel negotiations were catalysed by a growing worry towards rapidly increasing Soviet timber exports. The Soviet Union, a pre-war market leader in timber exports who had vanished from the international trade in 1918, started shipping again in 1922, and by the end of the decade the Soviet Union was a real challenge to the Nordic exporters.³ Between 1918 and 1927, Finnish and Swedish timber satisfied seventy to eighty per cent of all timber import needs in Europe and the foreign trade of these two countries rested upon forests.⁴ The expansion of Soviet exports represented a severe economic question for the Nordic countries. The world's biggest timber buyer, Great Britain, was also affected by the growing competition between the big three exporter countries. Britain benefited from the availability of cheap Soviet timber—but even more so from a situation where all three big supplier countries remained in the game. If Soviet cut-throat competition dwarfed Nordic timber production, it would lead to a Soviet monopoly in the British market. The British buyers

¹ Knickerbocker, H. R. (1931): *Fighting the Red Trade Menace*, 206.

² Wurm, Clemens (1994): 'The politics of international cartels: Great Britain, steel and cotton textiles in the interwar period' in *International Cartels Revisited (1880-1980)*, 256.

³ Average exports of sawn timber in 1909–1913: Russia 1,2 million std; Sweden 945 000 std; Finland 672 000 std. In 1929: Sweden 1,2 million std; Finland 1,2 million std; Soviet Union 829 000 std. Ahvenainen, Jorma (1985): 'The Competitive Position of the Finnish Sawmill Industry in the 1920s and 1930s' in *Scandinavian Economic History Review*, vol. XXXIII, no. 3. CfN; STEF; G1B:2: Annual report of the STEF 1931, 1932, 1939 'Exporten av sågverksprodukter av barrträ från de betydelsefullare exportländerna.'

⁴ In Finland, products of foreign industry generated 80–85% of all foreign trade income in 1925–1938. In Sweden, similar figure was 36–46%. Suomen tilastollinen vuosikirja 1939 - Annuaire statistique de Finland 1939. Statistisk årsbok för Sverige 1940 - Annuaire statistique de la Suede 1940.

were waiting a solution in the early nineteen-thirties from the timber exporters to end the extreme competition.

The cut-throat competition forced the Nordic countries to ponder their options. Was it going to be an international timber war, trade political boycott, or international cartel? Also, the Soviet Union was on the lookout to heal the market; collapsing prices and slow demand was not benefiting it either.

Since chaos in the form of wars and boycotts were costly, unpredictable, and ultimately injurious for all involved, the idea of an international cartel began to sound good for many parties who had invested in one way or another in international timber trade. Interested parties were not just producers and buyers of timber, but also timber exporters' and importers' associations, banks financing the business, governments responsible for bilateral trade and diplomacy, and the League of Nations, who wanted to promote European peace and prosperity through trade and monetary policies.

This dissertation analyses the ETEC institutions in two levels, the national and international. It explores how the idea of European timber regulation agreement was born in the early nineteen-thirties and pays particular attention to the Nordic ETEC countries, Finland and Sweden, and asks how and why international regulation was implemented and controlled. At the national level, this dissertation analyses the roles of firms, timber trade associations, banks, and governmental actors. Who was leading and who was led? Sweden and Finland exported half of all timber in the European export market in the nineteen-thirties and they were the two biggest players in the ETEC along with the Soviet Union. In addition, the Swedes were strongly represented in the ETEC institution through having two out of three top offices. These make Finland and Sweden an optimal choice to examine both the workings of an international commodity cartel and its national implementation.

The outline of the ETEC is as follows. In 1931, a timber cartel negotiation was opened between Finland, Sweden, and the Soviet Union, three equal competitors who produced seventy-five per cent of all export timber in the European market.⁵ The target of the Nordic–Soviet timber cartel was to decrease production from the three leading exporting countries. All three governments followed closely the proceeding of the negotiation. In 1932, the League of Nations took the timber problem into its own hands and invited all European timber exporters and importers to create a scheme that would regulate the timber supply in the export market. In 1934 and 1935, the initiative and leadership moved from the League of Nations onto more private tracks, led by a Swedish–Polish network, and this new private collaboration produced two gentlemen's agreements between the European exporters in 1934 and 1935 over production output. These agreements, however, turned out to be of little use. Finally, in December 1935 the long negotiation process culminated in the European Timber Exporters' Convention (ETEC) between eight timber-exporting countries, including the Nordic countries, the

⁵ It was not the first time the idea of an international timber cartel had been discussed; the League of Nations and the South–East European timber-exporting countries had organised a couple of international conferences in the nineteen-twenties and at the turn of the decade. Finland, Sweden, and the Soviet Union did not, however, put much weight on these conferences and did not participate in them. I do not, however, explore the attempts to create international timber cartels in the nineteen-twenties; instead, the negotiations in the timber trade starts seriously only when Finland, Sweden, and the Soviet Union enter the picture.

Soviet Union, and the continental exporters. The ETEC came to an end with the outbreak of the Second World War.⁶

The results of this dissertation reveal a rich and complex reality around international business and politics in the nineteen-thirties. Clemens Wurm, who has written about commercial diplomacy and how international cartel agreements build international relations, writes that the 'relationship between politics and economics should yield the most fruitful results' because firms and states feed one another's prosperity and power'. The trade-political apparatus of the state creates the regulatory framework within which firms trade and generate wealth for the nation.⁷

The results show that international commodity cartels in the nineteen-thirties became governmental and inter-governmental matters and a focus of interest to the Economic Section of the League of Nations. This thesis shows that the interest of the League of Nations and national governments in regulating the timber trade was not very warmly welcomed among Finnish timber entrepreneurs, whose practical and ideological foundation of business-making rested on liberalism, non-intervention, and freedom of entrepreneurship. Nevertheless, in the decade of Keynesianism, protectionism, growing governmental regulation of economy, and rising dictatorships, the Finnish (and Swedish) timber firms found that the managing directors of commercial banks, governors of central banks, prime ministers, and diplomats started reserving seats around cartel negotiation tables. Colliding opinions between private and public interests in the national implementation of the international ETEC concretised in intense debates and heated letters. Many Finnish firms opposed collaboration with the Soviets and with continental exporters, but national interests weighed heavily. Finland joined the ETEC, but Finnish firms rebelled. This research explores a situation where a large proportion of Finnish timber firms did not want to join an international cartel, but nevertheless spent a decade negotiating it and following its rules.

Many faculties have studied cartels and worked with methodologies and theories to understand their essence and explain what they are and have been. Scholars in the Faculty of Law study the forms of fixed competition in modern times and make recommendations about jurisdiction concerning it. Researchers in the Schools of Economics weight the economic incentives to form cartels and argue with statistics and equations: for instance, when do cartels benefit their members and what is the economic impact of cartels to the consumers, tax payers, and society? Scholars in Management Studies analyse cartels as organisations; and scholars in Social Sciences and Humanities explore the historical, social, political, and business cultural dimensions of cartels. The research questions, materials, and methods used in this thesis align this work with the last category. Within Humanities and history, this work belongs to the genre of Business History, which often welcomes interdisciplinary approaches and methods to study firms and businesses.

⁶ Paloposki, Toivo J. (1970): *75 Vuotta Sahateollisuuden Yhteistoimintaa: Suomen Sahanomistajayhdistys 1895-1970*, 71–91; Ahvenainen, Jorma (1984): *Suomen Sahateollisuuden Historia*, 359–366. Söderlund, Ernst (1952): *Swedish Timber Exports 1850-1950. A History of the Swedish Timber Trade Edited for the Swedish Wood Exporters Association.*, 334–348.

⁷ Economic and political power are not identical, however, as Wurm remarks. Wurm, Clemens A. (1993): *Business, Politics, and International Relations: Steel, Cotton, and International Cartels in British Politics, 1924-1939*, 1–2.

Research questions, key arguments, and the structure of the thesis

The research task of this dissertation is to analyse business–government relations in making and maintaining the ETEC, particularly in Finland. It asks who wanted the multilateral timber cartels in the nineteen-thirties, and why. This work continues to develop the ideas presented in earlier research providing empirical evidence that cartels, even before the birth of modern competition laws, were not always entirely private institutions designed by competing firms, but instead governments, inter-governmental bodies, and banks regulated, encouraged, or otherwise influenced their formation.

This book is divided into two parts and six chapters and proceeds chronologically. The first part explores the formative phase of the ETEC starting from 1931. The first attempts to create a multilateral timber cartel were conducted between Sweden, Finland, and the Soviet Union, but it expanded into European negotiations in 1932. The second part follows the ETEC years 1935–1939 and discusses national implementation as well as international issues concerning the ETEC

The first part has three chapters and it asks who, in Sweden and Finland, promoted the multilateral timber cartel negotiations between 1930 and 1935 and why. The chapters proceed both chronologically and thematically.

Chapter 1 analyses the Nordic–Soviet timber cartel negotiations in 1931 and shows why governments exerted pressure to form cartels, and particularly, how this happened in non-interventionist and liberal countries such as Sweden and Finland. Furthermore, it shows that the origin of multilateral timber cartels in Sweden and Finland in the nineteen-thirties did not derive from the spontaneous will of firms to form cartels, but came from outside the timber industry. The results are debated in the light of economic literature concerning firms' incentives to form cartels. The Nordic–Soviet timber cartel negotiations were, particularly in Finland, a result of government's reluctance to turn down the initiative of the Soviet government. The Finnish government did not want to be branded as 'anti-Bolshevist' any more than it already was, thanks to fascist Lapua movement.

This argument is built upon sources that, firstly, suggest a broad lack of interest particularly in Finland among the timber firms and the timber trade association leaders towards the Nordic–Soviet timber regulation scheme. The cartel-opposing firms, even though many of them were big, could not stop the cartel negotiations. The analysis shows that, in spring 1931, the Finnish and Swedish timber exporters' lobby organisations—*Suomen Sahanomistajayhdistys* (SSY) and *Svenska Trävaruexportföreningen* (STEF)— had to deal with pressure coming not only from their cartel-opposing members, but also from a cartel-promoting state leadership.⁸ Furthermore, banks favoured the starting of cartel negotiations and the Bankers' Associations in Sweden and Finland became a hub in the control structure of the planned cartel. The governors of the central banks of England, Sweden, and Finland negotiated together concerning Nordic–Soviet timber cartel issues. The Swedish government never adopted as strong a role in the planned cartel as the Finnish government, which was nominated as the ultimate controller of the coming cartel in Finland in December 1931. The Finnish government was, however, weakly equipped legally to fully act in this role. It could only threaten the firms and trade associations with hard coercion, but not actually enact export laws due to lack of parliamentary support.

⁸ The former is, in English, the Finnish Sawmill Owners' Association and the latter the Swedish Timber Export Association.

Chapter 1 shows that, in the nineteen-thirties, trade exchange was an important avenue to build diplomatic relations, particularly in the case of Soviet commodities (timber, wheat, petroleum). To fully address the diplomatic significance of timber, chapter 1 takes a short expedition to European relations and anti-Bolshevism. It shows that not just Britain and France, but also Finland and Sweden had to reconsider their relations with the Soviet Union at the turn of the decade. Finland had been the Grand Duchy of the Russian Empire between 1809 and 1917, and the foreign political pattern of the young republic since 1917 had been based on isolation and cold relations vis-à-vis Soviet Russia. Accepting the Soviet Union's invitation to join the timber cartel negotiations in spring 1931 showcased the new, friendlier orientation. Finland wanted to signal in the early nineteen-thirties to its Nordic neighbours, to the Soviet Union, and to Europe that it was ready to end the era of isolation and start putting into practice rapprochement policies.

However, chapter 1 suggests that national interests were one thing, and firm interests were another; Finnish timber firms felt differently about the need and urgency to collaborate with the Soviet Union. They would have rather continued their isolation eastward and maintained their collaboration westward. Firm strategies, which can be explained through cartel theories on right timing and trust, were on a colliding course with national interests. The conflict was resolved so that the SSY participated in the negotiations—hoping, of course, that they would fail—and integrating the leading banks to persuade the opposing firms to support the coming production regulation scheme. The Soviet Union, however, quite unexpectedly dropped the ball in January 1932 when everything seemed to be set and ready for the final signatures.

Chapter 2 analyses the years 1932 and 1933 and the European turn in the timber cartel question. It asks how the Economic Section of the League of Nations and the reorientation of the British trade policies towards Empire trade contributed to the European timber cartel negotiation. What did the European turn in the timber cartel question mean for Sweden and Finland? This chapter shows that the League of Nations was the driving force behind the European turn in the timber cartel question. Finnish and Swedish timber industries were not particularly interested in collaborating with Central European exporters who sold different products to different markets. Nordic countries were not happy either with the League of Nations leading the timber cartel negotiations. It sent the invitations to governments, and the delegations that attended the negotiations were often members of diplomatic staff. The negotiations were large, public gatherings which were reported broadly in the European newspapers. Various trade-political issues which in the minds of Nordic timber firms did not belong to cartel processes, became bargaining chips in cartel negotiations led by the League of Nations.

Chapter 2 shows that the Board of the SSY regularly complained how unfortunate the whole European cartel project was; how low the support of the Finnish exporters towards it was; and how much they hoped that the cartel negotiation would come to a deadlock in some 'honourable' fashion. The problem with the cartel negotiations led by the League of Nations was that the diplomatic nature of the negotiations, just like in 1931, did not allow Finland and Sweden to withdraw from it. Finland and Sweden produced around half of the timber in the European export market, and their participation in the European cartel was essential. Turned the other way around, their absence from the European timber negotiation would destroy the attempt of the League of Nations to create international collaboration in this sector. Finland and Sweden did not want to be labelled as countries that had sabotaged the League's agenda of economic rapprochement during times of trade wars, protectionism, and rising dictatorships. This chapter shows how differently the Economic Section of

the League of Nations and the private firms interpreted the economic uncertainties. For the League of Nations, confusion and unpredictability were signs that active measures were needed to bring about order. The timber firms thought the opposite: cartels can be formed only when future horizons clear.

Chapter 2 argues that the British trade-political reorientation in 1932 and 1933 towards Imperial trade was another complication for Sweden and Finland to fully support League-led cartelisation. Imperial trade negotiations were carried out in summer 1932, and for the timber trade this meant that Britain started increasing its share of Canadian timber and decreasing Soviet timber. During the first part of 1932, the Nordic countries lived in darkness concerning what their position in the British timber trade would be after the Imperial trade negotiations in Ottawa were over; and while waiting, they could not really form binding opinions regarding a European timber regulation scheme.

Chapter 2 shows that the Finns and Swedes valued the British opinion regarding a Nordic–Soviet timber cartel and consulted the Board of Trade about it in summer and winter 1932; and the British opinion directly affected the SSY cartel policies. In summer, the British opinion was neutral or slightly negative, but by the end of the year 1932 it had become encouraging. This chapter argues that the British considered the Nordic–Soviet timber regulation scheme an option to deal with the highly controversial anti-dumping clause in the UK. This clause was directed against Soviet timber entering the British market, the brainchild of Canadian Prime Minister, ‘storm bird’ Bennett, who arranged it as part of an Imperial trade pact. Cartels were a channel to mitigate trade-political damage between Britain and the Soviet Union.

The British trade-political reorientation in 1932 combined with the improvement of the general economic environment changed the game for all. For the Nordic countries, 1932 opened up new opportunities in the British market: the decline of Soviet timber in the British market left a gap to fill; Canadian timber did not compete in quality or volume with the Nordic timber in the British market; and the economic revival after the Great Depression increased demand and the prices of timber goods. Finland, where the wages were significantly lower and more flexible than in Sweden benefited most from the situation. Finnish products were competitive in price and quality and the country succeeded in expanding its timber exports from autumn 1932 onwards. The Finnish timber sector consistently opposed all cartels in 1932, but was obliged to listen to British opinion. The Swedish timber volumes did not grow respectively, and as a result, to restrict the expansion of Finnish timber, Sweden started in autumn 1932 to support the idea of a Nordic–Soviet timber regulation scheme. The Soviet Union, whose position in the timber market was rapidly deteriorating, started to take an indifferent attitude towards all cartels. For continental exporters, the European timber cartel was an option to improve their market position which had worsened due to rise of protectionism. Continental exporting interests became a new ally for Sweden. Chapter 2 shows that J. L. Ekman and his new continental friend, Egon Glesinger from the *Comité Permanent international de la Production, de l’Industrie et du Commerce du Bois* (CIB), started to promote the European timber regulation scheme in private networks and eventually managed to remove the League of Nations from the leadership of the project. Another new start—now more private—dawned for the idea of European timber regulating scheme.

Chapter 3 shows how the private network, led by Sweden and the CIB, ousted the League of Nations from the leadership of the European timber cartel negotiation. The Finns supported the private initiative, but only because they disliked the League of Nations’ leadership more than that of the private network. This chapter discusses how the key people in the Swedish timber trade association,

STEF, took the lead in the European timber cartel question and started building a position where they could head the whole European timber regulation scheme if necessary. The Finns, on the contrary, torn apart by disputes about cartel policies, were more passive and kept aside from the corridors of power. The disagreeing board members could not come to a consensus about policies regarding a European timber regulation scheme, and therefore attended European meetings without an agenda of their own to present.

Chapter 3 concludes that the private network promoted the European timber regulation scheme through gentlemen's agreements, made in late 1933 and 1934, between European timber-exporting countries. They were loose, unwritten, and ineffective agreements that almost no one honoured. Furthermore, the chapter shows that the public circus around timber regulation issues calmed down in 1934 and 1935 as a result of a change in leadership. The governments did not receive invitations to the cartel discussions and the negotiations were more informal in character, apart from a press communiqué that was released about the results of the meeting. The private leadership meant much less work and less communication for the SSY and STEF between the members, banks, and the government. Finally, chapter 3 follows the institutional buildup of the ETEC in autumn 1935, including an explanation of what were the rules and who were the authorities. It shows that the Swedes occupied two out of three important top positions in the ETEC, while Finland did not take up any leading positions.

Chapter 3 discusses the position of Finland towards the privately-led European timber regulation scheme negotiations and concludes that the SSY did not take the gentlemen's agreement very seriously. In autumn 1935, when the ETEC was being discussed and constructed, the Finnish sources suggest that the leadership of the SSY was pessimistic about the ability of Finland to follow any European regulation scheme because of the inadequate support of firms. The SSY leadership feared that Finland would not fulfil its obligations as a cartel partner unless the government controlled its disobedient firms, a path that the SSY did not want to go down. The SSY Board nevertheless decided to support the ETEC, and it was ratified in all seven European countries on 1 December 1935. In Finland, it led to reactivation of the fear of government intervention in the private timber trade unless the SSY, together with the leading banks, could not control the Finnish timber exports broadly enough. Furthermore, the Finns feared that it would harm Finland's reputation and position abroad should Finland bring down the ETEC through overproduction.

As a whole, the first part shows that the answer to the question 'who wants a cartel?' can be tricky. The support in one organisation can change rapidly as the environment changes. The formative phase of the ETEC in 1931–1935 shows that it is not a coherent story of actors—firms, trade associations, governments, banks—consistently pursuing a desired end. Rather, the path towards the ETEC was filled with trade politics, the fear of government intervention, power battles, negotiation tactics, and bargaining. Finland, for instance, did not at any point support multilateral timber regulation schemes, but it nevertheless felt obliged to participate in the negotiations because of their diplomatic importance. Swedish opinions changed quite markedly between 1931 and 1935. In spring 1931, the STEF leadership clearly did not support the Nordic–Soviet cartel, but might have changed its mind later in the year. In 1932–1933, Sweden was intimidated by the expansion of Finnish timber exporters and considered the European regulation scheme beneficial—but not under the wings of the League of Nations. Leading men in the STEF were in the front row and 'hijacked' the cartel negotiations from the League of Nations. Evidence shows that, until 1933, the STEF leadership was concerned about

government intervention in the Swedish timber trade and worked towards directing the cartel discussions along more private avenues.

The Soviet Union, on the contrary, was a keen supporter of the Soviet–Nordic timber cartel from autumn 1930 until the end of 1931. The country wanted more profit for less work like any manager of a capitalist enterprise would want, and a cartel with the Finns and Swedes was the best and fastest way of doing that. However, the changing trade-political environment in Britain changed the Soviet Union’s attitude to a timber regulation scheme. Also in 1932 the European turn in the timber cartel question decreased the Soviet Union’s interest in participating in the regulation scheme. The negotiations were led by the League of Nations and therefore filled with unpleasant trade-political bargaining with anti-Bolshevist, protectionist Europe, and France in particular. When the League of Nations stepped aside—or was overthrown—from the leadership of the European timber cartel negotiations, and the position of Soviet timber in the British market continued to deteriorate, the Soviets’ interest in regulation grew, and in 1933–1935 they proved to be quite unproblematic cartel negotiation partners.

The first part shows that the ETEC was supposed to be built in two stages: first by creating the Central European regulation scheme and the Nordic–Soviet agreement, and then by bringing them together. Nevertheless, the sub-cartels were never created and the ETEC was born without transitional phases. Including Canada in the ETEC was a long-term goal for the Europeans, but before expanding across the Atlantic, the core of the ETEC had to be formed and solidified.

The second part of the book explore how the support towards the ETEC developed in 1935–1939. Furthermore, the second part also raises issues about how difficult it is to maintain international quota cartels. What is the data basis for the ‘right’ level of output; who is the most neutral actor to deliver the most reliable and unbiased data; and what should a cartel do when consumption falls off the cliff? The second part addresses issues about fatal mistakes in the cartel norms concerning control, punishment, and cartel maths.

European timber exporters and importers expected many things from the ETEC: improved coordination between the exporters and importers leading to better stability in supply and demand; increased revenues for firms and the national economy; and better opportunities to control the small and mid-sized firms, for instance. The second part analyses how successfully the ETEC met these expectations and discusses who supported the ETEC in the rapidly changing commercial and political environment accentuated by, for instance, the recession of 1937–1938, rearmament, and German occupation of two ETEC countries, Austria and Czechoslovakia in 1938. The chapters of the second part follow the boom–bust oscillations after the mid-nineteen-thirties. They proceed chronologically, but they have slightly different thematic focuses. Chapter 4 follows the national implementation of the newly-created ETEC; the chapter after that analyses who supported the ETEC when boom went to bust in 1937–1938 and how fundamentally the crises changed the ETEC’s organisation; and the last chapter investigates the crumbling ETEC which even the rising demand could not reinforce.

Chapter 4 follows how the ETEC worked during the first eighteen months when the demand and price level were rising. The focus of the chapter is on the national implementation of the ETEC in Finland, the biggest signatory country. The choice to explore national implementation in detail stems from the observation that international commodity cartels are not born when they are signed, but when they meet with successful national implementations. This is particularly true in cartels which, organisationally, were a collection of national cartels bound by international norms, like the ETEC was.

The documentation of the international cartel does not necessarily reveal the practices and reality that the cartel brought to firms, or the conflicts between national and private interests that were going on within the cartels. Analysing the national implementation, on the contrary, reaches these levels. The Finnish path in creating the ETEC was followed in the first part of this dissertation, and in the second part, the Finnish materials continue to provide qualitative data on how international cartels have worked in practice.

Chapter 4 shows that Finland struggled to fulfil the ETEC obligations in 1936–1937. Despite the Finnish ETEC organisation's instructions about keeping production steady, the production plans of firms got bigger and bigger between 1936 and 1937. The most important task of the Finnish ETEC organisation was to decrease the production plans of the Finnish timber firms down to the ETEC limits. When the Finnish ETEC delegation realised that the timber firms were going to export too much in 1936 and 1937, it started to look for a solution mainly from the small firms and from SSY outsiders by sending inspectors to audit them. This strategy was not successful: working with small firms did not produce the desired decrease in production plans.

Chapter 4 shows how differently the big and small firms were treated in Finland. The small firms were asked to decrease their production, while the big firms were in autumn 1936 and 1937 only asked to delay their shipping after 31 December. In that way their overproduction became an 'overlying good', which to the ETEC was a far more accepted category. Also, by postponing the shipping of the overproduction allowed Finland to deliver clean statistics to the ETEC general meeting in September 1936, which was a public and widely-reported event. Overlying goods were handled in more discreet processes in the ETEC administration. Finland was not fined at any point for overproduction. This, and other features of the ETEC organisation features contributing to cartel decay are discussed in Chapter 4.

The key argument of Chapter 4 regarding who wanted the ETEC in 1936–1937 is that firms did not spontaneously support the ETEC broadly enough. The SSY Board and the Finnish ETEC organisation supported continuing with the ETEC and trying to follow its norms out of fear of government intervention, which was repeatedly stressed in the circular letters of the SSY and by cartel leadership. The key word in fulfilling the ETEC obligations in Finland was voluntariness: if the Finnish timber firms did not voluntarily follow the ETEC, the Finnish government might meet with pressure from foreign governments, and the Finnish government might exert pressure on the Finnish firms. The cartel leadership also underlined that the banks were ready to restrict credits for firms that did not honour the ETEC quotas. Government intervention was a genuine fear for some SSY Board members, but it was also used to increase the willingness of timber firms to contribute to the ETEC. The Minister of Trade and Industry, for instance, visited the SSY general meeting of 1936 in person to address the firm owners and convince them about the national importance of following the ETEC. The SSY Board was seriously disunited in their opinions regarding government intervention. One part of the SSY Board was afraid of it, while another part—or Axel Solitander, Jacob von Julin, and E. F. Wrede, in particular—thought that stronger coercion was needed in order to keep the Finnish timber exports within the ETEC limits. Some big firms outside the SSY Board, like Enso-Gutzeit and Ahlström Oy, thought that government intervention was detrimental and that Finland should get rid of the ETEC at its earliest convenience.

Two conclusions can be drawn from the first eighteen months of the ETEC in Finland. Firstly, the country did not publicly fail in delivering good results in the ETEC, but fulfilling the ETEC obligations was nevertheless a failure. Secondly, the Finnish government did not formally force the firms to follow

the ETEC quotas, but could only threaten them with hard coercion in the hope of making the firms collaborative. Acting under such threat makes it impossible to conclude that the firms followed the ETEC voluntarily.

Chapter 5 discusses what depressions and political crises can do to willingness to collaboration and what role data plays in cartels. Chapter 5 shows that relations between the British importers and the ETEC became difficult in 1937 and 1938 and their interpretations about the timber market diverged greatly. In short, the importers believed that the market needed less timber compared with the ETEC's views; they thought the ETEC overproduced. The leadership of the ETEC, on the contrary, believed that the British importers wanted to make the ETEC a vehicle of British trade policies and decrease European timber in the UK. The crisis period 1937–1938 and the debate between the British importers and the leadership of the ETEC reveal many aspects that booms do not reveal about running international quota cartels, like the urgency to manage them based on reliable, even 'scientific', statistics and how much trade politics affected the idea of the right quota level. The debate also shows how well the cartel leadership recognized the psychological factor behind booms and downturns and how cartels' quota policies might contributed to consumption psychology.

Chapter 5 shows that the leadership of the ETEC started losing faith in the cartel practices during the crisis period 1937–1938. Chapter's conclusions are in a dialogue with theories on cartel success and decay, and particularly with MacKie-Mason's and Pindyck's conclusions that the internal problems of a cartel should be seen as a symptom of decreasing potential gain from collusion. Analysis on the Finnish cartel organisation and behaviour of some of the biggest firms show that the discordances within the SSY Board regarding the ETEC policies grew so big that the decision-making paralysed, which is a good empirical example what depression can do to cartel organisations and firms' willingness to collude. Chapter 5 shows that Finnish cartel-antagonism deepened with depression and reached its zenith in late 1938 when the state-owned Enso-Gutzeit and Tornator resigned from the SSY and its ETEC policies. The firms exported as much as the smallest ETEC country, Czechoslovakia. The disintegration of the ETEC also was mirrored in the personal relations between the triumvirate of the ETEC leadership. The position of the general secretary, Egon Glesinger, became seriously undermined in autumn 1938 by his Swedish colleagues.

Despite cartel-antagonism among firms and within the SSY Board, the hands of the SSY and STEF were still as tied as ever by national interests. The ETEC continued to be perceived in Finland as an agreement that, besides weighing the Finnish timber volumes at the ports, was also an international engagement that affected the reputation of Finland in Europe. Even though the majority of the SSY Board in the late nineteen-thirties seemed to have thought that the ETEC was harmful and 'should be removed from the world in some decent way', Finland did not want to take the risk of initiating the end of the ETEC and potentially becoming a target of 'foreign pressure'. Depression might have decreased the firms' willingness to collude, but paradoxically, in terms of keeping the Finnish production within the ETEC quota limits the depression period was a success. Production decreased naturally.

Chapter 5 discusses data and cartels. J. L. Ekman, the syndic of the ETEC, noticed that importers and exporters in the big ETEC meetings sometimes distorted data regarding the size of the stock and consumption. Some importers benefited from booms and others from depression, and both groups had a tendency to exaggerate their situation in the direction that benefited them more. This notion led to two bigger consequences in the ETEC. Firstly, the leadership of the ETEC started to seek for more private avenues for executing production cuts in 1938—the ETEC went underground in a way.

Production cuts, for instance, between Sweden and Finland were no longer agreed in the big, public ETEC conference or even in the ETEC executive committee, but in more private and exclusive occasions. Furthermore, Ekman did not want to invite the importers to the joint meetings with the ETEC, but decided to return to the pre-ETEC practices and address them separately and in a one-on-one manner. Empirical findings support Spar's theories on the importance of secrecy and exclusivity behind cartel successes.

The last chapter of the dissertation discusses the last year of the ETEC, from autumn 1938 to autumn 1939. It shows that the demand and price levels started to revive after the slump years of 1937 and 1938 and accelerated war preparations in 1939 even led to demand and a price boom. The improving situation in the market did not, however, improve the working of the ETEC. Quite the contrary; deteriorating European security in spring 1939 decreased the likelihood of Central European ETEC countries coming to a meeting. Furthermore, the Soviet Union did not want to join the ETEC meetings to increase the timber output because the country could not contribute to it due to problems in production. Sweden and Finland remained the only countries able to coordinate things in the ETEC. Sources show that the ETEC became seriously dysfunctional in 1939 and, most likely, the members knew that the end of the cartel was drawing nearer. Some Finns estimated in spring that the ETEC would end in August. The Finnish production plans for 1939 exceeded the ETEC quota, but the cartel organisation in the country did not do anything about it. The Control Committee of the Finnish ETEC organisation was dissolved in 1 January 1939 and its leader, Axel Solitander, expressed the idea that it would not object if the SSY Board decided to resign from the ETEC. The syndic of the ETEC, J. L. Ekman, as well as the leadership of the SSY talked quite openly about the failures of the ETEC. It had not brought balance to the market as it was supposed to and it had not brought supply and demand on a par or stopped the boom-bust cycle. During the four years that the ETEC had existed, demand had gone from boom to bust and again to boom. Prices and demand, according to the contemporary understanding, had fluctuated as they always had, although the ETEC was supposed to end the boom-bust cycles. Leading ETEC men in Finland and Sweden did not write down their insights over why the ETEC had failed and what could have been done otherwise.

Designs about the form of the future collaboration between timber exporters were sketched before and after the dissolution of the ETEC. However, as the post-war development shows, the controversial experiences from the ETEC made particularly the Swedish and Finnish timber trade associations reserved about the idea of reviving international collaboration in the timber trade.

Previous literature on the ETEC

Previous research on the ETEC and international cartels and commodity agreements serves as the starting point to this research. Literature on the ETEC has introduced what we already know about the subject and indicates what we should know more about. Research on international cartels has contextualised the ETEC and helped to shed light on the reasons why firms choose, or do not choose, to collaborate. This chapter introduces the relevant parts of the previous research, conceptual design, and theoretical framework, starting first with the ETEC and then proceeding to concepts and theories.

The rise and decline of the ETEC in the nineteen-thirties has been mentioned in a handful of scholarly works, but it has not been studied extensively although softwood timber has been an important commodity in world trade.⁹

One of the first authors writing about the European timber trade in the nineteen-thirties and its most important institutions is one of the key people in this dissertation: Egon Glesinger, who dedicated his career to the international timber trade.

Egon Glesinger was born to a rich Jewish family in 1907 in the Austro-Hungarian Empire in the town of Český-Těšín, nowadays part of Czechia, located in the East, on the Polish border. According to Glesinger's colleague, a lifelong friend, and a famous Swedish economist, Gunnar Myrdal, the Glesinger family had made its fortune in the forest industry—and possibly also in other sectors of the economy—but young Egon Glesinger did not become a traditional heir to the throne of a family business. He studied law, commercial science, and political science in Prague and Geneva, received his doctorate, and started working in academia. Quite soon, however, he redirected his career and became an expert in European timber trade questions—today he would be called a consultant or a board professional. His ideas about the problems in the timber trade and what should be done about them were more or less identical with the ideas presented by the staff working in the League of Nations. In 1932, Glesinger became affiliated with the CIB, an organisation that had been initiated in a timber conference hosted by the Economic Section of the League of Nations in April 1932. The CIB was dedicated to gathering and distributing European forestry and timber trade data; it was the solution to the problem concerning a massive data deficit about timber trade and forests, which hindered efforts to bring about a European timber regulation scheme. In 1935, Glesinger became the general secretary of the ETEC, which was one of three leading positions.

Glesinger was exiled to United States in 1941, leaving behind Europe and his home-country, Czechoslovakia. In 1942, Glesinger published *Nazis in the Woodpile*, into which he pours all his personal antipathies against Germany and the Nazis, which not only destroyed his career in Europe, but also his family business with the timber trade and its long family history in Czechoslovakia.¹⁰ In his book, Glesinger furiously attacks Germany's expansionist forest politics and binds the ETEC to the German context. Glesinger argues that the ETEC was a counterforce to Nazi Germany, whose leaders were plotting against the free world and relied on timber as their strategic material.¹¹ The driving political force behind the ETEC was, according to Glesinger, the Soviet Union. His interpretation has spread to other scholarly works, such as Hexner's classic *International Cartels* from 1945. According to Douglas Miller, who wrote the preface to *Nazis in the Woodpile*, Glesinger's book read like 'an old-time international spy tale'.

⁹ 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.

¹⁰ Bemmann, 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.

¹¹ Glesinger, Egon (1942): *Nazis in the Woodpile; Hitler's Plot for Essential Raw Material*; see also 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.

One might expect that a book from an academic, who had dedicated his life to observing the European timber trade and politics from a bird's eye view, would give a credible, solid, and comprehensive analysis on the subject. *Nazis in the Woodpile*, however, does not meet this expectation. It is a racy adventure with entertaining Hollywood film features. It has scheming, evil Nazis aspiring for world dominance by means of that magic material, wood. Sweden plays the part of sound, liberal, and heroic land of collaboration and international networks; the Soviet Union is painted as a democracy-defending arch enemy of Nazi Germany, which throws lavish timber parties with castles, Cadillacs, champagne, and caviar;¹² the Central European wood-surplus countries are the victims which become intoxicated by Hitler's trade policy; and lastly, Finland gets to be the filthy betrayer secretly allying with Nazi Germany in the late nineteen-thirties and working against the ETEC. The book is a curious combination of timber fiction and a holy war against the Nazis that benchmarks actual years, places, and people, but the motivations of people and institutions, as well as the causalities of actions, are grossly distorted.

According to Glesinger's interpretation, wood became the 'Nazi No 1 raw material' in the early nineteen-thirties.¹³ It was a material which provided, by combining technology and resources, raw material for energy (wood gas), housing, various war- and peacetime infrastructures, and even for food (wood protein) and clothing (processed wood fibres). Glesinger's leading idea was that, in Hitler's plans, controlling the world wood reserves facilitated the Nazis ultimate aims to gain world dominance.¹⁴ According to Glesinger, the ETEC—and particularly his own organisation, the CIB— was a counter-conspiracy: a democratic, European front, invented to smash this horrendous plan. The driving political force of the ETEC came from the Soviet Union 'who tried to prevent the Nazis from seizing world control of wood'.¹⁵ Of course, as happens with conspiracies and counter-conspiracies, the 'real' agenda of the ETEC was so delicate that it was never written down in official ETEC minutes, and in fact, not very much was discussed openly either. The author presents no documents to back up his interpretations, but instead simply gives his impressions from the nineteen-thirties.

One of the most disturbing factors in Glesinger's Nazi-timber book is that it is all about Germany; it is considered to be the magnet that stimulated every move in timber-trading Europe as if there were no serious timber-trading interests anywhere else in the world. Britain, for instance, is largely absent from his analysis. The timber exporters' cartel policies do not relate in any way to the revival of the British economy after the Great Depression, which increased private building and construction activities; or to the British-Canadian trade relations, which threatened the position of European timber in UK; or to the Britain rearmament programme, which accelerated the purchases of strategic materials, including timber.¹⁶ Glesinger argues that, for Russians, the ETEC was a vehicle, not to improve the country's position in the British market which had deteriorated rapidly since 1932, but to disturb

¹² Glesinger, Egon (1942): *Nazis in the Woodpile; Hitler's Plot for Essential Raw Material*, 111–112.

¹³ Glesinger, Egon (1942): *Nazis in the Woodpile; Hitler's Plot for Essential Raw Material*, 185.

¹⁴ Glesinger, Egon (1942): *Nazis in the Woodpile; Hitler's Plot for Essential Raw Material*, 19–39.

¹⁵ Glesinger, Egon (1942): *Nazis in the Woodpile; Hitler's Plot for Essential Raw Material*, 109.

¹⁶ Thomas, Mark (1983): 'Rearmament and Economic Recovery in the Late 1930s' in *The Economic History Review*, vol. 36, no. 4, 553–555. Söderlund, Ernst (1952): *Swedish Timber Exports 1850-1950. A History of the Swedish Timber Trade Edited for the Swedish Wood Exporters Association.*, 300–301. Fitzgerald, Robert/Grenier, Janet (1992): *Timber: A History of the Timber Trade Federation*, 65–70.

Hitler's timber trading plans.¹⁷ Furthermore, Glesinger's book neglects the longer history of bilateral timber cartels between Sweden and Finland since the nineteen-tens and he forgets that the attempts of European collaboration went back to the early nineteen-twenties. He also neglects the fact that British importers had keenly supported regulated competition between the Nordic countries and between the Nordic countries and the Soviet Union since the nineteen-twenties.

Glesinger is right when he interprets that politics was integrally involved in the timber trade, but he fails to find a balance between business and politics in his analysis. It is unthinkable that Sweden, Finland, or the Soviet Union played complex counter-conspiracy games with such a large-scale business as timber. All three major exporting countries, Finland, Sweden, and Soviet Union, mostly concentrated on promoting trade policies in protectionist Britain, where they tried to obtain as favourable a position for their timber as possible. Germany had always been a buyer of Nordic and Soviet timber, but sales there were not as significant as they were in the British Isles. Currency restrictions set by Germany, above all, hindered trading with the country in the nineteen-thirties. Glesinger is also right in saying that Germany started hoarding timber after the mid-nineteen-thirties—but there was nothing particularly unusual about this. It was a strategic war material, and Britain and France hoarded it as well—and not just to keep it away from the Nazis, but also because they actually needed it in case of war. Furthermore, it is true that Germany and Britain both wanted to increase their influence in the Nordic countries in the nineteen-thirties, but at the same time it is an exaggeration to say that this competition led to the ETEC being founded. As will be discussed in this dissertation, many reasons—Nordic, transatlantic, European, UK-centred—can be identified as reasons why the ETEC was born.

Glesinger writes correctly that Finland opposed the idea of a European timber cartel until the birth of the ETEC, but he is mistaken about the reasons.¹⁸ He paints the Finns as the Nordic Nazis within the ETEC, obedient spies working for Berlin and supporting Hitler's aspirations for world domination. Glesinger sees the Finns as Nazi allies not only because of their opposition towards the ETEC, but also because of the anti-Soviet movements which were common in Finland in the early nineteen-thirties.¹⁹ Glesinger goes as far as to claim that, when the headquarters of the ETEC had to move in summer 1939 from Brussels, the sneaky Nazi-Finns tried to get it to Helsinki – obviously to give all the data to their German masters. Luckily, the Russians, which are presented in Glesinger's book in a most favourable light (despite a couple of references to Soviet negotiators suddenly disappearing and being replaced by new people) saved the situation by voting for Stockholm rather than Helsinki.²⁰

Glesinger assumes in his 1942 book that ETEC antagonism in Finland stemmed from the Finnish government's trade and security political master plan resting on an alliance with Germany.²¹ Such a master plan did not exist in the nineteen-thirties, instead Finland rested its security policy upon Nordic

¹⁷ Glesinger, Egon (1942): *Nazis in the Woodpile; Hitler's Plot for Essential Raw Material*, 107, 109–110, 113–116.

¹⁸ Glesinger, Egon (1942): *Nazis in the Woodpile; Hitler's Plot for Essential Raw Material*, 107–109.

¹⁹ Glesinger, Egon (1942): *Nazis in the Woodpile; Hitler's Plot for Essential Raw Material*, 110–111.

²⁰ Glesinger, Egon (1942): *Nazis in the Woodpile; Hitler's Plot for Essential Raw Material*, 154–155.

²¹ Glesinger, Egon (1942): *Nazis in the Woodpile; Hitler's Plot for Essential Raw Material*, 110–111, 154–155.

collaboration and the League of Nations.²² The faction that opposed the ETEC in Finland were the firms, particularly the big ones. Glesinger, however, corrects his wild interpretations made in *Nazis in the Woodpile* in his later article from 1945, 'Forest Products in a World Economy' in which he writes that the Finnish firms opposed the ETEC because they wanted to avoid government intervention, which would be an integral part of the ETEC package for Finland.²³ This would be closer to the truth.

Martin Bemmann, a German scholar specialised in the international timber trade in the interwar period, has tried to validate Glesinger's interpretations about the ETEC and its connection with the Nazis, with evidence-based historical methods, which rest on archive work and critical, contextualised reading of sources. He found some evidence about Aryanisation of timber firms in areas occupied by Germany, and obviously in the battle over strategic materials from 1939 onwards, but other than that—for example, policies about redirecting all European timber to Berlin, or serious attempts to aspire to world domination through timber resources—he found no proof whatsoever.²⁴

After Glesinger's timber fiction, the ETEC has been mentioned as part of timber trade histories in Swedish and Finnish research, but it has not been a target of more in-depth studies. Lack of literature is particularly surprising in Finland and Sweden, which were not only big players in the ETEC, but also economies, in which timber was an important sector of economy before World War II. Moreover, Nordic historians, at least from the nineteen-nineties onwards, have not deliberately tried to hide that export cartels were the backbone of the economy, but just the opposite; they have written fascinating and thorough research on them.²⁵ However, the timber trade and its big European cartel, where Finns and Swedes were leaders in many ways, has not been studied extensively.

Swedish and Finnish historians have acknowledged the existence of the ETEC, some with longer and some with shorter accounts.²⁶ The agenda of these articles and notions has not been to investigate

²² Paasivirta, Juhani,/Herring, Peter (1988): *Finland and Europe: The Early Years of Independence 1917-1939*, 456–461.

²³ 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. Egon Glesinger may not have liked Finland, but he did love Sweden—and it shows in his works about the ETEC. He had close personal and professional ties with the country: he had a Swedish wife and many Swedish friends, he spent time there and learned Swedish. He portrays Sweden as a loyal cartel-builder and a keen supporter of democracy, welfare, openness, and trade. A bit like Russia, but even better. He completely misses the close collaboration between Sweden and Finland, and their joint interests from time to time to try to prevent a European collaboration from emerging.

²⁴ Bemmann, Martin (2013): 'Hitler's Raw Material? Nazi Strategies and the Internationalisation of the Timber Industry during World War II. Paper for the Conference Strategizing Raw Materials. Business, Government, History & Planning ', Conference paper.

²⁵ Ojala, Jari, Eloranta, Jari, et al (2006): *The Road to Prosperity: An Economic History of Finland*. Väisänen, Jari (2009): 'Myyntikartellit - Suomen selluloosa- ja puuhioketeollisuuden vientiorganisaatiot maailmasotien välisenä aikana' in Suuri Suunnanmuutos: Suomen Paperiteollisuuden Tie Venäjältä Maailmanmarkkinoille. Heikkinen, Sakari (2000): *Paper for the World: The Finnish Paper Mill's Association - Finnpap 1918-1996*. Kuisma, Markku (1993): 'Government Action, Cartels and National Corporations - the Development Strategy of a Small Peripheral Nation during the Period of Crisis and Economic Disintegration in Europe. (Finland 1918-1938)' in *Scandinavian Economic History Review*, vol. 41, no. 3.

²⁶ 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*; Karlsson, Birgit

the ETEC process in full detail, but merely to acknowledge that this sort of arrangement existed. Interestingly, the nature of the ETEC is presented in a different light in Sweden and Finland. Swedish scholars tend to emphasise the private nature of the ETEC; this starts from Ernst Söderlund (1952), who presents it as a private convention and continues in the works of Birgit Karlsson, who also presents the ETEC as a private cartel.²⁷ Swedish research does not identify the role of banks, governments, and international trade policies and diplomacy in the ETEC process and therefore it is not a topic of discussion or analysis either. Finnish scholars, on the other hand, have been more aware from the nineteen-seventies onwards that governments and banks were involved in the making of the ETEC.²⁸ However, the Finns do not formulate how and by whom the practicalities of making and maintaining the ETEC came about—e.g. by negotiating, supervising, controlling, and distributing power within it. Whose cartel it was? Paloposki has argued that Finnish–Swedish–Soviet timber cartel negotiations in spring 1931 also served political purposes, being a ‘door opener’ towards friendlier diplomatic and trade relations between Finland and its eastern neighbour.²⁹ Ahvenainen, even though he does mention that governments and banks were involved in making the ETEC, remains indecisive about who led the process and why, in fact, governments and banks were involved in the process. It must be said, lastly, that all these shortcomings are more than understandable. The relationship between the governments, banks and the timber industry is particularly complex in the ETEC and in the limited space articles provide it is impossible to explore it thoroughly.

The broader framework within which the ETEC existed—cartels and commodity agreements in the interwar era—is impressive. As the results of this research contribute to our understanding of, firstly, how international commodity agreements in raw material trade were created in the nineteen-thirties, and secondly, how varied the motivations and methods of government interventions concerning

(2007): 'Nazityskland och Svensk skogsindustri' in Nazityskland Och Svensk Skogsindustri. in En (o)Moralisk Handel? Sveriges Ekonomiska Relationer Med Nazityskland., 124–125; Söderlund, Ernst (1952): *Swedish Timber Exports 1850-1950. A History of the Swedish Timber Trade Edited for the Swedish Wood Exporters Association.*, 334–348; Paloposki, Toivo J. (1970): *75 Vuotta Sahateollisuuden Yhteistoimintaa: Suomen Sahanomistajyhdistys 1895-1970*, 71–91; Ahvenainen, Jorma (1984): *Suomen Sahateollisuuden Historia*, 354–366; Kuisma, Markku (1993): 'Government Action, Cartels and National Corporations - the Development Strategy of a Small Peripheral Nation during the Period of Crisis and Economic Disintegration in Europe. (Finland 1918-1938)' in *Scandinavian Economic History Review*, vol. 41, no. 3, 256; Jensen-Eriksen, Niklas (2013): 'A potentially crucial advantage: export cartels as a source of power for weak nations' in *Revue économique*, no. 6, 35; Häggman, Kai (2006): *Metsän Tasavalta*, 101–103.

²⁷ Söderlund, Ernst (1952): *Swedish Timber Exports 1850-1950. A History of the Swedish Timber Trade Edited for the Swedish Wood Exporters Association.*, 334–348; 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*, 9.

²⁸ Kuisma, Markku (1993): 'Government Action, Cartels and National Corporations - the Development Strategy of a Small Peripheral Nation during the Period of Crisis and Economic Disintegration in Europe. (Finland 1918-1938)' in *Scandinavian Economic History Review*, vol. 41, no. 3, 256; Paloposki, Toivo J. (1970): *75 Vuotta Sahateollisuuden Yhteistoimintaa: Suomen Sahanomistajyhdistys 1895-1970*, 71–91; Ahvenainen, Jorma (1984): *Suomen Sahateollisuuden Historia*, 354–366; Häggman, Kai (2006): *Metsän Tasavalta*, 101–103.

²⁹ Paloposki, Toivo J. (1970): *75 Vuotta Sahateollisuuden Yhteistoimintaa: Suomen Sahanomistajyhdistys 1895-1970*, 76.

cartels and trade were before World War II, it is necessary to introduce relevant literature in that field as well.

Cartels and International Commodity Agreements (ICA)

The ETEC, as Joseph S. Davis wrote in 1946, came about 'with the sympathy and support of the governments of nine countries'.³⁰ The question is, should we call it a cartel or something else, perhaps an international commodity agreement (ICA)? The signatories of the ETEC agreement were timber trade associations in each participating country (not governments), although the governments did indeed support it – in some countries formally and in others informally – and with deep sympathy.

A cartel, on the other hand, is a written or tacit agreement that regulates the competition between directly competing firms, though governments are known to have been deeply involved in making and maintaining them. ICAs by contrast are competition regulation schemes between governments, though private operators (trade or export associations) can adopt an active role in making and maintaining them.³¹ There seems to be a grey area where cartels and ICAs overlap; this is when public and private actors collaborate. The way in which the ETEC has been categorised in earlier research is a good example of that. Some scholars, like Davis, categorise it as an ICA with strong involvement from the private sector, while others, like Hexner, call it a cartel with strong involvement from the public sector. However, in most books about international cartels and ICAs, the ETEC is not mentioned at all.³² Contemporaries referred to the ETEC as an agreement, a scheme, or a cartel.

Explaining the difference between an ICA and a cartel seems to be a matter of agency and organisation, as their economic impacts were more or less the same. Scholars widely agree that ICAs have done what private cartels do; they have restricted free competition through manipulating production and market factors. ICAs have affected the economy and competitiveness as much as private cartels have; but in some cases they have also provided long-term security and brought together wide producer interests amidst violent market fluctuations, just like private cartels have

³⁰ Davis, Joseph S. (1946): 'Experience Under Intergovernmental Commodity Agreements, 1902-45' in *Journal of Political Economy*, vol. 54, no. 3, 214.

³¹ For a definition of cartels, see for instance: <https://www.britannica.com/topic/cartel>. For a definition of an ICA, see: <http://www.oxfordreference.com/view/10.1093/oi/authority.20110803100007452>. See also: Gilbert, Christopher L. (2007): 'International Commodity Agreements' in *Handbook on International Trade Policy*, 470.

³² For the ETEC as an ICA, see Davis, Joseph S. (1946): 'Experience Under Intergovernmental Commodity Agreements, 1902-45' in *Journal of Political Economy*, vol. 54, no. 3. For the ETEC as a cartel, see Hexner, Ervin (1945): *International Cartels*, 294. Mason, as early as 1946, sees the ETEC as a hybrid form of an ICA and a private cartel. He is clearly undecided what to call the ETEC. Mason, Edward S. (1946): *Controlling World Trade: Cartels and Commodity Agreements*, 16.

done.³³ James Allen wrote in 1946 that classifying ‘all government commodity agreements as cartels is incorrect and confusing’, which is precisely to the point.³⁴

The difficulty of choosing the concept is not just something that defines this work, but whether the European timber regulation scheme should be established as a private cartel or an ICA was a real power battle in the nineteen-thirties. The victor in the battle defined the rules of the game. For the Economic Section of the League of Nations, which raised the problem of international commodity agreements in the public debate in the World Economic and Monetary Conference of 1933, timber was yet another problematic commodity sector where exporters seemed to be unable to balance their supply and demand without governmental assistance. The Swedish–Polish axis became worried in 1932 and 1933 about the League’s repeated attempts to create a governmentally controlled regulation scheme in the timber trade, and started to build a private form of regulation. They managed to turn the history of the ETEC towards a cartel with governmental involvement rather than an ICA with private involvement. I will now discuss the meaning of both terms, ICA on pages 18–22 and cartel on pages 22–27, and explain why I have chosen to refer to the ETEC as a cartel.

According to the *Oxford Dictionary of Finance and Banking*, an ICA is an agreement between governments that aims to stabilise the price of commodities.³⁵ It does not mean, however, any kind of competition restriction agreement with governmental involvement. Unlike private cartels, which have existed in literally countless industry sectors since the birth of capitalism (and ‘new’ old cartels are being founded all the time), ICAs refer to a more specific group of industry sectors and agreements. ICAs have existed in the coffee, cocoa, tea, sugar, wheat, rubber and tin industries.³⁶ International agreements in copper, lead, olive oils are sometimes referred to as an ICA, but beyond that, there seems to be an implicit consensus that ICAs refer to governmentally supervised

³³ Hoselitz, Bert F. (1947): 'International Cartel Policy' in *Journal of Political Economy*, vol. 55, no. 1. Mason, Edward S. (1946): *Controlling World Trade: Cartels and Commodity Agreements*. Gordon-Ashworth, Fiona (1984): *International Commodity Control: A Contemporary History and Appraisal*. Davis, Joseph S. (1946): 'Experience Under Intergovernmental Commodity Agreements, 1902-45' in *Journal of Political Economy*, vol. 54, no. 3

³⁴ Allen, James S. (1946): *The Cartel System*, 14.

³⁵ <http://www.oxfordreference.com/view/10.1093/oi/authority.20110803100007452>. See also: Gilbert, Christopher L. (2007): 'International Commodity Agreements' in *Handbook on International Trade Policy*, 470.

³⁶ <http://www.oxfordreference.com/view/10.1093/oi/authority.20110803100007452>, accessed 28 August 2017, Hexner, Ervin (1945): *International Cartels*, 112–126; Gordon-Ashworth, Fiona (1984): *International Commodity Control: A Contemporary History and Appraisal*; Mason, Edward S. (1946): *Controlling World Trade: Cartels and Commodity Agreements*, 135–241; Hoselitz, Bert F. (1947): 'International Cartel Policy' in *Journal of Political Economy*, vol. 55, no. 1; Gilbert, Christopher L. (2007): 'International Commodity Agreements' in *Handbook on International Trade Policy*; Gilbert, Christopher L. (1987): 'International commodity agreements: Design and performance' in *World Development*, vol. 15, no. 5. Fox, William (1974): *Tin: The Working of a Commodity Agreement*; Whittlesey, Charles Z. (1931): *Government Control of Crude Rubber: The Stevenson Plan*; Gupta, Bishnupriya (2001): 'The International Tea Cartel during the Great Depression, 1929-1933' in *The Journal of Economic History*, vol. 61, no. 1; Van Groenendaal, W. J. H./Vingerhoets, J. W. A. (1995): 'Can international commodity agreements work?' in *Journal of Policy Modeling*, vol. 17, no. 3; Law, Alton D. (1975): 'International commodity agreements: setting, performance, and prospects' in; MacBean, Alasdair/Tin Nguyen, Duc (1987): 'International commodity agreements: Shadow and substance' in *World Development*, vol. 15, no. 5.

competition agreements in specific industries.³⁷ This alone would make one uneasy in referring to the ETEC as an ICA.

An international or intergovernmental commodity agreement entered into the public debate at the World Economic and Monetary Conference of 1933 hosted by the League of Nations³⁸ In the nineteen-forties, when trade policy started interfacing with science and social policy more regularly, it became timely to categorise and conceptualise what ICAs are—how they work, and why they should continue to exist—in order to ground the basis of regulatory economic policies in scientific knowledge.³⁹ Early scholarly works on ICAs had a mission to guide policy makers. Writers have biases and prejudices—such as, private cartels are bad and ICAs are good—and arguments are built accordingly on such bases.

The definition and use of ICA has been varied in the early scholarly works. It has been defined quite broadly as an agreement to restrict the production of a certain commodity in which governments have taken a formal or informal part.⁴⁰ The older definition creates a large conceptual overlap between ‘a governmentally supported private cartel’ and ‘an ICA with strong presence of private actors and where governments were informally present’, blurring the difference between a cartel and an ICA. The variety of definitions has had its reasons. Firstly, the story of ICAs was unfinished in the nineteen-fifties; in fact, it was having a second start under the wings of the United Nations. Secondly, after World War II, waves of Americanisation swept over Europe and imported new doctrines praising free competition and demonising private cartels.⁴¹ ‘To most Americans, cartels are alien, and more especially a German institution. They have incurred the special antipathy which the war aroused

³⁷Gilbert, Christopher L. (2007): '*International Commodity Agreements*' in Handbook on International Trade Policy.

³⁸ Davis, Joseph S. (1946): 'Experience Under Intergovernmental Commodity Agreements, 1902-45' in *Journal of Political Economy*, vol. 54, no. 3, 193.

³⁹ Kerr, William Alexander (2007): '*Introduction to Trade Policy*' in Handbook on International Trade Policy, 2; Gilbert, Christopher L. (2007): '*International Commodity Agreements*' in Handbook on International Trade Policy, 470–471.

⁴⁰ Davis, Joseph S. (1946): 'Experience Under Intergovernmental Commodity Agreements, 1902-45' in *Journal of Political Economy*, vol. 54, no. 3; Hexner, Ervin (1945): *International Cartels*; Allen, James S. (1946): *The Cartel System*.

⁴¹ Cartels had been, in fact, controlled and monitored before the post-war years and Americanisation. In Germany, in the heartlands of allegedly ‘evil’ monopolistic collusions, cartel agreements were brought under the civil law in 1923 because they were considered potentially abusive and therefore in need of control and monitoring. "Legalising" cartels was not an act of cartel-appreciation, as is sometimes misleadingly interpreted, but just the opposite. According to Feldenkirchen, the enactment of the German cartel law of 1923, which put all cartels under the direct control of the German government, was justified by arguments resting on ‘accusations that the cartels had enriched their members at the expense of workers and the small producer’. For more discussion on the values behind the legalisation of cartels, see Feldenkirchen, Wilfried (1992): 'Competition Policy in Germany' in *Business and Economic History by the Business History Conference*, vol. 21, no. 2. Bertilorenzi, Marco (2012): 'The International Industrial Cartels Committee. The Struggle between Private Cartels and Government Intervention within the League of Nations and the International Chamber of Commerce (1920s-1940s)', Conference paper in European Business History Association. United Nations (1947): *International Cartels. A League of Nations Memorandum 1948.II.D.2*. Mason, Edward S. (1946): *Controlling World Trade: Cartels and Commodity Agreements*.

toward all things German and non-democratic,' wrote Charles R. Whittlesey about the American anti-trust ideology of the mid-nineteen-forties.⁴² Nevertheless, the economy and trade needed regulation and coordination, and existing international cartels represented that. If the governments were involved in them, then they were no longer cartels (i.e. evil and bad), but 'ICAs' which were something new; a safe, governmentally-controlled platform that combined private and public actors and motivations. Hoselitz pointed out, however, that ICAs can sometimes act chiefly in the interest of big firms—like in the cases of the Rubber Regulation Agreement of 1934 and the International Tea Export Regulation Scheme of 1933—when they became a 'governmental cloak for cartel'.⁴³

Modern ICA literature acknowledges that some ICAs had their roots in the nineteen-thirties or earlier when they were a part of the interventionist tradition of colonial administrations. The early ICAs controlled colonial raw materials and were in fact failed private cartels. After the Second World War, ICAs have become a part of the political environment, and they have been institutionalised in different ways than cartels. ICAs have become a part of international trade agreements and trade diplomacy, organising the production of commodities that were sold from developing nations to developed nations. They have existed within the British Commonwealth system, the European Economic Community (EEC), and the United Nations' trade-political framework. In 1964, the ICAs came under the auspices of UNCTAD, and in the following decade, they became one of the main principles of the New International Economic Order (NIEO)⁴⁴ of the United Nations.⁴⁵ Research since the nineteen-seventies has concentrated on the known cases of ICAs and efforts have been targeted at investigating the market mechanism of the ICA, such as the price and revenue mechanisms as well as the costs, benefits, and disadvantages of the system.

The results indicate, among other things, that ICAs are costly; that buffer stocks should only be used with a thorough understanding of the functioning of the market; that rent seeking and directly unproductive (DUP) behaviour occurs; and that the benefits are not necessarily distributed in favour of the producers.⁴⁶ ICAs fail and prosper for different reasons, and each ICA has its own individual

⁴² Whittlesey, Charles Z. (1931): *Government Control of Crude Rubber: The Stevenson Plan*, 3–4.

⁴³ Hoselitz, Bert F. (1947): 'International Cartel Policy' in *Journal of Political Economy*, vol. 55, no. 1, 2.

⁴⁴ NIEO was a trade political framework that was supposed to improve the trade-political position of the so-called Third World.

⁴⁵ Gilbert, Christopher L. (2007): 'International Commodity Agreements' in *Handbook on International Trade Policy*, 471. Van Groenendaal, W. J. H./Vingerhoets, J. W. A. (1995): 'Can international commodity agreements work?' in *Journal of Policy Modeling*, vol. 17, no. 3, 257–259.

⁴⁶ See, for instance; Van Groenendaal, W. J. H./Vingerhoets, J. W. A. (1995): 'Can international commodity agreements work?' in *Journal of Policy Modeling*, vol. 17, no. 3; Turnovsky, Stephen J. (1976): 'The Distribution of Welfare Gains from Price Stabilization: The Case of Multiplicative Disturbances' in *International Economic Review*, vol. 17, no. 1; An analysis of International Buffer Stocks for cocoa and copper through dynamic optimizationAn analysis of International Buffer Stocks for cocoa and copper through dynamic optimizationAn analysis of International Buffer Stocks for cocoa and copper through dynamic optimizationAn analysis of International Buffer Stocks for Cocoa and Copper through Dynamic Optimization; Maizels, A. (1982): *Selected Issues in the Negotiation of International Commodity Agreements: An Economic Analysis*; Bohman, Mary/Jarvis, Lovell (1996): 'Rent seeking and international commodity agreements: The case of coffee' in *Economic Development & Cultural Change*, vol. 44, no. 2; Anderson, Ronald W./Gilbert, Christopher L. (1988): 'Commodity Agreements and Commodity Markets:

dynamics.⁴⁷ The results have catered to the needs of the policy makers to understand what ICAs do to trade—but they are not very helpful for business historical accounts which focus on the dynamics between governments and firms within an ICA or conceptual issues regarding what ICAs actually are.

In this work, an ICA is understood through its modern interpretation, which seems to have, above all, four characteristics: their signatories are governments, they have been recognised as an ICA by the United Nations, there has been a long-standing engagement, and they refer to specific industries.⁴⁸ The signatories of the ETEC in Finland and Sweden were (non-governmental) timber trade associations; the United Nations later recognised the ETEC as a cartel; and it was a short-lived engagement lasting from December 1935 until autumn 1939.⁴⁹

Although it seems to be a mismatch to fit the ETEC conceptually into the category of ICAs, there are interesting findings in the ICA literature – even in the older literature – which resonates with the case of ETEC.

Constructing a governmentally controlled regulation scheme on the ruins of a private cartel has a certain degree of drama to it – ICAs, after all, were concerned with suppressing the opposition of cartel-antagonistic firms by means of state coercion. Mason writes that 'it is much easier to organize a private cartel than an intergovernmental agreement. To get low-cost producers into a restrictive agreement of any kind, national or international, public or private, is always difficult.'⁵⁰ Whittlesey has also identified clashes between private and public interests within ICAs in the rubber industry, as well as between big and small producer interests. Governmental control was costly and ineffective: the opposition of firms to the Rubber Regulation Scheme took the form of smuggling, custom frauds, piracy, bribery, forgery, and a flourishing market in export coupons (licenses to produce crude rubber for export).⁵¹ Studies from the tin industry suggest that as ICAs have encountered different

Lessons From Tin' in *The Economic Journal*, vol. 98, no. 389). MacBean, Alasdair/Tin Nguyen, Duc (1987): 'International commodity agreements: Shadow and substance' in *World Development*, vol. 15, no. 5.

⁴⁷ Gilbert, Christopher L. (1996): 'International Commodity Agreements: An obituary notice' in *World Development*, vol. 24, no. 1; Gordon-Ashworth, Fiona (1984): *International Commodity Control: A Contemporary History and Appraisal*, 273–282.

⁴⁸ See, for example: Gordon-Ashworth, Fiona (1984): *International Commodity Control: A Contemporary History and Appraisal*, 3–4, 283–287. Gilbert, Christopher L. (2007): 'International Commodity Agreements' in Handbook on International Trade Policy. Gilbert, Christopher L. (1987): 'International commodity agreements: Design and performance' in *World Development*, vol. 15, no. 5 Anderson, Ronald W./Gilbert, Christopher L. (1988): 'Commodity Agreements and Commodity Markets: Lessons From Tin' in *The Economic Journal*, vol. 98, no. 389 Gilbert, Christopher L. (1996): 'International Commodity Agreements: An obituary notice' in *World Development*, vol. 24, no. 1.

⁴⁹ The United Nations' Conference on Trade and Development (UNCTAD) tried to promote an ICA for tropical timber in the late nineteen-seventies. MacBean, Alasdair/Tin Nguyen, Duc (1987): 'International commodity agreements: Shadow and substance' in *World Development*, vol. 15, no. 5, 581. Finnish, Swedish, and Soviet governments tried to revive timber regulation during the war years in the nineteen-forties, but it did not lead to significant results. The timber trade and its cartels were regulated by the state at the national level, of course, throughout the nineteen-forties. International collaboration in the timber trade revived again at the beginning of the nineteen-fifties (and without the Soviet Union)

⁵⁰ Mason, Edward S. (1946): *Controlling World Trade: Cartels and Commodity Agreements*, 153.

⁵¹ Whittlesey, Charles Z. (1931): *Government Control of Crude Rubber: The Stevenson Plan*, 58–63, 188, 195.

international pressures to succeed than private cartels but at the same time it has been an overwhelming task to control over a thousand exporters, governments have hidden overproduction—a side production of non-cooperation—by buying up excess production.⁵² Gupta's findings on the regulation of tea production between three countries indicate that the culture of monitoring and control varied from one country to another, and also according to the nationalities of the firm's owners (Indian and British). Social control and sanctions mattered.⁵³

Case studies from the rubber and tin industries suggest that, within an ICA, governments can be complex cartel partners who do not share the same opinion on the nature of the problem. Some countries can consider overproduction to be the key problem of the market, while others understate it. Governments are interested in other aspects of trade than merely the optimal market price of a commodity. Such aspects can be, for instance, employment and various diplomatic issues. Walter Jansson has shown in his MA thesis on the rubber industry that Dutch and British governments did not have a single agenda about regulation schemes nor were they 'coherent units with a single purpose'; there were instead many policy objectives and interests concerning regulation.⁵⁴ ICAs were policy tools and therefore liable to scrutiny from other nations, which also altered the character and function of these 'state-sanctioned' cartels. From the perspective of how and why competition regulation works it is notable just how much the involvement of governments changes the cartel. States can be incoherent and vulnerable to international pressures, yet a government is potentially very resourceful in terms of executing coercive powers against non-cooperative entrepreneurs. ICAs—and of course private cartels that have strong support from governments—seem to be more complex than private cartels. They raise interesting issues about the relationship between collaboration and non-cooperation, entrepreneurial interests and national interests, freedom of enterprise and state coercion, and the role of commerce in building international relations.

In a cartel, producers of goods and services can fix prices, limit production quantities, allocate markets, coordinate tender procedures, or otherwise restrict competition in manufacturing, selling, or distributing goods or services. Cartels are nowadays a form of white-collar crime with strongly negative connotations—'a conspiracy against the public' as Adam Smith described it over three hundred years before the invention of EU's unified competition laws.⁵⁵ Smith's bitter teachings about

⁵² Fox, William (1974): *Tin: The Working of a Commodity Agreement*. His book indicates that culture, political relations, and local aspects make a big difference in the working of an ICA—an observation that other ICA studies also support.

⁵³ Gupta, Bishnupriya (1997): 'The international tea cartel in the Great Depression: the response of firms in India and Ceylon', Conference paper. Gupta, Bishnupriya (2001): 'The International Tea Cartel during the Great Depression, 1929-1933' in *The Journal of Economic History*, vol. 61, no. 1.

⁵⁴ Jansson, Walter : (2013): '*What was the role of international politics in the conduct of state-sanctioned cartels in the interwar years? The case of the international rubber regulation agreement*'. Department of History, London School of Economics, 44–45.

⁵⁵ Adam Smith quote: Smith, Adam (2010): *The Wealth of Nations: The Economics Classic: A Selected Edition for the Contemporary Reader*, 137. Nowadays, cartels are considered a 'shortcut' to profitability; rather than seeking a competitive edge through improving the product, service, distribution, technology or productivity of manufacturing, cartelised firms agree upon standards norms of prices and quality and do not allow any firm to stand out from the rest. When firms restrict competition to make a profit, taxpayers and consumers, who often end up getting over-priced lifts, haircuts, eggs, and motorways, are left to pick up the bill.

cartels were forgotten when the day dawned for the industrial era and international cartels in the nineteenth century. Between our times and Adam Smith's there are two centuries when cartels have been integral institutions in the industrial development and capitalism. Therefore, as Jeffrey Fear notes, seeing cartels 'through the lens of conspiracy does a severe injustice to their empirical reality and short-circuits many important theoretical questions'.⁵⁶ Historians and economists have shown that cartels in the nineteenth century—how they have worked, when they have worked, why they have succeeded or failed, why they have been set up, and how society has seen them—can reveal essential issues about the nature of firms, competition, alliances, networks, and society itself. Cartels have not been 'conspiracies', or even purely an inter-firm agreement; instead banks and governments have supported, facilitated, controlled, monitored, or intervened in their operations in various ways to promote national economic policies—and particularly so in the nineteen-thirties, when 'international cartel became a political device' as Clemens Wurm writes.⁵⁷ Cartels as political devices and a part of broader society do not show in the mainstream of voluminous cartel research. The standard economic theory sees cartels as a non-optimal market organisation and it models the specific

⁵⁶ Fear, Jeffrey (2009): 'Cartels' in *The Oxford Handbook of Business History*, 268.

⁵⁷ Wurm, Clemens (1994): 'The politics of international cartels: Great Britain, steel and cotton textiles in the interwar period' in *International Cartels Revisited (1880-1980)*, 256. Schröter, Harm G. (1994): '*The international potash syndicate*' in *International Cartels Revisited = Vues Nouvelles Sur Les Cartels Internationaux*. Schröter, Harm G. (2012): 'Easy prey? Firms based in small nations and international cartels, 1919–1939' in *Scandinavian Economic History Review*, vol. 60, no. 2. Schröter, Harm (1996): 'Cartelization and Decartelization in Europe, 1870-1995: Rise and Decline of an Economic Institution' in *The Journal of European Economic History*, vol. 25, no. 1. Wurm, Clemens A. (1993): *Business, Politics, and International Relations: Steel, Cotton, and International Cartels in British Politics, 1924-1939*. Fear, Jeffrey (2009): 'Cartels' in *The Oxford Handbook of Business History*, 268–269. Cerretano, Valerio (2012): 'European cartels, European multinationals and economic de-globalisation: Insights from the rayon industry, c. 1900–1939' in *Business History*, vol. 54, no. 4. Bertilorenzi, Marco (2014): 'Business, finance, and politics: the rise and fall of international aluminium cartels, 1914–45' in *Business History*, vol. 56, no. 2. Mark Tilton (2004): '*The Difference Government Policy Makes: The Case of Japan*' in *How Cartels Endure and how they Fail: Studies of Industrial Collusion*. Libecap, Gary D. and Smith, James L. (2004): '*Political Constraints on Government Cartelization: The Case of Oil Production Regulation in Texas and Saudi Arabia*.' in *How Cartels Endure and how they Fail: Studies of Industrial Collusion*. Chandler, Alfred D. (1990): *Scale and Scope: The Dynamics of Industrial Capitalism*, 393–592. Kocka, Jürgen (1978): '*Entrepreneurs and managers in German industrialization*' in *The Cambridge Economic History of Europe. Volume VII. the Industrial Economies: Capital, Labour, and Enterprise. Part I. Britain France, Germany, and Scandinavia*, 563–570. Bouwens, Bram/Dankers, Joost (2010): 'The Invisible Handshake: Cartelization in the Netherlands, 1930–2000' in *Business History Review*, vol. 84, no. 4. Kirby, Maurice William (1973): 'The Control of Competition in the British Coal Mining Industry in the Thirties' in *The Economic History Review*, vol. 26, no. 2. Storli, Espen (2010): *Out of Norway Falls Aluminium: The Norwegian Aluminium Industry in the International Economy, 1908-1940*. Sandvik, Pål Thonstad/Storli, Espen (2011): 'Confronting market power: Norway and international cartels and trusts, 1919–39' in *Scandinavian Economic History Review*, vol. 59, no. 3. Kuisma, Markku (1993): 'Government Action, Cartels and National Corporations - the Development Strategy of a Small Peripheral Nation during the Period of Crisis and Economic Disintegration in Europe. (Finland 1918-1938)' in *Scandinavian Economic History Review*, vol. 41, no. 3. Eloranta, Jari/Nummela, Ilkka (2007): 'Finnish nickel as a strategic metal, 1920–1944' in *Scandinavian Journal of History*, vol. 32, no. 4. Kuorelahti, Elina (2015): 'Boom, depression and cartelisation: Swedish and Finnish timber export industry 1918–1921' in *Scandinavian Economic History Review*, vol. 63, no. 1. Mason, Edward S. (1946): *Controlling World Trade: Cartels and Commodity Agreements*, 14–18. Liefmann, Robert (1927): *International Cartels, Combines and Trusts*, 35–36. Stocking, George W./Watkins, Myron W. (1946): *Cartels in Action: Case Studies in International Business Diplomacy*, 3–13.

conditions in which competing firms create, maintain, and abandon cartels.⁵⁸ These conditions are, for instance demand, cost of production, number of competitors, observability of pricing, or monitoring of collusion norms. Economic and organisational theories are useful in interpreting the ETEC because they explain a great variety of aspects concerning collusive behaviour of firms and organisations. These theories are discussed in the 'summary and discussion' sections of this work. However, standard economic model does not consider when and how political pressure of non-market actors, such as governments, can change the collusive behaviour of firms and organisations, nor does it consider how profoundly the involvement of non-market actors in cartel negotiation affect the negotiation dynamics and tactics. Economists typically start their studies on cartel success and stability from the moment the cartel is born, while the case of the ETEC suggests that the negotiation process itself can be complex and unpredictable with non-market actors involved in it.

The mainstream economic theory generally does not recognize the role of governments in cartels. This is more than understandable, though, as economists in the cartel field are not assigned to understand the past world but to equip legal authorities with scientific research to understand how and when firms collude and what cartels do to social welfare. Governments and diplomatic pressures tend to miss from game-theoretical models because they are missing from the contemporary cartel reality.

History research shows that collusion as a criminal behaviour is a modern chapter in legal conventions. For the most part of the twentieth-century, cartels have been an integral institution of international trade. In 1939, the editors of *Fortune* magazine wrote that 'by 1939 the cartels had reached numbers beyond the ability of any recent world survey to tabulate'.⁵⁹ A report by the United Nations from 1947 suggests that forty per cent of all world trade operated in cartels. Hexner, Mason, as well as Hausman and Ahearn in the nineteen-forties present similar figures.⁶⁰ In many European export-dependent countries the number was even higher. Niklas Jensen-Eriksen, for example, has shown that in Finland almost all foreign trade operated through export cartels.⁶¹ Legal in most parts of the world, cartels mushroomed in all commerce: between producers and distributors of manufactured goods and commodities, raw materials, technology, logistic, and services covering thousands of industries from

⁵⁸ For standard economic theory on cartels, see: Choi, J. and Gerlach, H. (2015): '*Cartels and Collusion: Economic Theory and Experimental Economics*' in The Oxford Handbook of International Antitrust Economics, Volume 2..

⁵⁹ Quoted from Allen, James S. (1946): *The Cartel System*, 21.

⁶⁰ Hausmann, Frederik/Ahern, Daniel J. (1945): 'The international control of cartels—past and future' in *Thought*, vol. 20 Hexner, Ervin (1945): *International Cartels*; Mason, Edward S. (1946): *Controlling World Trade: Cartels and Commodity Agreements*, 26; See also Kocka, Jürgen (1978): '*Entrepreneurs and managers in German industrialization*' in The Cambridge Economic History of Europe. Volume VII. the Industrial Economies: Capital, Labour, and Enterprise. Part I. Britain France, Germany, and Scandinavia, 563.

⁶¹ Jensen-Eriksen, Niklas (2013): '*Pragmaattiset kosmopoliitit: Suomen vientiteollisuus ja Euroopan kartellisoituminen 1918–1939.*' in Suomen Asialla? Yksityiset Ja Julkiset Toimijat Kansainvälisessä Yhteistyössä.

light bulbs, linen threads, submarines, and newspapers to beer, diamonds, ferrotungsten, and cement.⁶²

The legal status of cartels has varied in time and place; globally compared, there is great variety in how legislation has treated cartels and institutions in different countries and eras.⁶³ In Europe, the criminalisation of cartels began after 1945. However, as historians have shown, the era of free cartels started to crumble in the nineteen-thirties and even before that. The Great Depression brought about new economic and monetary policy measures that changed the position of cartels in national economies. The protectionist turn combined with depression policies and the Keynesian revolution expanded the role of government in the economy and introduced trade barriers, currency regulations, and reconsideration of the role of natural resources in the coming European wars. They also introduced governmental, bilateral trade agreements with defined quotas for different commodities in significant European import markets such as the UK, France, and Germany.⁶⁴ International cartels started communicating with governmental trade agreements in a new way, one regulating the output and the other trade. As a result, new protectionist regulation acts—resembling war-time regulations, in fact—were invented throughout Europe. They limited the freedom and secrecy of cartels and introduced new forms of collaboration between private and governmental agencies.⁶⁵ In the Netherlands, for instance, the government could regulate cartels and force membership from 1935 (the Business Agreement Act) onwards if the industry had initiated the cartel agreement.⁶⁶ In countries like Austria, Czechoslovakia, and Germany, the governments received broad rights to promote cartels, which is why cartelisation in these countries in the nineteen-thirties is often described as forced cartelisation, or coerced cartelisation.⁶⁷ Government interventions in cartels occurred in many ways

⁶² United Nations (1947): *International Cartels. A League of Nations Memorandum 1948.II.D.2*. Liefmann, Robert (1927): *International Cartels, Combines and Trusts*, 46–66. Dahlström, Malin, (2015): *Konkurrens, Samarbete Och Koncentration: Kalkstens- Och Cementindustrin i Sverige 1871-1982*. Levenstein, Margaret and Salant, Stephen W.: (2007) *Cartels*. Sluyterman, Keetie E./Bouwens, Bram (2014): *Brewery, Brand, and Family: 150 Years of Heineken*. Spar, Debora L. (1994): *The Cooperative Edge: The Internal Politics of International Cartels*. Hexner, Ervin (1945): *International Cartels*. Jensen-Eriksen, Niklas/Kuorelahti, Elina (2017): *Suuri Affääri: Helsingin Sanomien Yrityshistoria 1889-2016*.

⁶³ Martin, Stephen (1998): *Competition Policies in Europe*; Fellman, Susanna/Shanahan, Martin (2015): *Regulating Competition: Cartel Registers in the Twentieth-Century World*; Harding, Christopher/Joshua, Julian (2010): *Regulating Cartels in Europe*; Levenstein, Margaret C./Suslow, Valerie Y. (2004): 'The changing international status of export cartel exemptions' in *Am.U.Int'l L.Rev.*, vol. 20

⁶⁴ Kerr, William Alexander (2007): 'Introduction to Trade Policy' in Handbook on International Trade Policy, 1–2. Keynes, John Maynard (1974): 'The international control of raw materials' in *J.Int.Econ.*, vol. 4, no. 3. Keynes, J. M. (1938): 'The Policy of Government Storage of Food-Stuffs and Raw Materials' in *The Economic Journal*, vol. 48, no. 191.

⁶⁵ Clemens Wurm writes that 'Almost all governments encouraged them.' Wurm, Clemens (1994): 'The politics of international cartels: Great Britain, steel and cotton textiles in the interwar period' in *International Cartels Revisited (1880-1980)*, 256.

⁶⁶ Bouwens, Bram/Dankers, Joost (2010): 'The Invisible Handshake: Cartelization in the Netherlands, 1930–2000' in *Business History Review*, vol. 84, no. 4

⁶⁷ Teichova, Alice (1988): *The Czechoslovak Economy, 1918-1980*. Nikodym, Lukáš (2014): 'Theoretical Aspects of Cartelization in Central Europe—An Introduction to Cartel Theory' in *Central European Papers*, vol. 2, no. 1.

and for many reasons: to create stability to export trade; to maintain a bearable level of prices; to prevent the access of foreign competition into the market; to protect the public from the abusive side of cartels (labour, consumer rights, democracy).⁶⁸

Before World War II, it was a widely-spread idea in continental Europe that governmental control improved the functioning of a cartel through its ability to control members and decrease free riders. Cartels represented stability and predictability, and state presence was supposed to ensure that game-changing cheaters would not disturb the working of the cartel. It was also thought that governmental control could reap the benefits of cartels and remove the negative effects that were identified with them, namely over-pricing, suspicious market-sharing, secrecy, and undemocratic distribution of commodities.⁶⁹ Benefits went both ways: governmental support improved the working of a cartel, and international cartels became an important element in the 'economic diplomacy of national governments'.⁷⁰ Cartels, used well, could be harnessed to broadly promote the welfare and prosperity of nations and bring about European economic appeasement and collaboration. Marco Bertilorenzi has shown that not only national governments but also the League of Nations and the International Chamber of Commerce (ICC) studied cartels intensively from the late nineteen-twenties onwards in order to understand their pros and cons. Eventually, the League of Nations came to think that cartels, if they were monitored by governments, were effective arrangements to protect society from the various effects of depression like unemployment, instability of prices, and increased international competition that destroyed domestic producers.⁷¹

In Finland and Sweden, there was no political support towards regulating cartels through laws (in peace time), but ideas about national and private interests between the governments and industry associations were informally exchanged.

⁶⁸ Wurm, Clemens (1994): 'The politics of international cartels: Great Britain, steel and cotton textiles in the interwar period' in *International Cartels Revisited (1880-1980)*. Wurm, Clemens A. (1993): *Business, Politics, and International Relations: Steel, Cotton, and International Cartels in British Politics, 1924-1939*, 256. Liefmann, Robert (1927): *International Cartels, Combines and Trusts*; Schröter, Harm G. (1994): 'The international potash syndicate' in *International Cartels Revisited = Vues Nouvelles Sur Les Cartels Internationaux*; Schröter, Harm (1996): 'Cartelization and Decartelization in Europe, 1870-1995: Rise and Decline of an Economic Institution' in *The Journal of European Economic History*, vol. 25, no. 1; Fear, Jeffrey (2009): 'Cartels' in *The Oxford Handbook of Business History*; Sandvik, Pål Thonstad/Storli, Espen (2011): 'Confronting market power: Norway and international cartels and trusts, 1919-39' in *Scandinavian Economic History Review*, vol. 59, no. 3.

⁶⁹ Liefmann documented interesting discussions from the International Economic Conference of 1927 in his book *Cartels, Combines and Trusts* (1927): Liefmann, Robert (1927): *International Cartels, Combines and Trusts*, 97-115. Mason, Edward S. (1946): *Controlling World Trade: Cartels and Commodity Agreements*, 20-29. Bertilorenzi, Marco (2016): 'Legitimising Cartels. The joint roles of the League of Nations and of the International Chamber of Commerce.' in *Regulating Competition: Cartel Registers in the Twentieth Century World*.

⁷⁰ Wurm, Clemens (1994): 'The politics of international cartels: Great Britain, steel and cotton textiles in the interwar period' in *International Cartels Revisited (1880-1980)*, 256-257. See also: Salmon, Patrick (1997): *Scandinavia and the Great Powers 1890-1940*. Bertilorenzi, Marco (2016): 'Legitimising Cartels. The joint roles of the League of Nations and of the International Chamber of Commerce.' in *Regulating Competition: Cartel Registers in the Twentieth Century World*, 30.

⁷¹ Bertilorenzi, Marco (2016): 'Legitimising Cartels. The joint roles of the League of Nations and of the International Chamber of Commerce.' in *Regulating Competition: Cartel Registers in the Twentieth Century World*. See also D'Alessandro, Michele (2007): 'Seeking governance for world markets. The

Cartels, both on account of their potential problems and their gains to the economy and society, have been a target of scholarly attention since the interwar years and the field has grown quite massive. Scholars researching the nineteen-thirties and nineteen-twenties have presented arguments for and against them, trying to understand what their essence and overall impact was, while after the Second World War researchers started mapping how many international cartels there have been in the western world, how they work, and in what ways they should be restricted by the state.⁷² From the nineteen-sixties onwards, economists have through game theories modelled how and when firms collude and why and when cartels are unstable.⁷³ Business historians have framed cartels as a part of firms' internationalisation strategies as well as analysing them in wider legal, cultural, and economic contexts. The EU's unified competition law from the mid-nineteen-nineties banning all kinds of cartels, triggered a new wave of academic interest and invited scholars to revisit the role of cartels and competition laws in international business history.

Research from recent decades shows that cartels and competition laws have had an essential role in reshaping firms and international business in the twentieth century. They have changed the culture of competition, collaboration, and business making in innumerable sectors of industry; they have made an impact on the national economies and evolution of firms; in certain industries cartels have hindered development and innovation—and led to delivering over-priced goods and services to tens of millions of customers and taxpayers—but in other industries they also have paved the way for the birth of multinationals and technology transfer; and lastly, as some cartels have been international engagements that restrict the trade of strategic raw materials and technology, they have shaped (and been shaped by) diplomatic alliances and hostilities.⁷⁴ Still, there is work to do particularly in understanding how, when, and why cartels can contribute in shaping international relations.

This work utilises research that analyses the organisation, practices, and economic prerequisites of successful cartels as well as research that discusses the position of international cartels in the broader society.⁷⁵ Literature regarding organisational and economic aspects of cartels contextualise the

League of Nations between corporatism and public opinion, 1925-1929.', Conference paper in European Business History Association 11th Annual Conference; Liefmann, Robert (1927): *International Cartels, Combines and Trusts*, 35–42.

⁷² Liefmann, Robert (1927): *International Cartels, Combines and Trusts*; Hoselitz, Bert F. (1947): 'International Cartel Policy' in *Journal of Political Economy*, vol. 55, no. 1; Allen, James S. (1946): *The Cartel System*; Mason, Edward S. (1946): *Controlling World Trade: Cartels and Commodity Agreements*; Hexner, Ervin (1945): *International Cartels*; Stocking, George W./Watkins, Myron W. (1946): *Cartels in Action: Case Studies in International Business Diplomacy*.

⁷³ See, for instance: Levenstein, Margaret and Salant, Stephen W.:(2007) *Cartels*; Symeonidis, George (2002): *The Effects of Competition: Cartel Policy and the Evolution of Strategy and Structure in British Industry*; McMillan, John (2013): *Game Theory in International Economics*.

⁷⁴ Barjot, Dominique (1994): *International Cartels Revisted = Vues Nouvelles Sur Les Cartels Internationaux*; Fear, Jeffrey (2009): 'Cartels' in The Oxford Handbook of Business History; Jensen-Eriksen, Niklas (2017): 'Creating clubs and giants: How competition policies influenced the strategy and structure of Nordic pulp and paper industry, 1970–2000' in *Business History*; Eckes Jr, Alfred E./Zeiler, Thomas W. (2003): *Globalization and the American Century*, 21, 76; Gao, Bai (2001): 'The State and the Associational Order of the Economy: The Institutionalization of Cartels and Trade Associations in 1931-45 Japan' in *Sociological Forum*, vol. 16, no. 3.

⁷⁵ Stigler, George J. (1964): 'A Theory of Oligopoly' in *Journal of Political Economy*, vol. 72, no. 1. Green, Edward J./Porter, Robert H. (1984): 'Noncooperative Collusion under Imperfect Price Information' in

position of the firms, and how it changed over time, in the European timber regulation scheme. Interplay between business and politics, and the role of governments in international commodity cartels, is much less covered field in cartel literature than organisational and economic approach, but it does indicate that cartels have served varying economic and political ideas over time.

Furthermore, historical literature on cartels also shows that cartels were not always the result of collusive behaviour of businesspeople seeking for bigger private profit, but European national governments and the League of Nations became interested in cartels as instruments to improve the economy.⁷⁶ Previous literature recognises the role of non-market actors in cartels in the nineteen-thirties and discusses the economic ideas behind cartel-favouring policies, like protecting consumers, domestic producers, national economy, employment, and natural resources. Where the theories can be further developed, however, is in discussing the reactions in industry towards the emerging interest of governments towards cartels. How, for example, did firms and businesspeople respond to the interventionist ideas and actions of governments or the League of Nations?

The results of this work underline that industry's experiences towards government interventions to cartels make an interesting and important field of research. Public interest towards cartels and the economic ideas behind intervention need to be understood, but so too do the pragmatic consequences of these ideas on firms and business. Two broad themes emerge from the results of this research, which hopefully can contribute in developing further the theory of business-government relationships in interwar cartels. One concerns the self-determination of industry and the other relates to pressure.

Econometrica, vol. 52, no. 1. Rotemberg, Julio J./Saloner, Garth (1986): 'A Supergame-Theoretic Model of Price Wars during Booms' in *Am.Econ.Rev.*, vol. 76, no. 3. Haltiwanger, John/Harrington, Joseph E., Jr. (1991): 'The Impact of Cyclical Demand Movements on Collusive Behavior' in *Rand J.Econ.*, vol. 22, no. 1. Suslow, Valerie Y. (2005): 'Cartel contract duration: empirical evidence from inter-war international cartels' in *Industrial and Corporate Change*, vol. 14, no. 5. Dick, Andrew R. (1996): 'When Are Cartels Stable Contracts?' in *Journal of Law and Economics*, vol. 39, no. 1. Hallagan, William S. (1985): 'Contracting problems and the adoption of regulatory cartels' in *Econ.Inq.*, vol. 23, no. 1. Schmitt, Nicolas/Weder, Rolf (1995): 'Sunk Cost, Entry and Cartel Formation: Theory and Evidence' in *Discussion Papers dp95-13a, Department of Economics, Simon Fraser University*. Bagwell, Kyle/Staiger, Robert W. (1995): *Collusion Over the Business Cycle*; Wiggins, Steven N. and Libecap, Gary D. (2007): 'Firm heterogeneities and cartelization efforts in domestic crude oil (originally published in *Journal of Law 1987*)' in *Cartels*, Vol I. Levenstein, Margaret C. and Suslow, Valerie Y. (2004): 'Studies of Cartel Stability: A Comparison of Methodological Approaches' in *How Cartels Endure and how they Fail: Studies of Industrial Collusion*. Levenstein, Margaret C./Suslow, Valerie Y. (2006): 'What Determines Cartel Success?' in *Journal of Economic Literature*, vol. XLIV. Fear, Jeffrey (2009): 'Cartels' in *The Oxford Handbook of Business History*. Grossman, Peter Z. (2004): *How Cartels Endure and how they Fail: Studies of Industrial Collusion*.

⁷⁶ Wurm, Clemens A. (1993): *Business, Politics, and International Relations: Steel, Cotton, and International Cartels in British Politics, 1924-1939*. Bertilorenzi, Marco (2016): 'Legitimising Cartels. The joint roles of the League of Nations and of the International Chamber of Commerce.' in *Regulating Competition: Cartel Registers in the Twentieth Century World*. {{229 Bouwens, Bram 2010}}. Sandvik, Pål Thonstad/Storli, Espen (2011): 'Confronting market power: Norway and international cartels and trusts, 1919-39' in *Scandinavian Economic History Review*, vol. 59, no. 3. Kuisma, Markku (1993): 'Government Action, Cartels and National Corporations - the Development Strategy of a Small Peripheral Nation during the Period of Crisis and Economic Disintegration in Europe. (Finland 1918-1938)' in *Scandinavian Economic History Review*, vol. 41, no. 3. Fox, William (1974): *Tin: The Working of a Commodity Agreement*.

The self-determination of industry refers to the independence of industry to decide on its own matters. A fully independent industry association remains relatively unaffected by actors and agendas outside itself, and it only promotes the benefits of its own members. An industry association with low self-determination does the opposite. This work shows that it is essential to approach the question of self-determination not only by investigating the formal relations between the state and industry, but also by considering informal relations. The results of this work indicate that a formally independent industry association can act under informal pressure, and when it does so, we must consider whose cartel it eventually was; was it trade association's, who signed the cartel and took care of the practicalities, or government's, who pressured the association towards the cartel? This might seem self-evident, but an independent industry association formally in charge of a cartel does not mean that the cartelisation is a result of private initiative and a private project. The case of the ETEC indicates that digging deeper under the surface of business–government relations can introduce new results. It suggests that even though Finland and Sweden were represented in the multilateral cartel negotiations mostly by the SSY and STEF, both old and private lobby associations with voluntary membership and formal independency vis-à-vis the government, the associations did not represent only the industry's voice in the negotiations. In Sweden, from 1933 onwards, the STEF's cartel policies were aligned with the national interests, while in Finland the SSY and national interests were on a collision course more or less throughout the decade. It becomes abundantly clear from the source material that trying to avoid an unwanted option from happening—such as government intervention—have catalysed the activities of the SSY and STEF in making and maintaining multilateral timber cartels. Private and independent industry associations in the nineteen-thirties were free and independent to do as they liked, but their freedom was freedom from the formal coercion of the state. The timber industry, representing almost forty per cent of all Finnish export revenues and fifteen per cent of all Swedish export revenues, was part of a broader system of national interests, generating economic welfare for society at large, and for that reason the timber firms did not fully own their cartels.

Pressure is another important topic in analysing business-government relations in cartels during the interwar period. This work shows that pressure can trigger a chain reaction that trickles down from the international, intergovernmental level to the grass root activities of small firms. When the economic idea of the League of Nations about stabilising the timber market, easing protectionism, and bringing about economic rapprochement through European collaboration—all very elevating and warmly supportable ideas in the chaotic nineteen-thirties—became a practical reality, it meant many features for Finnish timber firms that compromised their self-determination.

This work shows that pressure occurred at three levels in the making and maintaining of the European timber regulation scheme. One was between governments: if Finland did not contribute to multilateral timber cartel negotiations, the Finnish government expected that foreign governments would exert pressure towards them. That would be awkward and harmful, and the Finns believed that it would injure the country's reputation in the eyes of its commercial and security political allies in Europe. However, with minor exceptions, Finland chose to send representatives from the timber trade association to the multilateral cartel negotiations. By doing this, Finland wanted to signal that it was not just contributing to the European timber cartel project, but that it supported it wholeheartedly and voluntarily. This led to the second level of pressure, between the government and the Finnish timber trade association. The source materials clearly indicate that the threat of government intervention hung over the timber industry from 1931 until 1939, in varying degrees of intensity, and

that the industry association explicitly and outspokenly felt pressured by the government. The fear was that should the Finnish timber trade association not deliver cartel results, the Finnish government would take a stronger role in the matter. This, consequently, led to a third level of pressure, one between the industry association and its members. The industry association regularly used the threat of economic sanctions and government intervention to convince firms to support the making or maintaining of the multilateral timber cartels. The creditors supervised the timber firms and, knowing their quotas, could limit the credits for companies that planned to exceed their quotas. The second part of this dissertation shows that bank pressure was obviously only exerted on small and mid-sized firms, while the big firms stayed more or less immune to it. Government intervention was a threat without legal grounds—but as long as the firms did not know it, the threat worked.

The pressure that we identify from the empirical material is not always simple and straightforward in nature. There are no plain villains, such as powerful governments conquering cartels, or clear victims, such as helpless industries which yield to demands. The overall picture is more complex. The government might have pressured the timber trade association, which for its part understood the political and economic realities and decided to pass on the threat of government intervention to the firms in order to increase its own authority. At the same time, the idea of government intervention genuinely frightened the members of the Finnish timber trade association Board. The threat was a double-edged sword, both handy and frightening. Furthermore, the Swedish and Finnish governments also seemed to have been, from time to time, genuinely worried about pressure from foreign governments should the Nordic countries fail to contribute to the European timber negotiations. Paradoxical or not, even the Nordic governments felt awkward about government intervention in the timber trade.

Between governments and in business-government relationships, pressure goes hand in hand with self-determination and, essentially, corrupts it. The Finnish timber trade association might have represented Finland in the cartel negotiations, but it did not lead the process. The results of this work indicate that particular sensitivity concerning different levels of pressure is needed when analysing who pulled the strings in maintaining and making international competition regulation schemes which the governments supported. To be sure, economic ideas on international collaboration fostered by the League of Nations could very well translate into networks of pressure. Furthermore, governments and industry seemingly working together in competition regulation schemes is not always 'collaboration'—a word that a reader of Nordic economic history often comes across—but their relationship can instead entail complex pressuring and power play. Pressure without actual hard coercion, which seems to be a defining feature in the business-government relations in the case of Finland and the ETEC, might also find other applications in other sectors of the economy. We have discovered similar trends with Niklas Jensen-Eriksen in our book about the business history of *Helsingin Sanomat*, the leading newspaper in Finland. In its national cartel in the nineteen-thirties, the newspaper association used the threat of government intervention to put pressure on newsprint suppliers to lower their prices, but at the same time considered government involvement in price negotiations an unwanted option.⁷⁷ There are similar notions in the source material of this work concerning active business–government–bank relations in organising international competition in the pulp industry in the nineteen-thirties.

⁷⁷ Jensen-Eriksen, Niklas/Kuorelahti, Elina (2017): *Suuri Affääri: Helsingin Sanomien Yrityshistoria 1889-2016*.

Sources

The historian's task, according to Howell and Prevenier, is to 'choose *reliable* sources, to read them *reliably*, and to put them together in ways that provide *reliable* narratives about the past'.⁷⁸ Reliable sources, in this work, mean archive collections of organisations and people that shed light on the role of government, banks, Swedish and Finnish timber exporters, British timber importers, and the League of Nations in making and maintaining the European Timber Exporters' Convention in Finland and Sweden. While previous research rests on a narrower source material—sometimes only fragments of this material— in the timber trade association's archives or the diplomatic sources of a country, this work benefits from bringing together material from twelve different archives in Finland, Sweden, and Britain. The archives that have been studied represent timber exporters' associations, timber importing firms, commercial banks, central banks, bankers' associations, different ministries and state administration, the ETEC administration, as well as a couple of personal archives. The historical narrative that this work builds upon is based on nearly 17,000 pages of documents, written in five languages.

The three main categories of archives used in this work are timber trade associations, banks, and governments.

The archives of the Finnish and Swedish timber trade associations form the backbone of the research material. The archive collections of the Svenska Trävaruexportföreningen (STEF) in Sweden and the Suomen Sahanomistajayhdistys (SSY) in Finland have been explored consistently and comprehensively from 1930 to 1939. The years between 1914 and 1930 have also been studied in order to understand the long-line patterns of Swedish-Finnish timber export cartels.⁷⁹ The STEF and the SSY were founded in the late nineteenth century, the Swedish organisation in 1875 and the Finnish in 1895, as lobby organisations that watched over the political and commercial interests of timber firms. In 1930–1939, the number of member firms in the STEF declined from 96 to 69, and correspondingly in SSY from 87 to 72.⁸⁰ STEF members produced eighty per cent of all Swedish export timber and the SSY's members as much as ninety-five per cent. The organisation of the STEF and the SSY were somewhat different. The STEF had a two-level organisation: the Central Board and the District Boards, which had different tasks. The SSY had one Board, which acted as the operative command centre. Both associations had a CEO and a chairman of the Board. The SSY and STEF composed committees for special purposes, such as for the ETEC. They also had a Swedish–Finnish Board, which they called the Trust Council. Working in the nineteen-thirties, it was an arena to discuss and formulate Nordic policies on international timber trade questions. In Finland, all the important decisions, such as ratifying international cartel agreements on the national level, had to be voted upon in the SSY general assembly.

For the most part of the nineteen-thirties, the working of the SSY, as well as documenting the decisions and archiving the documents, was regular and followed the practices of what we understand as good

⁷⁸ Howell, Martha C./Prevenier, Walter (2001): *From Reliable Sources: An Introduction to Historical Methods*, 2. Italicization in the original text.

⁷⁹ On timber cartels before the nineteen-thirties, see: Kuorelahti, Elina (2015): 'Boom, depression and cartelisation: Swedish and Finnish timber export industry 1918–1921' in *Scandinavian Economic History Review*, vol. 63, no. 1.

⁸⁰ CfN; STEF; G1B;2: The annual report of the Board of STEF 1931 and 1939 ('*Centralstyrelsens berättelse till Svenska Trävaruexportföreningens ordinarie vårmöte*'). ELKA; SSY; 209; Annual report 1930 and 1939.

administrative practices. Decisions come before action, thorough discussion and presenting the facts come before a decision, discordant opinions are marked in the documents, and documents are preserved for the sake of transparency and to keep track of what had been decided and why. Documents of the SSY Board and its working committee were compiled annually and bound into a big book with a table of contents. The SSY's ETEC material was collected in different folders in a logical and transparent way; they are well documented and can easily be found. Many documents from the League of Nations concerning the international timber cartel are found in these folders as well as among STEF materials. Minutes and their appendices enable us to see the circumstances and reasons behind the SSY policies. They show exactly how an international cartel was built and how it worked institutionally. There are some exceptions to good administrative practice in the SSY material. From around 1938 onwards, something changes in the working of the SSY Board and its committees. The Board did not, for instance, meet at all between February and July. Also, with a few exceptions, the documentation became quite thin. The reason is not that the market was quiet—it was eventful and dramatic. It might instead be that cartel practices in Finland somehow changed in 1938 and became more unofficial.

Timber trade material in Sweden is not documented as well as in Finland. The meetings of the STEF Board are not very well documented. However, the process of negotiating and maintaining the ETEC is documented broadly in separate folders as well as in the personal letter exchange of J. L. Ekman. STEF's archive is in the *Centrum för Näringslivshistoria* in Stockholm, Sweden, and the SSY's archive is in the *Elinkeinoelämän Keskusarkisto* (ELKA) in Mikkeli, Finland. This thesis also utilises the personal archives of those who were involved in the timber trade, such as Armas Saastamoinen and Axel Solitander in ELKA, and Gunnar Myrdal in ARAB, Stockholm. The British timber importing companies usually do not have archives, although there is one interesting exception to the rule, Churchill & Sim in London, whose extremely interesting documents are used in this research.

The SSY and the STEF were not the only institutions involved in setting up the ETEC, but things certainly did not happen behind their backs. The archives of the SSY and the STEF show the network— bank directors, governments, diplomats, the League of Nations, importers, British trade policies, and the problem of cartel-antagonistic firms in Sweden and Finland—that was involved in making the cartel. To understand more thoroughly the role of these interest groups, their archives have been studied.

Concerning the banking sector, this research has used the archives of the Bank of England (London), the Bank of Finland (Helsinki), Kansallis-Osake-Pankki (Mikkeli), and the Swedish Bankers' Association (Stockholm). They have provided letter exchange and reports that have shed light on the bankers' interests and their links with the importers, exporters, other banks, and national interests. They show how deeply the banks were involved in controlling the ETEC in Sweden and Finland as well as what role the central banks of the three countries took in bringing about international timber regulation schemes earlier in the decade.

The most reliable sources in the governmental archives have been found in the National archives of Finland, Sweden, and the UK. The archives of the Finnish and Swedish Embassies in London, Washington, Leningrad, and Geneva offer useful diplomatic reports and insights into the political nature of the timber trade. The trade-political level becomes clearer from the archives of the Commercial Section of the Swedish Foreign Affairs and the respective Ministry in Finland. The archives of the Finnish and Swedish Prime Ministers offer a peephole into the high-level diplomatic discussions around the timber trade as well as into the position of the Nordic countries vis-à-vis the Soviet Union, Britain, and the European timber problem of the early nineteen-thirties. The archives of the Board of

Trade as well as the Foreign Office in the National Archive in London offer similar insights, but from the perspective of a great power. Documents from the state administration explain what the SSY and STEF archives do not, namely why the cartel process stopped or went forward between 1931 and 1934 and what diplomatic and trade political tensions characterised the timber trade and cartelisation. All governmental and diplomatic archives also give broad reports, evaluations, and estimations about the current and future position of the Soviet Union, its economy, foreign relations, and its timber trade. It is interesting to see how differently the Soviet Union and its potential was seen in the early nineteen-thirties in different countries and how opinions converged during that decade.

There are many potentially useful archive collections that have not been used in this work. The main reason for exclusion has been that I have estimated that they fall beyond the focus of this research or that the gain from these archives might be small compared to the effort invested. Although bringing in new archive material always enriches the interpretation by adding details, the STEF's and SSY's archive collection are, after all, very informative regarding how the ETEC came about and who were involved in creating it.

The STEF's district administration is one collection that might have offered a deeper understanding of how the ETEC was organised in Sweden. The central administration of the STEF indicates that the district boards collaborated with the banks in controlling firms, so analysing the material of the district boards might have been interesting if they documented the ETEC process. These collections are not particularly easy to access as they are scattered throughout Sweden in different provincial offices of the Riksarkivet, the Swedish National Archives. The archives of the League of Nations might also offer further useful information. The British timber importing companies that were active in the nineteen-thirties have not been used in this work as most of them, except for Churchill & Sim, seem to have vanished altogether. Archives in Russia have not been used at all, but the situation in the Soviet Union was investigated in many broad reports in almost all Finnish, Swedish, and British archives in the timber trade, banking, and the government. Moreover, archives in the South-East European timber trading countries involved in the ETEC have not been investigated in this work. The ETEC looks different from the Soviet and South-East European perspective. To be sure, the problem of Germany and its successful efforts to bind South-East European countries to its sphere of interest would be more prominent in the South-East European story of the ETEC. All three parties of the ETEC—Nordic, Soviet, and South-East Europeans—seem to have had a different reason for becoming a member, and this work focuses on the Nordic situation. Lastly, there may well be many private archive collections as well as firm archives that can offer more insights and details about the European timber trade, but they do not necessarily bring any new information to the research questions.

Methods

Historical research uses archival sources to create a credible and coherent interpretation of the past.⁸¹ 'Sources' are a historian's data, although the term is not entirely comparable with scientific data. Archive sources are the raw material of historical research, they are 'fragments or traces of evidence

⁸¹ See, for instance: Kipping, Matthias, Bucheli, Marcelo and Wadhvani, R. Daniel (2014): '*Analyzing and Interpreting Historical Sources: A Basic Methodology*' in *Organizations in Time: History, Theory, Methods*. Lipartito, Kenneth (2014): '*Historical Sources and Data*' in *Organizations in Time: History, Theory, Methods*, 284.

from the past'.⁸² Making interpretations about the past by using historical sources requires a set of methodological skills regarding, for instance, where to find data that can answer the specific research question (validity), where to find relevant documents in the archive (archive collection strategy), how to combine data from different archives (triangulation), how to create a coherent and reliable interpretation from the sources (credibility), and how to document the methods, source materials, and results so that it is verifiable (footnotes).⁸³

Transforming documents from the past into a historical narrative happens through a set of methods in which data—documents from the past—are put under the scrutiny of external and internal source criticism. It means evaluating the conditions under which the documents have been created as well as contextualising the content of the documents within their historical reality. Both stages require considerations regarding the origin of the document; understanding the institutional practices in which the source was produced, as this decisively affects the interpretation; being familiar with the language and meaning used at the time the document was created; being sensitive to the possibility of missing data and the role of power in silencing data; deciding what to do with contradictory data; paying attention to the intentionality of the author of the document; as well as being aware of and any unexplained practices that the institution might have and other taken-for-granted practices.⁸⁴

External source criticism means identifying the origin of a source. Who created the document, for whom, and for what purpose? Is it unique and authentic, or a copy that has been widely circulated? Why does it exist in this specific archive collection?⁸⁵ External source criticism is important because misjudgements about the origin of a document change the meaning of its content. As in all historical research, external source criticism has been vital in this work as it contains, for instance, letter exchanges and reports that have been redirected and circulated among friends and colleagues. The contents of broadly circulated documents, such as the monthly letters of the SSY to its members, differ from private, one-on-one letters in that delicate matters are not brought up. A good example in this dissertation of the importance of identifying the context of the document and paying attention to the intentionality of the author is the way in which the relationship between the firms and the Finnish ETEC organisation is characterised in different sources. In documents having a broader circulation, the

⁸² Tosh, John, (2015): *The Pursuit of History: Aims, Methods and New Directions in the Study of History*, 100.

⁸³ Kipping, Matthias, Bucheli, Marcelo and Wadhvani, R. Daniel (2014): '*Analyzing and Interpreting Historical Sources: A Basic Methodology*' in *Organizations in Time: History, Theory, Methods*, 313–314–315. Lipartito, Kenneth (2014): '*Historical Sources and Data*' in *Organizations in Time: History, Theory, Methods*, 289, 295.

⁸⁴ Kipping, Matthias, Bucheli, Marcelo and Wadhvani, R. Daniel (2014): '*Analyzing and Interpreting Historical Sources: A Basic Methodology*' in *Organizations in Time: History, Theory, Methods*, 307–308, 311, 315. Lipartito, Kenneth (2014): '*Historical Sources and Data*' in *Organizations in Time: History, Theory, Methods*, 294.

⁸⁵ Howell, Martha C./Prevenier, Walter (2001): *From Reliable Sources: An Introduction to Historical Methods*, 19. Tosh, John, (2015): *The Pursuit of History: Aims, Methods and New Directions in the Study of History*, 100-103. Medieval historians also pay attention to things like the authenticity of the manuscript/document, or the evolution of the copies of a manuscript, but these matters only have a marginal relevance in this work. Kipping, Matthias, Bucheli, Marcelo and Wadhvani, R. Daniel (2014): '*Analyzing and Interpreting Historical Sources: A Basic Methodology*' in *Organizations in Time: History, Theory, Methods*, 306, 313.

relationship is framed as collegial and the firms collaborate together concerning the cartel and support it 'voluntarily'. The confidential reports of the Finnish ETEC organisation and the SSY Board's material, however, tell a different story: double standards for big or small firms, threatenings, pressure, and the growing frustration of the controller towards disobedience. Obviously, identifying the intentionality of the author of different documents makes the confidential reports more valuable than the public letters. Confidential material can entirely change the interpretation based on more public documents which tend to window-dress problems. Cases of missing data have also occurred here and there in the sources of this work.

Internal source criticism is a practice where the researcher assesses the relationship between the content of the sources and its meaning. What does the content of the document mean, what do the words refer to, how does the content relate to its surrounding reality, and is it in conflict with other sources or with previous research about the topic? Internal source criticism requires linguistic fluency, a mastery of the typical phraseology of the time and possibly with technical vocabulary, being familiar with personal networks and organisational links, and above all, a command of the historical context.⁸⁶ Internal source criticism aims, in short, to understand the surface and the depth of the source, deciphering the immediate meaning of the text as well as attaching it to the surrounding historical reality. Kipping, Wadhvani, and Bucheli call this hermeneutics, namely the theory that specific texts 'need to be understood in relationship to contexts and vice versa'.⁸⁷

In this work, understanding the surface of the text has meant deciphering the old Finnish–Swedish organisation language of the SSY, which uses many passive sentence structures, agents, subordinate clauses, and archaic forms of relative pronouns. It also means familiarising oneself with timber trade language. To make the interpretations more transparent, all direct quotations from the sources which are not in English have been added in the original language in the footnotes. The most challenging aspect in working with historical sources and exercising internal source criticism has been understanding the depths, i.e. the link between the word and world. A good example of this challenge is the expression 'voluntary support'—what does it mean? After evaluating the whole body of the rather extensive source material, it has become evident that 'voluntary support' in the nineteen-thirties did not have the same meaning as it does in Nordic culture in the twenty-first century. It referred to a reality in which many European governments or semi-governmental bodies formally directed the firms to join cartels; the expression makes the point that, in Finland, firms promised to support the cartel without formal coercion. It does not mean that the firms actually spontaneously supported the cartel. Moreover, notions of voluntary support in Finland and Sweden often came with a more or less disguised threat of government intervention and a promise that the banks, which supported the SSY and the STEF in their cartel policies, would withhold credits to firms that did not voluntarily support the cartel. Internal source criticism in this case has meant knowing about the contemporary trends, both legal and cultural, of competition regulation in Europe in the nineteen-thirties. Even though the sources clearly state that the support towards cartel was voluntary, it would

⁸⁶ Kipping, Matthias, Bucheli, Marcelo and Wadhvani, R. Daniel (2014): *Analyzing and Interpreting Historical Sources: A Basic Methodology* in *Organizations in Time: History, Theory, Methods*, 320. Tosh, John, (2015): *The Pursuit of History: Aims, Methods and New Directions in the Study of History*, 104-105.

⁸⁷ Kipping, Matthias, Bucheli, Marcelo and Wadhvani, R. Daniel (2014): *Analyzing and Interpreting Historical Sources: A Basic Methodology* in *Organizations in Time: History, Theory, Methods*, 320.

be a mistake to quote these excerpts from the source and suggest that the cartel was voluntary in the sense that we understand the word.

The source material teems with similar examples. What did references to Soviet pressure in 1931 mean? What about the fear of ‘pressure from foreign governments towards ours’ in 1932–1939? Putting words into their real context requires an awareness of the broader historical context of European diplomatic relations, foreign political realities of Finland and Nordic countries, the legal and cultural trends and traditions of competition regulation, and organisational and personal networks in the timber trade and diplomacy. These contexts are clarified in the research text.

In addition to source criticism, triangulation is a vitally important method in creating a coherent and reliable historical interpretation. In simple terms, creating a reliable interpretation of the past is a matter of ‘listening to many voices’, as Howell and Prevenier write.⁸⁸ Triangulation refers to corroborating and validating interpretations by crosschecking with other sources or methods. Sources have their limitations—they are produced by people who have their own perspectives and motives—and historians work to overcome these limitations by consulting other sources and methods. In historical research, it can mean using ‘mixed methods’ by combining quantitative and qualitative analysis or using archival sources to validate something that comes up in interview material. Triangulation can lead to contradictory data, and it is the work of a historian to contextualise such contradictions.⁸⁹

In this work, triangulation means comparing different kinds of sources from several archive collections. Exciting as it is for a historian to find sources that are in conflict with earlier research, it has been essential in this work process to consult other sources before forming a revolutionary interpretation based on a single document. Information in a single source that seems to change the previous historical consensus might just be a case of human error, an expression of unintentional bias or intentional exaggeration, a mere misunderstanding or miscalculation, or other symptom of the interpretative mind-set or manipulating agenda of a human being. Therefore, in order to assess whether a document really opens up avenues for new interpretations, or is merely a case of the creator of the document not describing the situation in realistic terms, it has been essential to find more documents that reinforce the new interpretation. In practice, this means that when in the SSY and STEF materials I have come across, for example, notions about the inclusion of the banking sector in building multilateral timber cartels, I have consulted the archives of the Swedish Bankers’ Associations, central banks and commercial banks to find out how these institutions saw the cartel issue. Exploring the same event from the perspective of many archives and different collections has been illuminating in many ways. For instance, the SSY Board writes that the Finnish timber exporters ‘supported’ the regulation scheme, but a report from the archive of Churchill & Sim, a London-based timber importer, provides more details about the form this support took: exporters ‘were informed in very dictatorial way that they had to agree to the two suggestion made as, otherwise, the Bank could

⁸⁸ Howell, Martha C./Prevenier, Walter (2001): *From Reliable Sources: An Introduction to Historical Methods*, 69.

⁸⁹ Kipping, Matthias, Bucheli, Marcelo and Wadhvani, R. Daniel (2014): ‘Analyzing and Interpreting Historical Sources: A Basic Methodology’ in *Organizations in Time: History, Theory, Methods*, 316–318.

not give any further credits.⁹⁰ Interpretations made in this work go back to several sources gathered from various archives, and the evidence behind these interpretations has been documented in footnotes.

The timber trade: products, prices, firms, and market

Timber in this work refers to sawn softwood logs, made of coniferous trees, mainly pine (*pinus sylvestris*), but also to a lesser extent spruce (*picea abies*). Timber is a basic commodity, used for a variety of purposes in building and construction industries.

From a bird's-eye perspective, the European timber trade goes from East to West and from North to South. The biggest surpluses of timber in the nineteen-thirties were produced in Finland, Sweden, and the Soviet Union, and their main markets were Britain, the Netherlands, France, Belgium, and Germany. South–East European countries and the Baltic countries also produced timber for export purposes: Poland, Czechoslovakia, Austria, Romania, Yugoslavia, Estonia, and Latvia sold mostly to the continental market, such as to Italy, Hungary, and Germany, and to lesser extent to the UK, France, Belgium, and the Netherlands. The most significant timber-exporting countries in the world, and their yearly exports, are compiled in Table 3 and Table 4 on page 41 and 42.

Timber comes in over ten sizes and five quality classes. The British and the Germans, in the nineteen-thirties, used different size measures, which for exporters meant that they had to specialise for each market. The tradition of country-specific timber sizes led to more or less fixed trade partnerships. Finnish, Swedish, and Soviet timber, for instance, had a tradition and good reputation in the British market for delivering goods in British standards. Finnish, Swedish, and Soviet timber were all trademarks. The Nordic countries exported both to the British and to the German markets and to other European and non-European countries, while the South-East European timber producers sold mostly to Germany. The system where timber sizes had to be tailored for each market was not very convenient from the Nordic perspective. 'Several attempts have been made to standardise different measures. However, extreme conservatism in the export countries has turned out to be the worst hindrance. Following old traditions has been one of the main characteristics of the timber market,' wrote Matti Jalava in 1949.⁹¹

Timber has a long path to take from the forest to the consumer. The story of a Finnish timber log used as a construction material in the nineteen-thirties would start somewhere at the turn of the century when a sapling was planted. The tree would take thirty years to be fully grown, when it would be sold through auction or some other selling method to a timber firm. After felling, the trunk would be transported to the timber production site. There it would be manufactured into a log and put into a timber yard to dry for four months. If the producing firm was a member of the SSY—small, mid-sized, or big—it would publish its stock note in the autumn with other timber producers. The stock note defined which products (sizes and qualities) the firm was going to offer to the British market in the next shipping season, how big the volume would be and at what price. Sometimes a timber firm would trade through a domestic agent, who met the importers agent, and sometimes directly with the

⁹⁰ Churchill & Sim archive: Report by A. Chatterton Sim 22 October 1930. The underlining is in the original text.

⁹¹ Jalava, Matti (1949): *Puutavarakaupan Käsikirja II*, 690. 'Lukuisia yrityksiä on tehty eri kokojen standardisoimiseksi. Mutta vientimaiden markkinoiden ääretön vanhoillisuus on ollut pahimpana esteenä. Vanhojen perinteiden seuraaminen on eräs päätunnusmerkkejä puutavaramarkkinoilla.'

importers. Eventually the manufactured, dried Finnish timber log would be loaded onto a ship and sail to the docks of London, where the British timber importing firms could stock it for a while. In Britain, the importing firms had their own networks of buyers to whom they sold the Finnish timber. The buyers could be railroad companies or city or state administration that used the timber for their own special purposes, such as social housing schemes, or they could be smaller merchants who had their own private uses for the timber.

'The foundation for sawing is a production plan, raw material at one's disposal, and a market to sell to', wrote Matti Jalava in his two-volume, thousand-page long *Puutavara-kaupan käsikirja* (Handbook of Timber Trade) in 1949.⁹² However, the timber trade is quite a complicated sector of the economy, and following Jalava's advice is not easy. The product itself is not easy to store;⁹³ timber has a long production chain; and supply and demand is cyclical. In the nineteen-thirties the timber industry was occupied by many small firms, which entered and exited the business according to booms and downturns. When producers realised there was too much wood in the market, the producers often decided to get rid of their stock as it was a non-storable commodity. It was relatively easy to become a timber entrepreneur when the sunk costs of starting the business were low and profits during booms offered extra income, so selling the stock and even abandoning the business altogether during a downturn had been a tempting option for small firm entrepreneurs, who might in any case have had other sources of income such as farming.

The game-changing shocks of the nineteen-thirties complicated even more these inherent challenges. The Great Depression of 1929–1932, protectionism, the gold standard crash, and the 18-month depression of 1937–1938, for instance, were unforeseeable, major events that caused timber prices to soar and required production plans to be radically revamped. Nature, moreover, could also offer a few surprises. Acquiring and transporting the raw material and drying and shipping the manufactured timber were all dependent on the climate. Cold winters did not allow men to work all the year round in the forests and frozen sea routes blocked marine traffic. Sometimes the weather in autumn was so damp that drying took longer than expected; and sometimes winter conditions were awkward for transporting raw material to the production sites.

The routines of the international timber trade in the nineteen-thirties were based on the selling, the sawing, and the shipping seasons. The first selling and sawing season of the year began in the autumn, and the shipping season started in the late winter months as soon as the icebound sea routes were opened. After the shipping seasons had started, timber exporting firms released new stock notes for the spring and summer shipping.⁹⁴ Usually, the Nordics released their notes after the Soviets had released theirs, since the size of the planned production and prices in the Soviet Union provided guidelines to the Nordic exporters. Also, the British response to the Soviet stock notes would be an important indication of the demand in that selling season. The different seasons for selling, sawing, and shipping created concepts like overlying goods, i.e. timber which for one reason or another was sold in one year and shipped in the following year. Selling and delivering being unsynchronised and

⁹² Jalava, Matti (1949): *Puutavara-kaupan Käsikirja II*, 522.

⁹³ Timber loses its quality when stored; it acquires a bluish tint if it is stocked too long, and its quality category drops. Premium stock might become fifth-quality wood only fit for making banana boxes. Storability is a typical problem for products made of natural materials

⁹⁴ Jalava, Matti (1949): *Puutavara-kaupan Käsikirja II*, 522–523.

sometimes occurring in different calendar years, timber statistics usually considered ‘sold’ and ‘shipped’ timber as different categories. ‘Sold’ tells about demand and ‘shipped’ tells about the saturation of the market.

Defining a price for timber was not entirely simple, for product size, quality, firm size, port, season, discount, and cartels between Swedish and Finnish producers affected the price. Prices are discussed throughout the work, but due to the changing value of currencies as well as the varying documentation of the SSY Board, it has been challenging to create one, consistent presentation about the price of one product in a chosen month or time frame from 1931 to 1939. Instead of absolute values in converted currencies over the whole decade, this research aims at describing and documenting trends in shorter time periods. The choice follows the sources in the sense that the SSY and STEF often documented price curves during the last twelve months or so to review the situation or to discuss a market problem. This price information is documented in the work.

Finnish and Swedish timber prices are Free on Board (fob) and Soviet prices constitute Cost Insurance Freight (cif). Fob price means that the buyer is responsible for all costs and schedules involved in chartering the goods to a vessel and transporting it to its final destination. This was the most common trading form in Sweden and Finland, although cif deliveries also started in the nineteen-thirties particularly in Sweden. Fob was considered less risky, as the buyer was responsible for any irregularities, such as strikes or overcrowded ports. The Soviet Union, however, used cif shipments, meaning that the price included cost, insurance and freight paid for by the seller.⁹⁵ In price comparisons made in this dissertation between Finnish and Soviet timber, it is essential to point out that the comparisons combines fob and cif prices. They are two different prices, the Nordic fob being lower than the Soviet cif. This does not mean, however, that Nordic timber was actually cheaper than Soviet timber.

Finding statistics on the number of exporting firms proved to be challenging. The SSY, for instance, has only occasionally documented the number of all Finnish timber exporting firms, while it has regularly documented the number of timber firms that were members of the association. The Finnish Statistical Yearbook, on the other hand, has documented the number of production sites and saw frames, but not business names or firms. Therefore, even though this dissertation discusses cartels, it does not provide the exact number of Finnish timber firms.

Table 1: Number of firms, production sites, and saw frames in Finland in 1936

	Firms	Production sites	Saw frames
SSY members	75	120	412
SSY outsiders	223	254	381
Total	298	374	793

⁹⁵ Jalava, Matti (1949): *Puutavarakaupan Käsikirja II*, 719–720, 779, 789, 80, 805–830. Contract forms in chartering timber were more detailed and complex than this simplification, and due to irregularities in the logistics at some points it was not always easy to decide whose responsibility it was to compensate for the damage. Different countries used different contract forms, e.g. Gallia for France, Uniform and Albion for Britain, Colonial for oversee charters, Dutchfob for the Netherlands, etc.

(Source: ELKA; SSY; 124; Circular letter from the SSY Board to its members, 19 April 1937)

The unit of volume used in this research is the standard (std), which is an old measure of volume. Nowadays, timber is measured in cubic metres. In the nineteen-thirties, the timber trade used various measures of volumes; besides the standard, tons and cubic metres were also used—tons particularly in Germany and the South-East European countries, and cubic metres in the UK. The standard has been chosen as the measure to be used in this research because it was given in all statistics in Finland, Sweden, the Soviet Union, as well as in the official statistics of the ETEC. The different measures translate as follows:

Table 2: Measuring units of timber: standards, cubic metres, and tons

Standard (std)	Cubic metre (m3)	Ton
1	4.672	2.34

(Source: ELKA; SSY; 1120; Report 15 September 1937 by Martti Levón '*Lausunto koskeva Etec-sopimuksessa laskelmaperusteina käytettyjä sahatavaran mittoja ja painolukuja.*')

Table 3: Softwood timber export (1000 std) from the biggest producer countries 1923-1929

Country	1923	1924	1925	1926	1927	1928	1929
Finland	898,000	1,014,000	1,032,000	1,120,000	1,278,000	1,141,000	1,200,000
Sweden	967,000	967,000	1,022,000	941,000	1,048,000	1,073,000	1,221,000
Soviet Union	230,000	307,000	440,000	334,000	438,000	569,000	829,000
Latvia	156,000	141,000	110,000	99,000	187,000	198,000	193,000
Poland	293,000	353,000	361,000	497,000	661,000	466,000	296,000
Czechoslovakia	203,000	222,000	181,000	139,000	270,000	162,000	102,000
Austria	230,000	342,000	395,000	349,000	421,000	432,000	378,000
Yugoslavia	152,000	197,000	194,000	209,000	194,000	311,000	309,000
Romania	312,000	270,000	421,000	397,000	420,000	464,000	435,000
ETEC total	3,441,000	3,813,000	4,156,000	4,085,000	4,917,000	4,816,000	4,963,000
Estonia	39,000	47,000	56,000	68,000	65,000	79,000	61,000
Norway	112,000	117,000	133,000	130,000	99,000	112,000	122,000
US	631,000	691,000	674,000	645,000	708,000	745,000	802,000
Canada	1,053,000	900,000	964,000	931,000	901,000	729,000	733,000
Total outside ETEC	1,835,000	1,755,000	1,827,000	1,774,000	1,773,000	1,665,000	1,718,000
Total	5,276,000	5,568,000	5,983,000	5,859,000	6,690,000	6,481,000	6,681,000

(Source: CFN; STEF; G1B:2: Annual report of the STEF 1931, 1932, 1939 'Exporten av sågverksprodukter av barrträ från de betydelsefullare exportländerna.')

Table 4: Softwood timber export (1000 std) from the biggest producer countries 1930-1938

Country	1930	1931	1932	1933	1934	1935	1936	1937	1938
Finland	900,000	780,000	732,000	978,000	1,082,000	1,036,000	1,093,000	1,020,000	855,000
Sweden	1,026,000	750,000	763,000	909,000	923,000	768,000	865,000	876,000	686,000
Soviet Union	975,000	950,000	969,000	1,000,000	1,033,000	1,105,000	1,017,000	923,000	689,000
Latvia	196,000	120,000	94,000	153,000	157,000	120,000	124,000	150,000	140,000
Poland	311,000	252,000	177,000	338,000	329,000	265,000	336,000	306,000	255,000
Czechoslovakia	101,000	68,000	42,000	44,000	102,000	66,000	61,000	102,000	79,000
Austria	318,000	254,000	236,000	247,000	247,000	266,000	220,000	309,000	77,000
Yugoslavia	252,000	175,000	109,000	152,000	171,000	156,000	93,000	196,000	154,000
Romania	321,000	250,000	209,000	189,000	270,000	268,000	268,000	270,000	215,000
ETEC total	4,400,000	3,599,000	3,331,000	4,010,000	4,314,000	4,050,000	4,077,000	4,152,000	3,150,000
Estonia	45,000	29,000	16,000	45,000	77,000	48,000	38,000	57,000	34,000
Norway	104,000	67,000	59,000	45,000	41,000	39,000	43,000	40,000	29,000
US	575,000	397,000	271,000	302,000	335,000	295,000	278,000	312,000	225,000
Canada	629,000	404,000	360,000	536,000	698,000	654,000	858,000	888,000	805,000
Total outside ETEC	1,353,000	897,000	706,000	928,000	1,151,000	1,036,000	1,217,000	1,297,000	1,093,000
Total	5,753,000	4,496,000	4,037,000	4,938,000	5,465,000	5,086,000	5,294,000	5,449,000	4,243,000

(Source: Cfn; STEF; G1B:2: Annual report of the STEF 1931, 1932, 1939 'Exporten av sågverksprodukter av barrträ från de betydelsefullare exportländerna.')

PART I: Creating regulation 1931–1935

Timber problems have thus ceased to be purely national economic questions and have become international problems. (League of Nations, April 1932)⁹⁶

⁹⁶ CfN; STEF; F1A: 285. 'Timber.' Report by the delegation of the economic committee on the meeting of timber experts (April 25th to 27th, 1932). League of Nations report number E. 777.

CHAPTER 1: Nordic–Soviet timber negotiation 1931

This chapter discusses the Nordic–Soviet timber cartel negotiations in 1931 and its commercial, ideological, and political background. The chapter shows that the motivation of the Swedish and Finnish timber trade associations to accept the Soviet invitation to enter into timber cartel negotiations had a diplomatic colour. As timber firms did not find the idea of Nordic–Soviet timber cartel spontaneously appealing, banks and governments particularly in Finland became active partners in the cartel negotiations. Government intervention and limiting credits for cartel-antagonistic firms became a deterrent that directed firms towards continuing the negotiations.

The Great Depression at the turn of the decade had shattered the balance in the world commodity markets. Markets suffered from overproduction, under-consumption, trade protectionism, devaluation of currencies, bank crises, and freefall of prices. The European timber exporters had not built up multilateral networks in order to exchange information, promote the usage of timber, or manipulate prices through mutual cartels. The Swedish and Finnish timber exporters had had well-functioning collaborative networks through the SSY and the STEF since the nineteen-tens and throughout the nineteen-twenties, but they were not interested in setting up cartels outside the Nordic countries.⁹⁷ By spring 1931, the Russians had multiple times expressed their interest to set up cartel collaboration with the Finns and Swedes, but the SSY Board was not interested:

Possibilities to collaborate with the Russians do not exist.⁹⁸

The Board of the Swedish Timber Export Association STEF decided similarly.⁹⁹ The Finnish and Swedish timber trade had been under growing Soviet pressure since 1926, but they were not considering taming it by means of collaboration. There had been some preliminary discussion about Nordic–Soviet collaboration in the mid-nineteen-twenties as well as in 1928 and 1929, but from 1930 onwards, according to the estimation of the SSY and STEF, there was nothing to gain for Nordic exporters in setting up a cartel with the Soviet Union.¹⁰⁰ Since the late nineteen-twenties, they had chosen to fight back together against the Soviet threat through Nordic price and production quota cartels as well as

⁹⁷ The former is, in English, the Finnish Sawmill Owners' Association and the latter the Swedish Timber Export Association.

⁹⁸ ELKA; SSY; 25: SSY Board meeting 19 March 1931. ' [--] några möjligheter for att samarbeta med ryssarna f.n. icke förelågo.'

⁹⁹ ELKA; SSY; 25: SSY Board meeting 19 March 1931.

¹⁰⁰ ELKA; SSY; 24: Meeting of the SSY Board 30 November 1928. CfN; STEF; F1A:232: Letter from Fredrik Prytz to E. F. Wrede 30 July 1925. Letter exchange between Carl Berg (STEF) to E. F. Wrede (SSY) 20 and 24 November, 1 and 11 December 1925. KA; Finnish Ministry of Foreign Affairs; Finnish legation in London; F 60.D.26: Report 21 January 1926 by E. F. Wrede. CfN; STEF; B1AA:14: STEF's working committee meeting 31 October 1929. See also the diaries of J. K. Paasikivi: Paasikivi, J. K., Rumpunen, Kauko, et al (2000): "Olen Tullut Jo Kovin Kiukkuseksi": J. K. Paasikiven Päiväkirjoja 1914-1934, 177, 181, 184.

anti-Soviet propaganda in Great Britain.¹⁰¹ The Soviet threat had grown rather pressing; the country had tripled its exports between 1926 and 1930 from 300,000 std to 964,000 std, leaving behind the former Nordic leaders.¹⁰² Nevertheless, in 19 December 1930 the chairman of the SSY Board, Jacob von Julin estimated that the position of Swedish and Finnish timber firms in the British market was stronger than had previously been estimated. In 1930, the Russians had failed to deliver their timber with the promised quality, specifications, and schedule, and the next year, according to von Julin, would be even worse: 'The situation in the Russian timber trade deteriorates every day and a possibility of a collapse is bigger than ever before.'¹⁰³ Jacob von Julin was a rational businessman without any deeper anti-Bolshevist prejudices clouding his judgement. Also, estimations from the Finnish legation in London in January 1931 predicted that the battle between the Finnish and Soviet timber industries would intensify rather than a truce be made: 'To secure our position, we have to wage a downright economic war.'¹⁰⁴

A truce between the Nordic and Soviet exporters in early 1931 would disturb the anti-Soviet campaigns of the SSY and STEF and confuse British buyers. In fact, the Finns and Swedes were unanimous in their opinion that the Soviet's cartel negotiation proposal in spring 1931 was a theatrical manoeuvre designed to change the negative public opinion towards Soviet timber in Great Britain. Another aspect speaking against any Nordic–Soviet cartel was the coming British general election in October 1931 which might redefine Soviet policies in Great Britain and possibly affect the competition positions of Soviet and Nordic timber in Britain. Last but not least, the SSY and STEF Boards believed that behind the Soviet's interest to launch a cartel negotiation with them, something that had been quite obvious since late 1930 and early 1931, was not the cartel itself, but something else.¹⁰⁵ Possibly

¹⁰¹ About Nordic timber cartels, see; ELKA; SSY; 21-24; 231-232; 1041; 1042; 1117; 1186. About anti-Soviet propaganda, see, for instance CfN; STEF; E3CA: Letter from G. C. Lawrence to J. L. Ekman 13 February 1931, conversion memorandum between the two. Invitation of the House of Commons to a non-Party Meeting, 27 March 1931. Speech by J. L. Ekman for the House of Commons 31 March 1931. For instance, on 3 October 1930 the SSY Board saw the competition in the following way: 'Russia's destructive competition has now taken a form [--] that our exporters have been forced by their sense of self-preservation to take actions to save our timber industry from ruin' (*'Venäläisten tuhoatuottava kilpailu puutavaramarkkinoilla on saanut sellaisen muodon [--], että laivaajiemme on jo itsesäilytysvaistonsa pakoittamina ryhdyttävä mahdollisimman tehosiin keinoihin sahateollisuutemme pelastamiseksi perikadosta*'). The action was to strengthen Finnish and Swedish–Finnish collaboration. STEF and SSY created a new bilateral Trust Council to deal with the Soviet competition. In 1930 and 1931 collaborative endeavours with the Soviets were not considered. Quote from ELKA; Saastamoinen Oy; 463: Meeting of the SSY's Board 3 October 1930.

¹⁰² For Soviet exports, see RA; Archive of Consulate in Leningrad; H35: Letter from J. L. Ekman to the Swedish Consulate in Leningrad 9 September 1931.

¹⁰³ ELKA; SSY; 25: Meeting of the SSY Board 19 December. *'Situationen i Ryssland förvärrades dagligen och möjligheterna för ett sammanbrott voro större än någonsin.'*

¹⁰⁴ KA; Finnish Ministry of Foreign Affairs; Finnish legation in London; Fa; 5.C.A: Report by 'E. L.' 19 January 1931. *'Asemamme säilyttämiseksi on meidän ehkä joskus ryhdyttävä suorastaan taloudelliseen sotaan.'* The writer does not mention a collaboration with the Soviets and Swedes as a possibility. He does, however, think that if the Finnish timber producers would lower their prices, the Finnish government would sponsor the sector.

¹⁰⁵ ELKA; SSY; 25: SSY Board meeting 19 May 1931. RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 13; Conversation between Swedish Foreign Minister Fredrik Ramel and English

the Soviets wanted to ask for Nordic loans, as the British Hambros bank was unwilling to pay much in advance for the 1931 shipping.¹⁰⁶ 'The Russians' promises are a bait that will not be redeemed after the unrest is over', concluded the SSY Board.¹⁰⁷ Why build a cartel if the partner cannot be trusted? The boards of SSY and STEF decided not to engage in this sort of circus.

Nevertheless, two weeks from 19 March the SSY Board reconsidered the decision not to collaborate with the Soviets. Between 19 and 31 March 1931, the eighteenth Finnish government had fallen and the nineteenth had been created. The Soviet's had officially turned to the Finnish Ministry of Foreign Affairs with a message that they really wanted a cartel negotiation with the Finns and Swedes.¹⁰⁸ They were waiting for an answer.¹⁰⁹ There was something urgent about the tone of the Soviets and the response of the Finnish governments; the Board of SSY decided that if the SSY did not react to the request immediately, 'there was a danger that the matter will be handled by the government, banks, or the forest-owner circles'.¹¹⁰

The original decision of the SSY not to engage in collaboration with the Soviets, from 19 March, mirrored the opinions of the SSY.¹¹¹ The altered decision of the SSY to promote the Nordic–Soviet timber collaboration, from 31 March, on the contrary, was a politically appropriate decision that seemed to support the trade political and broader diplomatic targets of Finland. During the fortnight between 19 and 31 March, the SSY Board encountered for the first time something that it would come across several times in the coming eight years. It was no longer solely in charge of who, when, and with whom Finland would create multilateral timber cartels. Since 1930 the Soviet's had been informally talking about the necessity of a Nordic–Soviet cartel to Swedish and Finnish businessmen in timber trade, ministers, and bank directors and governors, but now the requests became more serious and official in nature.¹¹² The position of the Finnish banks towards the Soviet question was

diplomat Sir Howard Kennard on 16 February 1931. CfN; STEF; E3CA: Letter from J. L. Ekman to E. F. Wrede 15 April 1931.

¹⁰⁶ ELKA; SSY; 25: SSY Board meeting 19 May 1931. RA; Leningrad Konsulat's arkiv; H35; Letter from Swedish general consulate office in London (E. G. Sahlin) to the Leningrad's consulate office 10 June 1931, p. 12–13.

¹⁰⁷ ELKA; SSY; 25: SSY Board meeting 19 May 1931. '*...de ryska löftena endast voro lockbeten, vilka, då faran avvärjts, icke skulle infrias.*'

¹⁰⁸ The Soviets had been doing pro-cartel groundwork among Swedish and Finnish bank directors, diplomats, and governments since the autumn of 1930. See, for instance; ELKA; SSY; 25: SSY Board meeting 31 May 1931.

¹⁰⁹ ELKA; SSY; 25: SSY Board meeting 31 May 1931.

¹¹⁰ ELKA; SSY; 25: SSY Board meeting 31 May 1931. '*...fara förelåg att saken i motsatt fall event. kunde upptagas av regeringen, bankerna eller skogsägarekretsar.*'

¹¹¹ BoF; Risto Ryti's Archive; 1572; Ac 3: Report from Finnish legacy in Stockholm to the Finnish Ministry of Foreign Affairs signed by Minister R. Erich 4 April 1931. CfN; STEF; E3CA: Letter from Axel Wallenberg to J. L. Ekman 14 April 1931. RA; Leningrad Konsulat's arkiv; H35: Letter from Swedish general consulate office to the Leningrad's consulate office 10 June 1931.

¹¹² RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 13: Conversation between Swedish and Finnish Ministers of Foreign Affairs Hj. Procopé and Fredrik Ramel 13 January 1931. RA; Leningrad Konsulat's arkiv; H35: Letter from the Swedish general consulate office to the Leningrad consulate office 10 June 1931. SSY; 1185: Undated report summing up the Nordic–Soviet timber cartel

obviously in line with that of the Finnish government since they were, at the end of March, scolding the Board of SSY for being so uncooperative towards the Soviets.¹¹³

A similar process happened in Sweden. On 4 February, the Soviet trade commissar Arkady Rosenholz convinced the chief of the commercial section of the Swedish Ministry of Foreign Affairs that the 'Swedish timber exporters will be pressured hard' and that the situation was threatening for them.¹¹⁴ Rosenholz assured him that coming to an agreement about prices between the Finns, Swedes, and the Soviets was in the best interests of Sweden, because the Soviet Union was fully prepared to export massive volumes of timber in the current year. Rosenholz as well as the Soviet minister in Stockholm, Alexandra Kollontay, tried to persuade the STEF to make an initiative concerning a Nordic–Soviet timber cartel negotiation.¹¹⁵ On 14 February, Swedish Foreign Minister Fredrik Ramel met with Soviet consul, M. Raivid, who encouraged the Swedes to open the cartel negotiation with the Soviets so that the Swedes could save their skins in the ongoing price competition. Prime Minister Ramel answered that if the Soviets wanted the agreement then they should approach the STEF, because 'agreement to regulate timber exports in Sweden is entirely and altogether a private matter'.¹¹⁶ Two months later diplomat Axel Wallenberg wrote a letter to J. L. Ekman, STEF Board member, urging him to 'orientate' the Swedish timber importers to support the Nordic–Soviet cartel negotiations. In the Finnish sources, Axel Wallenberg was mentioned as a potential representative of Sweden in the possible Nordic–Soviet negotiations.¹¹⁷ Besides Wallenberg, Foreign Minister Ramel also supported a commercial truce in timber trade in the form of a cartel, while J. L. Ekman and the CEO of STEF, Wilhelm Ekman, favoured continuing competitive battle.¹¹⁸ Wallenberg placed the question of collaborating with the Soviets into the wider framework of the current European problem with the Soviet Union. He writes that Europe is divided about Soviet policies. Some countries protect themselves rather aggressively against Soviet dumping, while in other countries the criticism is more lenient. Europe has, nevertheless, become more engaged year by year with the Soviet Union through diplomatic and trade agreements. Still, despite all the talk by the 'Chambers of commerce, economic associations, policy groups, or the League of Nations' a divided Europe cannot set out its priorities.¹¹⁹ According to Wallenberg, the

process in 1931–1932. The estimated date is late 1932. ELKA; SSY; 25: SSY Board meetings 19 and 31 March 1931.

¹¹³ ELKA; SSY; 25: SSY Board meetings 31 March 1931.

¹¹⁴ CfN; STEF; F1A:237: Letter from the Swedish Ministry of Foreign Affairs to J. L. Ekman 4 February 1931. '*de svenska exportörerna skulle vara hårt pressade.*'

¹¹⁵ CfN; STEF; F1A:237: Letter from the Swedish Ministry of Foreign Affairs to J. L. Ekman 4 February 1931.

¹¹⁶ RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 13: Conversation between Raivid and Fredrik Ramel 16 February 1931. '*en överenskommelse om reglering av trävaruexporte i Sverige vore helt och hållet en enskild angelägenhet.*'

¹¹⁷ BoF; Risto Ryti's archive; 1572: Ac 3: Report from the Finnish legacy in Stockholm to the governor of the Bank of Finland Risto Ryti 4 April 1931.

¹¹⁸ BoF; Risto Ryti's archive; 1572: Ac 3: Report from the Finnish legacy in Stockholm to the governor of the Bank of Finland Risto Ryti 4 April 1931. CfN; STEF; E3CA: Letter from Axel Wallenberg to J. L. Ekman 14 April 1931.

¹¹⁹ CfN; STEF; E3CA: Letter from Axel Wallenberg to J. L. Ekman 14 April 1931. '*oaktat alla uttalanden av Handelskamrar ock ekonomiska föreningar eller av politiska grupper eller av League of Nations etc. icke får klart för sig var man skall ställa kyrkan för att få den mitt i byn.*'

division continues within European countries, writing that not only different countries but 'individuals are forced to formulate their own ways of handling Russia'.¹²⁰

It appears that Wallenberg was trying to say that it serves no-one's purposes if economic and political forces within one country adopt different strategies towards the Soviet Union; the Foreign Minister or Trade Minister and their armies of diplomats and consuls cannot improve diplomatic and economic relations with the Soviet Union when one of the leading export sectors, timber industry, throws gasoline on the anti-Soviet fires and seeks to continue the timber war. Then again, the diplomacy required was a delicate and difficult form of art. Leading officials at the Swedish Ministry of Foreign Trade were also wondering that if Sweden and Finland made a cartel with the Soviet Union and the British general election in October brought about victory to the Conservative Party, would Great Britain blame the Nordic countries for not supporting the eventual anti-Soviet policies of the country?¹²¹ Finding the right balance in Soviet policies was difficult.

The managing directors of Swedish and Finnish banks all supported starting the negotiation but for different reasons. Oscar Rydbäck from the *Skandinaviska Banken*, for instance, thought that any agreement with the Soviet Union could not worsen the position of Swedish timber trade which the Great Depression and Soviet competition had led to. In Rydbäck's estimation, even if the Soviet Union followed the cartel quotas only partially, the cartel would benefit Sweden. Furthermore, Rydbäck estimated that the winds were changing in Russia and that the country was ready to let go of 'insane propaganda politics and return to real economic policies that had a rational connection with the Five-Year-Plan'.¹²² Ivar Rooth, the governor of the Bank of Sweden, wrote to his colleague, Montagu Norman, the governor of Bank of England, that the low price level was 'fatal' for the economies of both Finland and Sweden.¹²³

The SSY and STEF did not see the same urgency in building a Nordic–Soviet timber cartel as did envoy Axel Wallenberg, Foreign Minister Fredrik Ramel, the Finnish government, bank governors and directors Oscar Rydbäck, Risto Ryti, J. K. Paasikivi, and Montagu Norman from the Bank of England, Soviet envoys Alexandra Kollontay, Raivid, Ivan Maisky, and so forth.¹²⁴ It took until late spring in 1931

¹²⁰ CfN; STEF; E3CA: Letter from Axel Wallenberg to J. L. Ekman 14 April 1931. '*Det ser ut som om den enskilda staten liksom den enskilda individen såsom hittills blir tvungen att utforma sitt eget handlingsätt vis-a-vis Ryssland [--].*'

¹²¹ BoF; Risto Ryti's archive; 1572; Ac 3: Report from the Finnish legacy in Stockholm to the governor of the Bank of Finland Risto Ryti 4 April 1931.

¹²² BoF; Risto Ryti's archive; 1572; Ac 3: Report from the Finnish legacy in Stockholm to the governor of the Bank of Finland Risto Ryti 4 April 1931. '*Hra R:n käsitöksen mukaan Venäjällä alkaa voittaa alaa sellainen käsitys, että tästä järjettömästä propagandapolitiikasta on luovuttava ja palattava sellaiseen varsinaiseen talouspolitiikkaan, joka on jossain järjellisessä yhteydessä viisivuotissuunnitelman kanssa.*'

¹²³ BoE: OV 30/1: Letter from Ivar Rooth to Montagu Norman 5 June 1931.

¹²⁴ ELKA; SSY; 1023: Memo of the discussion between Kempe and Ekman. RA; Swedish Foreign Minister's archive; HP 13: Discussion memo 14 February 1931 between Swedish Foreign Minister Fredrik Ramel and Soviet Councillor of Legation Raivid. Discussion memo 16 February between Swedish Foreign Minister Fredrik Ramel and Sir Howard Kennard. BoF; Risto Ryti's Archive; 1572; Ac 11. The governor of the Bank of England, Montagu Norman was also, according to Clemens Wurm, 'active behind the scene in negotiations for international cartels in steel and coal'.

before the leaders of SSY and STEF started supporting the Nordic–Soviet cartel negotiation.¹²⁵ And even then, the support seems to have stemmed from an understanding that too many discussions had already taken place at too high a level for the CEOs of SSY and STEF to refuse negotiations. The archives of the SSY and STEF—and particularly the SSY Board and the letter exchange of J. L. Ekman—show that Finns and Swedes were promoting altogether different themes than Nordic–Soviet collaboration in 1930 and 1931 to improve the position of Nordic timber. J. L. Ekman, for instance, directed a lot of effort towards networking with anti-Soviet circles in British politics and commerce.¹²⁶ Together with the CEO of SSY, he gathered reports witnessing the horrors of Soviet dumping trade, forest work in specific, and building arguments which could convince the House of Commons that Great Britain needed to restrict the Soviet imports for ethical reasons. The Finnish and Swedish timber trade people saw no truce–destruction dichotomies like Axel Wallenberg. Rather, despite the nightmarish production speed, they perceived the Soviet Union to be essentially a ‘grey country, with grey problems and even greyer reality’, as B. G. R Haggglöf concluded in his 67-page report directed towards broad networks in Swedish business and politics.¹²⁷ Nordic timber trade people seemed to think that the Soviet Union was not unbeatable. The country could not undercut production costs forever, particularly if cleverly designed and directed anti-Soviet propaganda became more widespread knowledge and reduced demand for ‘unethical’ Soviet commodities.

The spring of 1931 witnessed a conflict in Sweden and Finland between trade, political and diplomatic interests and the commercial interests of the timber industry and private firms regarding Soviet policies. Normally, Sweden and Finland were countries where business had high integrity and self-determination, and they could operate independently of the government and the state. Industries were organised in their own associations, making their own decisions, and steering their own cartels without government interventions. To be sure, business and state networked well together and there were lively connections within the business and political elite of small countries, but it was not typical at all that industry lobby associations received pressures from outside to start cartel negotiations against the industry’s will.¹²⁸

The timber industry found itself in a new situation in 1931, where it constantly had to develop strategies and institutions to firstly, control firms according to the cartel negotiation obligations, and

¹²⁵ Reports and letter exchange in April indicate that the leaders of STEF and SSY were against the negotiation. See, for instance; BoF; Risto Ryti’s archive; 1572; Ac 3: Report from Finnish legacy in Stockholm to the governor of the Bank of Finland Risto Ryti 4 April 1931. CfN; STEF; E3CA: Letter from Axel Wallenberg to J. L. Ekman 14 April 1931. SSY; 1185: Undated report summing up the Nordic–Soviet timber cartel process in 1931–1932. The estimated date is late 1932.

¹²⁶ CfN; STEF; E3CA: Letter exchange of J. L. Ekman in spring 1931.

¹²⁷ RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; H 209: Report ‘Om sovietrysk industrialisering och femårsplanen’, p. 67. ‘Sovietunionen är ett grått land, med gråa problem och en ännu gråare verklighet.’ Haggglöf was second secretary at the Swedish Ministry of Foreign Affairs.

¹²⁸ Kuisma, Markku (1993): ‘Government Action, Cartels and National Corporations - the Development Strategy of a Small Peripheral Nation during the Period of Crisis and Economic Disintegration in Europe. (Finland 1918-1938)’ in *Scandinavian Economic History Review*, vol. 41, no. 3. Kuisma, Markku (1993): ‘Keskusvalta, virkavalta, rahavalta: valtio, virkamiehet ja teollinen kehitys Suomessa 1740-1940.’ in Hallinto Rahan, Julkisuuden Ja Venäjän Paineessa. Hallintohistoriallisia Tutkimuksia 9. Fellman, Susanna, Iversen, Martin J., et al (2008): *Creating Nordic Capitalism: The Business History of a Competitive Periphery*.

secondly, protect the integrity of business from government intervention. The Nordic–Soviet cartel negotiations of 1931 became activate in May, when all interested parties in Sweden and Finland—banks, government, timber trade people—gathered for a national meeting to create an agenda. On 9 June 1931, somewhere in Berlin, seven serious gentlemen from Finland, Sweden, and the Soviet Union sat down to negotiate upon a mutual cartel. However, before unravelling the flow of events from May onwards, I will briefly explain why timber and diplomacy started to matter in 1931 to such an extent that it intruded into the SSY's and STEF's cartel policies.

The Soviet Union, Finland, and Europe in the nineteen-twenties

Timo Vihavainen, Ohto Manninen, Kimmo Rentola, and Sergei Žuravljov recently published a book about Finland in the Soviet documents from 1917 to 1960. In the introduction they write that 'Finland has always been interested in how it has been seen by the Soviet Union'.¹²⁹ In addition to that, Finland has also been interested in how Finnish–Soviet relations were seen in Europe.

Finland was born in the aftermath of the Bolshevik Revolution. The country had been the Grand Duchy of Russia from 1809 onwards, but grabbed the opportunity in December 1917 and gained independence.¹³⁰ The collapse of the Russian regime left a political void in the country and triggered an internal power struggle. At the end of January 1918, a civil war broke out in Finland between the urban and rural workers on the Red side and farmers, businessmen, and civil servants on the White side. The bitter and brutal war was a class conflict and a fight between socialism and democracy. The latter won, but the cost was devastating. Altogether 38,000 people had died in warfare, in the prison camps, or as a result of acts of terror. 'The national catastrophe', Tepora and Roselius write, 'split the Finnish nation into the victors and the defeated, patriots and traitors, victim and perpetrators, and affected the political and mental landscape for generations'.¹³¹ Bolshevism showed its conspirational and destructive face in 1918 and made Finland a predominately anti-Bolshevist country for the following two decades. Defending against communism—both from abroad and within—became the ideological bedrock upon which the post-1918 Finland was founded. 'As sure as autumn and winter follows summer, Russia will attack Finland', wrote J. K. Paasikivi, a member of Senate and a president-to-become, in 1918.¹³² Anti-communism in Finland became an endogenous quality after 1918. Some groups disliked Russia and its people more fervently than others, but the shared aversion, combining hatred and fear, united the vast majority of the Finns.¹³³ 'Fair and straightforward' anti-Bolshevism became an organic part of Finnish nationalism and adopted various forms and expressions in culture, associations, politics, and trade. Many leading men in the forest industries were known for their anti-Soviet attitudes, like Kaarlo Brofield in the timber industry, or Rudolf Walden and Carl Lindt in the

¹²⁹ Vihavainen, Timo, Manninen, Ohto, et al (2017): *Varjo Suomen Yllä: Stalinin Salaiset Kansiot*, 11.

¹³⁰ Alapuro, Risto, (1988): *State and Revolution in Finland*.

¹³¹ Tepora, Tuomas and Roselius, Aapo (2014): 'Introduction: the Finnish Civil War, Revolution and Scholarship' in *The Finnish Civil War 1918: History, Memory, Legacy*, 5.

¹³² Kuisma, Markku (2010): *Sodasta Syntynyt: Itsenäisen Suomen Synty Sarajevon Laukauksista Tarton Rauhaan 1914-1920*, 95. 'Wenäjän puolelta tulee hyökkäys aikanaan yhytä varmasti kuin syksy ja talvi seuraa kesää.'

¹³³ Silvennoinen, Oula (2015): "'Home, Religion, Fatherland': Movements of the Radical Right in Finland' in *Fascism*, vol. 4, no. 2

paper industry.¹³⁴ Timber firms supported the Finnish White Civil Guard financially and ideologically.¹³⁵ Being one of the bitterest anti-Bolshevist fronts defined Finland as a country in Europe.¹³⁶

'Fair and straightforward anti-Bolshevism' flourished in Finland, of course, because the labour movement and political left had a strong foothold in the country. Social Democratic party had enjoyed a strong support in the Finnish parliament since the first elections in 1907 and it remained as the biggest party in Finland in 1907–1939. Parliamentary elections in independent Finland were organised in 1919, 1922, 1924, 1927, and 1929, and Social Democrats won 25–35% of the votes. The next biggest parties were Agrarian Party (20–27%), National Coalition (14–19%), Finnish Socialist Workers Party (and its successors 10–14%), Swedish People's Party (12%), and National Progressive Party (14–18%).¹³⁷ Rivalries between the labour movement parties electrified political climate after Civil War; for instance, in 1922 the Finnish Socialist Workers Party was banned and re-formed under another name. Finnish governments between 1917 and 1930 were turbulent and short-lived; there were altogether seventeen governments, most of them led by National Progressive Party or National Coalition Prime Ministers. The first Social Democratic Prime Minister was Väinö Tanner in 1926–1927. Volatility of Finnish political life only increased at the turn of the decade when anti-Bolshevist and nationalist *Lapua* movement emerged in Finland as an important extraparliamentary force for a couple of years.

Finland built its security politics in the nineteen-twenties within the framework of the League of Nations and stayed out of any official alliances with the Baltic States that the Soviet Union might regard as hostile.¹³⁸ An interest in entering into Scandinavian collaboration emerged in Finland in the late nineteen-twenties, but Finland was not accepted into this collaboration until 1933. Geographic proximity of the Soviet Union, and the fact that Finland was more openly anti-Bolshevist country than the rest of the Nordic countries, made Finland an unattractive partner in the eyes of other Nordic countries.¹³⁹

Finland, traumatised by Bolshevism in 1918, was not the only country wary of the Soviet Russia, for the whole of Western Europe kept its distance from the new revolutionary state. It was considered to be a blessing for Europe's nations if the 'red bacillus' of Bolshevism was isolated from 'healthy'

¹³⁴ Silvennoinen, Oula, Tikka, Marko, et al (2016): *Suomalaiset Fasistit: Mustan Sarastuksen Airuet*.

¹³⁵ ELKA; SSY; 22: SSY Board meeting 5 May 1926.

¹³⁶ Knickerbocker, H. R. (1931): *Fighting the Red Trade Menace*.

¹³⁷ Ollila, Anne/Paloheimo, Heikki, (2007): *Kansanedustajan Työ Ja Arki*, 204, 218

¹³⁸ In the early nineteen-twenties, Finland tried to seek an alliance with the Baltic–Polish axis. A mutual defence agreement was signed by the Foreign Ministers of Estonia, Latvia, Poland, and Finland, but the Border State alliance was never finally ratified. The Soviet Union managed to convince the participants that the Border State alliance had a clear anti-Soviet aim. The Soviet Union threatened to respond accordingly if the Border State alliance was ratified in the various parliaments. Fearing the strong reaction of the Soviet Union, the Finnish Parliament did not ratify the agreement. The seventh Government of Finland led by Juho Vennola resigned because of the crisis. Korhonen, Keijo (1966): *Naapurit Vastoin Tahtaan. 1, Suomi Neuvostodiplomatiassa Tartosta Talvisotaan 1920-1932*, 66–72.

¹³⁹ 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

Europe.¹⁴⁰ The feeling was mutual, for Lenin showed an equivalent suspicion about the West. Between 1918 and 1921, the dominant foreign political goal of the Soviet Russia was maximum security against foreign intervention.¹⁴¹ All of the West was more or less an enemy zone, but the leading interventionist powers and the 'chief bulwark of capitalism and imperialism' were Great Britain and France.¹⁴² Russia's re-orientation was dramatic compared to pre-war times; after 1917 commodities and capital barely moved in and out of Russia, while Czarist Russia had been an important trading partner for Britain, France, and many other European trading nations. The withdrawal of Soviet Russia had an enormous impact particularly in the timber trade. In 1913, Russia had been Europe's biggest timber exporter with 885,000 std of yearly output, compared with Sweden's 660,000 std and Finland's 470,000.¹⁴³

Lenin and his Bolshevik comrades were relentless in their recreation work. They cemented the position of the Bolshevik Party through redesigning the social fabric, economic and monetary mechanisms, and the political structure of former Russia. The main focus was state intervention and the redistribution of physical resources and political power. Industrial production, the finance sector and agriculture were all nationalised, being broken into pieces and reassembled in a new way. Lenin's isolated state banned private entrepreneurship and seized forcibly the means of industrial production, it suppressed free peasantry and nationalised agricultural lands, and centralised the monetary economy. The legacy of the Russian Empire, both physical and cultural, melted away in three years and the new Soviet people began their history amidst extreme poverty and widespread famine.¹⁴⁴

The tide started to change in the relations between Europe and Soviet Russia in the early nineteen-twenties. Lenin and the rest of the Soviet leadership understood that their country needed to buy and borrow from the Western capitalists in order to rebuild the state. The Soviet Union needed nonferrous metals, rubber, cotton, wool, fibres, and various machines and technology from Great Britain, Germany, and France; in return the Soviet Union could sell grain, oil, and timber to these countries.¹⁴⁵ In 1921, Lenin implemented the New Economic Policy (NEP), which was a form of market socialism that combined elements from capitalist market and state regulation. Farmers were now allowed to sell their surplus to cities and ninety per cent of industrial enterprises were returned to private

¹⁴⁰ Carley, Michael Jabara (2000): 'Episodes from the Early Cold War: Franco-Soviet Relations, 1917-1927' in *Europe-Asia Studies*, vol. 52, no. 7, 1275–1276.

¹⁴¹ Large, J. A. (1978): 'The Origins of Soviet Collective Security Policy, 1930-32' in *Soviet Studies*, vol. 30, no. 2, 213.

¹⁴² NA FO 371/23699: intelligence report May 1938. Carley, Michael Jabara (2000): 'Episodes from the Early Cold War: Franco-Soviet Relations, 1917-1927' in *Europe-Asia Studies*, vol. 52, no. 7. Flory, Harriette (1977): 'The Arcos Raid and the Rupture of Anglo-Soviet Relations, 1927' in *Journal of Contemporary History*, vol. 12, no. 4. Large, J. A. (1978): 'The Origins of Soviet Collective Security Policy, 1930-32' in *Soviet Studies*, vol. 30, no. 2, 213.

¹⁴³ Ahvenainen, Jorma (1985): 'The Competitive Position of the Finnish Sawmill Industry in the 1920s and 1930s' in *Scandinavian Economic History Review*, vol. XXXIII, no. 3, 175.

¹⁴⁴ Lee, Stephen J., (2008): *European Dictatorships, 1918-1945*, 36–338.

¹⁴⁵ Carley, Michael Jabara (2000): 'Episodes from the Early Cold War: Franco-Soviet Relations, 1917-1927' in *Europe-Asia Studies*, vol. 52, no. 7, 1276.

ownership.¹⁴⁶ NEP revived the industrial production of the country, and by 1926 the Soviet Union had reached pre-war production output levels.¹⁴⁷

The Soviet Union was not the only country which needed to increase its trade; all European countries shared the same urge after World War I. War debts weighed heavily and the only way to regain the pre-war prosperity was to trade. By 1924, the Soviet Union had signed trade agreements with all the important enemies, Germany, Great Britain, France, and a handful of smaller countries. However, trading with the Soviet Union was still complex for Europe. The 'red bacillus' was still a concern. 'We don't want to recognise the Soviet government,' said the French premier Briand in the early nineteen-twenties, 'but we would not mind trading with Russia'.¹⁴⁸ Communism was poison, but the commercial potential of the Soviet market was sweet. For most of the nineteen-twenties the relationship between Europe and the Soviet Union was a mixture of a commercial need to maintain these relations and a deep ideological divide accompanied by mutual suspicion.

In Great Britain, speeding up economic revival after the war through selling manufactured goods to the Soviet market was tempting. Great Britain was one of the first countries to follow the idea of 'sober rapprochement' vis-à-vis the Soviet Russia and, led by the coalition government of the Liberal Prime Minister Lloyd George, the country signed a trade agreement in 1921.¹⁴⁹ Sweden followed the British path of rapprochement and made a trade agreement with the Soviet Union in the same year. British Labour Prime Minister Ramsay MacDonald continued the rapprochement and took it further.¹⁵⁰ Rapprochement politics increased British-Soviet trade, and by the mid-nineteen-twenties Great Britain had become the biggest importer in the Soviet Union with a twenty-nine per cent market share. However, during the Conservative cabinet of Prime Minister Stanley Baldwin from November 1924 until June 1929, Anglo-Soviet relations deteriorated. Baldwin's government left the Anglo-Soviet trade agreement unratified in 1925; the Soviet Union instigated and funded the General Strike of 1926 in Great Britain; and the British intelligence service raided the premises of ARCOS (the All Russian Co-operative Society) in London in 1927 believing it would find evidence of Bolshevik scheming and espionage. In May 1927, Prime Minister Baldwin announced to the House of Commons that his

¹⁴⁶ Lee, Stephen J., (2008): *European Dictatorships, 1918-1945*, 38. In the NEP period, the Soviet timber trade also started to slowly revive; the first Soviet timber trust, Severoles, which sold timber to the UK saw the light of day at the beginning of NEP. By the end of NEP, the Soviet timber trade was almost on a par with the Nordic production volume.

¹⁴⁷ Lee, Stephen J., (2008): *European Dictatorships, 1918-1945*, 38.

¹⁴⁸ Carley, Michael Jabara (2000): 'Episodes from the Early Cold War: Franco-Soviet Relations, 1917-1927' in *Europe-Asia Studies*, vol. 52, no. 7, 1277.

¹⁴⁹ The British Prime Minister David Lloyd George (Liberal Party) summarised in his speech in the House of Commons on February 10th of 1920 the ideology of the rapprochement group. 'Russia cannot be restored to sanity by force, as events have proved. Commerce has sobering as well as beneficial effects. The way to help Russia and Europe and Britain is by trade — that is, to fight anarchy, wherever it appears, by abundance.' Williams, Andrew J. (1992): *Trading with the Bolsheviks: The Politics of East-West Trade, 1920-39*, 60. Manne, Robert (1981): 'The Foreign Office and the Failure of Anglo-Soviet Rapprochement' in *Journal of Contemporary History*, vol. 16, no. 4, 726. Williams, Andrew J. (1992): *Trading with the Bolsheviks: The Politics of East-West Trade, 1920-39*, 88.

¹⁵⁰ Flory, Harriette (1977): 'The Arcos Raid and the Rupture of Anglo-Soviet Relations, 1927' in *Journal of Contemporary History*, vol. 12, no. 4, 708.

government had decided to end all diplomatic relations with the Soviet Union.¹⁵¹ The days of sober rapprochement were definitely over in Westminster, the City, and in the Foreign Office. British timber importers, along with oil and wheat importers and the engineering industry, formed an important exception in this anti-Soviet climate, but it only helped a little.¹⁵² British exports to Soviet Union declined.

Strained diplomatic relations between the Soviet Union and Great Britain in 1927 did not remain merely bilateral, they radiated throughout the whole of Europe and led to deterioration in relations between the Soviet Union and Germany and France.¹⁵³

French–Soviet relations were poor to begin with, though, and France had not really departed from the *cordon sanitaire* politics at the turn of the twenties.¹⁵⁴ Room for ‘sober rapprochement’ had not existed in France as it had in Great Britain. Russia had borrowed money from the French banks which the Bolsheviks did not intend to pay back because it was the Czar’s debts, not theirs.¹⁵⁵ Furthermore, practical, commercial opportunities for France and the Soviet Union to come to terms were poor, because the Soviet Union no longer consumed the luxury products that France had earlier sent. France, however, still needed wheat and oil from the Soviet Union, and had relatively few options where it might acquire them. Great Britain had a supply of wheat and timber from Canada, but France had to import them from the Soviet Union and European countries nearby. French–Soviet trade started to become stacked against France: in 1925 the Soviet Union exported more than 50 million US dollars worth of commodities to France, while France exported only 9 million US dollars worth of goods to the Soviet Union.¹⁵⁶ Moreover, after the mid-nineteen-twenties, Russia’s unpaid war loans to France deteriorated Franco–Soviet relations.¹⁵⁷ Trade and loan negotiations between the two countries led time and again to ‘megaphone diplomacy’.¹⁵⁸ From the mid-nineteen-twenties onwards,

¹⁵¹ Flory, Harriette (1977): ‘The Arcos Raid and the Rupture of Anglo-Soviet Relations, 1927’ in *Journal of Contemporary History*, vol. 12, no. 4, 707–23.

¹⁵² Williams, Andrew J. (1992): *Trading with the Bolsheviks: The Politics of East-West Trade, 1920-39*, 186. Williams, Andrew (1990): ‘Canada and Anglo-Soviet relations: The question of Russian trade at the 1932 Ottawa imperial conference’ in *Diplomacy and Statecraft*, vol. 1, no. 2. Montagu Meyer, the Chairman of the Russian Softwood Import Ltd. (British buying syndicate in 1929) said in his speech to his colleagues in December 1929 ‘I do not suggest—in fact, I depreciate—anything in the nature of a boycott (towards the Soviet Union). That is not our policy. A boycott is an unpleasant thing.’ NA: T 160/555/6.

¹⁵³ Dyck, Harvey L. (1966): ‘German-Soviet Relations and the Anglo-Soviet Break, 1927’ in *Slavic Review*, vol. 25, no. 1, 72.

¹⁵⁴ Carley, Michael Jabara (2000): ‘Episodes from the Early Cold War: Franco-Soviet Relations, 1917-1927’ in *Europe-Asia Studies*, vol. 52, no. 7, 1277.

¹⁵⁵ Carley, Michael Jabara (2000): ‘Episodes from the Early Cold War: Franco-Soviet Relations, 1917-1927’ in *Europe-Asia Studies*, vol. 52, no. 7, 1277–1278.

¹⁵⁶ Williams, Andrew J. (1992): *Trading with the Bolsheviks: The Politics of East-West Trade, 1920-39*, 133.

¹⁵⁷ Williams, Andrew J. (1992): *Trading with the Bolsheviks: The Politics of East-West Trade, 1920-39*, 126, 133–4. Carley, Michael Jabara/Debo, Richard Kent (1997): ‘Always in Need of Credit: The USSR and Franco-German Economic Cooperation, 1926-1929’ in *French Historical Studies*, vol. 20, no. 3, 317. Carley, Michael Jabara (2000): ‘Episodes from the Early Cold War: Franco-Soviet Relations, 1917-1927’ in *Europe-Asia Studies*, vol. 52, no. 7

¹⁵⁸ Williams, Andrew J. (1992): *Trading with the Bolsheviks: The Politics of East-West Trade, 1920-39*, 138

anti-Soviet feeling deepened in France and culminated in open trade war in 1930 in the form of boycotts between the countries.¹⁵⁹

Germany, which was a politically and economically labile country, had the closest relations with the Soviet Union in the nineteen-twenties. According to Carley and Debo (1997), the German government hated the Treaty of Versailles 'more than it feared Communism, and it saw Russia as the "necessary evil" to counterbalance France and Great Britain and to undo Versailles'.¹⁶⁰ From the mid-nineteen-twenties onwards, however, Germany's rehabilitation of its Western relations through joining the Locarno Treaty worsened German-Soviet relations.¹⁶¹ The question of how Germany could benefit economically and strategically from the Soviet Union had changed to whether it could benefit at all. The Soviet Union was clearly not adopting capitalist norms through NEP, as it was earlier thought, nor was it seeking to normalise its relations with the European great powers either.¹⁶² Germany, nevertheless, remained an important creditor of the Soviet Union and its share of imports remained high throughout the nineteen-twenties, exceeding the value of British and American imports.¹⁶³

Joseph Stalin's emergence to power in 1928 was a turning point for the Soviet Union as well as for Europe. The Soviet government abandoned the NEP policy, and the idea of expanding world revolution changed into the idea of 'socialism in one country'.¹⁶⁴ International isolation and industrial backwardness compared with Europe was, according to Stalin and his People's Commissar of Foreign Affairs, Maxim Litvinov, a direct security threat.¹⁶⁵ 'We have lagged fifty to hundred years behind the

¹⁵⁹ Carley, Michael Jabara/Debo, Richard Kent (1997): 'Always in Need of Credit: The USSR and Franco-German Economic Cooperation, 1926-1929' in *French Historical Studies*, vol. 20, no. 3, 329–331.

¹⁶⁰ Carley, Michael Jabara/Debo, Richard Kent (1997): 'Always in Need of Credit: The USSR and Franco-German Economic Cooperation, 1926-1929' in *French Historical Studies*, vol. 20, no. 3, p. 318. Dyck, Harvey L. (1966): 'German-Soviet Relations and the Anglo-Soviet Break, 1927' in *Slavic Review*, vol. 25, no. 1, 69–70. Large, J. A. (1978): 'The Origins of Soviet Collective Security Policy, 1930-32' in *Soviet Studies*, vol. 30, no. 2, 219. The two cornerstones of the German-Soviet collaboration were the Treaty of Rapallo in 1922 and the Treaty of Berlin in 1926, the first being a renunciation of all territorial and financial claims and the second being a bilateral non-aggression pact. The Treaty of Rapallo led to revived trade exchange and technical cooperation between the countries, and eventually also to military collaboration. The rapprochement progress of the early 1920s was stimulated by mutual economic and military interests as much as out of fear of unholy alliances that the other isolated country might form with the arch-enemies, Great Britain and France.

¹⁶¹ Large, J. A. (1978): 'The Origins of Soviet Collective Security Policy, 1930-32' in *Soviet Studies*, vol. 30, no. 2, 214.

¹⁶² Dyck, Harvey L. (1966): 'German-Soviet Relations and the Anglo-Soviet Break, 1927' in *Slavic Review*, vol. 25, no. 1, 71–81. Cameron, J. D. (2005): 'To Transform the Revolution into an Evolution: Underlying Assumptions of German Foreign Policy toward Soviet Russia, 1919-27' in *Journal of Contemporary History*, vol. 40, no. 1, 9-17.

¹⁶³ Morgan, R. P. (1963): 'The Political Significance of German-Soviet Trade Negotiations, 1922-5' in *The Historical Journal*, vol. 6, no. 2, 254-6. Dyck, Harvey L. (1966): 'German-Soviet Relations and the Anglo-Soviet Break, 1927' in *Slavic Review*, vol. 25, no. 1, 67–9. Carley, Michael Jabara/Debo, Richard Kent (1997): 'Always in Need of Credit: The USSR and Franco-German Economic Cooperation, 1926-1929' in *French Historical Studies*, vol. 20, no. 3, 327.

¹⁶⁴ Large, J. A. (1978): 'The Origins of Soviet Collective Security Policy, 1930-32' in *Soviet Studies*, vol. 30, no. 2, 215.

¹⁶⁵ Haslam, Jonathan (1983): *Soviet Foreign Policy, 1930-33: The Impact of the Depression*, 1–3.

leading countries. We must cover this distance in ten years. Either we do that or they will crush us,' said Stalin in a public speech in February 1931.¹⁶⁶ Stalin's political goal was to take the evolution of the Soviet Union to the next level and make it an industrialised and organised military power.¹⁶⁷ For that purpose, the Soviet Union needed skyrocketing growth in industrial production and an agricultural surplus through full economic planning, the collectivisation of agriculture, massive relocation of people, and the banning of free entrepreneurship which had existed to some extent in the NEP period.¹⁶⁸ Most importantly, the Soviet Union needed to increase its trade with the West. It needed Western machines, technology, and credit; and it needed massive surpluses to pay for these investments.

At the turn of the nineteen-thirties, the Soviet state started collectivising the land and investing in timber production. According to a report of the Board of Trade of Great Britain, altogether eighteen new sawmills were built in 1929, each having a capacity of 175,000–200,000 std per year.¹⁶⁹ For comparison, the Soviet Union shipped 900,000 std in 1929. With this large increase in production capacity, demand for working forces skyrocketed at every level of the production chain, from forest work to the logistic and work conducted at the production sites. Workers were easy to recruit; Stalin's administration sentenced *kulaks*—the land-owning peasants—and other enemies of the state to hard labour.¹⁷⁰ If more workers were needed, Stalin's administration found more enemies of the state. When it came to agricultural surpluses, Stalin solved the problem of too small surpluses and uneconomic use of private land by collectivisation and the banning of free peasantry. He explained that collectivisation of land increased equality and decreased class division in Soviet society. Everyone was equally poor when no one owned anything. Along with collectivisation, the first wave of Stalin's purges began when the *kulaks* were sent to forced labour camps or were liquidated.¹⁷¹

¹⁶⁶ Lee, Stephen J., (2008): *European Dictatorships, 1918-1945*, 48–9.

¹⁶⁷ Carley, Michael Jabara/Debo, Richard Kent (1997): 'Always in Need of Credit: The USSR and Franco-German Economic Cooperation, 1926-1929' in *French Historical Studies*, vol. 20, no. 3, 317. Large, J. A. (1978): 'The Origins of Soviet Collective Security Policy, 1930-32' in *Soviet Studies*, vol. 30, no. 2, 215–16.

¹⁶⁸ Lee, Stephen J., (2008): *European Dictatorships, 1918-1945*, 48–51. Large, J. A. (1978): 'The Origins of Soviet Collective Security Policy, 1930-32' in *Soviet Studies*, vol. 30, no. 2, 214–216. Under Stalin's regime, the Soviet Union experienced an industrial revolution which represents a unique case in European economic history in the sense that it did not bring about any improvements in the quality of life of the inhabitants, but just the contrary.

¹⁶⁹ NA; BT 56/6; Report, page 38.

¹⁷⁰ For more about *kulaks* and timber camps, see Applebaum, Anne (2004): *Gulag: A History*.

¹⁷¹ Lee, Stephen J., (2008): *European Dictatorships, 1918-1945*, 49, 53–54. Kuromiya, Hiroaki (2007): 'Stalin and His Era' in *The Historical Journal*, vol. 50, no. 3, 713–14. *Kulaks* were not the only enemies of the state; about 75 per cent of the plant managers and 'captains of industry' suffered the same fate. They belonged to the 'old' world, to the NEP era, when it was possible for a non-communist to be in a leading position in a business enterprise. Stalin accused them of spying for foreign powers and replaced the 'bourgeois specialists' with re-educated, devoted communists with a peasant or worker background. Some of them managed to escape from the Soviet Union, but many were executed or sentenced to prison camps or to forest work. See also: Fitzpatrick, Sheila (1979): 'Stalin and the Making of a New Elite, 1928-1939' in *Slavic Review*, vol. 38, no. 3 Farnsworth, Beatrice (2010): 'Conversing with Stalin, Surviving the Terror: The Diaries of Aleksandra Kollontai and the Internal Life of Politics' in *Slavic Review*, vol. 69, no. 4.

The Soviet Union had bilateral trade agreements with all the important trading countries, but they were vulnerable to break up because of diplomatic tumult at the end of nineteen-twenties. The dumping of grain and timber had erected tariff barriers against Soviet goods in many European countries and heated anti-Bolshevism in Europe deepened the diplomatically isolated position of the Soviet Union. To dig the Soviet Union out of the diplomatic pit, Maxim Litvinov started to build up a series of bilateral non-aggressive pacts, which Large calls 'the Soviet Government's favourite type of diplomatic agreement in the interwar period'.¹⁷² Indeed, the Soviet Union was not yet willing, in the late nineteen-twenties, to join the imperialist institutions of the Allied, such as the League of Nations or Locarno, but instead built a diplomatic system of its own, working from a bilateral basis and directed at 'collective security'. According to Haslam, through its commitment to 'collective security' and non-aggression pacts, the Soviet Union aimed at positioning itself as an ally to European nations.¹⁷³

France, which was extremely anti-Bolshevist, turned down Soviet proposals for non-aggression pacts several times in the nineteen-twenties.¹⁷⁴ However, by the turn of the decade, the Nazi Party was gaining popularity in Germany increasing fears in France about German–Soviet hostilities against France or its important ally, Poland. France and the Soviet Union started to reconsider their bilateral relations in the early nineteen-thirties, and finally in April 1931, French–Soviet negotiations for a non-aggression pact begun.¹⁷⁵ This had a major effect in Poland, which no longer counted on France's ability to offer security.¹⁷⁶

In the late nineteen-twenties Stalin's administration had been increasingly worried about the Baltic countries and Border States, which were not only violently anti-Bolshevist but also seemed to be gravitating towards Baltic–Nordic alliances.¹⁷⁷ These potentially plotting neighbours were an opportunity for Germany and Great Britain to increase their sphere of influence in the Soviet Union's immediate neighbour, whereas at the turn of the decade the Soviet Union started to take a stronger hold of its small neighbours. Non-aggression pacts, which the Soviet Union signed with all its neighbouring countries in 1932–1933, had a background in the Litvinov Protocols of 1929— bilaterally signed between the Soviet Union, Latvia, Estonia, Poland, and Romania—which were supplementary protocols to the Kellogg-Briand Pact. Finland did not sign the Litvinov Protocols.

¹⁷² Large, J. A. (1978): 'The Origins of Soviet Collective Security Policy, 1930-32' in *Soviet Studies*, vol. 30, no. 2, 214.

¹⁷³ Haslam, Jonathan (1984): *The Soviet Union and the Struggle for Collective Security in Europe 1933-1939*, 2.

¹⁷⁴ Large, J. A. (1978): 'The Origins of Soviet Collective Security Policy, 1930-32' in *Soviet Studies*, vol. 30, no. 2, 217.

¹⁷⁵ Large, J. A. (1978): 'The Origins of Soviet Collective Security Policy, 1930-32' in *Soviet Studies*, vol. 30, no. 2, 216–218. France also had commercial incentives for improving its relations with the Soviet Union. Soviet trade dumping was seriously injuring the French economy and France had to resort to boycotting Soviet imports. From the perspectives of diplomacy and trade exchange, trade war did not serve the best interests of France.

¹⁷⁶ Large, J. A. (1978): 'The Origins of Soviet Collective Security Policy, 1930-32' in *Soviet Studies*, vol. 30, no. 2, p. 222.

¹⁷⁷ Large, J. A. (1978): 'The Origins of Soviet Collective Security Policy, 1930-32' in *Soviet Studies*, vol. 30, no. 2, 222. Poland had been restless in the summer of 1930 and the territorial dispute over Bessarabia with Romania plagued Romanian–Soviet relations.

At the turn of the nineteen-thirties, anti-Bolshevism in Europe was still strong, but at the same time the tendency towards coming to terms with the Soviet Union grew stronger. Finland did not seek rapprochement with the Soviet Union, indeed its domestic political situation led Finland deeper down the path of anti-Bolshevism. The radical nationalist and violently anti-communist *Lapua* movement emerged in Finland in 1930. It offered a channel to pour out the frustration and disappointment of those who felt betrayed by the democratic process that had allowed the return of the leftist parties back to the Finnish Parliament.¹⁷⁸ *Lapua* supporters nurtured a dream of purging the 'red bacillus' from Finland—completing the mission of 1918, in other words—in order to create a strong ethnically and politically unified nation.¹⁷⁹ They talked about a Greater Finland which would expand beyond the Finnish Eastern border. The *Lapua* movement in 1930 strained the already poor diplomatic relations between Finland and the Soviet Union. By 1931, the French–Polish axis and the Border States were engaged in a process of making non-aggression pacts, while Finland, after refusing to sign the Litvinov pacts in 1929, had continued the foreign political pattern of the previous decade based on isolation and cold relations towards the Soviet Union. Furthermore, the Finnish government had let the *Lapua* movement grow freely, which had branded the government '*Lapua* positive' in the eyes of the Soviet government, and without doubt, also for the rest of Europe.

In 1930, Finland took a leap to the right and went deeper down the road of anti-communism while tides in Europe, the French–Polish axis in particular, were moving in the opposite direction. *Lapua*, combined with Finnish isolation towards the Soviet Union, became a foreign political burden. In October 1930, Finnish Foreign Minister Procopé was worried that Finnish isolation might be interpreted as aggression: 'If a conflict were to emerge between Finland and the Soviet Union, public opinion abroad would consider that Finland provoked the Soviets on purpose, which would be most detrimental to our position and the possibility of receiving help.'¹⁸⁰ He added that Finland should now avoid all conflicts with the Soviet Union to assure Europe that its intentions were friendly and peaceful. The idea that Finland might be seen abroad as intentionally aggravating the situation with the Soviet Union was disquieting. It diminished security in Finland and increased the interest rates on international loans.¹⁸¹ Anti-Soviet elements appeared to be on the increase in Finland: while France and the Border States were pursuing Soviet rapprochement, Finland had the *Lapua* movement, the timber war, and had refused the Litvinov Pact. Although this was not the case, the Soviet press repeatedly accused Finland of preparing for war with the Soviet Union.¹⁸²

¹⁷⁸ Silvennoinen, Oula (2015): "'Home, Religion, Fatherland': Movements of the Radical Right in Finland' in *Fascism*, vol. 4, no. 2, 142. The Social Democratic Party won 38% of the parliamentary seats in 1919; 25% in 1922; 29% in 1924; 28% in 1927; 27% in 1929; 34% in 1930; 37% in 1933. Väinö Tanner was the first Social Democratic Prime Minister in 1926–1927.

¹⁷⁹ Silvennoinen, Oula (2015): "'Home, Religion, Fatherland': Movements of the Radical Right in Finland' in *Fascism*, vol. 4, no. 2, 138–142.

¹⁸⁰ KA; Hjalmar Procope's archive; 11; Report 6 October 1930. '...jos nyt Venäjän kanssa syntyisi selvä konflikti, niin katsoisi yleinen opinioni maailmassa epäilemättä, että Suomi on Venäjää provosoinut, mikä asemallemme ja avunsaantimahdollisuuksillemme olisi varsin kohtalokasta.'

¹⁸¹ KA; Hjalmar Procope's archive; 11: Memo on 12 October 1930.

¹⁸² KA; Hjalmar Procope's archive; 11: Letter from Esko Rieki (director of EK, Finnish Security Police) to Hjalmar Procopé 12 December 1930.

The nineteenth Finnish government, elected in late March 1931, finally took to condemning the *Lapua* movement and started to seek for a change in direction in its relations with the Eastern neighbour. In a letter in June 1931, Erkki Westerlund, the Finnish ambassador in Moscow, asked the Finnish Foreign Minister how it would appear if Finland was the only neighbouring country to remain outside the sphere of Soviet rapprochement.¹⁸³ In effect answering his own question, he commented: 'There is nothing we can do about the Great Powers courting the Soviet Union. We too need to arrange our relations with the country.'¹⁸⁴ The problem was, however, in which arenas should friendliness and rapprochement be displayed.

The timber trade became one of the first arenas to show collaborative will. Previous research has recognised the diplomatic importance of Nordic–Soviet timber cartel negotiations in 1931 by calling it a 'door opener' towards better Soviet relations in Finland, although the depth and form of this act of industrial diplomacy, or its consequences to the industry, have remained largely unstudied.¹⁸⁵ Timber negotiations was a pragmatic solution and a quick-fix; it was so much easier to start timber negotiations than to organise heavier diplomatic negotiations, such as bilateral trade agreements or a non-aggression pact. In fact, timber negotiations were a perfect way to display friendly relations between the two countries. In the Soviet understanding, the repeated rejections of the Finns since autumn 1930 were just another form of anti-Sovietism in Finland.¹⁸⁶ In his discussions with J. K. Paasikivi of Kansallis-Osake-Pankki, the Soviet trade attaché Stokovski had underlined the diplomatic importance of the timber negotiation. Paasikivi, for his part, scolded Finnish exporters for not pursuing the Nordic–Soviet timber negotiations quickly enough.¹⁸⁷ The starting of timber cartel negotiations between Finland, Sweden, and the Soviet Union would receive broad international recognition in the press, which would undoubtedly have had a positive impact on the way Finnish–Soviet relations were seen abroad.

Lauri Jonkari writes in his PhD thesis that in the early nineteen-thirties Finland started to depart from its previous foreign political perceptions and patterns based on isolation and avoidance with the Soviet Union. Finland started to pursue friendlier and more constructive neighbourly relations. Jonkari writes that Finland began 'accepting roses that the Soviet government handed to it. There were surprising thorns in them, and detailed appraisal would have revealed the hardship that undoubtedly were entailed in them.'¹⁸⁸

¹⁸³ Korhonen, Keijo (1966): *Naapurit Vastoin Tahtaan. 1, Suomi Neuvostodiplomatiassa Tartosta Talvisotaan 1920-1932*, 225.

¹⁸⁴ Korhonen, Keijo (1966): *Naapurit Vastoin Tahtaan. 1, Suomi Neuvostodiplomatiassa Tartosta Talvisotaan 1920-1932*, 225.

¹⁸⁵ Paloposki, Toivo J. (1970): *75 Vuotta Sahateollisuuden Yhteistoimintaa: Suomen Sahanomistajayhdistys 1895-1970*, 76.

¹⁸⁶ KA; Hjalmar Procope's archive; 11: Discussion memo between Hjalmar Procope and Ivan Maiski 10 October 1930.

¹⁸⁷ ELKA; SSY; 25: SSY Board meeting 31 March 1931. SSY; 1185: Undated report summing up the Nordic–Soviet timber cartel process in 1931–1932. The estimated date is late 1932.

¹⁸⁸ Jonkari, Lauri (2008): *Kansainliitto Suomen Turvallisuuspolitiikassa Ja Kansainvälisissä Suhteissa: Vastaanotto Ja Vaikutus Julkisessa Sanassa Ja Yhteiskunnassa Vuosina 1919-1936*, 318.

The timber cartel negotiation was one of the roses that Finland accepted in 1931 from the Soviet Union, and it became a device for improving Finnish–Soviet diplomatic relations:¹⁸⁹

If the results in the timber negotiation [- -] are favourable, it would improve greatly the relations in general between Finland and the Soviet Union. [--] If an agreement on timber prices were actually to be reached we could even call it a strengthening of relations.¹⁹⁰

Sweden did not have a similar openly anti-communist mass movement like the *Lapua* movement in Finland. Sweden had never been part of Russia, nor had there been any socialist coups in Sweden that had divided society like in Finland in 1918. Cultural prejudices and expectations, as well as contemporary political culture towards the Soviet Union were different in Sweden: it was suspicious, but definitely more diplomatic and constructive than the passive–aggressive policy of Finland. In trade politics, Sweden was among the first countries to sign a preliminary trade agreement (the Krasin Agreement) with the Soviet Russia in 1921. The agreement was formalised into a proper, bilateral Swedish–Soviet trade agreement in 1924.¹⁹¹ Sweden’s commercial perception towards the Soviet Union was defined by the temptation, on the one hand, to access the large Soviet market, but also the inability to provide credit for Soviet trade and offer enough competitive products.¹⁹² In the diplomatic domain, Sweden’s relations with the Soviet Union in the nineteen-twenties were open and neutral, albeit passive.

It seems plausible, however, that there were similar reasons in Sweden than in Finland why, firstly, the high political level paid attention to and interfered in the timber cartel question in spring 1931, and secondly, why they favoured the starting of the negotiation while the SSY and STEF was against it. The European trend was gradually turning away from anti-Bolshevism and reaching out for Soviet rapprochement. It is likely that in early 1931, as in Finland, the overall assessment regarding the political and economic context in Sweden started to support the idea of concrete actions towards Soviet rapprochement. Or as Axel Wallenberg wrote, Europe needed a programme towards the Soviet Union and it needed to be constructive. Possibly it was no longer realistic to remain neutral or passive towards the Soviet Union in the current climate of 1931, affected as it was by the Great Depression, anti-Bolshevism, trade wars, the Five-Year-Plan, and the rise of the Nazi Party; possibly there were both friendly and unfriendly voices towards closer connections with the Soviet Union. Sweden chose

¹⁸⁹ Paloposki, Toivo J. (1970): *75 Vuotta Sahateollisuuden Yhteistoimintaa: Suomen Sahanomistajyhdistys 1895-1970*.

¹⁹⁰ Finnish Ministry of Foreign Affairs; 12L; Venäjä: Report from the Finnish legation in Moscow to the Foreign Minister Yrjö-Koskinen 23 July 1931.

¹⁹¹ The trade exchange remained modest throughout the nineteen-twenties. Promoting trade required strong networks and political lobbying as well as the preparedness of Swedish banks to provide credit for Soviet trade—and both preconditions were lacking in Sweden. In 1926, the value of Soviet trade was 2.3 per cent of all export trade value in Sweden and in 1929 it had dropped slightly to 1.9 per cent. *Statistisk årsbok för Sverige 1927 - Annuaire statistique de la Suede 1927. Statistisk årsbok för Sverige 1940 - Annuaire statistique de la Suede 1940*. RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; H 209: Report ‘Om sovjetrysk industrialisering ock femårsplanen.’

¹⁹² Kahn, Martin (2009): *Sovjetekonomin Med Svenska Ögon: svenska Statens Bild Av Sovjetunionens Ekonomi 1917-1956*, 514–516.

to respond positively to the Soviet minister's repeated requests about opening the Nordic–Soviet timber cartel negotiation, just to be on the safe side.¹⁹³

British importers and the Nordic–Soviet timber cartel 1931

There was one more important sector whose opinion the Swedish, Finnish, and Soviet timber exporters had to consider before setting up a mutual cartel, or even considering negotiations: British timber-importing firms and British trade policy. British importers bought about half of all Nordic timber and an even bigger proportion of Soviet timber. Timber brought significant amounts of revenues to all three countries, and Great Britain was keen on continuing to buy from all three supplier countries in the future.

Source material suggests that those British importers who traded with Soviet and Nordic timber supported regulated competition between the supplier countries. Montagu Meyer, the Chairman of the Russian Softwood Import Ltd., addressed the importers of the Timber Trade Federation in December 1929, saying that 'until the Russian situation is properly controlled, the market all over the world is unstable.'¹⁹⁴ In 1929, Meyer did not sketch a Nordic–Soviet cartel for that purpose, but the tendency towards creating regulation in the timber supplies in one form or another was clear. On 13 May 1931, A. Chatterton Sim, the director of a big, London-based timber importing firm, Churchill & Sim, wrote the following lines to a Finnish timber trader C. E. Degener:

I have persistently endeavoured to arrange some form of agreement between exporters in Finland, Sweden and Russia that would put an end to the ruinous competition that is, at present, taking place. Though the results of my efforts have hitherto been most discouraging, I feel that the object is of such vital importance that I must continue to work for it.¹⁹⁵

¹⁹³ In the eyes of the Soviet Union, one of the problems with Sweden was Scandinavian collaboration. This collaboration had been initiated by the League of Nations and it was an attempt to build economic collaboration amidst the heated years of rising tariff barriers and economic war. The signatories made up 8.6 per cent of world trade in 1931, which was more than France's share and slightly less than German's. The League of Nations saw potential in the agreement and fostered hopes that also other European countries, particularly the great powers would join it. They did not. The highest manifestation of Scandinavian collaboration was the Oslo Agreement (or Convention of Economic Rapprochement) where its signatories – Sweden, Denmark, Norway, the Netherlands, and Belgium – agreed not to raise tariffs against each other without first consulting the other member states. The agreement proved to be rather insignificant, though. Sven-Olof Olsson writes that, in the end, 'The Oslo convention was more a declaration of intention and solidarity than a trade treaty in the traditional sense'. A declaration of intention and solidarity it was indeed, and from the Soviet perspective, this solidarity and good will did not lie with them. The Soviets perceived the League-devised Oslo Agreement as yet another expression of anti-Bolshevism. It existed within a Nordic institution and context, but according to the the Soviet Union interpretation it was saturated with Anglo–French imperialist interests. 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, 21. van Roon, Ger (1989): 'Great Britain and the Oslo States' in *Journal of Contemporary History*, vol. 24, no. 4 Kaukiainen, Leena (1984): 'From Reluctancy to Activity, Finland's Way to the Nordic Family during 1920's and 1930's' in *Scandinavian Journal of History*, vol. 9, no. 3, 210.

¹⁹⁴ NA: T 160/555/6: Letter from C. F. Denny (from a timber importer company Denny, Mott & Dickson) to Ernest Harvey (Bank of England) 9 December 1929.

¹⁹⁵ Churchill & Sim archive: Letter from A. Chatterton Sim to C. E. Degener 13 May 1931.

Churchill & Sim was also an active arbitrator in the late spring of 1931 and drew up a cartel agreement draft for the SSY and STEF to consider.¹⁹⁶ Other active importers in Great Britain working towards Nordic–Soviet timber cartels and arranging credits for the Soviet timber trade—an essential part of the potential deal for the Soviets—were Schalit Lipman and, from 1932 onwards, Pharao Gane & Co.¹⁹⁷ In 1932, when the timber regulation scheme was discussed at the European level, the Timber Trade Federation of Great Britain, according to reports, was willing to ‘collaborate in any scheme to stabilize world trade’.¹⁹⁸ It might seem counter-intuitive that a buyer supports a seller’s cartel—would not a cartel want to instigate cut-throat competition between the sellers and exploit the cheap prices? A closer examination shows, however, that the self-regulation of exporters was in the best interests of the British timber importing firms.

There was one reason above all why the British supported the Nordic–Soviet collaboration: the importers wanted to keep their trading environment steady and all the competitors in the game. Free competition at the turn of the decade, combined with the Great Depression, had reached a stage where heads would soon roll. Not all competitors would survive the game. Regulation between the three supplier countries preserved and sustained competition while unregulated competition led to a collapse on either the Nordic or Soviet side. And from the ashes of destroyed competition emerged monopolies. The British feared Soviet dominance should the Soviet Union crush its Nordic competitors— and a Nordic monopoly was as feared as a Soviet one. The British remembered well Nordic dominance from the post-war years with its high prices when Soviet Russia had vanished from the market.¹⁹⁹ The strength of British trade was that it had several suppliers for one commodity, and the Foreign Office and the Board of Trade certainly wanted to keep it that way. A truce between timber exporters in the form of a regulation scheme—and particularly the sort of arrangement where importers had a say—would be much less against the importers’ interests than a Nordic or Soviet monopoly.

Trading with Soviet timber was profitable business for British importers. Great Britain had started to buy Soviet timber as soon as the Soviets started offering it to the British market in the early nineteen-twenties. At first, the volume of trade was small but it grew rapidly from 1927 onwards. In 1928, the British importing firms formed their first importing syndicate, Russian Softwood Import, for ‘one large seller demands one large buyer’, as Montagu Meyer, the Chairman of the syndicate commented in December 1929.²⁰⁰ One important reason for forming it was to secure the financial assets that buying

¹⁹⁶ Churchill & Sim archive: Letter from A. Chatterton Sim to C. E. Degener 13 May 1931.

¹⁹⁷ Churchill & Sim archive: Letter from Pharao Gane & Co to Val. B. Arnott, 16 June 1932.

¹⁹⁸ CfN; STEF; F1A:286: Egon Glesinger’s book manuscript from 1948, p. 84.

¹⁹⁹ NA: FO 371/17238: Memorandum to the British Government on Trade with the U.S.S.R., written in the Russo–British Chamber of Commerce, 12 January 1933, page 44. *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.

²⁰⁰ NA; T 160/555/6: Montagu Meyer’s (Chairman of the Russian Softwood Import) speech from December 1929.

from Soviet Union demanded.²⁰¹ The Soviet Union sold in an entirely different way than, for instance, Finland and Sweden. At the beginning of year—somewhere between January and March—the Soviet selling syndicate Exportles negotiated about the total year volume and prices with the British buying syndicate, which paid half of the total purchase. This was big business and the biggest timber firms in UK were involved in it. In 1930, the successor of Russian Softwood Import, the Central Softwood Buying Corporation, imported sixty to seventy per cent of all timber into the UK.²⁰²

The Soviet timber trade, being based on large advance payments, was vulnerable and risky; and particularly so in the unpredictable environment of the Great Depression when prices dropped violently and currencies depreciated. Anti-Soviet movement in Europe and Great Britain added its own complexion—and Finnish and Swedish timber exporters exploited the situation by organising anti-Soviet campaigns in Great Britain. Apparently there were at least a few of them, some being more disguised than others—like the one organised with the help of the Finnish minister Antti Hackzell who ‘accidentally’ leaked confidential reports to the newspapers about the Soviet timber camps.²⁰³ Another campaign by the SSY and STEF attracting broad attention was targeted towards the British Parliament. It was a professional-looking leaflet titled ‘Some results of the Soviet dumping. How Sweden and Finland are affected’. This leaflet addressed the difficult position that the Soviet Union was driving its Nordic competitors towards, and provided sound and reasonable arguments. Its message was that the Soviet Union was an unfair competitor in the capitalist market because it did not care about profit margins and it did not respect free entrepreneurship.

Let the Russian authorities pay fair wages, charge a fair price for their raw material, and settle their rate of exchange, and the reasons for our opposition to their products are at once withdrawn. Competition then becomes fair.²⁰⁴

The SSY and STEF addressed the Parliament using economic arguments. The sound business language in the leaflet ‘Some results of dumping’ suited the style of the SSY and STEF. In society at large,

²⁰¹ The British buying syndicate did not trade solely with Soviet timber but also purchased Swedish and Finnish goods. NA; T 160/555/6: Montagu Meyer’s (Chairman of Russian Softwood Import) speech from December 1929.

²⁰² NA; T 160/555/6: Discussion memo by William Strang 3 November 1930. Foreign Office’s report ‘Memorandum on the Russian timber business’ 9 February 1931.

²⁰³ ELKA; SSY; 82: Finnish–Swedish Trust Council meeting minute 12 February 1931. See also Häggman, Kai (2006): *Metsän Tasavalta*, 94–96.

²⁰⁴ CfN; STEF; E3CA: ‘Some results of Russian Dumping’, page 5. An important side-note in the ethical discussion about fairness fuelled by the Finns and Swedes was that the Nordic exporters and importers of timber did not practise what they preached. In Sweden, the building industry imported Soviet ‘slave timber’ into the country in 1930 and 1931. Some timber firms, even those led by SSY and STEF board members, from 1930 onwards purchased semi-refined timber logs from the Soviet side of Karelia, refined it ready and sold it as ‘Swedish’ or ‘Finnish’ timber to British and European markets. Importing raw material from a cheap labour country, rather than buying it from local forest owners, saved considerable amounts of money. For Nordic forest owners it was of course a very unpatriotic and despicable way of doing business. The practice was small-scale in both countries but it caused a great scandal in the British press and Parliament as well as in the forest owner faction in the Finnish and Swedish Parliaments. ELKA; MTKL; Axel Solitander; 2728:705: Letter from Axel Solitander to J. L. Ekman in 1930 (undated). CfN; STEF; F1A:243: Letter from J. L. Ekman to the STEF members 17 June 1932. CfN; STEF; 237: Letter from E. F. Wrede’s to SSY members 11 March 1931.

however, the anti-Soviet movement was on fire.²⁰⁵ The West came to learn about living and working conditions in the Soviet Union first from what they discovered from the cargos; blood stains on timber logs, cut-off fingers and desperate letters falling from the chips of timber stacks. Even living people were said to have been found in the timber cargos.²⁰⁶ Added to stevedores' discoveries were real Soviet refugees, who told about their experiences in newspapers, books, and in interviews by intelligence services and state administrations around Europe.²⁰⁷ Experiences from Soviet forest work were published in newspapers and books like *Out of the Deep* by Hugh Walpole and *Report on Russian Timber Camps* by Alan Pim, Edward Bateson, and Stanley Buckmaster.²⁰⁸ Some refugees were ordinary workers that had escaped the country, but there were also more educated people that had belonged to the cultural or political elite in the old Soviet system.²⁰⁹ The books revealed the massive human suffering and slavery behind the Soviet timber boom. The labour force had to bear eighteen-hour work days, starvation, and -40 Celsius temperatures. There was frostbite, typhus, lice, torturing, and frozen, unburied corpses. A forty-year-old Polish motor mechanic, Valentine Voitsehovitsh Ostrovski, managed to escape from the Soviet Union to Finland in spring 1931, and his report to the Ministry of Foreign Affairs was not exceptional:

The loading of the timber into foreign vessels was also done by prisoners [--]. In the summer of 1928 I had to look after the loading of pit-props into a British vessel on Popoff Island. The landing was effected in two shifts day and night. The pit-props were brought by the prisoners in wagons and also to save time on their shoulders. As there were no cushions for protection, the props tore the shoulders of the prisoners so that they bled, but nevertheless the prisoners were forced to continue their work. [- -] In winter from 500 to 600 prisoners died out of 4,500 -5,000. In autumn two large holes were dug, holding 200 corpses, in spring they were filled and some ten new holes had to be made containing 20 persons each. The corpses were thrown into these holes during the winter completely naked and naturally without any funeral ceremonies.²¹⁰

²⁰⁵ Manne, Robert (1981): 'The Foreign Office and the Failure of Anglo-Soviet Rapprochement' in *Journal of Contemporary History*, vol. 16, no. 4, 726. Carley, Michael Jabara/Debo, Richard Kent (1997): 'Always in Need of Credit: The USSR and Franco-German Economic Cooperation, 1926-1929' in *French Historical Studies*, vol. 20, no. 3, 326.

²⁰⁶ Anne Applebaum's studies suggest that there was truth to the stories. Desperate forest workers actually mutilated themselves in the hope of freeing themselves from the forest work. Also, interviews of the Finnish authorities with the refugees who had escaped from Soviet timber camps confirmed that the horror stories were not apocryphal. The interviews: KA; Finnish Ministry of Foreign Affairs; Finnish legation in London; Fa; 58.A:12.

²⁰⁷ See, for instance, NA: T; 160/555: Letter exchange between the members of parliament and Prime Minister MacDonald 1930-1931.

²⁰⁸ Walpole, Hugh (1933): *Out of the Deep. Letters from Soviet Timber Camps*. Pim, Alan, Bateson, Edward, et al (1931): *Report on Russian Timber Camps*. See also "Russian conscripts" published in *The Times* magazine in May 1931.

²⁰⁹ Farnsworth, Beatrice (2010): 'Conversing with Stalin, Surviving the Terror: The Diaries of Aleksandra Kollontai and the Internal Life of Politics' in *Slavic Review*, vol. 69, no. 4.

²¹⁰ KA; Finnish Ministry of Foreign Affairs; Fa; 58.A:12: Valentine Voitsehovitsh Ostrovski's interview 20 April 1931.

The British Prime Minister, Ramsay MacDonald, received similar reports:

If a man cut off a finger or had a swollen or poisoned leg or other disablement he was obliged to work all the same. One of the refugees once had a frozen foot which he was unable to use, but he was dragged to work. All the prisoners have to work, whether ill or not, until they fall down. The Communists say that they do not mind if 20 or 30 million die off, because most of them being political prisoners or persons who do not agree with Communist view it would be as well that they should die in this way. [--] If a prisoner is too weak to work he is flogged and put into a hole dug in the earth; and as he is in rags and gets hardly any food when he is not working he dies off very soon in the intense cold.

The information about the working conditions in the Soviet Union upset the public in Europe and Great Britain. Not only did the Soviet Union attack Europe by dumping prices on raw materials, but it also tortured its own people to death while doing so. Soviet industrialisation became a symbol of tyranny, and Soviet competition was represented in terms of war, attack, and slaughter. In Great Britain, with the help of several anti-Soviet organisations of an economic nature— such as the Trade Defence Union against Soviet Economic Warfare; the Anglo Russian Press Association; and the Anti-Soviet Persecution and Slave Labour League—²¹¹ Soviet raw material production inflated into a fully blown scandal which had concrete effects. In spring 1931, big timber consumers in Great Britain such as the County Council of London, the Southern Railways, and some large manufacturers, adopted a ‘sentimental reluctance’ to buying Soviet timber and, in fact, started boycotting it in the spring of 1931.²¹² A victory in fighting against dictatorships and promoting human rights was, of course, a huge problem to those British timber importing firms which had stocks full of Soviet timber.

The Soviet scandal required political action in Britain. Prohibiting the import of Soviet products into the UK through trade boycott became a popular topic of discussion in 1930 and 1931, and there were large factions in society that supported the idea. There was a law in Great Britain from 1887, the Foreign Prison-made Goods Act, which in theory could be used against the Soviet Union to prevent a certain part of the country’s timber production from entering the country, but the Foreign Office thought it was unwise to use it. Soviet timber exports to UK made up about one third of all foreign trade revenue to the Soviet Union, and a British attack on timber would stab at the heart of the Soviet Union. British–Soviet relations were somewhat uneasy to begin with in 1930 and 1931 and the Foreign Office and the Board of Trade did not wish to wage a war.²¹³

²¹¹ ELKA; SSY; 1023: Memo (including a report about Great Britain’s anti-Soviet economic policies) from a meeting between E. F. Wrede, Carl Kempe, and J. L. Ekman in Stockholm 12–14 March 1931. These associations cooperated with one another and contributed to the working of existing international similar networks. The SSY and STEF boards were either in direct or indirect contact with these associations and their networks.

²¹² ELKA; SSY; 1023: Memo (including a report about Great Britain’s anti-Soviet economic policies) from a meeting between E. F. Wrede, Carl Kempe, and J. L. Ekman in Stockholm 12–14 March 1931. Quote from Churchill and Sim archive: Letter from an unknown source (presumably from Churchill & Sim) to B. Kraevsky 21 June 1932.

²¹³ NA: T 160/555/6: Letter from Mr. Phillips to Board of Trade and Board of Customs 17 December 1930. Letter from James Cook from Board of Customs to Foreign Office 24 December 1930. Letter from H. Fountain to Foreign Office 5 January 1931. Memorandum on the Russian Timber Business by the Foreign Office.

As much as the British despised the savage exploitation of prison labour in the Soviet Union, they needed the timber. Soviet goods were affordable, they kept the Nordic prices at a healthy level, and too much money had been invested in it to change things now. Embargo would not only affect the Soviets, it would also severely injure the British economy. Timber importing firms would ‘find their business damaged’, not to mention the insurance sector and the banks, which had provided finance and credit against timber contracts. ‘This is an element not to be underrated as the volume of business involved is £’, concluded Foreign Office in February 1931.²¹⁴

Whereas trade war and boycott was out of the question for Great Britain, agreement still remained. The documents from the Foreign Office in February 1931 suggested that a regulation scheme on timber export quantities should be reached between Sweden, Finland, and the Soviet Union. However, the ‘Memorandum on the Russian Timber Business’ indicates that such an agreement was not entirely simple to bring about between the three countries due to difficulties in the past as well as for possible political considerations. Nevertheless, stabilisation of the market which was ‘in sight’, was considered to be a clearly better option in Ramsay MacDonald’s Foreign Office to deal with several overlapping problems in the current timber market. It would end the Nordic–Soviet timber war that was adversely affecting the British timber trade; it would also end the dumping trade of Soviet timber and bring the Soviets within a framework of a private regulation programme; and it could even ‘neutralise’ the Soviet timber trade of its savage stigma through showing that it can compete in a ‘normal’ way, i.e. through Western cartels. Reestablishing a positive image for Soviet goods was the high hope of all who traded in Soviet timber in England, as the letters of Lipman Schalit—owner of London & Northern Trading Co.—²¹⁵from 20 May 1931 show:

If there would be [--] arrangement for a more-or-less considerable period to fix the total quantity of [--] sawngoods destined for export from the U.S.S.R. and about the credits to be given to U.S.S.R. for sawngoods, such arrangement in a radical way, would make an end of all talk about dumping of Russian timber.²¹⁶

Collaboration with the Russians begins

In May 1931, preparations for launching Nordic–Soviet timber cartel negotiations were in full swing in Finland and Sweden.

The STEF called a meeting on 7 May 1931 between the leading banks—*Handelsbanken*, *Skandinaviska Kreditaktiebolag*, and *Stockholms Enskilda Bank*—and a handful of the biggest timber firms exporting 400,000 of Sweden’s yearly total of 1 million std.²¹⁷ All agreed that the ‘time was now ripe’ in Sweden

²¹⁴ NA; T 160/555/6: Memorandum on the Russian Timber Business by Foreign Office 9 February 1931.

²¹⁵ Lundesgaard, Jon/Tevlina, Victoria V. (2017): ‘Russian timber industry in the 1920s: on the short history of Russnorvegoles’ in *Acta Borealia*, vol. 34, no. 1, 29–30.

²¹⁶ Churchill & Sim archive; Letter from Lipman Schalit (from London & Northern Trading Co) to the trade representative of the U.S.S.R. in England 20 May 1931.

²¹⁷ These firms were “Korsnäs, Kreuger concern, Kempe concern, Vifsta Varv, Kopparberg, Hofors, Iggesund.” SSY; ELKA; 1185: Undated report summing up the Nordic–Soviet timber cartel process in 1931–1932. The estimated date is late 1932.

to accept a cartel invitation if Moscow sent it.²¹⁸ According to the estimations of A. Chatterton Sim, the director of the Churchill & Sim, the banks in Sweden, Finland, and Great Britain looked favourably upon the timber regulation scheme between Finland, Sweden, and the Soviet Union and that 'control of the export quantities from both these countries [Finland and Sweden] could be arranged by the Banks in those countries'. Mr. Sim had interviewed the governors of central banks in Sweden, Finland, and England, as well as the managing directors of the leading commercial banks in Finland and England, such as Kansallis-Osake-Pankki and Hambros, which specialised in funding Nordic trade.²¹⁹

In Finland, a similar meeting between the biggest exporters and banks took place a week later, with similar results.²²⁰ Risto Ryti, the governor of the Bank of Finland had been in touch with Ivan Maisky, the Soviet ambassador in Helsinki, who on behalf of the Soviet government asked Ryti to inform the Finnish timber exporters that an invitation to a Nordic–Soviet timber cartel negotiation was on its way from Moscow.²²¹ When the invitation finally came—the date was set for 9–11 June in Berlin—the SSY and STEF asked from Kandelaki, the director of the Soviet trade delegation in Stockholm, for the Soviets' agenda for the Nordic–Soviet timber meeting, he preferred not to reveal it beforehand.²²²

Many SSY Board members doubted whether the Soviets were going to discuss timber cartel at all. 'You can expect, of course, surprises with Bolsheviks', the SSY Board concluded.²²³ The secrecy surrounding the meeting agenda alarmed the fiercest anti-Bolshevist faction of the SSY Board. Kaarlo Brofelt, for instance, thought that it was best to send government representatives to the meeting first to find out what the Soviets wanted. 'Scandinavian timber people have bad experiences from negotiating with the Russians, so they would be less likely to be tricked [by the Russians] again.'²²⁴

In order to avoid an awkward situation with the Soviets and to keep the discussion on timber collaboration, the SSY and STEF drafted an agenda for the meeting. They sketched the idea of a quota cartel in which each country would receive a third of the total quota. The Nordic proposal was that the agreement period would be for ten years and it would start from January 1932. That was a conversation starter at least, in case the Soviets had some other agenda on their minds.

The Berlin negotiation in 1931 was the first one in what came to be a long series of international timber cartel negotiations. From June 1931 until the autumn of 1939, Finland and Sweden were

²¹⁸ SSY; ELKA; 1185: Undated report summing up the Nordic–Soviet timber cartel process in 1931–1932. The estimated date is late 1932. Meeting on 7 May 1931.

²¹⁹ Churchill & Sim archive: Letter from A. Chatterton Sim to Danishevsky (from Exportles) 22 May 1931. Letter from A. Chatterton Sim to C. E. Degener 13 May 1931.

²²⁰ Delegation: Jacob von Julin, Kaarlo Brofelt, Axel Solitander, E. F. Wrede, V. Kotilainen, and as a supplement Rosenlew.

²²¹ SSY; ELKA; 1185: Undated report summing up the Nordic–Soviet timber cartel process in 1931–1932. The estimated date is late 1932.

²²² SSY; ELKA; 1185: Undated report summing up the Nordic–Soviet timber cartel process in 1931–1932. The estimated date is late 1932.

²²³ ELKA; SSY; 25: SSY Board meeting 7 August 1931. '*Man givetvis kan vänta sig överraskningar vid förhandlingar med bolschevikerna.*'

²²⁴ ELKA; SSY; 1185: Kaarlo Brofelt memo, undated, most likely from May 1931. '*Skandinaviska trävarumän hava en dålig erfarenhet om underhandlingar med ryssar, varför de torde vara mindre benägna att bli lurade en gång till.*'

constantly preparing together for the next international cartel conference. In Finland, the meeting in Berlin in 1931 dragged the timber exporters into a unique stream of events in which they participated only to 'avoid the threatening state intervention in timber exports' as the early nineteen-thirties was often perceived later in the decade.²²⁵

The Nordic delegations—two from the STEF and two from the SSY—met three Soviet gentlemen from Exportles.²²⁶ The Soviets had drafted a proposal for a Nordic–Soviet cartel which was not very far from the Swedish–Finnish ideas. They suggested an output restriction and price cartel with a two- to three-year agreement period. A less pleasant surprise, however, was that Exportles refused to discuss the details—such as total quotas and country quotas or possible price level—before the Nordic negotiators responded on two things. First, the Soviets wanted to know how Finland and Sweden would control the cartel. This was a good question considering that the SSY and STEF were voluntary and private organisations without any coercive tools to control even their members, not to mention the firms that were not members of the associations. Around twenty percent of the Swedish timber exports came from firms that were not members of the STEF, the respective number of outsiders in Finland being somewhere between five and ten per cent. The Swedish and Finnish governments also lacked effective coercive laws to restrict trade from selected firms.

Second, before the Soviets were ready to move on with the negotiations and discuss the details, they wanted the SSY's and STEF's help in arranging credit for the Soviet Union from the Nordic banks. More specifically, they wanted the SSY and STEF to speak on behalf of Exportles to the banks and recommend them as trustworthy borrowers. For the Nordic timber traders the situation was ironic: from 1930 the Soviets had promoted timber cartel negotiations through the Swedish and Finnish banks, and now the Soviets were asking the timber business people to arrange credits. Besides being ironic, it was also predictable that the Soviet delegation brought up the credit question. There had been intensive backroom negotiations, initiated and catalysed by London-based importers A. Chatter Sim (Churchill & Sim) and Lipman Schalit (London & Northern), between several Swedish, Finnish, and English banks. The outcome of the negotiations had been that the Finnish and Swedish banks did not give credit, and instead the money must come from Hambro Bank in London. The Swedish and Finnish banks could guarantee part of the credit but not directly finance the Soviet timber trade.²²⁷ The governors of the central banks in Finland, Sweden, and Great Britain had also met in Basel on 20 May 1931 and discussed the Nordic–Soviet regulation scheme as well as crediting the Soviets.²²⁸ They had decided that credits and cartels should be kept separate from the actual cartel negotiations. Ivar Rooth

²²⁵ ELKA; SSY; 1122: SSY Board meeting 10 October 1938.

²²⁶ Jacob von Julin and E. F. Wrede from the SSY; Göran Göransson and Carl Kempe from the STEF; and Boeff, Davischewski and Por from Exportles.

²²⁷ Churchill & Sim archive; Letter from Lipman Schalit (from London & Northern Trading Co) to the trade representative of the U.S.S.R. in England 20 May 1931. Letter from A. Chatterton Sim to Danishevsky (from Exportles) 22 May 1931. Letter from A. Chatterton Sim to C. E. Degener 13 May 1931. BOE; OV 30/12: Letter from Montagu Norman to Risto Ryti 28 May 1931. Conversation memo between Ivar Rooth, Risto Ryti, and Montagu Norman 20 May in Basel.

²²⁸ BOE; OV 30/12: Letter from Montagu Norman to Risto Ryti 28 May 1931. Conversation memo between Ivar Rooth, Risto Ryti, and Montagu Norman 20 May in Basel. RA; Consulate Archives (Konsulatarkiv); Consulate archive Leningrad (St. Petersburg); H35: Report from Svenska generalkonsulatet i London. 10 June 1931.

from the Bank of Sweden and his Finnish colleague Risto Ryti had instructed the SSY and STEF timber cartel negotiators about this policy. It was consequentially easy for the SSY and STEF to decline the Soviets' request in Berlin.²²⁹ Rejected by the Finns and Swedes, Exportles moved on to pressuring A. Chatterton Sim and Lipman Schalit, who had contacts in the banking business and who had initiated the question about crediting the Soviet timber trade. 'The larger the loan the smaller the export' Mr. Por from Exportles said.²³⁰

Although the Nordic negotiators had the support of the central banks of Great Britain, Finland, and Sweden on the question of credit, the Soviet demand for credit was still disquieting. The Soviets had a bargaining chip, which of course was timber. According to the Soviet delegation, the country was ready to ship 1.5 million std of timber onto the market in the following year, which was as much as Finland and Sweden were planning to ship in total. If the credit question was arranged, however, the representatives promised to reconsider their production plans.²³¹ The first cartel discussion ended in Nordic silence.

Despite the tension in the air, the first Nordic–Soviet timber cartel negotiation was considered a success; everyone arrived at the right place at the right time and no one cancelled at the last minute. Cartel arrangements were discussed and the ideas between the SSY, STEF, and Exportles were found to be not that so far from each other. Although the Soviets had asked difficult questions about how the Nordic countries would control the exports, and the Nordic team had entirely neglected the Soviet questions about credit, everyone knew there would be a follow-up meeting quite soon.

The second Nordic–Soviet meeting took place a month later on 28–29 July. This time the delegations met in Copenhagen and discussions proceeded to cartel details.²³² The three countries sketched out the Nordic–Soviet cartel arrangements further and agreed that they were all thinking of a quota cartel in which, first, a total export quantity from all three countries would be defined, and then divided by three so that all countries would get an equally big quota. The quota would be set once a year and the cartel agreement period would be three years with a six-month notice, starting from 1 January 1932. The discussion led as far as to detailed ideas about the quota in 1932; the negotiators agreed that the total export quantity from the three countries in 1932 was 2,300,000 std, which divided by three was 766,666 std for each country.²³³ Prices and selling mechanisms were also discussed at this point. The negotiation results from the Copenhagen meeting were so detailed, and in fact unanimous, that all it needed was ink on paper and a ratification in all three countries, namely from the government in the Soviet Union and from the general meeting of the SSY and STEF in Finland and Sweden.

Negotiations had gone surprisingly far in a surprisingly short time. The truce had gained international recognition and there was no way of turning back now. At the same time, the international timber trade meeting in Warsaw in June had also cemented the significance of the Nordic–Soviet

²²⁹ BOE; OV 30/12: Letter from Montagu Norman to Risto Ryti 28 May 1931. Conversation memo between Ivar Rooth, Risto Ryti, and Montagu Norman 20 May in Basel.

²³⁰ Churchill & Sim archive; Letter from A. Chatterton Sim's notes from summer 1931.

²³¹ ELKA; SSY; 1185: Protocol of the meeting in Berlin between SSY, STEF, and Exportles 9–11 June 1931.

²³² ELKA; SSY; 25: SSY Board meeting 7 August 1931, protocol of the Copenhagen meeting in Appendix I.

²³³ ELKA; SSY; 1185: Protocol of the Copenhagen meeting 28–29 July 1931.

negotiations. J. L. Ekman from the STEF had been approached in Warsaw with the idea that the coming Nordic–Soviet timber cartel could be expanded to Poland and the Border States in the future.²³⁴

The Copenhagen meeting set two important missions for the SSY and STEF. Firstly, they needed to design the cartel organisation within their organisations. Who would communicate with the timber firms, banks, government, and the partners abroad? Who would point representatives to the international negotiations? Who would control the firms in the cartel, and how would the costs and other cartel obligations be organised? In Sweden, the STEF Board decided not to create a new organisation for the cartel, but the STEF Board would be responsible for all cartel undertakings. The Finns, on the other hand, decided to create a cartel delegation that was separate from the SSY Board.²³⁵ The composition of the Finnish cartel delegation was, in a way, an improved version of the SSY Board: it was smaller than the Board and therefore more homogenous. Small and mid-sized firms being absent, the ability of the delegation to make decisions was more effective. The members were big firm owners or professional lobbyists from the forest industry: Gunnar Jaatinen, Walter Rosenlew, Jacob von Julin, August Snellman, Axel Solitander, and E. F. Wrede.²³⁶

Secondly, the SSY and STEF Boards had to decide how to engage the timber exporters in the Nordic–Soviet cartel. This was by no means an easy task. The cartel had not been a spontaneous idea of entrepreneurs to enhance profitability by means of collaboration, it was instead a cartelisation from above, a top-down project, initiated by the governments and banks. The problem with these sort of cartels was that they did not enjoy the spontaneous support of firms, which after all, was an essential prerequisite for all cartels. The SSY Board did not expect it to be easy to make the firms support the regulation scheme and honour the quotas that the SSY was about to present them: ‘There will be, of course, particularly big problems in Finland and Sweden ahead to arrange everything so that we can guarantee that a certain export quantity will not exceed a given limit.’²³⁷

At the beginning of August 1931, the SSY and STEF Boards started to investigate what would be the best way of making the firms support their coming production quotas —which was a ‘particularly big problem’—so that the SSY and STEF would not fail as cartel leaders. There were two instances that came to the minds of the Board members who could offer help in the cartel quest: government and banks.

Government assistance in building an export cartel was something that Nordic business people were not comfortable with—but that option was still discussed in both countries nevertheless. The government could be, without a doubt, a mighty cartel controller, but how would it use its power? Different ministries within the state administration had different interests regarding forest industries, such as trade political goals, trade balance issues, and aspects concerning domestic employment, commercial interests, as well as environmental and sustainability issues. Letter exchange between J. L. Ekman (STEF) and Gunnar Sundland, the president of Iggesund Bruk (one of the biggest timber

²³⁴ CfN; STEF; F1A:267: STEF Board meeting 6 August 1931, page 10.

²³⁵ ELKA; SSY; 1185: SSY Board meeting 7 August 1931.

²³⁶ ELKA; SSY; 1185: SSY Board meeting 7 August 1931.

²³⁷ ELKA; SSY; 1185: SSY’s memo from the Copenhagen meeting 28–29 July, 5 August 1931. *‘Synnerligen stora svårigheter föreligger givetvis för att i Finland och Sverige få en sådan anordning till stand, att vi kunna garantera at ten visa exportkvantitet icke överskrides, men fördelarna av ett avtal med Exportles äro så stora, att ifrågavarande svårigheter måste på sätt eller annat övervinnas.’*

exporting companies in Sweden) shows how big firm owners in Sweden felt about governments as cartel assistants.²³⁸

Gunnar Sundblad admitted that a state-supervised control system in the form of licenses would be effective. The STEF would not have to worry about outsiders and free-riders. In his letter, he points out, however, that a government intervention would also bring about severe disadvantages. Firstly, licensing distorted the markets and competition; he referred to the Swedish experiences with horse caps from the turn of the century and the alcohol licensing system since 1914.²³⁹ Used in the timber trade, big-firm-owner Gunnar Sundblad was particularly worried that the licenses would give an unjust advantage to smaller producers. In his view—and this was warmly supported also by the Finnish big firms owners—a recession was an opportunity to purge commerce from unprofitable and uncompetitive small businesses. Licenses would work against this fruitful development. Sundblad also said he feared that the government, if the STEF asked for its assistance, would lead the timber industry to uncharted waters. Once the state was involved, it might introduce unpredictable demands into the timber industry, such as minimum labour wages.²⁴⁰ This would obviously work against the firms' interests.

Sundblad defended the idea of protecting the integrity and independence of business from the state even in times of great unpredictability and distress. He doubted whether organising the Nordic–Soviet timber cartel through state-regulated licenses would even be legally possible in Sweden. Sundblad emphatically argued that it was unwise to ask for the government to help, and not only for the sake of the timber industry, but because the trend might spread.

This sort of system can lead to a situation where other industries in a similar situation will demand similar export bans and license systems, for instance groundwood pulp, sulphate pulp, pig iron, etc., and thus there lies a great danger that all this will mark the beginning of a disguised state regulation for a large part of the industry.²⁴¹

Obviously, Sundblad did not support or recommend any formal ways to engage the government's assistance in the Nordic–Soviet timber cartel. Despite lengthy letters and argumentation, neither the STEF nor Swedish exporters really considered a state-supervised cartel. The choice to start the Nordic–Soviet negotiation in the first place might have been a debatable matter, but it was clear that state

²³⁸ CfN; STEF; F1A:267: Letter from Gunnar Sundblad to J. L. Ekman 1 August 1931. In his letter, Gunnar Sundblad wrote that the former Swedish Prime Minister Arvid Lindman (1928–1930) shared his ideas. Lindman was a keen supporter of Nordic orientation and had conservative/right wing world view with a distinct anti-communist flavour. He was a Member of Parliament 1905–1935.

²³⁹ The Swedish alcohol licensing system, operating from 1914 to 1955, regulated the amount of alcohol that a consumer could purchase. It was supervised through a specific consumption sheet (Motbok) that a buyer needed to show when buying alcohol from the monopolistic and state-owned Göteborgssystemet (the predecessor of Systembolaget).

²⁴⁰ CfN; STEF; F1A:267: A memo about how to regulate timber exports written by Gunnar Sundblad 1 August 1931.

²⁴¹ CfN; STEF; F1A:267: A memo about how to regulate timber exports written by Gunnar Sundblad 1 August 1931. *'Ett dylikt system kan sannolikt också giva anledning till att andra industrier i motsvarande läge komma att fordra analoga exportförbud och licenssystem, exempelvis för slipmassa, sulfatmassa, tackjärn, o.s.v. och föreligger därmed en stor fara, att det hela bliver inledning till en maskerad statsreglering av en stor del av industrien.'*

intervention was something that the STEF—and more broadly Sweden—should avoid in the process.²⁴² Private, voluntary cartels, as well as freedom of entrepreneurship and non-intervention were the cornerstones of the Swedish government–business relationship. Government involvement would be taken as a sign of internal chaos in the Nordic timber industry, which would easily lead to prices sinking. Be this as it may, all this anti-interventionist discussion did not change the fact that the STEF Board needed help in making the Swedish exporters join the cartel and follow their quotas. In August 1931, the STEF Board asked the help from the banks.

Finland had an identical problem in August 1931; the country needed a reliable control organisation and guarantees that firms would follow their quotas. The idea of government assistance was considered more seriously in Finland than in Sweden, where it remained at the level of back-scene discussions and seemed more like theoretical ponderings. Axel Solitander, the head of the Finnish Central Association of Forest Industry, drafted a quite serious plan how the government could control timber exports. The idea stemmed from an understanding that the SSY had inadequate control over Finnish timber exporting firms. In the context of Nordic–Soviet agreement, Finland needed a control machinery which would need to control all Finnish timber exporters, regardless of their affiliation with the SSY. The controller also needed to be able to prevent the creation of new exporting firms outside the cartel.

Making the cartel work was going to be difficult in Finland, and not just because of a lack of support from firms. The SSY Board did not unanimously support the cartel either; V. A. Kotilainen, the CEO of the biggest timber company in Finland, Enso-Gutzeit, for instance, did not support the cartel at all, and he was not alone.²⁴³ The CEO of SSY, E. F. Wrede, wrote to his colleague V. A. Kotilainen of Enso-Gutzeit that ‘it is very unpleasant for me personally to make an agreement with the Russians and negotiating with these villains is certainly not a joy’.²⁴⁴ The Finnish government was paying close attention to the process. The SSY decided to build the control for the Nordic–Soviet timber cartel as largely as possible upon voluntariness; and where voluntariness ended, the banks would help by pressuring disobedient exporters with financial sanctions.

Arranging cartel control: banks and governments

At the beginning of August 1931, the SSY and STEF approached the Finnish and Swedish timber exporters with a circular letter. It was not only directed to the association members, but also to association outsiders. In the letter, the directors of the associations explained the coming Nordic–Soviet cartel negotiations and underlined the importance of the agreement to Sweden and Finland. They asked for unconditional collaboration from each and every exporter in order to keep the process ‘voluntary and private by nature’. The tone of the letter built up a threat of government intervention in case the voluntary and private path failed. If the exporters failed in signing and sending the cartel contracts, the STEF and SSY ‘could not prevent the government from interfering in the question’.

²⁴² CfN; STEF; F1A:267: STEF Board meeting 6 August 1931.

²⁴³ ELKA; SSY; 25: SSY Board meeting 7 August 1931.

²⁴⁴ BoF; Risto Ryti’s Archive; 1572; Ac 3: Letter from E. F. Wrede to V. A. Kotilainen 14 August 1931. ‘...*det för mig personligen är ytterst osympatiskt att ingå ett avtal med ryssarna och att förhandla med dessa skurkar är verkligen icke något nöje.*’

The letter carried a cartel contract with it. In each contract, the Board of the STEF and the Finnish cartel delegation had written the maximum export quantity that the company to which the letter was addressed was allowed to produce in 1932. Keeping in mind the Copenhagen decision of 2.3 million std divided by three (=766,666), the cartel delegation of the SSY and the Board of STEF had looked how the exports had divided in 1928–1929 between the timber firms in Sweden and Finland. From this division they had calculated a fair share of quota for each firms. They imported, in other words, the competition situation of 1929–1930 to 1932, and proportioned it to the target of a total export quantity of 766,666 std. If a firm exported 1 per cent of the 1929–1930 average—12,000 out of 1.2 million std—it would get 1 per cent of the 1932 total of 766,000 std, which was 7.660 std.

The SSY and STEF wanted the cartel contracts to be signed and returned in two weeks. The contract gave a mandate for the cartel delegation of the SSY and the STEF Board to proceed in the Nordic–Soviet timber cartel negotiation on behalf of the firms.²⁴⁵ The details of the cartel contract sent by the SSY and STEF to the Finnish and Swedish timber exporters in August of 1931 was the following:²⁴⁶

- My company will not export sawn or plane timber products (incl. stave, lath, firewood, crate timber, and other timber products) more than its percentage share postulates in the coming Nordic–Soviet timber agreement.
- Firm percentage shares are calculated based on each firm’s average export volume in 1929 and 1930 and this is adjusted in proportion to the overall quota that is allocated for Sweden / Finland in the negotiations between the three countries.
- The production quantity of a firm is defined by the Swedish / Finnish section in the Swedish–Finnish Trust Council, and the firm must accept its decisions.
- Disagreements between the firm and the Swedish / Finnish section in the Finnish–Swedish Trust Council²⁴⁷ will be settled between an arbitrator appointed by both disagreeing parties as well as by a third arbitrator appointed in mutual agreement by the other two. If the first two arbitrators cannot find a candidate, the director of the Swedish Bankers’ Association will appoint him.²⁴⁸
- Should there be more countries other than Finland, Sweden and the Soviet Union included in the export regulation agreement, this contract remains valid.

²⁴⁵ ELKA; SSY; 1185; SSY’s circular 13 August 1931. SSY; 232: STEF’s circular 7 August 1931.

²⁴⁶ ELKA; SSY; 1185; SSY’s circular 13 August 1931. SSY; 232: STEF’s circular 7 August 1931.

²⁴⁷ The Finnish–Swedish Trust Council was a committee consisting of selected board members from the STEF and SSY. It had been set up in early 1931 to discuss topical issues in international timber trade and to defend Nordic timber interests.

²⁴⁸ The Swedish timber exporting field was organisationally divided into districts, and according to the STEF’s plan, the actual control tasks were left to the district boards. Eight district boards would supervise the timber companies in the field so that they would not produce more than their share. Firms would regularly inform the district boards about their selling status (quantities, prices, conditions, prospects). District boards would resend this information to the STEF Board and the Swedish side of the Swedish–Finnish Trust Council, which during the summer of 1931 became the highest authority in the Swedish timber trade control scheme.

The majority of timber exporters in Finland and Sweden signed the cartel agreement, but quite a few ignored it.

In Sweden, exporters representing altogether fifteen per cent of all Swedish export timber output did not respond to the letter. The firms who ignored it either hesitated with their production plans for the next year or were directly against the idea of a Nordic–Soviet cartel. J. L. Ekman approached the Swedish Bankers' Association in mid-August 1931 asking for their help with the non-responding fifteen per cent.²⁴⁹ The Swedish Bankers' Association looked favourably upon J. L. Ekman's request. It drafted a letter to its member banks and sent it to J. L. Ekman on 19 August in which the Bankers' Association recognised that timber trade had national importance and the STEF needed help in keeping the outsiders in control, and that the control authority could not be the state. 'The lack of solidarity between the Swedish exporters should not be allowed to endanger this nationally important question', the Bankers' Association wrote.²⁵⁰ The STEF and the Bankers' Association apparently had a good understanding that either the banks would boost the collaborative spirit among exporters or the government would. STEF archives suggest that eight banks²⁵¹ replied to the timber association and promised to aid the Board of STEF in decreasing the number of outsiders.

The collaboration between the Swedish Bankers' Association and the STEF Board worked well. During the autumn of 1931, the STEF Board received enough cartel contracts from its members confidently to continue the Nordic–Soviet negotiation in October 1931.

Solving the outsider-problem went much less smoothly in Finland. The SSY sent the cartel contracts to approximately 140 firms, which represented about ninety per cent of the Finnish total export.²⁵² Firms which shipped twenty per cent of the Finnish total timber volume did not answer at all. Exporters representing forty per cent of the total export volume gave their unconditional support to

²⁴⁹ CN, STEF; F1A:267: Pro memoria from Gunnar Sundblad 1 August 1931. Asking banks' assistance in cartel control was not a new invention in the STEF and SSY boards; at the turn of the 1930s both boards had done that already. In 1930, STEF had asked the Swedish Bankers' Association to assist in promoting the Swedish-Finnish production regulation cartel among the Swedish firms by restricting loans for firms that refused to join the STEF and the cartel. The Swedish Bankers' Association, however, declined to help STEF.²⁴⁹ The same happened in Finland, although with an opposite outcome; the leading banks promised to promote the cartel policies for their timber clients. It would appear that the Finnish banks generally played an integral part in controlling the Finnish side of the Finnish-Swedish timber cartel in 1925–31.

²⁵⁰ Bankföreningen archive: A2a; Meeting of the Board of Svenska Bankföreningen 19 August 1931. '*Med hänsyn till frågans utomordentliga betydelse för vårt land och vikten av att tillfredställande lösningen av densamma icke äventyras genom bristande sammanhållning hos våra exportörer har styrelsen för bankföreningen Ansett det vara sin plikt att till Eder ock andra banker vidarebefordra trävaruexportföreningens hemställan.*'

²⁵¹ CN; STEF; F1:88: Letters in August 1931. Aktiebolaget Sydsvenska Banken, Wermlands Enskilda Bank, Stockholms Enskilda Bank (which stated that all its timber firm clients were STEF members), Aktiebolaget Jordbrukarbanken, Sundsvalls Enskilda Bank, Skandinaviska Kreditaktiebolaget, Aktiebolaget Göteborgs Handelsbank, Aktiebolaget Svenska Handelsbanken. See also Bankföreningen archive: D3:a: Letter register 1931.

²⁵² CN; STEF; E3CA:2: Letter from E. F. Wrede (SSY) to J. L. Ekman 24 September 1931.

the cartel mission.²⁵³ Another forty per cent replied that they supported it with conditions—meaning, in practice, that they were unwilling to accept the quota given by the SSY.

The SSY's survey shows that small firms supported unconditionally the coming cartel negotiation more often than the big firms (see Table 5). The small firms might have been more cautious about potential control measures of the government and banks, which the SSY warned about in circular letters. Also, it was perhaps easier for small producers to agree to follow the production quotas suggested by the SSY because the depression had already gnawed away at their production output.

The big and mid-sized firms were the trouble-makers. Almost all big timber exporters in the country—including Kemi, Ahlström, Kajaani/Uleå, Rosenlew as well as the state's timber firms, such as Enso-Gutzeit—only agreed to support the cartel conditionally, which meant that they did not accept the quota SSY suggested to them. Big firms acting uncooperatively was a result that went against all the beliefs nurtured among the SSY Board members. Since the First World War and the birth of more frequent and regular competition regulation practices between Finnish timber exporters, the Board of the SSY had believed that small firms were the ones that destroyed cartels with their disobedient and reckless behaviour. Big firms that were against cartels were problematic because they were stubborn and resilient, and they knew how government–bank–business relationships in Finland worked. The SSY Board's letters which mentioned the threat of government intervention did not necessarily scare the big-firm owners because they might have known that legally there was little the Finnish government could actually do to prohibit exports.

Table 5: Support towards a potential Soviet-Nordic cartel in Finland in August 1931

	Unconditional support	Conditional support
Of the total Finnish yearly export	40.5%	41.5%
Number of firms in total	67	22
Firms producing over 10,000 std yearly	1	6

(Source: CfN; STEF; E3BB:6; Letter from SSY to J. L. Ekman.)

That one big firm giving an unconditional support was Halla Oy with 22,000 std yearly production. The six firms that supported conditionally produced 153,000 std yearly.

The SSY Board could not, however, agree to the terms that some big firms would have special conditions. If one big firm was allowed to have conditions, the others would demand similar treatment as well. If one opted out of the cartel, others would follow. Mutiny would lead to an unexpected outcome. Failure would show that the Board of the SSY was unable to lead the cartel negotiation, which easily led to government intervention or extending the role of banks. Public and broad

²⁵³ ELKA, SSY; 25: SSY Board meeting 11 September 1931. In addition to the written contracts, smaller firms representing five per cent of Finnish timber exports had orally agreed to support the cartel.

opposition of firms could damage the position of Finland and failure in timber negotiation would be considered a 'diplomatic scandal'. The key to avoiding that scandal was now to negotiate with the big firms.²⁵⁴

But why did the big firms oppose the cartel? The source material suggests that firm owners wanted to stay on top of things and decide the firms' production volumes as the situation demanded, decreasing volumes when the situation looked bad and increasing them when demand was high. Furthermore, the big-firms owners thought that while setting up a cartel during a period of depression was worrying, it was double-concerning to do so with the 'treacherous Soviets' as Kaarlo Brofelt called them. Trust was an important currency in a cartel, and that between the Finns and the Soviets did not exist in the early nineteen-thirties. Nations and firms were struggling to survive through the economic depression and the big firm owners doubted that the Soviets would not honour the cartel agreement made with the Finns and Swedes, if breaking it better served the Soviets' interests.

'Who says the economic situation will not improve automatically this year?' asked V. A. Kotilainen, the managing director of the state-owned Enso-Gutzeit, perhaps thinking of the coming British general election, or the future of the gold standard, or maybe the collapse of the entire Soviet Union.²⁵⁵ In his view, restricting exports from Finland, Sweden, and the Soviet Union would only open an opportunity for Canada and other European timber exporting countries to increase their exports to the British market. Enso-Gutzeit had nothing to gain from the cartel. V. A. Kotilainen also argued that the ongoing depression would automatically diminish the total production quantity in Finland, Sweden, and the Soviet Union, so restricting it artificially with a cartel agreement would be pointless. Kotilainen further pointed out that it would be good for the industry to let the depression do its work unrestricted; it would remove the small, uneconomical businesses and give commercial space for the competitive and commercially strong big firms. If anything, Kotilainen opposed the idea that big companies would decrease their production to rehabilitate the European market for the sake of the general good or the national interest. The big and strong should flourish and the small and weak should die; and cartels worked against this development.

The Finnish state owned a few of the biggest sawmills, but interestingly, the Forest Board (*Metsähallitus*), which administrated the state's shareholding of these firms, was not a keen supporter of cartelisation.²⁵⁶ The Forest Board had been set up originally in the nineteenth century to manage and protect the state-owned forests and to sell timber. The head of the Forest Board, forestry scientist A. K. Cajander was a keen promoter of the rationalisation movement. This movement supported academic education in forestry and technical innovations in production to create more sustainable and profitable business based on forestry products.²⁵⁷ He saw the timber trade and cartel issues

²⁵⁴ It should be mentioned that about half of the SSY board members represented small and mid-sized timber firms. Furthermore, not all the big firms had a position on the SSY board; only half of them had a board seat. The chairman of the SSY board in 1931 was Jacob Julin and the CEO was E. F. Wrede, who were both more than timber firm owners as they had had versatile careers in the forestry business and in trade diplomacy. They represented the Finnish timber industry, but did not promote the interests of one entrepreneur group at the cost of other groups.

²⁵⁵ ELKA; SSY; 1185: SSY Board meeting 7 August 1931.

²⁵⁶ Parpola, Antti/Åberg, Veijo, (2009): *Metsävaltio: Metsähallitus Ja Suomi 1859-2009*, 105–112, 437.

²⁵⁷ Parpola, Antti/Åberg, Veijo, (2009): *Metsävaltio: Metsähallitus Ja Suomi 1859-2009*. Kalela, Annikki (1985): *Isäni A. K. Cajander Kirjeiden Ja Muistikuvien Valossa*.

through commercial logic and defended these aspects in autumn 1931 when the Nordic–Soviet timber cartel was debated.

The SSY's cartel delegation had decreased the export quota for the Forest Board sawmills Enso-Gutzeit and Veitsiluoto by forty-eight per cent in 1932 compared with 1930. Cajander could not stomach the SSY's bold suggestion. In total volumes, the SSY suggested a decrease from 200,810 to 126,090 std. Cajander asked why small uneconomical firms should be allowed to have a quota at all in times like this when the production of big efficient companies had to be reduced. The small firms got lower prices for their production, they often failed to sell their whole stocks, and in general, their business was less profitable because they could not exploit their sawing waste. It did not make any sense to Cajander why the big firms should support the small firms during times of economic depression.

Cajander pointed out in his letter to the Ministry of Agriculture that restricting the production of big companies through a cartel worked not only against the big firms, but also against forest owners. If the big firms made less business because their production volumes were bound to lower quotas, it also meant diminished purchasing power, which would inevitably lead to lower stumpage price. Instead of international cartels, the Forest Board recommended for Finland 'purely selfish' selling politics based on the survival of the commercially fittest.²⁵⁸ Cajander wrote at the end of October to the Ministry of Agriculture that it would have been better if Finland had not started these negotiations in the first place, but now that interrupting them did not seem possible either, Finland should see to it that its immediate interests were not harmed. Furthermore, Finland should keep as selfish a line as possible in the negotiations and avoid over-generous concessions. 'The Swedes and the Soviet's are not in the negotiation out of love towards Finland, but to promote their own interests', Cajander pointed out.²⁵⁹ He wrote that a tripartite cartel agreement that restricted Finnish production levels damaged national interests and that Finland should not go below 750,000 std yearly production under any circumstances, otherwise the income from foreign trade would drop, unemployment would increase, and forest owners would be unable to sell their wood. Cajander was straightforwardly and unashamedly against a Nordic–Soviet cartel. This was not the last time in the nineteen-thirties when he would speak against multilateral cartels. Egon Glesinger, for whom a European timber regulation scheme was a life mission and a much-loved project, made a number of critical comments on Cajander. Looking back to 1935, Glesinger remembered:

²⁵⁸ The Forest Board probably did not have the same information and experience about how price and production regulations worked in the timber trade compared with other big producers who had spent more time in the core institutions of the SSY in the nineteen-twenties. The Ministry of Forestry claimed, for example, that UK importers did not benefit from the Nordic-Soviet timber export regulation and forecast that they would furiously oppose it. In fact, this was not true at all; UK importers were supporters of the Nordic-Soviet timber export regulation agreement and made many serious attempts at the turn of the decade to make such an arrangement a reality.

²⁵⁹ ELKA; SSY; 1185: Letter from Forest Board to the Finnish Ministry of Agriculture 26 October 1931. *'Metsähallituksen käsityksen mukaan olisi ollut onnellisempaa, jollei tällaisiin neuvotteluihin ensinkään olisi jouduttu, mutta kun ne on aloitettu, ei neuvottelujen nykyasteessa näyttäisi otolliselta niitä Suomen taholta katkaistakaan, mutta olisi kuitenkin selvästi annettava ymmärtää, että Suomi, joka on hyvin vähän intresseerattu koko asiasta, haluaa olla mukana vain sikäli, kun sopimuksella ei loukata Suomen oleellisia etuja sekä voimakkaasti ajettava Suomen etuja hyvin tietäen, etteivät ruotsalaisetkaan yhtä vähän kuin venäläiset käy näitä neuvotteluja rakkaudesta Suomea kohtaan vaan valvoakseen omia etujaan.'*

This resistance came especially from Finland's chief forester, Dr. Cajander, a very shrewd politician who later became Finland's prime minister. When I called on him and requested his support for the proposed cartel agreement the old man just smiled in the most provoking way and finally said in his high voice: "You are very young, my friend, but I know by experience that sooner or later every agreement of that kind creates difficulties and is ultimately broken. So it is just as well not to start with it, especially if this means co-operation with these Russians who for so many years have oppressed our country". It sounded very discouraging.²⁶⁰

Cajander was also very discouraging in October 1931 towards SSY's quota ideas. He wrote to the Ministry of Agriculture that the sawmills of the Forest Board (Enso-Gutzeit, Veitsiluoto, Tornator) did not feel obliged to follow the SSY's quota, but did not openly oppose the continuation of the negotiations either.²⁶¹ The opposition of the Forest Board and Cajander shows that the state's ownership did not directly make the state-owned firms political puppets.

In autumn 1931, the Board of SSY had asked help from the four banks crediting the Finnish timber trade to deal with the difficult firms who had not immediately accepted the SSY's quota were. The idea was that the banks, in collaboration with the SSY's cartel delegation,²⁶² continued to negotiate with the difficult firms about their production quotas for 1932.²⁶³ The Finnish banks accepted the task and collaborated with the Board of SSY. However, they failed in their mission to convince firms to accept the quotas the SSY had appointed to them. From October to November 1931, the SSY Board pleaded time and time again to the anti-cartel exporters to accept the proposed export quotas. It underlined that the Finnish government was supervising the process and that it would not hesitate to take coercive action should the voluntary path prove to be fruitless. On 13 October, 1931:

The working committee has remarked that the Finnish government is paying a close attention to the proceeding of the [timber negotiation] matter and that government intervention is to be expected, which could mean that maximum quotas of timber exports will be controlled by governmental authority. To avoid this [-], the working committee demands that the firms cease their quota demands and accept the production volume that is allocated to them.²⁶⁴

At the beginning of November 1931, the final stage—or what was believed to be the final stage—of the Nordic–Soviet cartel negotiation was drawing nearer. Finland's eligibility to participate in the cartel

²⁶⁰ Glesinger, Egon (1942): *Nazis in the Woodpile; Hitler's Plot for Essential Raw Material*, 107–108.

²⁶¹ Cajander's thoughts about multilateral timber cartels were very negative and it seems that he did not hide these thoughts either.

²⁶² Delegation: Gunnar Jaatinen, Jackob von Julin, Rosenlew, Axel Solitander, E. F. Wrede

²⁶³ ELKA; SSY; 1185: SSY Board meeting 11 September 1931.

²⁶⁴ ELKA; SSY; 1185: SSY's working committee's meeting 13 October. '*Arbetsutskottet har sig bekant, att vårt lands regering fortfarande ägnar denna fråga en mycket stor uppmärksamhet, och att ett regeringsingripande sannolikt är att förvänta, vilket möjligen kunde innebära, att regeringen skulle genom någon kontroll-organ reglera trävaruexporten och event. Fastställa en maximi-kvantitet för denna omfattning. Då ett offentligt statsingripande ur avlastarnas synpunkt borde undvikas och denna fråga kunna lösas av exportörerna själva, önskar Arbetsutskottet rikta en enträgen vädjan till de firmor, vilka framställt fordringar beträffande vissa standard-kvantiteter, att, med frångående av dessa krav, i vår sågindustris allmänna intresse förklara sig beredda att godkänna den procentuella andel, som föreningens för behandling av den ryska frågan tillsatta delegation föreslagit dem.'*

was seriously jeopardised by the fact that too many big exporters still refused to sign the quota that the Finnish cartel delegation had allocated to them within the framework of a 766,666 std country quota.

On 6 November the Finnish government called a meeting and invited the CEO's of SSY and Enso-Gutzeit, E. F. Wrede and V. A. Kotilainen, as well as the head of the Forest Board, A. K. Cajander, and the director of the Central Association of the Forest Industries, Axel Solitander. The meeting's agenda was to discuss the status of the timber cartel negotiations.

In the meeting, the CEO of SSY, E. F. Wrede, said that the triumvirate of the banks, Finnish cartel delegation, and the Board of the SSY, had not succeeded in making the big firms sign the cartel contract. The SSY had pleaded time and again to the exporters' sense of duty and threatened them with government intervention, but it had not fostered the will to collaborate among the big firms. Banks had supported the SSY's quota policies, but obviously even the discussions with the creditors had not made a difference to the big firms. All this indicated that Finland's participation in the Nordic–Soviet timber cartel was in serious trouble. The Finnish state leadership also expressed doubts towards the whole quest of creating a cartel. There was, however, no turning back now. All participants in the meeting agreed that Finland could not withdraw from the cartel negotiation; even V. A. Kotilainen and A. K. Cajander, the leading anti-cartelists in the country, assured that their firms would not officially stand against the cartel, even though they personally thought Finland was making a mistake.

Finnish, Swedish, and Soviet delegations discussed the cartel plan several times in November 1931. On 16 and 19 November the three delegations met in London and on 29 November in Stockholm. The Finnish delegation wished keenly that the Soviets would present new, exaggerated demands that would lead the negotiation into a deadlock.²⁶⁵ At first, the Soviets did raise the credit question again, which temporarily lifted hopes that the negotiation would fail, but they dropped the idea of credit due to Nordic opposition. By mid-December 1931, the Soviet's had dropped all their unrealistic negotiation bargaining points, and in fact, nothing stood in the way of implementing the Nordic–Soviet timber in 1932. As Finland and Sweden had made clear all along, they were ready to sign the cartel whenever the Soviets were.

The Board of the SSY made its last attempts to make firms' support the quotas at the beginning of December, but in the Board meetings on 17 and 19 December it had to face the fact that Finland was not in a strong position to participate in the Nordic–Soviet timber regulation scheme. Too many important exporters were still against the cartel. If Finland signed the cartel agreement it could not subsequently break it—and considering the broad opposition of the firms towards the cartel, the only way to ensure that Finland did not break the commitment was to invite the banks and the government to guarantee Finland's quota. The opinions in the SSY Board diverged as much as they had in spring. Some thought the Nordic–Soviet cartel was a necessity, others considered it a mistake. Some did not want to restrict their business because it might bring benefits in domestic competition for those who had international creditors, while others were afraid that the Nordic–Soviet cartel would increase exports from South–East Europe and Canada. Some Board members supported government

²⁶⁵ Meetings took place on 16, 18, and 29 November. The Soviet Union was represented by envoy Simon Rabinovitch and the head of Exportles, Ernest Por, and Sweden was represented by the heads of STEF, J. L. Ekman and Göran Göransson. The Finnish delegation consisted of the heads of SSY, E. F. Wrede, Jacob von Julin and Lampén in London and Axel Solitander in Stockholm

involvement in the cartel because they believed that it was the right solution to fix a chaotic situation, others saw it as a mockery to freedom of trade. In the discussion that the Board members had, the short history of the whole cartel process in 1931 was concluded. Heiliö, for instance, noted that the timber agreement question came to the SSY through 'pressure from the banks and the government'. According to Snellman, Finland could no longer back off 'honourably' from the agreement. Jacob von Julin thought that 'foreign political and general economic viewpoints support signing this agreement'.²⁶⁶

This being the case, there was only one path to follow, and that was towards signing the Nordic–Soviet timber regulation scheme. The Swedes and the Soviets were ready to do this. In late December 1931 the SSY Board created a control scheme that would ensure Finland's eligibility to join the Nordic–Soviet timber regulation scheme.²⁶⁷ It was based on the authority of banks and the Finnish government. The Board obviously estimated that reserving the right to make exceptions to the freedom of trade was a milder offence than breaking the international agreement on timber regulation. The control scheme was as follows:

1. With the approval of the Finnish government, the Bank of Finland would guarantee that Finland's export quota will not be exceeded.
2. Commercial banks will have a quota that their clients cannot exceed. The banks oversee that their timber company clients do not exceed the quotas that are given them.
3. Banks have the right to adjust the quotas of the firms that they credit.
4. Should the banks fail to control the quotas and Finnish exports exceed the maximum quota defined in the Nordic–Soviet timber agreement, the Finnish government will introduce export licences in timber trade.

The problem of firms that were independent from the creditors was solved in late 1931, the banks promising to 'supervise also the exporters that were independent from creditors and report them to the respective state officials'.²⁶⁸ Independent exporters barely existed at all, however, so this was not a practical problem. Which state officials the banks would report, and what that official would do, was left unanswered. This plan was not, in fact, entirely new, but Axel Solitander— forest industry lobbyist and the former Minister of Trade—had suggested something similar after the very first Nordic–Soviet negotiation in summer 1931. In his view, a timber cartel without government control was impossible because of exporters opposing the cartel. He suggested governmental licenses on timber exports, which would work in the same way as licensing the export of lingonberry and butter in 1930. The SSY and STEF Boards had rejected Solitander's plan in summer 1931; back then, even the SSY Board still

²⁶⁶ ELKA; SSY; 25; SSY Board meeting 17 December 1931. Heiliö: *'frågan om trävaruavtalet upptagits av Styrelsen genom påtryckning från bank- och regeringskretsar.'* Snellman: *'Förslaget om att vi skulle försöka med heder undandra oss den slutliga uppgörelsen kunde talaren icke omfatta.'* ELKA; SSY; 25; SSY Board meeting 19 December 1931. Von Julin: *'Ulkopoliittiset ja yleiset taloudelliset näkökohdat puhuvat myöskin tällaisen sopimuksen puolesta.'*

²⁶⁷ ELKA; SSY; 25; SSY Board meeting 17 and 19 December 1931. 1185: Letter from Risto Rytö to E. F. Wrede 24 December 1931.

²⁶⁸ ELKA; SSY; 1185: Letter from Risto Rytö to E. F. Wrede 24 December 1931. *'Niin ikään ovat pankit valmiit tarkasti seuraamaan sellaistenkin asiakkaitensa toimintaa jotka eivät ole luotonsaannista riippuvaisia ja tästä toiminnasta antamaan tietoja esim. asianomaisille valtion viranomaisille.'*

believed firmly in the realisation of a private cartel. In late 1931 the situation had changed and Solitander's plan started to make sense.

The control plan was distributed to the Ministry of Foreign Affairs, the President of Finland, the Forest Board, and the managing directors of commercial banks. The governor of the Bank of Finland, Risto Ryti, was already aware of it because he collaborated closely with the SSY Board in making the plan. Commercial banks and the Finnish government agreed to take on the suggested responsibilities. It is not entirely clear what actions the Finnish government could take to prohibit Finnish firms from exporting if the situation so required. Finland was a constitutional state and governmental export prohibitions required parliamentary process. The Finnish Parliament in the early nineteen-thirties did not support governmental licenses in the timber trade. But the details did not affect the cartel negotiations, for the most important thing was to appear credible. Possibly the Finns estimated that the process would not be tested in real life.

The Government of Finland and the banks were now integrally and formally involved in the cartelisation process. The state of affairs in the timber trade at the turn of 1932 was quite different from what the Boards of the SSY and STEF had imagined nine months earlier.

A failed cartel

At the start of 1932, all signs were that the Nordic–Soviet timber cartel agreement would see daylight very soon, and the Finnish, Swedish, and the Soviet delegations set up a meeting in Stockholm in mid-January to sign the cartel agreement. However, to the great surprise of the Finns and Swedes, the Soviet Union presented new demands at that very meeting. The Soviets demanded a forty per cent quota, instead of the thirty-three per cent which had been earlier agreed. Furthermore, they demanded a higher total quota than Finland and Sweden. The question of a quota and its division between the countries were issues that the Nordic exporters thought they had decided upon in autumn 1931 or in December at the latest. An equal division for all three countries was the only quota basis on which the Finns and Swedes had agreed to negotiate, and Exportles had already accepted that. With this new demand, the Soviets took the negotiation back to square one.²⁶⁹ The Finns and Swedes were surprised to say the least.

The order to change the course of the agreements came from Moscow, and the reasons can only be guessed at.²⁷⁰ Possibly the Soviets had gathered from the British buyers that the consumption of Soviet timber would improve. This is hard to believe though; after all, in 1932 Great Britain was in the process of diminishing Soviet and increasing Canadian imports. Perhaps the Soviets thought that making a surprise attack would confuse the Finns and Swedes, but having come so far, they would sign the scheme anyway. It could be that they had lost interest in the regulation scheme and deliberately sabotaged it with unrealistic and surprising demands. Possibly the new demands were not based on strategic thinking at all, but merely reflected its lack. People in the Exportles delegation had changed, and perhaps that has an effect as well. Speculation aside, the Finns and Swedes did not have a clue why things had taken this new course.

Whatever the reason for the changed Soviet tactics was, it was a successful end for those who did not want a cartel in the first place. The Nordic–Soviet timber negotiation was declared 'over for good'.

²⁶⁹ ELKA; SSY; 1185: SSY working committee meeting 22 January 1932, app.1a.

²⁷⁰ ELKA; SSY; 1185: SSY working committee meeting 22 January 1932, app. 1a.

Finland did not ruin the process, but the Soviet Union did. The Finnish and Swedish exporters maintained their façade and avoided a political scandal. The Finnish secret about uncollaborative exporters who were inherently difficult to control was safe, at least for a while. The SSY and STEF did not waste time or energy in underlining who was the scapegoat.

Picture 1: The heading reads 'Stockholm's timber negotiation' and 'Soviet quota' is written on the rock



(Source: Tapio 2/1932)

Although the stranding of the Nordic–Soviet timber cartel was a great relief for Finnish and Swedish timber exporters, otherwise for them 1931 was far from being a happy year. The path to government intervention and banks control in the timber trade had been opened, and the formula for cartel agreements and the readiness to sign them in principle had been established.

In early February 1932, the SSY freed the Finnish exporters from the production restrictions 1932 that they had bound themselves to in August 1931. No one yet knew, however, that the negotiations would be picked up again in three months in the European context. The political restraints that had descended upon the timber cartel question in 1931 did not go away, in fact they grew stronger.

Summary and discussion

Chapter 1 shows that 1931 was an important threshold for the Swedish and Finnish timber industries. Before that, cartels had been—with the exception of 1918 and 1921—the industry's own business. Since 1922, the decade had been a period of rapid economic growth and bilateral, Swedish–Finnish private cartels. The nineteen-thirties, however, opened up another era with the Great Depression, protectionism, trade wars, and cut-throat competition with the Soviet timber producers. It led to multilateral cartel negotiations under immediate threat of government intervention. Cartel negotiations, which in the nineteen-twenties used to be private, exclusive, commercial, and bilateral, changed into public, diplomatic, and multilateral. Furthermore, in the nineteen-thirties the act of negotiation was more important than reaching an agreement on account of the diplomatic value of the negotiation itself.

This chapter has discussed the Nordic–Soviet timber cartel negotiations in 1931 and its commercial, ideological, political background. It presents an interpretation that, along with the commercial reasons—Soviet Union’s rapidly expanding timber exports to UK—Finland engaged in Nordic–Soviet timber negotiation in 1931 partly for political reasons. Finland wanted to change its foreign political patterns formerly based on isolation and cold relations towards the Soviet Union.

The first chapter shows that since autumn 1930, Soviet timber trade representatives had frequently approached Finnish and Swedish timber trade associations, commercial and central banks, as well as diplomats and ministers, to express their desire to open a Nordic–Soviet timber cartel negotiation. Towards the summer of 1931 these overtures became increasingly intense, and finally, in June 1931, the parties met. The timber regulation scheme was negotiated throughout 1931 and up till January 1932, when all was set for the final signatures. The Soviet Union, however, suddenly and unexpectedly interrupted the negotiation.

Sources show that the leaders of the Swedish and Finnish timber trade associations, STEF and SSY, as well as many firms opposed the opening of the Nordic–Soviet timber cartel negotiation in the winter and spring of 1931. However, bank directors and state leadership—like the Prime Ministers and the key ministers in trade and foreign affairs in Sweden and Finland—supported the negotiations. Timber trade associations were encouraged to take care of the opposition problem and accept the Soviet Union’s negotiation invitation. The material indicates that there was a diplomatic undertone why the political circles supported the timber negotiations. Particularly Finland did not want to be understood as a country which broadly supported ‘anti-Soviet’ policies in its foreign and economic relations. Fascist, anti-Bolshevist Lapua movement in Finland in 1930–1931 was doing already enough harm in that domain. In the broader picture of East–West policies of the nineteen-thirties, European countries were in the process of discovering means to coexist with the Soviet Union, a closed but expansionist country, born out of the Bolshevik revolution, and an ideological arch enemy of the West. The solution of the nineteen-thirties, for Europe, was to revisit the previous foreign political patterns based on growing anti-Bolshevism and to seek a politically and economically more profitable strategy through rapprochement. This chapter argues that Finland wanted to join that trend, and Nordic–Soviet timber cartel negotiations were an opening of a new era. The Finns did not want a timber cartel with the Soviet Union, but wanted to engage in the negotiations to build a brand as a collaborative, Soviet-friendly country. Cartel success—how to measure it and what does it mean—have been long debated in cartel literature. The empirical material of the ETEC suggests that measuring cartel success does not have to start from the point when cartel is set up, but from the moment the potential partners start their efforts to create it. For Finland, a cartel success in 1931 meant not interrupting the negotiations; for the Finnish timber trade association it meant not losing the control formally to the government; and for the firms, who did not want it in the first place, it meant that the negotiations ended.

Timber trade association in Finland (SSY) in particular acutely feared that if it did not accept the Soviet invitation, or proved to be unable to lead the negotiations on behalf of Finland, the Finnish government would uncontrollably intervene in the course of events. Spontaneous support of the firms towards Nordic–Soviet cartel negotiations missing, the Swedish and Finnish timber trade associations had to find an external control mechanism and a credible deterrent. Paradoxically, they invited banks and governments in the cartel process—banks as concrete controllers and the governments more as a potential and more theoretical threat. The banks could effectively control the raw material purchases and production plans of timber firms as well as restrict the credits of those who tried to produce more than the cartel quotas allowed. This chapter shows that the role of banks as controllers

worked quite well in Sweden, but less so in Finland. During autumn 1931, it became evident for the Finnish cartel organisation that many big Finnish firms refused to accept the quota set by the SSY and banks for them. Bank deterrent not being enough, the leadership of the SSY asked for help from the Finnish government to act as an authority should Finland be unable to fulfil its forthcoming cartel obligations. The decision was debated in the SSY Board and many objected it, but eventually the arguments about national importance of the ETEC won. Government authority was not tested in action in 1931 or 1932, however, due to the breakdown in the Nordic–Soviet cartel negotiations, but the link between timber trade associations, commercial banks, and governments in Finland and Sweden had still nevertheless been established. Later in the decade these links were activated many times.

This chapter has also discussed the motivations of the Soviet Union to seek for cartel collaboration with the Nordic countries. It concludes that a cartel with the Western producers was a strategy to increase profits from timber trade as much as to state new geopolitical goals vis-à-vis neighbouring countries. In economic realm, the price competition with the Nordic countries was not profitable for the Soviet Union, who wanted to become a fully industrialised super-power. For that, the Soviet Union needed western machines, technology, and credit; and it needed massive surpluses to pay for these investments. Timber was one of the most important commodities of Nordic foreign trade, and regulating competition with Finland and Sweden would add value. It is likely that the Soviet government looked favourably upon Nordic–Soviet cartel also because the idea got green light from its most important buyer; the UK supported the idea of creating longer-term balance and predictability through regulated competition agreements between its three major suppliers. The evidence found so far does not indicate that the Soviet government initiated the timber cartel negotiations in 1931 because the British importing interests pressured it to do so, but it is not entirely impossible either, particularly reflecting on the events in 1932 when the British government considered Nordic–Soviet timber cartels as a way to solve its trade political problems with Canada and the Soviet Union.

Theoretically, the results of the first chapter raise questions about when and with whom firms want to form cartel and which conditions must prevail before cartels can be established. In the light of economic theories on cartels, the reluctance of Finnish firms towards collaborating with the Soviets in 1931 seems logical. Theories on the optimal market conditions for setting up cartels suggest that sectors that had low entry and sunk costs, low profit margin, were occupied by many competitors, had high variation of firm sizes and fluctuating demand, as well as vague observability of pricing and big product variety were more likely to set up cartels during rising demand than during declining demand. All these characteristics describe timber industry well, so it is not surprising that the Finnish timber firms did not want to set up cartels in 1931. Cartel formation of Finnish and Swedish timber firms between 1916–1930, during which the cartel formation was largely private and voluntary with a few exceptions, shows that timber industry acted as theory predicts; they formed cartels during booms and abandoned them during recessions. Relative gain from the cartel collaboration was lower during declining prices than during increasing prices and cheating was difficult to detect.²⁷¹ In timber

²⁷¹ Stigler, George J. (1964): 'A Theory of Oligopoly' in *Journal of Political Economy*, vol. 72, no. 1. Green, Edward J./Porter, Robert H. (1984): 'Noncooperative Collusion under Imperfect Price Information' in *Econometrica*, vol. 52, no. 1. Rotemberg, Julio J./Saloner, Garth (1986): 'A Supergame-Theoretic Model of Price Wars during Booms' in *Am.Econ.Rev.*, vol. 76, no. 3. Haltiwanger, John/Harrington, Joseph E., Jr. (1991): 'The Impact of Cyclical Demand Movements on Collusive Behavior' in *Rand J.Econ.*, vol. 22, no. 1. Suslow, Valerie Y. (2005): 'Cartel contract duration: empirical evidence from inter-war international

industry, firms deviated from cartels rules to save their skins; they resorted to selling their stock in a very low price to keep the business running or to abandon the business altogether. Deborah Spar has formulated the same observation so that in order to have a successful cartel collaboration, the pockets of the competitors 'must be deep enough to permit them to absorb the losses and ride out the inevitable slump'.²⁷² Vast majority of Finnish timber firms did not have deep pockets, and for those that did have, it did not make sense to collaborate with those that did not have.

Then again, being restrained towards the Soviets cartel ideas in 1930–1931 might seem uncoherent considering that Sweden and Finland did have bilateral cartel collaboration in 1930 and to some extent also in 1931. Did not the depression erode the Nordic collaboration? The willingness to collaborate in Nordic level, and mutual history of doing so, outweighed to some extent the downsides of collaborating during depression. Nordic partners did not right away abandon their collaboration when demand fell off a cliff. But starting a collaboration with the Soviet Union during depression was an entirely different question, and theories concerning the prerequisites of successful cartels contextualise the economic rationale behind it.

Material indicates that the Nordic exporters were suspicious towards the Soviets as cartel collaborators. The suspicion, however, should not be understood primarily as yet another expression of anti-Bolshevism of the nineteen-thirties that clouded the judgement of otherwise sound businessmen, but rather the opposite. Research shows that cartel is an investment in which partner's predictability and credibility—trust, in short—plays a major role. Spar has written that 'cooperation depends on valuing the future'.²⁷³ The Nordic exporters considered the Soviet Union as an unsafe investment. Nordic and Soviet timber exporters sold nearly same products to the same market, but pricing, cost of production, and structure of political economy diverged in East–West axis.

Deborah Spar has concluded that 'cooperative behaviour among producers is not determined solely by the structure of the market in which they operate. [- -] To understand cartels, we must examine not only the external structure or markets but also the internal characteristics of producers'.²⁷⁴ Successful cartel partnerships do not build upon only identical products, pricing, costs, and markets, but also transparent and credible institutions and mutual trust between the partners. Deborah Spar has underlined the importance of institutions that can display credible commitment of partners to cartel; ability to detect and punish cheating, for instance.²⁷⁵ Nevertheless, the real issue in the light of

cartels' in *Industrial and Corporate Change*, vol. 14, no. 5. Dick, Andrew R. (1996): 'When Are Cartels Stable Contracts?' in *Journal of Law and Economics*, vol. 39, no. 1. Hallagan, William S. (1985): 'Contracting problems and the adoption of regulatory cartels' in *Econ.Inq.*, vol. 23, no. 1. Schmitt, Nicolas/Weder, Rolf (1995): 'Sunk Cost, Entry and Cartel Formation: Theory and Evidence' in *Discussion Papers dp95-13a, Department of Economics, Simon Fraser University*. Bagwell, Kyle/Staiger, Robert W. (1995): *Collusion Over the Business Cycle*. Wiggins, Steven N. and Libecap, Gary D. (2007): 'Firm heterogeneities and cartelization efforts in domestic crude oil (originally published in *Journal of Law* 1987)' in *Cartels*, Vol I. Levenstein, Margaret C. and Suslov, Valerie Y. (2004): 'Studies of Cartel Stability: A Comparison of Methodological Approaches' in *How Cartels Endure and how they Fail: Studies of Industrial Collusion*.

²⁷² Spar, Debora L. (1994): *The Cooperative Edge: The Internal Politics of International Cartels*, 23.

²⁷³ Spar, Debora L. (1994): *The Cooperative Edge: The Internal Politics of International Cartels*, 228.

²⁷⁴ Spar, Debora L. (1994): *The Cooperative Edge: The Internal Politics of International Cartels*, 217, 219.

²⁷⁵ Spar, Debora L. (1994): *The Cooperative Edge: The Internal Politics of International Cartels*, 11–27, 225–257.

this research material is that, as long as the cartels were not legally enforced, the partners simply had to trust that their institutions, designed to enforce cartel norms and detect and punish for cheating, were being used in the way they were said to be used.

Soviet timber trade was a governmentally controlled venture. Nordic timber exporters could not see within the Soviet government or predict who would be in charge of it next year. They did not know if the Soviet timber trade organisation, Exportles, was willing or able to detect and punish cheating. Was the Soviet Union really interested in vesting long-term stability of timber trade or was the negotiation invitation a disguise to discuss something else? Was the Soviet Union itself stable in the long-term? Material suggests that the Nordic reluctance to invest into collaboration with the Soviet Union went beyond timber trade technicalities.

Another theoretical aspect that is relevant for the results of this chapter is cartel success. Cartel theories often examine cartel success from the perspective of cartel performance; they study how successful cartel work and debate what 'success' means. Literature rarely frames 'success' as an outcome of a negotiation or debate what it takes to deliver a successful negotiation outcome. This work points out that the process of creating a cartel is a complex and delicate business, and cartels in fact has two successes; first signing it, and then making it work. Cartels, which negotiations took a long time—like ETEC's—can be quite revealing concerning what it takes to establish an international cartel. This work suggests the same as Spar's work—trust is an essential currency in cartels—, but it also shows that trust is built upon certain components. Potential cartel partners, in order to build mutual trust, need to be familiar with the business culture, networks, and institutions in which the potential collaborator operates in. Cartel partnership can be established on the foundation of knowing how, when, and to whom the competitor is selling its products; how collaboration benefits the competitor; how the competitor might cheat; and who runs the business. All this was easy in the Nordic level in the nineteen-thirties because Swedish and Finnish timber trading people had established long-lasting personal and organisational networks. They knew each other's institutions, traditions, and business culture more than well—and the leading people of Finnish timber trade association spoke Swedish as their mother language. There were no cultural, historical, operative, or identity barriers. In the realm of Nordic–Soviet axis, on the contrary, every possible barrier existed—and a firm belief that trusting the 'treacherous Bolsheviks' was a fools mistake. At the end of the first round of the Nordic–Soviet timber cartel negotiations, it turned out that the Nordic timber trade people with their suspicions were right. In the negotiations, the Soviet Union was unpredictable and it was always about more than just timber and cartel. Soviet Union wanted to discuss credits awfully lot.

CHAPTER 2: League of Nations, British protectionism, and timber trade 1932–1933

This chapter discusses the European turn in the timber cartel negotiation in 1932 and 1933. It shows that since the nineteen-twenties the League of Nations had taken a keen interest in promoting a timber export regulation scheme between the producer countries and, in spring 1932, it finally managed to organise an international timber conference. This chapter argues that Sweden and Finland were not happy with the attention that the Economic Section of the League of Nations was giving to setting up a European timber cartel. Nevertheless, as Finland and Sweden did not want to publicly sabotage the League's attempts to build commercial collaboration in Europe, the two Nordic countries did attend the European timber conferences. This chapter also discusses how the British Imperial Trade Negotiations, and particularly those conducted with Canada, affected the European timber cartel project.

A couple of weeks after the Finnish–Swedish–Soviet timber cartel negotiations had been declared over, the former negotiating parties received a letter from Geneva. Pietro Stoppani, the secretary of the Economic Section of the League of Nations invited Finland, Sweden, and the Soviet Union to a European timber conference in which the rest of the European timber trading countries would also attend. The conference was set for April 1932.

The meeting in Geneva was a follow-up conference to an earlier assembly in Warsaw on 26–27 June 1931, which had been brought together by Polish timber interests. The Warsaw meeting had been of an 'informatory character' and smaller scale than the one Pietro Stoppani was now arranging.²⁷⁶

Since summer 1931, the timber market had seriously deteriorated; the problems of overproduction, under-consumption, and fall in prices that had affected the timber trade since the late nineteen-twenties had only accelerated. Anti-Soviet campaigns in Great Britain paralysed the market, and negotiations on the Nordic–Soviet regulation scheme had quite recently ended up in deadlock. Supply and demand was grossly out of balance and competitors were not talking to each other; it was all turning into a commercial and trade-political crisis. The market in 1931 and 1932 had transformed rapidly as a result of an increase in output, a decrease in consumption, and changes in the governmental trade policies. Great Britain, France, and Germany had raised tariffs and trade relations were re-negotiated on a bilateral basis. The timber output from the Soviet Union had skyrocketed, and at the same time Great Britain was turning towards trade policies that favoured Canadian timber and disfavoured Soviet production. The continental timber surplus countries—Austria, Czechoslovakia, Romania, Poland, Yugoslavia, which together produced about the same volume that Finland alone had produced—had traditionally exported timber mainly to their neighbouring countries, Germany, Italy, and Hungary. In early 1930, however, these import countries increased the duties on all imported timber. This created pressure for the continental timber exporters to find new

²⁷⁶ NA; T 160/555/6: Letter from R. E. Kimnes 7 July 1931. Meetings were also held in Bratislava 1923, Lyons 1924, Rome 1926, Bratislava 1929, and Paris 1931. Nordic countries and the Soviet Union did not attend. CfN; STEF; F1A:286: Report of the Economic Committee of the League of Nations 'Timber. Report by the delegation of the economic committee on the meeting of timber experts (April 25th to 27th, 1932).' 4 May 1932.

markets in the Dutch and British markets, which traditionally had been a playground for Nordic and Soviet timber.

The agenda at the Geneva meeting was no less than to find a cure for the European timber problem, which originated from unregulated competition between the exporting countries combined with the Great Depression and spreading protectionism. Free competition had turned into a cut-throat competition that was currently building up into an international crisis. The Economic Section of the League of Nations seemed to think, however, that the European timber supply needed to be controlled and the control mechanism had to be international in character. The era of regional cartels was over.²⁷⁷ 'No remedies can be effective henceforward without international co-operation', the League's report on the conference concluded.²⁷⁸ Furthermore, the League of Nations was convinced that the control mechanism of the international regulation scheme had somehow to be governmental. The logic is understandable; considering how much governments were able to regulate commodity trade through tariff policies, the governments were already part of the regulatory machinery. Furthermore, the structure of the timber industry— the number of producers was big while costs and profits were low—indicated that the regulation scheme, if such was ever created, needed to enforce strong controls.²⁷⁹

Thus, Pietro Stoppani did not send the invitation to the timber conference only to the STEF and SSY but also to the Swedish National Federation of Industry (*Sveriges Industriförbund*), the Swedish Ministry of Trade, and the Finnish Ministry of Foreign Affairs.²⁸⁰ He asked Finland and Sweden to send representation that could speak on behalf of 'government, producers, and trade'.²⁸¹

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

²⁷⁷ There had been bilateral cartels between Sweden and Finland from 1916 onwards, as well as between Romania and Yugoslavia from June 1931 onwards ('Timber Committee'). Poland too had an export syndicate by 1932. Kuorelahti, Elina (2015): 'Boom, depression and cartelisation: Swedish and Finnish timber export industry 1918–1921' in *Scandinavian Economic History Review*, vol. 63, no. 1. CfN; STEF; F1A:285: Meeting of timber experts 25–27 April in Geneva. Note by M. P. Ioan, Administration Romanian State Forests 20 April 1932. F1A:286: 'The Timber Problem' Report of the League of Nations, 22 October 1931.

²⁷⁸ CfN; STEF; F1A:286: Report of the Economic Committee of the League of Nations 'Timber. Report by the delegation of the economic committee on the meeting of timber experts (April 25th to 27th, 1932).' 4 May 1932.

²⁷⁹ CfN; STEF; F1A:286: Letter from Pietro Stoppani (Economic section of the League of Nations) to J. L. Ekman 16 February 1932.

²⁸⁰ RA; Swedish Ministry of Foreign Affairs; HP 2142:F: Letter from Vilhelm Lundvik (Sveriges Industriförbund) to Arvid Richert (utrikesrådet) 24 February 1932.

²⁸¹ CfN; STEF; F1A:286: Letter from Pietro Stoppani (Economic section of the League of Nations) to J. L. Ekman 16 February 1932.

field; hence such restrictions necessarily involve Government intervention, and the agreement of all exporting countries.²⁸²

It was not the first time that the League of Nations was suggesting a governmentally controlled cartel in a raw material industry. According to Marco Bertilorenzi, the League of Nations and the International Chamber of Commerce (ICC) had studied the cartel question since the first International Economic Conference in 1927.²⁸³ Bertilorenzi shows that the debate about the nature of cartels, their pros and cons, was an ongoing process at the turn of the decade and in the early nineteen-thirties. The Great Depression and its many symptoms were challenging the private cartel as the best form of regulating competition.²⁸⁴ Many cartels collapsed, which the Economic Section of the League of Nations and the ICC interpreted as a sign of the inherent weakness of private interests being in charge of them during crisis times. Private cartels were unstable and unpredictable. Firms cheated or refused to negotiate, and private cartels could not effectively punish firms or force them to join in the agreement. The broader idea behind the interventionist aspirations of the League of Nations was the inseparable nature of trade and diplomacy. Trading with natural resources intertwined with the survival of nations and that being the case, international trade had the capacity of creating either peace or war. The League of Nations sought to promote peace.

The Boards of the SSY and STEF received the invitation to the League's timber conference in mid-February. They were not happy about it. Unfortunately, turning down the invitation was not altogether their call as it had also had been sent to the governments. J. L. Ekman wrote to Vilhelm Lundvik, the director of the Swedish National Federation of Industry and a member of the Economic Section of the League of Nations, that the STEF can send an expert to the League's conference only if, firstly, the Economic Section of the League of Nations pays his trip to Geneva and back, and secondly, if all countries that have received Stoppani's invitation attend.²⁸⁵ J. L. Ekman, nevertheless, made it clear that the STEF in principle opposed such a meeting:

The proposed conference cannot reach any practical results, because the collaboration indicated by the programme is not possible under the current circumstances. [- -] The Central Board of the STEF is of the opinion that the proposed conference is not only unnecessary but unwanted.²⁸⁶

²⁸² CfN; STEF; F1A:286: Letter from Pietro Stoppani (Economic section of the League of Nations) to J. L. Ekman 16 February 1932.

²⁸³ Bertilorenzi, Marco (2016): *'Legitimising Cartels. The joint roles of the League of Nations and of the International Chamber of Commerce.'* in *Regulating Competition: Cartel Registers in the Twentieth Century World.*

²⁸⁴ Bertilorenzi, Marco (2016): *'Legitimising Cartels. The joint roles of the League of Nations and of the International Chamber of Commerce.'* in *Regulating Competition: Cartel Registers in the Twentieth Century World.* Besides the League of Nations, governments and many private cartels around the world turned their eyes towards state powers to gain assistance in ensuring continuation of competition regulation during the Great Depression

²⁸⁵ CfN; STEF; F1A:286: Letter from J. L. Ekman to Vilhelm Lundvik 16 March 1932. Excerpt from a meeting minute of the Board of STEF 16 March 1932.

²⁸⁶ 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*

The reaction in Finland was similar; the Board of the SSY did not see any advantages in joining an international timber export regulation negotiations.²⁸⁷ Rudolf Holsti, Finnish envoy in Geneva, had spoken to Pietro Stoppani before he sent his invitation to Geneva and promised that the SSY would be interested in participating in an international meeting and would pay their own costs—now in mid-March the CEO of SSY, E. F. Wrede, wrote to Stoppani that such a meeting was pointless and too expensive for the SSY to pay for it.²⁸⁸

However, both countries joined the League's timber conference in April 1931. From Sweden came J. L. Ekman, the CEO of STEF, while the Finnish representatives were entirely diplomatic; Rudolf Holsti, Antti Hackzell, and Onni Kalliokoski.²⁸⁹ Looking back in 1948, J. L. Ekman commented: 'Finland [was] represented by people who knew nothing of timber.'²⁹⁰ The sources do not explain why the Finnish Ministry of Foreign Affairs first chose the CEO of SSY, E. F. Wrede, to go to the Geneva meeting, but later revised its decision.²⁹¹ J. L. Ekman, on the other hand, was happy to represent Sweden. He felt he had to attend European timber conferences even if he opposed the idea of a European regulation scheme, for it was not possible to argue against if he was absent.

The League's timber conference took place 25–27 April 1932. Altogether twenty-six people representing sixteen timber trading countries—both importing and exporting countries—attended (see Table 6, page 91). There were a few businessmen, but the majority were ministers, diplomats, and association leaders. Besides European countries, Canada also participated. Egon Glesinger later wrote about the historical meeting in the following way:

The meeting brought together for the first time producers from all parts of the world, who were fighting a cutthroat competition with one another but who had never met personally before. Like so many international conferences it paved the way for breaking down irrational hatred and for eliminating the distrust that came from the most extraordinary rumors spread by those interested in prolonging such conflicts.²⁹²

antyder, under nu rådande förhållandena icke ligger inom det möjligas gränser. [--] Centralstyrelsen ansåg sålunda den föreslagna konferensen icke blott opåkallad utan även icke önskvärd.'

²⁸⁷ ELKA; SSY; 661: Letter from SSY (E. F. Wrede) to the Finnish Minister of Foreign Affairs 11 March 1932. SSY; 26: SSY Board meeting 16 March 1932. SSY; 661: Letter from E. F. Wrede to Minister Rudolf Holsti 16 April 1932.

²⁸⁸ ELKA; SSY; 26: SSY Board meeting 16 March 1932. SSY; 661: Letter from Rudolf Holsti (Finnish envoy in Geneva) to the Finnish Ministry of Foreign Affairs 13 February 1932.

²⁸⁹ Rudolf Holsti was a diplomat who had a post at the League of Nations (Minister of Foreign Affairs in 1919–1922 and 1937–1938), Antti Hackzell was the vice-president of the Finnish Employers' Association and had been the Minister of Foreign Affairs from 1932–1936. Onni Koskikallio was the chief editor of *Maaseudun Tulevaisuus*.

²⁹⁰ CfN; STEF; F1A:286: Letter from J. L. Ekman to Bell 4 May 1948.

²⁹¹ ELKA; SSY; 661; Letter from E. F. Wrede to Antti Hackzell 19 April 1932.

²⁹² Glesinger, Egon (1942): *Nazis in the Woodpile; Hitler's Plot for Essential Raw Material*, 58.

Table 6: Countries in the Geneva meeting in April 1932

Importers	Importers and exporters	Exporters
Great Britain	Italy	Finland
The Netherlands	Germany	Sweden
	France	The Soviet Union
		Austria
		Poland
		Czechoslovakia
		Romania
		Yugoslavia
		Latvia
		Canada

(Source: CfN; STEF; F1A:285: Meeting of timber experts 25–27 April in Geneva.)

The main agenda of the League’s timber conference was to start finding a way out of the current misery in the timber market. Prices were on a regrettable trajectory and exporters were not communicating with each other. The League’s report from the timber conference concluded that export prices were below the cost of production. ‘The anxiety,’ the report continues, ‘of countries whose prosperity largely depends upon their forest resources is comprehensible.’

Protectionism and tariff barriers in the timber importing countries brought about tensions and complexities. Great Britain, ‘the principal import market and the regulator of prices’, had decreased its imports by seventeen per cent from 1929 to 1931; from 1.9 million std to 1.6 million std. German imports had dropped from 1.7 million std in 1928 to 0.6 million std.²⁹³ The exports of European timber producers had diminished by thirty-three per cent between 1929 and 1931 (See Figure 1, page 92).²⁹⁴ The reduction came mainly from Finland and Sweden, which had decreased their yearly production by ten per cent since 1928 through their cartel—and, of course, poor demand for timber reduced Nordic output even without cartels. In 1931, Finland exported thirty per cent less than two years before and Sweden as much as forty per cent less (See Figure 2, page 92). The South-East European timber exports had declined almost a half a million std.²⁹⁵ The Soviet Union, on the other hand, increased its exports by forty-five per cent between 1928 and 1931, from 569,000 std to 1 million std (See Figure 2, page 92).²⁹⁶

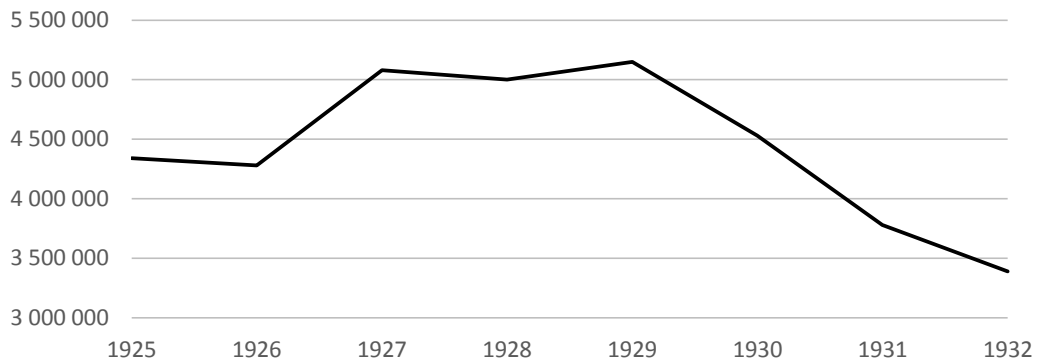
²⁹³ Glickman, David L. (1947): ‘The British Imperial Preference System’ in *The Quarterly Journal of Economics*, vol. 61, no. 3, 457. CfN; STEF; F1A:285: ‘Timber. Report by the delegation of the Economic Committee on the meeting of the timber experts (April 25th to 27th, 1932),’ page 2. Timber volumes in the original sources are in cubic metres: British imports dropped from 9.1 cubic metres in 1929 to 7.6 in 1931, and German imports from 7.9 in 1928 to 2.8 in 1931. (1 std = 4.672 cubic metres).

²⁹⁴ ELKA; SSY; 1124: SSY circular letter 17 October 1935.

²⁹⁵ CfN; STEF; F1A:286: ‘Timber. Report by the delegation of the economic committee on the meeting of timber experts (April 25th to 27th, 1932).’

²⁹⁶ CfN; STEF; G1B2: STEF annual report 1933.

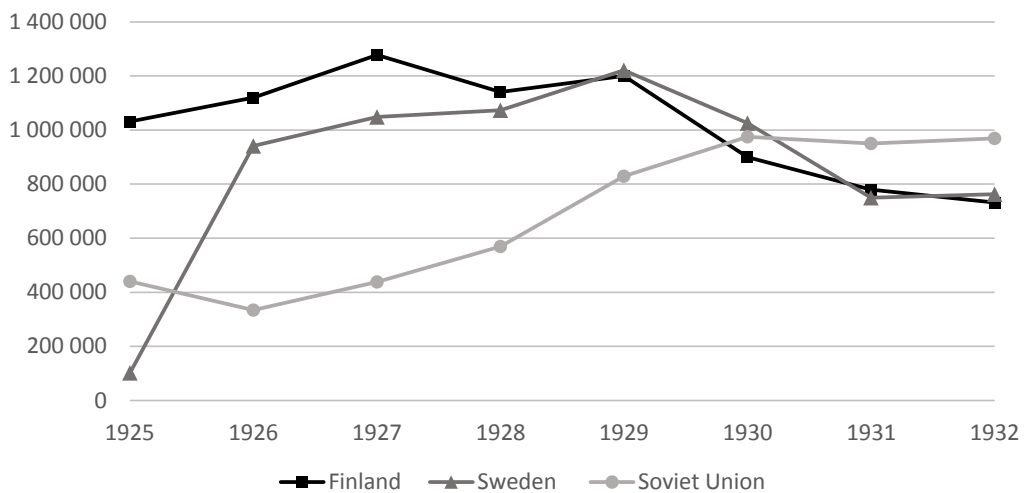
Figure 1: Timber exports (std) from the European countries 1925–1932



From Sweden, Norway, Finland, Soviet Union, Estonia, Latvia, Poland, Czechoslovakia, Austria, Yugoslavia, and Romania.

(Source: CfN; STEF; G1B2: Annual report of the STEF 1933.)

Figure 2: Timber exports (std) from Finland, Sweden, and the Soviet Union 1925-1932



(Source: CfN; STEF; G1B2: Annual report of the STEF 1931, 1932, 1933.)

Participants at the meeting agreed to varying degree with the idea of a European regulation scheme in which governments would take an active part. The discussion shows that only the Central European exporters and France supported the idea and had reached a good understanding about how to proceed in the future, namely through governmentally supervised export restrictions, even licenses,

in all European exporting countries.²⁹⁷ Importing countries would be a significant partner when the details of export restrictions were agreed upon. France's standpoint comes as a no surprise; half of all timber consumed in the country was imported and it was one of the most protectionist countries in Europe.²⁹⁸

The Nordic countries and the Soviet Union, as well as their most important buyers, Great Britain and the Netherlands, did not agree with the ideas on the continent. Regulating timber trade was impossible since 'The League of Nations or its offices will not have an opportunity to know about the demand for timber in Great Britain in the next year, because that knowledge does not exist anywhere in those countries either,' the UK representative at the meeting noted.²⁹⁹ The Finnish and Swedish representatives made it clear that the legal grounds for a governmentally controlled regulation scheme were extremely weak. They did nevertheless adopt a positive outlook on other forms of international collaboration. The Soviet Union shared the view with reservations: 'The U.S.S.R. was prepared to collaborate in a scheme for the organisation of the international timber trade, provided that the question was approached from a purely commercial point of view. No country exported for its own pleasure, any more than a country imported without an economic reason.'³⁰⁰ The Soviet representative pointed out that his country needed to sell large quantities of timber in order to pay off its debts. The British and Dutch representatives, who were businessmen, stated they were in favour of 'free and untrammelled trade' since they could not restrict the industry 'or even their own members'. They opposed regulation.³⁰¹

²⁹⁷ ELKA; SSY; 661; Report about the Geneva meeting, 30 April 1932, written by A. Hackzell. CfN; STEF; F1A:285: Meeting of timber experts 25–27 April in Geneva. Proposal by the Austrian, Polish, Romanian, Czechoslovakian, and Yugoslavian delegations 27 April 1932. Summary of the discussion, undated. Note by M. Dionys De Anhauch, Romanian Delegate, 22 April 1932. Note by M. P. Ioan, Administration Romanian State Forests 20 April 1932. Note by Makso Hautner, Secretary General of the Yugoslav Federation of timber producers and traders 20 April 1932. Note by Count C. Ostrowski, Chairman of the Central Council of Polish Timber Associations 18 April 1932. Statement by M. Schüller, Austria, 14 April 1932. According to Finnish sources, Polish and Czech representatives sought to dominate the discussions, see: ELKA; SSY; 661; report from Geneva meeting, 30 April 1932.

²⁹⁸ CfN; STEF; F1A:285: Meeting of timber experts 25–27 April in Geneva. Summary of the discussion, undated. See also: RA; Swedish Ministry of Foreign Affairs; H995: Letter from J. L. Ekman to the Swedish Foreign Minister Fredrik Ramel 11 August 1931.

²⁹⁹ ELKA; SSY; 661; Report about the Geneva meeting, written by A. Hackzell, 30 April 1932. '*Mr. Bell huomautti lyhyesti, ettei Kansainliitolla tai sen järjestämällä toimistoilla koskaan voinut olla mahdollisuksia saada tietää Englannin puutavaratarpeen seuraavalta vuodelta, koskei sitä itsekään tiedetty... .*'

³⁰⁰ ELKA; SSY; 661; Report about the Geneva meeting, written by A. Hackzell, 30 April 1932. CfN; STEF; F1A:285: Meeting of timber experts 25–27 April in Geneva. Summary of the discussion, undated.

³⁰¹ CfN; STEF; F1A:285: Meeting of timber experts 25–27 April in Geneva. Summary of the discussion, undated. From the Baltic countries Latvia supported European, even transatlantic regulation, while Estonia did not formulate a clear opinion. See: Note by Andre Tecmanis on the forests of Latvia 25 April 1932. Communication from M. R. Mickwitz, corresponding member of the Economic Committee of the League of Nations 16 February 1932. Germany delivered a review on its forest size, but did not formulate any opinion on the question of competition regulation. Italy, Hungary, Great Britain, France, and Canada did not deliver any written notes.

The Geneva meeting in April 1932 concluded that 'the experts were agreed that the international timber market was in a state of extreme disorder at the present time'.³⁰² 'We may say that they all are—producing and consuming countries alike—equally interested in international trade being placed on foundations which, as far as possible, will guarantee the stability of general conditions and a remunerative level of timber prices'.³⁰³ There were many reservations, like the different level of organisation in each country and varying degrees of preparedness to control the scheme effectively, to name but a few, but 'in spite of these reservations, the experts of the exporting countries expressed the hope that an arrangement would be reached in the course of future negotiations'.³⁰⁴ The discussion proceeded further than ever before on similar occasion, and in fact, the meeting managed to sketch out on quite a detailed level the possible timber regulation scheme. During the long conference, the exporters and importers developed such ideas as the signatories of the cartel agreement would meet yearly; they would discuss and look at the data and define the level of consumption; they would allocate production quotas for exporting countries based on a mutually agreed comparison year; and importers would play a significant role as consultants in the exporters' cartel.³⁰⁵ These are the benchmarks that the ETEC agreement in December 1935 were established upon.

The Geneva meeting decided to proceed with planning the European timber regulation scheme. It decided that it was best, considering the difference between the Nordic–Soviet and the South-East European timber trade, that the negotiations were continued as two separate, but parallel processes. The Nordic countries and the Soviet Union should seek for a mutual regulation agreement, and the South-East European exporters would do the same. European timber agreement would be reached from the basis of two separate agreements. For this purpose, the Austrian government initiated a follow-up meeting in Vienna on 9 July 1932, only two months away. The agenda was to discuss further the ideas raised in Geneva.

³⁰² CfN; STEF; F1A:285: Meeting of timber experts 25–27 April in Geneva. Summary of the discussion, undated.

³⁰³ CfN; STEF; F1A:286: 'Timber. Report by the delegation of the economic committee on the meeting of timber experts (April 25th to 27th, 1932),' p. 5.

³⁰⁴ CfN; STEF; F1A:285: Meeting of timber experts 25–27 April 1932 in Geneva. Summary of the discussion, undated.

³⁰⁵ CfN; STEF; F1A:285: Meeting of timber experts 25–27 April 1932 in Geneva.

Table 7: European timber regulation scheme draft from April 1932

Northern Group	South-East European Group
Finland	Austria
Sweden	Czechoslovakia
Soviet Union	Poland
	Romania
	Yugoslavia

Besides splitting up the European timber regulation negotiation into two processes, the Geneva meeting also decided to establish a European timber data office which would gather and distribute statistical information about forestry and timber export quantities.³⁰⁶ Behind the idea was a 30-year-old man from the Polish–Czechoslovakian region of Teschen, Egon Glesinger, who had recommended in his newly completed PhD thesis that Europe needed a timber data office to start mending the current chaotic state of affairs in international timber trade. Without data, forecasting the future was impossible, and without the ability to estimate the future, the basis for collaboration between exporters did not exist. Moreover, the current chaos would be impossible to fix without international coordination between exporters. How Egon Glesinger’s idea ended up on the agenda of the Economic Section of the League of Nations is not known. What is known, however, is that the League’s meeting in Geneva identified a serious lack of data concerning forestry and the timber trade in Europe. As a result, *Comité Permanent international de la Production, de l’Industrie et du Commerce du Bois* (CIB) was established in Autumn of 1932—although it was opposed by the majority of the timber exporting countries in the two meetings in Geneva and Vienna.³⁰⁷ Anton Ceschi became the first Secretary General of the CIB, followed by Egon Glesinger in 1933, who remained in that position until the nineteen-forties.³⁰⁸

³⁰⁶ 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*, 238–239

³⁰⁷ The decision to establish the CIB was not unanimous. The Soviet Union opposed it. Finland and Sweden cautiously supported the CIB and promised to send data, though not money to run the office. The Nordic delegations most likely thought that the CIB, which was occupied by the Central European and particularly the French timber interests and was supported by the League of Nations, would strengthen the small continental exporting countries as a unit in their quest to create a European timber cartel. They could organise better and lobby their interests in international arenas more effectively through the CIB—possibly even start to present it as the will of the ‘European timber industry’. Nevertheless, the need for data outweighed the negative future scenarios.

³⁰⁸ He took some time off, however, from the CIB duties around 1933. In 1933 Anton Ceschi introduced himself as the secretary general of the CIB. ELKA; SSY; 26: Letter from Anton Ceschi to the president of the SSY 14 November 1933.

The return of Nordic–Soviet negotiation, 1932

For Finland and Sweden, the Geneva decisions meant that the ‘unnecessary and unwanted’ European discussions would continue very soon. Furthermore, the Nordic–Soviet timber cartel was back on the agenda.

Minister Antti Hackzell, the member of the Finnish delegation in the Geneva meeting, estimated that the meeting had made a great psychological difference to the Soviets. In the Geneva meeting, the businessmen and industry people—who did not have much political power—were a minority, while land-owning factions with political power were a majority:

I remarked to the Soviets that there were new forces now around this [timber] issue that they needed to consider carefully. [...] If these circles form a common opposition against Russia and unified with the opposition existing in the business circles, it would undeniably be a mighty political factor. I tried to assure Bron and Kotik that they should do everything they can so that murderous price war [...] would stop.³⁰⁹

Not only did the Economic Committee urge another round of Nordic–Soviet negotiation, the Soviet delegation also privately suggested the same for the Finnish and Swedish delegations in Geneva. Soviet diplomats in Stockholm and Helsinki—Alexandra Kollontay and Ivan Maisky—had even before the Geneva meeting expressed several times to Risto Ryti, Antti Hackzell, and to the leadership of STEF that they wished that the Nordic–Soviet negotiations would be continued.³¹⁰ After the Geneva meeting had proposed another round of Nordic–Soviet negotiations, the Soviet proposals for timber negotiations intensified. The director of Exportles stressed that the Soviet government paid attention to the timber question.³¹¹ Henry McGrady Bell, British envoy in Finland, wrote to Jacob von Julin a week after the Geneva meeting:

The most important decision, to my mind, was the agreement arrived at that the Finns, Russians and Swedes should resume their meeting in Berlin. I have got the impression that the Russians have now a real desire to come to some understanding with Finland and Sweden.³¹²

³⁰⁹ ELKA; SSY; 661; Report about the Geneva meeting, written by A. Hackzell, 30 April 1932. ‘...*huomautin heille siitä seikasta, että nyt olivat tämän asian yhteydessä liikkeellä jo uudet voimat, joiden ilmestyminen heidän oli sangen tarkkaan otettava huomioon. [...] jos näitten piirien yhteinen oppositio Venäjää vastaan yhtyisi liikemaailman oppositioon, muodostuisi tästä kieltämättä vaikuttava poliittinen tekijä. Koetin vakuuttaa Bron’ill ja Kotikille, että heidän oli aika tehdä voitavansa, jotta murhaava hintataistelu pohjoisten maitten kesken lakkaisi... .’*

³¹⁰ CfN; STEF: F1A:285: J. L. Ekman’s letter to Ragnar Sohlman 22 May 1932. RA; Konsulats arkiv; Leningrad; H35: Letter from J. L. Ekman to Reuterskjöld 20 May 1932. ELKA; SSY; 1185: Undated report summing up the Nordic–Soviet timber cartel process in 1931–1932. The estimated date is late 1932, p. 15. ELKA; SSY; 1120: Letter from Eino Westerlund (Consul in the Finnish legation in Leningrad) to the Finnish Ministry of Foreign Affairs 7 April 1932. SSY; 661; Letter from E. F. Wrede to A. Hackzell 19 April 1932.

³¹¹ ELKA; SSY; 26: SSY’s working committee 1 July 1932, app. III. Report about the Nordic–Soviet negotiation in Berlin 22 June 1932.

³¹² ELKA; SSY; 661: Letter from Henry McGrady Bell to Jacob von Julin 2 May 1932.

The schedule for the Nordic–Soviet negotiation was even more urgent than the coming European negotiations; it was set up for 3 May in Berlin, two weeks after the Geneva meeting ended.

The Nordic–Soviet delegation met on 3 May 1932. The Soviet delegation had a new staff, consisting of the newly appointed head of Exportles, Boris. J. Kraevsky, and his colleagues Danischevsky and Popoff. These new delegates, in the Finnish estimate, were ‘inexperienced and unaware of the earlier development of the matter’. The Finnish and Swedish negotiators in Berlin found that they had come to hear old news. First the Soviets wanted to discuss quotas, quantities, price, and the methods how the SSY and STEF would organise full control in their countries. After that, the Soviet delegation demanded thirty-eight per cent share of the yearly quota between the three countries. The Nordic negotiators again found themselves bewildered. Even before the Berlin meeting they had told the Soviets that thirty-eight per cent was not a negotiable figure. The Nordic delegation expressed their astonishment why the meeting even took place when they had so clearly defined their conditions.³¹³ The Soviet delegation complained about the uncollaborative attitude of the Finns and Swedes, which neither was nothing new; they had also earlier blamed the Finns for the failure of the first Nordic–Soviet timber cartel negotiation.³¹⁴ Concerning the Nordic–Soviet discussions in Berlin on 3 May, J. L. Ekman reported to Councillor Ragnar Sohlman that ‘the negotiation did not give any positive results’.³¹⁵ The delegates decided nevertheless to continue the discussion at a later date.

A month after the Berlin discussions, the director of the Board of Exportles ‘and the Soviet government itself’ sent a message that the Soviet government hoped that the Nordic–Soviet negotiations would be continued at once.³¹⁶ Exportles was willing to be more flexible about its earlier demands for a thirty-eight per cent quota. The SSY and STEF agreed to meet the Soviets in Berlin on 22 June, only a fortnight before the European timber meeting in Vienna.

The reason why the Soviets changed their mind appears to be that the Soviet government and the British banks had come to a mutual understanding about the terms of financing Soviet timber trade under the Nordic–Soviet quota scheme. The director of Pharaos Gane & Co, a London-based importer, wrote to Val B. Arnott on 16 June 1932 that the director of Exportles, Kraevsky, had been delighted about his bank’s ‘quota finance scheme [–] and expressed very definitely his willingness to come to an agreement with the Finnish and Swedish shippers with regard to quotas, provided this could be coupled with some financial arrangement on the lines set out in the scheme.’ The financial scheme had also been approved by Finnish banks—he mentioned Kansallis-Osake-Pankki and the Bank of Finland—as well as some of the larger exporters. Finally, to ensure a favourable outcome, the director of Pharaos Gane advised the CEO of SSY, E. F. Wrede, to ‘create a sympathetic atmosphere at the

³¹³ ELKA; SSY; 26: SSY Board meeting 19 May 1932. ELKA; Aunuksen Puuliike Oy; F788 (T. Aminoff’s letter exchange); 40: Report on the Nordic–Soviet meeting in Berlin 3 May 1932.

³¹⁴ RA; Konsulats arkiv; Leningrad; H35: Letter from Assarsson to Richert 4 June 1932. ELKA; SSY; 1120: Letter from Eino Westerlund (Consul in the Finnish Consulate in Leningrad) to the Finnish Ministry of Foreign Affairs 7 April 1932.

³¹⁵ CfN; STEF; F1A:285: J. L. Ekman’s letter to Ragnar Sohlman 22 May 1932. ‘*Denna överläggning gav visserligen icke någon positivt resultat, men man enades om att vid senare tidpunkt fortsätta därmed.*’

³¹⁶ ELKA; SSY; 26: SSY working committee meeting 1 July, app.3. ‘*själva Rådsregeringen hade ansett, att förhandlingarna med Finland och Sverige om en reglering av trävaruutbudet borde snarast möjligt återupptagas.*’

meeting [--] and to conduct the negotiations on frank commercial lines rather than diplomatic ones',³¹⁷

E. F. Wrede did not quite succeed in that. The meeting was again one of those frustrating conversations that the Finns and Swedes were becoming used to with the Soviets. After 'endless discussions' it turned out that the Soviets were not intending to down-scale their quota, which was against the information given beforehand to the SSY, STEF, Pharao Gane & Co, and the Finnish and Swedish envoys who acted as the middlemen concerning this question.³¹⁸ The Soviets were still suggesting a thirty-eight per cent share for themselves and thirty-one per cent for Sweden and Finland. The Soviet delegations also suggested a price agreement for three years.³¹⁹ The negotiation, not surprisingly, ended without any results. After the meeting the Soviets nevertheless sent an agreement draft through D. Kandelaki, the Soviet trade attaché in Stockholm, to the SSY and STEF, although the agreement did not define the quotas. Other details too were formulated in an unsatisfactory way.

There were now quite a few interest groups encouraging the Nordic–Soviet timber cartel; the Economic Section of the League of Nations felt that it was the way towards a European timber cartel; British banks and timber importers considered it to be an acceptable method to reduce the competition between Nordic and Soviet producers; and diplomatic circles saw opportunities to improve Nordic–Soviet relations. The SSY Board was divided; some opposed the Nordic–Soviet timber negotiations, others supported it. Jacob von Julin, the chairman of the SSY Board, for instance, was one of the supporters. He thought that Exportles should be urged to conclude a regulation scheme because 'in the end, it was the only solution for all parties to end the difficulties'.³²⁰

The consensus of the SSY Board was to give the Nordic–Soviet collaboration another try after some time has passed. Giving time at this point was also essential because July 1932 brought about potentially game-changing aspects to the Nordic–Soviet collaboration. Great Britain would start Imperial Trade Agreement negotiations with Canada and it was expected to make changes in timber competition. According to the estimations of Churchill & Sim, a London-based importer, the position of Soviet timber in the UK was in jeopardy. In a letter to Boris Kraevsky, the director of Exportles, A. Chatterton Sim wrote that the tides were turning in Great Britain:

The whole system of export and import trade is now receiving the special attention of the Government. [--] The British government will not, in our opinion, be influenced entirely or chiefly by price consideration, but will direct their efforts to adjust the balance of trade with the respective countries.³²¹

Moreover, the European timber conference—a follow-up to the League of Nations' conference in April—was due on 9 July, in Vienna. The Austrian government, which this time was hosting the

³¹⁷ Churchill & Sim: Letter from Pharao Gane & Co to Val. B. Arnott, 16 June 1932.

³¹⁸ Churchill & Sim: Letter from Pharao Gane & Co to Val. B. Arnott, 16 June 1932.

³¹⁹ ELKA; SSY; 26: SSY working committee meeting 1 July 1932. Swedish–Finnish Trust Council meeting minute 29 August 1932.

³²⁰ ELKA; SSY; 26: SSY's working committee 1 July 1932. '*...slutligen bleve den enda lösningen för all parter att komma ur svårigheterna.*'

³²¹ Churchill & Sim: Letter to Boris Kraevsky (Exportles) from 21 June 1932.

conference, had sent invitations to the governments of timber trade countries in Europe. The leadership of the STEF and SSY were not happy about that—or about the fact that another European timber conference was taking place. J. L. Ekman from STEF warned Ragnar Sohlman, Commercial Councillor, not to expect any results from the meeting in Vienna. He tried to convince Sohlman that even the proposers of the Vienna conference did not believe they could promote a timber regulation agreement. He also warned that the whole endeavour of bringing about a European timber regulation scheme included the element of government intervention; Ekman was worried that a European timber regulation scheme might also introduce these unwanted elements into Sweden:

The proposal seeks to conclude timber regulation agreement with the help of the government, which is a possible and appropriate solution in the Central European countries where government intervention in industry and freedom of trade is not new, but which has so far been unfamiliar in the Swedish trade policy.³²²

The SSY Board had an identical view. When the Finnish Ministry of Foreign Affairs received the invitation from the Austrian government, it consulted E. F. Wrede, the CEO of SSY, about the next step. Wrede answered that the conference in Vienna was an utterly useless idea, particularly when Finland, Sweden, and the Soviet Union were unable to find common ground for mutual collaboration. Attending the Vienna conference would not make any practical difference in solving the timber crisis, and therefore on purely 'economic and commercial grounds' there was no reason for Finland to participate in it. However, 'some political reasons suggest that Finland should be represented, considering that international collaboration of this kind has political importance for our country'.³²³

The STEF and SSY expressed clear doubts about the Vienna conference, but nevertheless stated that if the governments did send representative(s) to Vienna, they hoped that they would be included.³²⁴ This request was declined. Instead, the Finnish government appointed Onni Koskikallio and Matti Pyykkö, who did not come from timber trade circles. Sweden sent an observer, Gösta Hedengren, who was the secretary of the Swedish legation in Vienna.³²⁵

The meeting in Vienna on 9–11 July 1932 was opened by the Austrian Federal Chancellor, Engelbert Dollfuss, and the conference picked up where the previous meeting in Geneva had left off. Continental timber exporters—Austria, Czechoslovakia, Latvia, Poland, Romania, and Yugoslavia—set up a permanent committee and started to arrange their regional cartel.³²⁶ Finland, Sweden, and the Soviet

³²² RA; Swedish Ministry of Foreign Affairs; HP 2142 F: J. L. Ekman's letter to Ragnar Sohlman 27 May 1932 and 27 July 1932. *'Man torde däremot i förslaget kunna skönja en viss önskan om att med statsmakternas hjälp söka åstadkomma överenskommelser om reglering av trävaruexporten, en lösning av frågan som kanske är möjlig och lämplig i de centraleuropeiska länderna, för vilka statsingripande i industriens och handels fria utövande icke innebär någon nyhet, men som för svensk handelspolitik hittills dess bättre varit främmande.'*

³²³ ELKA; SSY; 26: SSY Board meeting 24 May 1932. *'Däremot talade måhända politiska skäl för att Finland skulle bliva representerat, då man kunde anse att ett internationellt samarbete av detta slag var av en politisk betydelse för vårt land.'*

³²⁴ RA; Swedish Ministry of Foreign Affairs; HP 2142 F: J. L. Ekman's letter to Ragnar Sohlman 27 May 1932. ELKA; SSY; 26: SSY Board meeting 24 May 1932.

³²⁵ CfN; STEF; F1A:285: Meeting of timber experts in Vienna, list of delegates.

³²⁶ CfN; STEF; F1A:285: Report of the Economic Committee of the League of Nations from the meeting in Vienna (E. 793). Gösta Hedengren's (secretary of the Swedish legation in Vienna) report to director of the

Union did not have any concrete results to present about their mutual regulation scheme, except that the three countries had met and the negotiations were ongoing. All three countries spoke against the European regulation scheme, particularly now that Great Britain and Canada—which were absent from the meeting—were in a process that essentially brought great uncertainties to the European timber trade. New countries had joined the conference, though: Belgium, Greece, Spain, Hungary, Switzerland, and the USA.

The biggest achievement of the meeting in Vienna was the permanent committee of continental exporters and their efforts, which seemed energetic enough, to bring about a system of regulation for the continental timber trade. 'This agreement is the first step towards fruitful international collaboration to overcome this crises', concluded the chairman of the conference, Colloredo-Mansfeld.³²⁷ The spirit of the negotiation was encouraging and everything indicated that the European timber cartel discussion would be continued. In the meanwhile, expectations grew that the Nordic countries and the Soviet Union would achieve a similar regional regulation scheme to the one that the continental exporters had managed to put together.

The end of free trade: British protectionism 1932

By 1932, British protectionism ripened to full bloom; the country abandoned the gold standard in September 1931, imposed the Abnormal Importations Act in November 1931, and the Import Duties Act in March 1932, which exempted Empire products from new duties. 'Within less than six months,' Tim Rooth writes, 'two of the great symbols of Britain's leadership of the nineteenth-century international economy, the gold standard and free trade, had gone.'³²⁸

Before the turn of the nineteen-thirties, Great Britain was a free-trading nation. The rise of Great Britain in the nineteenth-century to leadership in modern industrialisation and the international economy was based on free trade. An open economic system gave Great Britain access to low-cost raw materials and foodstuffs and it enabled British industrialists to capitalise on their advanced technical and industrial development. The British supplied manufactured goods and investments for less-developed countries. Free trade was a practice that supported British exporting interests and brought about economic growth, infrastructure, modernisation processes, and inter-dependency between countries. An attempt was made to introduce protectionist policies into Britain at the turn of the century, but it met with strong political opposition.³²⁹ By 1914, Great Britain had lost its leadership in the international economy and in the nineteen-twenties its dependency on Empire trade

Swedish Ministry of Foreign Affairs 15 June 1932. RA; UD/H995: Letter from J. L. Ekman to the commercial section of the Swedish Ministry of Foreign Affairs 21 August 1933. A year later this committee established a tacit cartel agreement regulating prices, standardisation and terms of delivery in the Hungarian markets. Austria, Romania and Yugoslavia continued creating similar cartel in Italian markets. The agreement lasted until 1934.

³²⁷ CfN; STEF; F1A:285: Gösta Hedengren's (secretary of the Swedish legation in Vienna) report to the director of the Swedish Ministry of Foreign Affairs 15 June 1932. '*den nu ingångna överenskommelsen matte utgöra första steget till ett fruktbarande internationellt samarbete till krisens övervinnande.*'

³²⁸ Rooth, Tim (1993): *British Protectionism and the International Economy: Overseas Commercial Policy in the 1930s*, 1

³²⁹ Rooth, Tim (1993): *British Protectionism and the International Economy: Overseas Commercial Policy in the 1930s*, 1–8.

had grown. Nevertheless, the country remained the torchbearer of free trade until the turn of the nineteen-thirties.

From 1929 onwards, the price of raw materials had decreased worldwide, and along with it, also the purchasing power of the colonies to buy British manufactured goods. Political trends and the backing of consumers had supported to varying degree British protectionism and trade-political preference towards the British Empire since the turn of the twentieth-century and particularly in the nineteen-twenties. The path towards protectionist trade policies nevertheless begun in 1930 when the issue of higher tariffs against non-empire trade was raised in the Imperial Conference between the dominions of the British Empire.³³⁰ Europe, the British Empire, and the rest of the world responded to the hardships of the Great Depression and the threat of hyperinflation with protectionist tariffs and monetary changes. In September 1931, Great Britain left the gold standard, and the coalition government of Ramsay MacDonald, elected in November 1931, started to prepare to renegotiate all trade agreements between Great Britain and the rest of the world.³³¹

On 21 July 1932, nine countries within the British Empire gathered in Ottawa for an Imperial Economic Conference.³³² Andrew Williams writes about the Ottawa conference that 'never have economics and high politics been so clearly and so disastrously intertwined'. By this, Williams refers to the outcome of the Ottawa conference, which reflected the intertwined nature of British–Canadian–Soviet relations. Furthermore, the Ottawa resolutions show that the ideological battle between 'sober rapprochement' and isolating the 'red bacillus' still coexisted, unresolved, in the British Parliament as well as in society at large.³³³ The purpose of the meeting, which lasted for five weeks, was to create a set of bilateral trade agreements allowing customs benefits between the countries of the British Empire.³³⁴ Commodities that were discussed in Ottawa included various foodstuffs, timber, tin, rubber, copper, manganese, jute, sisal, petroleum, and tobacco. All countries that traded with these commodities observed the conference closely; their position in the British trading system was also a subject of bargaining in the negotiations. The position of Soviet exports in Great Britain was a major issue in the conference. The Soviet Union had become, since 1928, a major supplier of timber and wheat in Great Britain. Canada, exporting the same commodities, wanted to have some of that share.³³⁵ Globally, the Soviet Union competed with Canada also in other commodities, and British and Soviet producers of anthracite competed in the Canadian market.

³³⁰ Canada, Australia, India, the Irish Free State, Newfoundland, New Zealand, Southern Rhodesia, and South Africa.

³³¹ Rooth, Tim (1993): *British Protectionism and the International Economy: Overseas Commercial Policy in the 1930s*, 63–64.

³³² Canada, Australia, India, the Irish Free State, Newfoundland, New Zealand, Southern Rhodesia, South Africa, and the United Kingdom.

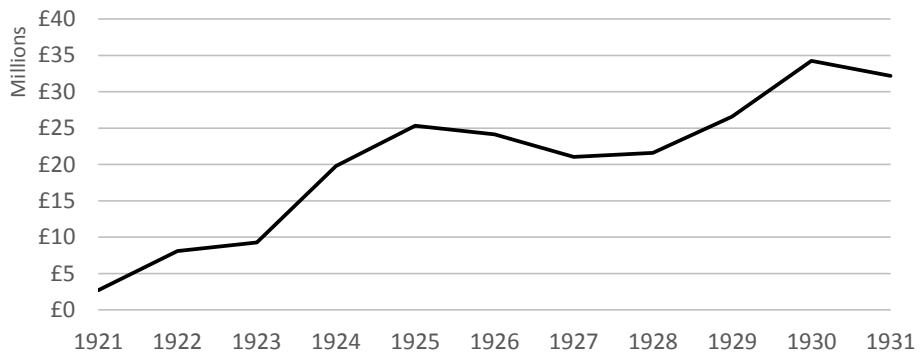
³³³ Williams, Andrew (1990): 'Canada and Anglo-Soviet relations: The question of Russian trade at the 1932 Ottawa imperial conference' in *Diplomacy and Statecraft*, vol. 1, no. 2, 185–186.

³³⁴ Glickman, David L. (1947): 'The British Imperial Preference System' in *The Quarterly Journal of Economics*, vol. 61, no. 3, 442–443.

³³⁵ Williams, Andrew (1990): 'Canada and Anglo-Soviet relations: The question of Russian trade at the 1932 Ottawa imperial conference' in *Diplomacy and Statecraft*, vol. 1, no. 2, 199.

In the negotiations, Canada wanted Great Britain to increase the share of Canadian timber in the British market, and in return, Canada promised to increase the import of British anthracite into the Canadian market. The Soviet Union was the loser in this agreement, both in terms of timber and anthracite. The new, bilateral protectionist arrangements, typical of the nineteen-thirties, between countries and within the British Empire allowed unilaterally organised trade embargoes against the Soviet Union.³³⁶ However, Canada wanted this arrangement more than Great Britain, which did not only import significant volumes of timber from the Soviet Union, but also sold them machines and technology. Between 1929 and 1931, the value of Soviet imports of British machinery increased from £2.3 million pounds to £9 million. The value of Soviet imports to UK had skyrocketed since 1921.³³⁷

Figure 3: Value (£) of Soviet imports to UK 1921–1931



(Source: NA; FO; 371/17238: ‘Memorandum to the British government on trade with the U.S.S.R.’ by the Russo–British Chamber of Commerce 12 January 1933.)

In short, the Soviet Union was an important trading country for Great Britain. Losing market shares through anti-Soviet trade policies was not popular with the British government, where the Conservative’s heavy industry voices—and Labour party—had a much stronger foothold than the anti-Soviet ideologists. Nor did the government want to see Soviet timber vanish from the British market. That would lead to a Nordic monopoly and high prices, as the following *Times* reporter bitterly remarked 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.³³⁸

³³⁶ Drummond, Ian M. (1972): *British Economic Policy and the Empire 1919-1939*, 35–37.

³³⁷ NA; FO; 371/17238: ‘Memorandum to the British government on trade with the U.S.S.R.’ by the Russo–British Chamber of Commerce 12 January 1933.

³³⁸ *The Times* 10 January 1931. Cited from: KA; Finnish Ministry of Foreign Affairs; Finnish legation in London; Fa.5.C.4; report written by E. L. (commercial assistant) of the Finnish legation in London 19 January 1931.

The main negotiation target of Canadian Prime Minister R.B. Bennett was to decrease Britain's imports of wheat and timber from the Soviet Union by, firstly, allowing preference to Canada in these commodities, and secondly, placing an embargo on the Soviet Union. The embargo would be imposed through Article 21, an anti-dumping act, which was directed against countries that over-produced and undersold raw materials and where the state sponsored industrial production. In practice, it was designed to block the Soviet Union from the British Empire market. According to Williams, Bennett was an 'ardently nationalist' Prime Minister from 'a populist Conservative party' pushing a strong 'Canada First' policy.³³⁹ Bennett saw the Soviet Union as the root of the Canadian problem at the turn of the nineteen-thirties. Bennett had been elected in 1930 to reorientate Canadian trade policies and mend the damage brought about by the lethal combination of the Great Depression and growing Soviet competition in wheat and timber.³⁴⁰ This meant seeking for protectionist and nationalist trade policies vis-à-vis Great Britain. Williams writes that Bennett was on 'some kind of holy crusade against Russia'.³⁴¹ His crusade was ideologically supported by the US President Herbert Hoover, and he keenly wished that he could help topple the Soviet Union with the assistance of Great Britain.³⁴²

Eventually, Britain allowed trade preference to Canada—and turned its back on the Soviet Union, just as Bennett had insisted. Williams argues that the British motivations for agreeing to Bennett's demands stemmed from several sources. For one, Bennett seemed to be a diehard negotiator who did not make compromises. He threatened the British delegation that he would withdraw the concession on iron and steel as well as tear up the Anglo-Canadian trade agreement altogether if his demands for a radical decrease of Anglo-Soviet trade were not listened to.³⁴³ Furthermore, the fact that the conference was held on Canadian soil was a psychological factor that placed pressure on the work of the British delegation. The British delegation came to the Ottawa negotiations without a 'particular brief' to meet the 'ultra-prepared' Canadians.³⁴⁴

The biggest achievement of the Ottawa negotiations for Canadian timber interests—and which, of course, also delighted the Nordic timber exporters—was Article 21.³⁴⁵ The British delegation only succeeded in renegotiating its schedule, which contrary to Canadian demands was not immediately,

³³⁹ Williams, Andrew (1990): 'Canada and Anglo-Soviet relations: The question of Russian trade at the 1932 Ottawa imperial conference' in *Diplomacy and Statecraft*, vol. 1, no. 2, 189–191.

³⁴⁰ Williams, Andrew (1990): 'Canada and Anglo-Soviet relations: The question of Russian trade at the 1932 Ottawa imperial conference' in *Diplomacy and Statecraft*, vol. 1, no. 2, 191, 207.

³⁴¹ Williams, Andrew (1990): 'Canada and Anglo-Soviet relations: The question of Russian trade at the 1932 Ottawa imperial conference' in *Diplomacy and Statecraft*, vol. 1, no. 2, 193.

³⁴² Williams, Andrew (1990): 'Canada and Anglo-Soviet relations: The question of Russian trade at the 1932 Ottawa imperial conference' in *Diplomacy and Statecraft*, vol. 1, no. 2, 193–194.

³⁴³ Williams, Andrew (1990): 'Canada and Anglo-Soviet relations: The question of Russian trade at the 1932 Ottawa imperial conference' in *Diplomacy and Statecraft*, vol. 1, no. 2 200–201.

³⁴⁴ Williams, Andrew (1990): 'Canada and Anglo-Soviet relations: The question of Russian trade at the 1932 Ottawa imperial conference' in *Diplomacy and Statecraft*, vol. 1, no. 2, 199–200.

³⁴⁵ Not all Canadian industry interests were happy about anti-Soviet trade policies. Aluminium producers, for instance, were upset. Also, Bennett had to break with Article 21 just three weeks after the conference and allow the import of Soviet oil. Williams, Andrew (1990): 'Canada and Anglo-Soviet relations: The question of Russian trade at the 1932 Ottawa imperial conference' in *Diplomacy and Statecraft*, vol. 1, no. 2, 204.

but after the current Anglo–Soviet trade agreement had expired in mid-April 1933. Article 21 marked the nadir of Anglo–Soviet relations, which had been steadily deteriorating since 1927. British Prime Minister Ramsay MacDonald, seeing his Liberal colleagues resigning as a result of the Ottawa resolution, felt he was ‘imprisoned to national circumstances’. Moscow was silent.³⁴⁶

From May 1932 onwards, up until the spring 1933, the timber trading countries were more or less unfamiliar with future trade-political configurations regarding Great Britain. How much would Canadian imports grow? How much would Soviet imports decrease? Would Article 21 be used, and if so, how? What was the position of Nordic timber in the British market? From the perspective of trade balance, Great Britain could afford to diminish Nordic trade; the Finns and Swedes had since the nineteen-twenties exported, more to the UK than vice versa. The deterioration of the market position of Nordic timber in Britain depended largely on the ability of the Canadians to produce premium quality timber that competed with the Nordic production. The timber market reacted negatively to the unpredictable future; demand was slow and prices declined in 1932.

Nordic–Soviet as well as European timber regulation schemes were an open question—and an ongoing process—in summer 1932. There had been a European meeting in Vienna, and in addition, the Nordic–Soviet delegation had met on 22 June.³⁴⁷ All timber-exporting countries were making calculations regarding how beneficial it was commercially and politically to engage in a cartel in times like these. Assessment of the situation varied, and the situation also changed during that year.

Nordic timber trading circles and Nordic political leadership were not just wondering whether regulations schemes were beneficial for them, they were also wondering what the British thought about exporters’ scheme on regulation competition. At the beginning of June 1932, Risto Ryti from the Bank of Finland asked confidentially for advice from his colleague at the Bank of England, Francis Rodd, and ‘whether it would be desirable for Finnish and Swedish timber interests to enter into an agreement with the Russians to restrict production.’³⁴⁸ The Board of Trade urged Rodd to reply that Great Britain could hardly raise any objection although it did not encourage it either ‘unless it is abundantly clear that we are going to get a fair deal.’³⁴⁹ Ryti gathered that British opinion about a Nordic–Soviet cartel was reserved.³⁵⁰ Ryti expressed his opinion that the Russians were eager to negotiate again about a mutual cartel, but Leonard Browett from the British Board of Trade was sceptical that the Russians were ready to conclude any agreement with Finnish and Swedish timber traders based on ‘what has happened in the past’.³⁵¹ Regarding the Soviets’ state of mind, it would

³⁴⁶ NA: T 160/555: Letter from Walter Runciman to George May 20 July 1933. Williams, Andrew (1990): ‘Canada and Anglo-Soviet relations: The question of Russian trade at the 1932 Ottawa imperial conference’ in *Diplomacy and Statecraft*, vol. 1, no. 2, 201–203.

³⁴⁷ ELKA; SSY; 26: SSY working committee 1 July 1932.

³⁴⁸ NA; T 160/555/6: Telegram from Risto Ryti from the Bank of Finland to Francis Rodd of the Bank of England 4 June 1932.

³⁴⁹ NA; T 160/555/6: Letters between S. D. Waley from H. M. Treasury and Leonard Browett from Board of Trade 7 and 13 June 1932.

³⁵⁰ NA; T 160/555/6: Letters between S. D. Waley from H. M. Treasury and Leonard Browett from Board of Trade 7 and 13 June 1932.

³⁵¹ NA; T 160/555/6: Letter from Leonard Browett to S. D. Waley from H. M. Treasury 13 June 1932. Telegram from Risto Ryti from the Bank of Finland to Francis Rodd of the Bank of England 4 June 1932.

appear that Browett was closer to the truth. The Finns would find out in the coming months that the Soviets, indeed, were not enthusiastic about reaching a competition regulation agreement with their Nordic competitors—the Swedes, somewhat surprisingly, were. The Finnish attitude in summer 1932 was rather reserved, and remained that way throughout the year.³⁵²

I heard confidentially that England will decrease its trade relations with the Soviets after Ottawa. Considering this, it would be wise not to form any commercial or trade commitments with the Soviets. It is my opinion that we are not even close to knowing the eventual outcome of Ottawa.³⁵³

In the Nordic calculations, it made sense to wait and see how Imperial Trade negotiations might change Anglo–Soviet trade relations before engaging in cartel agreements with the Soviet Union.³⁵⁴ 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.³⁵⁵ Future being unclear, the responses of the SSY towards the Nordic–Soviet negotiation from May 1932 onwards could be characterised as ‘polite listening’. The SSY and STEF could not interrupt the negotiation, but could not continue it either due to the unclear trade-political situation and the lack of firms’ support.³⁵⁶ The Finnish envoy in London wrote:

In my simple understanding, there is no reason to do anything else other than to listen politely to any wishes regarding a limitation agreement and for the time being at least "wait and see".

³⁵⁷

In autumn 1932 one body who did want a Nordic–Soviet timber cartel was the Economic Section of the League of Nations. Unlike timber firms, it was natural for the League of Nations to promote multilateral commitments on export quotas when the future looked gloomy. Timber output from all European export countries decreased from 4.6 million std in 1931 to 3.9 million std in 1932, and the League had a plan to create regional agreements between the Nordic–Soviet group and the European group, and combine them into one European timber exporters’ convention.

³⁵² ELKA; SSY; 1120: Meeting between von Julin, Jaatinen and Solitander 1 December 1932. ELKA; SSY; 1186: Meeting of the Swedish–Finnish Trust Council 2/1932

³⁵³ KA; Finnish Ministry of Foreign Affairs; Finnish legation in London; 58; F2; 430: Telegram to the Finnish Ministry of Foreign Affairs 2 June 1932 from R:nen. *‘Kuulin luottamuksellisesti Englannin mahdollisesti Ottawan jälkeen kiristävän kauppasuhteita Sovietiin. Tähänkn nähden pitäisin viisaimpana olla tekemättä Sovietin kanssa taloudellisia sitoumuksia. Käsitykseni edelleen ettei vielä olla läheskään selvillä mitä Ottawasta tulee kiteytymään.’*

³⁵⁴ KA; Finnish Ministry of Foreign Affairs; Finnish legation in London; Fa; 58.A:12: Letter from G. A. Gripenberg (Finnish envoy in London) to Axel Solitander 5 December 1932.

³⁵⁵ Heikkinen, Sakari (2000): *Paper for the World: The Finnish Paper Mill's Association - Finnmap 1918-1996*, 157.

³⁵⁶ ELKA; SSY; 26: STEF’s working committee meeting 1 July 1932. CfN; STEF; STEF Board meeting minute 9 September 1932.

³⁵⁷ KA; Finnish Ministry of Foreign Affairs; Finnish legation in London; Fa; 58.A:12: Letter from from G. A. Gripenberg (Finnish envoy in London) to Axel Solitander 5 December 1932. *‘Det enligt mitt enkla förstånd icke nu är skäl för oss att göra någonting annat än att artigt lyssna till eventuella önskemål rörande en begränsningsöverenskommelse samt f. ö. åtminstone under den närmare framtiden "wait and see".’*

Finland was not keen on the idea of a Nordic–Soviet or European cartel. The leaders of Finnish timber traders estimated in autumn 1932 that the Soviet Union had reached its peak in timber production. As it would no longer expand any further, no more Soviet timber threat existed on the horizon.³⁵⁸ The ‘Eastern beast’ had been domesticated and there was no point in trying to tame it artificially by cartel agreements. Also, according to Finnish estimates, the ‘Russians have not since autumn 1932 shown a greater interest in continuing the negotiations’.³⁵⁹ Moreover, the unpredictability that the Anglo–Canadian trade negotiations introduced obviously seemed to have decreased the interest of the Soviet Union towards cartels. The reaction after a regulation scheme proposal from the Soviet Union in August 1932 shows that the Finns were still were having a bit of trouble with the idea of collaborating with the Soviets. The Finns found the Soviet proposal unacceptable, and the anti-Bolshevist factions of the SSY did not spare their words:

This proposition does not even need any answer from us; it is so deceitful and shady. The only response that could be given is: ‘this does not call for action’. It does not aim to bring about collaboration in the timber market, and has entirely other ends. The Russian’s wants to use it as a trade-political vehicle to show that the countries in question have reached a consensus on the timber trade, so as a result, these countries [Finland, Sweden, the Soviet Union] have to be treated similarly when it comes to timber imports. [--] It is such a shameful attempt to trick us that I cannot decide whether it is mockery or do the Russians actually think that they can treat us and the Swedes as they like without punishment and that we will swallow their impudence with a humility. Therefore, I suggest that we stop all interaction with them after this.³⁶⁰

Stopping all interactions with the ‘deceitful Bolsheviks’, the ideology of Prime Minister Bennett, might be appropriate for Canadian in 1932, but for a small country like Finland, sharing 1300 km of land border it was not. Having said that, Kaarlo Brofelt’s words are an example of the fierce debates and strong anti-Soviet feelings beneath the neutral façade that the SSY, and more broadly Finland, showed in public. Furthermore, it indicates what a circus negotiating a timber cartel with the Soviets was. Timber was a vehicle to get foreign currency to execute the Five-Year-Plan, and in order to get credit the Soviet’s had to say to the British banks whatever they wanted to hear. For their potential Nordic cartel partners they also said whatever made them come to a negotiation. In the negotiation, however, the Soviets changed their story and repeatedly withdrew their pre-negotiation concessions.

³⁵⁸ ELKA; SSY; 661: Letter from E. F. Wrede to Rainer von Fieandt 1 July 1933.

³⁵⁹ ELKA; SSY; 661: Letter from E. F. Wrede to Rainer von Fieandt 1 July 1933. ‘*Ryssarna hava däremot sedan hösten 1932 icke visat något större intresse för fortsatta överläggningarna.*’

³⁶⁰ ELKA; SSY; 26: SSY working committee meeting 25 August 1932. ‘*Tämä esitys ei kaipaisi edes mitään vastausta meidän puoleltamme; niin viekas ja hämäreperäinen se on. Ainoa vastaus minkä siihen voi antaa on: ”ei anna aihetta mihinkään toimenpiteisiin”. Sen tarkoitus ei tietystikään ole saada aikaan mitään yhteistyötä aikaan puutavaramarkkinoihin nähden, vaan on sillä aivan toiset tarkoitukset. Sitä tahdotaan käyttää aivan toisiin kauppapolitiisiin tarkoituksiin, haluten sillä vaan osoittaa, että kysymyksessä olevan maat ovat päässeet yhteisymmärrykseen puutavara-kaupan alalla, joten näitä maita on kohdeltava samalla tavalla, kun jossakin maassa on puutavaran tuonnin järjestely kysymyksessä. [--] Esitys on niin häpeämätön yritys meidän nenästä vetämiseksi, että minä en voi käsittää onko se ilmeistä ivaa, vai onko ryssillä meistä ja ruotsalaisista sellainen käsitys, että meitä saa rankaisematta kohdella miten hyvänsä ja että me nielemme kaikki heidän häpeämättömyydensä nöyrästi kumartaen. Ehdotan sen vuoksi että kaikki yhteys heidän kanssaan tämän jälkeen lopetetaan.*’

Brofelt's words also show that the negotiations with the Nordics validated the Soviet timber trade and benefitted the country's trade-political position in Great Britain.

Another reason why Finland was not keen on any cartel collaboration was Sweden. Neighbourly competition was changing in favour of Finland in 1932. Finnish wages in the timber industry were roughly half of those paid in Sweden, and in 1932 Finnish timber wages further lowered on account of severe profitability issues in the timber trade.³⁶¹ During 1932 Finnish timber became more competitive in price and quality than the Swedish and, as a result, Finland expanded its timber exports from autumn 1932 onwards. In terms of cartel collaboration, the Finns did not feel a great urge to restrict their competitors, Sweden and Soviet Union; their inner strugglers restricted their timber exports even without cartels.

To summarise, for Finland 1932 was full of obstacles to forming Nordic–Soviet cartels. In the spring the outcome of the forthcoming Ottawa negotiations seemed to speak against cartels. In summer, the approaching British–Finnish trade negotiations encouraged a similar response. In autumn, the possibility of Article 21 (an anti-dumping act) in Great Britain hindered the Finns' collaborative attitudes.³⁶² Furthermore, the competition from the two neighbouring countries did not seem particularly pressing.

In Finland, one thing was sure: it did not matter what the SSY Board, or let alone the timber firms, felt about cartels. Going to international negotiations had a diplomatic dimension. The principle of neutrality crops up many times in 1932, particularly in the Finnish sources, in which often repeats the idea that Finland cannot end up in a position where European partners might blame them for sabotaging efforts to bring about European timber regulation schemes.³⁶³ In the timber conferences in Geneva in April and Vienna in July it had been decided that the Nordic countries and the Soviet Union would continue their tripartite cartel negotiations, which they did. E. F. Wrede formulated the Finnish policy in summer 1932 with these words: 'Our policy earlier in the year has not been to break negotiations with the Russians, but to delay them while awaiting the results of the Ottawa conference.'³⁶⁴ This policy applied throughout 1932. The Finnish Foreign minister, the Finnish government, and the governor of the Bank of Finland fully supported the policy of not pursuing a

³⁶¹ Söderlund, Ernst (1952): *Swedish Timber Exports 1850-1950. A History of the Swedish Timber Trade Edited for the Swedish Wood Exporters Association.*, 320–321. Ahvenainen, Jorma (1984): *Suomen Sahateollisuuden Historia*, 375–377.

³⁶² KA; Finnish Ministry of Foreign Affairs; Finnish legation in London; Fa; 58.A:12: Letter from Axel Solitander to G. A. Gripenberg (Finnish envoy in London) 5 December 1932. Solitander writes: 'If we now join this agreement, there is a risk that we cannot profit from the situation if Article 21 comes into force.' '*Om vi ansluta oss nu till denna öfverenskommelse, löpa vi risken att icke kunna profitera af situationen för den händelse art 21 tillämpas.*'

³⁶³ Nordic–Soviet timber agreement negotiations also had a positive effect on Finnish–Soviet relations. Neighbourly relations in 1932 had improved, and disrupting the timber negotiations would halt the progress that had been achieved. By spring 1932 the Finnish anti-Soviet Lapua movement had lost its momentum and no longer enjoyed political and moral support in the country; public opinion had turned against it and it was now perceived only as an anti-democratic movement led by an angry mob. Finland and the Soviets signed a mutual non-aggression pact in early 1932.

³⁶⁴ ELKA; SSY; 26: SSY working committee 25 August 1932. 'Vår politic tidigare I år hade gått ut på att icke avbryta underhandlingarna med ryssarna, utan förhåla dem i avvaktan på Ottawa-konferensen.'

cartel, but not interrupting the negotiation either.³⁶⁵ The change in collaborative culture must have felt awkward for the SSY and STEF, who in 1918–1921 and 1925–1931 had aimed to make a cartel agreement, and not merely show up at the negotiations to prolong the process.

Opinions in Sweden were different, however, largely for the same reasons that have already been discussed. Sources suggest that, even though there was caution in Sweden towards cartels in unpredictable trade-political situations, the Swedes were much more eager than the Finns to proceed with the Nordic–Soviet regulation scheme in autumn 1932, and particularly in late autumn.³⁶⁶ The commercial reason was the deteriorating position of Sweden in the British timber market. The biggest challenger was not the Soviet Union, but Finland: the future in the timber trade looked brighter for the ‘little brother’.³⁶⁷ The improving position of Finland in Britain worried the STEF, although the total timber export volumes were neck and neck between the two countries. Finnish timber was of good quality and the price was cheaper than the Swedish timber.³⁶⁸ According to the estimates of the CEO of SSY, E. F. Wrede: ‘The Swedes showed [--] a great interest towards taking up these [Nordic–Soviet] negotiations mostly because of concern over increases in Finnish exports.’³⁶⁹

By the end of 1932, the cartel policies of the two Nordic ‘brothers’ had truly grown apart. The newly elected Social Democratic government in Sweden supported the idea of a Nordic–Soviet timber regulation scheme. The Finnish sources tell us that phones had been ringing in many high offices. Jacob von Julin of the SSY wrote in December 1932:

Kempe received a phone call today from Prime Minister Per Albin Hansson, who said that the Swedish government felt it was particularly important that negotiations were started and preferably also an agreement would be reached with the Soviets over the timber question to

³⁶⁵ See, for instance: ELKA; SSY; 1120: Meeting between Jacob von Julin, Jaatinen and Solitander 1 December 1932. UM; 58; F2; 430: Telegram to the Finnish Ministry of Foreign Affairs 2 June 1932 from R:nen. KA; Finnish Ministry of Foreign Affairs; Finnish legation in London; Fa; 58.A:12: Report from the Finnish legation in London 9 December 1932.

³⁶⁶ CfN; STEF; B1AA:17; STEF Board meeting minute 9 September 1932. CfN; STEF; E3CA: Letter from J. L. Ekman to Egon Glesinger 28 October 1932. J. L. Ekman wrote to Egon Glesinger on 28 October that ‘there are so many unknown factors at present, which may influence the opinion whether it be desirable or not to enter into an agreement with Sovjet.’ CfN; STEF; E3CA: Letter from J. L. Ekman to Egon Glesinger 28 October 1932. He also remained restrained on European timber cartel issues. CfN; STEF; E3CA: Letter from J. L. Ekman to Egon Glesinger 28 October 1932.

³⁶⁷ The changed horizons for Finland and Sweden in the timber market is shown in different reactions after the Nordic–Soviet negotiation in August 1932. After the Nordic–Soviet negotiations in August, the Board of the STEF approached Swedish timber exporters with a request to authorise the association to negotiate a cartel on their behalf ‘if the trade-political situation later in the autumn still supports it’ (CfN; STEF; E3E:2: circular letter 9 September 1932. ELKA; SSY; 82: Meeting of the Swedish–Finnish Trust Council meeting 29 August 1932). The Swedish timber firms did not support the cause very enthusiastically and gathering authorisations turned out to be ‘difficult and time consuming’. The Board of the SSY, on the other hand, did nothing after the last Nordic–Soviet negotiation.

³⁶⁸ CfN; STEF; B1AA:18: STEF Board meeting 15 March 1933. ELKA; SSY; 661: Letter from E. F. Wrede to Rainer von Fieandt 1 July 1933.

³⁶⁹ ELKA; SSY; 661; Letter from E. F. Wrede to Rainer von Fieandt 1 July 1933. ‘*Svenskarna visade under senaste vinter ett livligt intresse för att återupptaga dessa förhandlingar främs av oro för en fisk exportökning.*’

increase the export prices and to avoid further shutdowns with Swedish sawmills and the spreading of unemployment. Kempe thought an agreement of this kind would be beneficial. I disagreed and said that the case was just the opposite; it was particularly inappropriate for us to connect our interests with the Soviets at the same time as we were starting trade negotiations with Great Britain. Kempe said that the Swedish government and he had an entirely different opinion.³⁷⁰

Interestingly, the opinion of the British government towards a Nordic–Soviet timber cartel had also changed. In summer it had been restrained, but the intensified negotiations with Canada in late 1932 changed the British attitude. On 17 October, Great Britain gave notice to the Soviet government that it would abandon their bilateral trade agreement in six months.³⁷¹ Particularly the anti-dumping act—Article 21—which was designed to block Soviet timber from the UK was problematic for British commercial and political interests.³⁷² Anglo–Soviet relations were on a regrettable trajectory and using Article 21 was not considered a desirable solution. ‘A boycott is an unpleasant thing,’ said Montagu Meyer, the chairman of the British buying syndicate, the Russian Softwood Import, in 1929.³⁷³ In late 1932, nothing in that respect had changed; Prime Minister MacDonald did not consider boycotting to be an elegant or economically optimal manner of solving conflicts. A private regulation agreement, on the other hand, was. Finnish sources suggest that the British government saw the Nordic–Soviet timber agreement as a possible way to mitigate the inconveniences of Article 21. Finland, Sweden, and the Soviet Union having a private competition regulation agreement would show ‘storm bird Bennet’ that export volumes were in control even without Article 21.³⁷⁴ A possible Nordic–Soviet cartel was ‘in line with English politics right now, and in this way England was not forced to take a stand against Russia’, concluded Gripenberg, a Finnish envoy in London.³⁷⁵ British interest towards this agreement stemmed from the fact that ‘Bennett’s strategy was to get the British to impose a quota on Russian imports,’ as Williams writes. But, as already said, the British themselves saw that regulation was created through private agreements rather than through intergovernmental quotas.³⁷⁶

³⁷⁰ ELKA; SSY; 1120: Meeting between von Julin, Jaatinen and Solitander 1 December 1932.

³⁷¹ Niergarth, Kirk/J.L. Black (2016): ‘Revisiting the Canadian–Soviet barter proposal of 1932–1933: The Soviet perspective’ in *International Journal*, vol. 71, no. 3, 419.

³⁷² KA; Finnish Ministry of Foreign Affairs; Finnish legation in London; Fa; 58.A:12: Letter from G. A. Gripenberg (Finnish envoy in London) to Axel Solitander 5 December 1932.

³⁷³ NA: T 160/555: Speech by Montagu Meyer, the Chairman of the Russian Softwood Import Ltd. To the members of the Russian Softwood Import in December 1929. ‘I do not suggest—in fact, I depreciate—anything in the nature of a boycott (towards the Soviet Union). That is not our policy. A boycott is an unpleasant thing.’

³⁷⁴ KA; Finnish Ministry of Foreign Affairs; Finnish legation in London; Fa; 58.A:12: Report from the Finnish legation in London 9 December 1932. Williams, Andrew (1990): ‘Canada and Anglo-Soviet relations: The question of Russian trade at the 1932 Ottawa imperial conference’ in *Diplomacy and Statecraft*, vol. 1, no. 2, 189–191.

³⁷⁵ KA; Finnish Ministry of Foreign Affairs; Finnish legation in London; Fa; 58.A:12: Letter from G. A. Gripenberg (Finnish envoy in London) to Axel Solitander 5 December 1932. Letter from Axel Solitander to Gripenberg 3 December 1932. ‘*Detta vore i öfverenstämmelse med engelsk politik just nu, och på detta sätt blev England icke tvunget att taga ställning mot Rysslan.*’

³⁷⁶ Williams, Andrew (1990): ‘Canada and Anglo-Soviet relations: The question of Russian trade at the 1932 Ottawa imperial conference’ in *Diplomacy and Statecraft*, vol. 1, no. 2, 207.

Finnish diplomatic sources suggested that the Nordic–Soviet regulation scheme was a subject of discussion in London:

It is thinkable, or maybe even likely, that to avoid inconveniences with the Russians and Canadians, this [British] government will invite Russia, Sweden, and Finland to voluntarily restrict their export. [- -] It is not excluded that the Canadians themselves will suggest a respective urging towards the Nordic countries.³⁷⁷

And what if the British government would, indeed, start promoting the Nordic–Soviet timber agreement? True to the Finnish principle of being a good, collaborative ally, Solitander writes that ‘of course, we could not refuse’.³⁷⁸ Things did not proceed that far, but the discussion shows that behind ‘private cartels’ governmental forces were at work moved by international diplomacy and trade-political concerns.

Moscow had been surprisingly silent throughout autumn 1932 about the newly emerging anti-Soviet policies in Great Britain, introduced by the Ottawa agreement, but in spring 1933 the Soviets started to react. In March, the Soviet police arrested British engineers working in Moscow for the Metro-Vickers Company.³⁷⁹ The trade agreement between the two countries was about to expire on 17 April.³⁸⁰ The British engineers continued to be under arrest and the trade agreement was not renewed. The embargo of Soviet goods started in Great Britain on 26 April. For British timber importers, the embargo meant that part of the Soviet timber that had been contracted earlier would arrive later than expected—if at all. To make sure they had something to sell to their customers, many importers decided to buy more timber from other destinations, like from the Baltic and Nordic countries. Also customers, being aware of the embargo, started asking for timber from other countries than the Soviet Union.³⁸¹ Demand accelerated, prices increased. Eventually, the embargo was lifted on 20 June and the British engineers were released a couple of weeks later.³⁸² The embargo did not have a major effect on the timber trade in 1933, but the embargo-boosted demand in spring led to a slower demand in autumn 1933.

³⁷⁷ KA; Finnish Ministry of Foreign Affairs; Finnish legation in London; Fa; 58.A:12: Letter from G. A. Gripenberg (Finnish envoy in London) to Axel Solitander 5 December 1932. ‘...så är det tänkbart, ock kanske t.o.m. sannolikt, att denna regering för att undgå all obehag med ryssar och kanadensare, kommer att uppmana Ryssland, Sverige och Finland att frivilligt begränsa sin export. [- -] Det är ej håller uteslutet, att kanadensare själva komma att föreslå en dylik uppmaning till de nordiska länderna.’

³⁷⁸ KA; Finnish Ministry of Foreign Affairs; Finnish legation in London; Fa; 58.A:12: Letter from Axel Solitander to G. A. Gripenberg (Finnish envoy in London) 3 December 1932. ‘vi kunde då naturligtvis ej vägra.’

³⁷⁹ Carley, Michael Jabara (1996): ‘A Fearful Concatenation of Circumstances’: the Anglo–Soviet Rapprochement, 1934–6’ in *Contemporary European History*, vol. 5, no. 1, 33.

³⁸⁰ KA; Finnish Ministry of Foreign Affairs; Finnish legation in London; Fa; 58.A:12: Report by G. A. Gripenberg 7 March 1933. Williams, Andrew (1990): ‘Canada and Anglo-Soviet relations: The question of Russian trade at the 1932 Ottawa imperial conference’ in *Diplomacy and Statecraft*, vol. 1, no. 2, 204.

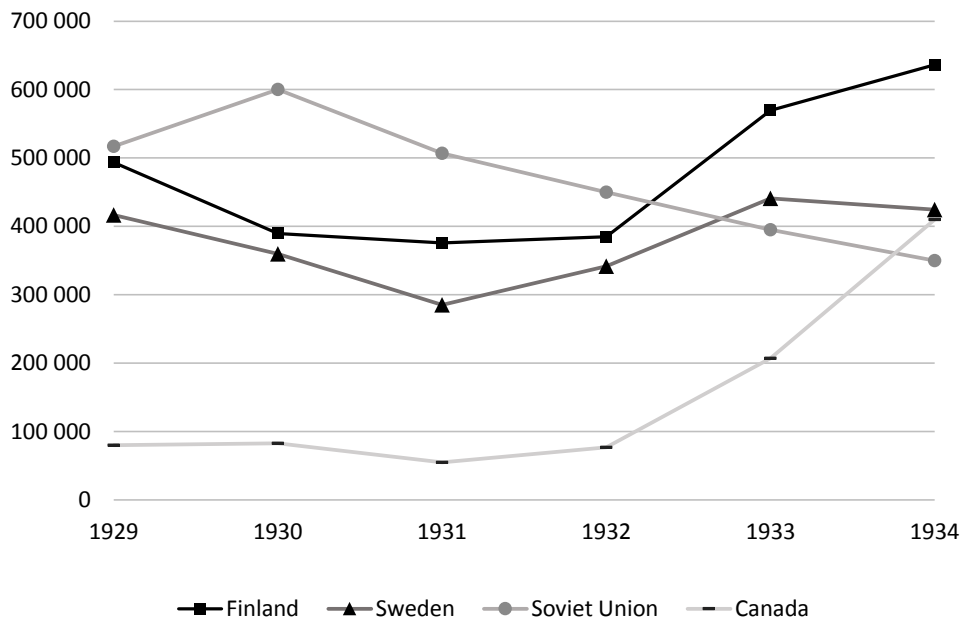
³⁸¹ KA; Finnish Ministry of Foreign Affairs; Finnish legation in Bern and Geneva; Fa; 58.A:12: Market report from Boyson & Neame Limited 26 April and 11 May 1933.

³⁸² Williams, Andrew (1990): ‘Canada and Anglo-Soviet relations: The question of Russian trade at the 1932 Ottawa imperial conference’ in *Diplomacy and Statecraft*, vol. 1, no. 2, 204.

The major consequences of the Ottawa-process lay in the economic and political consequences for the rest of the decade. Williams writes that ‘there were great windows of opportunity for decreasing East–West tension in the early 1930s, and by pushing an already hostile British Conservative party, Bennett shut the most promising window of the inter-war period.’³⁸³

Eventually, the changes in the British trade policy in 1932 treated Sweden and particularly Finland well. The share of Nordic timber, and Finnish timber in particular, increased in the British markets after 1932.³⁸⁴ In total, Great Britain increased its timber exports from 1.4 million std to 2.1 million std between 1932 and 1934. The Soviet Union, on the other hand, started losing its market share in Great Britain in 1932. Between 1931 and 1934, the Soviet share of the British market fell from 33 per cent to 13 per cent—Exports also found it difficult to sell its supply to European markets. The need for money had not vanished, though. It seems plausible, that the anxiety in Soviet timber exports was the most important reason why the Soviet Union eventually participated in the European Timber Exporters’ Convention which offered an equal quota distribution with the Nordic countries.

Figure 4: Timber exports (std) to UK from the Soviet Union, Sweden, Finland, and Canada 1929–1934



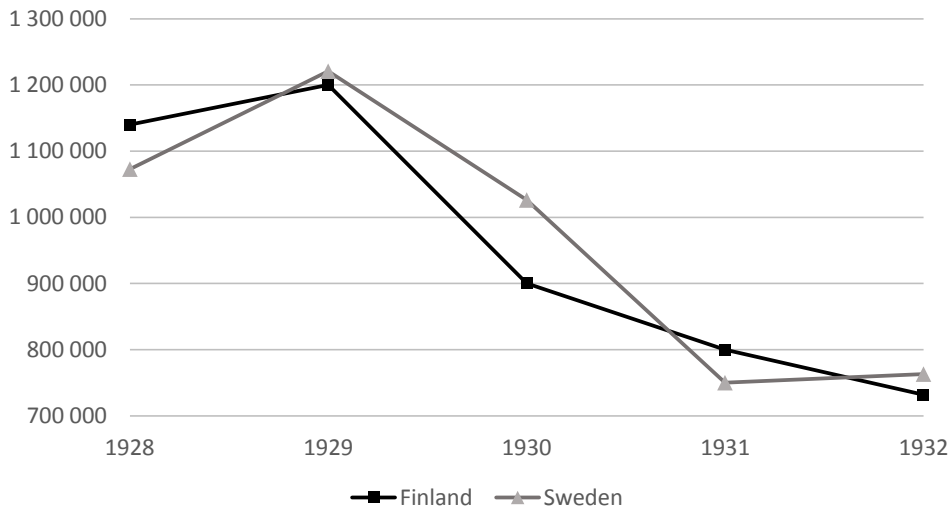
(Source: Sweden exports, see: CfN; STEF; G1B:2: STEF Annual report 1934. Finland exports, see: ELKA; SSY; 209: SSY Annual report 1934. Soviet Union exports, see: CfN; STEF; G1B:2: STEF Annual reports 1930, 1932–1934. Canada exports, see: Glickman, David L. (1947): 'The British Imperial Preference System', 457.)

³⁸³ Williams, Andrew (1990): 'Canada and Anglo-Soviet relations: The question of Russian trade at the 1932 Ottawa imperial conference' in *Diplomacy and Statecraft*, vol. 1, no. 2, 211.

³⁸⁴ Poland increased its exports from 52,000 std to 170,000 std between 1932 and 1934.

As a whole, the timber market in 1932 was not good for Sweden and Finland. Prices, quantities, and profitability were lower than ever. Total exports from Finland decreased from 780,000 std in 1931 to 732,000 std in 1932—in Finnish marks the drop was from 1.7 million marks to 1.6 million marks.³⁸⁵ The price level continued to deteriorate.

Figure 5: Timber exports (std) from Finland and Sweden 1928-1932



(Source: CfN; STEF; G1B:2: STEF Annual report 1933.)

Before the end of 1932, Finland and Sweden were expecting an invitation from the League of Nations to the World Economic Conference in summer 1933. The agenda of the World Economic Conference was economic disarmament; it would be an international arena to discuss current trade-political and commercial problems like fluctuating raw material prices, monetary instability, deflation, tariff protectionism, and debts and trade-political isolation in the most-favoured-nation blocs. Regulating timber trade was also on the agenda. The Nordic countries were not only expected to join the discussion, but also be a part of the solution. If the Ottawa conference and the governmental trade agreement negotiations in 1932 were the trade-political monuments which cast a long shadow in the timber cartel question, the World Economic Conference did the same in 1933.

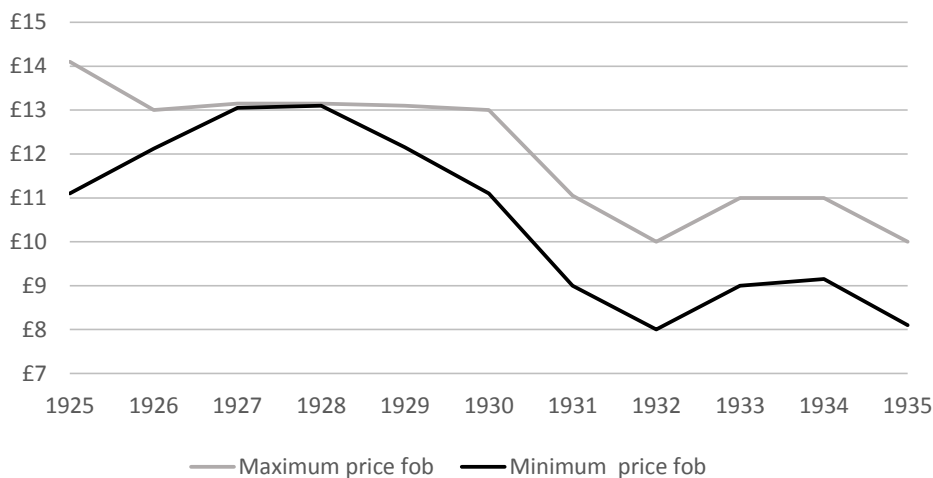
World Economic Conference 1933

The timber market showed an upward trend in early 1933, which was a pleasant development after so many gloomy years. The price level had increased slightly since the autumn of 1932, and the development continued in spring 1933 (see Figure 5). Importers' stocks, which had been quite full in 1930 and 1931, were reaching normal levels at the beginning of 1933. The nadir of recession seemed to be behind. By the end of January, the Finns had sold 70,000 std to Great Britain, while in 1932 and 1931 at the same time the quantity had been 18,000–19,000 std. Demand in France, Germany, the

³⁸⁵ Suomen tilastollinen vuosikirja 1932 - Annuaire statistique de Finland 1932.

Netherlands, and Belgium was also lively.³⁸⁶ The British importing syndicate, Timber Distributors, had made a timber contract with the Soviets for 395,000–435,000 std to the tune of approximately 4.5 million pounds.³⁸⁷

Figure 6: Price (£) GBP of Finnish timber 1925–1935



Leading South-Finnish exporters, 2.5 x 7 pine board, fob price.
(Source: ELKA; SSY; 1124; Circular letter of SSY 17 October 1935.)

Unpredictable elements hung upon the improved timber market. A new leaf might be turned in Anglo–Soviet relations in April when the temporary trade agreement between the countries expired. Would they negotiate a new one or would Great Britain resort to a Soviet boycott? And how would Great Britain use the anti-dumping act, Article 21, included in the Imperial Trade Agreement with Canada? The Soviet Union was still a major player in the timber trade and changes in its position affected Sweden and Finland. Another unpredictable aspect was the World Economic and Monetary Conference, hosted by the League of Nations, which was due in June 1933.

Preparations for the conference had started in late autumn 1932, when the Economic Section of the League of Nations sent invitations and preliminary programmes for governments throughout the world.³⁸⁸ The target of the conference was to fight against trade protectionism and economic nationalism in monetary policies, customs, and commodity trade. The conference divided into two groups: the economic commission and the monetary and financial commission. The timber regulation problem was handled by the first group, under the broader topic of ‘controlling the production of

³⁸⁶ ELKA; SSY; 209; SSY Annual report 1933. KA; Finnish Ministry of Foreign Affairs; Finnish legation in Bern and Geneva; Fa; 58.A:12: Market report from Boyson & Neame Limited 31 March 1933.

³⁸⁷ *Financial Times*, 2 January 1933.

³⁸⁸ Eichengreen, Barry J. and Uzan, Marc (1990): ‘The 1933 World Economic Conference as an instance of failed international cooperation’. University of California at Berkeley, Dept. of Economics, 5. RA; Swedish Ministry of Foreign Affairs; 1920 års dossiersystem; HP 3445.

certain commodities'.³⁸⁹ Other commodities, which the League of Nations wanted under governmentally regulated cartels, were coffee, tea, cocoa, dates, tobacco, cotton, tin, copper, silver, wine, sugar, wheat, coal, wool, and dairy products. Oscillations in price and demand in these industries had been particularly violent since the First World War. These sectors had failed to bring about private cartels, but since supply and demand were out of balance, regulation was needed. The failure of the private sector to form cartels was a signal for the League of Nations that this gap needed filling.

[The Economic Committee of the League of Nations] recognized that industrial agreements were primarily matters to be discussed by the industries concerned, but it was suggested that the World Conference might afford a suitable opportunity for discussions between the Governments as to their attitude to such agreements. [- -] In the case of certain commodities [- -] government intervention would be necessary to secure effective action.³⁹⁰

The report of the League of Nations pinpoints three industries in particular that had failed to bring about international regulation through private initiative: wheat, timber, and coal.³⁹¹

The Swedish government did not support the idea of governmentally-led cartels, but wished to leave the issue to 'the producers' free initiative'.³⁹² The Swedish and Finnish timber exporters agreed. J. L. Ekman from STEF asked Vilhelm Lundvik,³⁹³ one of the members of the Swedish preparatory commission, to do everything he could to remove the European timber cartel from the agenda of the World Economic Conference. Ekman explained that the tendency at the moment was to regulate the total production and the exports of sawn timber throughout Europe, although the conditions between the continental group and the Nordic–Soviet group were so different that collaboration between them was virtually impossible. If the matter was not proceeding through private channels, it should not be promoted in the public either. Ekman underlined that neither he nor the STEF were interested in the European timber cartel let alone in the involvement of the Swedish government in the cartelisation process.³⁹⁴ Similar discussions were held in Finland between the CEO of SSY and members of the Finnish delegation in London.³⁹⁵

Not just the Swedish timber industry, but, more broadly, Swedish business circles were campaigning against the spreading of governmental interventions to cartels. The STEF, the General Export

³⁸⁹ The rest were monetary and credit policies; Prices; Capital mobility; Barriers of international trade; Custom and trade agreement policies. RA; Swedish Ministry of Foreign Affairs; 1920 års dossiersystem; HP 3445: 16 June 1933.

³⁹⁰ RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 3443; League of Nations report 10 November 1932.

³⁹¹ The gravitation of the Economic Section of the League of Nations towards governmental control over cartels in raw material production was, according to Swedish sources, particularly in the interest of the French government.

³⁹² RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 3444: Pro memoria regarding London conference sent to UD in 20 April 1933. '*skapandet av dylika sammanslutningar lämpligast bör överlåtas åt de närmast intresserade producenternas fria initiativ.*'

³⁹³ Former Minister of Commerce, Managing Director of the Federation of Swedish Industries, Member of the Economic Committee of the League of Nations

³⁹⁴ CfN; STEF; F1A:285: Letter from J. L. Ekman to Vilhelm Lundvik 2 March 1933.

³⁹⁵ ELKA; SSY; 661; Letter from E. F. Wrede to Rainer von Fieandt 3 July 1933.

Association of Sweden, the Federation of Swedish Industries, and the Swedish National Commission wrote a letter to the Ministry of Trade (Kungliga Handelsdepartement) pleading that the industrial agreements were best left in the hands of private organisations.³⁹⁶ As a gentle reminder amidst growing protectionism and state interventions, Swedish industry wanted to underline that state intervention in cartel negotiations was 'inadvisable'.³⁹⁷ The Finnish timber industry had identical wishes.

Despite the keen wishes of Nordic industries, the controlling of the European timber trade through intergovernmental practices stayed on the agenda at the approaching World Economic Conference. In March 1933, the Finnish and Swedish governments established preparatory committees for the coming World Economic Conference. Committees in both countries represented broadly the interests of the state, banks, and industry.³⁹⁸

In mid-March 1933, the Board of the STEF formulated that the easiest way to avoid government intervention in the timber trade was to authorise the STEF to speak on behalf of the Swedish timber industry and supply the organisation with enough support to guarantee that Sweden did not exceed a certain maximum export quantity.³⁹⁹ Therefore, just like in 1931, the STEF sent a letter to timber firms asking them to authorise the STEF to represent Sweden in international timber negotiations. Sources suggest that the STEF was, besides being interested in keeping the power in timber issues within the World Economic Conference, also eager to create a Nordic–Soviet timber agreement: 'We have seen recently that the Soviets do not want to disturb the market with too big a supply, but on the other hand, we know that Finland again seeks to increase its market share.'⁴⁰⁰ In the spring of 1933 the Swedish Minister of Foreign Affairs shared the view with J. L. Ekman that the Nordic–Soviet timber cartel was beneficial for Sweden, while the European timber scheme was not.⁴⁰¹ The leadership of the STEF estimated that it was now a good time to come to a regulation agreement with the Finns so that the 'little brother' would not increase its exports too rapidly. The timing suited the direction

³⁹⁶ Sveriges Allmänna Exportförening, Sveriges Industriförbund, and Svenska National Kommission

³⁹⁷ RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 3444: Letter from Sveriges Allmänna Exportförening, Sveriges Industriförbund, and Svenska National Kommission 5 May 1933, '*över huvud taget torde en statlig inblandning på ifrågavarande område icke vara tillrådlig.*'

³⁹⁸ RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 3445: Pro memoria regarding the London conference sent to UD in 10 April 1933. RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 3444: Report 29 May and 6 June 1933. R. J. Sandler, Minister for Foreign Affairs; E. J. Wigforss, Minister for Finance; Baron E. K. Palmstierna, Envoy in London; C. G. Cassel, Professor at the Private University of Stockholm; P. E. G. Insulander, Director General and Chief of the Royal Board of Agriculture; V. G. Lundvik, Former Minister for Commerce, Managing Director of the Federation of Swedish Industries, Member of the Economic Committee of the League of Nations; A. G. Richert, Chief of the Commercial Department of the Swedish Ministry for Foreign Affairs; I. Rooth, Governor of the Bank of Sweden.

³⁹⁹ CfN; STEF; B1AA; 18: Board of STEF meeting 15 March 1933.

⁴⁰⁰ CfN; STEF; B1AA; 18: Board of STEF meeting 15 March 1933. '*Visserligen kan man numera hos ryssarna märka en strävan at ej störa marknadens stabilisering genom alltför stora utbud, men, å andra sidan, vet man att Finland åter strävar efter ökad marknad för sina trävaror.*' The Finns noted the STEF's interest. See: ELKA; SSS; 661; Letter from E. F. Wrede to Rainer Fieandt 1 July 1933.

⁴⁰¹ CfN; STEF; B1AA; 18: STEF working committee 11 July 1933.

that demand was taking in Sweden. In spring, demand and prices took an upward trend, which increased the willingness of the STEF to form a cartel.

Demand and prices were also increasing in Finland, but the willingness to collude did not rise accordingly. The competitive position of Finland had improved since 1931 vis-à-vis Sweden and the Soviet Union, and Finland was now the top dog. Soviet timber exports to UK were adequately restricted by Article 21 and Swedish timber was more expensive than Finnish timber. Furthermore, the Finns were still suspicious about collaborating with the Soviets, and the SSY members did not support very broadly the idea of a Nordic–Soviet timber regulation scheme. The tepid support of firms combined with the diplomatic importance of the timber agreement introduced the threat of government intervention to the cartel endeavour.

Both Sweden and Finland had reservations about the European timber regulation scheme. They did not believe in establishing a European regulation scheme because, firstly, collaborating with the South-East Europeans was not commercially attractive (different markets, different products), and, secondly, because the regulation scheme that these European partners were supporting was more or less intergovernmental in nature. They did not want to see any timber sub-committees of the World Economic Conference discussing or deciding upon timber export quotas. Nevertheless, what were the options for Finland and Sweden to express their opposition? Go to the conference and tell what they thought about a governmentally controlled European timber cartel? Clearly they could not do this:

When the sub-committee is established, 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.⁴⁰²

Expressing the opposition perspective required ‘formulation skills and diplomatic prudence’—as had been required since 1931.⁴⁰³

Sub-Committee II: Timber

The World Economic Conference took place in London from June 12 to July 27. The question of regulating the production and exports of timber—and wine and coal— was handled from 5 July onwards in the Economic Sub-Commission II. Only four days were reserved for the timber question, which was considered a short time.⁴⁰⁴ The Finnish and Swedish delegations did not complain about the hasty schedule: results were rarely reached in haste, particularly with many participants.

As the Sub-Committee II was rather large, it decided that the timber regulation issues needed a special sub-commission. J. L. Ekman received orders from the Swedish government to support the creation of a sub-committee for timber.⁴⁰⁵ The members of the timber sub-commission were France, Italy,

⁴⁰² 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 ossa densamma tillkomst eller at vi på något sätt kraftigt manifestera vår motsatta åsikt, så att man icke I framtiden kan skyllä direct på Finland det högst antagligen klena resultaet av sagda komittés verksamhet.’*

⁴⁰³ ELKA; SSY; 661; Letter from E. F. Wrede to Rainer von Fieandt, 3 July 1933. *‘formuleringskonst och diplomatiska försiktighet.’*

⁴⁰⁴ CFN; STEF; B1AA; 18: STEF Board meeting 11 July 1933. ELKA; SSY; 1185: Memo sent to the Finnish Ministry of Foreign Affairs 7 July 1933.

⁴⁰⁵ ELKA; SSY; 661; Letter from Rainer von Fieand to E. F. Wred,e 1 July 1933.

Poland, Czechoslovakia, Austria, Romania, Soviet Union, Finland, Sweden, and the CIB.⁴⁰⁶ The Finnish and Swedish delegations lobbied Ekman as the chair of the timber sub-committee, but the continental votes won. The French representative, Maurice Lesage,⁴⁰⁷ was elected as chairman, though this was not good news for the Nordic delegation. France had been a keen supporter of European timber regulation in its widest possible form since the autumn of 1931.⁴⁰⁸ To make things worse, Lesage did not have a background in commercial timber trade, but worked in the French Ministry of Agriculture, and according to the Finns the timber imports in the country were under his command. J. L. Ekman was nominated the vice-chairman.

In the timber sub-committee, France and the CIB vigorously promoted an agreement that regulated the production and export quantities between European countries. They supported a licence-based quota system between the governments of the timber exporting and timber importing countries. M. Lesage and Count Krystof Ostrowsky, the Polish president of the CIB, suggested that countries that opposed the European regulation scheme would be boycotted in France. Lesage, the man in charge of French timber imports threatened to increase the trade barriers against Sweden and Finland by lowering their timber contingents if they opposed the European timber regulation scheme. France was making the two Nordic countries choose, in other words, between private regulation and tariff controls.⁴⁰⁹ State official threatening with trade barriers unless negotiations about timber regulation between exporting countries continued successfully was exactly the sort of situation why the Finns and Swedes opposed the matter being promoted by governmental or semi-governmental channels.

France was a significant export market for Finland and particularly for Sweden, which put the Nordic delegations into an awkward position. They did not want to harm their relations with France, but on the other hand, they did not want to jump into European timber cartel negotiations either. Fortunately, France's radical measures did not gain support from Great Britain, Italy and Canada.⁴¹⁰

The Nordic representatives opposed all-European regulation agreements on the production and export of timber as well as CIB's strive for more power. Furthermore, the fact that the cartel ideas lobbied in the World Economic Conference included the profound involvement of governments in the regulation system, even in the form of intergovernmental agreements, was strongly opposed in Finland and Sweden. 'Our timber exporters, at least the majority of them, have been against state intervention to their freedom of trade,' wrote E. F. Wrede to Rainer von Fieandt, who was a board

⁴⁰⁶ ELKA; SSY; 1185: Memo sent to the Finnish Ministry of Foreign Affairs 7 July 1933. SSY; 661; Letter from Rainer von Fieandt to E. F. Wrede 1 July 1933.

⁴⁰⁷ According to an internet source (<http://iea.uoregon.edu/treaty-text/1929-ProtectionPlantsEN.txt>, accessed 24 November 2016), Maurice Lesage was the Director of Agriculture in the French Ministry of Agriculture.

⁴⁰⁸ RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; H 995: Report about the international regulation of the timber trade from the Swedish legation in France to the Swedish Prime Minister F. Ramel and the Swedish Minister of Foreign Affairs, 11 August 1931.

⁴⁰⁹ CfN; STEF; B1AA; 18; STEF Board meeting minute, 11 July 1933. ELKA; SSY; 1185; Memo sent to the Finnish Ministry of Foreign Affairs, 7 July 1933.

⁴¹⁰ Anton Ceschi and Krystof Ostrowsky, the temporary general secretary and the president of the CIB, wanted to increase the influence of their organisation and broaden its scope from being a continental timber data office to a wider European timber trade office.

member of a commercial bank *Pohjoimaiden Yhdyspankki*.⁴¹¹ A. G. Richert, the chief of the Commercial Department of the Swedish Ministry for Foreign Affairs, 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.⁴¹² As the Finnish sources said: 'The hands of the Swedish delegation was tied by the order of the Swedish government to support international agreements.'⁴¹³ Balancing between free trade against protectionism, tariff barriers against economic disarmament, and regulation against unrestricted competition was tricky, though. Both Nordic delegations went to the World Economic Conference to support international agreements that would decrease regulation and trade barriers, but they found out that the spirit of the negotiations was less than friendly:⁴¹⁴

The discussion [- -] shows clearly how popular the regulation aspirations of socialist nature today are. [- -] 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.⁴¹⁵

The position of the Nordic delegations therefore became somewhat difficult. Refusing European collaboration altogether was not an option, so the Nordic delegations decided to redirect the European timber agreement question in a familiar direction. J. L. Ekman suggested that the European exporters should be divided into two groups—the continental group and the Nordic–Soviet group—and then try to complete a regulation scheme within the groups. Having Nordic–Soviet negotiations, of course, suited Swedish interests, and the STEF would not have minded at all if the negotiations had never proceeded at all from there to the European level. The Finns, on the other hand, considered that negotiating first within the Nordic–Soviet group and then within the continental group was time-

⁴¹¹ ELKA; SSY; 661; Letter from E. F. Wrede to Rainer Fieandt, 1 July 1933. '*Våra trävaruexportörer eller åtminstone det största flertalet av dem hava städse varit emot ingripande av regeringen i deras handlingsfrihet.*'

⁴¹² RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 3445: pro memoria, 19 June 1933.

⁴¹³ ELKA; SSY; 1185: Memo sent to the Finnish Ministry of Foreign Affairs, 7 July 1933. '*Ruotsin edustajan käsiä sitoi Ruotsin hallituksen määräys, että Ruotsin oli kannatettava kansainvälisen sopimuksen aikaansaamista, mutta toiselta puolen Ruotsin edustaja keskustelussa voimakkaasti korosti vapaiden markkinoiden merkitystä.*'

⁴¹⁴ ELKA; SSY; 1185: Memo sent to the Finnish Ministry of Foreign Affairs, 7 July 1933.

⁴¹⁵ 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 omituisempaan valoon kun talouskonferenssin tehtävänä on päinvastoin ollut kansainvälisen kaupan vapauttaminen liiallisista rajoituksista.*'

consuming—and therefore most welcome.⁴¹⁶ A long and arduous negotiation path offered plenty of pitfalls in which to get stuck, and this is what the Swedes wanted.

The timber committee of the World Economic Conference agreed with the proposal of the Nordic delegation that ‘the committee should be adjourned for some time’. The exporting countries agreed to use the adjournment time to investigate the possibility of collaborating with both groups. The CIB agreed to gather data about the consumption, demand, and supply of timber in order to build a solid, statistical ground for a regulation scheme.⁴¹⁷ The length of adjournment, ten weeks, was not modest, and the discussion would not continue before 3 October 1933.⁴¹⁸ The Nordic proposal pleased the majority of the participants—and their spirit of non-intervention was also noticed.⁴¹⁹ Writing years later about the Nordic contribution to the World Economic Conference of 1933, Egon Glesinger said, ‘Scandinavian countries were determined to frustrate any government-sponsored regulation scheme.’⁴²⁰

The Nordic and Soviet exporters were commissioned to make the necessary preparations to conduct cartel negotiations and present the results on 3 October 1933 in a European timber conference hosted by the Economic Section of the League of Nations and Pietro Stoppani.⁴²¹ ‘This is not comfortable for us’, wrote E. F. Wrede to Axel Solitander, and continued: ‘the Swedes will start promoting the proposal out of concern over expansion of Finnish rather than Soviet timber production.’⁴²² Wrede also confessed to Rainer von Fieandt that previously he had been of the opinion that it would be necessary for Finland to try to reach an agreement with the Soviets, who were threatening the Finnish market position. However, he had reassessed this view and now thought that Soviet production would decrease rather than expand in the coming years. ‘Many share this impression,’ he added.⁴²³ Wrede’s analysis was accurate, but he probably did not guess that Ekman was thinking beyond the Nordic–

⁴¹⁶ ELKA; SSY; 661; Letter from E. F. Wrede to G. A. Gripenberg (Finnish envoy in London) 7 July 1933. Letter from E. F. Wrede to Axel Solitander 8 July 1933.

⁴¹⁷ ELKA; SSY; 1185: Memo sent to the Finnish Ministry of Foreign Affairs, 7 July 1933. ‘*Jotta olisi saatu vältetyksi vaara, että komitea olisi ottanut käsiteltäväkseen puutavarakysymyksen koko laajuudessaan, esitti Ekman keskiviikkoa pidetyssä jaoston kokouksessa Suomen kannattaman seuraavan ponsilauseleman*: “The committee should be adjourned for some time, during which period the two groups should investigate if they are able to reach an agreement between the exporters within each group about regulating the export of sawn and planed soft wood. During the adjournment the necessary statistics should be collected through the CIB.”’ 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*, 234–237.

⁴¹⁸ ELKA; SSY; 1185: Memo sent to the Finnish Ministry of Foreign Affairs, 7 July 1933.

⁴¹⁹ ELKA; SSY; 1185: Memo sent to the Finnish Ministry of Foreign Affairs, 7 July 1933.

⁴²⁰ 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.

⁴²¹ RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 3446: Report ‘Resolution adopted by the Sub-Committee on Timber,’ 6 July 1933.

⁴²² ELKA; SSY; 661; Letter from E. F. Wrede to Axel Solitander 8 July 1933. ‘*Hela detta uppslag är icke trevligt för oss, så mycket mer som jag tror, att svenskarna komma att driva på förslaget av oro snarare för en finsk exportökning än för en rysk.*’

⁴²³ ELKA; SSY; 661; Letter from E. F. Wrede to Rainer von Fieandt, 1 July 1933.

Soviet agreement. He was already preparing to make his new manoeuvre and oust Pietro Stoppani and the League of Nations from the leadership of the European regulation scheme.

The way in which J. L. Ekman addressed the STEF's working committee after the World Economic Conference was interesting, to say the least. It is evident that Ekman found it disturbing that broader trade-political bartering occurred in the European timber regulation negotiations where French contingents and 'voluntary' exporters' cartels were exchangeable. This was not how successful cartel negotiations proceeded. Furthermore, Ekman presented for the STEF's working committee that, in order to gain authority in the timber cartel questions in international negotiations, the STEF needed to gain more authority domestically. It was a problem, since twenty per cent of all Swedish exports came from firms that were not STEF members—furthermore, not all members were loyal to the STEF's cartel decisions either. J. L. Ekman suggested that possibly the Swedish government could underpin the domestic position of STEF:

The question of regulating certain raw material markets [- -] has received great attention. It might be possible that France, together with the Central European timber export countries, will try to pressurise the Nordic countries if they do not affiliate voluntarily with the regulation of timber exports. A danger also exists that France, through its contingent policy, will treat those export countries unfavourably that oppose regulating their output. [- -] It is of course expected that a country such as ours would actively support the question. Can it be considered that through having an agreement with Finland and the Soviet Union, Sweden meets the expectations? When it comes to the situation in Sweden, it would be best to proceed, when the time is ripe, by participating in this kind of export regulation between the three North European countries. It would be necessary to have the support of the government and let the government provide a guarantee about the collaboration of the [STEF's] Domain Boards. The government should be given the opinion that we need, in order to successfully implement export regulation, the collaboration of the Domain Boards. We should now start to gather authorisations [from the timber firms] for export regulation so that no one can pin the blame on Sweden if the international efforts concerning the timber question fail.⁴²⁴

⁴²⁴ CfN; STEF; B1AA; 18: STEF working committee, 11 July 1933. *'Frågan om regleringen av vissa råvarumarknader trätt i förgrunden och tillmättes stor betydelse. Det kan tänkas att Frankrike tillsammans med de centraleuropeiska exportländerna för trävaror skola utöva tryck på de nordiska länderna, därest de icke godvilligt ansluta sig till en reglering av trävaruexporten. Fara föreligger också för att Frankrike genom sin kontingenteringspolitik behandlar sådana exportländerna ogynnsamt, som motsätta sig en reglering av utbuden. [--] Det givetvis förväntas att ett land som vårt skall aktivt stödja frågan. Kan det då anses, att Sverige motsvarat dessa förväntningar genom att tillsammans med Finland och Sovjetunionen ingå avtal om reglering av trävaruexporten? Vad läget i Sverige beträffar, så vore det angeläget att handla så att vi, när tiden härför är mogen, kunna delta i en dylik exportreglering mellan de tre nordeuropeiska länder. Det vore nödvändiga att få regeringens stöd och låta regeringen avgiva utfästelser om domänstyrelsens medverkan. Regeringen borde bibringas den uppfattningen, at vi, för ett lyckligt genomförande av en exportreglering, måste hava medverkan från domänstyrelsen. Vi böra nu återupptaga insamlandet av fullmakter för exportreglering för att å Sverige icke skall kunna vältras skulden, därest det internationella arbetet på trävarufrågan skulle misslyckas.'*

The STEF working committee decided on 11 July to contact the Minister of Foreign Affairs to stress the importance of the collaboration of the regional administration.⁴²⁵

For the South-East European timber exporters and France, the results of the World Economic Conference were disappointing. They had expected 'quite other results from the committee-meeting than adjournment', according to J. L. Ekman.⁴²⁶ The results, or more precisely the lack of them, were naturally also a disappointment for the organisers, the League of Nations. An inability to reach an agreement with the timber trade was just one loop in a long chain of failures at the World Economic Conference. According to Barry Eichengreen and Marc Uzan, the World Economic Conference in 1933 is a classic example of a failure to achieve international agreement.⁴²⁷ Lauri Jonkari points out in his dissertation that the World Economic Conference was not even officially declared closed at any point, which underlines the vagueness of the conference. Negotiations just faded away as the committee members left the city.⁴²⁸

The World Economic Conference did not deliver binding decisions and policies to defeat the economic depression, monetary instability, and tariff barriers. The problems were identified, but not solved. In fact, the conference only made some problems worse; the fragmented monetary system splintered into yet further currency blocs and deflation on the gold standard intensified.⁴²⁹ Carl Kempe estimated that the prices were likely to rise now that the monetary questions remained unsettled, which would lead to overproduction in the timber trade. J. L. Ekman further pointed out that the failure to reach results on monetary questions increased the expectations that the regulation of the raw material trade would bring about balance in economy. Pressure to form cartels grew, and who knew, possibly by the time the next timber negotiation was due, the pressure might have become extreme, and the Economic Section of the League of Nations wanted results.

Summary and discussion

This chapter has discussed the European turn in the timber cartel question in 1932 and 1933. While the Polish timber trading interests, by calling together a conference in Warsaw in summer 1931, had made an attempt to bring about regulation in the European timber trade, this chapter shows that it was not until April 1932 and the initiation of the Economic Section of the League of Nations that the European timber regulation scheme was put on the agenda of the exporter and importer countries.

⁴²⁵ CfN; STEF; B1AA; 18: STEF working committee, 11 July 1933.

⁴²⁶ CfN; STEF; F1A:301: Letter from J. L. Ekman to Egon Glesigner, 13 July 1933.

⁴²⁷ Eichengreen, Barry J. and Uzan, Marc (1990): 'The 1933 World Economic Conference as an instance of failed international cooperation'. University of California at Berkeley, Dept. of Economics.

⁴²⁸ Jonkari, Lauri (2008): *Kansainliitto Suomen Turvallisuuspolitiikassa Ja Kansainvälisissä Suhteissa: Vastaanotto Ja Vaikutus Julkisessa Sanassa Ja Yhteiskunnassa Vuosina 1919-1936*, 326. Policies in the US concerning debt, tariff, and monetary issues such as Roosevelt's decision to take the dollar off the gold standard were, among other things, the reasons behind the failure of the conference. Moreover, the absence of a common conceptual framework and the lack of a shared diagnosis of the problem made it difficult to come to an effective solution. See also Eichengreen, Barry J. and Uzan, Marc (1990): 'The 1933 World Economic Conference as an instance of failed international cooperation'. University of California at Berkeley, Dept. of Economics, 1–2.

⁴²⁹ Eichengreen, Barry J. and Uzan, Marc (1990): 'The 1933 World Economic Conference as an instance of failed international cooperation'. University of California at Berkeley, Dept. of Economics.

This chapter shows that the League of Nations invited all timber trading countries to two meetings in 1932 and 1933 to discuss European timber regulation scheme. The first meeting was in Geneva in April 1932 and the second at the World Economic and Monetary Conference in London in summer 1933. Between these events, the Austrian government hosted a meeting in Vienna in June 1932, which was a follow-up meeting of the Leagues' first timber regulation conference. This chapter concluded that the League of Nations was successful in bringing together European timber trading countries in conferences, but not in bringing about the regulation scheme.

Leading timber conferences in 1932–1933 must have been a learning process for the League of Nations concerning the limits of creating cartels. Private timber firms surely were incapable of creating European timber regulation scheme, but bringing in the governments did not seem to add more fluency in the process as the League had presumed. Cartels in raw material industries were not easy to create for anyone in the chaotic early nineteen-thirties. The League of Nations discovered in practice the same problems that the game theoretic models and organisational studies later in the twentieth-century explained; it is impossible to bring together economic interests and finding mutual norms for countries that had different market positions in the timber trade, different protectionist policies, and variations in product quality, size, and pricing, as well as enormous differences on the normative and legal level when dealing with the problem of controlling cartel outsiders as international undertakings in general.

The role of the League of Nations in the story of the ETEC reveals unexplored, yet important themes in literature concerning cartels in the nineteen-thirties. Bertilorenzi and D'Alessandro have shown that the League of Nations and International Chamber of Commerce (ICC) together formed an international technocracy at the turn of the nineteen-twenties that generated positive discourse toward cartels. These organisations considered cartels as tools of international economic governance; they could reduce trade barriers, promote market integration, and contribute in creating peaceful international relations.⁴³⁰ Bertilorenzi also describes how several members of the ICC and the International Industrial Cartel Committee—a joint organisation of the League of Nations and the ICC—became interested in 1931 to transform their institutions from study group or a 'think-tank' into more practical actors in bringing about cartels and registers.⁴³¹

So far, however, research has said little about the League's practical endeavours to bring about governmentally controlled cartels; we know that the interest was there and actions were taken, but have little evidence how, if at all, these interests and actions translated into reality. Even less has been said what the emerged interest of the League of Nations' and the ICC to create and promote international cartels meant for firms and governments in countries that actually produced those commodities and raw materials which the ICC and the League were interested to regulate through cartels. New actors in the cartel field inevitably touched businesses, national economies, and

⁴³⁰ Bertilorenzi, Marco (2016): 'Legitimising Cartels. The joint roles of the League of Nations and of the International Chamber of Commerce.' in *Regulating Competition: Cartel Registers in the Twentieth Century World*. D'Alessandro, Michele (2007): 'Seeking governance for world markets. The League of Nations between corporatism and public opinion, 1925-1929.', Conference paper in European Business History Association 11th Annual Conference.

⁴³¹ Bertilorenzi, Marco (2016): 'Legitimising Cartels. The joint roles of the League of Nations and of the International Chamber of Commerce.' in *Regulating Competition: Cartel Registers in the Twentieth Century World*, 39–41.

competition laws. How did different interests, like firms and governments, in the producing countries react the 'positive discourse' and actions of the League of Nations and the ICC?

This chapter shows that, as much as Finland and Sweden supported the economic rapprochement ideas of the League of Nations, they were happy about the League's suddenly emerged activity in promoting the European timber regulation scheme. The League's cartel plan rested undisguisedly on governmental control, which did not fit legally or culturally into the Nordic business environment. There was a wide consensus in Sweden and Finland among the timber trading people, banks, and governments that the idea of a European timber cartel was not in the best interests of the Nordic countries. The Nordic timber trade people did not like the situation where the control over the cartel negotiations were slipping out of their hands and into the governmental circles where publicity would frame the timber problem in a new way. Besides producers and quotas, international and bilateral trade policies and diplomacy would be on the agenda.

The reluctance of Finland and Sweden toward League's cartel intentions align with the conclusions made by Deborah Spar about practices and organisational prerequisites of successful cartels. She underlines that successful cartels need, not transparency and formalities, but just the opposite; secrecy, exclusivity, and lack of formal rules. Spar writes that cartel negotiations 'demands a certain amount of juggling, fine-tuning, and strategic retreats', even threats and retaliation, which really cannot be performed under the glare of public scrutiny.⁴³² 'When the negotiations occur in [- -] the public realm, each competitor is accountable for every position it took. Every deal it cut, and every advantage it traded away'.⁴³³ Invitation from the League of Nations was a practical paradox for the governments and business people of Sweden and Finland; they knew that European timber regulation scheme under the leadership of the League of Nations was not a good deal for them commercially or strategically, but the nature of the negotiations did not allow them to express their opinion clearly. Their fears were not in vain. This chapter shows that the French government, for instance, threatened, in the League-led negotiations, to decrease timber imports unless the Nordic countries supported the timber exporters' regulation scheme promoted by the League of Nations.

The empirical material concerning the League-led timber cartel negotiations shows that Finland and Sweden could not express their lack of support towards the League's cartel ideas. The situation enables us to see what was the strategy of a reluctant negotiator who cannot speak out freely its opinion? The sources suggest that Finland and Sweden chose the strategy of making an impression of a collaborative partner and at the same time trying to delay the negotiation on the plea of statistical and organisational issues. Nordic negotiators often needed to gather more data internationally or domestically or follow certain organisational procedures in national level before proceeding with the cartel process. Some researchers, like Martin Bemann, has shown that timber trade in the nineteen-thirties became a statistical problem in a new way, but the Nordic talk about missing timber data should not be understood in this context.⁴³⁴ It simply was about sabotaging the cartel negotiation. In Finland, the negotiation targets in 1932 and 1933 were formulated many times so that it was best if

⁴³² Spar, Debora L. (1994): *The Cooperative Edge: The Internal Politics of International Cartels*, 29–30.

⁴³³ Spar, Debora L. (1994): *The Cooperative Edge: The Internal Politics of International Cartels*, 29.

⁴³⁴ 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*.

the 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'.⁴³⁵

Another interesting theoretical question, which this work does not answer but which importance it does recognise concerns when and why governments end up in a negotiation position where they cannot speak freely. It is clear in the light of the ETEC material that a big quota share did not lead to a dominant role in the League's cartel negotiations. Sweden and Finland exported 42 percent of all European export timber, and 34 cent globally, and yet they were afraid to express their candid opinion about the European timber regulation scheme.

This chapter concludes that ripening of British protectionism was one of the many reasons why the biggest timber exporting countries—Nordic countries and the Soviet Union—found it impossible to form European regulation scheme in 1932–1933. The British reorientation in 1932 towards trade with the Commonwealth meant increasing unpredictability for Nordic and Soviet timber in the British market in the form of improving Anglo–Canadian relations and deteriorating Anglo–Soviet relations. The great turning of the tide in British trade policy occurred in summer 1932, in Ottawa, in the Imperial trade negotiations, and the eventual consequences of the conference put a halt to any realistic possibilities of forming multilateral timber regulation schemes in 1932 and 1933. Before the Ottawa conference, the Nordic timber traders wondered what their position in Britain would be; and after it, they were concerned about when the Ottawa decisions would take effect and what form they would take. The Nordic countries also consulted the Board of Trade about how the British government felt about Nordic–Soviet timber regulation scheme, which was a crucial step towards European timber cartel in the League's plan, and acted accordingly.

By autumn 1933, the trade-political configurations between UK, Canada, and the Soviet Union became clearer, which also activated the League's cartel plans. Sources suggest that somewhere in autumn 1933 the leadership of the Swedish timber trade association STEF started to work towards undermining the leadership of the League of Nations in the timber cartel negotiations. The STEF's policy was to start promoting the European timber cartel as a more private cartel and through private channels. This strategy partly grew from an understanding that the European timber regulation scheme would probably come into force in any case, and in that situation the leader of the STEF, J. L. Ekman, would rather lead the project than be led by others. Also competition in timber trade between Sweden, Finland, and the Soviet Union had changed so that having an international regulation scheme, in fact, supported the interests of Swedish timber firms. The Soviet Union was no longer the problem for Sweden; British trade policy turning towards Empire trade and Canadian timber supplies, not forgetting the anti-dumping clause Article 21, made abundantly clear that the Soviet's timber boom was over. The Swedish problem was Finland. Regulating the growing exports of its neighbour through a cartel agreement seemed ideal. Respectively, international regulation scheme was not ideal for Finland.

Cracks appeared in the Swedish–Finnish alliance. While before it had been natural for Sweden and Finland to find allies in each other concerning timber questions in international arenas, now Sweden

⁴³⁵ 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.*'

needed new friends. It found some, and together they started a new chapter in the story of the European timber regulation scheme—one in which the League of Nations was no longer involved.

CHAPTER 3: Goodbye, League of Nations

This chapter discusses the time frame from late 1933 to the end of 1935 and shows how the Economic Section of the League of Nations lost the leadership of the European timber regulation scheme negotiations. The leadership of the Swedish timber trade association (STEF) in collaboration with the leadership of the European timber office (CIB) organised their own cartel negotiation in late 1933. The timber-exporting countries favoured private conferences over the League's conferences. The material suggests that Swedish timber-trade leaders were motivated to build a European regulation scheme for two main reasons. Firstly, they were interested in restricting the expansion of Finnish exports, and secondly, because the European timber regulation scheme might become a reality on account of the League's initiative—and that the Swedes did not welcome. Finland showed as little enthusiasm for a private initiative as it did for the League's initiative, but at least a private initiative would end the League's leadership. The private network managed to create two ineffective gentlemen's agreements in 1934 and 1935 before the ETEC was finally born.

The World Economic and Monetary Conference had decided that endeavours to reach a European regulation scheme would be continued on 3 October. Before that date, Sweden, Finland, and the Soviet Union were due to proceed in their tripartite cartel negotiations. In the ideal situation, by 3 October the Nordic–Soviet agreement would be signed. However, Sweden, Finland, and the Soviet Union had not been in contact.⁴³⁶ The attitude of the board members of the SSY is known—they did not support the cartel—but the Soviet's also appeared 'remarkably passive', according to reports about discussions between the Soviet Commissar of Foreign Trade Arkady Rosenholz and the Finnish Ministry of Foreign Affairs.⁴³⁷ The Soviet Union was at this time in fact negotiating a trade agreement and a non-aggression pact with France, Great Britain, and Spain.⁴³⁸ 'How is it possible to make an international agreement in which Soviet has to partake before these questions are answered?' J. L. Ekman asked Egon Glesinger.⁴³⁹

An even more acute question for the STEF was, however, how was it possible for the STEF to lead Sweden into an international agreement when its members did not authorise its association to do that. In August 1933, firms representing only 51.6 per cent of the Swedish total export volume authorised the STEF to negotiate a Nordic-Soviet timber cartel.⁴⁴⁰ Moreover, it did not help to boost the collaborative spirit of the Swedish timber firms that the banks were supporting the STEF's cartel

⁴³⁶ ELKA; SSY; 26: SSY working committee, 20 September 1933.

⁴³⁷ Rosenholz was the Commissar of Foreign Trade 1930–1937. He was one of the few 'original' Bolsheviks who made a major contribution in the Soviet Civil War and was a faithful ally of Lenin and Trotsky in the 1920s, but who nevertheless held a high office in the 1930s during Stalin's regime. Rosenholz, a Jew, was arrested in 1937 and sentenced to death in 1938. Sayers, Michael/Kahn, Albert E. (1946): *The Great Conspiracy: The Secret War Against Soviet Russia*.

⁴³⁸ RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 3447: Report from Bagge, 5 October 1933.

⁴³⁹ CfN; STEF; F1A:301: Letter from J. L. Ekman to Egon Glesinger, 16 September 1933.

⁴⁴⁰ CfN; STEF; F1A:188: Letter from the banks to STEF in August 1933. B1AA; 18: STEF working committee, 14 September 1933.

policy and it was them, in fact, that helped the STEF to gather support for an agreement.⁴⁴¹ According to the Board of the STEF, particularly the big firms were against a regulation scheme because they were afraid of the relatively better competitive position of small firms that were not STEF members. Small firms, furthermore, were subsidised by the Swedish Social Democrat government through employment and social-political measures. These subsidised, STEF outsiders were not bound by the association's cartel policies.⁴⁴² The support deficit was a real problem for the STEF, because it brought the threat of state intervention closer. Ekman asked himself that if the timber regulation scheme was coming in any case, what role would the STEF and he himself wish to play:

If the industry does not show an interest in privately arranging export regulation and foreign pressure forces our country to take part in international measures to stabilise the timber market, the result might be that regulation would come about through state intervention. [-] Exporters do not wish that plans regarding international export regulation be realised. But if our government accepts the responsibilities of international collaboration, surely the members of the association would wish that the association takes care of it. Gathering support [towards the cartel] has started because prevention is better than cure.⁴⁴³

Indeed, it appears that the threat of government intervention in timber cartel issues intensified after the World Economic Conference. There were international pressures upon Sweden to promote the European timber regulation scheme. Ekman presented his concerns to the STEF working committee in mid-September: 'There is a risk that Sweden can be forced to participate in international timber regulation and if the required tools to realise that do not exist in the private realm, the state might take the matter into its own hands.'⁴⁴⁴ The STEF informed the Swedish Ministry of Foreign Affairs that the Swedish timber firms had not supported STEF's cartel policy broadly enough and tried to persuade the Ministry of Foreign Affairs to cancel the League of Nations' timber conference in October—which had promisingly been delayed from the beginning of the month to the end of it:

Considering the recently changed situation within the Swedish timber industry, it is not evident that the STEF represents the industry to the extent that it can sign an international agreement regarding timber exports. For this reason, Ekman thinks that a new meeting of the subcommittee appointed in London is undesirable from the Swedish point of view. Acquiring necessary authorisations from the timber industry is a time-consuming measure and cannot

⁴⁴¹ CfN; STEF; F1A:188: Letter from the banks to STEF in August 1933. Letter from Svenska Handelsbankens Industrirevision to STEF, 14 August 1933.

⁴⁴² CfN; STEF; B1AA; 18: Board of STEF meeting, 14 September 1933.

⁴⁴³ CfN; STEF; F1A:298: STEF working committee, 28 September 1933. '*Därest icke industrien visar sig på enskild väg kunna genomföra en exportreglering och vårt land genom trycket utifrån tvingas att delta i internationella åtgärder till trävarumarknadens stabilisering, kan följden befäras bli statsgripande för reglerings genomförande. [-] Exportörerna icke hava någon önskan att driva fram ett realiserande av planerna på internationell exportreglering. Men om vår regering skulle företaga sig något på grund av det internationella samarbetets förpliktelser, så torde medlemmarna av trävaruexportföreningen helst önska att föreningen får taga hand om frågan. Fullmaktssamlingen hade bedrivits för att det vore bättre att förekomma än förekommas.*'

⁴⁴⁴ CfN; STEF; B1AA; 18: STEF working committee meeting, 14 September 1933. J. L. Ekman: '*Det förlåge dock alltid risken att Sverige kan tvingas att delta i en internationell exportreglering för trävaror och, om det härför nödvändiga instrumentet saknas för att genomföra den på enskilda väg, torde staten taga saken i egna händer.*'

be carried out before the next meeting, which is due in October. The circumstances and motives for delaying the meeting are confidential and can be made known only to the Swedish representatives involved in the matter.⁴⁴⁵

Ekman also hoped that the Finnish government expressed its wish to postpone the League's forthcoming timber conference in October as emphatically as possible and 'not creep behind the big brother's back', leaving Sweden in a vulnerable position.⁴⁴⁶ The leaders in SSS and STEF as well as the Finnish and Swedish Ministers of Foreign trade privately opposed the idea of a European timber regulation scheme and the forthcoming meeting in October.⁴⁴⁷

Ekman, stated in his communication with Egon Glesinger, who was affiliated with the CIB, that he did not personally object strongly to the idea of an international timber export regulation agreement. In fact, he assured Glesinger, he personally favoured it.⁴⁴⁸ There were always, however, obstacles in the way, such as trade politics, the 'general opinion' in Sweden and Finland, and, of course, a lack of data.⁴⁴⁹ In my view, Ekman was riding on two horses in the European timber cartel question. When communicating with Egon Glesinger, he was collaborative and supportive towards the European timber cartel, but in the Swedish context he promoted the hindering of the cartelisation process.

⁴⁴⁵ RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 3447: Report from Bagge (The Swedish Ministry of Foreign Affairs) to STEF on 5 October 1933. *'Med hänsyn till de förändrade förhållanden, som på senaste tiden inträtt inom den svenska trävaruindustrien, vore det icke alldeles säkert, att Trävaruexportföreningen I innevarande stund representerade denna industri i sådan utsträckning att föreningens ombud med bindande verkan för den svenska trävaruindustrien kunde underteckna ett internationellt avtal om reglering av produktionen. Redan av denna anledning ansåg Ekman att ett nytt möte av den i London tillsatta underkommittén ur svensk synpunkt för närvarande icke vore önskvärd. Att förskaffa sig de erforderliga fullmakterna från trävaruindustriens sida vore en åtgärd, som givetvis måste taga en viss tid i anspråk, och detta kunde icke medhinnas före ett eventuell möte under oktober månad. Det nu berörda motivet till uppskov och därmed sammanhängande omständigheter borde emellertid behandlas såsom konfidentiella upplysningar, vilka meddelades endast för de svenska ombudens orientering.'*

⁴⁴⁶ RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 2142:F Träfrågan: Letter from J. L. Ekman to Bagge, 3 November 1933. *'krypa bakom storebrors rygg.'* RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 2142:F Träfrågan. Letter from J. L. Ekman to Commercial Section of the Swedish Ministry of Foreign Affairs, 25 October 1933. Letter from Bagge to Envoy Westman in Geneva, 27 October 1933.

⁴⁴⁷ ELKA; SSS; 26; SSS's working committee, 20 September 1933. RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 2142:F Träfrågan: Memo in the Commercial Section of the Swedish Ministry of Foreign Affairs, 24 November 1933. Swedish–Finnish Trust Council's; meetings in September and October 1933. STEF and SSS Board meetings autumn 1933. Besides, any direct government intervention in Swedish timber trade was bad for business in many ways. Intervention would have stirred distrust among the importing syndicates and led to lower prices. Free entrepreneurship and market-based commercial thinking were integral parts of the Swedish timber brand—along with thick Nordic wood, premium quality, and highly refined workmanship. It distinguished Swedish and Finnish timber from the other exporting countries. The reputation of the Swedish and Finnish timber trade rested upon values like freedom and collaboration, not upon direct state intervention, government coercion, and exception laws.

⁴⁴⁸ He writes, for instance; 'as to the question of international agreement concerning the export quantities I am still personally of the opinion that it would be desirable.' CfN; STEF; F1A:301: Letter from J. L. Ekman to Egon Glesinger, 16 September 1933. Also J. L. Ekman to Umberto Cantoni 17 December 1932.

⁴⁴⁹ CfN; STEF; F1A:301: Letter from Egon Glesinger to J. L. Ekman, 31 August 1933.

J. L. Ekman and Glesinger, however, had mutual interests. Both wanted to decrease the power of the League of Nations in the timber cartel question. Glesinger honestly thought that a private European timber regulation scheme was a good idea, while Ekman felt that if the regulation scheme was coming no matter what, then forming it upon a private foundation was in the best interests of the Swedish timber trade. There was a certain difference in their views, but enough similarities to start collaborating. Glesinger wrote to Ekman at the end of August 1933: 'I do not know whether in Sweden you are aware of these new dangers resulting from recent Central European legislation, but I believe that this certainly is a very strong, new argument for an international export agreement in October.'⁴⁵⁰

It is notable that Egon Glesinger was not yet in August and September 1933 fully engaged to CIB, though he was affiliated with the organisations and had been offered the position of its general secretary. The CIB itself was taking form, and in fact, the invitation to the World Economic Conference was the first sign that the organisation was gaining international recognition. However, Glesinger had not been impressed by how the CIB leaders, Count Ostrowsky and Anton Ceschi, had presented the organisation in the World Economic Conference. They had complained about insignificant and petty issues, defended national pride, and underlined political aspects over commercial ones. 'I do not feel great admiration for the CIB,' he confessed to Ekman.⁴⁵¹ Egon Glesinger was, in fact, pondering between two options; stay in Europe and engage deeper with the activities of the CIB or go to the United States for some time: 'It will not be before the results of the international meeting are known, that I will take a decision whether I want to remain in Europe and work on timber problems or whether I will sail to America and carry out my plans as they were some months ago.'⁴⁵² Letter exchange shows that Glesinger thought that the CIB could be much more than what it was now. Furthermore, the coming autumn shows that he also thought that he considered himself the right person to take the CIB in a new direction. Glesinger decided to stay in Europe and aspire to lead the CIB.

The date for the next timber conference of the League of Nations was rescheduled several times during the autumn. The sources do not explicitly give out the reason for the delays, but it is likely that the Swedish and Finnish delegations at the League of Nations were responsible for delaying the conference.⁴⁵³ The original date had been fixed for 3 October, but it was first postponed to the end of October, and then to November.⁴⁵⁴ The conference eventually took place on 11 December.

⁴⁵⁰ CfN; STEF; F1A:301: Letter from Egon Glesinger to J. L. Ekman, 28 August 1933.

⁴⁵¹ According to Glesinger, Ostrowsky had insisted that Poland, his home country, would be counted among the Nordic countries and in the Nordic–Soviet negotiation group. Ostrowsky complained to Glesinger that Sweden was being unhelpful in not accepting this proposal and was treating Poland like a 'poor relative from the country'. Glesinger tried to enlighten Ostrowsky with economic reasons—such as different markets and products—why Poland did not belong to the Nordic–Soviet group but to the Central European group. Glesinger documented Ostrowsky's reply: 'This might be true, but we Poles (myself included) suffer from a desire for prestige and therefore we mind less about the quota than about the group in which we obtain it.' CfN; STEF; F1A:301: Letter from Egon Glesinger to J. L. Ekman, 31 July 1933.

⁴⁵² CfN; STEF; F1A:301: Letter from Egon Glesinger to J. L. Ekman, 31 July 1933.

⁴⁵³ See, for instance: RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 2142: F Träfrågan. Memo, 24 October 1933.

⁴⁵⁴ RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 2142:F Träfrågan. Memo, 2 October 1933.

When it became known at the beginning of October that that the conference of the League's timber subcommittee would be postponed 'maybe to November or even January', Egon Glesinger made his move and started to arrange a new date for a timber conference.⁴⁵⁵ Sources suggest that he approached the Swedish—and most probably all timber exporting countries—with the idea that he was merely trying to fix a meeting for the timber subcommittee, but that is not, in fact, the case. Glesinger was not speaking on behalf of the League of Nations, but was instead arranging a competing conference. His actions were not approved by Pietro Stoppani, the director of the Economic Section of the League of Nations, who said that his organisation 'saw intervention from this direction [Egon Glesinger] as unnecessary, if not even less than desirable.' Rather than engaging himself in Glesinger's negotiations, Stoppani hoped that the exporting countries would concentrate on creating a satisfactory programme for the timber conference he was desperately trying to arrange and which had been repeatedly postponed.⁴⁵⁶

Creating a satisfactory programme was not, however, in sight—not for Sweden and Finland, at least. The basic idea of the League of Nations' European timber regulation scheme rested, firstly, on defining the total export quota in the following shipping season, and secondly, dividing this number between exporting countries based on the situation in 1928–1932. If Finland exported thirty per cent of the European total in 1928–1932, then Finland should also get the same share in the coming regulation scheme. Stoppani's cartel plan sought to freeze the market situation in 1928–1932 and apply it in 1934.⁴⁵⁷ The STEF and SSY strongly opposed the idea, because it gave a disproportionately big quota to Central European exporters. Their timber exports had since 1928 diminished by sixty per cent—from 1.8 million to 0.7 million std—because of protectionist policies and general depression in their main markets in Germany, Hungary, and Italy. The League's current cartel maths would allow 1.3 million std for each country.⁴⁵⁸ Unsurprisingly, the Central European countries hoped that the agreement would be reached as soon as possible.⁴⁵⁹ J. L. Ekman enquired where they would find markets for this quantity. Moreover, the unresolved bilateral trade-political issues between Soviet Union, Great Britain, France, and Spain—and between France and Poland—made binding cartel

⁴⁵⁵ RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 2142:F Träfrågan. Report of W. Bagge 6 October 1933. Quote from Memo, 2 October 1933.

⁴⁵⁶ RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 2142:F Träfrågan. Report of W. Bagge, 6 October 1933. '*sekretariatet anser interventionen från detta håll onödig, för att ej säga mindre önskvärd. Däremot önskar sekretariatet höra sig för om de viktigaste exportorganisationernas uppfattning rörande utsikterna för att få till stånd ett tillfredsställande program för ett nytt möte med London-kommittén.*'

⁴⁵⁷ RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 2142:F Träfrågan. Letter from Beaumont (Economic Section of the League of Nations) to P. G. A. Wijkman (handelsrådet, Swedish delegate in the League of Nations) 11 October 1933, re-sent to Bagge and J. L. Ekman.

⁴⁵⁸ RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 2142:F Träfrågan. Letter from J. L. Ekman to the Commercial Section of the Swedish Ministry of Foreign Affairs, 25 October 1933. Letter from Bagge to Westman (Swedish envoy in Geneva) 27 October 1933. ELKA; SSY; 26: SSY working committee, 20 September 1933.

⁴⁵⁹ RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 2142:F Träfrågan. Letter from Bagge to Westman (Swedish envoy in Geneva), 27 October 1933.

commitments problematic.⁴⁶⁰ The chief of the commercial section of the Swedish Ministry of Foreign Affairs, W. Bagge, forwarded Ekman's concerns to the Swedish envoy in Geneva and hoped that he would speak directly with Pietro Stoppani about these issues.⁴⁶¹

In mid-November, the CIB made its move. It invited the European timber exporters to a 'private and commercial' meeting two weeks before the League's conference, which had now been rescheduled to 15 December.⁴⁶² In the invitation letter, the General Secretary of CIB, Anton Ceschi, explained that the recent development—by this he referred to the League's activities—called for measures among the exporting countries.⁴⁶³ Glesinger's and Ceschi's idea was to discuss matters less officially and without the trade-political tensions brought about France. The CIB was not acting alone in sending its invitation, for the Austrian Ministry of Foreign Affairs also sent a similar proposal to the Swedish Ministry of Foreign Affairs. The point of the letter was to ascertain how well the two upcoming conferences would work together, and to see if the CIB would direct the exporters towards the League's conference.⁴⁶⁴ It seems plausible that it was not, in fact, the CIB's intention to do so, and instead this new 'unofficial, private, and commercial' meeting was actually intended to override the 'official, intergovernmental, and public' conference of the League of Nations.⁴⁶⁵ The Boards of the SSY and STEF accepted the CIB's proposal right away—and not a word was mentioned about the time-consuming gathering of information.⁴⁶⁶ The SSY and STEF were still not interested in a European timber regulation scheme, but now the most acute problem was the strong involvement of the governments and the League of Nations in matters of regulation. 'The biggest benefit from this meeting was that any possible state intervention could most likely be averted if deliberations took place,' concluded the SSY's CEO Wrede.⁴⁶⁷ J. L. Ekman wrote to the commercial section of the Swedish Ministry of Foreign Affairs that with the new CIB's conference the League's timber conference had become pointless.⁴⁶⁸ W. Bagge from the Ministry forwarded the message through envoy Westman to

⁴⁶⁰ RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 2142:F Träfrågan. Letter from J. L. Ekman to Commercial Section of the Swedish Ministry of Foreign Affairs, 25 October 1933.

⁴⁶¹ RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 2142:F Träfrågan. Letter from Bagge to Westman, 27 October 1933.

⁴⁶² Jäntti, Eero (1941): *Etec-Puutavarasopimus, Sen Toteuttaminen Ja Vaikutukset*, 3.

⁴⁶³ ELKA; SSY; 26: SSY Board, 7 December, letter from Anton Ceschi to the SSY, 14 November 1933.

⁴⁶⁴ RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 2142:F Träfrågan. Letter from Austrian legation in Stockholm, 11 November 1933. Memo about a phone conversation between W. Bagge and envoy Westman, 13 November 1933. Telegram from the Swedish Minister of Foreign Affairs, 20 November 1933.

⁴⁶⁵ ELKA; SSY; 26: SSY Board 7 December.

⁴⁶⁶ RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 2142:F Träfrågan. ELKA; SSY; 26: SSY Board, 7 December. Memo about a phone conversation between W. Bagge and envoy Westman, 13 November 1933. Letter from STEF to W. Bagge, 18 November 1933.

⁴⁶⁷ ELKA; SSY; 26: SSY Board 7 December. '*den största nyttan av mötet vara den, att ett eventuell statligt ingripande högst sannolikt kunde avväjas om överläggningarna ägde rum.*'

⁴⁶⁸ RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 2142:F Träfrågan. Letter from STEF to W. Bagge, 18 November 1933.

Pietro Stoppani that two specialised meetings within such a short period of time was clearly too much—and that Sweden favoured the CIB's conference.⁴⁶⁹

Now that the CIB's conference competed with the League's conference, Finland and Sweden could more openly oppose the League's attempts. Even if the League's conference were cancelled because of Nordic opposition, the two countries could not be blamed for opposing European collaboration altogether—they were just favouring the commercial and private version of European timber collaboration. The Nordic opposition bore fruit, and the League of Nations called off the conference altogether.⁴⁷⁰

The CIB's conference was held on 11–12 December in Berlin. The participants were Finland, Sweden, the Soviet Union, Austria, Poland, Romania, Czechoslovakia, Yugoslavia, and the CIB. The conference thoroughly discussed the supply and demand for 1934 and made a tacit agreement to keep the export quantities in 1934 at the same levels as 1933. However, this agreement was more as an expression of collaboration rather than as a serious cartel contract. There were no real prerequisites for regulating timber output. The SSY and STEF were not authorised to agree upon European timber cartels on behalf of their members even if they had wanted to—which they did not. Furthermore, the Nordic timber firms had already made production plans for 1934 in the previous year and had bought the raw material and made contracts. A tacit cartel agreement can be as binding as a written cartel, but there was nothing binding or well-defined in the first European gentlemen's agreement on regulating timber. The exporting countries made no final decisions about how the agreement would be controlled or what would be done should a country exceed its quota. No guarantees were given on anything.

The most important part of this agreement was that it allowed the CIB to release a press communique which declared that European timber exporters had held a meeting and agreed that timber exports from Finland, Sweden, the Soviet Union, and the continental countries would not in 1934 exceed the export quantity of the current year. The European exporters decided to convene again in late 1934 to review the results of the year and renew, if possible and if necessary, the tacit agreement.⁴⁷¹ Establishing new, private and commercial negotiations upon European timber regulation was a victory for the CIB. It was also a relief for Sweden and Finland, where the diplomatic and intergovernmental nature of the League's timber conferences were becoming a burden. Now, these fruitful negotiations gave a reason for the CIB to inform the market that the situation was under control, that they were collaborating, and that the European timber exporting countries were quite capable of conducting their own cartel negotiations without any unwanted intervention from governments—or from the League of Nations.

⁴⁶⁹ RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 2142:F Träfrågan. Memo about a phone conversation between W. Bagge and envoy Westman, 13 November 1933. Telegram from the Swedish Ministry of Foreign Affairs to Ministre Suéde Lahaye, 20 November 1933. Memo written by W. Bagge, 22 November 1933.

⁴⁷⁰ ELKA; SSY; 26: SSY Board meeting, 7 December 1933. CfN; STEF; G1B:2: STEF Annual report 1934. RA; Swedish Ministry of Foreign Affairs (UD); 1920 års dossiersystem; HP 2142: F Träfrågan: Letter from Baumont (Economic Section of the League of Nations) 18 November 1933. Telegram from the Swedish Ministry of Foreign Affairs to Westman 3 December 1933.

⁴⁷¹ ELKA; SSY; 1120: Meeting between Sweden, Finland, and the Soviet Union in Berlin, 11–12 December 1933.

The drastically changed position of the Soviet Union in the European timber trade between 1929 and 1933 deserves a brief analysis. At the very beginning of the nineteen-thirties the Soviet Union had been the *enfant terrible* of the timber trade, who over-produced, under-sold, and tried to blackmail Nordic exporters into timber cartel negotiations by threatening them with massive export increases. The position of the Soviet Union had been strong. In 1932 and 1933, however, it started to deteriorate, and by the end of 1933 the former *enfant terrible* had been put in its place by the British trade with Canada. The Soviet incentive to negotiate a Nordic–Soviet cartel in 1931 had been to end the essentially unprofitable cut-throat competition in the British market and, most likely, to try and get the biggest share of it. Throughout 1932 and 1933, the Soviet Union had been passive towards the League of Nations’ cartel endeavours: the European framework, and certainly the framework of the League of Nations, was not the arena where the Soviet Union made its strongest performance. The country attended the Berlin meeting in December 1933, mostly likely for the same reasons as the Nordic countries, because a private and commercial timber regulation scheme might improve the Soviet position in European timber market. After all, that position was deteriorating in protectionist and anti-Bolshevist Europe. The Soviet Union started to seek for a new, more conciliatory strategy towards the League of Nations and European collaboration in 1933 and 1934. It was accepted as a member of the League of Nations in 1934 and the country participated in Western cartels.

The power battle between the CIB and the League of Nations in December 1933 represented a turning point for European timber exporters. Until then, the League of Nations had directed the creation of European timber cartel; it had initiated the international meetings and sketched the framework for the timber cartel after the wheat agreement. Trade-political issues played a role in the League’s timber conferences and they brought about a severe threat of government intervention in timber exporting countries. In Finland and Sweden, this was awkward both for the timber industry and for the state. With the CIB taking the lead, however, an alternative path was introduced, one in which the Swedish and Finnish timber industry had a chance to act and construct, rather than react and adapt to others’ cartel designs. The meeting in Berlin in late 1933, organised by the CIB, was a change in leadership from public to private—for a little while, at least.

The path to the European Timber Exporters’ Convention was now only two years away. The journey was largely guided by the CIB’s signposts, while the Timber Committee of the League of Nations became a passive body.

Gentlemen’s agreements in 1934

The time period between March 1931 and December 1933 had been busy for the Swedish and Finnish timber industry; they were constantly either preparing for international cartel conferences or recovering from them. The SSY and STEF Boards communicated with their members—asking for authorisations and informing about the state of affairs in cartel issues—and kept a close contact with the Ministries of Foreign Affairs and other respective ministries, state administrations, and banks.

1933 had ended with a public announcement that the European timber exporting countries had held a private meeting and found a mutual understanding about quotas for 1934. The SSY and STEF did not give much weight to this gentlemen’s agreement in the sense that they did not start major operations among their member firms because of it. The SSY did conduct a detailed survey at the beginning of 1934 about the planned output, but to a greater extent than the European gentlemen’s agreement, the survey was mostly motivated by the Swedish–Finnish cartel. The SSY’s results showed that the export volumes seemed to be on a good track and there were no bigger production increases in sight

at that time for 1934. The Finnish banks were closely collaborating with the SSY Board in supervising the output level by, for instance, restricting credit for raw material purchases and setting up barriers for new timber businesses. 'You will not accept new timber clients or arrange extended credits to old timber clients,' ordered J. K. Paasikivi, managing director of the Finnish commercial bank Kansallis-Osake-Pankki in October 1933.⁴⁷²

The timber market had showed a positive trend from autumn 1933 until early 1934. Demand and price levels were reviving in Great Britain after a long period of depression, and stock being large in 1933, the market was not speculative. The encouraging trend had risen throughout 1933 to the extent that the SSY and STEF had engaged in bilateral price cartels to avoid over-pricing. Both associations also strongly encouraged their members to restrain from producing too much. Banks in both countries supported the cartel and the idea of restricting production.⁴⁷³ The British market in 1933 had been particularly bright for Nordic timber. The anti-Soviet trade policies had decreased the supply of Soviet timber on the British market, while the Canadian timber qualities and sizes did not compete with the Nordic. Demand from the Dutch market had also been satisfying, while France had been less so. Hitler's rise as Chancellor of Germany in 1933 had brought about a new economic reconstruction programme in the government's agenda, including heavy investments in the construction and building industries. This indicated an increase in import needs, which had brightened future expectations particularly for the Central European timber exporting countries whose main export markets were in Germany.⁴⁷⁴

The budding upturn that had prevailed in the 1933 market did not, of course, predict a successful future for tacit gentlemen's agreement in 1934. There were hundreds of firms across Europe selling a large variety of products to different markets and in different currency exchange rates. Demand was rising and it was not speculative by nature. It did not seem very likely that the exporting countries keep their promises about holding their output to the 1933 level. The upturn also predicted that the Economic Section of the League of Nations might not touch the timber regulation issue because the current state of affairs lacked important intervention triggers like downturns, lack of private initiatives towards regulation, and an unregulated Soviet Union. The world economy was recovering from the Great Depression, timber exporting countries had created a commercial gentlemen's agreement in Berlin, and Soviet timber exports were regulated by British trade policies and a decline in actual production capacity.

The excitement of the revived market in 1933 after three years of depression was transformed in late 1934 into over-capacity and decreasing prices—typical fluctuations for the unregulated timber

⁴⁷² ELKA; Nordea; Kansallis-Osake-Pankki archive: 4837: J. K. Paasikivi's confidential monthly bulletin, 28 October 1933. '*Uusia saha-asiakkaita ette saa ottaa eikä minkäänlaisia suurennettuja luottoja puutavara-asiakkailleen järjestää.*'

⁴⁷³ CFN; STEF; F1A:234: Mutual meeting of the SSY and STEF working committees, 28 September 1933. Confidential report of STEF, 30 September 1933. STEF circular, 10 October 1933. In Sweden, the maximum price agreement covered 'more than 60%' of the export of STEF members. It is interesting that, while cartel theories combined with evidence from the timber trade 1918–1930 suggest that cartels were created during booms and abandoned during downturns, the brightening market in late 1933 and early 1934 led to revived interests in Sweden and Finland to form, not European, but bilateral cartels.

⁴⁷⁴ ELKA; SSY; 209: SSY Annual report 1933.

market.⁴⁷⁵ By the summer of 1934, the Finns had sold two-thirds of their year's stock, which predicted lower demand and lower prices in the market in autumn.⁴⁷⁶ In the summer of 1934, the Finnish banks and the SSY Board predicted that over-capacity was developing in the market. In September, J. K. Paasikivi from Kansallis-Osake-Pankki (KOP) warned the provincial banks that the timber market in 1935 would be similar to the depression year of 1932, and that the banks should start to orientate the timber firms to reduce their output.⁴⁷⁷ The Finnish trend mirrored well the state of affairs in all exporting countries.

In September of 1934, the CIB invited Finland, Sweden, the Soviet Union, and the Central European timber exporting countries to a timber conference to evaluate how the 1934 market had been, and most importantly, to estimate demand in 1935. The conference was due on 25–27 October in Vienna, and the European importing countries were also invited to give their view on the market.

Picture 2: Timber exporters' meeting in Vienna, 25–26 October 1934



(Source: CfN; STEF; F2)

The conclusion of the Vienna conference was that timber market was again on a downward path. The statistics concerning the total exports in 1934 were not, of course, ready by the time of the Vienna meeting, but the preliminary reports showed that the gentlemen's agreement made in December

⁴⁷⁵ Polish Ministry of Agriculture tried to fix the problem by setting minimum prices for export timber in 1934.

⁴⁷⁶ ELKA; SSY; 26: SSY Board meeting 8 June and 16 November 1934. ELKA; Nordea; Kansallis-Osake-Pankki Archive; 4837; J. K. Paasikivi's confidential bulletin, 28 May, 27 July, 27 August, 28 September, 29 October 1934.

⁴⁷⁷ ELKA; Nordea; 4837: J. K. Paasikivi's confidential bulletin, 27 August 1934.

1933—in which the European timber exporting countries promised to keep the 1934 output at the same level as in 1933—had not held. Eventually, the result for 1934 was that exports from European countries increased nine percent, from 3.9 to 4.3 million std. Of the three big exporting countries, Sweden was the only one making only a moderate increase of 14,000 std, while Finnish exports increased by 103,000 std and the Soviet by 44,000 std.⁴⁷⁸ So much for the promises of not increasing the output. The upward trend in price and demand had lasted from autumn 1933 until summer 1934, and now the trend was again declining. Again there was too much wood in the market, stocks were full, and the consumption in 1935 was expected to decrease compared with 1934.

The Vienna meeting decided that, to avoid a fall in prices, the exporting countries should decrease their output in 1935 by ten per cent compared with 1934. The form of the agreement was again the same as eleven months ago in Berlin, namely an unwritten gentlemen's agreement. It was not considered binding at all in Finland, but nevertheless, in mid-November of 1934, the STEF and SSY Boards advised the firms to decrease their production by ten per cent.⁴⁷⁹ More than engaging in mutually made decisions, Finland and Sweden were merely making the same assessment of the market situation as the Vienna meeting.

The good thing about gentlemen's agreements was that they were easy to make, yet there was a good possibility that the goodwill and mutual understanding made as big a difference as a written, proper cartel agreement. However, the downside of the gentlemen's agreement was its ineffectiveness. When issues like the responsibilities of each country, the institutional framework, reporting mechanisms, control, and punishment were not documented within the format of a clear agreement, there was a risk that the goodwill of the participants might fade away on the home journey. Then again, the downside of a written and formal cartel contract was that it brought about new domestic responsibilities concerning guarantees, reporting, control, and punishments—in fact, defining in detail how everything would work was an immense task which required institutional reconsideration. The SSY and STEF Boards were certainly uncomfortable in giving any exact formulations about how the countries would handle the responsibilities brought about by an international cartel. Keeping the collaboration on a more unofficial track was safer in a way, because solving the conflict between regulation and freedom of trade in the Nordic countries might prove to be impossible. Based on experiences, however, the CIB and J. L. Ekman recognised the problems related to tacit agreements. In spring 1935—yet another depression spring—they finally felt that the time was ripe for a formal and written cartel agreement between the European exporting countries. The Finns found out about their agenda surprisingly late, and when they did, they opposed it.

Prelude to the European Timber Exporters' Convention

The European Timber Exporters' Convention (ETEC) was signed in November 1935 and ratified in December. At the beginning of 1935, the coming of the ETEC was not on the agenda of the Nordic countries. In Finland, the ETEC did not appear before autumn 1935 on the agenda of the SSY Board. Banks and governments in Sweden and Finland became active partners in arranging the support and control structures for the ETEC.

⁴⁷⁸ CfN; STEF; G1B:2: Annual report of STEF 1936. In the light of these figures, the growing Swedish interest in restricting Finland by means of cartel agreements was quite understandable.

⁴⁷⁹ ELKA; SSY; 26: Circular letter to SSY members, 19 November 1934.

1935 opened gloomily. Reviving demand and prices from late 1933 until summer 1934 had encouraged the exporting countries to expand their production, but the boom had reached its peak. The autumn selling season in 1934 had been depressing; demand had been sticky, the price level had dropped, and the exporters' stocks were full. The British timber trading syndicate, Timber Distributors Ltd, made a purchase agreement with the Soviet timber selling organisation Exportles for 400,000 std of timber, which was ten per cent more than a year previously. The purchase agreement entailed a price fall clause, which guaranteed that should the Soviet timber price drop before the goods had arrived in the English ports, the Timber Distributors would get a respective discount for their purchase. The Canadian government objected to the price fall clause and the debate delayed closing the Swedish and Finnish timber deals in Great Britain.

By the end of the spring shipping season in May 1935, the Finns had sold only 500,000 std, compared with 700,000 a year before.⁴⁸⁰ The Finnish exporters were aiming for a bit over million std in total in 1935, which meant that they should land deals over 600,000 std during the rest of the year. Prices were around £2 per std lower than a year previously, which was not an acceptable level.⁴⁸¹ In fact, the Finnish prices were below the Soviet prices.⁴⁸² British buyers were nervous. On 11 June 1935, the Boards of the SSY and STEF decided to implement an additional production cut for the rest of the year.⁴⁸³

On 6 June 1935, the Board of the SSY sent a letter to SSY members as well as to outsiders asking all the Finnish timber exporters to support a fifteen per cent production cut for the rest of 1935.⁴⁸⁴ SSY's managing director, E. F. Wrede, was convinced that a production cut was absolutely necessary: 'If the prices drop even more the effects will be catastrophic for timber exporters in this country.'⁴⁸⁵ The Finnish banks collaborated with the SSY's policy to decrease production. J. K. Paasikivi, the managing director of KOP, advised the regional branches of his banks to encourage timber firms that were performing poorly 'to work with half capacity or stop the production altogether. By agreeing to do so, the market will turn brighter in autumn.'⁴⁸⁶

The Finnish timber firms were not keen on the idea of a fifteen per cent production cut, even though the Board of SSY, the banks, and the European timber meeting in Vienna promoted it. Firms representing seventy-seven per cent of the Finnish total timber export volume replied to SSY's letter,

⁴⁸⁰ ELKA; SSY; 27: SSY Board meeting, 1 July 1935.

⁴⁸¹ ELKA; SSY; 82; Swedish–Finnish Trust Council meeting, 11 June 1935.

⁴⁸² ELKA; SSY; 209; SSY Annual report 1935. ELKA; SSY; 82; Swedish–Finnish Trust Council meeting, 11 June 1935.

⁴⁸³ ELKA; SSY; 82; Swedish–Finnish Trust Council meeting, 11 June 1935.

⁴⁸⁴ ELKA: SSY: 82: Swedish–Finnish Trust Council meeting, 11 June 1935, app. I (SSY's letter 6 June 1935). CfN; STEF: F1A:308: STEF circular letter, 5 July 1935.

⁴⁸⁵ ELKA; SSY; 27: SSY Board, 1 July 1935. *'För flere firmor blir årets ekonomiska resultat redan med nuvarande priser förlustbringande och ett ytterligare prisfall skulle säkert medföra katastrofala följder för våra exportörer.'*

⁴⁸⁶ ELKA; Nordea; Kansallis-Osake-Pankki Archive; 4837; J. K. Paasikivi's confidential bulletin, 30 May 1935. *'Viisainta sahanomistajille, jotka ovat vaan vähän tai ei ollenkaan saaneet tavaroidaan kaupan, olisi nyt panna sahanä käymään puolella voimalla tai seisauttaa kokonaan, koska on varma, että markkinat syksyyn mennessä näin menetellen paranevat.'*

and their contribution to production cuts achieved only a ten per cent decrease. Furthermore, the precondition for their collaboration was that other Finnish exporters broadly would also decrease their production accordingly. The European importers and other timber trade observers were familiar with the Nordic attempts to reduce the output, and therefore the SSY Board decided not to publish the poor results. 'The result of the survey under is not in any circumstance to be communicated to the public, as importing circles are expecting a greater reduction,' concluded the SSY.⁴⁸⁷ The only thing the SSY Board could do was to pledge to collaborating firms that they would hold on to their promise.⁴⁸⁸

The Finnish failure, which was discussed in a meeting of the Finnish–Swedish Trust Council, did not lead to any bigger debate. Carl Kempe felt that the Finns were taking steps in the right direction by trying to reduce the output in 1935. However, concentrating on output in 1935 was, according to Kempe, 'short sighted'.⁴⁸⁹ Both Nordic countries had contracted the vast majority of their timber orders and there was not much where one could cut down. It turned out that the STEF was now devising something broader and more long-term than Swedish–Finnish collaboration in the immediate market.⁴⁹⁰

The Finns probably did not see it coming, but Carl Kempe suggested a Nordic–Soviet timber export regulation agreement for the following two and a half years between 1935 and 1937. Carl Kempe estimated that, for the first time, there was every possibility of actually reaching a result in the Nordic–Soviet timber negotiation. The Soviet timber trade was weak at the moment and, according to Kempe, was without doubt happy to accept an invitation from the SSY and STEF. When suggesting this, however, Kempe did not know yet how even the Swedish exporters would react to his proposal, but he reminded the meeting that Sweden had a highly effective 'instrument' to prepare the soil for the coming Nordic–Soviet agreement. It was the same as had been created in 1931, namely bank control.⁴⁹¹ Back in 1931, the Swedish Bankers' Association had successfully assisted in aligning the firms' production plans with the requirements of the Nordic–Soviet timber negotiations. Banks had solved the problem of the inadequate authority of Sweden to control the total Swedish exports and equipped the STEF with enough support to represent Sweden in multilateral timber cartel negotiations.⁴⁹²

Considering the expansion of Finnish timber exports in 1934, which was over 100,000 std, restricting the Finnish output by means of a regulation agreement seemed timely—and as the Soviets were at their weakest, it was best to proceed with the plan. J. L. Ekman and Carl Kempe were also frustrated in the endless loop of boom–downturn fluctuation and vague gentlemen's agreements, whose contents the gentlemen concerned did not honour. In their opinion, the era of regional and local

⁴⁸⁷ ELKA; SSY; 27: SSY Board meeting, 1 July 1935. '*Resultatet av undersökningen i ingen händelse finge delgivnas offentligheten, då man i importörkretsar säkert väntat sig en större minskning.*'

⁴⁸⁸ ELKA; SSY; 27: SSY Board meeting, 1 July 1935.

⁴⁸⁹ ELKA; SSY; 82: Swedish–Finnish Trust Council meeting, 11 June 1935. '*kort sikt.*'

⁴⁹⁰ ELKA; SSY; 82: Swedish–Finnish Trust Council meeting, 11 June 1935. '*...program på lång sikt.*'

⁴⁹¹ ELKA; SSY; 82: Swedish–Finnish Trust Council meeting, 11 June 1935. '*Nödig instrument*' and '*liknande organ*'

⁴⁹² ELKA; SSY; 82: Swedish–Finnish Trust Council meeting, 11 June 1935.

timber export agreements was over and ‘mutual understanding’ without a formal agreement was worth nothing:

By experience, we know that every time the production goes down the price goes up, which encourages increased production and eventually leads to overproduction. [...] Fluctuation introduces anxiety into the markets. If demand increases by 20–25 per cent in Great Britain, the importers are afraid to show it, because it will lift the prices and invite overproduction. It does not do any good to preach about trust and hope, or try to help the market through platonic assurances. Nobody believes it, unless we can show that we can actually reorganise the market. It is evident that the buyers with bitter memories of 1934 still fresh in their minds will retain their belief towards the markets only if the exporters’ associations have some coercive force to ensure that they can keep their promises.⁴⁹³

Besides a commercial explanation, trade politics played a role in explaining why the STEF management supported a Nordic–Soviet regulation scheme from spring 1935 onwards. Judging from the sources, France was still encouraging Nordic exporters to enter into a timber cartel.⁴⁹⁴ It might have had an impact on the Swedish opinion.

E. F. Wrede, the CEO of SSY, thought that the Swedish proposal was a step in the right direction ‘in theory’, but in practice, the Finnish firms probably inadequately supported the tripartite cartel, which led to problems when the firms had to follow the output restriction. How would the quotas be distributed to the firms? Who would control them? How could new firms be prevented from entering the market?⁴⁹⁵ The chairman of the SSY Board, Jacob von Julin, supported Wrede’s view: ‘I doubt whether we can do this in Finland. Only government intervention can force involuntary firms to regulate their output according to the limits, and this sort of intervention is very unwanted.’⁴⁹⁶ His scepticism is understandable. The situation resembled 1931, and the SSY Board was not looking forward to again going into international cartel negotiations with firms that did not want to be part of the cartel. Instead of Nordic–Soviet collaboration, Jacob von Julin preferred concentrating on rehabilitating the 1935 market with immediate action on the Swedish–Finnish level. Furthermore, he

⁴⁹³ ELKA; SSY; 82: Swedish–Finnish Trust Council meeting, 11 June 1935. J. L. Ekman’s speech: ‘Erfarenheten visat, att varje gång produktionen gått ned, hade sågvaruprisen stigit, vilket i sin tur framlockat en ökad aktivitet med en ny överproduktion som påföljd. Dessa ständiga växlingar utgjorde ett svårt orosmoment på marknaden, vilket bl. a. tog sig uttryck däri, att ehuru konsumtionen i Storbritannien stigit med 20 å 25%, voro köparna rädda att visa sitt importbehov, då detta skulle pressa prisen upp och produktionen åter ökas. Det hjälpte icke mera att predika tro och hopp samt genom platoniska försäkningar försöka upphjälpa marknaden. Ingen trodde på dem, försåvitt vi icke kunde manifestera våra möjligheter att åstadkomma en varaktig sanering. Det var uppenbart att köparna, särskilt med 1934 års bittra erfarenheter i färsk minne, skulle hava tilltro till marknaden blott om exportörsammanslutningarna ägde ett maktmedel för förverkligandet av sina utfästelser.’

⁴⁹⁴ ELKA; SSY; 82: Swedish–Finnish Trust Council meeting, 11 June 1935.

⁴⁹⁵ ELKA; SSY; 27: SSY Board meeting, 1 July 1935. ‘teoretiskt riktigt’

⁴⁹⁶ ELKA; SSY; 27: SSY Board meeting, 1 July 1935. ‘...betvivlade, att vi kunde genomföra det i Finland. Endast ett ingripande från regeringhåll kunde förmå firmor som ej frivilligt biträdde detta program att hålla sitt utbud inom fastställda gränser och ett sådant ingripande ansåg han vara mycket olyckligt.’

believed that Finnish output in 1936 would decrease automatically on account of increasing raw material prices.⁴⁹⁷

Surprisingly, the SSY Board nevertheless decided to start investigating whether it would be possible to follow the Swedish proposal of a Nordic–Soviet cartel. The first thing to do was to contact the banks and enquire about their support, and secondly, to contact the Finnish timber firms and explain the Swedish proposal.⁴⁹⁸ The sources do not reveal why, essentially, the SSY Board decided to bring the Swedish proposal about the Nordic–Soviet regulation scheme to the Finnish exporters. Possibly the Board members estimated that this proposal, after all, would benefit Finland and the banks represented a strong enough control to keep the Finnish firms in line. Or maybe they thought that the European timber trading community was expecting Finland to help in stabilising the European timber market.

The STEF Board was moving forward in July and August with the Nordic–Soviet timber regulation plan. It sent a letter to the Swedish exporters explaining the situation, and more importantly, the STEF also approached the Swedish Bankers' Association. In a letter from 23 August 1935, J. L. Ekman thanked the Swedish Bankers' Association for offering its help in gathering support among the Swedish timber firms for the Nordic–Soviet regulation scheme for 1935–1937.⁴⁹⁹ The banks were a channel to address the two difficult groups among timber exporters; firstly, the firms that were not members of the STEF, which in 1935 amounted to as much as twenty-five per cent of the Swedish total timber output, and secondly, the STEF members who were not willing to collaborate. Apparently, the number of difficult firms was twenty-five, as the letter from J. L. Ekman suggests:

Referring to the discussion between L. M. Dahlberg and myself, Ekman, we would like to thank you for your kind support in our ongoing quest to collect mandates from the timber exporters in this country to lead the negotiation into an international agreement on timber regulation. According to your wishes, we have here attached 25 copies of the associations' circular letters directed towards non-members from 5 July 1935 and 23 August 1935, as well as 25 copies of forms of engagements to be given to the exporters.⁵⁰⁰

The STEF Board also approached the district Boards of the STEF to point their members in the right direction.⁵⁰¹ The Board contacted timber agents so that they would favour the 'collaborative

⁴⁹⁷ ELKA; SSY; 82: Swedish–Finnish Trust Council meeting, 11 June 1935.

⁴⁹⁸ ELKA; SSY; 27: SSY Board meeting, 1 July 1935.

⁴⁹⁹ CfN; STEF; F1A:310: Letter from J. L. Ekman to the Swedish Bankers' Association, 23 August 1935.

ELKA; SSY; 1120: Letter from STEF to the Swedish Bankers' Association, 25 August 1935.

⁵⁰⁰ CfN; STEF; F1A:310: Letter from J. L. Ekman to the Swedish Bankers' Association, 23 August 1935. '*Under hänvisning till förda samtal mellan häradshovding Dahlberg och undertecknad Ekman framföra vi till Eder benägna löfte ett stödja vår pågående insamling av fullmakter från trävaruexportörer och producenter, möjliggörande för oss att träda i underhandling ock sluta internationellt avtal om trävaruexportens reglering. Enligt önskan hava vi äran innesluta 25 exemplar av föreningens circulaerskrivelser till icke medlemmar av föreningens circulaerskrivelser till icke medlemmar av föreningen av den 5 juli 1935 och den 23 augusti 1935 samt 25 exemplar av formulär till förbindelse att avlämnas dels av exportörer och dels av producenter, som icke själva exportera.*'

⁵⁰¹ CfN; STEF; F1A:310: Letter exchange with the STEF district Boards in July and August 1935.

exporters' in their businesses and disfavour the non-collaborative ones.⁵⁰² The campaign was successful. The STEF reached the difficult groups and was ready to represent the Swedish timber industry in international negotiations. Furthermore, the STEF also collaborated with the Swedish Bankers' Association. The commercial banks urged their timber clients to respond to the STEF's request to define their output for 1936 and 1937 and to authorise the STEF to negotiate on behalf of them in the Nordic-Soviet negotiations.⁵⁰³

The Nordic–Soviet timber cartel negotiation proceeded, again. J. L. Ekman invited the directors of the SSY and Exportles to Stockholm on 9–10 October of 1935 for a private meeting, and the representatives of the CIB were also invited.⁵⁰⁴

The timber conference in Stockholm on 9 and 10 October was rather small, only ten participants in total. All were presidents, vice-presidents, and managing directors of their associations.⁵⁰⁵ All agreed that price fluctuations in the nineteen-thirties had been more violent than before 1914. The depression between 1929 and 1932 had wiped out timber firms and thus eased the overproduction problem, but the improved price level in 1933 and 1934 had invited a quick increase in output. All delegates expressed their disappointment towards the gentlemen's agreements made in Berlin in 1933 and Vienna in 1934; the exporters had not honoured the principle of regulating their output.

J. L. Ekman pointed out that, sure enough, the supply would meet the demand eventually, but if the exporters waited for it to happen through natural market mechanisms they were going to have to prepare for some heavy losses. Active regulation was needed now. Furthermore, Ekman emphasised, the balance between supply and demand was temporary in the timber trade. He predicted that the output would decrease naturally in 1936 now that the price level had again reached rock bottom. 'Experience shows that such a rise would soon be followed by a new increase in production and another breakdown in the timber markets,' said Ekman, trying to convince his audience that the price and demand oscillations would continue for eternity if the loop was not interrupted with a cartel agreement.⁵⁰⁶ His prophecy was that without a regulation scheme the timber market would boom in 1936 and suffer from overproduction and downturn in 1937. Interestingly, this is exactly what happened even with the ETEC.

The Finnish delegation remained reserved towards the Swedish proposal of an international cartel. Jacob von Julin pointed out that preparations for such an occurrence had not been taken in Finland: they had come to the Stockholm meeting to discuss a Nordic–Soviet regulation, not a European one. The Finnish delegation was unprepared to formulate the country's position towards a European

⁵⁰² CfN; STEF; F1A:310: STEF's circular letter, 5 July 1935. Letter from Snickeri & Trävaruaktiebolag to STEF, 10 July 1935. STEF's working committee meeting, 16 August 1935.

⁵⁰³ CfN; STEF; F1A:310: Letter from STEF to the Swedish Bankers Association at the end of August and 23 August 1935.

⁵⁰⁴ CfN; STEF; F1A: 308: STEF working committee meeting, 16 October 1935.

⁵⁰⁵ CfN; STEF; F1A:308: Meeting between Swedish, Finnish, Soviet, and CIB representatives in Stockholm, 9–10 October 1935. From Finland came Jacob von Julin, Gunnar Jaatinen, and Baron E. F. Wrede; from Sweden Carl Kempe, Gustav Göransson, and J. L. Ekman; from the Soviet Union A. Kraevski and E. Kosireff; and from the CIB Prince Dr. Johannes Lobkowitz and Egon Glesinger.

⁵⁰⁶ CfN; STEF; F1A:308: Meeting between Swedish, Finnish, Soviet, and CIB representatives in Stockholm, 9–10 October 1935.

timber cartel without thoroughly consulting the Board of the SSY. The SSY Board also needed to consult the Finnish exporters about a European timber cartel.

According to Swedish sources, the Soviet Union was remarkably eager to make a production regulation agreement with the Nordic and continental producers.⁵⁰⁷ This eagerness was shown, for instance, by the willingness to make broad concessions regarding the Soviet quota.⁵⁰⁸

The Stockholm conference decided to meet in Paris in November and sign a European timber regulation agreement and to form a common understanding about the price level. British importers would also be invited to Paris. The decision to meet within a month to sign the timber agreement gave the starting shot for Finland to gather support and gain authorisation among the SSY members so that the country could participate in the agreement.

Finnish encouragements: ‘We shall not use coercion, but...’

Five days after the Stockholm meeting, the Board of SSY assembled to analyse the situation.

The SSY Board decided to support the European timber cartel. Reflecting on the turbulent markets and trade politics over the past five years, the Board concluded that the first years of the nineteen-thirties had been the most complicated since World War I. Predicting demand amidst violently oscillating currencies, prices, and trade-political orientations had been quite impossible. The Board concluded that an international timber agreement between the exporters and importers could not possibly make the situation worse. It might, in fact, actually bring clarity and predictability. Furthermore, the Soviets were now keen to set up a European cartel, and, according to Jacob von Julin, the opportunity should be used. The Board also concluded that the Finnish government and the banks supported the European timber cartel.

The worrying thing, of course, for the Board of the SSY was how to make the Finnish exporters support the European timber regulation scheme. The European cartel needed at least ninety per cent support from Finnish timber firms, otherwise the SSY could not engage in achieving this goal. The SSY Board, however, considered that the support might well be lower than ninety per cent, and in light of the lack of effective means to inspire a collaborative spirit among firms, the SSY needed assistance. That assistance could not come from the state—the state was an effective, but essentially unpredictable force—so the SSY Board decided to turn to their old ally, the banks. Jacob von Julin commented:

It is absolutely necessary that all Finnish timber exporters commit to this movement and that the banks will also work towards this end. We shall not use coercion, but we will encourage each exporter, for the sake of the general good, to abandon their self-interest and commit to this agreement voluntarily and not risk its realisation. As the timber export volume and price will decrease next year anyway, a quick response is well required on the SSY’s side in the form of a timber regulation agreement, which hopefully will spare the timber industry from even deeper losses.⁵⁰⁹

⁵⁰⁷ CfN; STEF; F1A:308: STEF working committee meeting, 10 October 1935.

⁵⁰⁸ ELKA; SSY; 27: SSY Board meeting, 15 October 1935.

⁵⁰⁹ ELKA; SSY; 27; SSY Board meeting 15 October 1935. *‘Det var därför absolut nödvändigt att landets sågverksägare allmänt anslöto sig till aktionen och at bankernas stöd utverkades för dess genomförande. Några tvångsåtgärder kunde icke vidtagas utan ankom det på envar avlastare att i det allännas intresse*

The Board of the SSY had four weeks to arrange everything before the meeting in Paris was due. It made a three-step programme to make Finland eligible for a cartel.

First, the Board decided to send a circular letter to the exporters which explained that an international regulation agreement would, indeed, be beneficial for exporters and for the country. In the letter, the Board asked the exporters to support the production regulation agreement and authorise the SSY to negotiate the agreement on behalf of the exporters.⁵¹⁰ Second, the Board decided to ask the Bank of Finland, the Finnish Bankers' Association, and the leading commercial banks to collaborate with the SSY Board in bringing about the timber cartel. The SSY asked the banks not to give credit to new timber startups or to the old timber firms that had been hibernating through the depression years. Third, the Board decided that it could not be the organisation that coordinated everything regarding the international timber cartel. It created a new organisation which would be responsible for representing the country abroad and making the practical arrangements in Finland so that the country became eligible for a cartel. The Board did not give a specific name to the delegation, but later it became known as the ETEC delegation (*ETEC Valtuuskunta*). It will be called 'the Finnish ETEC delegation' throughout this work.

The Board of SSY appointed the following people to the Finnish ETEC delegation:⁵¹¹

- Jacob von Julin
- Axel Solitander
- E. F. Wrede
- Folmer Rosenlew
- August Snellman
- T. I. Aminoff
- Gunnar Jaatinen
- Hjalmar Askolin-Ingelberg

The appointments did not present any surprises: the participants were all long-standing SSY Board members. However, while in the SSY Board small and mid-sized firms were always fairly well represented, the composition of the Finnish ETEC delegation was biased entirely towards big business. The first three members in the above list were professional forest industry lobbyists, and the remaining five were big firm owners. However, it is notable that not all big firm owners were invited to join the Finnish ETEC delegation, although they were members of the SSY Board. Enso-Gutzeit, Ahlström, Aug. Eklof, and Hackman, for instance, were missing from the Finnish ETEC delegation. The question was not whether there would be enough seats in the Finnish ETEC delegation, for the number of seats was entirely in the hands of the SSY Board. The question was instead about creating a delegation that was unanimous about timber cartel matters. The CEOs of Enso-Gutzeit, Ahlström, Aug. Eklof, and Hackman had throughout the nineteen-thirties been sceptical about ideas concerning the regulation of the timber trade beyond Finnish–Swedish collaboration. They were the ones who stood up in Board meetings and argued against an international timber cartel. Their opposition had greatly

frivilligt påtaga sig de nödiga uppoffringarna och icke med tanke på egna fördelar framkomma med överdrivna anspråk, som äventyrade planens förverkligande.'

⁵¹⁰ ELKA; SSY; 27; SSY Board meeting, 15 October 1935

⁵¹¹ ELKA; SSY: 27; SSY Board meeting, 15 October 1935.

hindered the proceedings of the SSY Board in these matters. In the early nineteen-thirties, the decision-making in the Board of SSY had crammed several times because of failure to reach a mutual understanding within the group.

Against this background, the nomination choices are understandable. The SSY Board did well to get rid of the small and mid-sized firms, along with the difficult big firms, and nominated a delegation that could make decisions and enact policies rather than merely argue about them. After all, a European timber regulation scheme was not an entirely private matter; it was an international commitment that had a broader national importance.

The SSY Board sent a circular letter to exporters on 17 October 1935, explaining that the timber agreement negotiations since summer 1935 had expanded from the Nordic-Soviet level to the European level. In this broader regulation scheme, the total European demand was estimated and then divided between each European exporter country based on 1930–1934 averages. The country quota in Finland would also be divided between firms in a similar way. The firm quota would be calculated based on the relative position of a firm vis-à-vis Finland's total exports between 1930 and 1934. In other words, if the export average of firm N in 1930–1934 was 7,000 std and Finland's total export average in the same period was 700,000, then firm N would also get 1 per cent of Finland's total quota in 1936. In the circular letter, the SSY Board emphasised that the banks strongly supported the European timber regulation scheme. The Board attached an agreement with the circulation letter in which a unique export quota was written down for each firm. The agreement also gave a mandate to the SSY to negotiate the European timber cartel under these terms on behalf of the firms. The SSY expected the agreement to be back, signed, in a fortnight.

The results were disappointing: 'A large number of SSY members as well as outsiders have stated that they will not approve the quota based on the average of 1930–1934, but have suggested a bigger quota for themselves.'⁵¹² In principle, they did not oppose European collaboration and even production decreases were considered acceptable—as long as they did not have to decrease production themselves.

What was a comfortable export output for Finnish firms in 1936? A comfortable number seemed to be somewhere around 1,080,000 std, based on the information the SSY had gathered. However, the Finnish ETEC delegation succeeded in lowering this number by 30,000 through negotiating with eleven⁵¹³ of the biggest firms and business groups. The conclusion, therefore, was that the absolute minimum for Finnish timber exports in 1936 exports was 1,050,000 std. The Finnish ETEC delegation nevertheless doubted that a 1,050,000 std quota for Finland in the European agreement was not realistic. The country had exported that volume—1,058,000 std to be specific—in 1935 and the whole point of the European regulation scheme was to reduce output, possibly by ten per cent of so. That would shift the Finnish quota to somewhere around 950,000 std.

⁵¹² ELKA; SSY; 96: Finnish ETEC delegation meeting, 1 November 1935. '*Ett stort antal såväl föreningsmedlemmar som utomstående avlastare hade förklarat sig icke villiga att godkänna den tillkommande procentuella andelar å medeltalet av exporten 1930–1934, utan påyrkat betydligt högre kvantiteten.*'

⁵¹³ Eklöf, Hackman, Halla, Kaukaa, Kemi, Helsingfors bank, Suomen Puunvienti, Rosenlew, Metsäkeskus, Uleå/Kajaani, Santaholma.

Another problem was that even though the SSY successfully did the paper work to gather export data and engage the timber firms in the coming European regulation, the SSY could not guarantee that Finland would not exceed any quota above 960,000 std. Some firms had replied to the SSY that they did not support the European timber regulation scheme, and these firms had exported 20,000 std in 1934. Some firms simply did not answer the SSY's survey, and these had exported 77,000 std in 1934. This meant that there was 97,000 std of timber beyond the reach of the SSY, which was deeply worrying. The Finnish ETEC delegation remarked that the conditions for signing an international timber regulation scheme could be much better in Finland. The exporter did not support it sufficiently enough, and there was not much the SSY could do about it, for it lacked coercive means:

The SSY cannot refuse to negotiate, but under the circumstances it cannot take upon itself the responsibility of guaranteeing Finland's total export, but only that of the 90%, i.e those that have promised to comply with the agreement.⁵¹⁴

The European timber negotiation, due on 13–15 November in Copenhagen, was approaching and Finland was unprepared. The Finnish ETEC delegation aimed to bring home a 1,050,000 std quota from Copenhagen.⁵¹⁵

The first ETEC agreement: quotas and organisation

The meeting between European timber exporters in Copenhagen 13–15 November was a success. Romania was absent, but the remaining seven exporting countries were there, represented by their timber trading organisations:⁵¹⁶

- Svenska Trävaruexportföreningen, Stockholm
- Suomen Sahanomistajayhdistys, Helsinki
- Exportles, Moscow
- Rada Gospodarki Drzewnej, Warsaw
- Ceskoslovenska Ustredni Rada Drevarsjam Prague
- Oesterreichischer Holzwirtschaftsrat, Vienna
- Centralni Odbor Jugoslovenske Revarske Privrede, Belgrade
- Asociata Industriilor Forestiere din Romania, Bucarest (absent)

In addition to these, the CIB was also there, represented by Egon Glesinger. The conference concentrated on defining, this time formally and in written form, the details of the agreement. The total European demand of timber in 1936 was estimated at 3.8 million std. Fixing the Swedish and

⁵¹⁴ 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, utan endast för en maximiexport om 90%, d.v.s. för den avlastare, vilka lovat biträda avtalet.'*

⁵¹⁵ ELKA; SSY; 96: Finnish ETEC delegation meetings, 13 November 1935.

⁵¹⁶ There were altogether 24 people present. Finland: Jacob von Julin, H. Askolin-Ingelberg, G. Jaatinen, A. Snellman, E. F. Wrede, S. Löfström. Sweden: C. Kempe, G. Göransson, and J. L. Ekman. Soviet Union: B. Kraevsky, E. Y. Belitzky, and A. Kosyrov. Poland: Count K. Ostrowsky, A. Panck, W. Czerwinsky, S. Ulam. Czechoslovakia: J. Lobkowicz, L. Körner, and O. Frejka. Austria: F. Hasslachor, A. Ceschi, and F. Foost. Yugoslavia: E. Manoylovic. CIB: Egon Glesinger. CfN; STEF; F1A:308: Letter from Egon Glesinger to J. L. Ekman 13 September 1935 and 17 October 1935.

Soviet quota did not present any specific problems, but the Finnish and continental quotas were a subject of debate. The Romanian quota had to be set for them in the absence of a Romanian representative. Finland's quota oscillated between 1,030,000 and 1,015,000 std, but eventually it was set lower than that to 1,005,000.⁵¹⁷ Export quotas in the first European Timber Exporters' Convention for 1936 were allocated as follows:

Table 8: The ETEC quotas 1936

Country 1936		
	STD	%
Finland	1,005,000	26.1
Soviet Union	950,000	27.7
Sweden	820,000	21.3
Poland	313,000	8.1
Austria	275,000	7.1
Romania	223,000	5.8
Yugoslavia	168,000	4.4
Czechoslovakia	96,000	2.5
Total	3,850,000	100

(Source: CfN; STEF; F1A:406: 'Sawngoods Convention' signed in Copenhagen, 15 November 1935.)

All countries present at the meeting signed the ETEC agreement. It would take force after it had been ratified in each member country by 1 December at the latest. The first ETEC agreement would be valid for two years, until the end of 1937. The ETEC agreement regulated the exports of 'all kinds of softwood (red and whitewood) manufactured in sawmills, with the exception of boxboards, sleepers, sleeper blocks and sleepers for packing case.' Geographically, the regulation applied to 'the entire world market', except for the Far East, Iran, South-America, and North America.

The ETEC organisation expected the national organisations to send a monthly export and sales statistics to the ETEC executive committee. Its meeting did not make any recommendations or suggestions regarding how the timber trading organisations could or should control timber firms in their countries. The legal environments and commercial institutions varied in the ETEC countries, so organising controls was a purely national matter. The ETEC organisation only expected the national timber organisations to ensure that the country quotas were not exceeded. In practice, in the

⁵¹⁷ ELKA; SSY; 1120: Meeting between European timber exporters in Copenhagen, 13–15 November 1935.

European continental countries and the Soviet Union governments played a big role in controlling the timber exports. The Finnish and Swedish governments did not have similar interventionist rights.

The Copenhagen meeting created the organisation for the ETEC. It consisted of four personal offices—president, vice-president, syndic, and general secretary—as well as executive committee, technical committee, and a general meeting. All decisions at the general meeting and in the executive committee had to be unanimous in order to take effect.⁵¹⁸

The ETEC president and the syndic took care of all the practicalities involved in communicating with the ETEC member countries and the importers as well as organising all the necessary meetings. The syndic, according to the rules, was the chairman of the technical committee. He also assisted the president's work which meant handling the voluminous letter exchange with the importers, exporters, press, and all matters relating to European timber output.⁵¹⁹ The general secretary took care of timber data; he received monthly sale reports from each exporting country and compiled this data for the use of the ETEC office and the meetings. The position of vice-president became quite insignificant and nominal; it did not have clear responsibilities.⁵²⁰

The personal offices of the ETEC were appointed in the first ETEC executive committee meeting in Berlin on 9 and 10 December. There was no open votes for candidates or debates over how the positions should be shared out. Nor did the election follow any principle of keeping the three big timber exporter countries in the power of the cartel, but the smallest of the big three, Sweden, took two out of three important positions. Carl Kempe, the long-standing chairman of the STEF Board was appointed President of the ETEC and J. L. Ekman, the managing director of the STEF, was appointed the syndic. Kempe and Ekman were the ETEC figureheads whom importers contacted when they wanted to discuss the status of European output. They were the hub that received, distributed, and delivered information between the ETEC members and represented the voice of 'European timber exporters' to the European importers. The source material suggests, moreover, that the syndic—J. L. Ekman—was probably the most influential man in the ETEC; he communicated with the exporters and importers, and his assessment of the market situation weighed heavily when the ETEC decided about future production quotas. Egon Glesinger, the secretary of the CIB, was appointed the general secretary of the ETEC.

The same network that had toppled the League of Nations from the leadership of the cartel in 1933 was now in charge of the ETEC. Glesinger's headquarters being at CIB in Vienna, at Singerstrasse 27, the ETEC office worked from two cities; Stockholm and Vienna. Kempe, Ekman, and Glesinger stayed in their positions until the end of the ETEC in late autumn 1939, although Egon Glesinger almost got fired from his job in autumn 1938 after stepping on Ekman's toes.⁵²¹ He also had to move his timber data offices from Vienna to Brussels in spring 1938 when Hitler occupied Austria.

⁵¹⁸ CfN; STEF; F2:6: ETEC Executive Committee meeting in Berlin, 9 and 10 December 1935. ELKA; SSY; 96: Finnish ETEC Delegation meeting, 25 January 1936. Bank account was at Svenska Handelsbanken, Stockholm.

⁵¹⁹ CfN; STEF; F1A:406: ETEC Executive Committee meeting, 9 and 10 December 1935.

⁵²⁰ CfN; STEF; F1A:406: 'Sawngoods Convention' signed in Copenhagen, 15 November 1935.

⁵²¹ CfN; STEF; F2:6: ETEC Executive Committee meeting, 9 and 10 December 1935. STEF; F1A:406: 'Sawngoods Convention', 15 November 1935. STEF; F1A:406: ETEC Executive meeting, 22 February 1937.

The Finns did not occupy any leading positions in the ETEC—there are no sources suggesting that they even tried or felt sorry about the outcome. They participated in the working of the Technical Committee chaired by the syndic, J. L. Ekman, but remained outside the core of the ETEC and its day-to-day routines.

The executive committee of the ETEC consisted of six people; Sweden, Finland, and the Soviet Union had one representative each whereas Austria, Czechoslovakia, Poland, Romania, and Yugoslavia had to choose three representatives altogether.⁵²² The function of the Executive Committee was to gather regularly to review the timber market, to see how the demand and output was developing and observe how large the stocks the importers and exporters were now and would be in the near future. The executive committee also estimated how big the total export quota for each year was and how it would be divided between the ETEC countries, and brought their idea to the ETEC general meeting to be decided upon. Practice shows that the executive meeting met two times a year. The first meeting of the year was in February, when the yearly timber market had opened and the sellers had an idea how enthusiastic or lethargic the buyers were; the executive meeting was able to forecast the demand based on that information and make recommendations about how much production should be released onto the markets before summer. The ETEC executive committee met for the second time in August, after the summer market had closed. At this time of year they definitely knew how active the buyers had been and how much unsold stock the exporters and importers had. Knowing approximately the size of importers' stocks was vital when the executive committee estimated the following year's ETEC quota. If the importers' stocks were full, they would not buy fresh timber but use what they had to satisfy their buyers. Correspondingly, knowing how much the exporters had sold, and how much timber they had in stock, was essential for the working of the ETEC.

The technical committee handled the 'detailed monitoring of the implementation of the convention' and guided the work of the general secretary.⁵²³ Each country had a right to send a delegate to the Technical Committee, but it grew rather large between December 1935 and January 1938; from five to no less than sixteen participants.⁵²⁴ The general meeting would convene once a year, in October, and it would vote whether to continue the ETEC agreement or not.⁵²⁵

The general meeting was a large assembly gathering, not just for ETEC member countries, but also for timber importers, the press, and for other observers (see Picture 3). It convened once a year to decide about the total timber export volume from the ETEC countries as well as the detailed quotas for each country. The meeting was held in October or early November at the latest.

Paloheimo archive; 10313:1; Meeting of the Technical Committee of the ETEC, 20 and 21 January 1938; CfN; STEF; F1A:408: ETEC Executive Meeting, 2 August 1939

⁵²² CfN; STEF; F1A:406: 'Sawngoods Convention' signed in Copenhagen, 15 November 1935.

⁵²³ *'Die detaillierte Ueberwachung der Durchführung der Konvention'* CfN; STEF; F1A:406: ETEC Executive Committee meeting, 9 and 10 December 1935.

⁵²⁴ CfN; STEF; F1A:406: ETEC Executive Committee meeting, 9 and 10 December 1935. Paloheimo archive; 10313:1; Meeting of the Technical Committee of the ETEC, 19 January 1938.

⁵²⁵ CfN; STEF; F1A:406: 'Sawngoods Convention' signed in Copenhagen, 15 November 1935.

Picture 3: Headline in *Stockholms Tidningen*, 19 November 1935: 'Europe's timber exporters get together.'



The Finnish ETEC delegation returned from Copenhagen with E. F. Wrede's signature on the ETEC agreement. The delegation started to arrange right away the SSY's general assembly, which would ratify the convention. It did not sound a very appealing engagement; the Finnish ETEC delegation had just spent three months trying to shave 30,000 std away from the production plans of the big firms— from 1,080,000 to 1,050,000 std—and now in the European timber convention the maximum export limit for Finland was set as low as 1,005,000. The delegation would have to work hard to get rid of 50,000 std during 1936. The Finnish ETEC delegation did not take lightly to this mission. On 20 November, the Finnish ETEC delegation made a plan about how to reduce the output. It divided the Finnish timber exporters into the following categories:⁵²⁶

1. SSY outsiders that have informed about their disagreement with the suggested quota or have not responded at all
2. SSY members that want a bigger quota than suggested
3. SSY outsiders that want a bigger quota than suggested
4. SSY members that are happy with their quota

The first three, those who did not communicate with the Finnish ETEC delegation or refused to follow their orders, formed the problematic group. To deal with that, the boards of the SSY and the Finnish

⁵²⁶ ELKA; SSY; 96: Finnish ETEC delegation meeting, 20 November 1935.

Bankers' Association held a meeting on 21 November at the Bank of Finland in the presence of Prime Minister Kivimäki and Minister of Trade and Industry Ilmari Killinen.⁵²⁷

The Board of the Finnish Bankers' Association and the state's representative were happy that Finland participated in the European timber convention and promised to help support the system. The CEO of the SSY, E. F. Wrede, stated the essence of the problem: the Board of SSY, despite continuous efforts since September, had failed to ensure that the production plans of the Finnish timber firms were on a par with the coming European timber agreement. Wrede wrote:

The SSY asks that the banks 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.⁵²⁸

Wrede also required that 'the banks would not, in any circumstance, support a relaunching of the sawmills that have been on pause or the launching of entirely new firms'. Altogether 27 firms, representing 34,000 std (4.5 per cent of the total export volume) had refused to collaborate, whereas banks promised their collaboration in resolving this problem.⁵²⁹ Ministers Kivimäki and Killinen also promised that the government would take action, if needed, to ensure that Finland did not exceed its quota.⁵³⁰

The day after the meeting between the SSY, the Bankers' Association, and the Finnish government, the general assembly of the SSY took place. Over 100 people representing 82 firms met in Hotel Kämp in Helsinki; thirty-three of the firms who attended were not SSY members and were there to give permission to the SSY to ratify the ETEC. The chairman of the Board of the SSY, Jacob von Julin, opened the meeting by underlining the delicate nature of the issue and requesting that the participants would keep the information they were about to hear confidential.⁵³¹ His message was that Finland had made an international commitment on timber export volumes for 1936, but at that time it seemed that the country could not fulfil its promises. Von Julin told his listeners that it was obligatory for each and every exporter to follow the ETEC quotas and make further reductions to their timber output if the Finnish ETEC delegation so required. Furthermore, the timber exporters had to collaborate voluntarily:

Since the assistance of the state in granting export licenses would not be desirable, actions must be taken to ensure that Finland's export quota will not be exceeded, which would damage our respected position in the international timber market and make this kind of

⁵²⁷ ELKA; SSY; 27: SSY Board meeting, 21 November 1935. SSY; 1120: Sigurd Löfström's report, 6 June 1936.

⁵²⁸ 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 sahalaistosten toiminnan uudelleen aloittamista eivätkä uusien yritysten perustamista.'*

⁵²⁹ ELKA; SSY; 96: Finnish ETEC delegation meeting, 20 November 1935.

⁵³⁰ ELKA; SSY; 1120: Sigurd Löfström's report to the SSY Board, 6 June 1936.

⁵³¹ ELKA; SSY; 27: SSY general meeting, 22 November 1935. *'[-] ordföranden fast de närvarandes uppmärksamhet på den för behandling varande frågans ömtåliga natur, samt uppmanat de matt behandla de givna uppgifterna strängt konfidentiellt [-].'*

collaboration impossible in the future. As is known, since 1926 there has been an agreement between the Timber Trade Federation and SSY where the SSY members commit to trade only with regular⁵³² importers and accepted agents in Great Britain. It is the intention to expand this agreement so that the importers and agents commit not to buy from exporters that have not signed the Copenhagen agreement. For this purpose, it is necessary to create an 'exporters' list' [- -] and share the list with agents and importers in our buying countries.⁵³³

E. F. Wrede ensured the listeners that the banks fully supported the ETEC agreement. International engagements were serious business. 'It is a question of honour for exporters in this country to solve this question, because otherwise state intervention can be expected.'⁵³⁴

The 'state' was clearly something that was better to keep out of the Finnish timber trade and its cartels. Wrede and von Julin stated that the only way to keep the state away was for exporters to follow voluntarily the instructions of the Finnish ETEC organisation of the SSY. However, at the same time, the SSY leadership quite openly also said that the state was already involved in the Finnish timber trade. Axel Solitander, for instance, said that 'our banks and the government have promised to support the agreement without conditions'.⁵³⁵ According to the SSY the state was a double-threat; it was already involved as a coercive entity in the ETEC, but things could get much worse.

During the general meeting of the SSY on 21 November, written commitments were gathered from the exporters in which they promised to honour the ETEC agreement and reduce their production in 1936 by ten per cent. At the end of the meeting, Axel Solitander was happy to announce that the Finnish export quota for 1936 had just dropped from 1,050,000 to 1,008,482 std.

⁵³² Regular import means a traditional, old, and reliable importer. The opposite is irregular, which means firms that appear during a boom and vanish during depressions. These irregular importers and exporters were unaware of trading traditions, terms, and prices.

⁵³³ ELKA; SSY; 96: Finnish ETEC delegation meeting, 20 November 1935, Appendix IV. This memo was presented to the Board of the Finnish Bankers' Association on 21 November as well as read aloud in the general assembly of the Finnish timber exporters on 22 November. '*Koska valtiovallan myötävaikutus vientilupien jakamisessa ei olisi suotavaa, on ryhdyttävä toimenpiteisiin, jotka antavat suuremman varmuuden siitä, ettei Suomen vientiosuutta ylitetä, mikä seikka suuressa määrin vahingoittaisi meidän nauttimaamme arvonantoa kansainvälisillä puutavaramarkkinoilla ja tekisi tulevaisuudessa mahdottomaksi jatkuvan tämän kaltaisen yhteistoiminnan.*

Kuten tunnettua, on vuodesta 1926 asti voimassa The Timber Trade Federationin kanssa tehty sopimus, jossa Sahanomistajayhdistyksen jäsenet ovat sitoutuneet tekemään kauppvoja vian säännöllisten englantilaisten tuojien kanssa ja hyväksytyjen agenttien välityksellä. Tarkoitus on laajentaa tätä sopimusta niin, että tuojat ja agentit puolestaan sitoutuisivat olemaan ostamatta sellaisilta viejiltä, jotka eivät ole liittyneet Kööpenhaminan sopimukseen. Tässä mielessä käynee välttämättömäksi laatia "viejien luettelo", [- -] ja jakaa tätä luettelo mainitussa tarkoituksessa meidän ostajamaittemme agenteille ja ostajille.'

⁵³⁴ ELKA; SSY; 27: General assembly of SSY, 22 November 1935. '*...betonade talaren slutligen att det är en hederssak för landets sågägare att själva ordna denna fråga, när i annat fall ett ingripande från statsmaktens sida var att befara.*'

⁵³⁵ ELKA; SSY; 27: General assembly of the SSY, 22 November 1935. '*Avtalet borde under sådana förhållanden kunna godkännas och hade våra banker och regeringen vid förhandlingar härom lovat utan förbehåll uppbära detsamma.*'

The general assembly voted for Finland's participation in the ETEC agreement. Furthermore, it agreed to Wrede's suggestion about reinforcing the Finnish ETEC organisation by nominating a committee that worked in close collaboration with the Finnish ETEC delegation and controlled the exporters. It was called the Timber Export Control Committee (*Sahatavaraviennin Valvontatoimikunta*).⁵³⁶ A couple of days later, Bruno Suviranta from the Finnish Bankers' Association was also appointed to the committee.⁵³⁷ The Control Committee started working right away. Between December 1935 and January 1936 the inspectors made field trips to timber production sites and gave reports to about twenty-five firms.⁵³⁸

After the general assembly of the SSY had approved the ratification of the ETEC, the SSY was ready to send the wire. Backing off was not an option, although the circumstances were not optimal:

Cancelling the ratification would cause serious consequences and lead to an international scandal in the European timber trade. The Russians would lower their prices and throw a few hundred thousand standards more timber in the market, which would create chaos. After everyone had suffered major losses, a new attempt to regulate the market would appear. We would come up with the same solution as present, but with governments' integral involvement in different countries. [...] It is the responsibility of the Finnish ETEC delegation to ratify the agreement now. [- -] The SSY should be able to find ways to do this in case problems [with exporters' willingness to collaborate] occur.⁵³⁹

Axel Solitander did not believe that the stubborn Finnish timber exporters would honour their ETEC quotas or that the overproduction problem, which would inevitably emerge, could be solved without government intervention. The situation was messy. A few big and a handful of smaller exporters at the moment had not approved their quotas at all. Quotas for some firms needed to be further decreased, while others needed to be increased due to previous miscalculations. The inspectors of the Control Committee had already visited the stubborn exporters around Finland and negotiated with them to decrease their output.⁵⁴⁰ However, not believing in self-regulation when it came to Finnish

⁵³⁶ ELKA; SSY; 27: General assembly of the SSY, 22 November 1935. The members of the Control Committee were Martti Levón (the head of the *Garantiföreningen for Träteknisk Forskning*), Axel Solitander (managing director of the Central Association of the Wood Processing Industries), E. F. Wrede (managing director of the SSY), and Per Zilliacus (the Association of Employers in the Wood Processing Industries).

⁵³⁷ ELKA; SSY; 96: Circulation letter from the Timber Export Control Committee to the Finnish timber exporters, 26 November 1935.

⁵³⁸ ELKA; SSY; 1124: Inspection reports between December 1935 and January 1936.

⁵³⁹ ELKA; SSY; 96: Joint meeting between the Finnish ETEC delegation and the Timber Export Control Committee on. '*Ratifiointiin epäminen aiheuttaisi vakavia seurauksia ja johtaisi puutavaramaailmassa yleiseurooppalaiseen skandaaliin. Venäjäläiset alentaisivat hintojaan ja heittäisivät parisataatuhatta standarttia lisää markkinoille, jotka joutuisivat sekasorron tilaan. Kun kaikki asianosaiset olisivat kärsineet tuntuvia tappioita, kävisi uusi yritys välttämättömäksi ja tultaisiin uudelleen samaan tulokseen, mutta tässä tapauksessa valtion sekaantuessa asiaan eri maissa. Puhujan mielestä Valtuuskunnan velvollisuus on, toimeksiantajalleen vastuunalaisena ratifioida sopimus. On koetettava päästä valtion asiaan sekaantumisesta, ja Suomen Sahanomistajayhdistyksen pitäisi kyllä löytää keinoja jos syntyisi vaikeuksia.*'

⁵⁴⁰ The inspectors also wrote reports about their visits—25 of them between December 1935 and January 1936. ELKA; SSY; 1124: Inspection reports between December 1935 and January 1936.

timber exporters, Solitander also encouraged the Finnish ETEC delegation to keep the Finnish government close to them and well-informed:

We should send a delegation to explain to the Prime Minister the situation and our plans. Exceptional measures might become necessary, for instance, to force obstinate exporters and we might need the government's assistance, which makes it timely that we now inform the government about the issue.⁵⁴¹

Solitander's suggestion won some support on the Board, which seemed to think that state's informal assistance would reinforce the Finnish ETEC organisation. The Finnish ETEC delegation decided to proceed according to Solitander's recommendation and contacted Finnish Prime Minister Kivimäki.

Finally, on 30 December, Jacob von Julin, the chairman of the SSY Board, a telegram to Carl Kempe, the president of the ETEC, in which he made Finland's participation official and binding.

The challenge for Finland from then on was to try to fulfil the ETEC obligations. That meant not exceeding the country quota of 1,005,000 in 1936, which had been agreed upon in Copenhagen. In late 1935, the SSY Board fostered the hope that the evolving overproduction would be solved during 1936. Furthermore, the creation of the ETEC was expected to bring about a new optimism in the market. Along with the rising price of timber, the price of the raw material would also increase. At least the smaller firms afforded to buy less raw material in the timber auctions, which meant smaller export volumes. In case that did not work out, the banks could exert their creditor power and grant less loans for raw material auctions.

The coming year showed that these hopes were in vain. The Finnish overproduction problem did not vanish and the power of the creditors turned out to be weaker than expected. It became a perennial problem for the Finnish ETEC delegation to try to figure out how to hide overproduction of timber amounting to several tens of thousands std.

Summary and discussion

This chapter has discussed the last two years prior to the European Timber Exporters' Convention. Chapter 3 follows the process where in autumn 1933 the leadership of the European timber negotiation changed hands from the Economic Section of the League of Nations to the private initiative led by CIB⁵⁴² and the STEF—or, by Egon Glesinger, J. L. Ekman, and Carl Kempe—and how the ETEC grew out of two failed European gentlemen's agreements coordinated by a private network.

This chapter continued analysing the reactions of the timber exporting countries towards emerged interest of the League of Nations to lead timber cartel negotiations. Chapter showed how dislike towards league's leadership changed into action and how trade organisations found a delicate way of ousting intergovernmental bodies from the leadership of cartel negotiations. It follows how the CIB and STEF organised a competing timber cartel conference in late 1933, and the timber exporting

⁵⁴¹ ELKA; SSY; 96: Joint meeting between the Finnish ETEC delegation and the Timber Export Control Committee, 29 October 1935. *'Puhuja esitti edelleen, että olisi lähetettävä lähetystä selostamaan pääministerille tilannetta ja meidän suunnitelmiamme, kuitenkin tekemättä mitään ehdotuksia. Tavallisuudesta poikkeavat toimenpiteet saattavat käydä välttämättömiksi esim. niskottelevien laivaajien pakottamiseksi, ja valtiovallan myötävaikutukseen voidaan joutua turvaamaan, minkä vuoksi on paikallaan, että asiasta nyt ilmoitetaan.'*

⁵⁴² The CIB represented the interests of continental exporters

countries had to choose which one to attend; the League's conference or the one invited by the CIB and STEF. Timber exporting countries chose the latter, and the League of Nations retreated from its plans to organise a cartel conference in late 1933. The private initiative of the CIB–STEF also managed to deliver immediate results—a gentlemen's agreement about output regulation in 1934—making any further intervention of the League of Nations to timber cartel formation unnecessary. The European exporting countries renewed the gentlemen's agreement about output regulation for 1935.

Spar's notions about the prerequisites of successful cartels, discussed in the previous chapter, again become essential. Source material shows that the timber trade leaders determinately directed the cartelisation process away from the public scrutiny of the League of Nations and led it behind the scenes, to secrecy and exclusivity, where there were no outsider observers to document or report the negotiations. Unlike the cartel process led by the League of Nations in the public arenas, private and secret cartel negotiation also bore fruits; European timber exporting countries signed a tacit cartel agreements for 1934 and 1935.

Another notion is essential for the result of this chapter; the question why cartels are established and how to build successful cartels. The CIB–STEF initiative succeeded to bring about a cartel agreement—and that really can be seen a major success, considering the battle for power over cartel leadership—but the cartel practice itself, as it turned out in 1934 and 1935, was unsuccessful. This chapter, in other words, presents one success (negotiation) and one failure (cartel reality), and both can be discussed in the light of cartel theories.

In short, cartel theories tell us that competitors can successfully establish a cartel if the potential collaborators evaluate that the overall gains from regulated competition in future are bigger than from free competition. Cartels are seen as an option for free competition. However, the empirical material presented in this work suggests that firms and trade association do not always see free competition as the only option for regulated competition. The tacit cartel agreement for 1934, for instance, was built as an option to League of Nation's cartel plans. In this case, the Finnish incentive to collaborate, for instance, did not stem entirely from careful considerations about the gains of cartel compared with free competition, but rather, from an understanding that if they do not form some sort of cartel, the League of Nations might do it for them. Options being these, the Finnish and Swedish timber exporters did not make a choice between free and regulated competition, but between potential League's cartel and their own cartel. So, why cartels are established again? In this case, to dodge another form of cartel which organisation and leadership the firms and trade associations considered inferior.

The tacit cartels in 1934 and 1935 were unsuccessful in the sense that it did not keep the output volume in the level of 1933. This chapter shows that the failure was a result of many issues. The collaborators agreed tacitly only that they would not increase their output compared with 1933, but they did not invent any norms concerning how to control the output, detect cheating, or punish countries that overproduced. Demand increased throughout 1934 and many firms simply sold as much as they could; from the perspective of, say, North-Finnish timber exporters the European collaborators undoubtedly seemed a bit too abstract to not to exploit the market because of loyalty. The Finnish material also raise a question whether Finland even aimed to build a successful output regulation in 1934 and 1935? The Finnish timber trade association SSY did not really seek to implement the output regulation norms nationally—in fact, it seemed as indifferent towards the cartel norms as the firms were. The goal of the tacit agreements in 1934 and 1935 was not to regulate the

output, but to give an impression that timber sector does not need patronizing from the League of Nations in its cartel matters.

This chapter shows that after a year and a half of unsuccessful attempts to regulate European timber output, the idea of formalising the cartel collaboration emerged. It is not entirely clear why and by whom the formalisation process from tacit cartel to European Timber Exporters' Convention begun in summer 1935, but the Swedish were again important catalysers of the process. The autumn 1935 was a learning process for the European timber trade leaders concerning how to build, nationally and internationally, a cartel that can actually regulate output. This process led to an organisation where each signatory country decided individually how to build the national cartel organisation. The international ETEC organisation consisted of four personal offices—president, vice-president, syndic, and general secretary—as well as executive committee, technical committee, and a general meeting. The leadership of the ETEC became prominently Swedish. The biggest timber exporting country, Finland, did not get the leading positions in the organisation. The ETEC organisation agreed that a punishment for cheating would be a fine, but other than that, the ETEC did not decide how to deal with overproduction. A buffer stock was something that other commodity cartels used, but the ETEC did not consider that.

This chapter shows that when Finland ratified the ETEC agreement on 1 December 1935, the fears of failing to fulfil international obligations again surfaced. The fears were realistic; the Finnish firms did not spontaneously support the ETEC broadly enough. In order to avoid failing the ETEC obligations, the leadership of the Finnish timber trade association SSY asked the banks and the government to help the newly-created Finnish ETEC organisation to control the timber exporters. They accepted the request. Banks and the government became the 'credible deterrent' that was supposed to boost the collaborative spirit of the firms. Also in Sweden the banks actively assisted the leadership of STEF to deal with the 'difficult firms' and make them support of the ETEC, just like in autumn 1931.

Finally, this chapter discusses the position of the Soviet Union towards the European timber cartel. It shows that the interest of the Soviet Union towards multilateral timber regulation schemes had grown steadily between 1934 and 1935. The position of Soviet timber had been deteriorating in the British market since 1931. Most likely, the Soviet's perceived European timber agreement as an international system that created a wider balancing system between the exporters and importers and this would benefit the Soviet timber trade—but closer study of Russian materials could bring light into this interpretation. Integrating into the Western commercial systems through international cartel agreements and other trade agreements was a method by which the Soviets would benefit economically from the West. Furthermore, as self-evident as it may seem, it is notable that the Soviet Union was part of the European timber regulation scheme—in International Wheat Agreement of 1933 the situation was entirely different. The Soviet Union stayed out of the agreement, even though it was a major supplier just like in timber.⁵⁴³ This work does not compare timber and wheat cartels and the position of the Soviet Union in them, but it would be an obvious follow-up research theme to continue with.

⁵⁴³ Khan, Kabir-Ur-Rahman (1982): *The Law and Organisation of International Commodity Agreements*, 213

PART II: The European Timber Exporters' Convention 1936–1939

*The significance of the ETEC agreement should not be underestimated.
For 15 years, the Finnish Sawmill Owners' Association has negotiated
with the Swedish and Russians to come up with an agreement of this sort
to avoid government intervention.*

— Jacob von Julin (ELKA; SSY; 28; SSY Board 10 January 1938)

CHAPTER 4: National implementation of ETEC in Finland

This chapter analyses the ETEC from 1936 until the spring of 1937. During the first eighteen months of the ETEC, prices and demand were rising. The international organisation of the ETEC worked smoothly. However, international cartels do not exist without national implementation, which controls the firms and implements the norms on the national level, as well as delivers data to the international node. This chapter investigates national implementation of the ETEC in Finland and continues to analyse similar questions than in the first part of this dissertation; who supported the ETEC, and who did not; how international cartels work when the voluntary support of the firms towards them is relatively low. These questions are particularly interesting in the case of Finland, which along with Sweden, was the only ETEC country where the government had only limited possibilities, both legally and culturally, to restrict trade due to cartel disobedience. How does one build credible cartel control in a non-interventionist country? The answer is by expanding, or trying to expand, the control to the business network; to banks, agents, stevedores, and government. The results indicate that Finland did not want to fail in fulfilling the ETEC obligations, but despite assistance from the banks and government as controllers, the country was struggling to deliver results due to the antagonism towards the ETEC among firms. Moreover, the results indicate that coercion, in non-interventionist countries, occurred through threatening with government intervention rather than through formal coercion. It is possible to conclude that the government did not formally restrict the firms, but the firms did not voluntarily support the ETEC either.

After four years of intensive negotiations, the European Timber Exporters' Convention was greeted with international satisfaction.⁵⁴⁴ Seven countries had ratified an agreement on timber quotas on 1 December 1935—Finland, Sweden, Soviet Union, Austria, Poland, Czechoslovakia, Yugoslavia—and Romania joined the convention a month later. The details of the new agreement were sometimes reported misleadingly in the British press, but the idea of regulation was warmly welcomed—even if it raised the price level.⁵⁴⁵ 'If it created stability in the market it would [- -] be welcomed by the importers in this country,' wrote *Hull Daily Mail* on 9 December 1935 in a report titled 'Big timber trade agreement.'

To be sure, the key promoters of the ETEC agreement, the leading men from the STEF and the CIB, were excited. J. L. Ekman, the syndic, started working straight away to broaden collaboration with the Baltic countries, Norway, and Canada.⁵⁴⁶ More than expanding, however, the ETEC needed a successful national implementation in each of the member states. It was not entirely easy as the legal and cultural conditions to maintain cartels varied between the countries, but the spirit was high nevertheless. 'Agreement made in Copenhagen is a turning point in the history of timber trade,' concluded the ETEC's Executive Committee in a press communiqué nine days after the ratification of the timber convention:

⁵⁴⁴ CfN; STEF; B1E:1: Report by J. L. Ekman, 18 June 1936.

⁵⁴⁵ *Hull Daily Mail*, 9 December 1935.

⁵⁴⁶ CfN; STEF; F1A:315: Letter from ETEC secretariat to the Czechoslovakian representative, 4 January 1936.

This is the first time when a binding agreement has been concluded about the export quantity that can be offered and exported from the countries included in the agreement. The convention is the result of several years of systematic work and each organisation guarantees that the total (100%) export from their countries will not exceed the agreed quantity.⁵⁴⁷

The ETEC seemed like a promising convention—a ‘turning point in history’, indeed—for an industry that had suffered from violent boom–bust oscillations since the nineteen-tens. The ETEC regulated eighty-three per cent of all coniferous sawn softwood products in world trade, which made it a potent organisation to regulate the market and remove oscillations.⁵⁴⁸ The excited ETEC promoters did not know it yet, but their optimism was a bubble. The ETEC was not, in fact, going to be ‘a turning point in the history of timber trade’ in the sense that the convention made the timber market more stable for the rest of the nineteen-thirties. The first eighteen months of the ETEC in 1936 was a very up-beat time in the timber trade (see Figure 7, next page), but from summer 1937 onwards the market was plagued by economic and political shocks. Timber demand and prices oscillated between booms and busts, which the ETEC was powerless to control.

At the time of the ETEC’s birth, the natural boom–bust oscillation in timber trade was in a stage of rising demand. The 1934 had largely been miserable, as well as half of 1935, being defined by full stocks, low demand, low consumption, and low price level. During autumn 1935, following the familiar pattern of boom–bust fluctuation, the market had taken a turn for the better. Demand and the price of timber improved on the British market from mid-November 1935 onwards.⁵⁴⁹ The stocks of importers became smaller and new production was needed. Moreover, liberal monetary policies in Great Britain and decreasing Canadian imports into Britain had stimulated demand for Nordic timber.⁵⁵⁰

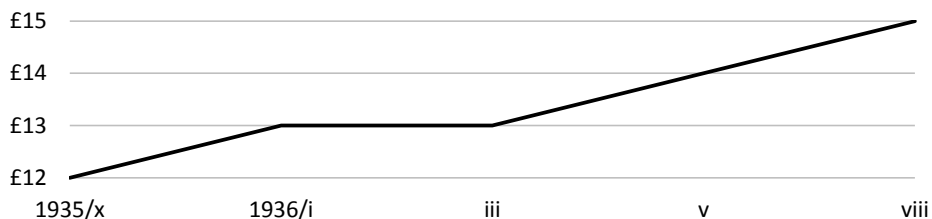
⁵⁴⁷ CfN; STEF; F1A:406: Report about the Executive committee meeting in Berlin, 10–11 December 1935. *‘Det i Köpenhamn träffade avtal är en vändpunkt i trävaruexportens historia. Det är nämligen första gången, som ett bindande avtal ingåtts om den exportkvantitet, som får utbudjas och exporteras från de i avtalet uppräknade länderna. Avtalet är resultat av ett flerårigt systematiskt arbete och innebär en av varje organisation lämnad garanti att den totala (100%) exporten av sågade och hyvlade trävaror icke får överstiga den för varje land avtalade kvantiteten.’*

⁵⁴⁸ CfN; STEF; G1B:2: Annual report of STEF 1933, page 11. The remaining 17 per cent originated from non-ETEC countries, the biggest being United States (seven per cent) and Canada (seven per cent).

⁵⁴⁹ CfN; STEF; F1A:406: Meeting of the ETEC Executive Committee, 9–10 December 1935.

⁵⁵⁰ ELKA; SSY; 209: Annual report of SSY, page 9.

Figure 7: Lowest opening price (£) of Finnish timber in UK 1935–1936



Prices are for 3" x 9" pine, leading South-Finnish exporters (Price group 1), fob. (Source: SSY: 27: SSY Board meeting minute 10 July 1936.)

When Finland ratified the ETEC agreement on 1 December 1935, the delegation members were painfully aware of the fact that they did not control 100 per cent of Finnish exports. A number of Finnish exporters were against the ETEC. Concrete evidence of the unwillingness to obey cartel quotas was the 40,000 std of potential overproduction in the production plans of Finnish firms that had refused to downscale. This was four per cent of Finland's quota and half of what Czechoslovakia, the smallest ETEC country, produced in total in 1936. The Finnish ETEC delegation and the Control Committee considered that there was a good chance that the problem would go away of its own accord; the birth of the ETEC had not only stimulated international demand, but also domestic raw material prices. That, along with a mild winter, growing political and economic difficulties in France, and German currency regulations were expected to reduce the production plans of Finnish firms.⁵⁵¹

Axel Solitander and Professor Martti Levón, the leaders of the Control Committee, approached exporters in mid-February and urged them to prepare for production cuts during 1936. They also underlined that the Control Committee was a serious cartel office that collaborated closely with the SSY Board as well as with the national Customs Department. Furthermore, Solitander and Levón informed the Finnish timber firms that they had informed the 'customs, banks, domestic agents and expeditors' about how big a quota each firm had in the ETEC as well as 'agreed tentatively with the Ministry of Trade and Industry about actions which will be taken with timber firms that do not follow their quota or try to export timber outside it.'⁵⁵² The committee made clear that the Finnish state, in this 'private and voluntary' international cartel, was a central player and that chicanery would be detected and lead to repercussions.⁵⁵³ The timber firms were obliged to inform the Control Committee

⁵⁵¹ ELKA; SSY; 1120: Meeting of the Finnish ETEC delegation and the Control Committee, 25 January 1935.

⁵⁵² First quote: ELKA; SSY; 1124: Circular letter no:1 of the Control Committee to the Finnish timber exporters, 14 February 1936. '*päättänyt jättää tullilaitokselle, pankeille, kotimaisille välittäjille ja rahtausliikkeille luettelon niistä toiminimistä, joilla on myönnetty vientiosuus.*' Second quote: ELKA; SSY; 1124: Finnish ETEC delegation meeting, 25 January 1936. '*Sopinut Kauppa- ja Teollisuusministeriön kanssa valmistavasti toimenpiteistä, johon tullaan ryhtymään sellaisiin laivaajiin nähden, jotka eivät seuraa sitoumuksiaan tai pyrkivät viemään puutavaraa sitoutuksia antamatta.*'

⁵⁵³ The position of government and state authority was not a secret in Finland. *Helsingin Sanomat*, the leading Finnish newspaper, for instance, wrote on 21 March 1936 that 'possibilities to exceed the quota do not exist, particularly when the government and [the state's] administrative offices have promised to support actions that are required to follow the agreement' (*mahdollisuuksia sitoutusten määrrien ylittämiseen ei ole olemassa, semminkin kun hallitus ja hallinnolliset virastot ovat lupautuneet*

about their closed deals, shipped goods, size of stock—or whichever information the control authority asked—and the duty of each firm to follow the cartel norms was unnegotiable. Levón and Solitander informed the exporters that they would send authorised inspectors to the timber production sites to ensure that the firms had understood these obligations and to see that production was proceeding in an orderly fashion vis-à-vis the quotas.

The rhetoric of government intervention was regularly used to boost the support of Finnish timber firms towards the ETEC. The idea was that the state would increase its control over the ETEC should exporters not voluntarily follow the ETEC quotas. This message was repeated in the circular letters that the Control Committee and the SSY Board sent to the exporters—even *Helsingin Sanomat* repeated the message. The bolded text in a report on 21 March 1936 indicates that the writer wanted to address all exporters, including the small firms:

...if good results are to be reached through this path [where exporters show goodwill towards the export regulations], it shows once again that **the manufacturers of this country, small manufacturers included, are engaged in a common interest**, and that these sort of issues can be handled effectively without the state's intervention.⁵⁵⁴

The newspaper articles and the letters of the Control Committee paint the Finnish government as a collaborator in the Finnish ETEC organisation. The state was a visible but passive safety net under the Finnish ETEC organisation. The controlling organisation wanted to say that the government controls were activated only when everything else went wrong. In the rhetoric of the Control Committee it was essential that the safety net was visible to the objects of control—the firms—because in that way they could see where they would end up if they failed to collaborate voluntarily with the Control Committee. The threat of state intervention was supposed to inspire the exporters to take the right direction. Also, the state as a safety net did not conflict with the image of a free, liberal, and anti-interventionist country, which Finland was.⁵⁵⁵ If Finland took a step closer to the direction taken by Central European ETEC members and allowed the government to formally supervise Finnish timber exports, it would not, according to the estimations of the Board of SSY, strengthen the country's position in the timber market. Government intervention would be a sign that Finland had to resort to special measures because Finnish exporters did not support the ETEC enough. Particularly the British importers would not look favourably upon the state being too heavily involved in the actions of the ETEC.⁵⁵⁶ Also, communicating with the importers and agents, the Finnish ETEC organisation at this point made sure that they would not circulate black-lists of disobedient, cartel-antagonist firms, but

kannattamaan sopimuksen toteuttamisen vaatimia toimenpiteitä). These newspaper articles seemed as though they had come directly from Axel Solitander's pen.

⁵⁵⁴ *'...ja jos tätä tietä (laivaajien myötämielisyys suhteessa vienninrajoituksiin) päästään hyviin tuloksiin niin osoittaa se vielä kerran, että maamme teollisuuden harjoittajat, pienetkin mukaan luettuina, ovat mukana yhteistä etua tarkoittavissa toimenpiteissä, ja että tällaiset asiat voidaan saada ilman valtion väliintuloa tehokkaasti hoidetuksi.'* Bold text as indentation in the original text, *Helsingin Sanomat*, 21 March 1936.

⁵⁵⁵ ELKA; SSY; 1124: the Control Committee's undated memo from spring 1936. *'After the measures that had been taken to supervise the agreement in different countries became known, the trust had moved towards the reorganisation aspirations in the buyer countries.'* (*'Allt efter det som de åtgärder, vilka i de skilda länderna vidtagits för avtalets övervakande, blivit kända, har köparnas förtroende till saneringssträvandena vuxit.'*)

⁵⁵⁶ ELKA; SSY; 27: SSY Board meeting, 21 September 1936, Kotilainen's speech.

the opposite, namely lists of cartel-friendly exporters that followed their ETEC quota: 'Any notice about disloyal exporters will not be given to the foreign timber agents because it would give an impression that there was trouble in Finland in fulfilling the international agreement.'⁵⁵⁷ Controlling cartels was a delicate matter. The controls needed to be visible, credible, and fair, rather than coercive, dogmatic, and authoritarian.

Besides directing the firms in the right direction through threatening government intervention, it also appears that it was something that the SSY Board actually feared. The only way to avoid government intervention in ETEC, according to the Board of the SSY and the Finnish ETEC organisation, was to make the Finnish exporters honour the ETEC agreement 'voluntarily'.⁵⁵⁸ Axel Solitander, the head of the Control Committee, made an exception to this general rule of keeping a distance from the government; he was interested in intensifying the role of the state in the cartel control. It is uncertain, though, how precisely Solitander planned to integrate the state more profoundly with the cartel. The government had very limited legal instruments to reach masses of firms and restrict foreign trade. The legal framework for restricting trade based on cartel disobedience did not exist in Finland. In any case, the SSY Board needed to keep the government close and informed about ETEC matters.

Problematic small firms

Demand in spring 1936 proved to be great. The British market was particularly active and eventually the country imported a record-breaking 2.5 million std in 1936 (see Figure 10, page 191).⁵⁵⁹ Particularly the Nordic countries and the Soviet Union benefitted from this development. By the beginning of June, the Finns had sold 750,000 std compared to 500,000 at the same time the previous year.⁵⁶⁰ In Finland, the active wood auctions in spring had left the timber firms particularly well stocked with raw material, which they could use for autumn and winter selling later that year, as well as for the 1937 market.

The spring of 1936 showed that, contrary to expectations from the beginning of the year, the potential overproduction of 40,000 std had not melted away 'naturally' on account of high stumpage prices and political and economic instability in Central Europe. In June, Sigurd Löfström, the long-standing SSY Board secretary, warned of trouble ahead in Finnish production levels. He thought that the potential overproduction of 40,000 std should be taken seriously:

While an actual or imaginary violation of an agreement would be a serious matter politically and would make a bad impression on the buyer countries morally, it is my responsibility to address these concerns. I have gathered from discussions with the leaders of the [Finnish ETEC] Delegation and the Control Committee that I am alone in my opinion and I would be

⁵⁵⁷ ELKA; SSY; 1124: Finnish ETEC delegation meeting, 3 June 1936. '*[n]ågon anmälan till de utländska trävaruagenterna beträffande illojala avlastare icke borde ske, när man i utlandet genom en dylik årgård kunde bibringas den föreställningen att svårigheter förelågo i Finland vid fullgörandet av internationella trävaruavtalet.*'

⁵⁵⁸ For instance; ELKA; SSY; 27: SSY Board meeting, 10 July 1936. Finnish ETEC Delegation, 3 June 1936.

⁵⁵⁹ ELKA; SSY; 28: SSY Board meeting, 10 January 1938.

⁵⁶⁰ ELKA; SSY; 1120: Confidential report for the Finnish ETEC organisation written by S. Löfström, 2 June 1936.

very happy if I exaggerated the difficulties. [- -] I think it is better to be too pessimistic than to underestimate the approaching difficulties.⁵⁶¹

The direction in which Finnish timber exports was going was worrying, and summer was the last moment to do anything about it.⁵⁶² Firms were making their last sales contract for autumn shipping; soon there would be nothing that could be reduced: 'With each day and with each new contract the possibilities to arrange this through voluntary paths decrease, wrote Löfström.'⁵⁶³ Axel Solitander fully agreed.

The Control Committee had been in contact with the big firms in May and asked them to reduce their output, but they were unwilling to collaborate.⁵⁶⁴ They were not keen on reducing their production volume as long as there were uncollaborative small businesses that did not use their sawing waste, did not gain scale benefits, traded only during booms, and had a meagre employment impact in the country. The Board of the SSY and the Finnish ETEC organisation more or less tacitly approved this attitude, and as a result, the Control Committee did not continue to pressure the big firms to reduce their output, but targeted their efforts on small firms instead.

In May, Solitander had sent two inspectors, Eino Jussila and Matti Jalava, to visit small firms and SSY outsiders and negotiate with them about reducing output.⁵⁶⁵ Targeting this groups was surprising, considering not only that small firms could only make small decreases, but also that the character of the timber trade was such that, by summer, the small firms had mostly sold their production altogether.⁵⁶⁶ There was not much left to reduce from. The choice to visit the small firms and SSY outsiders was directed by an old idea that this group was the reason for all that was wrong with the timber business. The Board of the SSY and the banks had blamed them for being disloyal,

⁵⁶¹ ELKA; SSY; 1120: Confidential report for the Finnish ETEC organisation written by S. Löfström, 2 June 1936. '*Då ett verkligt eller förment överträdande av avtalet eller dessa andemening politiskt sett än en allvarlig sak och moraliskt skulle göra ett mycket dåligt intryck i köpländerna, har undertecknad ansett det vara sin skyldighet att framföra ovan utvecklade farhågor. Vid samtal med ledamöter av Delegationen och Kontrollkommittén har jag förstått, att jag står ensam om min åsikt och det skulle glädja mig mycket om jag överskattat svårigheterna. [-] Jag anser det därför vara bättre att hellre bedöm situationen för pessimistiskt än att underskatta event. svårigheter, vilka senare kunna yppa sig och åstadkomma komplikationer.*'

⁵⁶² Sigurd Löfström's concern was not only the 40,000 std of timber exceeding the Finnish ETEC quota, but the 80,000 overlying goods from 1935. Overlying goods means the production that was sold in one year, but shipped in the next. The ETEC Executive Committee had not yet decided how the overlying goods would be treated in the ETEC statistics, but the Finns were hoping that it would not be counted in the 1936 quota but treated as a separate pre-ETEC trade belonging to 1935

⁵⁶³ ELKA; SSY; 1120: Löfström's report 6 June 1936. '*med varje dag som går och med varje avslutat nytt kontrakt minskas möjligheterna att på frivillighetens väg ordna saken.*'

⁵⁶⁴ ELKA; SSY; 1124: Control Committee, field trip report, 2 July 1936.

⁵⁶⁵ ELKA; SSY; 1124: Finnish ETEC delegation meeting, 3 June 1936. Control Committee's undated memo from spring 1936. Eino Jussila's report, 3 July 1936.

⁵⁶⁶ ELKA; SSY; 1124: Eino Jussila's report to the Control Committee Control, 22 August 1936. Committee's letter for the Finnish ETEC delegation, signed by Axel Solitander, 8 July 1936.

uncollaborative, unprofessional, uneconomic, selfish, reckless, and so on.⁵⁶⁷ Their tendency to sell fast and cheap when demand was rising was seen as the main problem in Finland. The large number of small firms was an integral part of the ETEC debate in Finland, repeated in all timber trade material: in the circular letters of the Control Committee to the exporters, in the SSY Board meetings, and in the inner communication of the commercial bank Kansallis-Osake-Pankki.⁵⁶⁸ Even *Helsingin Sanomat* wrote about it.⁵⁶⁹ Furthermore, this belief did not only prevail in Finland, but also apparently the British buyers thought that the small Finnish timber firms were the most likely group to torpedo the entire ETEC.⁵⁷⁰

The work of inspectors Matti Jalava and Eino Jussila in May and June reached 132 production sites, which together produced 387,000 std.⁵⁷¹ Their reports offer a rare insight into the relationship between the controller and the subject of the control. Their visits were mentioned to the firms in the Finnish ETEC organisation's first circular letter of 1936, where the inspectors provided an opportunity for firms to ask questions about the ETEC should they have any.⁵⁷² However, the purpose of the inspections was clearly to meet the small firm managers in person and underline the fact that the Finnish ETEC organisation would not take lightly even the smallest overproductions:

And what will we do to those who have already exceeded their quota? [--] In Koskenkorva, I threatened that the managers would be hanged at the earliest convenience, but it is doubtful whether we can enforce the judgement—and if we do, will it improve the situation?⁵⁷³

This rare instance of dark humour captures well the relationship between the Control Committee and the small firms. The tendency of the small firms to overproduce was so perennial that they might well continue to overproduce even after their managers had been hanged. Eventually, *Koskenkorvan Saha Oy* exceeded its quota by a petty 200 std, and Eino Jussila decided to 'punish it by decreasing its next year's quota accordingly'.⁵⁷⁴

Some small firms sold timber abroad even though the Finnish ETEC organisation had not given them any quota at all. One of these ETEC outsider firms that exported without permission was *Tiituan*

⁵⁶⁷ See, for instance; ELKA; SSY; 1124: Jussila's field reports, 2 July and 22 August 1936. ELKA; Nordea; Kansallis-Osake-Pankki archive: 4837; J. K. Paasikivi's confidential bulletins, 28 October 1933, 28 September 1934.

⁵⁶⁸ ELKA; SSY; 25–28. 1124. Nordea; Kansallis-Osake-Pankki archive: 4837; J. K. Paasikivi's confidential bulletins.

⁵⁶⁹ *Helsingin Sanomat*, 21 March 1936.

⁵⁷⁰ ELKA; SSY; 1124: Control Committees undated memo from spring 1936.

⁵⁷¹ ELKA; SSY; 1124: Field report by Eino Jussila, 2 July 1936.

⁵⁷² ELKA; SSY; 1124: Finnish ETEC organisation's circular letter 1/1936. '*Käyntien tarkoituksena on selvittää kysymyksiä, joista toimikunta tai laivajaat ovat epätietoisia.*' ('The purpose of the visits is to clarify questions that the organisation or exporters might have.')

⁵⁷³ ELKA; SSY; 1124: Letter from the inspector, Dr. Matti Jalava to the Control Committee, 10 June 1936. '*Ja mitä sitte tehdään niille, jotka nyt jo ovat ylittäneet kvoottinsa? [--] Koskenkorvalla uhkasin kyllä, että johtajat hirtetään ensi tilassa, mutta voinee olla kyseen alaista, voidaanko tuota tuomiota panna täytäntöön ja jos niinkin, paraneeko asia siitä.*'

⁵⁷⁴ ELKA; SSY; 1124: Control Committee, field trip report, 3 July 1936. '*Rangaistava vähentämällä ensi vuoden kiintiötä vastaavasti.*'

Höyrysaha ja Mylly Oy. Its owner denied knowing that there was a regulation scheme in the first place. Another similar entrepreneur who lacked permission to export was Niilo Kause; he knew about the ETEC but decided to ignore the quota that had been given to his firms. He seemed surprisingly well aware of his civil rights, the freedom of commerce, and the fact that the ETEC was, in the end, a cartel without a serious, legal position; he told the inspectors that 'he will not give up exporting timber before the Finnish Parliament enacts export restrictions'.⁵⁷⁵ Evidently, Eino Jussila was quite annoyed by such intransigence and decided to cancel all his quotas, despite the fact that the production facilities were newly built and the equipment was in good condition. Kause exported 500 std nevertheless in 1936. An exasperated Jussila advised the Control Committee regarding the small, stubborn, firms that were not members of the SSY to 'take forcible measures so that they will learn to value the agreement'.⁵⁷⁶

Altogether thirty-eight small firms like Niilo Kause's eventually exported outside the ETEC agreement in 1936. Most of the names of these firms cannot be found from any 'firms by banks' listings, so it is likely that they were independent of the banks, i.e. they did not need credit. They had other sources of funding—or old money—like Mr. Keturi from Kauhajoki, who inspector Eino Jussila characterised as 'a rich skinflint' whose timber equipment was 'miserably primitive' and who should not export in the first place at all because his product quality was so poor.⁵⁷⁷ The total production volume of ETEC outsiders in 1936 was 8.861 std—0.8 per cent of the total country quota—but they were nevertheless a major headache for the Finnish ETEC organisation, which poured lot of energy into them.⁵⁷⁸ Almost all of these stubborn outsiders joined the ETEC in 1937.⁵⁷⁹

Sources suggest that the banks also worked towards decreasing the number of small businesses and diminishing their business opportunities. The managing director of Kansallis-Osake-Pankki, J. K. Paasikivi, for instance, continuously directed branch offices to supervise and control small timber firms and not give them credit to expand, let alone fund new timber businesses.⁵⁸⁰ Timber firms in business groups owned by the banks, on the contrary, received 'disproportionately large quotas' according to the complaints of small firms.⁵⁸¹

The inspectors' work in May and June was not exactly successful. They visited 132 sawmills, which together produced 387,000 std, but they managed to make only a 6,500 std reduction.⁵⁸² Their target

⁵⁷⁵ ELKA; SSY; 1124: Control Committee, Eino Jussila's field trip report, 2 July 1936, see also report, 22 August 1936. '*hän ei luovu sahatavaran viennistä niin kauan kuin ei ole eduskunnan säätämään kieltoa.*'

⁵⁷⁶ ELKA; SSY; 1124: Control Committee, field trip report 2 July 1936. '*"Pieniin laivajiin" nähden ryhdyttävä ponteisiin toimenpiteisiin, jotta hekin oppivat antamaan arvoa sopimukselle.*'

⁵⁷⁷ ELKA; SSY; 1124: Control Committee, field trip report, 3 July 1936. '*[-] rikas saituri. Saha kurjan alkeellinen [-].*'

⁵⁷⁸ ELKA; SSY; 1124: '*Puutavarasopimuksen ulkopuolella tapahtuneet laivaukset v. 1936*' ('Timber exports outside the timber agreement in 1936').

⁵⁷⁹ ELKA; SSY; 1124: Memo of the Control Committee, 28 May 1937.

⁵⁸⁰ ELKA; Nordea: Kansallis-Osake-Pankki archive: 4837; J. K. Paasikivi's confidential bulletins in the nineteen-thirties, for instance 28 May 1934, 29 September 1934, 27 February 1936, 28 October 1936, 30 July 1937.

⁵⁸¹ ELKA; SSY; 1124: Field inspection report, 1 June to 1 July 1936.

⁵⁸² ELKA; SSY; 1124: Eino Jussila's report, 3 July 1936. 27: SSY Board meeting, 10 July 1936.

had been 40,000 std. Axel Solitander explained to the SSY Board that his work had been directed particularly towards small firms that were not members of the SSY which had made relatively big sacrifices, but the contribution of these firms was not enough considering the amount of reduction required.⁵⁸³

Table 9: Export production cut in Finland in May 1936

Firm size	Number of firms	Production cut %
Big (over 10,000 std)	27	0.2
Mid-sized (2,000–10,000 std)	51	0.4
Business groups	16	1.2
Small (less than 2,000)	117	7.9

(Source: ELKA; SSY; 27: SSY Board meeting 10 July 1936.)

In July, seeing that targeting reduction only to SSY-outsiders and small firms was not working, the SSY Board decided to announce a general reduction of five per cent to the whole country. Firms that had already exported ninety-five per cent of their year quota were told to stop shipping altogether for the rest of the year, and the rest were told they would get a new, lower quota.⁵⁸⁴ The chairman of the SSY Board, Jacob von Julin, keenly hoped that Finnish firms would agree with the decision and make the cut voluntarily: 'From 1 August onwards, we are ready to leave the controlling of the agreement to the government and its license system,' he concluded to the SSY Board.⁵⁸⁵ Axel Solitander as the head of the Control Committee informed the Finnish exporters about the five per cent cut on 11 July and advised them to agree with the cut voluntary or 'government intervention would be unavoidable'.⁵⁸⁶ Solitander, according to his own words, had in June started preliminary discussions with 'government authorities' about taking stronger measures in autumn to ensure that Finland did not exceed the ETEC quota.⁵⁸⁷ His idea was that the government would give the SSY, or his own organisation the Central Association of Wood Processing Industries in Finland, official and unquestioned authority to grant export licenses to firms and also to powers in order to forbid firms that did not respect the ETEC voluntarily from exporting altogether.⁵⁸⁸ Solitander's plan was very similar to what he had proposed

⁵⁸³ ELKA; SSY, 1124: Control Committee, field trip report, 22 August 1936. 27: Board of SSY 10 July 1936.

⁵⁸⁴ ELKA; SSY; 27: Board of the SSY, 10 July 1936. The decision was debated in the SSY Board. Aminoff, for instance, predicted that firms would most likely oppose the idea of production cuts because they feared that the diminished production levels would also be applied in the 1937 quotas.

⁵⁸⁵ ELKA; SSY; 27: Board of the SSY, 10 July 1936. '*Genomföres den icke frivilligt böra vi vara beredda på att den 1 augusti överlämna kontrollen över avtalets genomförande åt regeringen medels licenssystem.*'

⁵⁸⁶ ELKA; SSY; 1124: Circulation letter from the Control Committee to Finnish timber exporters 11 July, signed by E. F. Wrede 1936. '*...koska muussa tapauksessa valtion puuttumista asiaan ei voida välttää.*'

⁵⁸⁷ ELKA; SSY; 1124: Finnish ETEC Delegation 3 June 1936. '*Vederbörande myndigheter.*'

⁵⁸⁸ ELKA; SSY; 1124: Finnish ETEC Delegation 3 June 1936. '*Detta [trävaruexportens reglering] kunde lämpligast ske genom at ten fas organisation såsom Finska Träförädlingsindustriernas Centralförbund*

in 1931 in the context of the Nordic–Soviet timber cartel negotiations, and just like in 1931, it met with strong opposition in the SSY Board.⁵⁸⁹ The idea of licensing timber exports was not fulfilled in peacetime, but the possibility remained as a threat in the rhetoric of the Finnish ETEC organisation throughout the decade.

Inspectors Eino Jussila and Matti Jalava started visiting the production sites in July and August to see that the five percent cut was implemented. Once again, their trip was not very successful. The vast majority of small firms had sold their production, so there was nothing further to reduce from.⁵⁹⁰ Furthermore, the inspectors met with resistance: ‘Pressure could not have been exercised upon these companies, and they had only been threatened to be held liable for the consequences.’⁵⁹¹

The documentation about production cuts in summer of 1936 has gaps, but it appears that someone—possibly Axel Solitander himself or the banks—negotiated directly with the big firms. The general cut imposed in July was a success. Solitander was happy to confirm to the SSY Board on 21 September that the danger of overproduction had been removed. Finland could deliver clean statistics about its timber exports in the approaching ETEC general meeting in October. How had Solitander achieved these results? The small firms contributed little to this success, and many big firms had not been willing to restrict their output according to the ETEC quotas. Solitander himself said, however, that it had been ‘relatively easy’.⁵⁹²

The evidence indicates that new cuts were no longer made in August. The problem of potential overproduction, which had diminished from 40,000 to 32,000 std thanks to the production cuts of the small firms, was removed in autumn 1936 by delaying the shipping of timber until the following year.⁵⁹³ Potential overproduction became ‘overlying goods’. The difference was small, but significant.

eller Finska Sågverksägareföreningen, dock ej Kontrollkommittén för Sågvaruexporten, skulle befullmäktigas att utfärda licenser från en viss dag och sålunda stoppa utförelsen från sådana företag, som icke respektera avtalet.’

⁵⁸⁹ This proposition is an example of how private cartels and governmental trade policy could integrate and overlap. The government would authorise an existing central organisation to conduct governmental regulations. The model benefitted all parties: the industry could retain its independence from the state and become an active part of the decision-making institution rather than being a passive subject of regulation, and the state did not have to create new institutions to reach the industry and control its output. Through collaborating with the existing institutions and network, the state had the best experts and contacts with industry. This sort of system had been used in 1918, when export cartels in the Finnish paper, cotton, and timber industry were created. They would be used again from 1939 onwards in war and post-war regulations, and again in the nineteen-seventies.

⁵⁹⁰ ELKA; SSY; 1120: Eino Jussila’s report, 22 August 1936.

⁵⁹¹ ELKA; SSY; 96: Finnish ETEC delegation, 2 June 1936. Axel Solitander: ‘*Tills vidare hade någon påtryckning icke kunnat utövas på dessa firmor, utan hade de endast hotats med att göras ansvariga för följderna av ett dylikt förfarande.*’

⁵⁹² ELKA; SSY; 27: SSY Board meeting, 21 September 1936.

⁵⁹³ ELKA; SSY; 96: Finnish ETEC delegation meeting, 2 and 3 June 1936. Axel Solitander: ‘*...borde en hänvändning göras hos de större avlastarna att ifall av behov låta en del av 1936 års kvot överligga till nästa år.*’ (‘should turn to the biggest exporters, if needed, and ask them to delay part of their quota to the following year.’) The long-standing secretary of the SSY, Sigurd Löfström, thought that fiddling with statistics was dishonest and objectionable, and that Finnish exports should actually be reduced to 1,005,000 std. ELKA; SSY; 1120: Finnish ETEC delegation meeting, 6 June 1936, Löfström’s report.

There was a difference between how the two categories were treated in the ETEC administration, and they were, in fact, debated in summer 1936 in the ETEC executive meeting.⁵⁹⁴

The target of regulation in the ETEC had been formulated as ‘total output’—but what did this mean? The ETEC executive meeting in Moscow on 10–11 June wondered whether a part of a firm’s autumn shipping in 1936 which might be delayed for one reason or another to the following year—which occasionally did happen—would become part of the 1936 or 1937 quota?⁵⁹⁵ The Moscow executive meeting decided to count the delayed shipping as part of that year’s quota when it was contracted, not when it was shipped. In Finland, for instance, there was 80,000 std of timber which had been contracted in 1935, but shipped in 1936; now, according to this calculation, it was not counted as part of Finland’s exports in 1936—although, in practice, this quantity appeared and was consumed in the 1936 market. This was important information for Finland, and not just regarding the overlying quantities from 1935, but it also offered an opportunity to get rid of the overproduction in 1936.

Another important issue that the Moscow executive meeting discussed was that the overlying quota was handled in the ETEC administration behind closed doors, without publicity, and at the beginning of each year after all contracted timber from the previous year had been shipped. The overlying quota was of a ‘confidential character’ and the countries would send on this data directly to the leader of the ETEC’s technical committee, J. L. Ekman.⁵⁹⁶ These two decisions, in practice, meant that, firstly, it was fairly easy for the ETEC member to transform a potential overproduction into overlying goods simply by delaying the autumn shipping after 31 December, and secondly, to get away with it because it was dealt with in the executive—and exclusive—side of the ETEC administration. Using these two concepts and using right timing allowed countries to keep within the ETEC limits in public, and exceed their ETEC quota off the record. The ETEC regularly announced that all countries had followed their quotas, and overlying goods had been reported to the ETEC properly.

About 1936, for instance, the ETEC claimed that Finland’s total export quantity had been within the ETEC quota limits, while the SSY Board material reveals that, in fact, it was 32,000 std bigger than the

⁵⁹⁴ Finland tried to solve its own overproduction problem by suggesting increasing the quota, but the executive meeting disagreed with the idea—not surprisingly, it particularly met with resistance from Sweden. The Swedes argued that if any country should get a bigger quota it should be the Soviet Union and Yugoslavia, the latter especially because its quota had been hastily decided upon. The meeting decided to keep the ETEC quota in 1936 as it was originally decided—the whole point of the ETEC had been to keep the output steady, and this aspiration had been greeted with satisfaction internationally. The Moscow meeting also analysed the market and concluded that the birth of the ETEC had stimulated demand in all European markets, although unemployment and trade-political problems and monetary issues in France, Germany, the Netherlands, Hungary, and Italy decreased the demand for exported timber. ‘There are dark spots on the white canvas,’ regretted J. L. Ekman at the executive meeting and encouraged exporters to be cautious about price levels. ELKA; SSY; 1120: E. F. Wrede’s report, 2 June 1936. CfN; STEF; B1E:1: ETEC report by Ekman, 18 June 1936.

⁵⁹⁵ ELKA; SSY; 1120: Finnish ETEC delegation meeting, 6 June 1936, Löfström’s report. There was a shipping margin which also distorted the picture of the total quantity. This discussion had been started in the first executive meeting in February 1936 in Helsinki, and it shows that the idea of regulating ‘total output’ was not without its problems.

⁵⁹⁶ CfN; STEF; F1A:406: Swedish translations about the Moscow decision. Decision protocol (*beschluss protokoll*) of the ETEC executive meeting in Moscow. ‘*vertraulichen character.*’

ETEC quota.⁵⁹⁷ In early 1937, when the technical committee of the ETEC analysed the situation, Finnish overproduction was balanced by underproduction from other countries. The ETEC balance was considered good, and Finland did not suffer any repercussions for exceeding the quota.

‘Warning shot’

Now that the potential overproduction problem had been converted into overlying goods, the Finnish ETEC organisation could start worrying about potential overproductions in 1937. In autumn, as per tradition, the timber firms started selling for the following year’s shipping. Contracting timber for 1937 was going very well: ‘Last year, sales for the following year had barely started by September, but now, on the contrary, there was already 110,000 std sold for the 1937 market. Sweden has placed 30,000 std’, remarked the SSY Board.⁵⁹⁸

Sharing quotas among the Finnish timber firms followed the same procedure as in autumn 1935. After the Finnish ETEC organisation had informed each firm about their quota in the coming year, the firm sent an export quota application to the Finnish ETEC organisation, which either accepted it or started re-negotiating about it. The organisation had no legal status in Finland to forbid firms from exporting or to give licenses, but it nevertheless coordinated the export quantities. The firms were expected to follow the norms.

The ETEC organisation had implied to the firms that the ETEC quota in 1937 would be the same as in 1936 which was for 1,005,000 std. Nevertheless, in autumn 1936 the firms applied for export quantities amounting to as much as 1,120,000 std from the Control Committee. By 21 September, it had succeeded in re-negotiating this number down to 1,095, 629 std, which still was about 90,000 std above the Finnish quota for 1937.⁵⁹⁹ This was too much for Axel Solitander. He wrote a letter to the Ministry of Trade and Industry asking its help in controlling the firms. He asked the Ministry to forbid exports to timber firms that violated the ETEC agreement or refused to join it. In the letter, he also elaborated how important the involvement of the Finnish government had been in bringing about the ETEC in late 1935: the loyalty of the firms towards the ETEC had been boosted through letting the timber exporters know that the Ministry was supporting the ETEC and was in full readiness to start controlling it if the voluntary path failed. With government intervention hanging over them, Finnish timber exporters had ‘sent commitments voluntarily’.⁶⁰⁰ Now Axel Solitander and his Control Committee again needed the Ministry to send a message that in 1937 timber firms could not ship as much as they were planning to at the moment. Solitander mentioned four firms in his letter—one of them foreign—that had violated the ETEC agreement in 1936.

The Minister of Trade and Industry, Väinö Arola, answered the letter by paying a personal visit to SSY’s general meeting on 21 September. He promised his support. Minister Arola addressed the exporters,

⁵⁹⁷ ELKA; SSY; 209: SSY’s annual report 1936.

⁵⁹⁸ ELKA; SSY; 27: SSY Board meeting 21 September 1936. *‘Viime vuonna olivat myynnit seuraavan vuoden laivaukseen syyskuussa tuskin vielä alkaneet, nyt sen sijaan nousivat myynnit 1937 laivaukseen jo n. 110.000 std:iin. Ruotsi oli [--] sijoittanut ensi vuonna laivattavaksi 30.000 stdia.’*

⁵⁹⁹ ELKA; SSY; 27: SSY Board meeting, 21 September 1936. 96: Finnish ETEC delegation meeting, 21 January 1937

⁶⁰⁰ ELKA; SSY; 27: Letter from Axel Solitander to the Finnish Ministry of Trade and Industry, undefined date in September 1936 (appendix to the SSY Board meeting 21 September 1936). *‘vapaaehtoisin sitoumuksin.’*

embracing the ETEC and emphasising its importance to the timber industry and the whole country. The ETEC had, in the minister's opinion, improved the market in 1936 and it made a lot of sense to continue it in 1937. The Minister asked for full and unquestioned obedience of each and every exporter towards the production quotas that the Finnish ETEC organisation appointed to them. He said that the Finnish government was ready to take the necessary actions to ensure the country's eligibility to continue the ETEC agreement in 1937. This meant that the state will restrict exports if the firms do not voluntarily follow their quotas.⁶⁰¹ The CEO of the SSY, E. F. Wrede, reminded the exporters that if they showed a strong sense of duty, which he knew existed in them, government intervention would not be needed in order to bring down the std from 1,080,000 to 1,005,000. He asked all of those present who had demanded a bigger quota for 1937 than in the current year to sign an additional production cut before leaving the meeting. Voluntarily, of course.⁶⁰²

The newly-found connection between the Finnish timber trade and the government as the cartel controller did not go unnoticed abroad. C. G. von Heidenstam, the Swedish Minister of Foreign Affairs (Utrikesdepartementet), had this to say:

According to what I have been told by a well-informed quarter, this measure, which has received wide publicity, is intended as a warning shot towards stubborn firms. The measure should not be understood that the exporters wished direct government intervention in the form of licenses or other control measures, but should be understood as a corollary to the Trade Minister's speech in a recent timber exporters meeting in Helsinki, where he urged the exporters to act collaboratively and loyally towards the international timber agreement and promised state assistance to support that policy.⁶⁰³

The ETEC organisation essentially needed what all cartels need: a credible threat of punishment to reinforce the loyalty of the cartel members. And what could be a better threat than what seemed to be a selective export restriction that would be used against disobedient exporters? It was directed to no-one in particular, yet it could be applied to anyone. It was expected to be of enormous help to Axel Solitander and his assistants in their never-ending quest to control the export quotas with small and mid-sized timber firms. The newly-found connection became a public matter in Finland, which was even reported in *Helsingin Sanomat*.⁶⁰⁴ Minister Arola and Axel Solitander clearly stated, and the press repeated, that the government was in full preparedness to take control measures against disobedient firms. It was repeatedly claimed that the government could forbid individual firms from exporting. Still, it was very much a light version of coerced cartels. It allowed Finland to keep its 'government-free' façade abroad but it considerably boosted cartel loyalty within the country.

⁶⁰¹ ELKA; SSY; 27: SSY general meeting, 21 September 1936.

⁶⁰² ELKA; SSY; 27: SSY general meeting, 21 September 1936.

⁶⁰³ CfN; STEF; F1A:314: Report from C. G. von Heidenstam to the Foreign Minister and Chief of Royal Foreign Ministry Department. *'Enligt vad som sagts mig från kompetent håll, är denna åtgärd, som givits stor publicitet, avsedd att verka som skrämshot mot de tredskande firmorna. Åtgärden om ett direkt statsingripande genom införande av licenser eller andra kontrollåtgärder, utan är att fatta som ett korollarium till handelsministerns anförande vid trävarumötet här i Helsingfors för någon tid sedan, däri han uppmanade trävaruexportörerna att iakttaga sammanhållning ock lojalitet gentemot den internationella överenskommelsen ock utlovade statsmaktens stöd för en dylik politik.'*

⁶⁰⁴ *Helsingin Sanomat*, 26 and 27 September 1936.

Minister Arola showing up in the SSY's general meeting did not please all SSY Board members. They recognised that it was wishful thinking to hope that the exporters would voluntarily decrease their production by 80,000 std in 1937, and that demanding a bigger quota for Finland in 1937 might 'give a reason for the governments in the other convention countries to try to pressure the government of our country'.⁶⁰⁵ Nevertheless, the majority of the SSY Board members considered government intervention dangerous. Sigurd Löfström, the secretary of the SSY, had previously opposed Solitander's plans about licensing timber exporters. V. A. Kotilainen, the CEO of the state-owned Enso-Gutzeit, who had been against multilateral timber cartels since the early nineteen-thirties once again stood up and expressed his concerns:

If we demand a bigger quota in [the ETEC general meeting in] Stockholm, other countries will probably not want to continue collaborating with us. If we cannot hold on to the agreement, we would present ourselves as a party whose promises cannot be trusted. Our honour therefore demands us to take effective measures, but not through governmental assistance.⁶⁰⁶

If this country's timber exporters started walking down this road [government intervention] to find a measure that could very well turn against them, it would demonstrate the indigent state of the whole capitalist system. If the SSY Board sees no other way to arrange [the control of the] timber agreement than through assistance from the government, it puts the government in a position where it has to consult the Finnish Parliament. State intervention will increase the price of Finnish timber and put it in an unfavourable position abroad, and particularly in Great Britain.

Kotilainen's message was that Finland should not overproduce; Finland should not demand a bigger quota in the ETEC; and Finland should not bring the government into cartel control.⁶⁰⁷ These were targets, however, not road maps to achieve them. Kotilainen, or any of the faction in the SSY Board opposing government intervention, could not present a credible road map towards a solution where Finnish exporters honoured their ETEC quotas voluntarily, without pressure. The only ones to have

⁶⁰⁵ ELKA; SSY; 27: SSY Board meeting, 21 September 1936. *'Olisi tärkeää, ettei Suomi Tukholman neuvotteluissa esiintyisi maana, joka asettaisi esteitä kansainväliselle yhteistyölle, koska tämä saattaisi antaa muille sopimusmaille aihetta koettaa painostaa maamme Hallitusta.'*

⁶⁰⁶ ELKA; SSY; 27: Letter from Axel Solitander to the Finnish Ministry of Trade and Industry, undefined date in September 1936 (appendix to the SSY Board meeting, 21 September 1936). *'Jos maan puutavaranviejät astuisivat tälle tielle löytäkseen keinon, jota voitaisiin käyttää heitä itseään vastaan, se olisi köyhyydentodistus koko kapitalistisen järjestelmän kehnoudesta. Tämä pyrkimys olisi sitäkin valitettavampaa kun ajatellaan nykyistä tilannetta maailmassa: Ruotsin ja Tanskan vaalien tulokset viimeisenä ilmauksenaan. Jos yhdistyksen Hallituksen mielestä ei kuitenkaan olisi mitään keinoja järjestää puutavarasopimusta ilman valtiiovallan myötävaikutusta asetettaisiin Valtioneuvosto sellaiseen asemaan, että sen olisi käännettävä eduskunnan puoleen. Mutta vuorineuvos Kotilaisen mielestä oli pelättävissä, että Suomen puutavaran hinnan nostaminen valtion järjestämän viennin säännöstelyn avulla synnyttäisi ulkomaisten ostajiemme keskuudessa etenkin Englannissa, maallemme epäedullisen mielialan. Jos Suomelle vaaditaan Tukholman neuvotteluissa lisättyä osuutta, eivät muut maat juuri halunne jatkaa yhteistyötä meidän kanssamme. Jos taas sopimusta ei voida meidän puoleltamme pitää voimassa tulisimme me esiintymään sinä asianosaisena, jonka lupauksiin ei kukaan voisi luottaa. Meidän kunniamme vaatii sen takia ryhtymään tehokkaisiin toimenpiteisiin, mutta ei valtion asiaan sekaantumisen muodossa.'*

⁶⁰⁷ ELKA; SSY; 27: SSY Board meeting, 21 September 1936.

some sort of plan were E. F. Wrede, Jacob von Julin, and Axel Solitander. They seemed to think that if Finland wanted to be a part of the international cartel—and they saw no other option really—then effective control mechanisms in the form of pressure was needed. Furthermore, Solitander probably had the same practical idea than the Swedes in the early nineteen-thirties; if the voluntary path was in any case doomed to fail, it was better for the independence of the timber industry to approach the government first than be approached by the government after violations against the ETEC agreement had occurred. By being proactive in inviting the government to take part in the cartel control, the timber industry was in a better position in defining its role as a controller.

ETEC's boom conclusions

The ETEC held its first general meeting on 1–3 October 1936 in Stockholm. Yugoslavia had ratified the ETEC agreement in early 1936 and Latvia was also intending to join in 1937, so there were nine exporter countries present. Altogether thirty-three men attended the ETEC's general meeting, eight of them Finns⁶⁰⁸

J. L. Ekman, the syndic of the ETEC, reviewed the first ETEC year and concluded that, while it had treated the ETEC members unequally, the European timber trade had had quite a good year. The market had reacted favourably in the ETEC and demand and prices had been good throughout the year. Most importantly, the total export quantity from the ETEC countries was 70,000 std lower than estimated in December 1935. Three countries—Czechoslovakia, Austria, and Yugoslavia—had not reached their ETEC maximum export limit due to economic and political troubles in Germany, Italy and France. Together, these three countries had produced 170,000 std less than their quota allowed. The results gave reason to consider the ETEC a success. Finnish overproductions in 1936, which had been converted into overlying goods and therefore had not yet been handled at all, were not a matter of discussion. The statistics about the overlying goods were not ready before January 1937.

Regarding 1937, J. L. Ekman was cautious. He had spent a good half a year consulting the timber trading associations in Europe and observing the commercial and political developments on the continent—and he warned of troubles ahead. Civil War had broken out in Spain and the Ethiopian conflict was causing political unrest in the Mediterranean regions.⁶⁰⁹ In Germany, currency restrictions, contingents, and clearing agreements brought about unpredictability in trade. On the other hand, German war preparations accelerated demand for imported timber and it was expected to rise in 1937 by twenty-five per cent compared with 1936.⁶¹⁰ Timber imports in other Central European countries were not showing a similar stark rise, nor an alarming decline either. Just a week before the ETEC general meeting, France and the Netherlands had abandoned the gold standard and were readjusting their currencies. The situation in the Netherlands seemed 'successful', although the

⁶⁰⁸ CfN; STEF; F2:6: Documentation of the ETEC general meeting in Stockholm 1936. Sweden, the Soviet Union, Latvia, and Yugoslavia sent two representatives; Czechoslovakia and Austria sent three; Romania sent four; Poland sent five; and Finland eight. The ETEC president, syndic, and general secretary were also present.

⁶⁰⁹ ELKA; SSY; 1120: Memo 'On the situation in the wood market, submitted at the ETEC meeting in Stockholm, October 1st 1936' written by J. L. Ekman on 25 September 1936.

⁶¹⁰ ELKA; SSY; 1120: Memo 'On the situation in the wood market, submitted at the ETEC meeting in Stockholm, October 1st 1936' written by J. L. Ekman on 25 September 1936. CfN; STEF; F2:6: ETEC General meeting in Stockholm, 1 October, market report.

wages had fallen more than the cost of living. Consumption in both countries was expected to remain at the same level in 1937, or decrease slightly. The same estimation applied to Italy and Denmark. Timber imports in the Civil War-wrecked Spain 'can be nothing but a guess'; Ekman guessed 65,000 std. British consumption in the current year had 'exceeded fairly optimistic estimates', and as such, it would reach the record-breaking level of 1934. J. L. Ekman estimated that the timber consumption in housing schemes in Great Britain would decrease slightly in 1937, but the railroads, shipyards, and packing would consume more. In total, Ekman estimated that Britain would buy 2.2 million std in 1937 compared with 2 million in the current year.⁶¹¹

Ekman summarised that the overall European import need of timber in 1937 would be 4.3 million std, which was at the same level as in the current year.⁶¹² The general meeting of the ETEC also discussed prices, and concluded that they would be steady as long as output kept steady.⁶¹³ The general meeting of the ETEC decided to keep the ETEC quotas in 1937 at the same level as in 1936, with the exception of the Romanian quota, which was slightly increased. The Finnish delegation suggested an upgrade to Finland's quota, but it met with 'strong resistance', not perhaps very surprisingly.⁶¹⁴ The Romanian upgrade together with adding the quota of the new ETEC country Latvia increased the total output quantity from the ETEC countries by 150,000 compared with the previous year. In 1937, the total ETEC quota was set at 4,000,000.⁶¹⁵

⁶¹¹ ELKA; SSY; 1120: Memo 'On the situation in the wood market, submitted at the ETEC meeting in Stockholm, October 1st 1936' written by J. L. Ekman on 25 September 1936. CfN; STEF; F2:6: ETEC General meeting in Stockholm, 1 October, market report.

⁶¹² ELKA; SSY; 1120: Memo 'On the situation in the wood market, submitted at the ETEC meeting in Stockholm, October 1st 1936' written by J. L. Ekman on 25 September 1936. CfN; STEF; F2:6: ETEC General meeting in Stockholm, 1 October, market report. ELKA; SSY; 1120; the ETEC's decision made in Stockholm about the quotas.

⁶¹³ ELKA; SSY; 1120: Confidential report, 7 October 1936, from the ETEC general meeting signed by E. F. Wrede to the Board of the SSY.

⁶¹⁴ ELKA; SSY; 1120: Confidential report, 7 October 1936, from the ETEC general meeting signed by E. F. Wrede to the Board of the SSY. '*Meidän valtuuskunnan tekemät yritykset Suomen osuuden korottamiseksi, kohtasivat niin voimakasta vastarintaa, ettei niitä voitu toteuttaa.*'

⁶¹⁵ CfN; STEF; F2:6: J. L. Ekman's report, 24 September 1936, to the ETEC general meeting in Stockholm, 1-3 October 1936. ELKA; SSY; 1120; ETEC's decision made in Stockholm about the quotas. ELKA; SSY; 1120: Confidential report, 7 October 1936, from the ETEC general meeting signed by E. F. Wrede to the Board of the SSY.

Table 10: The ETEC quotas 1936–1937

	Country 1936		1937	
	STD	%	STD	%
Finland	1,005,000	26.1	1,005,000	25.1
Soviet Union	950,000	27.7	950,000	23.7
Sweden	820,000	21.3	820,000	20.5
Poland	313,000	8.1	313,000	7.8
Austria	275,000	7.1	275,000	6.9
Romania	223,000	5.8	246,000	6.2
Yugoslavia	168,000	4.4	168,000	4.2
Latvia	—		127,000	3.2
Czechoslovakia	96,000	2.5	96,000	2.4
Total	3,850,000	100	4,000,000	100

(Source: ELKA; SSY; 28: SSY Board meeting, 14 December 1938, appendix III. CfN; STEF: F1A:406: 'Sawngoods Convention' signed in Copenhagen, 15 November 1935.)

After the ETEC general meeting, the Finnish ETEC organisation sent circular letters to the timber exporters demanding that they adopt a voluntary and collaborative spirit. If they did not follow the orders of the Finnish ETEC organisation, government intervention would be unavoidable. With the 'warning shot' fired from the Ministry of Trade and Industry, these lines undoubtedly had a new, more serious echo to them. The Control Committee also ensured that they would be in contact with the foreign creditors that were known to fund Finnish timber firms and let them know about the firms' ETEC quotas.⁶¹⁶ For Finland, the ETEC general meeting confirmed the speculations that the following year's ETEC quota would remain at the same level as in 1936. Axel Solitander had pushed the production quantity down from 1,040,000 to 1,005,000 std in autumn 1936; now in 1937 he and his inspectors would have to reduce the Finnish production plans from 1,080,000 to 1,005,000. The inspectors set to work right away.⁶¹⁷ They reported firms whose 'export plans did not seem to have any limits', referring to *Schein & Pojat Oy*—a firm which the Ministry of Trade and Industry had mentioned by name as a company that it promised to restrict. The firm had bought old timber firms

⁶¹⁶ ELKA; SSY; 1120: Circular letters, 24 October 1936, signed by Axel Solitander and Martti Levón.

⁶¹⁷ ELKA; SSY; 1124: Inspection reports in October and November 1936.

and leased a few production sites that had production capacity of 200 std and a yearly production of 500 std.⁶¹⁸ The inspectors invested time in negotiating about 100 std cuts here and there.

'The British price level in the timber market promises a bigger profit for the [Finnish] timber industry than it has done in years' wrote *Helsingin Sanomat* on 24 February 1937.⁶¹⁹ The cartel leadership in the biggest ETEC country, Finland, was looking fearfully at 1937; rising demand and raw material prices had left the Finnish timber firms well stocked for 1937. Axel Solitander estimated that decreasing the timber output volume to the level of the ETEC requirements would be harder in 1937 than it had been in the previous year. On 21 January 1937, Axel Solitander informed the Finnish ETEC delegation of trouble ahead:

Quotas for a large number of firms have not been closed because the concerned firms have refused to give up their exaggerated demands or follow the agreement. The [Control] Committee can hardly reduce the total quantity of 1,095,629 std.⁶²⁰

The Finnish ETEC delegation decided to propose raising the Finnish quota in the approaching ETEC executive meeting in London if the atmosphere there felt right. It seemed that demand and prices were still rising in Great Britain, so increasing the quota might be achievable.⁶²¹ Other than that, the delegation did not have any solutions for Solitander, and he could not do other than keep on negotiating with firms and watch their trade rolling smoothly in early 1937. By the time of the ETEC executive meeting in London on 22 and 23 February 1937, Finland had sold seventy-one per cent of its entire annual quota, which was more than usual at that time of year. The executive meeting concluded the following selling status:

⁶¹⁸ ELKA; SSY; 1124: Eino Jussila's inspection report in 28 November 1936. '*Näyttää siltä, että tämän toiminimen vientisuunnitelmilla ei ole rajoja.*' ELKA; SSY; 1124: Eino Jussila's inspection report in 28 November 1936.

⁶¹⁹ *Helsingin Sanomat*, 24 February 1937, 13. The report was based on an article in *Timber Trades Journal*.

⁶²⁰ ELKA; SSY; 96: Finnish ETEC delegation meeting, 21 January 1937. '*Kvoterna för ett antal firmor hade t.v. icke slutbehandlats på grund av att vederbörande vägrat avstå från överdrivna anspråk eller överhuvudtaget icke ställt sig avtalet till efterrättelse. Totalkvantiteten 1.095.629 std kunde av kommittén knappast yttermera nedpressas ock anhöll generalkonsul Solitander.*'

⁶²¹ ELKA; SSY; 96: Finnish ETEC delegation meeting, 21 January 1937.

Table 11: Timber exports from the ETEC countries by February 1937

Country	Sold by 20 February
Finland	71%
Soviet Union	55%
Sweden	58%
Poland	28%
Austria	25%
Romania	40%
Yugoslavia	23%
Latvia	86 %
Czechoslovakia	31%
Total	54%

(Source: CfN; STEF; F1A 406: ETEC Executive meeting London, 22 February 1937)

The executive meeting was convinced that the ETEC had become an important institution in the European free markets—in Great Britain, the Netherlands, and Belgium. In the European closed markets—France, Germany, and Italy, where trade policy was based on clearings and contingents—the market prospects continued to be unpredictable and politically controlled. Particularly developments in Germany worried and intimidated the Central European timber exporting countries.⁶²²

The continental exporters reported that Germany had accelerated timber purchases from Czechoslovakia, Yugoslavia, Poland, Latvia, and Austria. The disquieting part of the German timber trade was the country's eagerness to rearrange the organisation of trade in the seller countries. The recently renewed Polish–German trade agreement introduced 'innovations' into the Polish timber trade; the German government wanted Poland to create a joint selling organisation for the German buyers, which were obviously already united and centralised: 'I urged our gentlemen to maintain strong nerves to counter this message,' Ostrowski told the ETEC executive committee.⁶²³ Germany was strengthening its positions within its sphere of influence and wanted to direct the destination of Polish timber more effectively. Ostrowski pointed out how important it was that the other ETEC countries also responded similarly to the reorganisation attempts of Germany. Uniting their forces

⁶²² CfN; STEF; F1A:406: ETEC executive meeting, 22 February 1937.

⁶²³ CfN; STEF; F1A:406: ETEC executive meeting, 22 February 1937. '*Ich empfehl unseren herren, gegenüber dieser mitteilung starke nerven zu bewahren.*' CfN; STEF; F1A:406: ETEC executive meeting, 22 February 1937.

through the fortress of the ETEC, the small timber exporting countries could gain better results in commercial negotiations and also in defending strategic national interests. The German import authorities paid lower prices for certain countries. J. L. Ekman shared Ostrowski's concerns and suggested that the exporting countries would keep each other informed about Germany's trade-political development and timber prices as well as engage in an 'energetic struggle' against any unfairness.⁶²⁴

Even though the timber market was, indeed, very up-beat, the ETEC executive meeting decided not to make any alterations to the quota decisions made in the general meeting the previous October. The atmosphere in the executive meeting did not allow the Finnish delegation to bring up the issues about increasing the Finnish quota. Such demands would have been contrary to the fundamental policy of the ETEC—and it would have made the country look greedy. The Finnish delegation drew the conclusion that overproduction was a domestic problem which should not be dealt with in the international arena.

The president of the ETEC, Carl Kempe, was confident that the rising prices and demand were at a healthy level. He believed that the ETEC, by controlling output policies, could prevent the boom turning into speculation and an overheated market.⁶²⁵ The idea that the ETEC could engineer the market through taking active measures in decreasing, increasing, or keeping steady the output was also a message that Kempe wanted to give to the public. The press release from the ETEC executive meeting in 1937 in London stated that the price level was on a par with the way in which other commodity and raw material prices had developed; supply and demand were in balance; and the ETEC was not intending to increase output.⁶²⁶ Kempe stressed the importance of publicity and decisions: 'The ETEC should bring a kind of gift to the audience. This time we bring the quotas.'⁶²⁷

The 'audience' was undoubtedly happy to hear that the output would stay the same as it had been in the previous year. One large and important section of audience were the British softwood importers of the Timber Trade Federation of the United Kingdom (TTF), who had sent a letter to the ETEC executive meeting on 22 February stating that they 'strongly disapprove of any increase over the quota for 1937 as it will entirely destroy the confidence of the importing trade in future pronouncements of the ETEC'.⁶²⁸ In the same letter the TTF expressed a wish that the importers—and not just in Britain, but also in the Netherlands, Belgium, and France—should be consulted in future when fixing the quotas. They felt awkward about being a passive audience to whom the ETEC, the organisation of European timber exporters, brought quota gifts. They yearned to be part of decision-

⁶²⁴ CfN; STEF; F1A:406: ETEC executive meeting, 22 February 1937. '*energischer Kampf*.'

⁶²⁵ Carl Kempe was unfortunately wrong. Rising prices led to higher demand; when prices in the future horizon were higher, it made sense for the importers to buy now rather than tomorrow. The market overheated in late 1937 and the relations between the British importers and the ETEC would deteriorate.

⁶²⁶ CfN; STEF; F1A:406: Press release of the ETEC executive meeting, 25 February 1937.

⁶²⁷ CfN; STEF; F1A:406: Press release of the ETEC executive meeting, 25 February 1937. '*...jede sitzung der ETEC dem publikum eine art geschenk bringen soll. Diesmal bringen wir die quoten...*' CfN; STEF; F1A:406: Press release of the ETEC executive meeting, 25 February 1937.

⁶²⁸ CfN; STEF; F1A:406. Documents of the ETEC Executive meeting, 22 February. Letter from A. McVey (general secretary of the Timber Trade Federation) to ETEC's general secretary Egon Glesinger, 22 February 1937.

making in output quota policies, or at least participate in the discussion properly. This wish among the British, French, Belgium, and Dutch importers ripened in summer 1937 and they initiated closer collaboration.⁶²⁹ The agenda of the European importers was to become a formal partner in the ETEC's meetings.⁶³⁰

After the ETEC's executive meeting, Axel Solitander and his colleagues in the Control Committee continued to work towards reducing 85,000 std of timber from the production plans of Finnish exporters. That did not proceed very well. By March, the Control Committee had made only a reduction of 5,000 std: 'It is difficult to control the situation with the powers given,'⁶³¹ complained Solitander to the Finnish ETEC delegation on 14 April 1937. The previous autumn's 'warning shot' obviously had not made an impact and the Control Committee did not possess sufficiently coercive tools, only threats of economic sanctions and potential government intervention. Firms—particularly the mid-sized and big firms—remained stubborn and refused to accept a lower quota 'despite numerous negotiations'.⁶³² For them, Solitander's demands and threats in circular letters were nothing but ink stains on a page. Furthermore, dark clouds were also appearing above the small-firm sector in the form of new businesses. The rising demand in 1936 had inspired many firms to expand their businesses from domestic trade to exports.⁶³³ Reorienting from domestic to export trade was difficult to prevent, even for banks. By April, many firms had sold ninety per cent of their entire year quota. The Control Committee was again under time pressure to decrease output. Solitander suggested the following programme, and the Finnish ETEC delegation agreed:

1. Exporters who have not yet made production cuts are demanded to make a five per cent reduction. In this way the Finnish quota would decline to 1,050,000 std.
2. Exporters who refuse to decrease their production are put on a 'black list', which will be circulated among all banks, bigger exporters, agents, stevedoring companies, as well as among foreign agents and importers.
3. The Finnish government will be asked to take special measures against *J. Schein & Pojat* and foreign speculators alike to stop their business activities.

On 24 April, Axel Solitander sent a letter to exporters introducing the programme and explaining the situation as it was: 'Unfortunately, the Timber Export Control Committee has failed to reduce the production output through negotiations and therefore considers that the situation demands for

⁶²⁹ The European organisation for importers represented Great Britain, France, the Netherlands, Belgium, and they were intending to invite also Denmark and Germany. The countries represented in the importers' organisation bought 72.5 per cent of all exported softwood timber in the global timber trade. Germany, buying 11.5 per cent of all export timber, remained outside of the European collaboration. About importing quantities: CfN; STEF; F1A:319: ETEC statistics of timber exporting and importing countries in 1937–1939.

⁶³⁰ CfN; STEF; F1A:406: Meeting between importers and exporters prior to the ETEC general meeting in Stockholm, 29 September 1937.

⁶³¹ ELKA; SSY; 96: the Finnish ETEC delegation meeting 14 April 1937, appendix 1. '*...katsoo Valvontatoimikunta, että sen nykyisillä valtuuksilla varustettuna on vaikeata hallita tilannetta ja saada vientiosuuksien määrä riittävästi alenemaan.*'

⁶³² ELKA; SSY; 96: ETEC delegation meeting, 14 April 1937. '*lukuisista neuvotteluista huolimatta.*'

⁶³³ ELKA; SSY; 1124: Circular letter from Control Committee, 28 May 1937.

special measures.⁶³⁴ He attached a commitment paper about reducing the output by five per cent and expected it back soon, signed. A month later, Solitander approached the domestic agents and kindly asked them to trade only with firms that had a confirmed quota. 'The Control Committee turns to the timber agents in our country, asking for their loyalty in supporting the work of the Control Committee by selling products only from firms which have been given a quota.'⁶³⁵ The list named some five hundred production sites and left out two hundred.⁶³⁶ Sources show that the list was circulated not only among domestic agents, but also among foreign agents.⁶³⁷ The work of the Control Committee was evidently not very successful, since in autumn 1937, the situation in Solitander's territory remained out of control.

Another territory that was out of control were prices and demand in Britain, the Netherlands, and Belgium. The sceptical voices from these three importing countries, which had since late 1936 and early 1937 warned about overheating the market were right; the spectacular acceleration of price and demand were a symptom of 'unhealthy' speculation. In spring and summer 1937, the market reached its boom peak and what followed was its natural counterforce: a downturn.

The ETEC executive committee had expressed its concerns in May 1937 about the deterioration of the market—along with other abnormal developments.⁶³⁸ There were strikes in the US, France, and Great Britain, as well as other miscellaneous political and economic difficulties in all large importing countries: 'Germany buys less than in previous years, Italy does not buy any wood at all, France imports less than it needs, and Spain is in a position where it cannot deal with a normal import business at all.'⁶³⁹ The buyers seemed extraordinarily nervous, but the ETEC people estimated that what they were seeing was merely a temporary storm. The ETEC's opinion was that there was no need to react to the decreasing demand by enforcing a general output cut to the ETEC countries: 'As far as this year is concerned, the foundations of the timber market, that is, the ratio of supply and demand, must be described as very healthy.'⁶⁴⁰ The policy was based on the thinking that the ETEC not only worked on

⁶³⁴ ELKA; SSY; 1124: Circular letter of the Control Committee to the Finnish exporters on 24 April 1937. '*Sahatavaran Valvontatoimikunta, joka neuvottelutietä on pyrkinyt aikaansaamaan riittävän suuren supistuksen tarjonnassa, on valitettavasti joutunut toteamaan, että tätä tietä ei voida päästä toivottuun tulokseen ja on sen tähden katsonut tilanteen vaativan ryhtymistä erikoistoimenpiteisiin.*'

⁶³⁵ ELKA; SSY; 1124: Circular letter from the Control Committee, 28 May 1937. '*Tässä mielessä kääntyy Valvontatoimikunta maamme sahatun ja höylätyn puutavaran agenttien puoleen pyytäen heitä lojaalisesti suhtautumaan ja tukemaan Valvontatoimikunnan työtä myymällä ainoastaan niiden toiminimien tuotteita, joille vientisuuDET on annettu.*'

⁶³⁶ ELKA; SSY; 1124: Circular letter from the Control Committee, 28 May 1937.

⁶³⁷ CfN; STEF; F1A:314: Letter from the Anglo Timber & Trading Co to ETEC Syndic, J. L. Ekman, 2 June 1937. Ekman's reply on 4 June shows that there were no similar lists in Sweden combining firm names and ETEC quotas—and Ekman also added that he had not heard of any such lists in any ETEC countries.

⁶³⁸ CfN; STEF; F1A:406: ETEC Executive Committee meeting, 13 May 1937.

⁶³⁹ CfN; STEF; F1A:406: ETEC Executive Committee meeting, 13 May 1937, p. 10. '*Deutschland kauft weniger als in früheren Jahren, Italien kauft fast überhaupt kein Holz, Frankreich importiert weniger als es braucht und Spanien ist in einer Lage, wo es sich mit einem normalen Importgeschäft überhaupt nicht befassen kann [--].*'

⁶⁴⁰ CfN; STEF; F1A:406: ETEC Executive Committee meeting, 13 May 1937, p. 10. '*[--] soweit es sich um dieses Jahr handelt, die Grundlagen des Holzmarktes, d. h. das Verhältnis von Angebot und Nachfrage, als sehr gesund bezeichnet werden müssen.*'

the material level—regulating the output—but also very much on the psychological level. Admitting that the timber market was getting oversaturated could feed the importers' panic and, through that, worsen the situation.

Hoping that optimistic words would turn into reality, the ETEC executive meeting wrote a press communique stating that seventy-two per cent of the total ETEC quota in 1937 had been sold and that 'will only just cover the requirements of importing countries'.⁶⁴¹

Summary and discussion

This chapter analysed the first eighteen months of the ETEC from the beginning of 1936 until spring 1937, which was defined by rising demand and prices. The focus of the analysis was on the national implementation of the ETEC in Finland, the biggest ETEC country, where many firms did not support spontaneously the ETEC. This chapter shows that rising demand and low support of the firms led to overproduction in Finland: the Finnish ETEC organisation failed in keeping the firms' export quantities in 1936 and 1937 on a par with the ETEC quotas.

Finland signed the ETEC in December 1935 knowing that there was 40,000 std more timber in the production plans of the firms than the ETEC allowed. At the start of 1936, the Finnish ETEC organisation believed that the approaching overproduction would melt away on its own accord due to rising stumpage prices, among other things. That did not happen.

The Finnish ETEC organisation started to look for a solution to the overproduction problem mainly from the small firms. It was a logical choice; traditionally, the small firms had been seen as the scapegoats for collapsing cartels and boom–bust oscillations. In 1936 and 1937, the Finnish ETEC organisation poured a lot of energy into visits to small firms across Finland, convincing them to snip off some production. Concentrating on small firms yield meagre results, however. In autumn 1936, the Finnish cartel leadership turned to the big firms and asked for their help in solving the problem. They did not ask the big firms to decrease production—in their experiences, the big firms simply would neglect their kind requests—but asked them to delay their shipping to the following year. The Finnish ETEC organisation bought time: by rescheduling the autumn shipping after the turn of the year, the Finnish cartel leadership avoided the uncomfortable situation of reporting about overproduction in the first international ETEC general meeting. In timber trade, it was only natural that by October the final statistics concerning the year's exports were not entirely ready. The final year statistics were compiled some weeks after the turn of the year and discussed in smaller committees of the ETEC. As a result, the Finnish overproduction in 1936 was handled within the ETEC's smaller committees in January–February 1937 and the Finnish sources do not report any bigger consequences, like fines, because of it. The total quota of the ETEC reportedly had been in good balance in 1936, and after all, the ETEC was mainly concerned about keeping the total quota at a sustainable level.

According to Stigler's observations, cartels are inherently unstable. Firms agree to restrict competition, but end up secretly cheating the mutually agreed norms. Price wars break out and cartels fall.⁶⁴² This work suggests that the firms were not the ones to cheat in international cartels, but also

⁶⁴¹ CfN; STEF; F1A:406: Press communiqué, 14 May 1937 from the ETEC executive meeting. Other issues on the agenda were to confirm the overlying goods from 1936 and to review the status of the output.

⁶⁴² Stigler, George J. (1964): 'A Theory of Oligopoly' in *Journal of Political Economy*, vol. 72, no. 1. Some researchers, like Green and Porter, have presented that the threat of price wars, in fact, encourage to

national organisations did that. It seems that the Finnish cartel leadership ended up window-dressing the Finnish overproduction problem because, firstly, Finland lacked the means to force firms, secondly, the international ETEC had not developed practices to deal with overproduction in case it occurred, and thirdly, the big size and public nature of the ETEC general meeting did not encourage to address problems. The material suggests that the Finns wanted to avoid any negative attention in the large ETEC general meetings. Like discussed already in the previous chapters, publicity can ruin cartels. In this case, the publicity and lack of secrecy and exclusivity forced one of the cartel partners, Finland, to deliver only good news. This chapter has also discussed that Finland was not the only one wanting to deliver good news to the public; the entire community of the international ETEC wanted to succeed in the eyes of the importers. The leader of the ETEC, J. L. Ekman, wanted to convince the market that the ETEC was working well and making a difference in the market.

Unsurprisingly, Finnish overproductions which in 1936 did not lead to consequences internationally or nationally led to more overproduction in 1937: the demand was rising and profit from cheating was bigger than profit from following the norms.

The lack of means to force firms was a continuous problem in 1936–1937 in Finland. In autumn 1936, at the same time the Finnish ETEC organisation worked to hide the overproduction of 1936, it discovered that the firms were preparing to export 80,000 std over the ETEC quota in 1937. The Finnish cartel leadership, Axel Solitander, turned to the government—which had, after all, promised to assist in ETEC matters if needed—and asked if the Ministry of Trade and Industry had any possibilities to forbid firms that violated their ETEC quotas from exporting. Creating export laws that forced firms to follow cartel quotas was not the easiest way, or even a possible way, to handle the situation. Fortunately, however, the government could increase its presence in the ETEC in other, more informal ways.

To increase the loyalty of the firms towards the ETEC, Minister of Trade and Industry, Väinö Arola, visited at the general meeting of the Finnish timber trade association (SSY). The purpose of his visit was to convince the exporters that the government was paying attention to the ETEC and expected the loyalty of exporters. Manoeuvre received broad publicity in Finland. In Sweden, it was considered to be a ‘warning shot’ towards disobedient exporters. Government nevertheless was more of a moral and theoretical controller in the cartel; a deterrent really. This chapter shows that the banks, on the other hand, gave more pragmatic back-up to the cartel leadership in the form of threatening the exporters that their credits would be limited should they exceed their ETEC quotas.

In spring 1937, the Finnish ETEC again increased its deterrents against overproducing firms by announcing ‘black lists’ which would be circulated among foreign banks, agents, importers, and stevedoring companies. The conclusions in the next chapter show that adding to deterrents did not really change the willingness of the big Finnish timber companies to follow the ETEC quotas. According to Spar, a cartel needs a *credible* deterrent. Interestingly, in the eyes of the big timber firms, government was not a credible deterrent. Material indicates that the owners and managers of the biggest firms knew that export laws required a parliamentary process, and forced cartels did not enjoy parliamentary support.

refrain firms from cheating. Green, Edward J./Porter, Robert H. (1984): 'Noncooperative Collusion under Imperfect Price Information' in *Econometrica*, vol. 52, no. 1.

Who supported the ETEC in 1936 and 1937? It seems that in Finland, the ETEC was Axel Solitander's cartel. He was the head of the Control Committee and he had supported Nordic–Soviet timber negotiations already in 1931. He also supported the involvement of the government in the Finnish ETEC organisation to ensure the loyalty of firms. He was alone with this idea. Government intervention and the ETEC itself was strongly opposed in the SSY Board and by the managing directors of some of the leading timber firms in Finland, some of them being owned by the state.

This chapter investigated how international commodity cartels work in reality on the national level; what problems they can bring about in terms of control and what solutions are used. It indicates that international engagement was taken seriously in Finland by the industry association, cartel leadership, banks, and governments. There was much more than timber at stake in following or failing to meet the cartel norms; it showcased the country's willingness and ability to collaborate internationally. It is evident from the sources that it was a national question that Finland did not 'sabotage' the ETEC by overproducing or asking for too high quotas in the negotiations. The only obstacle standing in the way of a successful cartel partnership were the firms who did not honour the cartel.

CHAPTER 5: International problems: depression, war, cartel maths, and bossy buyers

This chapter investigates the time period from spring 1937 to autumn 1938 and asks how the management of the ETEC, driven by the idea of a stable output, reacted to deterioration in demand. Who decides the 'right' level of output: the producers or the buyers? This chapter discusses the importance and urgency of 'neutral' and 'scientific' information as the foundation of a quota cartel. It also shows that the ETEC did not operate only on the material level—i.e. how many std of timber should be on the market—but very much also on the psychological level. According to the ETEC, admitting trouble ahead deepened the panic of the importers and therefore made the depression worse. The importers thought the opposite; the ETEC not reacting to rapidly declining demand deepened their panic. This chapter shows that depression triggered a war of experts between the ETEC and the European importers. It also discusses troubles in the national implementation of the ETEC in Finland between 1937 and 1938.

Oscillation between boom and demand had been an integral part of the international timber trade since at least the nineteen-tens, maybe even earlier. It had been a result of a combination of numerous small producers in a wide geographical area; lack of international regulation of timber production; lack of internationally distributed statistical data on demand and supply; low barriers of entry; low sunk cost of business; long production chains from forest to consumer; and limited stocking possibilities for the product.

In spring and summer 1937, however, the question was not only about natural cycles in the timber trade. Led by the American economy, the world economy took a turn for the worse in spring 1937. The Federal Reserve Bank, fearing harmful expansion of credits, doubled the reserve requirement ratios for banks in December 1936 in order to shrink the excess reserves of the banks, which had rapidly expanded since 1933. Coupled with the Treasury Department's gold-sterilisation program, fiscal changes also occurred; a Social Security payroll tax was introduced in 1937 on top of the tax increase of the Revenue Act of 1935. These changes led to a rapid deterioration in the American economy, and with it, a worldwide recession.⁶⁴³ The thirteen months between May 1937 and June 1938 have been described as a 'recession within a depression' in the American history and one of the three severe recessions in the interwar period (1920–21, 1929–1932, 1937–1938). In the US, it ended the five-year period of rapid growth of the GDP and employment fed by the policies of the Roosevelt administration. During the recession of 1937–1938, the real GDP in the United States contracted by eleven per cent, industrial production declined by almost thirty per cent, and unemployment

⁶⁴³ Velde, Francois (2009): 'The recession of 1937—A cautionary tale' in *Economic Perspectives*, vol. 33, no. 4. Irwin, Douglas A. (2012): 'Gold sterilization and the recession of 1937–1938' in *Financial History Review*, vol. 19, no. 3.

increased from 14.3 to 19 per cent.⁶⁴⁴ Stock prices declined by over forty per cent.⁶⁴⁵ The American slump affected the European construction industry. Housing schemes were interrupted and launching new ones were delayed. War preparations in Britain fed timber trade in 1937–1938, but the overall demand for timber nevertheless declined (See Figure 10 page 191).

By autumn 1937, importers' stocks were full and the building industry had become passive. The Soviet timber exporters decreased their prices in September in the British, Dutch, and French market, which was a clear sign of the market taking a turn for the worse.⁶⁴⁶

When low demand collided with a worldwide recession, the peak organisations of importers in the four biggest importing countries became really alarmed. Their stocks were full, and their customers were not buying. The British, Dutch, Belgian, and French importers gathered for a mutual meeting on 8 June 1937 in London in order to form a counter-force to the ETEC, which seemed to be following overly-optimistic quota policies. It is important to note that the importers, by tradition, had encouraged exporters' self-regulation, but now that the ETEC had been in action for a year and a half, self-regulation showed less pleasant results. In February the importers had sent a letter to the ETEC executive committee meeting indicating that the 'European importers' wanted to speak with one voice to the ETEC. In the letter, the president of the Timber Trade Federation stated that the ETEC should in future consult the importer countries before making decisions about the quotas.⁶⁴⁷

The details of the form of the European importers' collaboration remains unknown. What is known, on the contrary, is that the leadership of the ETEC disliked the newly-formed European importers' collaboration. The documentation from spring 1937 is fragmentary, but obviously Frank Southern, the general secretary of the Softwood Section of the Timber Trade Federation, challenged the way in which the ETEC operated and how the international cartel was run. He, for instance, suggested some changes in the way that the ETEC gathered information, which was based on personal discussions between J. L. Ekman and importers in different countries. Frank Southern suggested that the importer countries should select a person who would represent all importing countries and the ETEC syndic could interview him. Ekman praised the spirit of the suggestion—sharing information and deepening collaboration with the importers—but told Southern that he would rather continue the old system.⁶⁴⁸ Southern had also suggested a mutual conference between the collective of importers and the ETEC. J. L. Ekman accepted the proposal. The meeting took place in London on 17 August, at the Savoy Hotel. Sixteen importers were present along with J. L. Ekman and Carl Kempe from the ETEC.

The importers had bad news to tell the two Swedish ETEC leaders. According to the British importers, Britain in 1936 and 1937 had bought more wood than it needed. London docks were full, demand had fallen off dramatically, and banks were not crediting the construction industry. Furthermore, the

⁶⁴⁴ Irwin, Douglas A. (2012): 'Gold sterilization and the recession of 1937–1938' in *Financial History Review*, vol. 19, no. 3, 1.

⁶⁴⁵ Velde, Francois (2009): 'The recession of 1937—A cautionary tale' in *Economic Perspectives*, vol. 33, no. 4, 16–17.

⁶⁴⁶ ELKA; SSY; 27: SSY general meeting, 7 October 1937, E. F. Wrede's speech. ELKA; SSY; 209; SSY Annual report 1937, page 7–8.

⁶⁴⁷ CfN; STEF; A1B:3: Meeting between the British, Dutch, Belgium, and French importers and the ETEC president and syndic, 17 August 1937 in London.

⁶⁴⁸ CfN; STEF; F1A:406: Letter from J. L. Ekman to the president of the TTF, 14 June 1937.

importers blamed the exporters for creating an overheated market by pumping up the prices too high. The French importers hoped for a twenty per cent decrease both to timber quotas and prices to encourage the struggling construction industry. The Dutch, according to their own report, had misinterpreted the purpose of the ETEC and hoarded their stocks full in 1936 in the fear of looming timber shortage. 'Buyers in our country, on hearing the word "quota", thought it would mean heavy reductions and even shortage, and led by this false idea, they started more or less speculative buying,' explained M. Key from the Dutch importers' association.⁶⁴⁹ With consumption in the Netherlands declining and export prices peaking, the importers were planning to reduce their stocks and refrain from purchasing timber for the rest of 1937. The timber market in Belgium was expected to remain in complete stagnation for the rest of the year; the country had bought forty per cent less in 1937 compared with 1936, and still the importers had sold only half of their capacity.⁶⁵⁰

J. L. Ekman did not accept the importers' interpretation. They had, according to Ekman, a deeply subjective point of view and were missing the bigger picture because they lacked access to hard statistics. Ekman underlined that individual importer countries could not compete with the ETEC statistics and therefore their view was distorted. Furthermore, he pointed out how quickly the importers' views sometimes changed: in March, they had said that the quotas were too low, and now they were saying they were too high. 'That means a contradiction,' he clarified.⁶⁵¹ In Ekman's interpretation, the ETEC was looking at the market from a wider perspective. He reminded the importers that demand in the continental market had been slightly bigger in 1937 than in 1936. He also strongly rejected the argument that the exporters had pumped up the prices, and instead, proposed that the scapegoat for the current misery were the speculating importers. He assured that there was nothing abnormal in the status of consumption and demand, and it was only natural that a quiet period would follow an active spring season. Ekman thought that the importers exaggerated their situation and tried to create depression psychology on purpose in order to make the ETEC cut output. The Finns fully shared Ekman's opinions:⁶⁵²

Every summer there is stagnation, every time it is claimed that there is too much wood available and shortly afterwards it is bought quickly.⁶⁵³

The importers demanded that the ETEC should not make the quota and price decision for 1938 without thoroughly consulting importers. If the importers were excluded from the ETEC decision-making, they would threaten to unite against the ETEC and set a maximum limit to what they would

⁶⁴⁹ CfN; STEF; A1B:3: Meeting between the British, Dutch, Belgium, and French importers and the ETEC president and syndic, 17 August 1937 in London.

⁶⁵⁰ CfN; STEF; A1B:3: Meeting between the British, Dutch, Belgium, and French importers and the ETEC president and syndic, 17 August 1937 in London.

⁶⁵¹ CfN; STEF; A1B:3: Meeting between the British, Dutch, Belgium, and French importers and the ETEC president and syndic, 17 August 1937 in London. '*...was einen widerspruch bedeutet.*'

⁶⁵² ELKA; SSY; 96: Finnish ETEC delegation meeting, 26 September 1937.

⁶⁵³ CfN; STEF; A1B:3: Meeting between the British, Dutch, Belgium, and French importers and the ETEC president and syndic, 17 August 1937 in London. '*Jeden Sommer gibt es esine stagnation, jedesmal wird dann behauptet es sei zu viel Holz vorhanden und kurz darauf wird dennoch flott gekauft.*'

pay for timber.⁶⁵⁴ Ekman gave assurances that he would, of course, listen to the opinions of the importers with great interest, but he would leave the final decision about quotas to the ETEC. Ekman again enlightened the importers about how the ETEC worked and operated: it fixed quotas for exports—a total quota and a country quota for each exporter country—but it would not fix quotas for importer countries nor make price agreements, no matter how emphatically the importers wished this.⁶⁵⁵ Ekman welcomed the importers to continue the discussion at the ETEC executive committee meeting in Stockholm on 27 September, which was just two days before the ETEC fixed the quota for 1938 in its general meeting.⁶⁵⁶

‘You will see the market drop, and drop, and drop’

The ETEC general meeting in 1937 was organised from 27 to 30 September in Stockholm. The atmosphere was entirely different than a year previously, when prices and demand had been rising and the future looked bright. The main theme in 1937 was how much each country could reduce the output now and during the next year.

According to the British importers, activity in the building industry had slowed down dramatically from spring 1937 onwards. In 1937 Britain would need twenty-one percent—500,000 std—less timber compared with the previous year’s total of 2,400,000.⁶⁵⁷ New building projects were postponed and old ones were left unfinished for the time being. The British timber market was saturated; the timber stocks of importers were full and demand was low. The continental importers had similar news. Protectionist France would also need twenty per cent less timber in 1937 compared with the previous year due to full stocks and decreasing demand and consumption.⁶⁵⁸ In Belgium and the Netherlands, the costs (materials, labour) in the building industry had risen forty percent in a few years, while consumption of timber had dropped—and was expected to continue to diminish in 1938. Germany was not present at the ETEC’s general meeting, but the conditions were known to be challenging because of German currency regulations which disturbed all foreign trade. Demand for timber was

⁶⁵⁴ CfN; STEF; A1B:3: Meeting between the British, Dutch, Belgium, and French importers and the ETEC president and syndic, 17 August 1937 in London.

⁶⁵⁵ CfN; STEF; A1B:3: Meeting between the British, Dutch, Belgium, and French importers and the ETEC president and syndic, 17 August 1937 in London. In this meeting, the importers also asked if the ETEC could influence the trade policy of the individual countries in order to encourage the governments of certain countries to adopt a more liberal import policy. Ekman explained why this was not possible.

⁶⁵⁶ CfN; STEF; A1B:3: Meeting between the British, Dutch, Belgium, and French importers and the ETEC president and syndic, 17 August 1937 in London. CfN; STEF; F1A:314: Letter from E. F. Wrede to J. L. Ekman, 9 September 1937.

⁶⁵⁷ CfN; STEF B1e:1: STEF’s circular letter 30 September 1937 about the ETEC’s general meeting, 27 – 30 September, written by J. L. Ekman.

⁶⁵⁸ CfN; STEF; F1A:406: Meeting between the importers and exporters 27 September 1937, p. 5. CfN; STEF; B1e:1: STEF’s circular letter 30 September 1937 about the ETEC’s general meeting, 27 – 30 September, written by J. L. Ekman. ELKA; SSY; 27: SSY Board meeting, 7 October 1937.

rising in Germany, but the future was hard to predict.⁶⁵⁹ The exporters thought that the importers' reports were a little over-dramatic, but admitted that the market had deteriorated.⁶⁶⁰

Major Harris, the president of the Timber Trade Federation of UK, blamed the ETEC for the situation. The problem with the ETEC, according to Major Harris, was that it predetermined something that could not be determined beforehand. Forecasting demand fifteen months in the future was nonsense—even predicting the future three months ahead was extremely difficult, according to Harris. It would be certain, however, that for 1938, there were large reductions ahead:

We cannot resist the conclusion that the system of annual export quotas as operated by the ETEC in 1936 and 1937 has not succeeded even approximately in regulating supply in accordance with demand; and that consequently, so far from achieving a reasonable degree of price stabilisation we are likely to have experienced more violent fluctuations in prices by the end of these two years than in any similar period since the year 1920/1921.⁶⁶¹

Carl Kempe, the president of the ETEC, admitted that predicting the future in the timber trade 'entails a lot of guesswork', but he nevertheless saw that the ETEC did valuable work, and not only balancing the supply and demand, but also by organising large conferences between importers and exporters and in that way building better circumstances for making more realistic estimations in the future:

One side will try to make the picture rather too shady and the other side is inclined to paint the picture too bright. The ETEC should be welcomed as a sincere effort. Would not the situation even today be more difficult, more complicated and more dangerous without it?⁶⁶²

This conversation was not continued in the meeting, but letter exchange after the meeting between the leadership of the ETEC and Major Harris shows that his organisation did not agree at all with the idea that the ETEC was a 'sincere' or neutral effort. It was an exporters' fortress that represented the exporters' interests—and this artist not only had the brightest colours in his palette, but also a distorted perspective.

The ETEC meeting decided that the total output from the ETEC countries in 1938 would be 3.6 million std. The ETEC, in other words, reduced the yearly quota by ten per cent compared with the previous year.

⁶⁵⁹ CfN; STEF B1e:1: STEF's circular letter, 30 September 1937, about the ETEC's general meeting, 27 – 30 September, written by J. L. Ekman. CfN; STEF; F1A 406: Meeting between the importers and exporters, 27 September 1937.

⁶⁶⁰ CfN; STEF B1e:1: STEF's circular letter 30 September 1937 about the ETEC's general meeting, 27 – 30 September, written by J. L. Ekman.

⁶⁶¹ CfN; STEF; F1A:406: Meeting between the importers and exporters, 27 September 1937.

⁶⁶² CfN; STEF; F1A:406: Meeting between the importers and exporters, 27 September 1937.

Table 12: The ETEC quotas 1936-1938

Country	1936		1937		1938	
	STD	%	STD	%	STD	%
Finland	1,005,000	26.1	1,005,000	25.1	904,500	25.1
Soviet Union	950,000	27.7	950,000	23.7	855,000	23.8
Sweden	820,000	21.3	820,000	20.5	738,000	20.5
Poland	313,000	8.1	313,000	7.8	281,700	7.8
Austria	275,000	7.1	275,000	6.9	247,500	6.9
Romania	223,000	5.8	246,000	6.2	221,400	6.1
Yugoslavia	168,000	4.4	168,000	4.2	151,200	4.2
Latvia	—		127,000	3.2	114,300	3.2
Czechoslovakia	96,000	2.5	96,000	2.4	86,400	2.4
Total	3,850,000	100	4,000,000	100	3,600,00	100

(Source: ELKA; SSY; 28: SSY Board meeting, 14 December 1938, appendix III. CfN; STEF: F1A 406: 'Sawngoods Convention' signed in Copenhagen, 15 November 1935.)

Reducing the output for 1938 was not enough for the importers; they wanted the ETEC to make a five per cent cut for the rest of 1937. The ETEC did not comply with this request, but to please the importers the ETEC agreed to make a gentleman's agreement about keeping 400,000 std of timber off the market for the remaining year.⁶⁶³ This was not a cut in the sense that production was removed from the market, instead trading would only be interrupted for a couple of months after which the already prepared production would be released to the market. This new, improvised practice was exactly what Finland had done a year earlier to meet with the ETEC quota limits. Nevertheless, it was not by any means an unproblematic policy. It complicated the already problematic ETEC cartel maths even more.⁶⁶⁴ The quantity that was kept off the market for the last couple of months of 1937 became an 'unused' quota, which the ETEC members had the right to sell in 1938.

There were now three different kinds of timber in the ETEC statistics. Only the first category was clear, while the other two moved timber back and forth in time.

⁶⁶³ CfN; STEF B1e:1: STEF's circular letter 30 September 1937 about the ETEC's general meeting, 27 – 30 September, written by J. L. Ekman.

⁶⁶⁴ ELKA; SSY; 96: Short report from the Warsaw meeting from E. F. Wrede (Finnish ETEC delegation) to the SSY's general meeting, 27 January 1938.

1. Timber sold and shipped in one calendar year.
2. Overlying timber: product that was sold in autumn 1937, but will be shipped in early 1938.
3. Unused quota: the quantity that the firms restrained from shipping in autumn 1937 in order to 'heal the market' but which it was entitled to ship in 1938.

The British importers were disappointed with the ETEC's reckless attitude amidst a crisis. They started pressuring Ekman and Kempe a few weeks after the meeting in order to correct the ETEC's course. N. Hillas, the owner of an old and established importing company on 10 November remarked:

I do not want this broadcasting and I do not want to say it officially, as it will not have a good effect, but there is only one way in which the market can be stabilised, and that is a statement from the ETEC that they are going to reduce the export another 10%. Otherwise you will see the market drop, and drop, and drop, so much that it will be disastrous to both shippers and importers. — The market this year has been a false one.⁶⁶⁵

The heated—and particularly colourful—letter exchange shows how differently the importers and exporters interpreted the nature of the problem. Hillas could not stomach Ekman's calm attitude towards the problem; the quota needed to be downgraded now, not in January when the ETEC's executive meeting was due. If the ETEC waited until January to downgrade the quota it was like 'bringing out the fire brigade when the building is in ruins.' Hillas begged the ETEC to call together a smaller committee with enough powers to decide upon further reductions:

I am afraid you will think I am rather pressing in this but I am convinced I am dead right, the damage will take place during the next two months [- -]. I am of the opinion that shippers have not realised yet that we have got too much wood in this country, it may sink in gradually but it may be too late to save the situation. I beg and implore you to call ETEC together and persuade them to make the announcement I have suggested and prove themselves what they set out to be, a corporation strong enough to carry out a policy which would be of great benefit to the trade and not simply to remain an association who are unable to act in a crisis; unless they meet the situation now, ETEC is absolutely dead.⁶⁶⁶

J. L. Ekman answered two days later. He disagreed with Hillas's idea altogether; it was unnecessary and unwanted for the ETEC executives to meet so soon after the general assembly. Ekman, of course, considered himself to be a man of cool judgement, and Hillas a little bit hysterical. The ETEC had made its quota decision and it would not be revised so soon. Ekman also seemed to disagree with how Hillas depicted the ETEC as a weak, even dying entity. He answered Hillas that the real suffering and ill entity was the market, and the ETEC was the doctor:

I am quite in agreement with you, that it is too late to bring out the Fire Brigade, when the building is in ruin, but I am not quite sure that the present market position is equal to a burning house. I beg to question, if there are not more reasons to equal it to an illness, which the doctor is at the moment not able to diagnosticate. [- -] Should my question be answered in the affirmative, I think that some time has to be given to the patient for self-healing, during which the doctor has to follow evolution till the moment comes, when he is able to diagnosticate the illness [- -]. I think it is wise to avoid any undue actions at a moment, when

⁶⁶⁵ CfN; STEF; F1A:314: W. Newland Hillas to J. L. Ekman, 10 November 1937.

⁶⁶⁶ CfN; STEF; F1A: 314: W. Newland Hillas to J. L. Ekman, 17 November 1937.

to a large extent the cool judgment of the position has been strongly influenced by psychological reasons, caused by a deplorable nervousness, which is no doubt prevailing in the trade.⁶⁶⁷

Hillas was irritated by this 'cool' doctor who practised his profession by waiting and seeing how the suffering patient 'self-healed'. In fact, this doctor was not able or willing to diagnose the illness before the patient had cured himself. That does not sound like a doctor at all, Hillas thought. To his mind, the exporters were the patients and the importers were the doctors.

The illness was named at the pleasant little meeting at the Savoy Hotel. The doctors then distinctly stated what the trouble was, viz., too much wood. By this time several specialists had been consulted and the outcome was that the patients did not believe their doctors, they did not like their medicine and considered that the remedy did not fit their complaint.

Seriously, I say to you that if ETEC doesn't not act, and if they delay, they will lose their chance. There is not one single importer in this country—anyway I have not yet found him and spoken to many—who will not back me up in everything I have said, and, moreover, it is well supported by every inland merchant. [--] Why don't you send someone over here to look round the congested ports and at the stocks, and then consider if the importers are keeping this wood there as an ornament, or whether they think the importers would like somebody else to be holding the baby.⁶⁶⁸

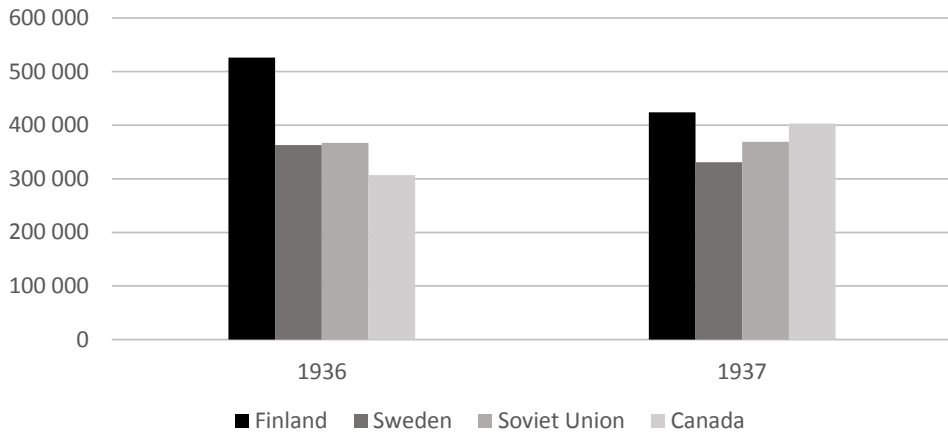
Hillas presented the timber problem as if it was a technical question of 'too much wood' rather than a question of trade politics. Ekman, on the other hand, saw nothing but trade politics: *from whom* were the British receiving too much wood, and *from whom* did they wish to have more? In Ekman's views, the ongoing recession was threatening the position of the ETEC countries—Sweden and Finland in particular—in the British markets.

The ETEC would have been more empathetic towards the British problems if Britain had bought timber only from European exporters. But it did not; Britain also imported timber from Canada. As long as Canada stayed out of the international timber export regulation scheme, Carl Kempe and his colleagues at the European timber delegates feared that making sacrifices in the form of production cuts would only give commercial space for Canada to grow. He was right. The British timber purchases had been directed increasingly to Canada in 1937, and that meant less timber from elsewhere. That 'somewhere' was the Nordic countries. Great Britain had imported 96,000 std more Canadian timber in 1937 compared with 1936, as Figures 8 and 9 in the next page show. Sweden had lost 32,000 std (nine per cent) compared with 1936 and Finland as much as 102,000 std (twenty per cent). The same trend continued in 1938.

⁶⁶⁷ CfN; STEF; F1A:314: Letter from J. L Ekman to Hillas, 19 November 1937.

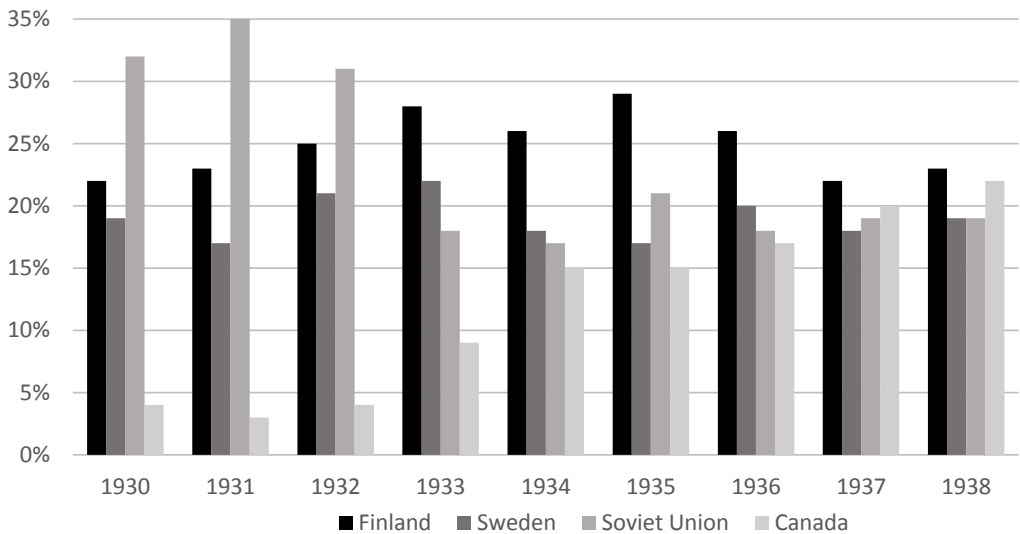
⁶⁶⁸ CfN; STEF; F1A:314: Letter from Hillas to J. L. Ekman, 23 November 1937.

Figure 8: UK timber imports (std) from Finland, Sweden, Soviet Union, and Canada 1936–1937



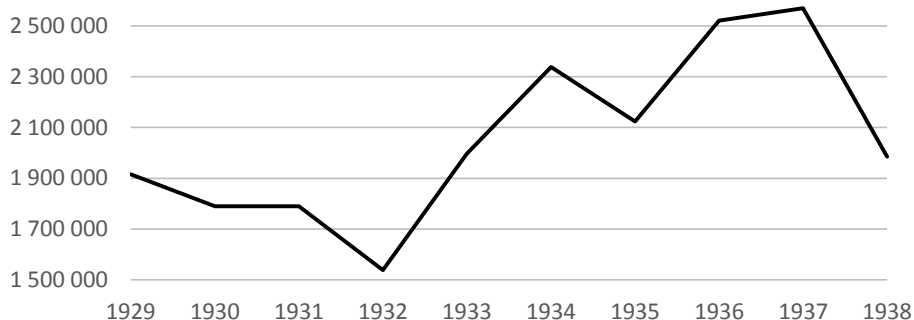
(Source: Paloheimo archive; 10313:1; Meeting between the President of the ETEC and the British importers and agents in London, 25 November 1937.)

Figure 9: UK timber imports (%) from Finland, Sweden, Soviet Union, and Canada 1930–1938



(Source: Söderlund 1951, 300–301)

Figure 10: UK softwood timber imports (std) from all countries 1929–1938



(Source: Glickman: *The British Imperial Preference System* (1947), 457.)

Canadian pressure had indeed grown in recent years. The country had lost the Far East markets and was on the lookout for increased trade with Great Britain. Canada had increased its timber exports to the UK throughout the decade, reaching a peak in 1937 with 497,000 std.⁶⁶⁹ Major Harris, the president of the Timber Trade Federation of UK, saw the changed position of Canada as ‘an added complication’.⁶⁷⁰ Many British importers as well as J. L. Ekman and Carl Kempe saw that it would be best if Canada was included in the ETEC somehow, and J. L. Ekman urged Major Harris to ‘take whatever steps that you judge will lead to the desired collaboration with the Canadians’.⁶⁷¹

A Canadian friend of Carl Kempe, who was a member of the Parliament and a former minister, informed the ETEC president in late 1937 that he was ‘totally negative’ about his country joining the ETEC.⁶⁷² Canada had a nice trade-political position in Great Britain with the Ottawa agreement that allowed a ten percent tariff preference for Canadian timber. Furthermore, the Canadians were only interested in the British markets, while the ETEC only fixed a total European export quota.⁶⁷³ If there had been a separate agreement for the British quota within the ETEC agreement—which the British importers encouraged in August 1937—the Canadians and Europeans might have had a common ground for collaboration.⁶⁷⁴ Major Harris remarked to Ekman that a change in policy might be timely for the ETEC in the near future.⁶⁷⁵

Clearly, the opinions of the British importers and the European exporters about the ETEC’s quota policies were on a colliding course. To avoid further escalation in disputes, Carl Kempe met the British

⁶⁶⁹ CfN; STEF; F2:6: Minutes of the ETEC’s Executive Committee meeting, 19 January 1938.

⁶⁷⁰ CfN; STEF; F1A:314: Letters between Major Harris and J. L. Ekman, 12 and 17 January 1938.

⁶⁷¹ CfN; STEF; F1A:314: Letter from J. L. Ekman to Major Harris, 10 January 1938 (quote). F1A:315: Letter from Torsten Landby to Ekman, 16 December 1937.

⁶⁷² CfN; STEF; F1A:314: Letter exchange between Torsten Landby and J. L. Ekman in January 1938.

⁶⁷³ CfN; STEF; F1A:314: Telegram, 16 December 1937.

⁶⁷⁴ CfN; STEF; F1A:314: Letter from Major Harris to J. L. Ekman, 12 January 1938.

⁶⁷⁵ CfN; STEF; F1A:314: Letter from Major Harris to J. L. Ekman, 12 January 1938.

importers in London on 25 November 1937. At their meeting Kempe pointed out that it was impudent to demand as great a sacrifice as a twenty per cent production cut:

And why? Just because it is so easy to come to us who have an organisation, while it is far more troublesome to get anything out of Canada who has none. Now is that fair and reasonable? To that question there can only be one answer. No, and again no. Now, gentlemen, it's your turn. Charity begins at home.⁶⁷⁶

The British government was not interested in charity of this kind. Douglas Roe, the Trade Commissioner for British Columbia, explained in a private meeting between Major Harris and Torsten Landby—a Swedish timber trader living in London and working for the importing firm William Brandt's Sons & Co—that the British government was not interested in reducing the share of Canadian timber in the British market.⁶⁷⁷ Europe was moving towards war, and for Britain, favouring Canadian timber over European was a 'safeguard'. The price of timber should not be raised too high, either, which also safeguarded the position of Soviet timber in the UK.⁶⁷⁸ The meeting did not end the conflict between importers and exporters. The crisis, in fact, deteriorated in 1938 and developed into a domestic problem within the ETEC.

Losing faith

In the first two weeks of 1938, both of the Swedish ETEC leaders, J. L. Ekman and Carl Kempe, were recovering from illnesses: Ekman from pulmonary catarrh and Kempe from another, undefined, condition.⁶⁷⁹ Both hoped that they and the timber market would recover at the same time. Letters from England were discouraging, however. Torsten Landby wrote to Ekman that 'I regret to say that some [importers] were even more pessimistic than I had expected'.⁶⁸⁰ Major Harris, the president of the Timber Trade Federation, confirmed Landby's words:

As regards general prospects here, so far from there being any improvement, the reverse is the case, the situation being characterised by heavy stocks, cut-throat competition and a distinct falling off in actual consumption, which was not anticipated at the time of our Stockholm discussions. [...] Estimates of U.K requirements in 1938 must necessarily require considerable revision.⁶⁸¹

The growing threat of war in Central Europe fed governmental spending on timber, but private consumption and the construction industry were shrinking. Major Harris was not suggesting that consumption was altogether dead, but rather that the stocks of British importers were full. British

⁶⁷⁶ ELKA; SSY; 1121: Kempe's statement at the conference in London on 25 November 1937 with the importers represented by Mr. Harris, the President of the Timber Trade Federation and agents.

⁶⁷⁷ CfN; STEF; F1A:315: Letter from Torsten Landby to J. L. Ekman, 16 December 1937.

⁶⁷⁸ CfN; STEF; F2:6: Minutes of the ETEC's Executive Committee meeting, 19 January 1938.

⁶⁷⁹ CfN; STEF; F1A:315: Letter from J. L. Ekman to Torsten Landby, 10 January 1938. Letter from Major Harris to J. L. Ekman, 12 January 1938.

⁶⁸⁰ CfN; STEF; F1A:315: Letter from Torsten Landby to J. L. Ekman, 7 January 1938. (In the original text, the word 'some' is actually spelled 'same', but considering the context it must be a misspelling, for 'some' is in fact the intention of the writer.)

⁶⁸¹ CfN; STEF; F1A:314: Letter from Major Harris to J. L. Ekman, 12 January 1938

importers did not need any new timber from the Nordic countries, from the Soviet Union, or from Canada.⁶⁸² Timber trade people called it a sticky market; a year ago in January, the British importers had bought 335,000 std of timber from Finland, but this year they had bought only 30,000 std.⁶⁸³ At the end of 1937, the Swedes had sold a total of 95,000 std to the 1938 market while a year earlier at the end of 1936 the respective number had been 400,000.⁶⁸⁴ The importers were waiting for the ETEC to announce a production cut for 1938 and therefore were not buying. Prices were low. J. K. Paasikivi, the managing director of Kansallis-Osake-Pankki instructed the branch banks that 'These prices are unprofitable for many sawmills. Follow closely the working of sawmills.'⁶⁸⁵

Eventually, Carl Kempe called together the ETEC meeting on 19–21 January in Warsaw with the idea of reducing the 1938 output on the agenda.⁶⁸⁶ The original quota for 1938, which had been decided in the ETEC general meeting in Stockholm in October 1937, had already been ten percent smaller than the 1937 quota. The Warsaw agenda was to lower the quota even more, which was a hard decision considering that the first couple of years in the ETEC had been relatively stable. Besides, the whole idea of the ETEC had been to keep production quantities steady—not alter them from one year to another according to the wishes of the importers. In early 1938, the British importers wanted the 1938 quota to be reduced by ten per cent. Sources suggest that the STEF was ready to accept this.⁶⁸⁷ Carl Kempe and J. L. Ekman—who were, by now, besides the syndic and president of the ETEC, also the CEO and vice-CEO of the STEF⁶⁸⁸— explained to the STEF members that if they now made sacrifices, they would later be compensated in 1938. The Finns were less collaborative. Torsten Landby informed J. L. Ekman that the Finns would not accept any downgrade in Warsaw.⁶⁸⁹ This was true, but at the same time, the utterly discordant SSY Board did not have a proposal of its own how to rehabilitate the timber market. Furthermore, Finnish opposition often melted away when the delegation crossed the Finnish border; if all other ETEC countries supported a production cut, Finland dared not to be the 'difficult partner'.

⁶⁸² ELKA; SSY; 28: SSY Board meeting, 10 January 1938.

⁶⁸³ ELKA; SSY; 209: SSY annual report 1937, page 2. ELKA; SSY; 28: SSY Board meeting, 10 January 1938.

⁶⁸⁴ CfN; STEF; G1B:2: STEF annual report 1939, page 3.

⁶⁸⁵ ELKA; Nordea: 4837: Pääjohtajan salaiset tiedonannot 1917–1954; Tiedonanto, 29 January 1938. '*Nämä hinnat ovat monelle sahalle tappiolliset. Seuratkaa siis kiinteästi sahojen toimintaa.*'

⁶⁸⁶ CfN; STEF; F2:6: Letter 11 January 1938 on behalf of Carl Kempe to the ETEC member countries.

⁶⁸⁷ CfN; STEF; F1A:318: STEF's working committee meeting, 11 January 1938.

⁶⁸⁸ CfN; STEF; G1B:2: STEF's Annual Report 1938 (Centralstyrelsens berättelse till Svenska Trävaruexportföreningen ordinarie vårmöte den 9 Mars 1938).

⁶⁸⁹ CfN; STEF; F1A:315: Letter from Torsten Landby to J. L. Ekman, 16 December. CfN; STEF; F1A:318: STEF's working committee's meeting, 11 January 1938. ELKA; SSY; 96: The Finnish ETEC delegation meeting, 14 February 1938. SSY; 28: SSY Board meeting, 10 January 1938. The Finns came to the Warsaw meeting less informed than the Swedes about the demands of the British, Dutch, Belgium, and French importers regarding the ETEC quota. The Finns thought the importers were after a five percent cut, while it had been clear to the Swedes since late 1937 that they were after ten percent cent. The old alliance between Sweden and Finland was weak, and the Swedish syndic of the ETEC did not share data and information.

The Warsaw meeting gathered on 19–22 January 1938; the technical committee convened on the first day and the executive committee on the last two days. The ETEC general meeting made its decision about quota reduction on 22 January.⁶⁹⁰

The ETEC president, Carl Kempe, addressed the executive meeting and told that since December he had already encountered strong pressure from the British and French importers to revise the quota decision for 1938. He messaged that they were not in Warsaw to discuss whether or not to reduce the ETEC quota, but rather how big a cut they could make. Without the reduction, the British importers 'would lose their confidence in the ETEC'.⁶⁹¹ Kempe addressed the listeners with a compelling tone and suggested a five per cent cut now and another reduction later if necessary. Only Finland and Austria did not agree with Kempe's proposal straight away.⁶⁹² Jacob von Julin commented on the Finnish situation: 'Finland's position on this question is difficult to define. We came here without a clear programme.'⁶⁹³ The SSY Board was so discordant about the ETEC at that time that the Finnish delegation was not equipped to support any programmes. The Austrian delegate, Anton Ceschi, explained that his country was now 'in a changed situation' and the Austrian government, from whom he received his orders regarding timber policies, did not support any new reductions.⁶⁹⁴ The participants did not know it yet, but Swastika flags would soon be waving in Vienna, and this would completely change Austria's position in the ETEC.⁶⁹⁵

With the support of the majority of ETEC countries, the Warsaw meeting decided to reduce the ETEC quota for 1938 by five percent, from 3.6 million to 3.4 million std.⁶⁹⁶ It took three weeks to ratify the

⁶⁹⁰ CfN; STEF; F2:6: Executive committee meeting in Warsaw, 19–21 January 1938, discussions on 21 January. In addition to a production cut for 1938, the Warsaw meeting discussed prices. Count Ostrowsky, the Polish delegate and a keen supporter of the ETEC, suggested that the ETEC should also produce some sort of guidelines concerning a price policy. 'It has often happened that a country immediately before or after an ETEC meeting has lowered its prices instead of raising them, and this country has thus proved that, despite its membership, it does not believe in the ETEC. We must also work in this direction. (*Es hat sich schon oft der fall ereignet, dass ein land unmittelbar vor oder nach einer ETEC-tagung die preise anstatt zu erhöhehinuntergesetzt hat, und dieses land hat damit bewiesen, dass es trotz seiner mitgliederschaft an die ETEC nicht glaubt. Wir müssen also auch in dieser richtung arbeiten.*)'

⁶⁹¹ CfN; STEF; F2:6: Executive committee meeting in Warsaw, 19–21 January 1938, discussions on 21 January. '*alle käufer [--] jedes zutrauen zur ETEC verlieren würden, wenn wir bei dar ursprünglichen reduktion von 10% stehen bleiben.*'

⁶⁹² Delegations from the Soviet Union, Czechoslovakia, Latvia, Romania, Sweden, and Poland agreed—the last three were even willing to accept a ten per cent cut immediately. CfN; STEF; F2:6: Executive committee meeting in Warsaw, 19–21 January 1938, discussions on 21 January.

⁶⁹³ CfN; STEF; F2:6: Executive committee meeting in Warsaw, 19–21 January 1938, discussions on 21 January. '*Finnland hat in dieser frage eine schwer darzustellende einstellung. Wir sind ohne klares programm hierhergekommen.*'

⁶⁹⁴ '*...geänderten situation.*' CfN; STEF; F2:6: Executive committee meeting in Warsaw, 19–21 January 1938, discussions on 21 January.

⁶⁹⁵ Steininger, Rolf (2002): '*12 November 1918 - 12 March 1938: The road to the Anschluss*' in *Austria in the Twentieth Century. Studies in Austrian and Central European History and Culture*, 108.

⁶⁹⁶ ELKA; SSY; 28: SSY Board meeting, 14 February 1938, appendix about the general meeting of the SSY on the same day. Finland did not support the reduction but did not strongly oppose it either. It is interesting how differently the Finnish delegation presented the proceedings of the Warsaw meeting to the Board of the SSY once they got home. In their version, the rest of the ETEC countries could not find a

decision in all the ETEC countries and the five per cent reduction did not take force before mid-February. After the importers had implied in November that there was major trouble ahead, it took three months for the ETEC to make and ratify decisions. The British importers were not happy and considered it a 'half-hearted measure'.⁶⁹⁷

Indeed, a five per cent production cut did not, in reality, make any difference, thanks to the cartel maths of the ETEC, which only took a short time to become tangled. What was causing problems was the new rule invented in the general meeting of the ETEC in October 1937, namely the 'unused quota' or 'carry-over' which firms had a right to transfer to the next year (see page 188). The right to ship the 'unused quota', decided in October 1937, undid the five per cent production cut, decided in January 1938.⁶⁹⁸ A five per cent cut from 3.6 million and the volume of 'unused quota' from 1937 happen to be approximately the same—minus 180,000, plus 199,538.⁶⁹⁹ No wonder the importers were losing faith; as a result of ETEC cartel maths, the ETEC's total quota for 1938, after the Warsaw meeting, was actually bigger than what had been originally agreed in Stockholm.

Original quota for 1938 (Stockholm decision, September 1937)	3,600,000
Five per cent reduction (Warsaw decision, January 1938)	– 180,000
'Unused' quota from 1937 (Stockholm decision, September 1937)	+ 199,536
Total:	3,619,536 std

The fact that the ETEC's norms allowed overproduction and the transfer of quotas from one year to another, regardless of demand and market, made the ETEC system unreliable and confusing. The ETEC countries were interested in maximising their export quantity and the ETEC leadership had to hold on to the norms that the cartel agreement introduced. If there was a clause promising a transform of 'unused' quota to the next year, then the ETEC members demanded these rights regardless of the fact that demand had dropped off dramatically.

The ETEC system started to show signs of serious decay from 1938 onwards, and juggling with a normative jungle that essentially worked against the general target of reducing output was one sign of that. Deborah Spar has written that cartels need rules, but over-bureaucratic norms can hinder

compromise and the Finns had to talk sense to them; if the European exporters did not make a reduction, the buyers would make low offers and press down the timber price. According to the Finnish report, all ETEC countries agreed after the sobering lecture of the Finns that a reduction was needed and they accepted the Finn's proposal of a five per cent cut. This story that Wrede delivered to the Board of SSY is very different from the Warsaw minutes, where Finland is passive, undecided, and the only country without a proposal. The SSY Board being full of ETEC antagonists, it is understandable that Wrede and von Julin wanted to represent Finland as a country that made a difference to the European timber policies. ELKA; SSY; 28: SSY Board meeting, 14 February 1938, PM written by Wrede.

⁶⁹⁷ CfN; STEF; F1A:315: Letter from Torsten Landby to J. L. Ekman, 28 January 1938.

⁶⁹⁸ ELKA; SSY; 1122: ETEC Press communiqué, 16 February 1938. 'According to the decision of the Stockholm meeting the member countries have the right to apply the volume of their quotas not taken advantage of in 1937 to the contingent for 1938 [--] therefore, the actual maximum volume of exports for 1938 is limited to 3,619,536 std.'

⁶⁹⁹ CfN; STEF; F1A:407: ETEC general meeting in Stockholm, 16 November 1938, first meeting day.

collaboration.⁷⁰⁰ If a cartel organisation has an impenetrable wall of rules and norms—and guardians to support those norms—practical business endeavours easily become a bureaucratic undertaking. It can lead to a situation where the cartel becomes paralysed by its own organisation to such an extent that it cannot react markets as quickly as the case would require. In 1938, the ETEC was going through precisely this scenario.

On the national level, cartel maths produced four different versions of the 1938 quota: the original from October 1937; the original with an ‘unused’ quota; the original with an ‘unused’ quota and the Warsaw reduction; and the original with only the Warsaw reduction.⁷⁰¹ In Finland, for instance, the triumvirate of the cartel leadership—Solitander, von Julin, and Wrede—shared information on quotas differently for different groups of people. The SSY Board and the Finnish ETEC organisation were well informed about everything, but to exporters they only gave the lowest possible number.⁷⁰²

In May 1938, the ETEC’s syndic admitted that the Warsaw reduction had been cosmetic precisely because of the quantities ‘brought forward’ from 1937 to 1938.⁷⁰³

Anschluss Österreichs

The ETEC, in the form it had been established in December of 1935, started breaking apart in 1938. Depression affected the willingness of exporters to restrict their output, and the ETEC’s quota policy, based on increasing and decreasing the output at the same time, was not credible. The importers had lost faith in the ETEC and thought that the exporters did not understand the market. The ETEC leadership thought the same about the importers. In 1938, there were also strong non-market factors that eroded the ETEC. European security deteriorated rapidly from March 1938 onwards, when German Chancellor Adolf Hitler started to put into force his expansionist plans and to reorganise the division of resources. March 12 was a wake-up call for Europe: Adolf Hitler launched ‘Operation Otto’ at 6:30 am and annexed Austria to Germany.⁷⁰⁴ The ETEC lost one of its founding members.⁷⁰⁵

Hitler’s plan to fulfil the late-nineteenth-century idea of creating a Greater Germany through uniting Austria and the Reich was neither a secret nor a surprise; he had written about it in *Mein Kampf* (1925) and the recent political development in Austria manifested his intentions.⁷⁰⁶ Although condemned by the terms of the Treaty of Versailles, major factions in Austrian society and political life had supported close alliance with Germany from 1918 onwards and throughout the nineteen-twenties, but in the

⁷⁰⁰ Spar, Debora L. (1994): *The Cooperative Edge: The Internal Politics of International Cartels*, 31–32.

⁷⁰¹ These four quota versions for 1938 are volumes 904,000 std; 939,000 std; 894,000 std; 859,000 std. ELKA; SSY; 28: SSY Board meeting, 14 February 1938.

⁷⁰² ELKA SSY; 28: SSY Board meeting, 14 February 1938, appendix iv; report from the SSY’s general meeting in Hotel Kämp 14 February.

⁷⁰³ CfN; STEF; E3E:4: ETEC Executive Committee meeting, 23 May 1938 in Prague, J. L. Ekman’s opening speech, page 7.

⁷⁰⁴ Steininger, Rolf (2002): ‘12 November 1918 - 12 March 1938: The road to the Anschluss’ in Austria in the Twentieth Century. *Studies in Austrian and Central European History and Culture*, 109.

⁷⁰⁵ CfN; STEF; E3E:4: ETEC Executive Committee meeting, 23 May 1938 in Prague. The executive committee of the ETEC received Austria’s resignation in its meeting on 23 May.

⁷⁰⁶ Pauley, Bruce F. (1992): *From Prejudice to Persecution: A History of Austrian Anti-Semitism*, 277.

nineteen-thirties these notions won popularity mostly among political extremes.⁷⁰⁷ Nevertheless, deeply-rooted antisemitism and Aryan-supremacy fanaticism in Austria and Germany, at first marginal but gradually gaining in popularity, paved the way for a union between the two countries. Broad Nazi sympathies among non-Jewish civilians in Austria became more common, hand in hand with the increasing numbness towards gradually hardening violations against the Jewish population. The support towards the Austrian Nazi Party—which, in fact, was illegal from summer 1933 until 12 March 1938⁷⁰⁸—grew from the economic depression of the early nineteen-thirties and was fortified during the authoritarian, conservative-fascist regimes of chancellors Engelbert Dollfuss and Kurt von Schuschnigg between 1933 and 1938.⁷⁰⁹ Dollfuss was assassinated by the Nazis in 1934, and his successor von Schuschnigg—‘a man not known for his nerves of steel in any case’, writes Rolf Steininger⁷¹⁰—found the domestic and international pressure unbearable and yielded to Hitler’s demands.⁷¹¹

When the German Nazi’s marched to Vienna on 12 March 1938, the enthusiasm and fervency of the Austrians exceeded all German expectations.⁷¹² People in tens of thousands had gathered in the streets of the Austrian cities to applaud and cheer the occupier. German occupation left the British Foreign Office, and the rest of Europe, to wonder whether the *Anschluss* was a ‘case of rape or seduction’.⁷¹³ The coming days and weeks showed that the case was the former rather than the latter.⁷¹⁴

Europe had become a continent of dictatorships in two decades. Stephen J. Lee presents in *European Dictatorships 1918–1945* that while three (out of twenty-nine) European states in 1920 could be described as non-democratic, the number had grown to seventeen by 1939. Among the non-democratic countries at the end of the nineteen-thirties, besides Stalin’s Soviet Union, Mussolini’s

⁷⁰⁷ Steininger, Rolf (2002): ‘12 November 1918 - 12 March 1938: The road to the Anschluss’ in *Austria in the Twentieth Century. Studies in Austrian and Central European History and Culture*, 85–86. Maderhaner, Wolfgang (2002): ‘12 February 1934: Social democracy and Civil War’ in *Austria in the Twentieth Century. Studies in Austrian and Central European History and Culture*, 45–49. Pauley, Bruce F. (1992): *From Prejudice to Persecution: A History of Austrian Anti-Semitism*, 268–271, 277.

⁷⁰⁸ Binder, Dieter A. (2002): ‘The Christian corporatist state: Austria from 1934 to 1938’ in *Austria in the Twentieth Century. Studies in Austrian and Central European History and Culture*, 73.

⁷⁰⁹ Maderhaner, Wolfgang (2002): ‘12 February 1934: Social democracy and Civil War’ in *Austria in the Twentieth Century. Studies in Austrian and Central European History and Culture*, 45–49.

⁷¹⁰ Steininger, Rolf (2002): ‘12 November 1918 - 12 March 1938: The road to the Anschluss’ in *Austria in the Twentieth Century. Studies in Austrian and Central European History and Culture*, 107.

⁷¹¹ Binder, Dieter A. (2002): ‘The Christian corporatist state: Austria from 1934 to 1938’ in *Austria in the Twentieth Century. Studies in Austrian and Central European History and Culture*, 74, 84–84. Steininger, Rolf (2002): ‘12 November 1918 - 12 March 1938: The road to the Anschluss’ in *Austria in the Twentieth Century. Studies in Austrian and Central European History and Culture*, 104–111.

⁷¹² Steininger, Rolf (2002): ‘12 November 1918 - 12 March 1938: The road to the Anschluss’ in *Austria in the Twentieth Century. Studies in Austrian and Central European History and Culture*, 112.

⁷¹³ Steininger, Rolf (2008): *Austria, Germany, and the Cold War: From the Anschluss to the State Treaty 1938-1955*, 8.

⁷¹⁴ Pauley, Bruce F. (1992): *From Prejudice to Persecution: A History of Austrian Anti-Semitism*, 279–281. Steininger, Rolf (2002): ‘12 November 1918 - 12 March 1938: The road to the Anschluss’ in *Austria in the Twentieth Century. Studies in Austrian and Central European History and Culture*, 112–113.

Italy, and Hitler's Germany, were the Central and Eastern European countries Hungary, Poland, Austria, Estonia, Lithuania, and Latvia; Balkan states like Albania, Bulgaria, Yugoslavia, Romania, and Greece; as well as nations in the Iberian Peninsula, Spain and Portugal. The European dictators came from the right and the left, but a common denominator was their resentment towards constitutions, elections, and civil rights.⁷¹⁵ The European timber trade had been affected by this development throughout the decade. Economic nationalism and war preparations had stimulated governmental spending, but the overall effect was not positive. Most timber was sold to the private sector in Great Britain, Belgium, Netherlands, Denmark, and France. The timber trade was reliant upon private investment and the monetary environment, and these suffered from the threat of war.⁷¹⁶

The Austrian *Anschluss* was a concrete problem for the ETEC. Egon Glesinger, the general secretary of the ETEC and the president of the CIB, worked in Vienna at Singerstrasse 27. This address housed the European timber trade data, including how much softwood timber each European country produced for domestic and export use; how big the forestry area was; who were in charge of the timber trading organisations in each country; which agents and importers were the most important ones in Europe; and which people and organisations from the private sector, governments, and inter-governmental organisations were networked together. Both the Austrian and the German Nazi party took a great interest in this data. Furthermore, the leading man sitting on top of this data was Jewish, which to the Nazis gave them the legal and moral right to pay a visit to the combined offices of the ETEC and CIB. On the day after the occupation, Egon Glesinger received some unwanted visitors at Singerstrasse 27.

When I entered my office, I found my desk occupied by a man wearing the black Gestapo uniform and the party badge. This man had, a few years before, come to beg me for a job immediately after I had taken up my work with CIB. [...] So we engaged him as a messenger, and his services were so satisfactory that I soon promoted him to assistant in our statistical department. G. continued to do very well and showed so much interest in his work that he frequently stayed after office hours in the evenings or came in to work during the weekend. Now he presented himself as the 'party commissar' (*Betriebszellenleiter*) for our office and gave me to understand that for all practical purposes he was boss. This provided me at last with an explanation of the warnings I had received time and again, that the illegal Nazi headquarters in Vienna knew about every least happening in our office and even kept a record of our payroll. From the very beginning G., delegated by the Nazis as their spy in CIB's offices, had used his evenings and weekends to copy all our confidential material.

Only a few days after the *Anschluss*, the Nazis advised us that 'they would not raise any objections to a transfer of our headquarters to some other place'. This meant that we should

⁷¹⁵ Lee, Stephen J., (2008): *European Dictatorships, 1918-1945*, 4.

⁷¹⁶ ELKA; SSY; 209; SSY Annual report 1938, page 13. CfN; STEF; G1B:2: STEF Annual report 1939, page 14. Germany was an exception. Demand in the German timber market had been growing in the late nineteen-thirties—it was one of the few importing markets in Europe that did grow—but the problem for the exporters, for instance in Finland and Sweden, was how to obtain currency to trade with Germany. On average in the autumn months of the nineteen-thirties, Finnish and Swedish timber firms did not precisely know how much they could sell to Germany in the following year, which made planning difficult. Finland, Sweden, and Russia were the biggest suppliers to Germany, with a yearly volume of 50,000–100,000 std. In 1938, Finland sold thirteen per cent of all its export timber volume to Germany, and Sweden seven per cent.

'get out' and to make this interpretation particularly clear, the Gestapo staged a rather menacing raid on my house, which ended with a warning that this was not their last visit.⁷¹⁷

The *Anschluss* made the ETEC's timber data located in Vienna a potential booty; and its Jewish data master, Egon Glesinger, a prey. He was in immediate danger. Confiscation of Jewish homes and other private property, like cars, firms, cash, and furniture, began immediately after the occupation.⁷¹⁸ According to Bruce Pauley, the Jews were 'purged from the public life of Austria with extreme efficiency' in just a mere three months after 12 March.⁷¹⁹ The Germans admired and even envied the determination and force of the Austrians in their Aryanisation endeavours. By summer 1938, all Jewish people in Austria had been legally deprived of their civil rights and their rights to human dignity.⁷²⁰ Most Jews with public positions or who were state or municipal employers had long been 'on the black list of the Austrian Nazis', and when the day came, tens of thousands of Jews were removed from their jobs without warning and many of them were sent to Dachau. According to his memoir, that was almost Glesinger's fate after the raid on the CIB office, but as he was missing, the Nazis deported his colleague.⁷²¹

'I have not set my foot on Nazi soil again' wrote Egon Glesinger, who moved the CIB and ETEC offices to Brussels, at Rue Neuve 50 in spring and officially from 1 June 1938 onwards.⁷²² Judged by his letters, Glesinger stayed in Brussels at least until September 1939. During a trip to Switzerland in September, he found out that he could not return to Brussels and was forced to stay where he was.⁷²³ He stayed there until at least the end of July 1940; on the official CIB letterhead the address referred to is Bern, Switzerland. In June 1941, Glesinger emigrated to Washington DC and lived there for the rest of his life.⁷²⁴

Austria resigned from the ETEC and left a 300,000 std gap in the cartel calculations. Two thirds of the Austrian timber was from 12 March 1938 onwards directed towards Germany's war preparations, and the rest was sold to Italy and Hungary.⁷²⁵

⁷¹⁷ Glesinger, Egon (1942): *Nazis in the Woodpile; Hitler's Plot for Essential Raw Material*, 149–150.

⁷¹⁸ Pauley, Bruce F. (1992): *From Prejudice to Persecution: A History of Austrian Anti-Semitism*, 279–283, 288.

⁷¹⁹ Pauley, Bruce F. (1992): *From Prejudice to Persecution: A History of Austrian Anti-Semitism*, 283.

⁷²⁰ Pauley, Bruce F. (1992): *From Prejudice to Persecution: A History of Austrian Anti-Semitism*, 282, 285, 290.

⁷²¹ Glesinger, Egon (1942): *Nazis in the Woodpile; Hitler's Plot for Essential Raw Material*, 151–152.

⁷²² Glesinger, Egon (1942): *Nazis in the Woodpile; Hitler's Plot for Essential Raw Material*, 153. CfN; STEF; E3E:4: Meeting minute of the VIII ordinary session of the Executive Committee, 23 and 24 May 1938

⁷²³ CfN; STEF; F1A:408: Letter exchange between Egon Glesinger and J. L. Ekman in September 1939.

⁷²⁴ Glesinger, Egon (1942): *Nazis in the Woodpile; Hitler's Plot for Essential Raw Material*, 153. Information about Glesinger's addresses: CfN; STEF; F1A:408: Letter exchange between J. L. Ekman and Egon Glesinger, 11 and 16 September 1939. CfN; STEF; F1A:407: Letter from Egon Glesinger to J. L. Ekman, 1 December 1938. F1A:302: Letter 31 July 1940 from Egon Glesinger to J. L. Ekman. Letter 20, August 1941 from Gunnar Myrdal to Envoy Boström. RA: Swedish Ministry of Foreign Affairs; 1920 års dossiersystem; H 995: Report No 1: 'Re-establishment of an American office.' By Egon Glesinger, 31 October 1941.

⁷²⁵ CfN; STEF; F1A:407: ETEC general meeting in Stockholm, 16–17 November 1938, first day, page 6.

The 'pessimistic mass-psychosis' of importers

The relations between the importers and the ETEC became all the more strained during the *Anschluss* spring of 1938. Tensions had begun a year ago, in spring 1937, when the boom peak had been reached and the signs of economic depression started to appear. By that point, European importers had established closer, mutual collaboration—which the ETEC leadership disliked—and were starting to challenge the ETEC's quota policies. Collaborating importers had triggered a battle over expertise on simple-sounding issues such as is there too much wood in the market; what is the current and future consumption; how big are the timber stocks; and should importers buy more or less timber from Europe? These kind of debates brought together the grass-roots level of business and the higher level of politics; trade politics intertwined with firm interests. Suspicions over the opponent's true motivations bloomed.

That battle turned into a fully-blown war amidst the deepening depression in the spring and summer of 1938. Essentially, the core of the problem was that the importers' data suggested that there was too much wood in the market and the exporters' data implied that there was barely enough wood in the market. The ETEC leadership and the spokesmen of British and European importers fought over concepts like the level of consumption, the demand of importers, the size of the stock, and trade policies that decreased demand from certain countries and increased demand from others. Both the exporters and importers blamed the other for having corrupted data and practices, and politicised opinions. By the end of 1938, the depression and dispute had changed the way in which the ETEC and importers worked together.

Private consumption of timber had remained very low since January 1938, which cast a long shadow over the market even though government spending as part of war preparations was expected to stay steady or even rise. By March, the Soviets had sold only 130,000 std of their supply of 200,000 std. The Swedes had sold 270,000 std compared with 640,000 std a year ago at the same time.⁷²⁶

In April 1938, importers still had full stocks, and demand was dead.⁷²⁷ The STEF leaders suggested a voluntary production cut for Swedish and Finnish exporters.⁷²⁸ The Soviets tried to resurrect the market by lowering their prices.⁷²⁹ This was considered a major mistake by Swedish and Finnish exporters: the Russian discounts had destroyed the already weak purchasing mood of the importers as they waited for prices to drop even further. The Soviets did not care about the Nordic opinion, dropping their prices again in May and in June.⁷³⁰ The Nordic prices followed the Soviet surge.⁷³¹

⁷²⁶ CfN; STEF; G1B:2: Annual report of STEF 1939, pages 1–5.

⁷²⁷ CfN; STEF; F1A:318: STEF's working committee meeting, 5 April 1938.

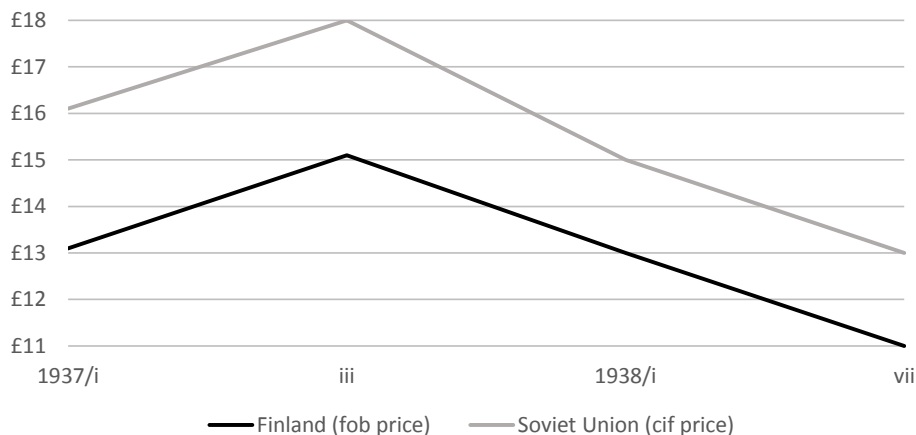
⁷²⁸ CfN; STEF; F1A:318: letter from J. L. Ekman to SSY, 6 April 1938.

⁷²⁹ ELKA; SSY; 209: SSY annual report 1938, 3–4.

⁷³⁰ ELKA; SSY; 209: SSY annual report 1938, 3–4.

⁷³¹ CfN; STEF; F1A:318: STEF's working committee meeting, 5 April 1938. . CfN; STEF; F1A: 315: Letter from T. Munthe from Prague to J. L. Ekman, 19 May 1938.

Figure 11: Finnish and Soviet timber prices (£) in UK 1937–1938



Prices are for 7'' pine scantling, leading South-Finnish and Archangel ports. Finnish prices are fob and Soviet prices cif.⁷³²

(Source: ELKA; 209; SSY Annual reports 1937 and 1938. E. F. Wrede's report '*Puutavaramarkkinain kehitys vuonna 1938 ja toiveet vuoteen 1939 nähden*'.)

J. L. Ekman had received worrying messages from the French, British, Dutch, Belgian, and Danish importers:⁷³³ 'Market as a whole is practically lifeless and the interest in any forward buying spasmodic', wrote Leonard Arnott, one of the leading British importers from Pharaoh Gane & Company. He continued:

In the space of a little over twelve months we have seen a wave of buying optimism which raised the imported quantity and prices to unwarranted levels, to be followed, with little or no warning, by the other extreme, frenzied liquidation of stocks at prices in many cases below cost.⁷³⁴

Importers were pointing their finger at the cartel. Wasn't the ETEC created to avoid these all too familiar cyclical problems? Why didn't the ETEC react? Why hadn't it decreased the yearly quotas? Most acutely, the British importers expected in May 1938 that the ETEC would articulate how the Austrian *Anschluss* might affect the overall ETEC quota and Central European exports to the UK. They also expected a reduction in Finnish and Swedish quotas.⁷³⁵ That, according to the British estimations, might restore some of the importers 'confidence in the market'. Or perhaps the ETEC was now a lost

⁷³² For more information on the difference between cif and fob prices, see page 46.

⁷³³ CfN; STEF; F1A:314: Letters from importers to J. L. Ekman in March, April, and May 1938.

⁷³⁴ CfN; STEF; F1A 314: Letter 16 May 1938 from Leonard Arnott to J. L. Ekman.

⁷³⁵ CfN; STEF; F1A:315: Letter 16 May 1938 from Torsten Landby to J. L. Ekman, 5–6. Report about timber trade in UK, written for J. L. Ekman, 17 May 1938, 6. Letter from Carl Kempe to J. L. Ekman 19 May 1938.

cause altogether; maybe it had lost its momentum in regulating competition. T. Munthe, a London-based importer, wrote these gloomy words to J. L. Ekman:

More and more importers have started to hope for the end of ETEC altogether.⁷³⁶

Importers, since the late nineteen-twenties, had supported the idea of a quota cartel between the biggest timber producers. Now, after more than two years of that practice, the pessimism of British importers towards the ETEC was more than evident. Clearly, the ETEC was not serving their interests very well. The ETEC's syndic and president felt that the pessimism of British importers was not going to save the market, but just the contrary. It was killing the market, demand, and the ETEC itself: 'Pessimism among timber trading people is almost violent and many grown-up men don't think they have any other function than to talk down the market from morning to evening,' wrote T. Munthe to J. L. Ekman in May 1938.⁷³⁷ Ekman's friendly advice to the importers was that they would do well to snap out of their mass psychosis, and keep calm and carry on buying European timber.⁷³⁸

The ETEC executive committee met in Prague, 23 May. J. L. Ekman and Carl Kempe did not see it as necessary to make a general reduction for the ETEC countries. Consumption had been 'excellent during the past months of this year, at any rate no less than in the corresponding period of last year', but the 'pessimistic mass-psychosis' of competing importing firms was ruining the market.⁷³⁹

I boldly assert that the situation in the wood market today is not due to any statistical reason—it is thus not due to the market being hampered by excessive supplies of wood —, but to psychological reasons. Some buyers have been so completely dominated by these psychological reasons that one can with some reason speak of a pessimistic mass-psychosis, which has led to the buyers abstaining from covering the large requirements that undoubtedly exist. [- -] Much has been said of the large stocks of wood. In the absence of any statistics capable of throwing any light on this question, all information on this point is very unreliable, and should be accepted with great reservation.

All this indicates that consumption has so far been as good as, if not better than, last year. There is also every reason to think that during the remainder of the year consumption will be at least as good as in 1937. [- -] My conclusion is: [- -] the critical situation is not due to there being too much wood available for the British market, but to psychological factors.⁷⁴⁰

⁷³⁶ CfN; STEF; F1A:315: Letter from T. Munthe (working for the import firm Martin Olsson & Sons Ltd, London) to J. L. Ekman 19 May 1938. '*...allt flera importörer börjat uttrycka en förhoppning om ETEC's slopande helt ock hållet.*'

⁷³⁷ CfN; STEF; F1A:315: Letter from T. Munthe (working for the import firm Martin Olsson & Sons Ltd, London) to J. L. Ekman 19 May 1938. '*Som det ny ligger till, är pessimismen bland trävarufolk nästan ohejdad och åtskilliga fullväxta karlar tyckas icke hava någon annan funktion än att prata ner marknaden från morgon till kväll.*'

⁷³⁸ CfN; STEF; E3E:4: ETEC Executive Committee meeting, 23 May 1938, in Prague, J. L. Ekman's opening speech. STEF; F1A:315: Letter from Torsten Landby to J. L. Ekman, 27 May 1938.

⁷³⁹ CfN; STEF; E3E:4: ETEC Executive Committee meeting, 23 May 1938, in Prague, J. L. Ekman's opening speech.

⁷⁴⁰ CfN; STEF; E3E:4: ETEC Executive Committee meeting, 23 May 1938, in Prague, J. L. Ekman's opening speech.

Ekman's estimations about a bright future ahead must have raised eyebrows among the Finns. Things did not seem bright at all. By mid-June, Finland had sold 350,000 std compared with the previous year's 815,000 std.⁷⁴¹ The main enemy at the moment for J. L. Ekman were the importers and their endless pessimism. They were, according to Ekman, intentionally creating panic among the exporters in order to get them to first reduce prices and then lower the quota: 'They would certainly be able to look forward to a record margin of profit,' Ekman said, concluding his analysis. Besides, since output would decrease in 1938 at any case there was no need for the ETEC to change the quota policy. Big Swedish and Finnish exporters, for instance, seeing that demand was dead, had turned a necessity into a virtue and agreed on 21 April about mutual output reduction. This was a gentlemen's agreement of some sort, because neither of the associations, SSY or STEF, had declared any general reduction for either country.⁷⁴² Both Finland and Sweden would decrease their output by 50,000 std in 1938, the rest of the ETEC countries by 30,000, and Canada's supply would drop by 70,000. Ekman also took away decreased Austria's 100,000 std from the ETEC equations.⁷⁴³

Seven weeks after the ETEC executive meeting, twenty importers from Britain, France, the Netherlands, and Belgium met in London.⁷⁴⁴ The importers, in this meeting on 14 July, estimated that the total import requirement for all European markets in 1938 was going to be 2 million std.⁷⁴⁵ Eight months ago the importers and exporters had fixed this figure at 3.6 million std. The meeting was also of the opinion that the ETEC should make a forty percent cut to the current year's total output.⁷⁴⁶ After the meeting, the Timber Trade Federation invited the ETEC to a mutual meeting for a 'full and frank discussion'.⁷⁴⁷ The secretary of the TTF, McVey, wrote to J. L. Ekman that the importers were not thinking of a huge conference, but a smaller one, with a maximum of two people from each ETEC country.

⁷⁴¹ ELKA; SSY; 28: SSY Board meeting, 14 June 1938.

⁷⁴² CfN; STEF; F1A:318: STEF's working committee meeting, 5 April 1938. CfN; STEF; F1A:315: Letter from T. Munthe (working for the import firm Martin Olsson & Sons Ltd, London) to J. L. Ekman, 19 May 1938. STEF: E3E:4: Letter from J. L. Ekman to Exportles, 14 April 1938. J. L. Ekman also invited the Russians to the meeting, but apparently they did not attend. In spring 1938, Finnish sources about reductions—and in fact about anything—became fragmented. The Board of the SSY, or its working committees, did not gather at all between 25 February and mid-July, so no documents exist to construct the events and reactions. However, J. L. Ekman's letter exchange and STEF's working committee do reveal that big firms in both countries cut their output. Also, Ekman's source from London remarked that the Finns might have put up a fight against the reduction if there had been the slightest chance for trading. Enso-Gutzeit, the biggest Finnish timber exporter, for instance, had decided about reductions before the Swedish initiative.

⁷⁴³ CfN; STEF; E3E:4: Press communiqué about the decision of the Executive Committee of the ETEC in the Prague meeting, 30 May 1938. CfN; STEF; F1A:315: Letter from J. L. Ekman to T. Munthe (working for the import firm Martin Olsson & Sons Ltd, London), 1 June 1938.

⁷⁴⁴ CfN; STEF; E3E:4: Letter from Arthur M. McVey (acting secretary at the importers' conference) to J. L. Ekman 14 July 1938.

⁷⁴⁵ CfN; STEF; F1A:315: Letter 13 July 1938 from Gerald Lenanton to J. L. Ekman.

⁷⁴⁶ The British importers were not a unified group. Some supported the idea of forty per cent cut, some were violently against it. Lenanton, for instance, wrote to J.L. Ekman that the importers had 'exaggerated the position so wildly that no serious person is likely to pay great attention to their conclusions'.

⁷⁴⁷ CfN; STEF; F1A:315: Letter 13 July 1938 from Gerald Lenanton to J. L. Ekman.

The ETEC leadership rejected the Timber Trade Federation's proposal of an importer–exporter meeting on account of the fact that the importers' 'deplorable inacquaintance with statistical datas', had meant that they had misinterpreted the market so badly that no sound basis for discussion existed. The importers were pessimistic; and this sort of pessimism, according to Kempe, only served 'special interests', i.e. speculation.⁷⁴⁸ Kemp nevertheless assured Major Harris that he was interested in other forms of collaboration and exchange of data, but just not in the form of yet another pointless meeting between the ETEC and importers.⁷⁴⁹ The war of experts had proceeded to the point in which the parties had abandoned the poetic metaphors of sick bodies and moved on to blaming each other for being ill in the form of mass-psychosis or at least suffering from bad data and a severe lack of understanding. The importers and exporters had a long-standing disagreement about who had the most reliable data and who knew best what was happening in the timber market in the forthcoming six months. Ekman wrote to Lenanton:

What you say confirms again of how little value the statistical guesses are worth even when given by men who pretend to know something about the trade. I think they should have avoided to use statistics when they make a new attempt to ruin the market.⁷⁵⁰

ETEC's rejection of the importer–exporter meeting at the end of July 1938 set forth a wave of criticism on the importers' side.⁷⁵¹ The president of the Dutch timber importing association, the *Nederlandsche Houtbond*, protested strongly against Ekman's allegations of thoroughly false data that served speculators: their data came from the Central Bureau of Statistics operating in the Hague and did not have any biases related with company interests.⁷⁵² 'After this refusal from your part, the affair will get stuck, which I should highly regret,' the president of the *Nederlandsche Houtbond* wrote on 13 August. Now it was the importers' turn to accuse the ETEC of ruining the market by their arrogance. Another Dutch importer remarked sourly that the exporters' statistics did not always match the reality in the importing countries either.⁷⁵³ Major Harris admitted that the importers had made erratic estimations in the past—but their errors were not a matter of being overly pessimistic, but of not being 'pessimistic enough'.⁷⁵⁴

One way of getting around the approaching deadlock between the importers and the ETEC was to find another form of communication. The ETEC leaders had one idea that both the British and the rest of the European importers more or less agreed with. That was abandoning big conferences and replacing

⁷⁴⁸ CfN; STEF; E3E:4: Letter 30 July 1938 from Carl Kempe to Major Harris. The letter itself is without date and signature, but Major Harris's reply on 2 August 1938 confirms the date.

⁷⁴⁹ CfN; STEF; E3E:4: Letter 30 July 1938 from Carl Kempe to Major Harris. The letter itself is without date and signature, but Major Harris's reply on 2 August 1938 confirms the date.

⁷⁵⁰ CfN; STEF; F1A:315: Letter 16 July 1938 from J. L. Ekman to Gerald Lenanton.

⁷⁵¹ CfN; STEF; F1A:315: Letters from the British, Dutch and Belgian importers in August 1938.

⁷⁵² CfN; STEF; F1A:315: Letters 13, 16, and 19 August 1938 from the *Nederlandsche Houtbond* to J. L. Ekman. Also Letter 25 August 1938 from von Calcar to J. L. Ekman.

⁷⁵³ CfN; STEF; F1A:315: Letter 17 August 1938 from an unknown person representing Dutch importers and referring to himself as 'president' (signature is unclear) to J. L. Ekman.

⁷⁵⁴ CfN; STEF; E3E:4: Letter 2 August 1938 from Major Harris to Carl Kempe.

them with smaller committees.⁷⁵⁵ Obviously, the ETEC leadership and the importers come to realise what the Finns had been struggling with throughout the nineteen-thirties: a large number of timber trade people leads to a large mess, while smaller committees can make unified decisions. The SSSY Board, for instance, had turned out to be too big and discordant to make decisions, but the much smaller Finnish ETEC organisation was more unified and effective. Smaller ETEC meetings could, of course, lead to new commercial rivalries as only a fraction of importing interests were represented in the smaller committees. Then again, the leadership of the ETEC was ready to try out something else than big conferences that 'just leave behind a memory of pleasant lunch and beautiful words about the significance of collaboration', as Kempe wrote to one of the head men of the French importing interests, Mr. P. Pagniez.⁷⁵⁶

What was wrong with big conferences? According to J. L. Ekman, they lacked confidentiality, and this led to distorted information: 'I have found not only now but since many years back, how disinclined people generally are to give their full opinion of the position in the presence of competitors. . . [-] We doubt that the method of big conferences is the right one,' wrote J. L. Ekman to von Calcar in Groningen.⁷⁵⁷ It becomes evident in the letter exchange that J. L. Ekman did not trust data that one importer gave when another importer was listening.⁷⁵⁸ The competitors did not want to be too open about their businesses. They necessarily did not want to reveal the true state of affairs about their stock or details about trading and their customers. Ekman wrote to von Calcar on 29 August:

Now, do you really believe that deliberations at such a big meeting would be of the open and candid character as if such deliberations get the character of personal exchange of views? It is only natural and human that this will not be the case.⁷⁵⁹

Big conferences meant heterogeneous firms; their size, the financing of their business, product niche, and strategies to acquire and sell goods varied. Booms and downturns did not treat these firms equally. Some benefited from booms while others profited from depressions, and both groups promoted either one or the other depending on which benefited them more. Rumours were spread to boost booms or deepen depressions. Some importers chose to sell their stock in a falling market or even at a loss, hoping to regain the loss by cheap purchases; others left their stocks untouched and waited for better times.⁷⁶⁰

Deborah Spar writes in *Cooperative Edge* that cartel negotiations benefit from their unofficial character, from secrecy, exclusivity, and informality. Conversely, when cartels are negotiated in the public realm, bargaining becomes more difficult because innuendoes, false attacks, strategic retreats

⁷⁵⁵ CfN; STEF; F1A:315: Letters 13 and 16 August 1938 from the Nederlandsche Houtbond to J. L. Ekman. Letter 23 August 1938 from J. L. Ekman to Calcar. Ekman also favoured the idea that he could interview the importers' individually and then draw conclusions about their interpretation. Letter 25 August 1938 from von Calcar to J. L. Ekman.

⁷⁵⁶ CfN; STEF; E3E:4: Letter 11 August 1938 from Carl Kempe. To P. Pagniez. 'Det torde vara obehövt för mig att understryka, huru intressad jag är av allt samarbete, som verkligen kan leda till konkreta resultat och icke blott efterlämna minnet av en angenäm middag med vackra tal om samarbetets betydelse.'

⁷⁵⁷ CfN; STEF; F1A:314: Letter 23 August 1938 from J. L. Ekman to von Calcar.

⁷⁵⁸ CfN; STEF; F1A:314: Letter 25 August 1938 from von Calcar to J. L. Ekman.

⁷⁵⁹ CfN; STEF; F1A:314: Letter 29 August 1938 from J. L. Ekman to von Calcar.

⁷⁶⁰ CfN; STEF; F1A:314: Letters 23 and 29 August 1938 from J. L. Ekman to von Calcar.

and concessions, which in private negotiation would not be taken literally but as a part of the game, are taken seriously and literally.⁷⁶¹ Spar notes that a small number of members can facilitate exclusivity, secrecy, and informality. The more participants there are in the negotiation, the more difficult it becomes to identify each one's interests.⁷⁶² It is clear that the ETEC leadership and the importers were, throughout 1938, in the process of finding out the same conclusion: grand public negotiations—which a couple of years back had included great publicity with press pictures and journalists present, Cadillac rides, and caviar and champagne dinners—⁷⁶³were simply an outdated method of exchanging information between competitors.

War of experts, the economic depression, and political shocks changed the ETEC in 1938. Based on disappointing experiences of big data-distorting conferences, J. L. Ekman started to look for new avenues towards more effective collaboration. The first signs of this had been the voluntary Finnish–Swedish production cut in spring 1938, which did not go through any formal, heavy processes within the ETEC or even within the Swedish and Finnish timber trade organisations STEF and SSY. Ekman made sure, however, that the importers and the 'market' knew about this reduction; but the way in which information about this reduction was conveyed did not follow previous ETEC patterns. In August 1938, J. L. Ekman vigorously promoted a 6,5 per cent cut for Nordic and Soviet output which would fall mainly upon British exports, but specifically avoided organising any 'official' ETEC event to inform firms about this reduction.⁷⁶⁴ Instead, he negotiated bringing down the export quotas in smaller, private meetings and personal letter exchange in August and early September.⁷⁶⁵ It worked; *Svenska Dagbladet* wrote this headline on 3 September: 'Timber export quota has further sunk—Situation in market brighter.'⁷⁶⁶ Cartel proceedings went underground.

J. L. Ekman was interested in stopping big conferences altogether and in restoring the pre-1937 system. In this mode of operation he or his trusted colleagues made trips to Europe and talked personally with many importers in order to get a full picture of the stock, consumption, and trade policies in different countries. The British and the Dutch importing association had nothing against smaller, private meetings, but they were suspicious about the idea that J. L. Ekman would again be the only channel between European importers and exporters. The importers also wanted to be considered as an independent group, directly communicating with the ETEC countries as such, and not just through the secretary of the ETEC.⁷⁶⁷

⁷⁶¹ Spar, Debora L. (1994): *The Cooperative Edge: The Internal Politics of International Cartels*, 29–32.

⁷⁶² Spar, Debora L. (1994): *The Cooperative Edge: The Internal Politics of International Cartels*, 240–241.

⁷⁶³ Glesinger, Egon (1942): *Nazis in the Woodpile; Hitler's Plot for Essential Raw Material*, 111–112.

⁷⁶⁴ CfN; STEF; F1A:314; Letter 7 September 1938 from a Dutch importer to J. L. Ekman.

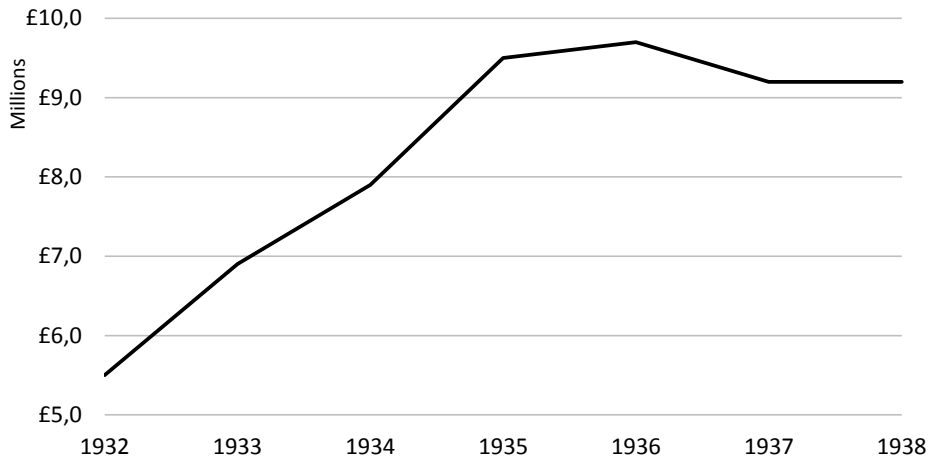
⁷⁶⁵ CfN; STEF; E3E:4; Letter 14 April 1938 from J. L. Ekman to Exportles. Telegram 2 August 1938 from Chernow to J. L. Ekman. Letter 4 August 1938 from J. L. Ekman to Gunnar Jaatinen. Letters 11 August and 1 September 1938 from J. L. Ekman to W. Tschernow. A similar small group reduction to UK exports was made in November 1937.

⁷⁶⁶ *Svenska Dagbladet* 3 September 1938. 'Träexportkvoten har ytterligare sänkts—Läget på marknaden ljusare.'

⁷⁶⁷ CfN; STEF; F1A:314; Letter 13 August 1938 from the Nederlandsche Houtbond to J. L. Ekman, 25 August 1938 from von Calcar to Ekman.

The autumn market opened sluggishly in 1938. Demand was not entirely dead, but it was not exactly vibrant either. Consumption in the British building industry was in a depression after the peak years of 1936 and 1937:

Figure 12: Value (£) of building permits in UK 1932-1938



(Source: ELKA; SSY; 209; Annual report 1938, 2. The SSY used figures from the British Ministry of Labour.)

The 6.5 per cent reduction in the year's output that the ETEC made in September was the third cut in 1938. The ETEC total output for 1938 was now 3.2 million std, which was 400,000 std less than what had been agreed on in September 1937 in the ETEC general meeting—and 800,000 std less than in 1937.

The ETEC had been created to bring stability to the timber market. Stability in output quantities was expected to show as stability in the price levels as well as in the relations between the exporters and importers. None of these hopes turned into reality. The output quantities and price level fluctuated from one year to another, and the relations between the importers and exporters were more strained than ever. The repeated reductions which the importers had hoped from the ETEC did not lead to sounder relations between importers and exporters, as the situation in late 1938 showed. In the importers' minds, the ETEC leaders had always been two steps behind the real situation during the 1937–1938 slump. On 8 September, Major Harris, the president of the Timber Trade Federation, made an official proposal to the ETEC to form a British sub-quota in the 1939 agreement.⁷⁶⁸ The importers fostered hopes that the ETEC general meeting, due in late November, would be favourable towards this request. Their hopes proved to be false. As long as Canada and the United States exported unrestrictedly to Great Britain, the ETEC would not set sub-quotas. Behind the scenes, Egon Glesinger had taken liberties in discussing with Canadian and British interests about British sub-quotas and

⁷⁶⁸ CfN; STEF; F1A:407: Letter 5 November 1938 from Egon Glesinger to J. L. Ekman. Letter 29 November from Major Harris to J. L. Ekman.

Canadian ETEC inclusion—and in fact, his undertakings contributed to another war of experts. This time it did not occur in the importer–exporter axis, but within the leadership of the ETEC.⁷⁶⁹

The war of experts between the ETEC and the British importers continued until late November in letter exchange. Both were convinced that the other camp was wrong, was suffering from mass-psychosis, was deliberately driving European exporters into a crisis through favouring Canada, or had airy-fairy dreams about consumption. The fact was that, by 1 October, the UK had bought altogether 1 million std of softwood timber, while a year earlier the respective number had been 1.5 million.⁷⁷⁰ W. N. Hillas, who had written in late 1937 about doctors, sick bodies, burning houses, and babies to create a compelling rhetoric to convince the ETEC leadership of the approaching problem, now came up with further metaphorical innovations. He compared the ETEC to an amateur artist who was not only seriously untalented but also hopelessly stubborn:

I notice you say that it is considered to be of great importance to all parties that as true a picture as possible should be given of the market position. I agree, and would like to add that I like true picture, but the artist who have been painting during the last eighteen months have failed entirely to produce anything like a resemblance to what was in front of them. I did my level best eighteen months ago to instil into the minds of the artists that the pictures they had and were painting were almost upside down, and I am afraid there will be reproductions.

Were I a shipper I would try and remember this year to take heed of what has been said. Another point which I hope will eventually sink in is that the importer is able to give as good an account of the market as any other interested party.⁷⁷¹

Escalating ETEC antagonism in Finland

The focus of this chapter has been on international problems in the ETEC between summer 1937 and autumn 1938. However, problems in the national implementation of the ETEC—which were also discussed in detail in the case of Finland in the previous chapter—continued to exist in 1937 and 1938. Many firms remained disloyal towards their quotas and the Finnish ETEC organisation struggled with inadequate powers to control the firms. The Finnish cartel leadership regularly threatened government and bank intervention, but hard talk did not erase the antagonism towards cartel. Between spring 1937 and autumn 1938, it dawned on the Finnish ETEC organisation that it had not only failed to control Finnish timber exports, but also that there would no longer be any stronger coercive tools available for them than those they had already tried. ‘Methods do not exist to force exporters to reduce their production in 1937,’ concluded von Julin.⁷⁷² All the hard talk about government intervention, licensing the timber trade, and limiting credits from disloyal exporters—which had been going on more or less since 1931—clearly did not have any effect on the production ideas of the exporters.⁷⁷³ Existing firms practised their right to trade and the boom in 1936 had even brought new firms into being: ‘As long as freedom of enterprise exists in this country, the Control

⁷⁶⁹ CfN; STEF; F1A:407: Letter 5 November 1938 from Egon Glesinger to J. L. Ekman.

⁷⁷⁰ ELKA; SSY; 209: Wrede’s report, page 3.

⁷⁷¹ CfN; STEF; F1A:407: Letter from W. N. Hillas to J. L. Ekman, 8 November 1938.

⁷⁷² ELKA; SSY; 96: ETEC delegation meeting 26 September 1937. ‘*Några maktmedel att påtvinga avlastarna minskningen redan under 1937 förefanns icke.*’

⁷⁷³ Paloheimo archive; 10313:1: SSY Board meeting, 3 September 1937.

Committee cannot do anything to prevent the creation of new companies,' summed up Professor Martti Levón.⁷⁷⁴

When the Finnish ETEC organisation prepared the timber firms for the exports in 1938, it clearly stated that quotas for firms would remain at the same level, or decrease, compared with the previous year, which was 1,005,000 std. However, the Finnish ETEC organisation received export license applications amounting to 1,225,919 std. Judged by the felling volumes in 1937, which had been 315 million cubic metres compared with 253 million cubic metres in the previous year, the firms were in practice about to increase their exports.⁷⁷⁵ Axel Solitander's task of getting rid of over 200,000 std was 'overwhelming'—even getting rid of 40,000 std in 1936 had proved to be impossible.⁷⁷⁶

The discussions in the SSY Board in autumn 1937 show that the Finnish cartel leadership was, above all, confused. It was confused over the reasons why the firms prepared to overproduce despite repeated threats of government intervention, warning shots from the Ministry of Trade and Industry, and the energetic efforts of banks to keep production volumes under control in order. The Board was also confused over the future; if everything that had been done so far did not help, what were they going to do with the gigantic 200,000 or even 300,000 std overproduction in 1938? There were many questions, quarrels, and disputes, but fewer solutions, answers, and plans how to proceed. The head of the Control Committee, Axel Solitander, demanded improved control methods for the Finnish ETEC to control exporters and even Jacob von Julin, the chairman of the SSY Board, predicted that the state would intervene in the timber regulation question if the exporters did not follow the quotas voluntarily.⁷⁷⁷ Many important SSY members—like the CEO's of Enso-Gutzeit, Halla, Kemi, Finnish Woodexport, and Hackman & Co—openly opposed production reductions in 1938 and were very sceptical towards the ETEC and the continuous threat of government intervention in the Finnish timber trade. The discussions were in effect a loop of arguments about the necessity and impossibility of government intervention, which the cartel leadership both feared and called for. Since 1931, the government had been represented as the moral guardian of a multilateral timber cartel which could, at any time, take over the cartel leadership if the exporters failed to self-regulate voluntarily. When the SSY Board addressed the exporters, in general meetings for instance, it was typical to underline what would happen if the voluntary path was not taken as von Julin pointed out on 7 October 1937:

⁷⁷⁴ ELKA; SSY; 27: SSY Board meeting, 7 October 1937. '*...så länge näringsfrihet rådde i landet, Kontrollkommittén ägde ingen möjlighet att förhindra uppkomsten av nya företag.*'

⁷⁷⁵ ELKA; SSY; 96: ETEC delegation, 3 September 1937. The statistics of the Control Committee showed that, in per cents, the new and small timber firms showed the biggest increases in export licences. The export applications of the big firms (producing over 10,000 std/year) had increased only 5.2 %, while those of the small firms (producing less than 2,000 std / year) had increased by 30%. The statistics do not show how much in total std these percentages represented.

⁷⁷⁶ ELKA; SSY; 27: SSY Board 3 September 1937. '*Att nedpressa kvantiteterna till 1.005.000 stds och därunder var dock, med de medel som stodo Kontrollkommittén till buds, en övermäktig uppgift.*'

⁷⁷⁷ ELKA; SSY; 96: ETEC delegation meeting, 26 September 1937. '*Lyckades icke sågägarna nu ordna saken, var ett ingripande från statsmaktens sida att befara.*'

It is a matter of honour to the Finnish sawmill owners to make the necessary reduction voluntarily. International conventions need to be followed. If not, the state will intervene in the matter, which is a form of patronage this sector must avoid.⁷⁷⁸

The SSY Board was ambiguous about what would be worse: betraying the timber exporters of their own country through introducing government intervention, or betraying the international community of the ETEC through exceeding the mutually agreed export quotas, and through that, possibly wrecking the ETEC altogether and harming the Finnish reputation abroad. The majority of the SSY Board supported the latter option—largely because the likelihood of making the government a legal guardian of the cartel was extremely small. The ETEC antagonists on the SSY Board exported forty per cent of Finland's yearly exports, so their opinion mattered.⁷⁷⁹ They could in effect paralyse the SSY Board.

The most practical assistance for the Finnish ETEC organisation in matters of control was provided by the crediting banks. Inspection reports from spring 1938 suggest that the banks had an influence on the production volume of at least the small and mid-sized firms which needed credit. The example below shows that dependency of firms on banks was considered a good thing from the perspective of cartel control. Interestingly enough, the report mentions 'conciliatory persuasion' as the only way to handle the independent firm owners, suggesting that there were also other ways of handling them:

A. Ranta is demanding for his sawmills, Jokisivun Saha and Vehmaisten Saha, an export quota of 1,539 std. Considering the production capacity of these single-frame saws, we cannot accept that kind of demand. The impression we get from A. Ranta is that conciliatory persuasion is the only way to achieve any results with him. He is entirely independent of creditors and can easily violate this agreement, as he has said himself, should his demands not be met.⁷⁸⁰

The lack of actual possibilities to improve control methods showed in the SSY Board's policy throughout 1937 and 1938. It sent the Finnish ETEC delegation, for instance, to the ETEC's general meeting in October 1937, without any strategy how to restrict the Finnish firms—other than by hoping that the natural boom–bust cycles of the timber trade, which at the time were dipping towards bust,

⁷⁷⁸ *'Itsestään selvää on että sopimus on ratifioitava, sillä jos Suomi, suurin vientimaa, ei sitä tekisi, merkitsisi se markkinoiden täydellistä luhistumista ja aikaansaattaisi laskemattomia tappioita kullekin yksityiselle viejälle ja maalle kokonaisuudessaan.[- -] Suomen sahanomistajille on kunnia-asia vapaaehtoisesti aikaansaada tarvittava vähennys vientiosuuksissa. Kansainvälistä sopimusta on seurattava, koska muussa tapauksessa on vaara tarjolla että valtiomahti puuttuu asiaan, jollaista holhousta tällä alalla ehdottomasti on pyrittävä välttämään.'* ELKA; SSY; 27: SSY Board meeting, 7 October 1937. Jacob von Julin wanted to show an example of creating a culture of collaboration and personally promised to reduce production by fifteen per cent in his own firm, Kaukas Fabrik, between October 1937 and December 1938. 'Considering the high stakes in the game, sacrifices are not a major problem and results need to be delivered soon,' he said, and urged his colleagues on the SSY Board to do the same.

⁷⁷⁹ ELKA; SSY; 1124; Quotas per firms in 1938 and 1939, undated, from early 1939.

⁷⁸⁰ ELKA; SSY; 1124: Field report, 14 March 1938. 'A. Ranta vaatii omistamalleen Jokisivun Sahalle sekä vuokraamalleen Vehmaisten Sahalle yhteensä 1.539 std, mihin vaatimukseen näiden yksiraamisten sahojen kapasiteetin huomioon ottaen emme katsoneet voivamme suostus. Meidän hra Rannasta saamamme käsitysten mukaan on sovinallinen suostuttelu ainoa, mikä johtaa tulokseen hänen kanssaan. Hän on luotonantajista täysin riippumaton ja saattaa ryhtyä helposti tämän sopimuksen rikkojaksi, kuten hän meille nimenomaan sanoi ellei hänen määränsä suostuta.'

would do what the cartel organisation could not. The Finnish delegation brought home a 904,000 std quota—in recent years, the Finns had sold that much before March—which made the volume of potential overproduction as high as 300,000 std in 1938.⁷⁸¹ Another similar situation was prior to the ETEC executive meeting in Warsaw in January 1938, which was an occasion to make further reductions to the ETEC quota for 1938. While most of the SSY Board was totally against this policy, others on the Board considered that Finland might have to swallow the additional five percent reduction. The discordant SSY Board came to no decision about how Finland should vote in Warsaw, and the delegation went there ‘without a programme’, as von Julin explained.⁷⁸²

‘The ETEC is more harmful than beneficial and it should be removed from the world in some proper way,’ said Halla’s CEO Ekholm in a SSY Board meeting before the ETEC executive meeting in Warsaw on 10 January 1938.⁷⁸³ He also hoped that the SSY would send an unauthorised delegation from Finland to the ETEC’s meeting in Warsaw which would not be able to decide or vote on behalf of the country. In that way Finland would be present at the event—it was not in a position to be away either—but this participation would not automatically incur any obligations. According to Ekholm, an unauthorised delegation could ‘win time’ for Finland. Walter Rosenlew suggested that the Finnish delegation at the Warsaw meeting could propose that reducing the quota should be postponed until May or June.⁷⁸⁴ He was obviously not aware of the pressures that the ETEC leadership was experiencing from European importers—the idea of postponing the additional quota increase to summer would most likely be received as a declaration of war by the importers. Jacob von Julin, the chairman of the SSY Board, was sorry to see such broad opposition towards the ETEC, for to him this opposition was more harmful than the ETEC. He underlined to the SSY Board that if it lost its initiative and decision-making ability on account of discordances, the Finnish timber industry would easily become an object of state intervention:

The significance [of the ETEC agreement] should not be underestimated. The Finnish Sawmill Owners’ Association has negotiated for 15 years with the Russians and Swedes to bring about

⁷⁸¹ ELKA; SSY; 27: SSY Board meeting, 7 October 1937. The formulation was somewhat problematic given that the Control Committee had not actually come to an agreement about the quotas for 1937 with many firms.

⁷⁸² ELKA; SSY; 28: SSY Board meeting, 10 January 1938 (Pro memoria). Also, the big exporters in Sweden had been restless about the ETEC. Some of the big firms, like Kopparfors and Törefors, had in April 1938 applied from STEF to be exempted from the export decreases. The Finns estimated that Sweden was in an even more troublesome situation with their efforts to keep their exports within the ETEC limits. Likewise in Finland, there were no coercive powers to force firms to honour their timber export quotas. Furthermore, the STEF controlled only eighty per cent of the country’s export and outsiders’ production was increasing in Sweden. The Swedish system had been one that rested upon the STEF members, who were expected to decrease their production output if the ETEC outsiders increased theirs. How long would these dutiful firms continue to make quota concessions to the free-riders? CfN; STEF; F1A:318: STEF’s working committee meeting, 5 April 1938.

⁷⁸³ ‘E.T.E.C-avtalet vara mera till skada än till nytta och borde därför på lämpligt sätt fås ur världen.’ ELKA; SSY; 28: SSY Board meeting, 10 January 1938.

⁷⁸⁴ ELKA; SSY; 28: SSY Board meeting, 10 January 1938.

this agreement to prevent state intervention. This possibility should be taken into consideration.⁷⁸⁵

Von Julin's words about fifteen years of work with the eastern and western neighbours was something of an overstatement. Nevertheless, the excerpt above is a strong statement about why the SSY had been negotiating since 1931 about an international timber cartel. It was not because firms had spontaneously expressed their willingness to collaborate, nor because the SSY's Board thought it was a brilliant idea; the SSY had negotiated 'to prevent state intervention'.

Eventually, the Finnish ETEC organisation after the Warsaw meeting repeated the usual choreography; they informed exporters about the reductions and sent the field inspectors of the Control Committee to see that the small exporter understood these orders.⁷⁸⁶ The inspectors often operated with firms that exported 300 or 900 std a year and which exceeded their quota by 150 std.⁷⁸⁷ It is interesting that human resources in controlling the Finnish export volumes were organised in this way, while at the same time the Finnish ETEC organisation was struggling with potentially massive overproduction.

Nightmarish overproduction did not, however, become a reality in 1938. The combination of high raw material prices, low prices of timber, and low demand led to a commercial failure for firms—but this combination did what the field inspectors failed to do, i.e., decrease Finnish production to below the ETEC quotas.

The leading men in the Finnish timber trade tried to draw attention to the bright side of the ETEC. According to Wrede, the process of building the control system in Finland had created valuable processes and practices for the Finnish timber trade. The SSY could control the small and mid-sized exporters—and temporary exporters—'which have always been a very unpredictable and surprising factor,' as Wrede put it.⁷⁸⁸ Moreover, 'the agreement has enabled the creation of statistics of timber firms' production conditions and the supervision of their commercial activity and timber export volumes.'⁷⁸⁹ The SSY could not even control the association outsiders, and Wrede was paradoxically planning that the outsiders could form a separate unit within the SSY in the future. It is, of course, likely that the small firms and the SSY outsiders did not consider the ETEC control processes to be as valuable as the SSY leadership did. For them, ETEC control meant that the banks kept an eye on their raw material purchases and production volumes and apportioned credit according to the quotas that the Finnish ETEC organisation allocated to the firm.

⁷⁸⁵ ELKA; SSY; 28: SSY Board meeting, 10 January 1938. '*...betydelsen härav icke borde underskattas. Finska Sågverksägareföreningen hade under 15 år förhandlat med svenska och ryssarna i syfte att få detta avtal till stånd för undvikande av ett ingripande från statsmaktens sida. Denna möjlighet bör tagas i betraktande, innan det internationella samarbetet uppgives.*'

⁷⁸⁶ ELKA; SSY; 96: Field inspector's reports February, April, June, July, August 1938.

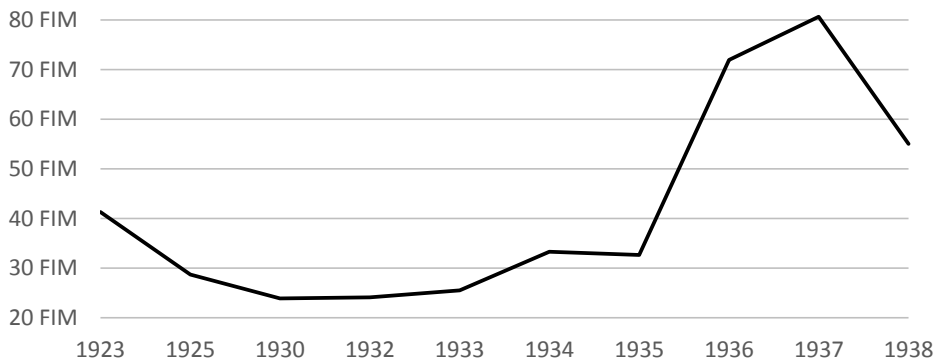
⁷⁸⁷ ELKA; SSY; 28: SSY Board meeting, 14 February 1938.

⁷⁸⁸ Paloheimo archive; 10313:1: SSY; SSY Board meeting, 10 October 1938. '*ETEC [- -] on tehnyt mahdolliseksi rajoittaa ja kontrolloida myös maamme piensahateollisuutta ja tilapäisiä sahatavarantiejiä, jotka aina ovat muodostaneet erittäin epävarman ja yllätyksellisen tekijän sahatavaramarkkinoilla.*'

⁷⁸⁹ Paloheimo archive; 10313:1: SSY Board meeting, 10 October 1938. '*Sopimuksen avulla on myöskin voitu luoda tarkka tilasto Sahanomistajayhdistyksen ulkopuolella olevien sahojen tuotantoedellytyksistä sekä valvoa niiden myyntitoimintaa ja sahatavarain vientimääriä.*'

The Finnish forest owners benefited from the ETEC. The stumpage price had shown a perky upward trend since the signing of the ETEC agreement in December 1935 up until 1937. The profit marginal for timber exporters was thin, particularly from summer 1937 to the end of 1938; after all, they were selling something that they had bought dearly in 1936 and 1937. Rising stumpage prices—along with lack of demand, of course—were also the reason why the Finnish firms had cut their output in spring 1937 and why the Finnish ETEC organisation did not have to worry about the country exceeding the ETEC quota in 1938.

Figure 13: Stumpage price (FIM) in the Finnish state’s forest auctions 1923–1937



Average prices per trunk in Finnish marks

(Source: Statistical Yearbook of Finland 1938 and 1939. *Valtionmetsistä huutokaupalla pystyyn myydyt sahapuut.*)

The period from spring 1937 to autumn 1938 shows that the ETEC organisation did not react very strongly to the fact that Finland exceeded its ETEC quota in 1937. Overproductions and overlying quotas were tasks that belonged to the ETEC’s technical committee, which would sort it out in the first meeting of each year. Documentation concerning these meetings is thin, but what we do know does not suggest that overproduction led to any repercussions. The ETEC did not fine or even scold Finland, nor did the issue raise any debates in the technical committee or in Finland itself.

Summary and discussion

This chapter has explored how the ETEC was steered through the depression and how it changed the cartel. The results show that the depression triggered a conflict between the leadership of the ETEC and the importers concerning the appropriate level of timber output in Europe. The conflict exposed a fundamental problem of the ETEC, which was undoubtedly one of the core issues in all commodity quota cartels, namely who decides the right level of output and on what grounds? Cartels are data clubs where the members predict future demand, direction of macro-economy, cost of production, and changes in the currency values. Data is not neutral, however. If the statistics of the exporters showed that there was just about enough timber in the market, while the importers’ data showed

that the stocks were full and no one was buying, which one was right?⁷⁹⁰ The ETEC leadership decided that international commodity cartels needed to be managed on a scientific basis and with sound and solid data. They estimated that the ETEC possessed broader and more 'neutral' data than individual importers and their national associations. The ETEC leadership also gave assurances that they had absolutely no reason whatsoever to distort their data, unlike the importers, who wanted to 'talk down' the market in order to accelerate the price fall.

The ETEC documentation from spring 1937 to late 1938 shows that the ETEC's idea about scientific and neutral data intertwined with trade politics. The ETEC wanted, through following certain quotas, to neutralise unfavourable trade politics towards European timber exporters. The UK, for instance, had steadily increased its timber trade with Canada and, conversely, decreased imports from the European countries, Finland and Sweden in particular. The ETEC did not want to become a tool of British trade policies and Ekman expressed this opinion in his exchange of letters with the British importers. The ETEC leadership stated that no statistics showed that Britain needed less timber; in fact, the case was the opposite. Importers considered this view foolish and stubborn. ETEC documentation also shows that the 'stubborn' quota policy stemmed, besides fighting against unfavourable trade policies, from recognising the psychological impact of the cartel. The leadership of the ETEC seemed to have been aware that cartels did not only work on the material level where less commodity mechanically led to higher prices, but booms flourished and downturns deteriorated in the minds of the people trading with timber. Until the end of 1937, the ETEC leadership ignored the growing worry of importers about full stocks and excess supply based on the idea that, if the ETEC admitted publicly that the market was in a depression, it would only worsen the situation. Exporters would lower their prices in order to get rid of their stock and trading activity would fall off the cliff. Moreover, hanging on to the original year quota of 1937 was the ETEC's way of signalling that the market was normal and there was no need for anyone to panic. The ETEC had been set up to create output stability and until the end of 1937 the ETEC was doing just that by refusing to reassess the quota. In 1938, the ETEC abandoned this policy and made three smallish production cuts.

1938 wore away at the ETEC in many ways. One aspect contributing to its erosion was the cartel maths which had become muddled as a result of the conflict between the ETEC leadership and British importers regarding cutting the quota in autumn 1937. The ETEC decided to keep 400,000 std of timber off the market between October and December 1937—again, there did not exist any nationally coordinated stock where excess timber was stored, but all ETEC partners solved the export restriction individually. It was not a production cut, but a pause in shipping—and it tangled the ETEC's cartel maths. In 1938, the firms were expected to decrease their production, but at the same time, they had the right to ship the 'unused' quota from the pause months of 1937. The importers lost their trust in the ETEC, which followed contradictory quota policies. Losing faith in the self-regulation of exporters was a change in a longer tradition of British importers which had supported cooperation rather than cut-throat competition between the biggest exporters.

Another aspect which wore away at the ETEC during the 1937–1938 depression was the way in which its meetings were organised. The leadership of the ETEC, J. L. Ekman and Carl Kempe, discovered the

⁷⁹⁰ On the problem of establishing credible statistics on European timber trade in the nineteen-thirties, see Bemmann, 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*.

same as cartel researcher Deborah Spar discussed six decades later in her theory on the significance of secrecy and exclusivity behind successful cartels. Ekman and Kempe remarked that many ETEC meetings were too big to exchange information confidentially. Dozens of people attended, including reporters, bankers, and diplomatic staff, and of course timber trade competitors. The information that the importers offered in the presence of their competitors was often unreliable, and the communication between the exporting countries was plagued by similar problems. Competitors did not speak honestly, but window-dressed, exaggerated, underrated, hedged, and coloured information in the large ETEC meetings.

The analysis on the behaviour of the Finnish delegation in the ETEC meetings confirms the cartel leadership's misgivings. The Finns hardly ever reported the real situation in the ETEC meetings—such as the lack of support of many big firms, the lack of coercive measures, potential over-production and so forth—because the ETEC meetings was too public and too big, lacking privacy, confidentiality, exclusivity, and other such virtues of successful cartels. The biggest ETEC country could not admit failures; it feared of 'foreign pressure' as well as increased supervision of the Finnish government over timber trade issues if failures were detected. During the spring and summer 1938, the leadership of the ETEC changed the practices of the ETEC and started working in smaller, more private meetings. The negotiation results were made public, of course, but the process of getting there enjoyed more privacy.

This chapter shows that the overtures of World War II in continental Europe reshaped the ETEC in 1938. The ETEC lost two members, first on 12 March when Germany annexed Austria to the Reich, and then Czechoslovakia half a year later. The Austrian *Anschluss* weakened one of the top positions of the ETEC as the general secretary, Egon Glesinger, had to leave Vienna in spring 1938, where he had resided and conducted his duties as the ETEC data master. Other things, like exceeding his jurisdiction, also contributed to Glesinger's weakening position in the ETEC.

The focus of this chapter has mostly been on the ETEC's international level, but remarks have also been made about the national implementation of the ETEC in Finland between summer 1937 and autumn 1938. The results show that the national implementation of the ETEC suffered from the same problems as analysed in the previous chapter. In 1937–1938, many big firms did not honour the ETEC quotas, and in 1937 were prepared to export a quantity that exceeded the Finnish quota by 300,000 std. Eventually in 1937 Finland exceeded its ETEC quota by 70,000 std, which was almost twice as much as in 1936. Deviation from the ETEC norms did not lead to bigger repercussions from the ETEC leadership, such as fines.

According to cartel literature, some cartels flourish during booms while others benefit from depressions. Empirical material suggests that timber sector, due to its structural features, belongs to industries in which cartel collaboration becomes increasingly difficult as the demand decreases. MacKie-Mason and Pindyck has come to conclusion that organisational problems of cartel are not the reason why cartels collapse, but rather, they are a symptom of deteriorating market conditions. According to their observations, the internal problems of a cartel are unlikely to be resolved if the potential gains are expected to be small, and vice versa.⁷⁹¹ This chapter has followed the how the ETEC

⁷⁹¹ MacKie-Mason, Jeffrey K. and Pindyck, Robert S. (2007): '*Cartel Theory and Cartel Experience in International Minerals Markets.*' in *Cartels*, Vol II, 188.

organisations on the national and international levels become increasingly dysfunctional when the potential gains from the cartel become smaller, i.e. when demand declines.

On the national level, the deteriorating market in 1937–1938 paralyzed the working of the SSY Board in ETEC matters. The role of the SSY Board was to decide the country's policy regarding the ETEC; should Finland continue with the ETEC, how and when the firms were asked to decrease their output, and how big quota Finland would try to get in the ETEC negotiations. In 1937–1938, however, due to discords within the SSY Board, the Finnish delegation attended the ETEC meetings without having a clear policy line-up from the SSY Board.

Furthermore, the period from spring 1937 until late 1938 shows that the SSY Board and Finnish ETEC organisation became utterly disillusioned about the effectiveness of its control measures based on banks and threats of government intervention. The practice had shown that neither one could offer any ultimate solution. If these control measures had been effective, Finland would not be exceeding its ETEC quotas. Opinions in the SSY Board also diverged regarding how well the Board, in fact, even wanted the government control to work. Intervention, coercion, freedom of trade, voluntariness, pressure, national interests, and the threat of international scandals were often debated in 1937–1938 by the SSY Board. The Finnish case shows that the only thing that decreased the production plans, and the eventual production volume, of the Finnish exporters was feedback from the market. Rising raw material prices combined with decreasing demand, the full stocks of importers, and the fall in sawn timber prices stifled the biggest exporting enthusiasm of the firms—not the ETEC regulations and norms. The thirteen-month depression in 1937–1938 proved to be a success for the cartel. Finland delivered clean output figures to the ETEC general meeting in 1938.

CHAPTER 6: Falling off the cliff

This chapter discusses the final year of the ETEC, from late 1938 until 1939. It shows that the rising demand and prices—or ‘war-psychosis’ according to Axel Solitander—did not save the ETEC from falling off the cliff. Rising demand required action from the ETEC regarding its quota policy, but most of the ETEC partners were incapable of, or unwilling to, attend the ETEC meetings in 1939. Czechoslovakia resigned from the ETEC as a result of German occupation of the Sudetenland in October 1938. In Finland, the biggest timber firm resigned from the ETEC, the Control Committee was disbanded, and in 1939 Axel Solitander said he would not object if the SSY wanted Finland out of the ETEC. The Finns and Swedes admitted that the ETEC had failed in its mission to bring stability to the market. A growing number of timber trade people in the ETEC countries did not want the cartel, but no one wanted to take the initiative of calling it quits. Finally, World War II ended the ETEC, so no individual country was responsible for its demise. At least for Finland, it had since 1931 been important that Finland could not be blamed for ruining European collaboration. After the ETEC had ended, no one missed it—except for Egon Glesinger, who had moved to the United States and started working for the FAO at the United Nations.

In late 1938, the Treaty of Munich, signed on 30 September between Germany, France, Great Britain, and Italy, made changes to the ETEC by allowing Germany to occupy the North-West of Czechoslovakia, or the Sudetenland. If the Austrian annexation had not been a surprise to the British Foreign Office, the division of Czechoslovakia was even less so; it had been clear since 1934 that ‘Germany needs the Sudetenland’ and that as a result Czechoslovakia would lose its economic and political independence.⁷⁹² The logic in giving the Sudetenland to Germany was, first and foremost an attempt to retain European peace at all costs. Irritating Adolf Hitler by challenging Germany’s right for the Sudetenland, or any other British interventions in Central European matters, was feared to lead to irrational reactions on his side.⁷⁹³ The British did not want to see a Central European territorial dispute escalate into World War, and they certainly did not want to die for Czechs: ‘How horrible, fantastic, incredible it is that we should be digging trenches and trying on gas-masks here because of a quarrel in a far-away country between people of whom we know nothing’, said the British Prime Minister Neville Chamberlain in a radio broadcast on 27 September 1938.⁷⁹⁴ For Britain, the Munich

⁷⁹² Smetana, Vit (2011): *In the Shadow of Munich: British Policy Towards Czechoslovakia from 1938 to 1942*, 35–36. Quotes from the book belong to Edward H. Carr, political scientist of the Foreign Office in the nineteen-thirties.

⁷⁹³ Smetana, Vit (2011): *In the Shadow of Munich: British Policy Towards Czechoslovakia from 1938 to 1942*, 45.

⁷⁹⁴ Quoted from Smetana, Vit (2011): *In the Shadow of Munich: British Policy Towards Czechoslovakia from 1938 to 1942*, 32–35, 37, 47 (quote). Accepting the Munich agreement also followed an idea, typical of the nineteen-thirties, about organising nations according to ‘ethnicities’. The Sudetenland, Czechoslovakia’s North-West provinces, were populated by German-speaking people, which was seen by many to have a moral right to join their true ethnic home, Germany. There were also other ‘ethnicities’, like Hungarians and Polish, who were perceived by certain factions to possess a similar moral right to save their people from ‘Czech tyranny’. Faber, David (2009): *Munich, 1938: Appeasement and World War II*, 323–324. The term ‘Czech tyranny’, taken from page 323 of David Faber’s book, belongs to Adolf Hitler, who was quoted by the *Daily Mail*.

agreement was ‘peace for our time’ and ‘peace with honour’, as Prime Minister Chamberlain famously called it.⁷⁹⁵ For the Czechs, priding themselves on keeping calm and self-restraint, the Munich agreement was not ‘peace for our time’, and they accepted it ‘with bleeding hearts’. Within a fortnight of the Munich agreement being signed, parts of Czechoslovakia were further annexed and divided up between Poland and Hungary.⁷⁹⁶

Czechoslovakia resigned from the ETEC. The country had been the smallest member of the ETEC, which exported only as much as the biggest Finnish timber firm, Enso-Gutzeit, which was around 80,000 std per year. Therefore, this ‘Czexit’ did not dramatically change the quota balance of the ETEC. The Sudetenland was a timber exporting area, whose production was now directed towards Germany. It increased its timber resources by 50,000 std.⁷⁹⁷ Poland got the Olza district, which also produced timber, but as the new host of Olza was also an ETEC country, the quantity remained within the ETEC as part of Polish exports.⁷⁹⁸ Hungary’s territorial claims in South Slovakia and Carpatho-Russia were not timber producing areas.⁷⁹⁹

Demand and the price of timber started rising in late 1938. The threat of war had intensified and governments increased their timber purchases. In addition, the cyclical demand oscillation of timber was now going up after the 1937–1938 slump. ETEC exporters were pondering whether continuing with the ETEC as a quota agreement during rising demand would pay off or not. One thing was certain, however. As two of the original ETEC countries had left the cartel in 1938, the ETEC would not continue in its previous form. But which form would it take? The approaching ETEC’s annual general meeting, due at the end of November, was an opportunity to discuss these issues.

Finnish goodbyes

The SSY managing director, E. F. Wrede, remarked that the importers’ collective, clearly having ideas about quotas and output, encouraged collaboration between the European exporter countries. The European exporters needed an organisation to defend their interests against collaborating importers—alone this aspect favoured the idea that the ETEC should hold together in 1939.⁸⁰⁰ In Finland, as discussed throughout this work, an important incentive to continue the ETEC was to prevent state intervention, which the SSY Board leadership still considered to be pressing in 1939:

Finland participated in the agreement, amongst other things, to avoid state intervention, which was threatening our timber industry. This danger continues to exist. To be prepared for surprises that could arise from foreign pressure towards our government, it would be

⁷⁹⁵ Quoted from Smetana, Vit (2011): *In the Shadow of Munich: British Policy Towards Czechoslovakia from 1938 to 1942*, 49. Faber, David (2009): *Munich, 1938: Appeasement and World War II*, 17, 11.

⁷⁹⁶ Faber, David (2009): *Munich, 1938: Appeasement and World War II*, 444.

⁷⁹⁷ CfN; STEF; F1A:407: The ETEC general meeting in Stockholm, 16–17 November 1938, meeting minute on 16 November, page 7.

⁷⁹⁸ CfN; STEF; F1A:407: The ETEC general meeting in Stockholm, 16–17 November 1938, meeting minute on 16 November, page 16.

⁷⁹⁹ In fact, demand for timber in the Hungarian market grew slightly because of the Munich Agreement.

⁸⁰⁰ Paloheimo archive; 10313:1: SSY; SSY Board meeting, 10 October 1938.

happiest if the ETEC remained as a collaborative organisation between the exporting countries.⁸⁰¹

It was essential that the decision-making stayed in the hands of timber industry. The ETEC obligations had been difficult to fulfil in Finland, but they were after all the timber industry's problems:

Because timber exports in several other ETEC countries have been arranged in one way or another in the control of their respective governments, it is possible that the question of continuing the [ETEC] agreement will become, through the initiative of these countries, a governmental matter also in our country if it could not be carried out as now proposed.⁸⁰²

Wrede's and von Julin's hopes to continue with the ETEC in 1939 met with increasing criticism in the SSY Board. Gunnar Jaatinen thought that the ETEC should cease to exist as a quota-regulating cartel and continue as a statistical office.⁸⁰³ Rosenlew suggested that the Central European timber exporting countries should be kicked out of the ETEC altogether and Canada included instead. Clearly, he knew nothing about the complexities of building international timber cartels; countries could not be 'kicked out' and certainly not 'included' very easily. Leo Hackman and Th. Wiklund confessed that the only reason their firms had ever supported the ETEC was the fear of government intervention.⁸⁰⁴

Over the years, the SSY Board had got used to ETEC criticism from the Board members as well as from the firms, and they had learned that opposition could simply be ignored. National interests and the need to keep the decision-making in the hands of industry were more pressing than the discomforts—such as regulating output and the supervision of banks—that membership brought to individual firms. The usual pattern in the SSY Board meetings had been first that the Board would discuss how disappointing and frustrating the ETEC had been and then it would decide to continue it because of the fear of government intervention. In the Board meeting on 10 October, however, the old pattern did not apply; after complaints about the ETEC and the usual dialogue about national interests and government intervention, the Board did not make a decision that Finland would continue in the ETEC in 1939.⁸⁰⁵ The SSY Board had invited V. A. Kotilainen from the state-owned Enso-Gutzeit Oy and Tornator, as well as Walter Ahlström from Ahlström Oy to the meeting to discuss the ETEC. They were not Board members at the time, but as the CEO's of prominent timber firms their opinions mattered. Both were known for their fierce opposition towards international timber cartels since the early

⁸⁰¹ Paloheimo archive; 10313:1: SSY; SSY Board meeting, 10 October 1938. *'Suomi osallistui sopimukseen m.m. välttääkseen uhkaavan, valtion sekaantumisen sahatavaravientiimme. Tämä vaara on jatkuvasti olemassa ja sellaisten yllätyksien varalta, jotka voisivat aiheutua ulkomaiden painostuksesta hallitukseemme, oli puheenjohtajan mielestä onnellisinta jos ETEC voitaisiin säilyttää vientimaiden välisenä, yhteistyötä ylläpitävänä elimenä.'*

⁸⁰² Paloheimo archive; 10313:1: SSY Board meeting, 14 November 1938: *'...koska useissa muissa ETEC:in maissa sahatavarain vieni on tavalla tai toisella asianomaisten valtioiden valvonnassa, on mahdollista, että kysymys sopimuksen jatkamisesta voi joutua näiden maiden aloitteesta meilläkin valtiovallan käsiteltäväksi, jos sitä ei voitaisi nyt ehdotettuun tapaan toteuttaa.'*

⁸⁰³ He also suggested, without further explanations, that Egon Glesinger should resign from his position as the ETEC's general secretary

⁸⁰⁴ Paloheimo archive; 10313:1: SSY Board meeting, 10 October 1938.

⁸⁰⁵ ELKA; SSY; 28: SSY Board meeting, 10 October 1938.

nineteen-thirties, which gave the SSY Board all the more reason to invite them to the meetings and engage in mutual decisions.⁸⁰⁶

At the end of October, Enso-Gutzeit and Tornator dropped a news bomb by saying goodbye to the SSY and the ETEC.⁸⁰⁷ The two firms exported more timber than any other in Finland; they produced nearly thirteen per cent of the total quantity of the SSY members and around nine percent of Finland's total quantity.⁸⁰⁸ Enso-Gutzeit's annual quota in 1937 had been 85,000 std.⁸⁰⁹ V. A. Kotilainen had protested against the SSY's policies concerning the ETEC for a long time, but the resignation of Enso-Gutzeit and Tornator nevertheless came out of the blue. The SSY leadership had believed that the big firms felt a sense of responsibility to support the ETEC despite certain discomforts, because their mutiny would trickle down to mid-sized and small firms and, finally, jeopardize the country's position in the ETEC.⁸¹⁰

The Enso-exit was processed at the SSY Board for a couple of months. Kotilainen promised to bring back his firms to the SSY if the long-standing CEO of the association, E. F. Wrede, left office. Kotilainen blamed Wrede for listening too much to the Swedish opinion and too little to the Finnish timber exporters on ETEC matters. In his view, Wrede had led Finland in a direction that Finns did not support.⁸¹¹ Attacking Wrede was widely disapproved of in the SSY Board. Jacob von Julin, the chairman of the Board, thought that Kotilainen's caprices were nonsense. But state-owned firms resigning from the SSY and its ETEC policies was worrying, in all respects. Jacob von Julin wrote:

During the last years a big part of the association's activities, particularly the collaboration with foreign associations, has occurred with the intention of avoiding state intervention in the timber industries' own matters. The demands of Enso-Gutzeit, a state-owned firm, raise the gravest concerns.⁸¹²

It is intriguing that a state-owned firm would resign from an international cartel that had diplomatic and foreign political weight. It shows how complex the state is. It is a huge compilation of administrative will, interests, and motivations which do not always work together. Trading with timber touched the national economy, diplomatic relations, the interests of forest owners, and domestic

⁸⁰⁶ Kotilainen was a member of the SSY Board 1932–1935, a member of the working committee 1933, second vice-chairman of the SSY 1930–1932, vice-chairman of the SSY in 1933–1935. Walter Ahlström was a member of the SSY Board 1930–1931 and the working committee 1930–1931. ELKA; SSY; 209: Annual reports 1930–1939.

⁸⁰⁷ ELKA; SSY; 28: SSY Board meeting, 14 December 1938.

⁸⁰⁸ ELKA; SSY; 28: SSY Board meeting, 14 December 1938.

⁸⁰⁹ ELKA; SSY; 1124: ETEC memorandums and circulars; statistic 1/1937. SSY; 28: SSY Board meeting, 14 December 1938, appendix III: ETEC quotas 1937–1938. The Czechoslovakian quota for 1938 as decided in the ETEC's general meeting in Stockholm, October 1937.

⁸¹⁰ ELKA; SSY; 28: SSY Board meeting, 14 November 1938. '*...jos valtion omistamat sahalaitokset eivät liity sopimukseen, ei yksityisillä liikkeilläkään ole syytä sitä ylläpitää...'*

⁸¹¹ ELKA; SSY; 28: SSY Board meeting, 27 January 1939.

⁸¹² Paloheimo archive; 10313:1: SSY Board meeting, 27 January 1939. '*Viime vuosina on suuri osa yhdistyksen toiminnasta, varsinkin yhteistyö ulkomaisten järjestöjen kanssa tapahtunut siitä mielessä, että on koetettu välttää valtiovallan sekaantumista sahateollisuuttamme koskevien asiain hoitoon. Enso-Gutzeit yhtymän eli valtion yrityksen nyt esittämät vaatimukset ovat näin ollen omiaan aiheuttamaan mitä suurinta huolestumista.'*

employment; and all interest groups perceived the ETEC in a different way. The saying about the left hand not knowing what the right hand is doing describes well how the state worked. The state is not necessarily a coherent actor in international cartels or in business more broadly.⁸¹³ Within the state, and between ministries, there seemed to have been inner power battles over who gets to decide the course of affairs as much as there were rivalries between the firms and between the 'state' and industry. These power battles have been discussed earlier in this work, in the context of 1931, on page 76. The Forest Board, which was responsible for governing the Enso-Gutzeit shares, defended commercial values.

The Enso-exit was a huge loss to the prestige of the SSY Board. The Board members were afraid, and with good reason, that the Enso-exit would unleash a wave of mutiny among the Finnish timber firms. Many would follow; first its closest competitors, and then the mid-sized and small firms. Ekholm from Kymi Yhtiö and Halla told the SSY Board that if Enso-Gutzeit and Tornator were, indeed, leaving and would in future only 'report' its export volume to the SSY with no intention of restricting it according to ETEC quotas like the rest of the Finnish firms, his firms would follow suit.⁸¹⁴ However, even though many SSY Board members shared these concerns, they did not follow Kotilainen's example. They also considered 'Finland's' interest: 'We should not be responsible for breaking the ETEC,' concluded Rosenlew, recognizing the national interests involved in the issue.⁸¹⁵

Despite Enso-Gutzeit's unusual decision, the SSY Board decided on 11 November, only one week before the ETEC's general meeting, to support the continuation of the ETEC agreement in 1939. The arguments that supported the decision were, firstly, that Sweden was interested in continuing the ETEC in 1939; secondly, the timber importers and agents in all important European markets supported it; and thirdly, there lay a danger of government intervention should the SSY drop the ball.⁸¹⁶ The loyalty of Finnish firms towards the ETEC in 1939, of course, would be a big problem with the Enso-exit and all, but the SSY Board decided to come to that problem later.

In November 1938 the SSY Board started to survey the production plans of the timber firms for 1939. The survey was late compared with the previous years; usually Axel Solitander had started this work by early autumn. However, all ETEC proceedings in 1938 were delayed. The syndic of the ETEC, J. L. Ekman, did not start to survey the consumption estimations of importers earlier than October.⁸¹⁷ Even the ETEC general meeting in 1938 was organised a month later than usual. The delayed schedule was not a coincidence but a strategic timeout. The politically volatile environment blurred the horizon, and

⁸¹³ Similar conclusions are made in Jansson's MA thesis on the rubber agreement in the nineteen-thirties. Jansson, Walter : (2013): *'What was the role of international politics in the conduct of state-sanctioned cartels in the interwar years? The case of the international rubber regulation agreement'*. Department of History, London School of Economics.

⁸¹⁴ ELKA; SSY; 28: SSY Board meeting, 14 November 1938.

⁸¹⁵ ELKA; SSY; 28: SSY Board meeting, 14 November 1938. '*...meidän ei olisi otettava vastuullemme ETEC:n kaatamista...'*

⁸¹⁶ ELKA; SSY; 28: SSY Board meeting, 14 November 1938; memo of the Swedish–Finnish meeting on 11 November 1938. SSY Board meeting, 10 October 1938.

⁸¹⁷ CFN; STEF; F1A:407: Letter 1 November 1938 from J. L. Ekman to Major Harris. Letters 2 November 1938 from J. L. Ekman to Torsten Landby, to G. Key (the Netherlandische Houtbound), to Gerald Lenanton, to Rickard Jawson,

importers and exporters were struggling to understand how the market would turn out in the next six months.⁸¹⁸

A crumbling cartel

The ETEC general meeting in Stockholm on 16–17 November 1938 opened in a mood of great uncertainty. The positive news was that the size of stocks had diminished a good deal since the beginning of 1938, and importers were not buying for immediate use. In that sense, the current situation was 'healthy'. In other respects, the future did not seem healthy at all.⁸¹⁹ The threat of war hung over Europe. It decreased private buying, which consumed around sixty-six per cent of imported timber in Great Britain. Government spending on raw materials was expected to increase in 1939 due to the threat of war, but it was unclear how much.⁸²⁰ Another hardship at that moment was that, even if solid data and enlightened estimations existed, no data was valid if European diplomatic relations collapsed. 'With as impulsive and inconsiderate as Mr. Hitler is, it is impossible to forecast what happens in the foreign relations,' wrote one importer to J. L. Ekman three weeks prior to the meeting.⁸²¹

This political as well as economical uncertainty is so great that it renders elastic quotas inevitable. We must be prepared for many unforeseen events.⁸²²

The war of experts in the timber trade had proceeded to the point where the ETEC leadership was unwilling to organise concurrent discussion with the European importing leaders in conjunction with the ETEC general meeting as in the previous years. J. L. Ekman had interviewed importers separately and written letters, but he did not want to be involved in large confusing discussions where importers exchanged false data.

The first thing on the agenda of the ETEC's general meeting was the resignation of Austria and Czechoslovakia. Czechoslovakia was the smallest ETEC country, and therefore its absence did not greatly change the output total of the ETEC. The southern parts of Czechoslovakia together with Austrian timber supplies increased Germany's self-sufficiency in timber by 200,000 std, but this did not imply great changes in German imports. Austria and Czechoslovakia did not entirely stop exporting either, but the export capacity of these two countries nevertheless decreased massively. It was estimated to be 175,000 std as opposed to 375,000 in the previous year.⁸²³ The diminished Austrian

⁸¹⁸ CfN; STEF; E3E:3: Letter from J. L. Ekman to Egon Glesinger, 22 September 1938.

⁸¹⁹ CfN; STEF; F1A:407: Letters in November from importers to J. L. Ekman.

⁸²⁰ CfN; STEF; F1A:407: ETEC general meeting in Stockholm, 16–17 November 1938, minute 16 November, page 3.

⁸²¹ CfN; STEF; F1A:407: Letter 24 October 1938 from A. H. Nordin to J. L. Ekman.

⁸²² CfN; STEF; F1A:407: ETEC general meeting in Stockholm, 16–17 November 1938, minute 16 November, page 2. The original text contains misspellings.

⁸²³ CfN; STEF; F1A:407: ETEC general meeting in Stockholm, 16–17 November 1938, minute 16 November, page 12.

and Czechoslovakian exports would continue to be directed towards the Central European market—Hungary and Italy—without creating bigger reconsiderations to the other ETEC members.⁸²⁴

Losing two member countries from the ETEC in such a manner—through the occupation and territorial claims of Nazi Germany—was shocking and thoroughly unwanted. However, there were factions that had for some time hoped for a more compact and homogeneous ETEC—such as Swedish and Finnish timber exporters.⁸²⁵ It is notable that, in mid-October, J. L. Ekman had turned down Egon Glesinger's suggestion to pay a visit to Czechoslovakia in order to examine whether it was possible for the country to continue in the ETEC despite the new situation.⁸²⁶

The ETEC general meeting concluded that the market in 1938 had been disappointing. The year had started with full stocks, a large chunk of 'unused quota' from 1937, and low demand. The price setting had been a failure, and this had fed the demand crisis. The size of importers' stock had, however, diminished after summer and was now, in November, more or less normal. The statistics did not show free-riders in the ETEC in 1938. All countries had decreased their output by twenty per cent compared with the 1937 level. Romania was an exception; the first quota of 1936 was granted to Romania retroactively and was too small. Other than that, all ETEC countries seemed to have made an equal effort to decrease output. Then again, there were other statistics, which revealed overproduction, overlying quotas, and hidden production. Finland, for instance, overproduced in 1936 and 1937, but this did not show in the ETEC statistics that the community presented to its members.

After bringing together different estimations concerning the 1939 consumption and demand, the general meeting concluded that demand in Europe in 1939 was going to be 2.9 million std from the ETEC countries (and total demand would be 3.6 million std). This would be twenty per cent less than what the ETEC countries had produced in 1937.⁸²⁷ The estimations about 1939 consumption in Great Britain varied between 1.5 million and 2 million std, and the meeting decided that 1.8 million would be a safe estimate. Demand in Germany was expected to increase—the phrase 'timber famine' was even mentioned—yet the conditions for acquiring currency were questionable. *Anschluss* and incorporation of the Sudetenland did not, according to estimations, decrease the German import need for European timber, which was estimated around 500,000 std.

⁸²⁴ CfN; STEF; F1A:407: ETEC general meeting in Stockholm, 16–17 November 1938, minute 16 November, page 16.

⁸²⁵ CfN; STEF; F1A:407: ETEC general meeting in Stockholm, 16–17 November 1938, minute 16 November, page 12.

⁸²⁶ CfN; STEF; F1A:407. Letter from J. L. Ekman to Egon Glesinger, 1 November 1938.

⁸²⁷ The twenty per cent decrease was not counted from 4 million, but from 3.629.000, which was a figure that was left after Czechoslovakia and Austria had been deducted from the 1937 total quota. CfN; STEF; F1A:407: *Schlussprotokoll* of the ETEC general meeting, 16–18 November 1938.

Table 13: The ETEC quotas 1936–1939

Country	1936		1937		1938*		1939	
	STD	%	STD	%	STD	%	STD	%
Finland	1,005,000	26.1	1,005,000	25.1	845,218	26.7	804,000	27.7
Soviet Union	950,000	27.7	950,000	23.7	842,295	26.6	760,000	26.1
Sweden	820,000	21.3	820,000	20.5	690,518	21.8	656,000	22.6
Poland	313,000	8.1	313,000	7.8	258,189	8.2	250,400	8.6
Austria	275,000	7.1	275,000	6.9	—	—	—	—
Romania	223,000	5.8	246,000	6.2	213,948	6.7	196,800	6.8
Yugoslavia	168,000	4.4	168,000	4.2	134,303	4.2	134,400	4.6
Latvia	—	—	127,000	3.2	103,208	3.3	101,600	3.5
Czechoslovakia	96,000	2.5	96,000	2.4	76,745	2.4	—	—
Total	3,850,000	100	4,000,000	100	3,164,424	99.9	2,903,200	99.9

* Quota after the third reduction in September 1938 and including 'carry over' quotas from 1937

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

The quota division was decided, with much debate, on 17 November 1938, and it was due to be ratified in all countries by 19 December.⁸²⁸ Great Britain was not given a sub-quota despite an official request from the Timber Trade Federations.⁸²⁹

The Austrian *Anschluss* had forced Egon Glesinger and the Secretariat of the ETEC to relocate from Vienna to Brussels, and it was now time for the general meeting to discuss the future of the Secretariat. The question was not, however, about where Glesinger and the Secretariat should move to next, but about abolishing the office altogether. One argument for giving up the office of the general secretary was the costs. Egon Glesinger, who was also the secretary of the CIB, which could very well take care of the statistical work that the ETEC needed. But there were other reasons as well. At the end of October 1938 Egon Glesinger had taken liberties that had exceeded his jurisdiction, and the Swedish leadership of the ETEC was not happy about this at all.⁸³⁰

⁸²⁸ CfN; STEF; F1A:407: ETEC's general meeting in Stockholm, 16–18 November 1938: Press release, 18 November 1938.

⁸²⁹ CfN; STEF; F1A:407: ETEC's general meeting in Stockholm, 16–18 November 1938. Sub-quota: minutes 17 November, page 24.

⁸³⁰ Paloheimo archive; 10313:1: SSY Board meeting, 10 October 1938.

Glesinger's mistake, in the eyes of the syndic and the president of the ETEC, was his private discussions with the Timber Trade Federation (UK) and Canadian timber exporters. What upset the syndic and the president was that Egon Glesinger said he 'led' the discussions: *'einer grossen anzahl von gesprächen welche ich zu führen gelegenheit hatte.'*⁸³¹ Glesinger was preparing an operation in collaboration with the Canadians and the British which would bring Canada and possibly even the United States into the ETEC. After all, these countries shipped around half a million std to Europe each year, which was twelve percent of the ETEC total and 20–25 per cent of the total British imports.⁸³² Glesinger reported his discussions to J. L. Ekman promptly and in detail, but Ekman was still upset. The arrangement, according to Glesinger, was that the softwood importing section of the British Timber Trade Federation would announce to the Canadian authorities that it considered introducing joint quotas to the Canadian and European imports through the ETEC. Glesinger suggested that the ETEC should approach Major Harris (TTF) and say that the ETEC was interested in a British sub-quota if Canada's exports would also be restricted with quotas.⁸³³

It must have crossed J. L. Ekman's mind that there might have been other agendas in these conversations. What if the ETEC was not tempting Canada into the ETEC through promising quotas for the UK market, but the British Timber Trade Federation was tricking the ETEC into making sub-quotas for the British market by using Canada as a bait? European and Canadian quotas were interconnected questions, but there was also much to lose in a careless preparation of particularly difficult, tripartite negotiations. Furthermore, in autumn 1938 Britain and the United States were in a process of making a new tariff agreement which made Glesinger's discussions ill-timed. The possible preferences that Britain might grant to American timber in the new tariff agreement could change the position of European and Canadian timber on the British market. They could reorientate Canada towards the ETEC in a new way.⁸³⁴

Glesinger had no right to enter into private negotiations on behalf of the organisation; only the president or the syndic—Carl Kempe and J. L. Ekman—were authorised to do that. The Swedish ETEC leadership warned Glesinger about taking the ETEC in the direction of British sub-quotas as long as he was working for the ETEC.⁸³⁵ Ekman had, in Glesinger's estimation in 1947, a rather intense passion to keep things in his own hands, so the secretary's liberties with the British and Canadians must have infuriated Ekman.⁸³⁶ Glesinger tried to ensure him that 'in all my discussions [I have] limited myself to the role of a listener'.⁸³⁷ However, it would seem that the ETEC syndic did not believe Glesinger, and ended up suggesting that Glesinger be removed from his office as he had exceeded his jurisdiction in

⁸³¹ CfN; STEF; F1A:407: Letter from Egon Glesinger to J. L. Ekman, 29 October 1938.

⁸³² CfN; STEF; F1A:302: Egon Glesinger's report 'Present World Trade in Forest Products. What of the Future?' from 25 August 1941.

⁸³³ CfN; STEF; F1A:407: Letter from Egon Glesinger to J. L. Ekman, 29 October 1938.

⁸³⁴ CfN; STEF; F1A:407: ETEC's general meeting in Stockholm, 16–18 November 1938. Subquota: minute 17 November, page 26.

⁸³⁵ CfN; STEF; E3E:3: Letter from J. L. Ekman to Egon Glesinger, 3 November 1938.

⁸³⁶ ARAB: Archive of Alva och Gunnar Myrdal; Letter exchange of Gunnar Myrdal 1940–1949, F–J: Letter from Egon Glesinger to Gunnar Myrdal, 22 January 1947.

⁸³⁷ STEF; F1A:407: Letter 5 November 1938 from Egon Glesinger to J. L. Ekman '. [--]bei all meinen gesprächen mich auf die rolle des zuhörers beschränkt.'

the Canadian–British issue. It is likely that there were other issues as well, such as the fact that Glesinger did overlapping tasks for two organisations, the ETEC and CIB, in gathering timber statistics. Furthermore, Glesinger was Czech and Czechoslovakia had just resigned from the ETEC, which made it somewhat awkward for Glesinger to continue in a formal position in the ETEC.

The Finns support towards J. L. Ekman's idea of sacking Glesinger gave a rather strong mandate to proceed on this question.⁸³⁸ Before the ETEC general meeting, the Swedes and the Finns had considered an option that the ETEC's secretariat would move to Helsinki and the Finns would take over Glesinger's responsibilities, but eventually they proposed that the Secretariat should be abolished altogether.⁸³⁹ The idea did not win much support in the ETEC general meeting, but Central Europe not being very safe at that time, the meeting decided to move the Secretariat to Stockholm. In addition, a decision was made to remove Egon Glesinger from the office of general secretary, though this decision was never ratified.⁸⁴⁰ Glesinger stayed in his position until he resigned in August 1939, three weeks before the ETEC ended. His position in the ETEC from late 1938 onwards was, however, vague as he did not enjoy the confidence of the ETEC's Swedish leadership and the biggest exporter country, Finland.

The ETEC secretariat was not the only crumbling structure within the ETEC. The Control Committee of the Finnish ETEC delegation, directed by Martti Levón and Axel Solitander, was also at the end of its path. Solitander told the SSY Board on 14 December that he would no longer be a member of the committee in the following year.⁸⁴¹ The Control Committee had informed the Finnish timber firms that Finland's quota in 1939 would be twenty per cent smaller compared with the 1937 level, and they asked firms to estimate their exports in 1939, keeping in mind this information.⁸⁴² The responses from the firms were unacceptable: the production plans of the big and mid-sized timber firms alone exceeded Finland's ETEC quota for 1939, and on top of that came production from small firms.⁸⁴³ The total export plans of Finnish timber firms for 1939 exceeded the quota by 160,000 std. Solitander said to the SSY Board that if the firms really believed that they could sell the quantity they applied for and could also acquire the raw material, 'then the Control Committee cannot do anything to bring down the quotas'.⁸⁴⁴ The firms were no longer listening to the Control Committee, and Solitander was tired

⁸³⁸ Paloheimo archive; 10313:1: Report concerning ending the office of ETEC Secretary, end of November 1938.

⁸³⁹ Paloheimo archive; 10313:1: SSY; SSY Board meeting, 14 November 1938, memo. According to Glesinger, the Finns wanted to move the ETEC secretariat to Helsinki so that they could hand over the European timber trade data to the Nazis. Nothing in historical research concerning Finland in 1939 suggests that Glesinger's interpretation is even close to truth.

⁸⁴⁰ CfN; STEF; F1A:407: ETEC's *Schlussprotokoll*, page 2. CfN; STEF; F1A:408: Letter from J. L. Ekman to Carl Kempe, 29 June 1939. According to the decision, Glesinger was allowed to take part in the ETEC meetings and translate material and discussions. It was decided that the tasks of the secretary would be taken care of by the syndic and the president.

⁸⁴¹ ELKA; SSY; 28: SSY Board meeting, 14 December 1938.

⁸⁴² ELKA; SSY; 1124: Control Committee's circular, 24 November 1938.

⁸⁴³ '*...resultat, vilket han sade hade väckt en nästan motbjudande uppmärksamhet.*'

⁸⁴⁴ ELKA; SSY; 28: SSY Board meeting, 14 December 1938. '*...kunde Kontrollkommittén under sådana förhållanden icke göra något för kvotanspråkens nedbringande.*'

of shouting. Eetu Anttilainen, who was the head of the bank-owned (KOP) business group, Finnish Wood Export,⁸⁴⁵ agreed with Solitander's doubts:

The control committee, without a doubt, met the demands at the time, but now it has become a ponderous apparatus. A smaller committee, put together by the timber exporter themselves, could more easily and more effectively negotiate with the exporters about the quotas.⁸⁴⁶

It appears that the banks were not very helpful either. They could control the small firms and their production plans, but when it came to big firms, the banks could not control them in the same way at all. And as long as an instrument to control the big firms did not exist, the Finnish ETEC delegation could not guarantee that Finnish timber exports would not exceed the ETEC quotas.

The Finnish Control Committee was disbanded from 1 January 1939 onwards.⁸⁴⁷ The tasks and mandates that used to belong to Axel Solitander and Professor Martti Levón were transferred to the Finnish ETEC delegation.⁸⁴⁸ The new control crew had to decide how to deal with the potential overproduction of 160,000 std in 1939—and what to do with the firms that still did not follow the ETEC quotas. Some of the delegation members were convinced that overproduction amounting to 160,000 std was, in fact, a realistic plan and Finland should withdraw from ratifying the ETEC in 1939, while others thought that the firms were wildly exaggerating their trading opportunities and in reality Finland would not even reach its total ETEC quota in 1939.⁸⁴⁹

Axel Solitander said to the SSY Board that he would not object if the Finnish ETEC delegation wanted to leave the ETEC.⁸⁵⁰ Managing director of the SSY, E. F. Wrede, pointed out that the ETEC 'has also been ratified in previous years under similar conditions'.⁸⁵¹ In recent years the production plans had exceeded the Finnish ETEC quota as much as 220,000 std, and the ETEC had still been ratified. The opposing firms would, if necessary, be dealt with in the same manner as in previous years: sending field inspectors to firms; discussing with the banks about their powers to convince firms to restrict their output; possibly threatening government intervention at some point in the year; and lastly, in autumn, asking the firms to postpone their shipping until the turn of the year to prevent the overproduction appearing in the current year's statistics. To be sure, the opposition of firms and

⁸⁴⁵ There were altogether 37 sawmills in Finnish Wood Export Ltd., with an output of 16,000 std in 1938. ELKA; SSY; 96: Field report from 6 to 20 June and 23 July to 2 August 1938.

⁸⁴⁶ ELKA; SSY; 28: SSY Board meeting, 14 December 1938. *'Kontrollkommittén på sin tid måhända nog motsvarat åsyftat ändamål, men numera blivit en allför tunggrodd apparat. Ett av sågverksägarna själva sammansatt organ borde lättare och effektivare kunna sköta underhandlingarna med exportörerna om deras kvoter.'*

⁸⁴⁷ ELKA; SSY; 1124: SSY's circular, 5 January 1939.

⁸⁴⁸ Jacob von Julin, Gunnar Jaatinen, August Snellman, E. Anttilainen, Hjalmar Askolin-Ingelberg, Olli Paloheimo, Folmer Rosenlew, Axels Solitander, Björn Weckman, and E. F. Wrede.

⁸⁴⁹ ELKA; SSY; 96: ETEC delegation meeting, 19 December 1938.

⁸⁵⁰ ELKA; SSY; 28: SSY Board meeting, 14 December 1938. SSY; 96: ETEC delegation meeting, 19 December 1938.

⁸⁵¹ ELKA; SSY; 96: ETEC delegation meeting 19 December 1938. *'Ratifiominen oli aikaisemminkin tapahtunut samanlaisin edellytyksin, viimeksi tänä vuonna, jolloin alkuperäiset vaatimukset nousivat peräti 1.225.00 standarttiin [...].'*

forecasts of overproduction were not sufficient reason for stopping the ETEC process in Finland. According to Jacob von Julin, the ETEC had to be supported for the same reason it had been throughout the decade. This was not because it was an effective or successful method for balancing demand and supply, or because firms demanded it. 'We are forced to participate to the ETEC agreement to avoid state intervention', concluded Jacob von Julin and added:⁸⁵²

In actual fact, calling off this collaboration would not have any effect on the market. But if the blame of disbanding the ETEC fall upon us [meaning: Finland], our competitors would use it against us, particularly if the market development took a turn for the worse. [--] It was necessary for us to join the ETEC to avoid government intervention. Since this possibility still exists, we should show to the outside world that we support the agreement and let the other ETEC countries take the blame for breaking the agreement.⁸⁵³

The SSY Board and the Finnish ETEC delegation hesitated even on the last day, 19 December, whether or not to ratify the ETEC. Eventually, and not surprisingly, the delegation ratified the ETEC 1939.

The end

The ETEC's last year, 1939, was short; it ended in September when World War II broke out and the ETEC members one after the other sent their resignation letters to Stockholm. The short year of 1939 was all about rearmament and anticipation of war. 1940, was hardly discussed at all. The rearmament and growing threat of war complicated the everyday practicalities of the ETEC, but the same trend also boosted demand and prices of timber, which indeed grew rapidly. By summer 1939, the boom had reached worrying heights. The letter exchange between J. L. Ekman and British importers in 1939 was a fraction of what it had been in the previous years. Possibly the importers were anticipating the end of the ETEC like many exporting countries. Some of the leading Finnish exporters estimated from spring onwards that the end of the ETEC would come in August.⁸⁵⁴ The guess was accurate.

The threat of war intensified in the spring of 1939. Germany occupied Czechoslovakia in mid-March; it presented an ultimatum to Lithuania about giving up the Memel region (Klaipėda); its claims over Gdansk became all the more serious; and all signs indicated that Germany was also preparing an attack against Romania.⁸⁵⁵ March was the breaking point that changed Britain's foreign policy pattern vis-à-

⁸⁵² ELKA; SSY; 28: SSY Board meeting, 14 December 1938. '*..vi sett oss tvungna att gå med på E.T.E.C.-avtalet för undvika av ett statsingripande.*'

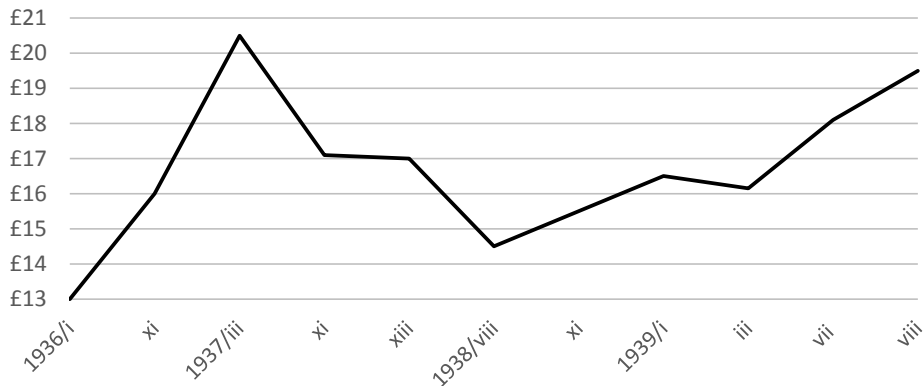
⁸⁵³ ELKA; SSY; 28: SSY Board meeting, 14 December 1938. SSY; 86: Finnish ETEC delegation's meeting, 19 December 1938. '*I själva verket skulle ett upphörande av detta samarbete icke hava någon inverkan på marknaden, men ifall skulden till E.T.E.C.-avtalets slopande kunde påbörjas oss, skulle våra konkurrenter använda detta såsom ett argument mot oss, särskilt om marknaden utvecklade sig på ett för avlastarna oförmånligt sätt. Bergsrådet von Julin betonade, att vi sett oss tvungna att gå med på ETEC-avtalet för undvikande av et statsingripande. Fortfarande medvetna om denna möjlighet borde vi utåt kunna påvisa, att vi uppbära avtalet och låta andra ETECc-länder bära ansvaret för att samarbetet eventuellt upphörde.*'

⁸⁵⁴ Finnish estimations, see Jaatinen's speech in ELKA; SSY; 1186: Finnish–Swedish Trust Council meeting, 31 May 1939. Rosenlew's speech in SSY; 96: Finnish ETEC delegation's meeting, 22 May 1939.

⁸⁵⁵ Prazmowska, A. J. (1986): 'Poland's Foreign Policy: September 1938 - September 1939' in *The Historical Journal*, vol. 29, no. 4, 861–862. Smetana, Vit (2011): *In the Shadow of Munich: British Policy Towards Czechoslovakia from 1938 to 1942*, 99–108, 115–116.

vis Germany and Central Europe and, on the last day of March, Britain declared its commitment to defend Poland against German aggression. Compulsory military enlistment took force in the UK in April.⁸⁵⁶ In the timber trade, the collapsing European peace and the route towards World War II showed in the form of increased governmental buying; governments started hoarding building materials for army barracks and other military purposes. Demand and the price of timber skyrocketed after a sluggish January. Axel Solitander called it ‘war psychosis’, and the ETEC leadership started to fear a timber shortage and overheating of the market.⁸⁵⁷

Figure 14: Price (£) of Finnish timber in UK 1935-1939



Leading South-Finnish exporters (price group 1), 3x9' u/s pine, fob.

(Source: ELKA; SSY; 96; Finnish ETEC delegation's meeting, 31 July 1939, appendix 'Sahatavarainhintain kehitystä osoittava taulukko')

The changed situation demanded action from the ETEC. How should the ETEC respond to the rising demand? The question was both urgent and important, but under the current circumstances it was not very easy to solve. The same war psychosis that had thrust timber demand on an upward trajectory also made it difficult for the Central European members of the ETEC to travel around Europe attending timber meetings.⁸⁵⁸ Despite many attempts, J. L. Ekman failed to organise any ETEC meetings before mid-August.⁸⁵⁹ As the possibility of meeting with the other ETEC countries no longer existed, the Finns and Swedes started pondering both separately and together what the ETEC should do in the current market situation. Simply following the demand and increasing the supply was not an

⁸⁵⁶ Prazmowska, A. J. (1986): 'Poland's Foreign Policy: September 1938 - September 1939' in *The Historical Journal*, vol. 29, no. 4, 853.

⁸⁵⁷ ELKA; SSY; 96: Meeting of the Finnish ETEC delegation, 22 May 1939. Quote in the text is from Axel Solitander, '*krigspsykosen*'

⁸⁵⁸ CfN; STEF; F1A:408: Letters between Egon Glesinger and J. L. Ekman, 1 and 4 April 1939. Letter from J. L. Ekman to Krystyn Ostrowski, 4 April 1939.

⁸⁵⁹ ELKA; SSY; 209: the SSY's annual report 1939, 17. The first executive meeting of 1939 was planned to convene in Bucharest at the beginning of the year and the second in Paris in April, but both were cancelled. In order to communicate with importers, Carl Kempe and J. L. Ekman did take a couple of trips abroad in May.

evident strategy for a cartel. After all, sudden price surges and quota increases were something that the ETEC wanted to avoid, not instigate.⁸⁶⁰

The Swedish and Finnish ETEC delegations gathered on 31 May 1939 to analyse the situation.⁸⁶¹ By April, Finland had sold 450,000 std which was almost twice as much as a year ago. The situation in Sweden was similar.⁸⁶² Was it a temporary peak or would it be something longer-term in nature? Reacting too quickly to temporary demand peaks would, according to the experience from 1937, feed speculative buying. This meant that the importers would buy up stock; and when the stocks filled up, the suppliers would find it hard to decrease their production. Overproduction and falling price trends would follow and the market would dip from boom to bust.⁸⁶³ Another fundamentally important question concerned what options the biggest timber buying country, Great Britain, had regarding where to buy more timber. Did Canada and the United States have the necessary trade political position in the British market to cater for the British need in spring and summer 1939? If Canada and the United States were able to increase their supply to the British market, shouldn't the ETEC increase its output as well? Finnish–Swedish consultation at the end of May was not particularly unanimous about what actions the ETEC should take in the changed market. The Swedes supported the idea of increasing the ETEC quota by five per cent, while the Finnish opinions—the SSY Board and the big firms—oscillated between resigning from the ETEC, increasing the quota, and keeping it steady.⁸⁶⁴

Those who were against increasing the ETEC quota in Finland were afraid that such an announcement would lead to skyrocketing prices for raw material. Those that supported the quota increase believed that leaving the rising demand without a response would lead to a too rapid price level of timber, which also was unwanted. Furthermore, increasing the quota would be a convenient way of bringing the production plans of the Finnish firms on a par with the Finnish ETEC quota. In May, many Finnish big firms and business groups—Ahlström, Hackman, Halla, Enso-Gutzeit, Oulu, Rosenlew, Santaholma, Vienti-Export—were still planning to export altogether 100,000 std over Finland's ETEC

⁸⁶⁰ ELKA; SSY; 1186: Finnish–Swedish Trust Council meeting, 31 May 1939.

⁸⁶¹ ELKA; SSY; 82: Meeting between the Finnish ETEC delegation and the ETEC's president and syndic, 31 May 1939.

⁸⁶² SSY; ELKA; 1124: Circular letter n:o 5, statistic for selling and shipping. Selling in April 1938: 272,000 std. CfN; STEF; G1B:2: The report of the Board of STEF to the general meeting of the STEF, 16 March 1939, 8.

⁸⁶³ ELKA; SSY; 96: Meeting of the Finnish ETEC delegation, 22 May 1939. CfN; STEF; F1A:408: The ETEC General Meeting, 2 August 1939.

⁸⁶⁴ ELKA; SSY; 96: Meeting of the Finnish ETEC delegation, 22 May 1939, also appendix 1. The Finnish ETEC delegation consulted the big firms' opinions. The Finns, again, had such diverging opinions that the ETEC delegation decided that Finland should not have a proposal of its own in the ETEC meeting in Stockholm (planned for 29 June). The delegation decided, however, not to oppose the Swedish proposals either.

quota despite the vigorous counter measures taken by the Finnish ETEC organisation since early 1939.⁸⁶⁵ Now, increasing the ETEC quota in May would erase the Finnish overproduction problem.⁸⁶⁶

The Soviet Union was not happy with the Swedish–Finnish idea of increasing the ETEC quota and rather hoped that the ETEC executive meeting would be postponed, which would have provided an opportunity to discuss the matter.⁸⁶⁷ The reason for Soviet displeasure was that the Soviet's production capacity had steadily decreased since 1936, and 1939 looked equally pitiful. According to the Foreign Office's report from May 1939, the stocks of Soviet producers were low, and the crisis in production levels would continue in 1939:⁸⁶⁸

Production still lags greatly behind plans and the measures decreed to improve matters such as better provisioning and housing of the workers seem to be ineffective. This appears to be due to a combination of inefficiency and apathy on the part of those responsible for carrying out the orders of the authorities.⁸⁶⁹

During the first quarter of 1939, Soviet productions and transports reached 75–78 per cent of the goal, and in the second quarter it was expected to decrease even further. The process of preparing and transporting timber had not worked well in the late nineteen-thirties.⁸⁷⁰ Stalin's purges within different timber trusts had not increased the productivity of the timber industry, quite the opposite in fact. Labour was unproductive and insufficient in number due to the 'catastrophic' living conditions and working environments of the workers. There was still not enough food, tools, mittens, felt boots, and warm clothing. New, underdeveloped felling areas were far away in the east and north, which

⁸⁶⁵ SSY; ELKA; 1124: Circular letter 2/1939, 16 February 1939. 1124: Sold and shipped goods from Finland between January and May. SSY's inner report. SSY; ELKA; 1124: Fixed and unclear export quotas for 1939, 16 February. There was altogether 469,458 std in the category of 'unclear quotas'. This constituted a production volume about which the Finnish ETEC organisation and the firms had not reached an agreement.

⁸⁶⁶ ELKA; SSY; 1124: Circular letter 10 August 1939 from Finnish ETEC delegation to the Finnish exporters.

⁸⁶⁷ CfN; STEF; F1A:408: Letter from Exportles to ETEC (Carl Kempe), 15 June 1939.

⁸⁶⁸ NA; FO 371/23699: Memorandum on the Soviet timber industry written by Frank N. Todd (British Commercial Secretary in Moscow).

⁸⁶⁹ NA; FO 371/23699: Memorandum on the Soviet timber industry written by Frank N. Todd (British Commercial Secretary in Moscow).

⁸⁷⁰ NA; FO 371/23699: Report written by Frank N. Todd (British Commercial Secretary in Moscow), 11 May 1939. The document analyses the reasons for the decline in Soviet timber production. 'As the defects and shortcomings of the work of these trusts mentioned in the ordinance probably also apply to many other timber preparation organisations, they may be mentioned as follows: the lack of an effective management of individual timber enterprises; insufficient utilisation of the winter months to transport timber from the forests; lack of real control over the execution of the production plans; a passive attitude towards difficulties and shortcomings; inadequate explanations to the collectivised peasants, collective farm managers and village Soviets regarding the importance of the decree of the 15th November last; irresponsible attitude towards the enrolment of seasonal workers and neglect of measures for securing tolerable living conditions for the workers enrolled; absence of a campaign for the maintenance of labour discipline; financial mismanagement; non-payment of wages to workers and bad labour organisation. The ordinance prescribed a radical "purge" in the leading posts of both trusts and their subordinate organisations as well as comprehensive measures to remove the prevailing deficiencies.'

slowed down the production flow.⁸⁷¹ Therefore, unable to increase export production and enjoy the commercial benefits of the rearmament boom in 1939, the Soviet Union was not interested in fattening up the trade of its competitors.

In May, J. L. Ekman decided that the ETEC needed to increase the 1939 quota. This observation was based on information from his friend and a timber specialist Torsten Landby, who reported to Ekman that the Britain needed around 200,000 std more than what had been estimated in November 1938.⁸⁷² Also, many British importers supported wholeheartedly increasing the supply from the ETEC as it was clear that the earlier calculations no longer held true.⁸⁷³ According to J. M. Green, an importer from Keighley, Yorkshire, if the exporters let the timber shortage deteriorate and let the price level rise too high and too fast, 'the consumer will begin to look round for cheaper substitutes &/or lower grades at a more reasonable price'.⁸⁷⁴

After the present boom has expired, the ETEC countries may find they have lost further ground in favour of Canada. It must not be overlooked that the prejudice which existed against Canadian timber a few years ago has largely disappeared today.⁸⁷⁵

Communication in spring 1939 between J. L. Ekman and the importers, aiming at equipping the ETEC's president with enough data to make an enlightened decision about the ETEC's quota policy, also became an avenue to evaluate the working of the ETEC. So far, the British and Finnish opinion towards the ETEC has been discussed, but Ekman's own ideas have been less apparent. Of course, Ekman had not been in a position to openly complain about the ETEC. The letter exchange between F. B. J. Gibbs, the CEO of the Nederlandsche Houtbond (the Dutch timber importing association) and J. L. Ekman in spring 1939 nevertheless gives us a glimpse of what J. L. Ekman thought of the accomplishments and the whole collaborative culture of the ETEC.

J. L. Ekman was disappointed about how the collaboration had evolved, firstly, between the exporters, and secondly, between the importers and exporters. He saw a future in the collaboration, but not in the methods of the late nineteen-thirties. The quality of information exchanged in the ETEC meetings had been poor. He described the meetings as interesting and enjoyable, but regrettably useless, social gatherings:⁸⁷⁶ 'Too much speeches and too many conferences are held, with little or no results.'⁸⁷⁷ In his letter exchange with Gibbs, Ekman acknowledged the importance of collecting data about timber stocks, prices, and demand as well as exchanging experiences about the trade political reality, but he

⁸⁷¹ NA; FO 371/23699: Memorandum on the Soviet timber industry written by Frank N. Todd (British Commercial Secretary in Moscow).

⁸⁷² CfN; STEF; E3:CA: Letter from Joseph Green (Timber importers), 24 May 1939, to Torsten. Letter from Torsten Landby to J. Fairley (MacPherson & McLaren), 17 May 1939. Letter from Torsten Landby to J. L. Ekman, 25 April 1939. Letter exchanges with continental timber importers showed similar findings.

⁸⁷³ CfN; STEF; E3:CA: Letter from J. Fairly (Macpherson & McLaren) to Torsten Landby, 17 May 1939.

⁸⁷⁴ CfN; STEF; E3:CA: Letter from J. M. Green to Torsten Landby, 24 May 1939. By substitutes he referred to concrete and rubber.

⁸⁷⁵ CfN; STEF; E3:CA: Letter from J. M. Green to Torsten Landby, 24 May 1939. See also CfN; STEF; F1A:408: The ETEC General Meeting, 2 August 1939. The U.S. had entered into competition, or potential competition, somewhere in late 1938.

⁸⁷⁶ CfN; STEF; F1A:314: Letter from J. L. Ekman to F. B. J. Gibbs, 30 June 1939.

⁸⁷⁷ CfN; STEF; F1A:314: Letter from J. L. Ekman to F. B. J. Gibbs, 19 July 1939.

criticised the falsity and emptiness of the big ETEC meetings. It was impossible to organise a small meeting between all European exporters and importers; if all timber trading countries sent two representatives, it would mean tens of participants.⁸⁷⁸ Gibs suggested collaboration based on smaller units.⁸⁷⁹ Inspired by discussions with the higher officials of the German Forest Department, he even outlined a German–Dutch–French–British–Belgian network in which Sweden could participate.⁸⁸⁰ Ekman did not think very highly about the Dutch ideas. Writing to a friend about a Dutch colleague, he complained: ‘His writings show quite big lack of understanding about these problems and that his main interest is that something ought to be done’⁸⁸¹ Ekman himself, however, could not offer more practical or more sophisticated solutions. The nineteen-thirties, the decade of international cartels, government interventions, and de-globalisation closed in on the timber trade in an atmosphere of distrust between exporters and importers.

For the ETEC, the burning issues in spring and summer 1939 were, nevertheless, what to do with the rising demand. The fact that the Central Europeans had had difficulties in attending the European meetings in spring and the Soviet Union had not wanted to meet at all in summer had hindered decision-making. However, eventually somewhere in mid-June, Carl Kempe started arranging the ETEC meeting with the purpose of squeezing out from the ETEC the decision to increase the annual quota by five per cent compared with the 1937 level. In total volume that amounted to 181,000 std.⁸⁸² He intended to have the ETEC’s general meeting at the end of June, but eventually the meeting gathered on 2 August in Stockholm.⁸⁸³ By that time, the timber shortage had grown even more urgent, increasing from 180,000 std to 290,000 std. The ETEC’s general meeting decided to increase the quota by ten per cent. The decision was initiated by Sweden and supported by Finland. The Soviet Union and the Central European countries were displeased, but eventually all parties ratified the quota increase, which took force on 18 August.⁸⁸⁴

None of this mattered, however. Two weeks later, the European timber exporting countries found out that the ETEC collaboration would not continue. Germany attacked Poland on 1 September 1939 and World War II broke out. ETEC members sent their resignation letters in September and October.

⁸⁷⁸ CfN; STEF; F1A:314: Letter exchange between J. L. Ekman and F. B. J. Gibs, 22 May; 21, 28, 30 June; 19, 25, 26 July; and 2 August 1939.

⁸⁷⁹ CfN; STEF; F1A:314: Letter from F. B. J. Gibs to J. L. Ekman, 29 June 1939.

⁸⁸⁰ CfN; STEF; F1A:314: Letter from F. B. J. Gibs to J. L. Ekman, 19 July 1939.

⁸⁸¹ CfN; STEF; F1A:314: Letter from J. K. Ekman to J. H. Hultzor (working for company Otto J. Fabor), 19 July 1939.

⁸⁸² Paloheimo archive; 10313:1: Invitation letter 10 June 1939 to a Finnish ETEC delegations meeting on 22 June 1939 from E. F. Wrede.

⁸⁸³ Paloheimo archive; 10313:1: Invitation letter 10 June 1939 to a Finnish ETEC delegations meeting on 22 June 1939 from E. F. Wrede. ETEC’s president made at least four attempts before August to arrange for the ETEC to meet. The first ETEC executive’s meeting in 1939 was planned for Bucharest at the beginning of the year—the Romanians had invited the ETEC representatives there earlier in autumn 1938, but the meeting was cancelled. The next attempt was to be in Paris, but that too was cancelled. The General Meetings were planned first for 29 June and then for 1 July, but neither attempts worked out because the Soviet’s turned down the proposal. ELKA; SSY; 96; Finnish ETEC delegation meeting, 31 July 1939. ELKA; SSY; 1123: ETEC general meeting in Stocholm 2 August 1939.

⁸⁸⁴ CfN; STEF; F1A:408: The ETEC General Meeting, 2 August 1939.

The ETEC formally ceased to exist on 1 January 1940. Martial laws and other war-related regulation swallowed private cartels for many years to come.

Epilogue

The ETEC vanished in the tumult of World War II, but timber trade and its perennial problems with demand, supply, price, predictability, and profitability remained. During the war, state officials controlled the usage and distribution of raw materials.⁸⁸⁵ After the war, it took years before international trade was free from war regulations, but the reconstruction of European timber trade organisation nevertheless began as soon as European peace dawned. In fact, it had begun already amidst the war: Egon Glesinger, who migrated to the United States in June 1941, started to design a new future for European timber trade and, indeed, for the utilisation of global forest resources.⁸⁸⁶ He relocated the CIB and the Department for Timber Utilization in Washington DC and started writing his memorial *Nazis in the Woodpile* about timber trade adventures in old Europe.⁸⁸⁷ He apparently also worked for the United Nations, profiling as a forestry specialist, and as soon as the Food and Agriculture Organization (FAO) of the United Nations was founded, Dr. Glesinger started working there. His aim was to revive the international collaboration of the ETEC, now on a bigger scale and, after 1945, within the framework of the FAO.⁸⁸⁸ In a way, things had come full circle. The timber collaboration issues returned 'home' to the successor organisation of the League of Nations which had in 1932 launched the idea of a European timber regulation scheme.

Glesinger wrote about his ideas to Sweden, to Professor and Minister Gunnar Myrdal and his former colleague, the CEO of STEF, J. L. Ekman.⁸⁸⁹ Ekman, however, was very sceptical about Glesinger's efforts to create global networks in the timber trade and even about collaboration on commercial questions.⁸⁹⁰ He warned that overambitious projects, like the one Glesinger was now building, were doomed to fail. Gunnar Myrdal, on the contrary, supported Glesinger and they exchanged confidential

⁸⁸⁵ There were discussions between the governments of Soviet Union, Sweden, and Finland about collaboration between timber exporters. UM; 58; B1; 61: Telegram from Moscow, from M. Waltimo to the Finnish Ministry of Foreign Affairs, 26 May 1946.

⁸⁸⁶ RA: Swedish Ministry of Foreign Affairs; 1920 års dossiersystem; H 995: Report No 1: 'Re-establishment of an American office' by Egon Glesinger, 31 October 1941. 'Impact of the war on fore industries. A preliminary review,' presented to the Society of American Foresters at Washington DC on October 17 1931 by Egon Glesinger. Bemmann, 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*.

⁸⁸⁷ The first meeting of the American office of the CIB was held 9–10 December 1931 in Washington DC, at Shoreham Hotel. RA; Archive of the Swedish Ministry of Foreign Affairs; 1920 års dossiersystem; H 995: Letter from Egon Glesinger o W. Boström (envoy in the Legation of Sweden in Washington DC) 5 November 1941.

⁸⁸⁸ RA; Archive of the Swedish Ministry of Foreign Affairs; 1920 års dossiersystem; H 995: Letter from Egon Glesinger to W- Boström (envoy in the Swedish Legation in Washington DC) 5 November 1941

⁸⁸⁹ CfN; STEF; E3BA; 2: J. L. Ekman's letter to Axel Iveroth (*Industriattaché* in the Swedish Legation in Washington DC) 7 September 1944. Martin.

⁸⁹⁰ CfN; STEF; E3BA;2: J. L. Ekman's letter to Axel Iveroth (*Industriattaché* in the Swedish in Washington DC) 7 September 1944. ARAB: Archive of Alva and Gunnar Myrdal; Letter exchange of Gunnar Myrdal 1940–1949, F–J: Letter from J. L. Ekman to Gunnar Myrdal, 19 December 1946.

letters where they tried to understand Ekman's pessimism. Glesinger was convinced that the potential involvement of the FAO in timber cartel questions annoyed Ekman, who did not want to follow cartels but to lead them. Glesinger was probably right; in 1933 Ekman wanted to get rid of the League of Nations' involvement in timber cartel issues, and now he wanted the FAO to stay out of it. Ekman himself wrote in 1948 to Henry McGrady Bell—a British diplomat who at that time worked on a book manuscript on the timber trade: 'I am still satisfied that we succeeded in preventing [in 1932] the governments from stepping in and controlling our timber export and import.' According to Glesinger, J. L. Ekman was greedy for power:

His opposition is due to two fundamental factors. 1) In all international timber matters, Ekman is anxious to be the leading person and to have far reaching control. He fears that in FAO he might not secure a position comparable to the one he held in ETEC. 2) Ekman has devoted his life to keeping the government out of Swedish forest industries. He fears that any action by FAO beyond the collection of statistics might lead to government intervention and he will therefore prefer the disadvantage connected with chaos or Sweden's non-participation to the risk of such a development. I know that you and your government do not agree with Ekman's views on this point and believe therefore that we will have to keep him at the periphery of our relations for some time.⁸⁹¹

In the nineteen-forties, governmental war regulations closely directed the use of raw materials and export trade in all timber importing and exporting countries, making the creation of governmentally supervised cartels a more likely scenario than ever in the nineteen-thirties. J. L. Ekman, just as much as his Finnish colleagues, was interested in private forms of competition regulation, but the nineteen-forties, characterised by governmental war regulations, was not a successful era for that. The Nordic timber trade people did not want to see Glesinger's institution, the FAO, building an institution which in any way resembled a cartel on their behalf. The experiences from the ETEC, with its constant fear of government intervention haunting the timber trade associations of Finland and Sweden, had not been entirely pleasant, so Glesinger's designs did not feel tempting.

It took until the early nineteen-fifties when a new leaf was turned in reestablishing collaborative practices in the timber trade. European exporters and importers started to arrange annual conferences—or almost yearly at the beginning—where they talked about the market: demand, consumption, financing trade, new commercial organisations in the Iron Curtain-divided Europe, tariffs, trade policy, output, and prices. Everything had changed since the nineteen-thirties, however. The early Cold War of the nineteen-thirties had turned into a full-blown Cold War under the threat of the atomic bomb, redefining once again global economic relations. At first, the Soviet Union did not attend to European timber conference, and neither did Czechoslovakia and Romania, who were now Soviet satellites. In the nineteen-sixties this changed. The legal environment also changed completely after the Second World War, wiping away the era of general cartel appreciation, which had been typical of the interwar period. The documentation about European post-war timber collaboration does not show that the European meetings fixed prices or output volumes, but without a closer look at the national implementations of these international meetings, it is impossible to tell whether proper

⁸⁹¹ 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.

cartels were formed or not.⁸⁹² Cartels, and their documentation, change over time and research shows that intensifying anti-trust legislation does not banish cartels forever, it simply sends them underground.⁸⁹³

The post-war timber conferences continued until at least the nineteen-seventies, when they again adopted more observable cartel-like features. By that time, the generation that had built the ETEC in the nineteen-thirties, and that remembered how difficult building an international cartel had been, had gone. One of the goals of the European timber exporters, nevertheless, was reached after forty years: Canada became a partner in the international timber conferences in the nineteen-seventies.

Summary and discussion

This chapter analysed the final year of the ETEC from late 1938 until autumn 1939. It was characterised by collapse of organisations nationally and internationally, and almost complete lack of possibilities and willingness to collaborate between the signatory countries.

Demand and prices during this period were rising due to 'war psychosis' in the market, as Axel Solitander described it, but also because the boom-bust cycle of timber market—which the ETEC failed to erase with quota policies—had reached the nadir of depression in summer 1938 and slowly started to recover in autumn. Importers bought for consumption, not to overfill their stock. Increasing demand and 'healthy' buying did not lead to revived ETEC collaboration, however, but quite the contrary; the threat of war hung heavy upon Europe, and blurred the horizon. In late 1938 Czechoslovakia resigned from the ETEC because of the German–Polish–Hungarian occupation of its border provinces. For cartels, chaotic and unpredictable times—either due to commercial demand–output fluctuations or because of political economy or security issues—were problematic, since all carefully gathered data and educated estimations about the direction of demand might become worthless. The opinions in late 1938 about the direction of demand in the following year varied, but finally the ETEC decided to offer less timber in the 1939 market than in the previous years.

Demand and the price of softwood timber started to skyrocket from February–March onwards. That called for action from the leadership of the cartel. The Finns and Swedes thought that the ETEC should upgrade the output of 1939, but arranging a meeting became immensely difficult in spring due to the deteriorating security situation in Central Europe. The Romanian and Polish delegations did not feel comfortable leaving their home countries, and the Jewish general secretary, Egon Glesinger, who lived in Brussels, had major geopolitical obstacles that prevented him from travelling freely. There were no similar hardships for the Soviet delegation to attend the meetings, but the source material shows that the Soviet Union, who were disinclined to meet, deliberately placed obstacles in the way of a conference.

Soviet timber production had declined over the past couple of years. British reports show that Soviet production constantly fell behind the plans due to poor planning concerning infrastructure and production. Major mistakes had been made in all steps of the Soviet planning; there weren't enough winter mittens for workers, for example, and production sites were not built near enough the raw material and transferring infrastructures. The Soviet Union, unable to respond to the growing demand,

⁸⁹² ELKA; SSY; 662–669: Conferences between timber importers and exporters 1951–1980.

⁸⁹³ Jensen-Eriksen, Niklas (2017): 'Creating clubs and giants: How competition policies influenced the strategy and structure of Nordic pulp and paper industry, 1970–2000' in *Business History*

was not interested in increasing the ETEC quota. Letter exchange shows that the delegations from different countries could not, or did not want to, meet and make decisions, and as a consequence the ETEC in 1939 lost significance as a market regulator.

This chapter shows that the Finnish ETEC organisation and the SSY Board admitted that the pressures in Finland to fulfil the ETEC duties and control the numerous overproducing firms was a hopeless task. Demand rising in late 1938, the production plans of Finnish firms for 1939 exceeded the ETEC 1939 quota by 160,000 std. Axel Solitander said that if the Finns really thought they could sell that much in 1939, then maybe they should. He resigned from the Control Committee and said he would not object if the Board of SSY did not ratify the ETEC agreement for 1939. The Control Committee was abolished and the Finnish ETEC delegation took care of the control duties. State-owned timber firms, Enso-Gutzeit and Veitsiluoto, abandoned the SSY in October 1938 on account of its ETEC policies. The CEO of Enso-Gutzeit accused Wrede, SSY's managing director, of following Swedish opinions too closely and not listening to Finnish firms regarding their willingness to be in the ETEC. The resignation of Enso-Gutzeit and Tornator from the SSY was a shock; these two companies produced around nine percent of Finland's total timber export quantity.

The final year of the ETEC shows that period 1937–1938, defined by depression and collaborating importers, introduced changes into the ETEC routines. J. L. Ekman no longer believed in big conferences between the exporting. Newspaper articles reporting on the ETEC conferences did not help the ETEC becoming a success, for such publicity did not allow the participants to openly express their concerns or problems with the ETEC. A large number of different-sized competitors selling different products to different markets, and having different opportunities to control their exports, was not a successful combination for competition restriction. Moreover, inviting collaborating importers to the ETEC meetings to give their opinions had not proved to be a wise decision. During the final year, Ekman began thinking about options for smaller, more confidential collaboration between only the big exporting countries, and in his communication with importers, Ekman returned to the practices that had prevailed in 1936 and earlier, namely private discussions with importers.

The ETEC was in deep trouble in 1939. The Soviet Union did not want to attend the ETEC meetings; Austria and Czechoslovakia had left the ETEC; leading Finnish firms resigned from the ETEC; relations between the importers and the ETEC were icy; and the Swedish leadership of the cartel recognised the many structural problems of the ETEC. The experiences after 1936 had shown that the ETEC had failed in its mission. It had not stabilised the timber market.

Conclusions

This dissertation studied the making and maintaining of an international commodity cartel in the nineteen-thirties. At the focus was the European Timber Exporters' Convention (ETEC), a quota agreement between seven countries, ratified in December 1935 after four years of negotiations. The research task was to analyse whose cartel the ETEC was; who wanted it and why? The questions were addressed on two levels: by looking at the international level and by investigating their national implementations in Finland, and to lesser extent in Sweden.⁸⁹⁴

The results indicate that besides timber firms, also banks, governments, and the League of Nations regulated, encouraged, or otherwise contributed in making and maintaining of the ETEC.

This research focussed on the process of making and maintaining of an international cartel, an area of research which has an impressive body of literature. Concerning the nineteen-thirties, researchers have recognized that European governments became involved or started paying more attention to international cartels. Clemens Wurm, for instance, has noted that 'almost all governments encouraged them.' Many researchers since Wurm have presented empirical evidence supporting this perception and giving more details, first, on the reasons why governments and intergovernmental organisations encouraged them, and second, on the practical preconditions in different countries for government interventions in cartels. Research indicates that, for governments, regulating competition through international cartels was not just a solution to mend national economies from the ravages of the Great Depression and the trade wars of the nineteen-thirties, the international cartel had also, according to Wurm, become 'a political device'.⁸⁹⁵ Indeed, in the case of the ETEC, the proximity of governments, banks, and the League of Nations in the process of making and maintaining the cartel connects this dissertation to studies that examine the broader roles of international cartels in past societies.

This work concludes that the ETEC cannot be perceived as a result of the collusive behaviour of business people—as cartels in today's economic research are often perceived—but the ETEC became a national and international project bringing together private interests and trade-political and diplomatic interests. The governments and banks in Finland supported the ETEC, while many firms—particularly the big firms—opposed it. The complex reasons behind these conflicting views are explained in more detail in the six chapters of this work, but in short, the Finnish government supported the international timber regulation negotiations in the early nineteen-thirties because it did not want to turn down the negotiation invitations from the Soviet Union (1931) or from the Economic Section of the League of Nations (1932). Moreover, the support of the British timber buyers and the Board of Trade for commercial truce between the Finnish, Swedish, and the Soviet timber exporters encouraged international regulation, and the material indicates that Finland listened to the opinion of its biggest buyer. Refusing to negotiate timber regulation scheme, according to the

⁸⁹⁴ National developments in other ETEC countries—the Soviet Union, Austria, Czechoslovakia, Poland, Romania, Yugoslavia, and Latvia—are not touched upon due to limitations of source material. Without a doubt, however, their perspectives on the ETEC would greatly contribute to our understanding regarding the interplay between trade policies, diplomacy, national interests, and international cartels.

⁸⁹⁵ Wurm, Clemens (1994): 'The politics of international cartels: Great Britain, steel and cotton textiles in the interwar period' in *International Cartels Revisited (1880-1980)*, 256..

estimation of the government, might have had a negative impact on Finland's brand abroad. The Finnish government did not support the ETEC negotiations because of potential economic benefits; it hoped, in fact, that the 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'.⁸⁹⁶ Between 1936 and 1939 the Finnish timber trade association considered resigning from the ETEC on several occasions. However, national interests and the diplomatic importance of the ETEC were more important than free competition and freedom of commerce for timber exporting firms. 'We should show to the outside world that we support the agreement and let the other ETEC countries take the blame for breaking the agreement', was a typical formulation why Finland had to continue with the ETEC.⁸⁹⁷

This work discussed lot about pressure and shows that pressure can be a chain reaction. The ETEC had national importance, and the Finnish government was afraid of pressure from the foreign governments if the country failed in following the ETEC norms. From the source material it becomes abundantly clear that the Finnish timber trade association, SSY, led the ETEC process in 1931–1939 because of government pressure. 'It was necessary for us to join the ETEC to avoid government intervention', a long-term SSY Board manager von Julin summarised exhaustively in 1938 his experiences about the position of the SSY in the ETEC.⁸⁹⁸ The SSY was afraid that a failure in the ETEC matters would result to government intervention in Finnish timber trade; either the SSY led the ETEC process or the government would lead it. The firms did not, however, support the broadly international timber cartels at any point of the nineteen-thirties, which resulted to a situation where the SSY Board decided to invited banks to pressure the un-collaborative firms with economic sanctions to follow the ETEC quota policy. The SSY Board, in its communication with the Finnish timber firms, also regularly threatened with government intervention if the firms did not voluntarily follow their quotas.

This work showed that pressure did not lead to cartel success, though. Finnish timber firms never supported the ETEC broadly enough, and the country exceeded its ETEC quotas in 1936, 1937, and 1939. Overproductions happened, because the firms did not care about their quota norms. Nevertheless, pressure changed the way how institutions worked; governmental pressure, and the threat of government intervention, corrupted the self-determination of Finnish timber trade association. If the SSY led the ETEC in Finland, but acted upon government's pressure, whose cartel the ETEC eventually was? The work analysed the motivations of different actors involved in the ETEC in the light of cartel theories. Why did firms oppose the ETEC? Why did the governments support it? This dissertation concluded that economic theories on varying incentives to collude as well as

⁸⁹⁶ 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.*'

⁸⁹⁷ ELKA; SSY; 28: SSY Board meeting, 14 December 1938. SSY; 86: Finnish ETEC delegation's meeting, 19 December 1938. '*...vi uppbara avtalet och låta andra ETEC-länder bära ansvaret för att samarbetet eventuellt upphörde.*'

⁸⁹⁸ ELKA; SSY; 28: SSY Board meeting, 14 December 1938. SSY; 86: Finnish ETEC delegation's meeting, 19 December 1938. '*Bergsrådet von Julin betonade, att vi sett oss tvungna att gå med på ETEC-avtalet för undvikande av et statsingripande.*'

organisational theories on the internal factors of collaborators facilitating collaboration can explain why governments and firms reacted as they did.

The results of this work revealed unconventional insights into business-government relations in the Nordic countries; discords between the state leadership and business people around cartel issues have hitherto rarely been reported in the literature. This work raise a question whether we should depart more often from the concept of collaboration, which seems to be a default choice to describe the nature of business-government relations in the Nordic countries, and pay more critical attention to the power struggles within networks. Furthermore, the results encourage cartel researchers to explore national implementations of international cartels. They can show, for instance, how differently small and big firms were treated in the international cartel; how vulnerable the significant but small exporter countries can be to international pressure; how coercion can happen in non-interventionist countries; and how pressure spread in the network between the governments, banks, industry association, and the firm. The case of the ETEC suggests that analysing only the international level of cartel do not reveal any of these tensions.

Exploring the dynamics between the League of Nations and commodity producing countries produced interesting results and also encourage to continue to work further on the subject. Previous research has recognised that the League of Nations and national governments in Europe became interested in international commodity cartels as a tool to mitigate negative effects related to depressions, trade wars, and protectionism. However, what has been less studied is what all this meant for countries and firms producing these commodities and how public interest in cartels changed the environment for firms.

This study shed light on these questions and concluded that the active role of the League of Nations regarding a timber cartel was not welcomed by the three largest timber-producing countries, Finland, Sweden and the Soviet Union. For the Nordic countries, the active involvement of the League of Nations diminished the industry's power over its own affairs and furthermore brought politics to the negotiation table. It was a value per se for Finnish and Swedish industry that the industry made its own decisions, maintained control over its own matters, and set up its own cartels. Nevertheless, the Finnish and Swedish government could not turn down the negotiation proposals of the League of Nations in 1932 because it might have had a negative impact on the League-relations of the Nordic countries. Therefore, the Nordic countries attended the League's timber cartel negotiations, but tried to hinder the process and certainly avoided making any decisions.

The role of the League of Nations in 1932–1933 raise questions that would be interesting to have a closer look in future. Who exactly in the Economic Section of the League of Nations did promote the idea of European timber cartel in 1932–1933 and why? France and its protectionist policies seem to have a strong voice at time to time, but making a more analytical interpretation about the real motivations of the League's timber cartel actions would require expanding the source basis and literature broader than what has been used in this work.

Also, defining in more detail the position of the Soviet Union in the ETEC through Russian archives is a target for development in future. What was, for instance, the diplomatic and economic significance of the ETEC for the Soviet Union? How much, in fact, did the British opinion—or pressure—weigh in 1932–1933 in the actions taken by the Soviet government regarding the European regulation schemes? What did motivate the Soviet Union to initiate the Nordic–Soviet timber negotiation in 1931, or to join the ETEC in 1935? The Finnish, Swedish, and British sources can reflect something

about these issues, but they are not always entirely reliable since prejudices, beliefs, and politics could colour the analyses. Only Russian archives, which have not been utilised in this work, could provide more solid answers about Russian motivations. Similarly, this work has not used any archive material from the Central European timber exporting countries. Exploring those would undoubtedly offer valuable insights into the Central European motivations and pressures involved in the ETEC as well as how the changing political economy of the big continental buyer, Germany, altered the incentives of the Central European exporting countries to make and maintain the ETEC. Lastly, the position of the British and European importers vis-à-vis exporters' regulation scheme would deserve to be studied.

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|------|-----------|--|
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| B1AA | 14, 17–18 | <i>Circulärskrivelser, allmän serie, ämnesordnad</i> — Circular letters, general series, organised by descriptor. 1929, 1932–1933. |
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| E3BA | 2 | <i>Korrespondens med Distriktsföreningarna</i> — Letter exchange with the district associations 1918–1943 |
| E3BB | 6 | <i>Korrespondens med Finska såverksärageföreningen</i> — Letter exchange with the Finnish Sawmill Owners' Association 1931–1933 |
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| F1A | 232–234 | <i>Prisöverenskommelser</i> — Price agreements. 1925–1926, 1933 |
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F1A	267	<i>Internationell exportreglering för trävaror</i> — International export regulation of timber
F1A	285–286	<i>Konferensen i Genève 1932 samt Wien</i> — Conference in Geneva and Vienna 1932.
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