

Predators or Patriots?

Export cartels as a source of power for the weak

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Abstract

This paper argues that cartels can be a source of power for the small and weak nations, and that this aspect has often been overlooked in current public discussions about cartels, which tend to emphasise their negative effects. Cartels are in fact tools, which companies and governments can use for variety of purposes. Scholars have focused their attention on the activities of those cartels that were set up by large companies of dominant industrial countries like Germany or the USA, and have discussed how these cartels helped their members to exploit their customers in their extensive domestic markets or in the global marketplace. However, if look at the activities of those export cartels that were set up by weak companies in small countries, a very different picture starts to emerge. In the beginning of the 20th century, the Finnish pulp, paper and board companies realised that they were too weak and inexperienced to compete as individual actors in international markets against major foreign competitors. Hence, the Finnish companies decided to join forces and form export associations. The co-operative strategy was highly successful, and the small poor peripheral country gradually became one of the leading producers of pulp and paper in the world, and rose to become a developed industrial nation. The associations could also be used as defensive barriers, for example, against attempts by Hitler's Germany to expand its economic influence in Northern Europe.

Introduction

Cartels are often described as “conspiracies” against the public as they can help companies to reap economic benefits at the expense of their customers. When the links between German cartels and Hitler’s regime became known during the 1940s, many observers concluded that cartels can even threaten the democratic development of nations.¹ Yet, it is argued in this paper that cartels are in fact tools, which can be used as variety of purposes. Scholars have focused their attention on the activities of those cartels that were set up by large companies of dominant industrial countries like Germany or the USA, and discussed how these cartels helped their members to exploit customers in their extensive domestic markets or in the global marketplace. Yet, if look at the activities of those export cartels that were set up by weak companies in small countries, a very different picture starts to emerge. Cartels can offer crucial advantages to small undeveloped countries, who are trying to break into international markets dominated by vast industrial giants from developed countries.

In the beginning of the 20th century, the Finnish pulp, paper and board companies realised that they were too weak and inexperienced to compete as individual actors in the international markets against major foreign competitors.² Furthermore, many of those buying Finnish products were influential actors, such as important newspaper magnates, which had sufficient bargaining power in the negotiations with their suppliers. Hence, the Finnish companies decided to join forces and form export associations. The producers felt that they were simply engaged in sensible co-operation, but later scholars and government officials started to call these industrial alliances as cartels.³

¹ See for example, Theodore J. Kreps, "Cartels, a Phase of Business Haute Politique," *The American Economic Review* 35, no. 2 (1945), 301.

² Sakari Heikkinen, *Paper for the World. The Finnish Paper Mills' Association – Finnmap 1918–1996*, trans. Malcolm Hicks (Helsinki: Otava Publishing Company Ltd., 2000); Markku Kuisma, "Cooperation in Competition: Finland, an Example of Successful Development, 1918–1939," in *Uneven Development in Europe 1918–1939*, ed. Jean Batou and Thomas David (Geneva: International Economic and Social History Publications, 1998).

³ Niklas Jensen-Eriksen, "Kartellien Maailma – Paperiteollisuuden Kansainvälinen Yhteistyö 1945–1973 " in *Suuri Suunnanmuutos. Suomen Paperiteollisuuden Tie Venäjältä Maailmanmarkkinoille*, ed. Niklas Jensen-Eriksen, Liisa Suvikumpu, and Sari Forsström (Helsinki: Helsingin yliopiston Historian laitoksen julkaisuja XXIII, 2009).

At the time when Finnish pulp and paper industrialists decided to pool their forces, the European countries placed few restrictions on the ability of their companies to set up cartels. Since the 1950s, most countries have introduced strict competition laws which regulate or ban the formation of cartels that might distort trade in their domestic markets. Yet, companies are still usually allowed to set up national export cartels, if their impact is limited to foreign markets. These cartels increase export revenues and hence national welfare,⁴ without harming domestic consumers,⁵ and therefore no country has a motive to ban them unilaterally.⁶

However, countries are not involved only in export but also in import trade, and hence many of them have been willing to consider a general international ban. Furthermore, as governments have become increasingly willing to attack anticompetitive practices and to remove various trade barriers, export cartels have begun to appear as strange anomalies. It is therefore not surprising that since the end of the 1980s, policymakers and scholars have considered whether export cartels should be treated in same way as other cartels. No consensus has emerged.⁷ This does not reflect only the fact that they are perceived to offer benefits for exporting countries. As several scholars have noted, the available empirical evidence on the actual effects and activities of export cartels is very limited,⁸ and it is therefore difficult to offer firm conclusions on what impact they have on economic development and world trade.

Theodore J. Kreps argued already in 1945 that “it would be desirable if some part of the energy now spent on dogmatic discussions concerning the benefits and evils of cartels could be channelled into economic, historical, statistical research.”⁹ Later scholars have indeed

⁴ Brendan Sweeney, "Export Cartels: Is There a Need for Global Rules?," *Journal of International Economic Law* 10, no. 1 (2007), 88.

⁵ Some scholars do, however, argue that they can have clear negative indirect effect on domestic markets. See for example, Christian Schultz, "Export Cartels and Domestic Markets," *Journal of Industry, Competition and Trade* 2, no. 3 (2002).

⁶ Sweeney, "Export Cartels.", 87, 114.

⁷ Aditya Bhattacharjea, "Export Cartels – a Developing Country Perspective," *Journal of World Trade* 38, no. 2 (2004), 334; Sweeney, "Export Cartels.", 114.

⁸ Margaret C. Levenstein and Valerie Y Suslow, "The Changing International Status of Export Cartel Exemptions," *American University International Law Review* 20, no. 3 (2004), 799–800; Sweeney, "Export Cartels.", 114; D. Daniel Sokol, "What Do We Really Know About Export Cartels and What Is the Appropriate Solution?," *Journal of Competition Law and Economics* 4 (2008).

⁹ Kreps, "Cartels.", 304.

often been able to distance themselves from dogmatic views, – in fact better than Kreps who claimed stoutly that “[h]istory has proved that cartel justifiers grossly in error”¹⁰ – and have recognised that export cartels can have both positive and negative effects.¹¹ Yet, Aditya Bhattacharjea complained in 2004 that there was still only limited empirical evidence on the prevalence, efficiency justifications and effects of export cartels, and that theoretical literature on the subject is “scanty”.¹² Since then, some scholars have tried to expand our understanding on the theoretical foundations of export cartels, and develop ways to tackle them. The literature and the empirical evidence, however, remain disappointingly limited and inconclusive. Scholars have tended to rely on government-collected data, but most countries do not even require the registration of export associations, and if they do, this information is confidential.¹³ Hence, the data compiled by the governments is of limited use.

Researchers analysing the significance and activities of export cartels have tended to rely mainly on data on the US export cartels. These studies have produced somewhat conflicting results, but they do suggest that the formation of export cartels has failed to increase US exports substantially, and that these associations consist mainly of, or are dominated by, large firms. The US authorities and legislators had hoped that the formation of export cartels would lead to an increase in exports and that they would help small companies to step in the world markets, but neither of these goals has been met.¹⁴

Yet, we cannot rely only on US data, if we want to come to some general conclusions about the significance of export cartels or on whether they should be treated in a similar way as other cartels. Nor is it likely that any particular simple data set can offer sufficient information on the impact of export cartels. They, like any other long-lasting economic institutions, can have varied effects on societies. Detailed case studies on various countries could help us to build a more coherent picture of the activities of these associations and their

¹⁰ Ibid., 310.

¹¹ See for example, Sweeney, "Export Cartels.", 89; A. Paul Victor, "Export Cartels: An Idea Whose Time Has Passed," *Antitrust Law Journal* 60 (1991), 571, 578.

¹² Bhattacharjea, "Export Cartels.", 331–332.

¹³ Levenstein and Suslow, "Changing.", 793, 796.

¹⁴ Spencer Weber Waller, "The Failure of the Export Trading Company Program," *North Carolina Journal of International Law and Commercial Regulation* 17, no. 2 (1992); F.M. Scherer, *Competition Policies for an Integrated World Economy* (Washington, D.C.: Brookings Institution, 1994), 45; Bhattacharjea, "Export Cartels.", 339–340; Levenstein and Suslow, "Changing.", 795; Victor, "Export Cartels.", 573, 575.

impact on international trade and economic development of countries. In this paper, we will look at one country, Finland, where export cartels played a crucial part in the economy. The famous US export cartels covered only a small part of their country's export trade. At the early 1930s, they did handle approximately 19 per cent of the country's exports, but by 1981 this share had declined to two per cent.¹⁵ The Finnish foreign trade, in contrast, was dominated by the export cartels for most of the 20th century. But what impact did this have on the competitive position of the Finnish producers or on the economy of the country? Did they have negative political or economic repercussions for Finland or on the international trade? Did they promote the cartelization of world paper trade?

It is argued that the co-operative strategy was highly successful: the small agricultural peripheral country gradually became one of the leading producers of pulp and paper in the world, and a developed industrial nation. The associations could also be used as defensive barriers, for example, against attempts by Hitler's Germany to expand its economic influence in Northern Europe during the Second World War. In short, it is argued that cartels can be a source of power for the weak nations, and that this aspect has often been overlooked in current public discussions about cartels, which tend to emphasise their negative effects. This paper is based on published works and on government and business documents.

Global competition policies and export cartels

Since the end of the Second World War, most industrialised countries have introduced laws that ban cartels and similar restrictive practices or at least limit drastically their activities. Export cartels, alliances of producers from one country, which aims to limit competition and promote co-operation between them in foreign markets, have, however, in most cases been exempted from the scope of tough competition laws. The United States, which created the first tough anti-cartel (or anti-trust) law, was also the first country that explicitly argued that its companies could form alliances to promote their activities in foreign markets. The famous Webb-Pomerene Act of 1918 gave blanket antitrust immunity to companies that formed joint export associations, as long as their activities did not cover the domestic market. Although

¹⁵ Scherer, *Competition Policies*, 46.

attitudes towards other restrictive practices hardened during the second half of the 20th century, the US Congress passed in 1982 the Export Trading Company Act, which made it even easier for the companies to form export alliances.¹⁶

As the other industrialized countries began to introduce their own competition laws after the Second World War, they usually tended to follow US example. Some governments explicitly decreed that companies could form export associations as long as they did not harm domestic consumers, while others gave an implicit permission by stating that their competition laws applied only to activities in their domestic markets.¹⁷ The Treaty of Rome (1957) that set up the European Economic Community (the predecessor of the current European Union) banned cartels that distorted trade between the Member Countries or within the community, but not those that affected exclusively EEC's export trade.¹⁸ Small export-oriented countries have had a particularly strong motive to accept the formation of export cartels. As A.A. Auquier and R.E. Caves concluded in a classic article (1979): "a nation exporting a large share of its tradeable-goods production will be more tolerant of anticompetitive conditions, and will take more chances of adverse spillovers to the home market when it sets rules for the operation of export cartels in these industries."¹⁹

However, at the end of the 20th century, a number of scholars and policymakers from various countries began to question whether the current benevolent policies towards export cartels should be reversed. In the 1990s, the competition authorities uncovered a number of illegal international cartels, that is alliances formed by companies from more than one country, and as a result of these investigations officials and scholars began to also consider also whether some action should be taken against export cartels. Spencer Weber Waller had in fact argued already in 1989 that the "treatment of single-country export cartels differently and more favorably than traditional international cartels is based on a dangerous and false

¹⁶ Spencer Weber Waller, "The Ambivalence of United States Antitrust Policy Towards Single-Country Export Cartels," *Northwestern Journal of International Law and Business* 10 (1989), 103.

¹⁷ Levenstein and Suslow, "Changing.", 800, 805.

¹⁸ Ulrich Immenga, "Export Cartels and Voluntary Export Restraints between Trade and Competition Policy," *Pacific Rim Law & Policy Journal* 4, no. 1 (1995), 105.

¹⁹ A. A. Auquier and R. E. Caves, "Monopolistic Export Industries, Trade Taxes, and Optimal Competition Policy," *The Economic Journal* 89, no. 355 (1979), 575.

distinction”.²⁰ Since then many scholars have suggested that a cartel is a cartel regardless of whether it operates in a domestic market or in foreign ones, and that it is inconsistent to treat them differently. For example, Margaret C. Levenstein and Valerie Y. Suslow argued in 2004 that “Many countries have been taking a much more aggressive attitude toward both domestic and international cartels that harm domestic competition. Under such circumstances, policies to promote exactly the same kind of activities outside one’s borders seem logically inconsistent and contrary to the spirit of international cooperation.”²¹

These critics do have a point. The US policy, for example, is contradictory. Businessmen are jailed and morally condemned if they resort to anti-competitive practices, like market sharing and co-ordination of pricing, in the domestic market, but if they rely on these methods in export trade, the federal agreement has no objections. Quite the reverse actually, the U.S Office of Export Trading Company Affairs, that administered the Act of 1982, included, in its promotional literature, market sharing and co-ordination in pricing in the list of advantages joint export organs can offer to their members.²²

Many scholars have defined export cartels as mercantilist trade political tools, which benefit home countries at the expense of others. In other words, a country that allows its producers to form such alliances is adopting a “beggar-thy-neighbour” strategy, which may encourage its’ trading partners to employ similar measures.²³ These export cartels are not, however, necessarily competitive, since they may find it useful to co-operate with each other, and to form larger, transnational alliances. In fact, an international cartel consisting of many export cartels may even be particularly stable.²⁴ Formation of export cartels can also promote the cartelization of world trade in other ways, because it might encourage customers to set up buyers’ cartels.²⁵ All this undermines liberal trading regime, and can lead to a downward spiral in international trade. The European Union stated in 2000 that export cartels “had a clear distortionary effect on international trade as well as a harmful impact on

²⁰ Waller, "Ambivalence.", 100.

²¹ Levenstein and Suslow, "Changing.", 812.

²² Bhattacharjea, "Export Cartels.", 338.

²³ Levenstein and Suslow, "Changing.", 787, 797; Waller, "Ambivalence.", 100, 112.

²⁴ Immenga, "Export Cartels.", 129.

²⁵ Sweeney, "Export Cartels.", 94

development”.²⁶ Levenstein and Suslow suggested that countries should jointly eliminate export exemptions or, alternatively, adopt jointly monitored explicit exemptions.²⁷

Yet, other scholars and countries have been less keen to ban export cartels altogether. Brendan Sweeney had pointed out that export cartels can enhance consumer and aggregate welfare in right circumstances. “Where the cartel is comprised of small to medium-sized businesses and its aim is to increase the value of exports by reducing costs, sharing risks and improving products, the cartel is likely to be welfare-enhancing.” These kinds of associations can stimulate competition in markets, and thus benefit foreign customers as well as cartel members.²⁸ According to Andrew Dick, export cartels can be either efficiency-enhancing or monopoly-promoting, but he also pointed out that these goals are not necessarily mutually exclusive. He studied the impact of US export cartels on a sample of 16 commodities, and found five efficiency-enhancing cartels, three monopoly cartels, one with mixed effects and seven which turned out to be relatively useless.²⁹

It has also been argued that tough domestic or multilateral competition policies would take away some of those policy instruments that can be used to support their development,³⁰ and that that export cartels “level the playing field” for small companies who would find it difficult to enter foreign markets or compete with large corporations.³¹

In recent decades, several countries had removed export cartel exemptions from their competition laws, but most still retain them.³² The lack of consensus among countries was apparent in the Doha Round of the World Trade Organization. EU and Japan felt that export cartels distorted trade, while the US pointed out that they can have pro-competitive effects.

²⁶ Quoted in Bhattacharjea, "Export Cartels.", 334.

²⁷ Levenstein and Suslow, "Changing.", 787–788.

²⁸ Sweeney, "Export Cartels.", 89.

²⁹ Andrew R. Dick, "Are Export Cartels Efficiency-Enhancing or Monopoly-Promoting," *Research in Law and Economics* 15 (1992).

³⁰ Ajit Singh, *Multilateral Competition Policy and Economic Development: A Developing Country Perspective on the European Community Proposals*, Unctad Series on Issues in Competition Law and Policy (New York and Geneva: United Nations, 2003); Frederic M. Scherer, *International Competition Policy and Economic Development*, Discussion Paper No. 96–26 (ZEW – Zentrum für Europäische Wirtschaftsforschung GmbH, 1996), 5, 12–13, 15.

³¹ Levenstein and Suslow, "Changing.", 792.

³² *Ibid.*

Many developing countries complained that export cartels can harm their economies, but some of them, including Thailand, India and China, argued that developing countries' export cartels usually consist of small companies, who should be exempted from new government restrictions. Only those set by industries of developed countries should therefore be banned.³³ The competition policy on the whole was eventually taken off the agenda of the Doha Round, but the debate on the export cartels continues.³⁴

The Finnish export cartels

The collapse of the Russian Empire in 1917 put the Finnish paper industry in a worst imaginable situation. Before the Russian Revolution, 80 per cent of the paper produced in the Grand Duchy of Finland had been sold to the other parts of the vast empire. The Finnish industrialists had managed to capture no less than 30 per cent of the Russian paper market, but when Finland declared independence and the Bolsheviks replaced the provisional government led by Alexander Kerensky in the empire's capital city of St. Petersburg, the trade between Russia and Finland came to a complete standstill.³⁵ Civil wars erupted in both countries, and when the fighting ended, it became clear that the relations between the two countries were going to remain cold. In Finland, the leftist forces lost the Civil War, but in Russia the Bolsheviks managed to gain the upper hand. In their desperation the Finnish producers tried to find new markets in Ukraine, which had also broken way from Russia, but the Bolsheviks soon occupied it,³⁶ and hence the Finns had no other choice than to look to the West, and in particular large Western European economies, like the United Kingdom.

The Finns might have been big traders in the Russian market, but in a global scale they were insignificant players. The Finns knew that their companies were miniscule compared to the largest Western European and Northern American producers. In a capital-intensive business like pulp and paper production size did matter, but there were also other problems. The

³³ Bhattacharjea, "Export Cartels.", 334–335; Sweeney, "Export Cartels.", 92–93.

³⁴ See for example, Sweeney, "Export Cartels."; Sokol, "What Do We Really Know About Export Cartels and What Is the Appropriate Solution?."

³⁵ Karl-Erik Michelsen and Markku Kuisma, "Nationalism and Industrial Development in Finland," *Business and Economic History* Second Series, vol. 21 (1992), 346.

³⁶ Heikkinen, *Paper for the World*, 41–48.

Finnish paper grades were simply not competitive in Western markets either in price or quality. Many paper grades had been tailor-made for Russian customers, and did not meet Western requirements. Furthermore, the Finns had no distribution networks in the West, limited amount of transport capacity, few skilled salesmen, who knew how to operate in the non-Russian markets, and little money to invest in the factories, which needed modernisation.³⁷

Finnish timber and raw wood had been sold for centuries to Western Europe, and hence the country as a whole could earn badly needed export revenues, but neither the government nor the Finnish woodworking industrialists, who often had a hand both in timber as well as in pulp and paper business, were content at remaining as mere raw material producers for industrialised countries. The Finnish producers quickly grasped that they had only one viable option: to pool their resources and to attack foreign markets as a combined force. Complete unity was, however, difficult to achieve, because the industry consisted of dozens of independent and often family-owned companies. Probably for this reason there was no serious discussion of merging these companies into a new industrial giant. Instead, they chose to form sales associations. In 1918, two organisations were set up, the Finnish Paper Mills' Association, better known as Finpap (from 1974 Finnpap), and the Finnish Cellulose Union, Finncell. A number of other associations, like the board makers' Finnboard, was set up later. These organisations took over almost all sales and shipping activities from their member companies.³⁸

John R. Magnus, an American attorney representing certain US companies that have benefited from the export cartel exemptions, listed in 2005 in an article some of those benefits that export associations can offer:

The cost sharing and economies of scale achievable through joint marketing of exports often yield dramatic savings. Companies serving international markets can reduce costs by pooling marketing expenses and sharing distribution infrastructure

³⁷ Niklas Jensen-Eriksen, Liisa Suvikumpu, and Sari Forsström, eds., *Suuri Suunnanmuutos. Suomen Paperiteollisuuden Tie Venäjältä Maailmanmarkkinoille*, Helsingin Yliopiston Historian Laitoksen Julkaisuja XXIII (Helsinki: 2009).

³⁸ Michelsen and Kuisma, "Nationalism.", 347.

such as port facilities and ships. They can also share the cost of gathering and analysing trade information concerning, for example, foreign credit and market conditions, transportation opportunities and shipping requirements. These reduced costs result in market growth and lower final costs to consumers around the world. Risk sharing is important as well, as many areas of the world are simply too risky for individual producers –particularly small firms– to make the sustained investments necessary to sell there.³⁹

Most US scholars who have had a look at the country's export associations would probably have some doubts on whether they have yielded such dramatic results,⁴⁰ but Magnus' list describes perfectly those advantages the Finnish export associations offered to their members and to lesser degree to their customers. The sales associations built gradually efficient marketing networks first in Western European countries and then also in most other areas of the globe. They shared risks, organised shipping, collected information about trading conditions, economic and political developments as well as new technological advances for their members, and even borrowed funds from foreign sources and forwarded them to the capital-hungry member companies.⁴¹ All this was done in a much more extensive scale than what any individual Finnish company could have done alone. On the whole, the industry saved financial and human resources, because the companies did not have to each built their own sales and distribution networks.

During the interwar years, Finpap and Finncell consolidated their position in world markets, although this did not reflect only their successful operations, but also the substantial and repeated devaluations of the Finnish currency, which improved the price-competitiveness of the country's exports. In order to find customers, the Finns had to set their prices at a slightly lower level than the traditional suppliers. Hence, the entry of Finpap and Finncell to the world markets pushed prices downwards and increased supply, which were beneficial

³⁹ John R. Magnus, "Joint Export Trade Provisions in Antitrust Laws: A Supporter's Perspective," *Journal of World Trade* 39, no. 1 (2005), 181–182.

⁴⁰ See above.

⁴¹ Sinikka Laiho, *Vuosisata Suomen Kartonkiteollisuuden Sillanrakentajana. Suomen Puuhiomoyhdistys 1893–1942. Suomen Kartonkiyhdistys - Finnboard 1943–1996* ([Espoo]: Metsä-Serla Oyj, 1998), 48, 152; Heikkinen, *Paper for the World*.

developments from the point of view of customers. Other suppliers of course lost market shares, and it is therefore easy to understand why the British producers, in particular, demanded protection against their Nordic competitors from the 1920s onwards up to the 1980s.

As the Finnish forest industrialists built new and modern pulp and paper mills, the relative significance of the timber exports declined. The direction was clear: the industry was shifting its production from raw materials like timber to more highly processed goods like paper. In the early 1950s, the saw mill industry was still the most important sector of the Finnish forest industries, but it soon lost this position to producers of pulp. The companies were, however, eager to process their pulp themselves to paper, instead of selling it to Western European paper companies, and hence paper replaced pulp in the 1960s as Finland's most important export product. Originally the Finns sold to the foreign markets mainly newsprint, but by the late 1960s it began to look like an unattractive commodity grade, and hence they shifted their focus to high-quality magazine paper, whose markets were expanding fast. In the mid-1990s, Finland was the sixth largest producer of paper in the world and the second largest exporter (after Canada). In printing and writing papers, Finland was the third in production statistics and the leader in exports. The Finnish companies also owned many factories in other countries. In some paper grades, they controlled almost half of the total European capacity.⁴²

The growth of the Finnish forest industries had a clear impact on the economic development of the country. In 1938, these industries earned over 80 per cent of total Finnish export revenue.⁴³ A part of this money was invested in other industries, and after the Second World War the diversification of the Finnish economy accelerated. The relative significance of the agricultural sector declined, and Finland gradually became a modern industrial nation. A number of scholars, in particular Sakari Heikkinen, Niklas Jensen-Eriksen and Markku Kuisma, have underlined the strong positive contribution made by the Finnish export

⁴² "Euroopan paperintuotantokapasiteetin jakauma v.1994". AM13.12. Jarl Köhlerin esitelmät ja kirjoitukset 1993–1996. MA.

⁴³ Michelsen and Kuisma, "Nationalism.", 345.

associations to the rise of the Finnish forest industries and to the country on the whole.⁴⁴ Even Matti Purasjoki, who worked hard to uncover and destroy cartels between 1988 and 2004 when he was the Director General of the Finnish Competition Authority, admitted at the end of his career that the “post-war rise of Finland would not have been possible without cartels”.⁴⁵

Building international cartels

National export cartels were crucial for the Finnish industry because most of the individual Finnish companies were so small that they could not have competed independently with much larger foreign competitors. Yet, the high number of paper and pulp cartels reflects also the strongly cyclical nature of the markets in which the producers operated. Hence, whenever two of them met, they soon started to speak about the need to “stabilise” international markets. In 1932 the Nordic (Swedish, Norwegian and Finnish) producers of kraft paper set up a cartel called Scankraft. One observer called it in 1943 “the most perfect type of cartel that has ever existed in paper trade.”⁴⁶ The producers managed to build an organisation that regulated the activities of Nordic producers for several decades. During the 1930s and 1940s, the Nordic paper industry set up several other export cartels to regulate prices and quantities sold. These organisations included Scannevs (newsprint), Scanfin (fine paper), Scanpapp (board) and Scansulfit (sulphite and tissue paper). The Nordic pulp industries, in turn, negotiated on export prices on a quarterly basis, first at the national, then at the Nordic level. They also tried to regulate supply, when market developments were unfavourable. These pulp cartels were less formal than the Scan-organisations but no less significant.

The first Scan organisations were set up during the economic depression of the 1930s, and they were thus, as the famous saying goes, “children of necessity” (Kinder der Not). The second wave of cartel formation occurred during the Second World War. Theodore J. Kreps

⁴⁴ Kuisma, "Cooperation."; Heikkinen, *Paper for the World*; Niklas Jensen-Eriksen, *Läpimurto. Metsäteollisuus Kasvun, Integraation ja Kylmän Sodan Euroopassa 1950–1973*, Metsäteollisuuden Maa 4 (Helsinki: Suomalaisen Kirjallisuuden Seura, 2007).

⁴⁵ “Kartelli, uskonto ja isänmaa,” Marko Junkkari. *Helsingin Sanomat*, 30 May 2004.

⁴⁶ Kai Häggman, *Metsän Tasavalta. Suomalainen Metsäteollisuus Poliittikan ja Markkinoiden Ristiaallokossa 1920–1939*, Metsäteollisuuden Maa 2 (Helsinki: Suomalaisen Kirjallisuuden Seura, 2006), 171.

argued in May 1945 that although the evidence on war years was still fragmentary “a crescendo of testimony from those who resisted the enemy in liberated areas has begun to make the term ‘cartel’ synonymous with the Fascism and National Socialism.”⁴⁷ Hitler’s government did try to use cartels as a tool in its expansionist policies in Northern Europe, but the Nordic producers, in turn, were capable using them as defensive weapons against Germany. The “family” of Scan organisations expanded during the war precisely because the Nordic companies were trying to build counterweight against the Germans.⁴⁸

The Finnish export cartels could be used for as barriers against other great powers as well. In 1918, they strengthened the position of the Finns against Imperial Germany, when the collapse of the Russian Empire had left it briefly as the only significant power in Eastern Europe. During the Cold War, the management of Finpap/Finnpap ensured that the paper industry on the whole did not become too dependent on the Soviet markets. It was of course commercially wise not to put all your eggs at a same basket, but the forest industrialists new that there were also substantial political risks. After all, in the fall of 1958, the Soviet brought almost the entire Finnish-Soviet trade to a halt, when Moscow did not like the composition of a new Finnish Cabinet.

For several decades, the Nordic cartels tried to regulate export prices and promote stability. By combining forces, they could also strengthen their bargaining position vis-à-vis the highly competitive Canadian and US producers, who tended to become more interested in European markets whenever there was a recession in the North American market. The Nordic cartels formed close links with their European and North American competitors, and sometimes managed to agree with them on common prices and even on production cuts. During the 1960s, the representatives of Nordic and Western European industries even tried to set up an extensive international paper cartel, that would have covered most or all of non-communist

⁴⁷ Kreps, "Cartels.", 298.

⁴⁸ Juhana Aunesluoma, *Paperipatruunat. Metsäteollisuus Sodassa ja Jälleenrakentamisessa 1939–1950*, *Metsäteollisuuden Maa 3* (Helsinki: Suomalaisen Kirjallisuuden Seura, 2007); Heikkinen, *Paper for the World*, 182–190.

Europe. This plan failed, yet a more limited, but regular co-operation between Nordic and Western European producers continued for at least two decades.⁴⁹

The Nordic and Canadian producers of pulp and newsprint negotiated with each other regularly from the 1950s onwards up to at least to the mid-1970s about the global trade. These Trans-Atlantic negotiations had substantial impact on the world markets, since most of the important exporters were represented. They exchanged information on prices, and in times of oversupply, agreed on joint production cuts. There were also more limited regional cartels. For example, in the British newsprint market, the Scandinavian producers at first set up a common sales agency in the late 1950s, which then formed a price cartel with Canadian producers and with the two largest British producers, Bowater and Reed. This cartel controlled three-quarters of the UK newsprint trade.⁵⁰

The existence of the Nordic alliances encouraged other producers and customers to set up associations of their own. In the spring of 1962, when the Nordic proposal for an all-European paper cartel was under scrutiny, the paper and board producers of the six EEC countries combined forces so that they could speak with one voice to the community authorities and to the Nordic producers. This alliance later adopted the name Confédération Européenne de l'Industries de Pâtes, Papiers et Cartons (CEPAC). Yet, the Western European paper producers did not need the Nordics to teach them how and why to build cartels. Jeffrey Fear has included paper production in his list of industries which "appeared near synonymous with cartelization".⁵¹ The Finnish industrialists had in fact borrowed many key ideas on how cartels could operate from their colleagues in the Imperial Germany,⁵² and at least up to the late 1950s, the trade association and the subsections of the British paper industry had closely regulated prices.⁵³ New cartels were often set up so that private regulation could replace those public barriers of trade, which were removed as a result of the European economic

⁴⁹ Niklas Jensen-Eriksen, "Industrial Diplomacy and Economic Integration: The Origins of All-European Paper Cartels, 1959–1972," *Journal of Contemporary History* (Forthcoming).

⁵⁰ Margaret Wray, *The British Paper Industry: A Study in Structural and Technological Change* (London: The British Paper and Board Industry Federation, 1979), 82.

⁵¹ Jeffrey Fear, "Cartels," in *The Oxford Handbook of Business History*, ed. Geoffrey Jones and Jonathan Zeitlin (Oxford: Oxford University Press, 2008), 205.

⁵² Heikkinen, *Paper for the World*, 12–13.

⁵³ Wray, *British Paper Industry*, 48–9, 61; Geoffrey Owen, *From Empire to Europe. The Decline and Revival of British Industry since the Second World War* (London: Harper Collins, 1999), 154–155.

integration process. In some cases, the EEC and the national government even encouraged competition-limiting arrangements between Western European and Nordic producers, because they protected employment and helped uncompetitive national industries to survive.

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The end of the cartel era?

During the 1970s, the international cartel arrangements began to attract the interest of the EEC competition authorities, because they had an impact on trade within the Common Market. The EEC authorities fined dozens of European and North American woodpulp producers on illegal co-operation that was said to have occurred between 1976 and 1981, but the European Court of Justice eventually annulled the principal findings of this case and cited lack of evidence as one reason for this decision.⁵⁵ In the late 1970s, the EEC began to investigate the marketing of Scandinavian newsprint within the Community, but this case was soon settled, because the authorities could not prove their claims.⁵⁶ Unlike later scholars, the community authorities did not have access to confidential business documents indicating that there had in fact been extensive co-operation between Nordic producers and between them and the Canadians.⁵⁷

During the 1980s and 1990s the gradual tightening of European and national competition legislation forced the paper and pulp companies to abandon, at least officially, those forms of co-operation that were not compatible with the regulations. The remaining formal joint Nordic cartels, like the Scan organisations were disbanded or were, at least officially, transformed to institutes that would gather statistics, do research or promote the consumption

⁵⁴ On "private protectionism" and the attitude of the EEC and national governments, see in more detail Jensen-Eriksen, "Industrial Diplomacy."

⁵⁵ "Court annuls Commission's pulp fines." *Financial Times* 6 April 1993; UPM-Kymmene Valkeakosken keskusarkisto. Finnrap. Af. Laki-asiat EC-Pulp Case 1993." Judgement of the Court (Fifth Chamber) 31 March 1993." Court of Justice of the European Communities.

⁵⁶ Heikkinen, *Paper for the World*, 436–437; "Newsprint cartel and the men from DG4". *Financial Times* 2.7.1980.

⁵⁷ UPM-Kymmene Valkeakosken keskusarkisto. Finnrap. Scannewsia koskevia asiakirjoja 1976–81; Scannews. Kapasiteettikomitea 1973–78; Scannws-pöytäkirjoja 1972–76.

of particular goods.⁵⁸ However, the EC was not fully committed to the new competition policies. In 1979, it launched an attack against Finnmap and its operations within the Common Market, but almost immediately after this process had begun, some EC officials started to suggest that case should be quietly closed. After a ten-year-negotiation process, Finnmap was allowed to continue its operations as long as it made some superficially important but in practise insignificant changes to its statutes.⁵⁹

The tightening of restrictive practices legislation did not, however, necessary always increase competition in the European markets, since it promoted the consolidation of paper industry in the same ways it has done in other countries and industries.⁶⁰ Between 1918 and the 1980s, the corporate structure of the Finnish pulp and paper industries had remained remarkably stable. A number of new players did emerge as old timber-exporting companies built pulp and paper mills, but there were few major mergers and acquisitions. By the 1970s, Finnmap had become the largest paper seller in the whole world,⁶¹ but its member companies were individually still minor players compared to many of their foreign rivals. Enso-Gutzeit Oy, the largest forest industry company in Finland, was 32nd in the list of the largest sellers of paper in the world.⁶²

Co-operation had helped the survival of uncompetitive and small producers, which could not have defended their market shares in open, unrestricted competition. The competition legislation was a factor, although not the only one, behind the consolidation process that swept through the European pulp and paper industry during the 1980s and 1990s. However, the cause-effect process was in fact a two-way street. Consolidation also promoted

⁵⁸ UPM-Kymmenen Valkeakosken keskusarkisto. Finnmap. Nordprintiä koskevia asiakirjoja 1976–81,1990. "Tal hållet av bergsrådet Lars Mikander vid Scannevs' och Nordprints årsmötesmiddag den 5.3.1990 i Stockholm"; Scangreaseproof vuosikertomuksia 1954–82. Scangreaseproof, annual report 1982;Laiho, *Vuosisata Suomen Kartonkiteollisuuden*, 126; ELKA. G.A. Serlachius, pääkonttori. Correspondence of Gustaf Serlachius 1984 K–Ö. M. Nupponen to Gustaf Serlachius 8 May 1984.

⁵⁹ Heikkinen, *Paper for the World*, 436–441.

⁶⁰ Levenstein and Suslow, "Changing.", 814; George Symeonidis, *The Effects of Competition. Cartel Policy and the Evolution of Strategy and Structure in British Industry* (Cambridge, Massachusetts; London, England: The MIT Press, 2002), 139, 146–147.

⁶¹ "Finnmap – maailman suurin paperikauppias". *Talouselämä* 1 June 1972, nro 19/72, 19.

⁶² Juha-Antti Lamberg and Jari Ojala, "Evolution of Competitive Strategies in Global Forestry Industries: Introduction," in *The Evolution of Competitive Strategies in Global Forestry Industries: Comparative Perspectives*, ed. Juha-Antti Lamberg, et al. (Dordrecht: Springer, 2006), 16.

decartelisation. For example, when the size of the Finnish companies grew, they felt that they no longer needed to be members of national export associations like Finnpap and Finncell. The large Finnish companies resigned one by one and during the 1990s these associations, whom even the Finnish authorities had by now started to harass, were disbanded.

In some ways, consolidation made tacit co-operation even easier than before. The number of companies operating in the international markets declined drastically. Hence, few managers could form an effective “conspiracy” if they were willing to do so. One could argue that they had even stronger motives to co-operate than before, because the size and cost of individual paper machines increased substantially during the last few decades of the 20th century.

Decline in market prices could seriously hamper the profitability of a company than had just expanded its production by building a new expensive factory. Furthermore, the culture of co-operation that had for decades characterised the industry did not suddenly disappear just because the competition policies were tightened. Executives that had worked for decades in the pulp and paper industry had usually grown to appreciate the benefits of co-operation. Senior managers could assume that their competitors, whom they personally knew well, shared the desire to avoid “cut-throat competition”. If there were doubts about the attitude of a particular manager, others could have a discreet word with him in some social function to ascertain whether or not he “understood the need to stabilise the markets”.

When all companies shared the desire to avoid competition, there was not necessarily any need for continuous contacts. Trust could keep co-operation alive even when tightening of legislation made direct contacts between executives and the exchange of information impossible. The companies would just simply refrain from offensive actions in market places and follow the lead of market leaders when making decisions about prices. Best cartels were so effectively disguised, that their members could argue that they were not cartels at all.

On the other hand, there is also strong evidence that legislation started to become an effective deterrent during the 1990s and therefore had a real impact on the company actions. The fact that managers could get prison sentences in the United States made an impact even on the non-American executives, whose companies often had US subsidiaries.

New corporate amnesty or leniency programs could also effectively undermine the trust that still formed a crucial part of co-operation.⁶³ The first firm that decided to co-operate with the authorities could get an amnesty, which meant that individual members now had a strong incentive to defect. This was not just a theoretical threat. Swedish company Stora decided to co-operate with the EC authorities in 1991 in the latter's paperboard cartel investigation. This decision understandably annoyed Stora's previous cartel partners. Finnish paper giant UPM-Kymmene followed the same strategy during the following decade.⁶⁴ Defections and the inflow of new young managers as well as older executives who had worked previously for industries where co-operation had not been so widespread, gradually eroded the culture of co-operation than had dominated the pulp and paper industry throughout the 20th century.

Conclusion

According to popular explanations, cartels create various negative effects. They raise prices and reduce output thus harming consumers. They will also shelter members from full force of competition thereby reducing the need to improve production methods, cut costs and to develop new products.⁶⁵ However, an export cartel is a very different kind of a creature than a traditional domestic cartel or a cartel consisting of companies from different countries. An export cartel does not usually have a monopoly position in markets, and when it tries to win new customers it can even put downward pressure on prices. Competition between members companies is removed, but not necessarily with outsiders.

The Finnish government had a good reason to treat the industrialists who set up national export cartels as patriots that promoted the economic development of the country rather than as predators who exploited customers. Organisations like Finpap and Finncell helped small and insignificant producers to become significant players in world markets, and promoted economic and technical development in their home country, thereby supporting the transformation of a small, peripheral and agricultural country into a modern industrial nation.

⁶³ Christopher R. Leslie, "Trust, Distrust, and Antitrust," *Texas Law Review* 82, no. 3 (2004), 519.

⁶⁴ "Stora ryhty 'yhteistyöhön' EY:n kanssa. *Kauppalehti* 24.9.1991; "Murroskauden meininkiä". Veijo Sahiluoma. *Kauppalehti* 27.5.2004.

⁶⁵ See for example, Organisation for Economic Co-operation and Development, "Hard Core Cartels; Recent Progress and Challenges Ahead," (Paris: OECD Publications, 2003), 8.

Yet, the Nordic exports did also have some crucial negative general repercussions. The formation of an export cartel can make it easier to build larger international cartels, because the national association can form alliances with similar organization in other countries or with strong independent companies. This is indeed what often happened in pulp and paper markets. The formation of Finnish associations promoted cartelization in European markets, although it has to be said that many of their competitors and major customers from other countries needed only little encouragement to set up their own associations. As traditional explanations about the negative welfare and efficiency outcomes might often not apply at all to the export cartels, the greatest problem might be that these associations can form building blocks in the construction of international cartels. When various national alliances join forces, they can form cartels which are, to use Andrew Dick's dichotomy, not efficiency-enhancing but rather monopoly-promoting.

It is possible to argue that the Finns had simply resorted to mercantilist policies, but there were in fact some crucial similarities between the attitude of the Finnish authorities towards cartels during the 20th century and that of the EEC and the USA. The Finnish government accepted the formation of cartels because they seemed, and in fact did, offer some useful benefits for the nation as a whole. In the same way, the US, the EEC, and most Western European countries were willing to let their companies to form those cartels that seemed to offer a useful method to promote exports or protect domestic employment against competitive pressures.

The Finnish case indicates that export cartels are tools, which can be used both for positive and negative purposes. Therefore they should not be banned altogether, but rather efforts should be made to eliminate such practices that have negative repercussions. The key question is not whether an export association is a cartel, but rather whether it is harmful. An export cartel only reduces competition substantially in a foreign market, if it has a dominant position in it. In such cases, the attack on it by the competition authorities of that particular country would be justifiable. International co-operation between governments could play a role here, since the competition authorities of the export cartel's home country might have better information on its activities than those of the target country.

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