

## Note by F. Van Langenhove on the Belgo–Dutch Customs Union (London, 2 July 1941)

**Caption:** In this note drawn up for the Belgian Commission for the Study of Post-war Problems (CEPAG), Fernand Van Langenhove, Secretary-General of the Belgian Foreign Ministry, analyses the conditions required for the conclusion and the operation of a Netherlands–Belgium Customs Union.

**Source:** GOTOVITCH, José (sous la dir.). Documents diplomatiques belges 1941-1960, De l'indépendance à l'interdépendance. Tome I: Le gouvernement belge de Londres 1941-1944. Bruxelles: Académie royale de Belgique, 1998. 496 p. ISBN 2-8031-0158-0. p. 395-396.

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1. In principle a Belgo–Dutch customs union would bring undoubted benefits.

(a) It would give producers in both countries a large market base of 17 million people with relatively high purchasing power. In addition to the home market there would also be the vast colonial empire, although that probably could not be included in any future customs union.

(b) For these same reasons, the union would exert considerable weight in trade negotiations with other countries.

(c) It could be a stage on the way to creating larger economic entities.

However, the problems involved in establishing such a union should not be underestimated.

2. We need to distinguish between two types of customs union: those between two states of unequal size and those between equals.

The first is the simpler, and is virtually the only type we have seen so far. As in the case of the economic union between Belgium and Luxembourg, the economic system of the smaller state is simply merged into that of the larger. The smaller state abolishes its own customs regime and adopts that of the larger, and the union operates on the basis that decision-making rests with the larger state.

The problem is totally different when two states of equal size are involved. Both in setting up the Union and during its operation, agreement between the two must be achieved by reconciling their interests. We need to consider what this trade-off involves at each stage.

3. There are a number of different aspects involved in the establishment of a customs union.

(a) Often, only the simplest is considered: removal of the customs barrier at the common border. This deprives producers in each country of any protection against competition from producers in the other country. Obviously, it has a negative effect on established interests, but this is considered acceptable for the sake of the greater good.

Some sectors, such as market gardening in Belgium, which is linked to a political movement with considerable influence on domestic policy, can be particularly sensitive. However, it should be possible to devise market regulations that attenuate the Belgian producers' main grievances.

(b) Creating the customs union involves a more complicated issue, namely the adoption of a common customs tariff with respect to third states. This requires an agreement on customs nomenclature and tariffs, of which there are several thousand in the Belgian system. The chief conflicts of interest will arise where one of the members of the union is mainly a consumer of a given product and the other is mainly a producer.

Until the relative balance of international trade that prevailed before 1914 is restored, the customs regime will not be the only decisive factor. Quantitative import controls through quota systems and licences and the control of payments through a clearance system have assumed overwhelming importance in Europe. In 1936 a new Convention had to be added to the Belgo–Luxembourg Economic Union to deal specifically with this issue.

Belgium and the Netherlands will have to reach an agreement on such controls. It is an area where they have, in many respects, diverging interests.

(c) A customs union will also require the introduction of a unified system for indirect imports and a monetary union or, at the very least, a monetary agreement. This point is mentioned here only for reference.

4. A customs union will not be a static system. It must be capable of evolving in line with changing circumstances. More attention needs to be paid to this aspect.

Once the customs union has been introduced, tariffs, controls on imports and payments and the tax system will not remain static. They will have to be modified as circumstances change, either by independent decision of the two member states of the union or by way of treaties with third states.

Such changes will require agreement between the two parties on each occasion, as well as with the Grand Duchy of Luxembourg. It will be difficult to reach agreement in cases where their interests diverge. In the case of a treaty with Germany, for example, the Netherlands, will insist on its financial interests, as in the past, while Belgium and Luxembourg will tend to defend their exports. Totally different types of agreement will need to be concluded depending on which aspect takes priority. Furthermore, pre-war agreements with Germany called for monthly negotiations, which in practice were almost continuous.

In certain cases, for instance where customs tariffs or tax legislation are affected, such treaties will have to be submitted to the parliaments. It is difficult enough to obtain parliamentary ratification when only one country is involved. Action by the two states may well be paralysed by their failure to reach agreement.

These difficulties are not set in stone. Many stem from the current system of international trade. They will be most acute if trade continues to be as unbalanced and unstable as in the ten years before the war. That could well be the case, at least during the transition period immediately following the end of hostilities. However, these difficulties will fade if the world enters a long period of economic growth with a general trend towards greater freedom and stability in international trade.