

## 'The Nordic Treaty' from the EFTA Bulletin

**Caption:** In April 1970, the Bulletin of the European Free Trade Association describes the origin and the scope of the Treaty on Nordic Economic Union (Nordek), which Denmark, Norway, Sweden and possibly Finland appear ready to conclude.

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## The Nordic Treaty

The Nordic Economic Union (Nordek) is just about to be achieved. Sixteen years after the first discussion of the project, Denmark, Finland, Norway and Sweden are prepared to deepen their cooperation in order to improve their economic growth rate and to strengthen their negotiating position before the next stage in European integration.

By 1959 plans to create a Nordic customs union were well advanced. When the negotiations for a large European free trade area broke down, EFTA was formed instead. Within the framework of EFTA trade between the Nordic countries has developed rapidly; and at the same time political cooperation has been built up within the framework of the Nordic Council.

Political integration in the Nordic countries has gone further than it has in the EEC. They form a linguistic and cultural community and have had a common labour market since 1953, common social legislation since 1955, a passport union since 1958, and have engaged in a comprehensive cooperation in legislative matters and a relatively high degree of coordination in education and research. Work on harmonising company law, economic policy and taxation and so on has been going on for some years.

At the Nordic Council meeting in Oslo in 1968 the Danish prime minister, Mr. Hilmar Baunsgaard, brought up again the question of plans for Nordic union. He proposed that the Nordic countries should try to reach a package solution covering a comprehensive range of areas of cooperation. The whole was to be based on the condition that the advantages and disadvantages for each country should be balanced. Since the proposal was put forward without any further contact with the other prime ministers, its immediate effect was to arouse a considerable degree of scepticism.

When the Nordic prime ministers met again in Copenhagen in April, 1968, they agreed that cooperation should be of such a kind as to make it easier for the Nordic countries to take part in a large European market, and that it should also increase world trade and trade with the developing countries. At the same time the project was formulated in a 10-point programme in which the erecting of a common external tariff played a strategic role. It was particularly emphasised that cooperation should not influence the member countries' foreign and defence policies.

In June a committee of experts from the Nordic countries was given the task of drawing up, by January 1st 1969, a preliminary report on the form that cooperation should take. The assumption of the experts, who produced their report in time, was that the tendency towards greater interdependence should increase in the Nordic countries. They therefore recommended that their cooperation should be designed to promote a smooth adjustment of the economies of the Nordic countries to new and changed conditions.

The preliminary report dealt with the possibility of increased cooperation in the following matters: economic policy, capital movements, trade policy, customs policy, industrial policy, technical research and energy resources, agricultural and fisheries policy, cooperation in finance, commercial law and rules of competition, education and research, and aid to developing countries. In addition, the report included a statement on the need for institutions, and for rules for acceding to and withdrawing from the union, and for amendments. On a number of matters – customs policy, agricultural and fisheries policy and financial cooperation – it was not possible to reach complete agreement.

There followed a series of meetings, some of officials and some of prime ministers, in the course of which agreement was reached provisionally on most of the contents of a Nordek treaty. The four prime ministers then agreed in November to try to solve the remaining problems before a meeting of the Nordic Council to be held in Reykjavik in February 1970.

The officials had another series of discussions and after difficult negotiations reached agreement on February 4th on all the decisive points. Only on the question of the financial arrangements was there a reservation on the part of Finland since the Finnish government had not reached a final decision.

Under the Nordek treaty, economic policy in the four countries is to be shaped in such a way as to promote the integration process and the effective use of the resources available in the Nordic market. There is to be consultation on budget policy and an attempt will be made to harmonise the various measures of financial policy.

In connection with a gradual freeing of capital movements there is to be greater cooperation in monetary policy. There is to be freedom of movement for capital for direct investments, and eighth-year commercial credits are also being liberalised.

In international organisations the Nordic countries will aim to act together in trade policy matters on the basis of regular consultations; and, for bilateral trade policy matters, uniform basic principles will be worked out. Common measures will be taken against dumping and other imports which distort trade.

Within EFTA there is already freedom from tariffs in trade between the Nordic countries. The common external tariff on imports from outside EFTA has been drawn up on the basis of the structure of production in Nordek, of the level of industry's costs and of the desired aim of industrial policy. The common tariff is below the present tariff level in Finland and Norway, is almost unchanged in the case of Sweden and is slightly higher in that of Denmark.

Right up to the last stages of the negotiations Sweden was prepared to accept the treaty only if any suspension of the common tariff were limited in duration. In the final round however the Swedish government agreed that there should be no time limits to tariff suspensions for iron and steel products, textile raw materials for the manufacture of rubber products and some components for the electronics industry. The most important consequence of this is that Sweden maintains its 6% tariff on iron and steel whereas they will be imported free of duty into Denmark and Norway.

For certain groups of products the imposition of the common tariff is suspended for 10 years, for others for 15 years. The latter includes a few groups of products, and particularly chemicals and plastics. Sweden attached particular weight to having a time limit in the case of chemicals because of the construction now taking place of a petrochemical complex. The suspensions are to be the subject of negotiations every five years.

On the last day of the negotiations Norway agreed to remove its 8% fiscal duty on cars by one percentage point a year from January 1st 1972. The duty will be completely removed on January 1st, 1977. As a "compensation", Volvo, the Swedish car manufacturing company, has promised to increase its buying of parts in Norway from 100 to 150 million kroner a year.

The customs union will come into force on January 1st, 1972. The national tariffs would be brought into line with the common Nordic tariff in two stages, on January 1st 1972 and January 1st 1974. In this way a formula has been found for adjusting Nordek to the expected developments in the matter of European integration. At the first stage half of the necessary changes in tariff rates will be made. This will bring the Nordic tariffs roughly into line with the common external tariff of the EEC.

Cooperation in industrial policy will be concentrated on areas in which the Nordic countries have important common needs, for example, pollution, health, oceanic research, space research, atomic energy and automation. Negotiations are taking place on the building of a Nordic atomic energy company on the SAS model. According to the plans, such a company would coordinate research, development and use of reactors, and the fuel market.

The short-term cooperation in agriculture will be based on the principle that Nordic producers will cover the natural supplementary demand for foodstuffs in the Nordic countries. In practice this means that Sweden has undertaken to meet its import needs by buying Danish foodstuffs. The trade is to be conducted with prices at a reasonable level. The officials have worked out a full list of the agricultural products for which there will be preferences. Within the EFTA framework Sweden gives Denmark 30 million Swedish kroner a year as compensation for the import duties on foodstuffs. Under Nordek, the maximum limit is set at 100 million

kronor. A plan for long-term agricultural cooperation is to be drawn up before January 1st 1974.

Fisheries policy was a difficult problem. Sweden, Finland and Denmark demanded from the start that the present ban in Norway on the landing and transit of fish caught by vessels of other nations should be removed. Norway would not accept this in the final negotiations. In this situation the officials agreed that the direct landing of fish in another country should not be allowed, and that the whole question should be reviewed during a five-year period beginning from January 1st 1972.

During this period it will be possible to establish minimum prices for the import of fresh, chilled and frozen fish products and shellfish. The minimum prices are to correspond to the domestic price levels. For frozen fish fillets, the prices are to be related to the price agreement reached in the EFTA context. Finland has reserved the right to maintain its import protection on salmon and herring, and Sweden to maintain its protection on herring imports.

So far as transport policy is concerned the objective is to ensure through cooperation a rational and economic transport network.

On the right of establishment, the Nordic countries are to keep in step with the general development of economic cooperation and to aim, through liberal administration or legislation, to give citizens of the other Nordic countries the possibility of undertaking independent commercial activity and providing services in other Nordic countries. The importance of adopting uniform company laws as soon as possible is emphasised, as is also need for uniform rules on government bankruptcy, the protection of patents, unfair competition and the like.

Financial cooperation is to take the form of establishing three funds – the general financial fund, the agricultural fund and the fisheries fund – and a Nordic investment bank. The agricultural and fisheries funds will have two parts, one for structural purposes and one working for price stabilisation. During the first five-year period 2,200 million Swedish kronor will be made available to the funds and the bank. The contribution of each country will be in proportion to its gross national product in 1968. Denmark is to provide 530 million Swedish kronor, Finland 310 million, Norway 350 million and Sweden 1,010 million.

The contributions will be divided among the three funds as follows: fisheries price stabilisation fund – 50 million Swedish kronor, agricultural price stabilisation fund – 90 million kronor and the general fund – 300 million kronor. Of the latter, Finnish agriculture will have first claim on 90 million kronor and the Norwegian agricultural and fisheries sectors will have first claim on 38 million.

The investment bank will have a share capital of 200 million dollars (1,000 million Swedish kronor) and a lending capacity of over 2,500 million kronor. A quarter of the capital is to be paid up during the first five-year period. Denmark is to pay 12 million dollars, Finland 7 million, Norway 8 million and Sweden 23 million. The total contribution to financial cooperation after the first five-year period is to be of at least the same size as in the first period, but when a decision is to be taken on the size and division of additional contributions to the funds, the development of Nordic cooperation, the need for financial means and the development of the Nordic countries' economies are to be taken into account. In other words, the tariff suspensions will be an important factor for the future pattern of financial support.

According to the treaty, the following institutions are to be set up:

- 1) A Ministerial Council, consisting of one member from each of the Nordic governments, will be responsible for the carrying out of the cooperation. Decisions are to be unanimous.
- 2) A committee of officials will prepare the decisions of the Ministerial Council. On technical matters the officials have the right to take decisions on behalf of the Council.
- 3) For the various spheres of cooperation special committees are to be set up, consisting of specialists from the national administrations.

- 4) The Secretariat will serve the Ministerial Council and the other cooperative institutions. The Secretariat will be headed by four directors named after consultations between the four governments.
- 5) A Consultative Committee consisting of representatives of business sectors, of consumers, and of employers and unions will be established.

To prepare for the working of Nordek the institutions will come into being on January 1st 1971.

The treaty will be valid for ten years. It will be extended for another ten years if notice to brogate it is not given two years before the end of the first decade.

Some rules are included to take account of the uncertainty about the future of European integration. If a member country begins negotiations with the EEC, the other Nordic governments and the Ministerial Council are to be informed. If a member country seeks amendments of the Nordek treaty, the Ministerial Council will study the proposed changes. If there is agreement that amendments are necessary, there are to be negotiations on this. The aim will be to preserve Nordic cooperation as much as possible.

Once formal notice had been given that negotiations with the EEC have begun, the Nordek treaty can be abrogated after another 12 months. If a member country decides to join the EEC each Nordic country has the right, after giving notice, to susped the treaty. The parties to the treaty will negotiate on the effect such a suspension will have on Nordek cooperation.

During the discussions in Reykjavik in February 1970 the Nordic Council recommended to the governments that they should approve the outcome of the negotiations. It was also agreed that cooperation shall take place in close consultation with the Nordic Council which consists of members of parliament from the Nordic countries. In the first place Nordek's Ministerial Council will maintain close contact with the presidium of the Nordic Council, which consists of a president and five vice-presidents. It was also emphasised at Reykjavik that Iceland should also gradually become associated with Nordek.

During separate discussions the Nordic prime ministers agreed that officials should have the final text of the Nordek treaty ready by March 7th. The governments will sign the treaty as soon as possible thereafter so that the national parliaments can ratify the agr ement before the summer holidays.