

Market, Competitor or Battlefield?

**British Foreign Economic Policy, Finland and the Cold War,
1950-1970**

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Abstract

During the Cold War, neutral Finland shared a long border with the Soviet Union. Despite two wars against the Soviet Union (1939-1940 and 1941-1944), and the threat of communist takeover, Finland survived as an independent, democratic country with a market economy. When the Cold War started in the late 1940s, the United States government and the British Foreign Office began to view trade as a potential means of drawing Finland closer to the West and preventing it from falling under Soviet domination. The extensive evidence of this has led many historians to underline the role of political considerations in Western foreign economic policy towards Finland. The present work argues that the Cold War rhetoric of the British Foreign Office paints a misleading picture of British government policy. Despite attempts by the Foreign Office to make political considerations central to the formulation of British foreign economic policy towards Finland, the impact of such considerations was in fact negligible. This was in part because the British were facing economic problems after the Second World War that limited the policy options available to British foreign policy makers, but was at least as much the result of the categorical refusal by the Treasury and the Board of Trade to take political factors into account and to use economic methods as tools of foreign policy in the Finnish case. Regardless of whether the economic costs of the proposed policies were large or small, the economic departments of the government treated them as an unwelcome interference in the promotion of the British economic interest and attempts to strengthen the British economy. The present thesis is based on a detailed study of British government documents. It argues that if one wishes to explain the underlining aspirations of British policy one must examine the UK decision-making process in detail, and not rely only on arguments the UK government representatives used to justify UK policy.

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List of Abbreviations:

AID	Agency for International Development. (USA)
BofE	Bank of England
BP	British Petroleum
BOT	Board of Trade
CIA	Central Intelligence Agency (USA)
CBI	Confederation of British Industry
CoCom	Coordinating Committee (of Western strategic embargo)
CRE	Commercial Relations and Exports Division of the Board of Trade
DOT	Department of Overseas Trade
DTI	Department of Trade and Industry
ECGD	Export Credit Guarantee Department
EEC	European Economic Community
EFTA	European Free Trade Area
EPU	European Payments Union
ERD	Economic Relations Department of the Foreign Office
FBI	Federation of British Industries
FINEFTA	Association between the Member States of the European Free Trade Association and the Republic of Finland
FCO	Foreign and Commonwealth Office
FO	Foreign Office
FOIA	Freedom of Information Act (USA)
FTA	Free trade area
GATT	General Agreement on Tariffs and Trade
HMG	His/Her Majesty's Government
IBRD	International Bank for Reconstruction and Development (World Bank)
ICI	Imperial Chemical Industries
IFC	International Finance Corporation
IMF	International Monetary Fund
IR	International Relations (discipline)

KGB	Soviet Committee for State Security
MAD	Mutual Aid Department of the Foreign Office
MAFF	Ministry of Agriculture, Fisheries and Food
MFP	Ministry of Fuel and Power
MOP	Ministry of Power
MP	Member of Parliament
MRC	Modern Records Centre, University of Warwick
NATO	North Atlantic Treaty Organization
NUM	National Union of Manufacturers
NSC	National Security Council (USA)
OEEC	Organisation for European Economic Co-operation
ONC	Overseas Negotiations Committee
SD	State Department (USA)
SGHWR	Steam Generating Heavy Water Reactor
SKDL	Suomen Kansan Demokraattinen Liitto
SMMT	Society of Motor Manufacturers and Traders
Try	Treasury

1. Introduction

"Previous histories of the Cold War have stressed open conflict and diplomacy. It is high time for a new history stressing economics."

Diane B. Kunz (1997)¹

The research on the history of the Cold War has expanded in recent years to include more cultural and economic topics in addition to the traditional political, diplomatic and military issues. This is not surprising, since the Cold War between the socialist and capitalist blocs had an impact on practically every field of human activity. The battle was not only a military or a diplomatic confrontation but as least as much a battle of "hearts and minds"² and of economic superiority.

This thesis is about the economic history of the Cold War, and more precisely about the conflict between economic and political motives in British Cold War foreign economic policy.³ On a global scale, both sides of the Cold War tried to promote the expansion of their economic systems and used economic methods to support and recruit allies and to coerce opponents. In practice, foreign trade and financial policies were often as much instruments of foreign policy as methods of promoting a country's economic interests.⁴

¹ Diane B. Kunz, *Butter and Guns. America's Cold War Economic Diplomacy* (New York London Toronto Sydney Singapore: The Free Press, 1997), p.2.

² For a review of recent literature on cultural Cold War and Western propaganda see Kenneth A. Osgood, "Hearts and Minds. The Unconventional Cold War". *Journal of Cold War Studies* 4, no. 2 (Spring 2002), pp. 85-107; Tony Shaw, "The Politics of Cold War Culture". *The Journal of Cold War Studies* 3, no. 3 (Fall 2001), pp. 59-76.

³ Foreign economic policy, or external economic policy, includes government's foreign trade and external financial policies, as opposed to the domestic economic policy, which is focused on domestic economic issues. These two fields are of course closely connected.

⁴ See for example Gunnar Adler-Karlsson, *Western economic warfare 1947-1967. A case study in foreign economic policy, Stockholm economic studies. New series, 9* (Stockholm: Almqvist & Wiksell (distr.), 1968); Alan P. Dobson, *US Economic Statecraft for Survival 1933-1991. Of sanctions, embargoes and economic warfare* (London and New York: Routledge, 2002); Robert Owen Freedman, *Economic warfare in the Communist bloc; a study of Soviet economic pressure against Yugoslavia, Albania, and Communist China, Praeger special studies in international economics and development* (New York: Praeger Publishers, 1970); Ian Jackson, *The Economic Cold War. America, Britain and East-West Trade, 1948-1963* (Houndmills, Basingstoke, Hampshire and New York: Palgrave, 2001); Burton Ira Kaufman, *Trade and aid: Eisenhower's foreign economic policy, 1953-1961, The Johns Hopkins University studies in historical and political science, v. 1* (Baltimore: Johns Hopkins University Press, 1982); Alfred E. Eckes, Jr., *Opening America's market: U.S. foreign trade policy since 1776, Business, society & the state* (Chapel Hill: University of North Carolina Press, 1995); David A. Baldwin, *Economic statecraft* (Princeton, N.J.: Princeton University Press, 1985); Robert Loring Allen, *Soviet economic warfare* (Washington: Public Affairs Press, 1960); Arthur Jay Klinghoffer, *The Soviet Union & international oil*

However, there was an inherent internal conflict in this situation: infiltration of political motives to foreign trade did not and could not, of course, mean that the basic economic motives of trade could be completely ignored. But how much influence did political motives have on British foreign economic policy? In this thesis I approach this question by analysing the case of British foreign economic policy towards Finland between 1950 and 1970. The Finnish case is especially useful for this kind of research since, because of geopolitical factors, the USA, the Soviet Union and the British Foreign Office all felt that foreign trade had a profound political significance, probably more so than in any other non-communist European country.⁵ The extensive evidence for this has led many historians, for example Jussi Hanhimäki, Markku Kuisma, Jukka Seppinen, Vesa Vares, Vesa Lehtola and Hannu Rautkallio, to underline the role of political considerations on Western foreign economic policy towards Finland.⁶

Finland was a neutral country with 1300 kilometres of common border with the Soviet Union. Despite two wars against the Soviet Union (1939-1940 and 1941-1944), and the threat of communist takeover, Finland had surprisingly survived as an independent democratic country with a market economy. From the Western point of view, it was in the interests of the Western alliance to make sure that this situation did not change.⁷ It was widely feared in the Western world and in Finland that the Soviets would not accept this situation in the long run and that since military methods had not been successful, more indirect methods would be used. Finnish-Soviet trade links, which the

politics (New York: Columbia University Press, 1977); Lorraine M. Lees, *Keeping Tito afloat: the United States, Yugoslavia, and the Cold War* (University Park, Pa: Pennsylvania State University Press, 1997).

⁵ Most of the Western European countries were members of NATO, which made their situation politically and militarily more secure from the Western point of view. The neutral countries Switzerland, Austria and Sweden were not geopolitically as vulnerable as Finland, and for example none, of these countries had a common border with the Soviet Union.

⁶ Markku Kuisma, *Kylmä sota, kuuma öljy. Neste, Suomi ja kaksi Eurooppaa 1948-1979* (Porvoo: 1997); Jussi M. Hanhimäki, *Containing coexistence: America, Russia, and the "Finnish Solution"*, *American diplomatic history* (Kent, Ohio; London: Kent State University Press, 1997); Jukka Seppinen, *Suomen Efta-ratkaisu yöpakkasten ja noottikriisin välissä. Bibliotheca Historica 21* (Helsinki: Suomen Historiallinen Seura, 1997); Hannu Rautkallio, *Kekkonen ja Moskova. Suomi lännestä nähtynä 1956-1962* (Helsinki: Kustannusosakeyhtiö Tammi, 1991); Hannu Rautkallio, *Paasikivi vai Kekkonen. Suomi lännestä nähtynä 1945-1956* (Helsinki: Kustannusosakeyhtiö Tammi, 1990); Vesa Vares, "Englanti ja Kekkonen 1953-1954. Nousseista valtiomiesodotuksista takaisin kriittisyyteen" in *Historiallinen Arkisto 109* (Tampere: Suomen Historiallinen Seura, 1997), pp.183-244; Vesa Lehtola, "Puuta, öljyä ja politiikkaa - Britannian ja Suomen väliset kauppasuhteet 1950-luvulla" (Licentiate thesis, Department of History, University of Helsinki, 1999).

⁷ Statement of Policy Proposed by the National Security Council, NSC 121: The Position of the United States With Respect to Scandinavia and Finland. January 8, 1952. Foreign Relations of United States (hereafter FRUS) 1952-1954, volume VIII, p. 755; National Archives (Hereafter NA, formerly the Public Record Office), Kew, London). FO371/159307. NF1051/39. "Visit of Finnish President. Brief No.1. Finland's position in East-West Relations". Foreign Office 1961; Kuisma, *Kylmä sota, kuuma öljy*, p.26.

Soviets were anxious to expand, seemed to be one of the most obvious methods. The Soviets would tie Finland to the Eastern bloc with strong commercial ties and make the Finnish economy dependent upon the Soviet Union. This dependency would then be used to draw Finland into the Eastern bloc and to transform it into a satellite country. Many Western governments wanted to prevent this, because they were anxious to prevent further expansion of the Soviet bloc and because, from a military point of view, Finland was a useful buffer zone in the northern flank of NATO. Finnish independence and neutrality deprived the Soviet Union of the chance to use Finnish territory to strengthen the air defence and early warning systems of the northern parts of the Soviet Union.⁸ The West could really do nothing more than to try to prevent further Soviet expansion. There was no chance that Finland could become a member of the Western alliance.⁹

Reluctant partner?

The 'special relationship', a close but never clearly defined political partnership, which has usually been seen as characterising Anglo-American relations during the Cold War,¹⁰ was a central factor also in Western Cold War policy towards Finland. British policy towards Finland cannot be understood without considering US activities and policies. Although most NATO countries (and Sweden), more or less enthusiastically, shared the view that it was desirable to help Finland economically to maintain its independence,¹¹ the United States and the United Kingdom usually had the central roles in discussions about these policies.¹²

⁸ See chapter two and Kuisma, *Kylmä sota, kuuma öljy*, pp.22-27.

⁹ Vares, "Englanti ja Kekkonen", pp. 188-189.

¹⁰ See for example C.J. Bartlett, *'The Special Relationship'. A Political History of Anglo-American Relations since 1945* (London and New York: Longman, 1992); Wm. Roger Louis and Hedley Bull, eds., *The 'Special Relationship'. Anglo-American Relations Since 1945* (Oxford: Clarendon Press, 1986).

¹¹ For the attitudes of other countries than the UK and the USA see for example Paul Gustafsson, *Ritarikadun renki* (Jyväskylä: Kirjayhtymä, 1999), pp.42-43; Yrjö Blomstedt and Matti Klinge, eds., *J.K. Paasikiven päiväkirjat 1944-1956*, vol. 2: 25.4.1949-10.4.1956 (Porvoo: Werner Söderström Osakeyhtiö, 1986), March 7, 1953, col. 639; Kuisma, *Kylmä sota, kuuma öljy*, pp.23,33; NA. FO371/142873. NF1121/4. Minutes by B. Miller, February 13, 1959; FO371/165931. NF103138/44. John Walker, Oslo, to R. H. Mason, FO, April 4, 1962; National Archives, College Park, Maryland, United States (Hereafter NARA). SD. RG59. Decimal Files on Finland 1955-1959, box 4710. 860E.0062A/10-958. "Aid for Finland" from American Embassy, Bonn, to SD, October 9, 1958.

¹² See for example Seppinen, *Suomen Efta-ratkaisu*; Lehtola, "Puuta"; Ville Väinölä, "Kauppaa ja politiikkaa - Yhdysvaltojen ulkomaankauppapolitiikka ja taloudelliset suhteet Suomeen 1953-1959" (Master of Arts thesis, Department of History, University of Helsinki, 1999).

The central role of the United States was the result of its position as the leader of the Western alliance and the fact that it had the largest economic resources within the alliance.¹³ The role of the UK was central because traditionally it had close economic and cultural ties with Finland. Above all, it was Finland's most important export market or "*the best customer*" as the British liked to put it,¹⁴ buying usually at least one fifth of Finnish exports. In comparison, the US share was just five to six per cent. During the early 1930s no less than 46.6 per cent of Finnish exports went to the UK. While this share declined to less than a quarter of total Finnish exports in the early 1950s and to one fifth in the late 1960s, the absolute level of Finnish exports at current prices grew from £33.8 million in 1950 to £195 million in 1970.¹⁵ Trade with the UK, therefore, was exceptionally important for Finland.

Table 1: British exports to and imports from Finland at current prices, 1950-1970

Year	Exports £m.	Imports £m.	Balance £m.	Year	Exports £m.	Imports £m.	Balance £m.
1950	20.6	33.8	-13.2	1961	51.1	94.9	-43.8
1951	32.6	99.9	-67.3	1962	55.8	88.9	-33.1
1952	37.5	65.8	-28.3	1963	54.7	98.7	-44.0
1953	21.0	51.3	-30.3	1964	65.7	116.0	-50.3
1954	31.7	59.0	-27.3	1965	73.0	116.2	-43.2
1955	42.0	75.3	-33.3	1966	77.1	122.9	-45.8
1956	46.2	66.6	-20.4	1967	72.7	129.8	-57.1
1957	37.2	72.9	-35.7	1968	80.1	160.7	-80.6
1958	31.8	68.0	-36.2	1969	101.6	173.7	-72.1
1959	37.7	77.6	-39.9	1970	128.9	195.0	-66.1
1960	47.8	95.7	-47.9				

Source: Annual Abstract of Statistics 1956 (London: HMSO 1956), pp. 220-221; 1959, p. 217; 1962, pp.210-211; 1967, pp.225-226; 1971, pp.247-250.

¹³ Department of State Policy Statement, December 1, 1949. FRUS 1949, volume V, p. 449.

¹⁴ NA. FO371/171682. NF1051/12. Brief no. 8 for the Prime Minister's visit to Finland. Board of Trade, July, 1963; Guildhall Library, London UK, London Chamber of Commerce. MS 16,529/1. Anglo-Finnish Section Minute Book – 1923-63. "Minutes of the Annual General Meeting of the Finnish Section held on Friday, 8th February, 1963 at 3.00. p.m."; NA. BT11/7027. "President's visit to Finland 7th – 9th December, 1969". "Some notes on Finland, including Anglo-Finnish Trade". Brief No. IV for the President of Board of Trade. BOT, December 1, 1969; FO371/111463. NF1151/11. Minute by N.G.S. Beckett, June 25, 1954; EG8/123. Telegram no. 227 from Douglas-Home, FCO, to Helsinki, October 17, 1972, copy for DTI; Telegram no. 611 from Ledwidge, Helsinki, to FCO, October 15, 1972.

¹⁵ Tables 1 and 2.

Table 2: The main destinations for Finnish exports (%)

	UK	USSR	Sweden	France	W.Germany	USA
1931-1935	46.6°	1.6	3.1	5.7	9.3b	8.6
1946-1950	26.7	12.7	5.1	4.9	2.7	9.1
1951-1955	24.9	17.5	2.9	5.3	8.0	6.2
1956-1960	22.8	17.1	3.5	5.3	10.4	5.3
1961-1965	21.5	14.8	6.3	5.0	11.8	5.4
1966-1970	19.6	14.6	11.8	4.1	10.2	5.7

Source: Suomen Tilastollinen Vuosikirja. Uusi sarja LXVII 1971, p. 159

Notes: a) Includes Ireland; b) Pre-1938 Germany

American and British diplomats who were responsible for their countries' policies towards Finland had a close working relationship in London and Washington as well as Helsinki. The US and British Ambassadors in Helsinki often found each other useful partners in attempts to find new ways of promoting Western aims in Finland, of coordinating Western policies, and analysing developments in Finnish-Soviet relations. More US and British officials were involved in similar exercises in Washington and in London, a clear example of which were the special Anglo-American bilateral talks in Washington in 1961 on the precarious situation in Finland.¹⁶ In this relationship, as in the 'special relationship' in general, the US had more resources, while the FO documents suggest that the British considered that they could compensate for their own weakness with skilful diplomacy and a deeper and more realistic understanding of the issues in hand.¹⁷

Because of the close links between US and British policies, US policies and Anglo-American co-operation have a prominent role in this thesis, although the focus is on British policy. The United States and the United Kingdom seemed to share a common view of the Finnish situation, although Richard Ullman's statement about general Anglo-American co-operation during the Cold War "*alarm bells rang louder in Washington than they did in London, or in the other capitals of Western Europe*"¹⁸ was

¹⁶ NA. FO371/159309.

¹⁷ *Report of the Committee on Representational Services Overseas appointed by the Prime Minister under the Chairmanship of Lord Plowden 1962-1963*, vol. Cmnd. 2276 (London: HMSO, 1964), p.3; NA. FO371/151503. NF11345/1. D.L. Busk, Helsinki, to R.H. Mason, FO, March 30, 1960.

¹⁸ Richard H. Ullman, "America, Britain, and the Soviet Threat in Historical and Present Perspective" in *The 'Special Relationship'. Anglo-American Relations Since 1945*, ed. WM. Roger Louis and Hedley Bull (Oxford: Clarendon Press, 1986), p.104.

often true also in the Finnish case. Vesa Vares has argued that the Americans emphasised the communist aspect more than the British and took a more “global” perspective to Finland than the British.¹⁹

A superficial examination of the documents concerning the Western Cold War economic policy towards Finland might suggest that Anglo-Saxon powers worked jointly and in harmony to integrate Finland closely to the West with economic ties, and to prevent the country from falling into the hands of the Soviets. During the Cold War decades officials from the US State Department’s and the British Foreign Office’s (FO) Scandinavia desks, as well as many other Western organisations such as the US Central Intelligence Agency (CIA),²⁰ produced a steady flow of reports and analysis on Finnish foreign trade. These included many elaborate and complicated plans on how to diminish Finnish dependence on trade with the Eastern bloc (Figure 1 in chapter 2) and how to increase trade with “the Free World”. Western observers were especially concerned that Finnish engineering and shipbuilding industries, which were uncompetitive in the Western markets, seemed to be almost totally dependent on the Soviet market. As *The Times* put it in 1951, these Finnish industries were tied to the Soviet Union with “*hoops of steel*”.²¹

Although Britain, as Finland’s biggest customer, had more economic interests to protect in Finland than other Western countries, confidential FO statements seem to prove that it shared the general Western desire to support Finland. As FO official G.W. Harrison put it in February 1950, when the Soviets seemed to be pressuring Finland economically:

”It is clearly in the interest of His Majesty’s Government that Finland should remain a free, democratic and independent state. It follows that we should do what lies in our power to counter Soviet economic pressure on Finland. We would, therefore, recommend that all reasonable efforts be made to meet Finnish requests for the supply from the United Kingdom of materials and commodities necessary for the preservation of a stable and sound economy, and, where these cannot be supplied from the United

¹⁹ Vares, “Englanti ja Kekkonen”, p.159.

²⁰ See for example “Intelligence Memorandum. Recent trends in Finnish-Soviet Trade”. CIA/RR IM 59-2. March 10, 1959; “Finnish-Soviet Trade Relations” IP-367, August 4, 1954; “Intelligence Memorandum: Implications of Finnish Trade with the Sino-Soviet Bloc” CIA/RR IM-424, April 2, 1956; FOIA (Freedom of Information Act), Electronic Reading Room. <http://www.foia.cia.gov> (27.5.2002).

²¹ “Self help in Finland. Struggle to pay reparations and resettle refugees”. *The Times*, May 12, 1951.

Kingdom, for facilities for their purchase from the transferable account area."²²

Yet, Harrison's statement represented the views of the FO, not actual British government policy. Although the FO agreed with the general Western policy towards Finland, in the British policy short-term economic goals, such as the need to expand exports, were usually dominant. The basic argument of this thesis is that the Cold War rhetoric of the British Foreign Office, and attempts by it to make political considerations of the Cold War crucial factors in the formulation of British policy, had little impact on British foreign economic policy towards Finland. This was the result of the economic problems the British were facing after the Second World War, which severely limited the policy options available for British foreign policy makers, but also the result of the categorical refusal by the Treasury and the Board of Trade to let the FO use economic methods as tools of foreign policy. Regardless of whether the economic costs of the proposed policies would be large or small for the British, the economic departments treated them as an unwelcome interference in the promotion of the British economic interests. Although "Economic statecraft", defined by Michael Mastanduno as "*the use of economic measures to achieve political objectives*"²³ has been regarded as an essential part of the international economy and politics during the Cold War,²⁴ this thesis suggests that, in the Finnish case, the economic departments within the British government did their utmost to prevent the use of economic measures as tools of foreign policy.

²² NA. T236/2513. C.W. Harrison, FO, to S.H. Levine, BOT, February 20, 1950, copy for Treasury.

²³ Michael Mastanduno, *Economic containment: CoCom and the politics of East-West trade*, Cornell studies in political economy (Ithaca, N.Y: Cornell University Press, 1992), p. 8.

²⁴ For example Lees, *Keeping Tito afloat: the United States, Yugoslavia, and the Cold War*; Kaufman, *Trade and Aid*; Baldwin, *Economic statecraft*; Gary K. Bertsch and Steven Elliott-Gower, eds., *The impact of governments on East-West economic relations* (London: Macmillan in association with the Vienna Institute for Comparative Economic Studies, 1991); I. M. Destler, *Making foreign economic policy* (Washington: Brookings Institution, 1980); Eckes, *Opening America's market*; Geir Lundestad, *"Empire" by Integration. The United States and European Integration, 1945-1997* (Oxford: Oxford University Press, 1998); David A. Baldwin and Helen V. Milner, eds., *East-West trade and the Atlantic Alliance* (Basingstoke: Macmillan, 1990); Armin Grünbacher, "Profits and Cold War - Politically Motivated Export Finance in West Germany during the 1950s: Two Case Studies" *German Politics* 10, no. 3 (2001), pp.141-158.

Existing literature

This thesis seeks to dispute previous explanations of British foreign economic policy towards Finland in two ways. Firstly, while none of the historians claims that the British ignored totally their own economic interests, some of them believe that during the 1950s the British really gave, or were willing to give, economic aid to Finland. For example, Vesa Lehtola has argued that the British did not demand that Finland should balance Finnish-British trade, which had a chronic imbalance in Finland's favour.²⁵ They also channelled aid to Finland through the normal timber and pulp trade flows by paying higher prices for Finnish pulp than for the pulp of Finland's competitors.²⁶ Markku Kuisma has suggested that at the time of the Finnish-Soviet crisis in 1950 the British and the Americans made arrangements to counter Soviet pressure by supplying Finland with goods which it could not import from the Soviet Union.²⁷ I will argue that the British government never offered (or gave) economic aid to Finland.

Secondly, historians have placed too much emphasis on the views and political assessments of the Foreign Office at the expense of the views of other departments. For example, Jukka Seppinen, who has written the most detailed study of the Finnish association with the European Free Trade Association,²⁸ does not ignore economic motives, but uses only a few lines to describe them,²⁹ while the political motives and the changing views of the Foreign Office are described at length.³⁰ In the existing literature the differences in the British and US policies are usually explained by referring to differences in political assessment and to the lack of adequate methods and economic resources. For example, it has been concluded that the FO tended to take a more "pragmatic" attitude to Finnish affairs than the Americans, and often felt that the situation was not quite as severe as the Americans believed it to be, and that the US policy-makers were more unrealistic about actual Finnish conditions and more fiercely anticommunist.³¹ It has also been argued that "the British" were not anxious to support

²⁵ Lehtola, "Puuta", Abstract.

²⁶ *Ibid.*, p.34.

²⁷ Kuisma, *Kylmä sota, kuuma öljy*, pp.33-36.

²⁸ Seppinen, *Suomen Efta-ratkaisu*.

²⁹ Jukka Seppinen, *Ahti Karjalainen. Poliittinen elämäkerta* (Helsinki: Kustannusosakeyhtiö Otava, 1997), p. 129.

³⁰ Seppinen, *Suomen Efta-ratkaisu*; Seppinen, *Ahti Karjalainen*, pp.103-107,137.

³¹ See for example Jussi Hanhimäki, *Rinnakkaiseloä patoamassa. Yhdysvallat ja Paasikiven linja 1948-1956*, *Bibliotheca Historica 10* (Helsinki: Suomen Historiallinen Seura, 1996), p.128; Vares, "Englanti ja

Finland because they regarded it as a part of the Soviet sphere of influence, whilst the Americans had adopted an ideological perspective and wanted to support Finland because it was a Western democracy.³² What these explanations imply is that if the British had had more economic resources to spend and had been more concerned about the Finnish situation, they would have supported Finland more enthusiastically.

These views may be due to the fact that the historians have usually studied British policy towards Finland only as part of some other or larger framework, such as Finnish foreign economic relations, the US policy towards Finland, or developments in Finnish political life. In addition, no historian, who has written about British policy towards Finland during the 1950s and the 1960s, has studied the files of the Board of Trade or the Treasury and the use of Cabinet documents has been uncommon.³³ Historians have relied upon FO documents and have made the implicit assumption that they provide adequate evidence for an analysis of British Cold War policy towards Finland. As far as purely political issues are concerned this is often true, but in economic issues the FO documents highlight only what FO officials are thinking, not the policy of the British government as a whole and how it is formulated. It was primarily the responsibility of the Board of Trade, the Treasury, and the Bank of England, to formulate and implement British foreign economic policy.³⁴

Quite naturally, the Foreign Office approached trade and financial issues from a political perspective, although it was far from ignorant about the economic constraints of foreign policy and the economic problems of the UK. When it stepped into the economic sphere of foreign relations aiming to manipulate trade for political purposes, the FO had to convince the other departments of the merits of the proposed policy. If you ignore the policy making process and describe and explain the British economic policy only on the basis of FO views, you get a strongly biased and often simply false view of the whole government policy. It does not describe how the British policy

Kekkonen”, pp.185,211-217; An exception is Markku Kuisma who sees the British policy as a result of both political and commercial interests. He suspects that the commercial ones might have been “*more genuine*”. Kuisma, *Kylmä sota, kuuma öljy*, pp.346-347.

³² Max Jakobson, *Pelon ja toivon aika. 20. vuosisadan tilinpäätös II* (Helsinki: Kustannusosakeyhtiö Otava, 2001), p.329.

³³ Rautkallio, *Kekkonen ja Moskova*; Rautkallio, *Paasikivi vai Kekkonen*; Kuisma, *Kylmä sota, kuuma öljy*; Seppinen, *Suomen Efta-ratkaisu*; Lehtola, “Puuta”.

³⁴ See chapter 3.

towards Finland was formulated or implemented, but describes only the internal fluctuations of the attitudes within the FO.³⁵

When the FO officials made statements like: *"In our relations with Finland our principal interest is to ensure that Soviet influence is kept to the minimum"*³⁶, the "our" really referred only to the FO not the British government on the whole. Countless FO documents concerning Finnish foreign trade and economy, are filled with Cold War rhetoric and detailed analysis of Finnish economic structures and how these could be manipulated in order to promote Western strategic interests in this particular frontline area of the Cold War. These, however, do not reflect actual British policy. They have therefore misled historians, who have studied them believing that the FO documents, classified as confidential, secret or even top secret at the time they were written, provide information on general British government priorities in this area.³⁷

Since the British knew that the USA wanted to press them to do more for Finland, it would have been in the interests of the British to explain either that no action was really needed, or that they were already doing all they could, whether these statements were true or not. British government departments used similar tactics in the interdepartmental discussions in Whitehall as they did in negotiations with foreign governments. The officials often chose the most tactically useful arguments to justify their proposals on the topic under discussion, not those that best reflected their own views.³⁸

Looking at general US Cold War foreign economic policy at the end of the 1940s, Robert A. Pollard has pointed out that the US leaders were *"willing to sacrifice short-*

³⁵ In contrast to the Finnish historians who had studied later periods, Hannu Heikkilä, in his study about the policy of the Allied Countries towards the question of the Finnish war reparations to the Soviet Union (1943-1947), has used extensively the documents of the Board of Trade, the Treasury, Cabinet Office, the Prime-Minister's Office and the Foreign Office. Hannu Heikkilä, *Liittoutuneet ja kysymys Suomen sotakorvauksista 1943-1947, Historiallisia tutkimuksia 121* (Helsinki: Suomen Historiallinen Seura, 1983).

³⁶ NA. FO371/111454. NF1051/2. "The Political Situation in Finland". Submitted by H.K. Matthews, May 11, 1954.

³⁷ This seems to be the implicit or explicit assumption in most works written about the British policy towards Finland during the Cold War. See Kuisma, *Kylmä sota, kuuma öljy*; Hanhimäki, *Containing coexistence*; Seppinen, *Suomen Efta-ratkaisu*; Rautkallio, *Kekkonen ja Moskova*; Rautkallio, *Paasikivi vai Kekkonen*.

³⁸ See for example the decision by a Treasury official, who opposed a particular proposal in principle, to refrain from criticising it on these grounds, since the proposal could be effectively countered by criticising tactics alone. This would save "artillery" for further discussions. The archives of the Bank of England. (Hereafter BEA) OV30/10. "Finland", V.K. Bloomfield, November 19, 1953.

term national advantage to long-term gains in Western stability and security.”³⁹ With Samuel F. Wells, Pollard also argued that US business interests rarely had a direct influence on US policy, and that the government was usually willing to sacrifice corporate interests to competing political and strategic objectives. However, the US government was *indirectly* sensitive to the long-term needs of US companies, and especially to the need for an open international economic environment.⁴⁰ Michael Mastanduno has argued that as far as export controls against the Soviet bloc were concerned, the US government consistently gave priority to foreign policy and national security considerations and forced economic considerations and business interests into subordinate roles, despite the occasionally active corporate lobbying.⁴¹

In contrast, the so-called revisionist school, which was popular in the late 1960s and the early 1970s, has underlined the role of economic motives in the US policy. It argued that the *primary* and ultimate aim of the whole US policy in the beginning of the Cold War was to promote the interests of US business and to secure access for US companies to world markets without restrictions. Therefore short-term economic sacrifices could have been made because they would promote long-term *economic* interests, not because of any security or political considerations.⁴² This question is at the heart of the debate about the origins of the Cold War and the US-Soviet confrontation.

Mark Curtis’ radical views of the British foreign policy since 1945 share many characteristics with the revisionist interpretation of the Cold War. Curtis argues that the main priority of the British (and US) foreign and foreign economic policy since the Second World War has been to promote their economic interests. The level of Soviet threat was exaggerated in order to justify political and military intervention in various parts of the globe and especially in the former colonies. The real purpose of these

³⁹ Robert A. Pollard, *Economic security and the origins of the Cold War, 1945-1950* (New York: Columbia University Press, 1985), p.ix.

⁴⁰ Robert A. Pollard and Samuel F. Wells, Jr., "The Era of American Economic Hegemony, 1945-1960" in *Economics and World Power. An Assessment of American Diplomacy Since 1979*, ed. William H. Becker and Samuel F. Wells, Jr. (New York: Columbia University Press, 1984), pp.385-386.

⁴¹ Mastanduno, *Economic containment*, pp.28-29.

⁴² See for example Fred L. Block, *The origins of international economic disorder: a study of United States international monetary policy from World War II to the present* (Berkeley, London: University of California Press, 1977); Joyce Kolko and Gabriel Kolko, *The limits of power: the world and United States foreign policy, 1945-1954*, 1st ed. (New York: Harper & Row, 1972); Thomas G. Paterson, *Soviet-American confrontation: postwar reconstruction and the origins of the Cold War* (Baltimore ; London: Johns Hopkins University Press, 1973).

interventions was to continue the economic exploitation of Third World countries and the main enemy was nationalism, not communism.⁴³ *“recourse to the ‘Soviet threat’ was useful in providing the ideological background to policy carried out for other purposes.”*⁴⁴

My views on the Cold War differ from the views of the revisionist school and of Mark Curtis in the sense that I do not think that the Cold War was just a sinister means of helping Britain or the USA to exploit other countries. In the UK case my research underlines the role of economic motives at the expense of Cold War considerations, but this represented the victory of the economic departments over the FO. I do not think that the Cold War rhetoric of the FO represents only or even mainly “a cover” for other, sinister motives as Curtis does. I am arguing that Mastanduno’s views of the priorities were usually true in the case of US policy towards Finland, but not as far as British policy was concerned. In short, the British behaved like a traditional nation state interested in promoting its own national economic interests, not like a member of an alliance seeking to promote what was defined to be the common Western interest. In the end the impact of the Cold War on British foreign economic policy in Finland was minimal.

Although we may always question whether the conclusions of any particular case study really reflect wider issues under discussion, this thesis can contribute to our understanding of the underlying motives behind British Cold War foreign economic policy. The use of economic methods to promote foreign policy was repeatedly rejected in the Finnish case because the Treasury and the Board of Trade firmly and successfully opposed in principle a policy of this kind, not simply because the merits of the FO proposals in the Finnish case were not convincing enough. Naturally, there were also individual issues in British policy towards Finland where there were good counterarguments to the politically motivated plans to support Finland. We should not adopt too deterministic an attitude and assume that bureaucratic politics explanations had a crucial role in every decision.

⁴³ Mark Curtis, *The Ambiguities of Power. British Foreign Policy since 1945*. (London & New Jersey: Zed Books Ltd, 1995).

⁴⁴ *Ibid.*, p.49.

The time-frame and structure of the thesis

The year 1950 has been selected as a starting point because of the Finnish-Soviet crisis (1949-1950). For the first time in 1950 the Foreign Office seriously considered giving economic aid to Finland in order to support it against the Soviet Union.⁴⁵ 1970 has been selected as an end year in order to avoid the need to discuss the British role in the Finnish free trade agreement with the European Economic Community (EEC, 1973), a major issue in Finnish economic and political history and a result of British plans to join the Common market. Negotiations between Finland and the EEC started in 1970.⁴⁶ Despite its time limitations (1950-1970), the focus of this thesis is going to be the 1950s and early 1960s. There are three reasons for this: developments in Finnish-Soviet political and trade relations, the international political climate and the changing institutional structure of British-Finnish trade.

The most important crises in Finnish-Soviet relations occurred in 1949-1950, 1958-1959 and 1961, and during these periods Finland naturally received more attention from Western powers than calmer times. In addition, as I will be arguing in the next chapter, the reducing importance of Soviet-Finnish trade to Finland during the 1960s⁴⁷ was a promising sign from the FO point of view, and it diminished the Cold War-motivated desire to support Finland. Secondly, the concern of the FO about the Finnish-Soviet trade relations depended not only on developments in Finland and on its relations with other countries, but also on the international political climate. One can expect that improving relations between the superpowers after the Cuban Missile Crisis in 1962 naturally reduced tension at the Finnish "front" at least to some degree, as it did in the world in general.

Thirdly, changes in the institutional structure of trade had a profound impact on the role of the Finnish and British governments in trade relations. The annual Finnish-British trade negotiations formed the framework of bilateral trade relations until 1957 when the

⁴⁵ NA. T236/2513. C.W. Harrison, FO, to S.H. Levine, BOT, February 20, 1950, copy for Treasury.

⁴⁶ Erik Heinrichs, "Suomen EEC-sopimus" in *Suomen ulkomaankauppapolitiikka*, ed. Lauri Haataja (Helsinki: Kustannusosakeyhtiö Otava, 1978), p.97.

⁴⁷ See Table 2.

Finnish government liberalised 75 per cent of its imports from Western countries.⁴⁸ In 1961 it concluded an association agreement with the British-led European Free Trade Area, which led to the gradual removal of tariffs and remaining quantitative restrictions, with some exceptions, in Finnish-British trade.⁴⁹ The British government removed quantitative imports restrictions gradually during the 1950s as a part of the general Organisation for European Economic Co-operation (OEEC) liberalisation process.⁵⁰ These changes had a profound impact on the administration of day-to-day trade relations.⁵¹ The role of governments in foreign trade and correspondingly the number of British government files on trade with Finland was drastically reduced. The British and Finnish governments were simply much more involved in trade relations between the two countries during the 1950s, and especially during the first half of the decade, than during the 1960s.

The second chapter of this thesis looks at economic and political motives, which had an impact on British foreign economic policy towards during the Cold War. The third chapter will offer an analytical framework to explain how the British government departments formulated foreign economic policy towards Finland. It introduces the theories of Graham Allison and Morton Halperin and, by describing the fragmentation of the British government, explains why the application of bureaucratic politics approach to the study of UK foreign economic policy is relevant.

The next three chapters are case studies. They have been chosen because in all these cases the Foreign Office and the US government argued that political motives should play a role in the formulation of UK foreign economic policy towards Finland. The fourth chapter will discuss the attempts by the FO and the US government to offer economic aid to Finland. The fifth chapter will look at Finnish exports to the UK during the 1950s and 1960s, and the sixth chapter discusses the UK policy towards Finnish

⁴⁸ Tapani Paavonen, *Suomalaisen protektionismin viimeinen vaihe. Suomen ulkomaankauppa- ja integraatiopolitiikka, Historiallisia tutkimuksia 198* (Helsinki: SHS, 1998), p.192; In his authoritative work on the Finnish foreign trade policies and administration, Paavonen has called the years 1945-1961 as the "last phase of Finnish protectionism".

⁴⁹ Seppinen, *Suomen Efta-ratkaisu*.

⁵⁰ Alan S. Milward and George Brennan, *Britain's Place in the World. A historical enquiry into import controls 1945-60* (London: Routledge, 1996).

⁵¹ In 1948 the Import Licensing Board of the Board of Trade processed in total over 300.000 applications. The removal of quantitative on softwood imports in 1953, an event important for Finland, which was a major supplier of softwood to the UK, eliminated the need to complete over half a million forms a year. *Ibid.*, p.1.

participation in European integration. The seventh chapter will contain the main conclusions of the thesis.

2. The political and economic motives of UK foreign economic policy towards Finland

Why support Finland?

*“The United Kingdom in her relations with Finland has two main interests; first, that Finland shall not fall under the domination of Russia; and second, that trade between the two countries shall be profitable,”*⁵² Sir Andrew Noble, the British Minister in Helsinki between 1951 and 1954, wrote in 1953. In this chapter we study the role of these motives in British foreign economic policy towards Finland. The aim of this chapter is to establish how the British decision-makers perceived these issues, not to provide the reader with a comprehensive account on whether or not these views were justified.

The ability of Finland to survive as an independent, democratic and capitalist state was, from a Western perspective, something of a miracle.⁵³ It had faced two wars against the Soviet Union in 1939-1940 and in 1941-1944,⁵⁴ a threatening geopolitical location as a neighbour of the Soviet Union, communist superpower, with 1300 kilometres of common border. A large and politically active Finnish communist party had arisen, challenging the existing political and economic structure of the country. There were difficulties caused by the loss of economically valuable territory to the Soviet Union, as

⁵² NA. FO371/106211. NF1151/23. A. Noble, Helsinki, to W. Churchill, FO, May 12, 1953.

⁵³ For example the British Embassy called in a *it is something of a miracle that it exists at all as a free state* in 1958. NA. FO371/134769. NF1051/7. “Memorandum” by the British Embassy, August, 1958, an enclosure to the letter of D.L. Busk, Helsinki, to Selwyn Lloyd, FO, August 11, 1958; The US Ambassador John D. Hickerson stated in 1957 that *“the survival of Finland as a free nation is near miracle.”* Northern European Chiefs of Mission Conference, London, September 19-21, 1957: Summary of Proceedings. FRUS 1955-1957, volume IV, p.619.

⁵⁴ The Soviets attacked Finland on November, 1939 and expected a quick and total victory, because of their overwhelming military superiority. Instead, the “Winter War” lasted until March, 1940, and the rapidly accumulating Soviet losses of men and material and the fear of Anglo-French intervention forced the Soviets to abandon their hope for total occupation of Finnish territory and settle for border adjustments. In the second Finnish-Soviet war in 1941-1944, known in Finland as the Continuation War, Finland fought with Hitler’s Germany against the Soviet Union, although technically the Finns claimed that they were fighting a separate war against the Soviets. The Soviet offensive in the summer of 1944 led to the Finnish decision to switch sides in the war and subsequently the Finns fought against the Germans in the “Lapland war”, which lasted until the end of April, 1945. In total 85,000 Finns were killed in these three wars, two percent of the Finnish population.

well as resettlement of 400,000 refugees from those areas, and the need to pay heavy war reparations.⁵⁵

When the immediate threat of a communist coup and a new Soviet invasion seemed to fade after the “Years of Danger” of 1944-1948, as they subsequently became known in Finland, Western powers were quick to recognise that it was a miracle that was beneficial to the West. Finnish freedom of action was limited by the fear of Soviet action, and certain treaty obligations, which it had to accept, such as the Finnish-Soviet Treaty of Friendship, Cooperation and Mutual Assistance (1948),⁵⁶ but as far as the West was concerned Finland had not become a Soviet satellite⁵⁷, nor was it behind the “Iron Curtain”⁵⁸, but instead had managed to remain a democratic market economy. It was in the interests of the Western alliance to ensure that this situation did not change.⁵⁹

Why was it in the interests of the West to promote Finnish independence? The reasons for this were partly related to Western military strategy and partly to the general logic of Cold War confrontation and US containment strategies. Before the Superpowers’ nuclear deterrent became based on intercontinental ballistic missiles, part of the Western strategic bomber fleet armed with nuclear weapons would fly through Finnish air space to reach targets around Northern Russia in the event of war. After all, Finland was located just a few hundred kilometres from Leningrad, the second largest Soviet city, as

⁵⁵ In English see Tuomo Polvinen, *Between East and West: Finland in international politics, 1944-1947*, edited and translated by D.G. Kirby and Peter Herring, *The Nordic series; v. 13* (Minneapolis: University of Minnesota Press, 1986).

⁵⁶ In the treaty Finland committed itself to preventing Germany or any country allied with Germany from using the Finnish territory against the Soviet Union. If a threat from Germany seemed imminent, Finnish-Soviet military consultations would be arranged to define what help the Soviets could give Finland to prevent attack from Germany or from its allies. From the Western point of view, the treaty drew Finland uncomfortably close to a military alliance with the Soviets and could theoretically give them a pretext to demand the right to send troops to the Finnish territory. Jussi M Hanhimäki, “Security and Identity: the Nordic Countries and the United States since 1945” in *No End to Alliance. The United States and Western Europe: Past, Present and Future. Nobel Symposium 105*, ed. Geir Lundestad (Houndmills, Basingstoke, Hampshire and London: Macmillan Press Ltd, 1998), pp.27-28; Risto E. J. Penttilä, *Finland's security in a changing Europe: a historical perspective: documentation, Finnish defence studies, 7* (Helsinki: National Defence College, 1994), pp.29-33.

⁵⁷ Report to the President by the National Security Council: United States Policy Toward the Soviet Satellite States in Eastern Europe. NSC 58/2. December 8, 1949. FRUS 1949, volume FRUS 1949, volume V, p.44: NSC Staff Study on the Position of the United States With Respect to Scandinavia and Finland. An Attachment to NSC 121. January 1952. FRUS 1952-1954, volume VIII, p. 756.

⁵⁸ Department of State Policy Statement, December 1, 1949. FRUS 1949, volume V, p. 448.

⁵⁹ Statement of Policy Proposed by the National Security Council, NSC 121: The Position of the United States With Respect to Scandinavia and Finland. January 8, 1952. FRUS 1952-1954, volume VIII, p. 755; NA. FO371/159307. NF1051/39. “Visit of Finnish President. Brief No. 1: Finland’s position in East-West Relations”. Foreign Office, April 28, 1961; FCO33/1173. W.B.J. Ledwidge, Helsinki, to Secretary of State, FCO, February 24, 1970.

well as in the north from the Arctic port of Murmansk, which was gradually developing to become the main naval base of the expanding Soviet High Seas fleet. Finnish independence and neutrality deprived the Soviet Union of the chance to use Finnish territory to strengthen the air defence and early warning systems of the northern parts of the Soviet Union. Similarly, both parties were preparing for conventional war in Northern Scandinavia, and Finnish territory offered a useful buffer zone for the West. The Soviets were planning to break through Finland's northern province of Lapland to Norway in order to reach the North Atlantic and disrupt NATO supply lines. NATO countries were eager to prevent this.⁶⁰

During the late 1940s, this view of Finland as a buffer for Scandinavia dominated military thinking in London. Finland itself was not considered to be strategically important, but Scandinavia was and it was important not to make it easier for the Soviets to use Finnish territory against it.⁶¹ In the event of war the Finns would oppose Soviet military intervention, and even if they were unable to stop it, the Finns would start intensive guerrilla warfare against Soviet troops.⁶² There was also a psychological factor. Having resisted Soviet attempts successfully for so long, the fall of Finland to Soviet domination could weaken Western morale generally, and specifically the determination of small "Free World" countries to resist Soviet pressure.⁶³ The new British Ambassador to Finland, Sir David Scott Fox wrote on February 1967 that this

"is a relatively small and remote country, the ultima thule of free Europe. Accidents of geography and history have, however, given Finland an

⁶⁰ Statement of Policy Proposed by the National Security Council, NSC 5403: U.S. Policy Towards Finland. January 12, 1954. FRUS 1952-1954, volume VIII, p.774; Jukka Nevakivi, *Maanalaista diplomatiaa vuosilta 1944-1948 jolloin kylmä sota teki tuloaan Pohjolaan* (Helsinki: Kustannusosakeyhtiö Tammi, 1983), p.13; MOT Salainen sota I: 26.03.2001. <http://www.yle.fi/mot/260301/260301.htm> (19.5.2002); Jukka Tarkka, *Suomen kylmä sota. Miten viattomuudesta tuli voima* (Keuruu: Otava, 1992), pp.75-77; NA. FCO9/314. D. Scott Fox, Helsinki, to G. Brown, FO, February 16, 1967; DEFE7/1306. "Guided Weapons for Finland". G. Wheeler, June 26, 1962; "Finland Asked into the Parlour". *The Economist*, April 16, 1955; Pekka Visuri, *Puolustusvoimat kylmässä sodassa. Suomen puolustuspolitiikkaa vuosina 1945-1961* (Juva: WSOY, 1994), p.93; Pertti Salminen, *Puolueettomuuden nimeen. Sotilasjohto Kekkonen linjalla ja sen sivussa 1961-1966* (Jyväskylä: Kustannus Oy Suomen Mies, 1995), pp.34-37.

⁶¹ Nevakivi, *Maanalaista*, pp.92,97; Hannu Rautkallio, *Suomen suunta 1945-1948* (Savonlinna: Weilin+Göös, 1979), pp.206,211-214.

⁶² Rautkallio, *Kekkonen ja Moskova*, pp.158-159.

⁶³ Letter from the Assistant Secretary of Defense for International Security Affairs (Nitze) to the Deputy Under Secretary of State for Political Affairs (Johnson), March 7, 1962. FRUS 1961-1963, volume XVI, p. 450.

importance out of all proportion to her size, and she remains one of the most dangerously sensitive areas on the frontiers between East and West.”⁶⁴

By the late 1960s, the growth of British exports to Finland had, as far as the British Embassy in Helsinki was concerned, created a new reason to support Finnish independence. Since British exports to Finland were approaching the £100 million mark, surely it would not be in British interests to let the country slip into the Soviet orbit.⁶⁵

Yet, the desire of the West to be involved in Finnish affairs was probably based more on the underlying general Cold War logic and the nature of the bipolar world and not that Finland itself was important for some particular reason. As the Finnish Ambassador to Washington, Johan Nykopp wrote in January, 1955: *“Since it is the objective of the United States foreign policy to oppose the expansion of the Soviet influence everywhere, one can expect that the United States government is continuously interested in what is happening in Finland in this respect.”⁶⁶* The general Cold War logic of confrontation drove the superpowers and their allies to interfere actively in the affairs of most areas of the globe, since the whole world was seen to be a battleground. To deny the other side access to a particular area and thereby limiting the options of the opponent, was reason enough to intervene in that particular area, even if the intervening country itself did not have special interests to protect or promote in the area. The United States formed its policy of containment seeking to prevent Soviet expansion to new areas and as Richard U. Ullman has put it, while describing US foreign policy during the Cold War: *“American policy-makers have tended toward the view that what has mattered most about any given piece of territory is whether or not it lies in their sphere or Moscow’s.”⁶⁷*

In short, probably the most important reason why Finland was important to the West was the fact that it was of interest to the Soviet Union. Since the Finns seemed to have done most of the “containment” themselves, ousting Communist members from the

⁶⁴ NA. FCO9/314. D. Scott Fox, Helsinki, to G. Brown, FO, February 16, 1967.

⁶⁵ NA. FCO9/314. D. Scott Fox, Helsinki, to G. Brown, FO, February 16, 1967; FCO33/1173. W.B.J. Ledwidge, Helsinki, to M. Stewart, FCO, February 24, 1970; FCO 9/328. A. C. Stuart, Helsinki, to A. E. Davidson, FO, August, 28 1968.

⁶⁶ Ulkoasiainministeriön arkisto, Helsinki, Finland (Hereafter UM). 12 L:181 Yhdysvallat 1951-1973.

”Suomen ja Yhdysvaltain väliset suhteet v. 1954” J. Nykopp, January 6, 1955.

⁶⁷ Ullman, “America, Britain”, p.107.

Cabinet in 1948 and abolishing in the same year the Finnish security policy (Valtiollinen poliisi), which had been taken over by the Communists, it would be useful for the West to help them to continue in this way.⁶⁸ The West should help the Finns, especially since they helped themselves.

On the other hand, none of the reasons described above did make it absolutely necessary for the West to keep Finland out of the Communist bloc. As Vesa Vares has said, Finland was also a pawn in a chess game, which could be sacrificed if the price was high enough. For example, if the Soviets took control of Finland, Sweden might become a member of NATO.⁶⁹

The FO shared most of the US views. Ernest Bevin, the British Foreign Secretary at the beginning of the Cold War, feared that if the West did not oppose Soviet policies, the latter would take over Europe in piecemeal fashion. The takeover of Finland would be one step in this expansion and Bevin was delighted that the Finns had managed to avoid compromising their independence in the negotiations for the Finnish-Soviet Treaty of Friendship, Cooperation and Mutual Assistance (1948) in the same way as the Soviet satellites had done in their corresponding agreements with the Soviet Union. This was further confirmation to his belief that the best way to deal with Soviet pressure was to stand up to them.⁷⁰

In August, 1958 the British Ambassador in Helsinki wrote to London: "*This country is very much a frontier bastion and even though the bastion is a small one, its loss would be very serious to us. It is our frontiers against the East throughout the world that need watching, and the position here will be reviewed at frequent intervals*".⁷¹ A memorandum prepared by the Embassy on Finland and attached to Ambassador's letter echoed similar feelings stating "*it is something of a miracle that it exists at all as a free state. This miracle is to advantage of the West and we should make every effort to see*

⁶⁸ Jukka Nevakivi, "The Relationship Redefined: Postwar Finnish Neutrality and U.S. Interests" in *Finland and the United States. Diplomatic Relations Through Seventy Years*, ed. Robert Rinehart (Washington: Institute for the Study of Diplomacy. Georgetown University, 1993), pp.67-69.

⁶⁹ Vares, "Englanti ja Kekkonen", p.186; See also Rautkallio, *Paasikivi vai Kekkonen*, p.69; "Sweden's Neutrality". The Times, December 20, 1954.

⁷⁰ Alan Bullock, *Ernest Bevin. Foreign Secretary 1945-1951* (London: Heinemann, 1983), pp.528-529,546-547.

⁷¹ NA. FO371/134769. NF1051/7. D.L. Busk, Helsinki, to Selwyn Lloyd, FO, August 11, 1958.

that a free Finland is maintained and strengthened."⁷² For the United Kingdom, still a country with global interests and aspirations despite the relative deterioration of British power, Finland was not one of the most important areas in the world. This did not mean, however, that the Whitehall bureaucratic machinery would be unable or unwilling to find the necessary time and staff to consider in detail what kind of policy the UK should promote in Finland. Countless files of the various government departments on Finland are a testimony to this fact.

Why economy?

This section seeks to explain why the economic means captured such a central role in the desire of the Americans and the British Foreign Office to tie Finland more closely to the West. Generally, the methods which the West could use can be divided into four groups. As I will show the first two, military and political, were impractical, the third group, the cultural and propaganda war was important, but the West seemed to be winning it anyway, and this focused Western attention on the fourth group, economic methods. Although the majority of Finnish foreign trade was conducted with non-socialist countries, the West believed that Finnish trade relations made it vulnerable to Soviet pressure and internal problems of the Finnish economy helped the communists to gather more support among Finnish voters. To Ambassador Douglas Busk, the economy was the "fabric" of the "bastion", in that it was as important to keep it in good condition, in the same way as it was important to keep up the morale of the "garrison", i.e. the Finnish people.⁷³

Firstly, if the Soviets attacked Finland, the West would not defend it.⁷⁴ Finland was neither strategically nor psychologically important enough for the West to allow a conflict there to escalate into a third world war. The West should not give military guarantees for Finland in the peacetime, if it was not ready to stick to these

⁷² NA. FO371/134769. NF1051/7. "Memorandum" by the British Embassy, August, 1958.

⁷³ NA. FO371/142885. NF 1151/12. Minute by D.L. Busk, March 9, 1959.

⁷⁴ Agreed United States-United Kingdom Memorandum of Discussions on the Present World Situation. July 25, 1950. FRUS 1950, volume III, p. 1666; MOT Salainen sota II: 14.05.2001. <http://www.yle.fi/mot/140501/kasis.htm> (19.5.2002); Tarkka, *Suomen kylmä sota. Miten viattomuudesta tuli voima*, p.33.

commitments in the event of war.⁷⁵ Instead Western Alliance members would make loud protests in the United Nations,⁷⁶ after all this would be a useful propaganda opportunity. On the other hand the Americans and the British did not consider it very likely that the Soviets would try a military conquest of Finland, except as a prelude to or as a part of general global war, since this would provide the West with an effective propaganda weapon to be used against the Soviets worldwide.⁷⁷ Although the Finns would be unable to prevent the Soviet occupation, the Americans and the British believed that they would begin a determined and intensive guerrilla war against the Soviets.⁷⁸ A Soviet attack on Finland would probably also drive Sweden to apply for membership to NATO, or otherwise move closer to it.⁷⁹ Adding these three considerations together, military invasion would cost too much for the Soviets compared to the benefits that would be derived from the control of Finnish territory.⁸⁰

Political and diplomatic methods offered equally limited options to NATO to tie Finland closely to the West and to prevent the expansion of Soviet power in the country. One of the basic aspects of the US and British policy was that Western countries should avoid making any public statements supporting Finland, or giving very *visible* support, either political, military or economic, to it, because this could provoke countermeasures from the Soviets, and endanger the delicate position of the small country.⁸¹ Therefore there was very little the West could do. Finland's existing international political position

⁷⁵ Hannu Rautkallio, *Novosibirskin lavastus. Noottikriisi 1961* (Helsinki: Tammi, 1992), p.35; NA. FO371/159307. NF1051/39. "Visit of Finnish President. Brief No. 1: Finland's position in East-West Relations". Foreign Office, April 28, 1961; FO371/159309. NF1072/2. C. O'Neill, Helsinki, to R.H. Mason, FO, February 15, 1961.

⁷⁶ Memorandum by Mr. Carlton Savage, Member of the Policy Planning Staff: Possibilities of War With the Soviet Union, 1951-1952: Use of Atomic Weapons. May 23, 1951. FRUS 1951, volume I, p.839.

⁷⁷ Memorandum by the Director of the Office of European Affairs (Hickerson) to the Secretary of State, March 1 1949. FRUS 1949, volume V, pp. 434-435; Department of State Policy Statement, December 1, 1949. FRUS 1949, volume V, p. 444; FO371/159309. NF1072/2. C. O'Neill, Helsinki, to R.H. Mason, FO, February 15, 1961.

⁷⁸ Statement of Policy Proposed by the National Security Council, NSC 5403: U.S. Policy Towards Finland. January 12, 1954. FRUS 1952-1954, volume VIII, p. 775; NA. FO371/174899. CM1201/1. The Annual Report of the Finnish Army 1963 by W. A. Robinson, Colonel, Military Attaché.

⁷⁹ The Chargé in the Soviet Union (Kohler) to the Secretary of State, March 30, 1949. FRUS 1949, volume V, p. 439; NA. FO371/111459. NF1112/1/G. "Soviet Policy Towards Finland" FO, January 8, 1955; FO371/159309. NF1072/2. C. O'Neill, Helsinki, to R.H. Mason, FO, February 15, 1961; FO371/11453. NF10338/38/G. "Possible Soviet reactions in Finland to the results of the London Conference". H.A.F. Hohler, November 2, 1954.

⁸⁰ NA. FO371/100487. NF11338/10. I.D. Scott, Helsinki, to A. Eden, FO, October 9, 1952; FO371/111461. NF11338/57. Minutes by Lord Norwich, August 4, 1954.

⁸¹ Department of State Policy Statement, December 1, 1949. FRUS 1949, volume V, p. 449; Statement of Policy Proposed by the National Security Council, NSC 121: The Position of the United States With Respect to Scandinavia and Finland. January 8, 1952. FRUS 1952-1954, volume VIII, p. 755.

of neutrality was the best position the West could realistically expect and there was no hope of integrating Finland politically closely to the West. The West should not try to get Finland to join the Western Alliance; this would only be dangerous for Finland. The goal should therefore be the maintaining of the *status quo* and preventing Finland from being drawn closer to the Soviet bloc.⁸²

Furthermore, Western activity, however well-meaning, would not be welcomed in Finland, and the Finns themselves repeatedly expressed the opinion that highly visible action by the West would only strengthen suspicion in the Soviet Union of Western intervention into Finnish affairs, and of possible Finnish covert co-operation with the West. This would in turn lead to Soviet actions to nullify the alleged Western influence and to tighten their grip on Finland. The President of Finland Urho Kekkonen (1956-1981) repeatedly expressed to Western diplomats and politicians his view that the West should just rely on the Finnish ability to sort out their own political problems with the Soviets, especially since President Kekkonen believed that he himself was especially skilled in the art of diplomacy and spent considerable time during his long political career in trying to create close personal relations with the Soviet leaders.⁸³

Although the British, the Americans and the Western Alliance in general supported Finland's policy of neutrality, considered to be the only possible option for the country, within the limits set by the neutrality and the Finnish geographical position, the Western goal was to draw Finland as closely as possible to the West. They also endeavoured to encourage and support Finnish independence, the democratic political system and market economy, and remove the sense of isolation the Finns were perceived to have. Since strongly visible help from the West would only endanger the Finnish position, the FO and the Americans tried to find less demonstrative, but still effective, ways to achieve Western aims. These methods included strengthening Finnish ties with various Western organisations, such as the OECD and the Council of Europe,⁸⁴ but on the whole in the political field the options were limited and Western eyes turned increasingly to the superficially less-political cultural and economic spheres. This brings

⁸² NSC Staff Study on the Position of the United States With Respect to Scandinavia and Finland. An Attachment to NSC 121. January 1952. FRUS 1952-1954, volume VIII, p. 756.

⁸³ See for example Memorandum of Conversation. February 5, 1962. FRUS 1961-1963, volume XVI, p. 442.

⁸⁴ See for example NA. FO371/159309. NF1072/3. Anglo-American Discussions. Brief No.4 "Western policy towards Finland"; NF1072/6. "US-UK Bilateral Talk April 14, 1961 Ad referendum. Finland".

us to the cultural and propaganda “battle of hearts and minds”, in which the Western powers felt that they were in a strong position, since the great majority of Finns were considered to be fundamentally anti-Soviet and pro-Western,⁸⁵ even if they tried to remain neutral in the Cold War.

The British tried to wage a cultural war with anti-communist propaganda and with frequent visits of politicians, students, artists, trades union representatives, and businessmen between Finland and the UK as well as with the activities of the British Council and the BBC.⁸⁶ Even if the British Embassy in Helsinki could not often get as many Britons to visit Finland as it hoped,⁸⁷ the prospects in this field seemed good since the majority of Finnish people very much wanted to remain a part of the Western world. Even so “*those who, like the Finns, walk permanently on knife-edges both need and deserve a steadying hand*”, and it was the task of the West to give this support, although in this field as in others, any demonstrative help should be avoided in order not to provoke aggressive Soviet reaction.⁸⁸

In the economic field, the situation was, from the Western point of view, more problematic than in the cultural field. There were three reasons for this, and jointly they made the Finnish case from the Western perspective an especially difficult one to

⁸⁵ Statement of Policy Proposed by the National Security Council, NSC 121: The Position of the United States With Respect to Scandinavia and Finland. January 8, 1952. FRUS 1952-1954, volume VIII, p. 755; Current Foreign Relations. Issue No. 43: Northern European Chiefs of Mission Meet. October 29, 1958. FRUS 1958-1960, volume VII, p. 69; NA. FCO33/724. D. Scott Fox, Helsinki, to M. Stewart, FCO, June 5, 1969, incl. Annex D. “I.R.D. Work”; FO371/159309. NF1072/2. C. O’Neill, Helsinki, to R.H. Mason, FO, February 15, 1961; FCO9/310. D. Scott Fox, Helsinki, to G. Brown, FO, January 5, 1967; NARA. SD. RG59. Decimal Files on Finland 1960-63, box 1853. 760E.00/1-561 HBS. “An assessment of the Finnish situation”. R.M. Melbourne, American Embassy, Helsinki, January 5, 1961.

⁸⁶ NA. FO371/134769. NF1051/7. “Memorandum” by the British Embassy, August, 1958; FO371/159309. NF1072/3. Anglo-American Discussions. Brief No.4 “Western policy towards Finland”; NF1072/6. “US-UK Bilateral Talk April 14, 1961 Ad referendum. Finland”; FO371/165933. NF1051/1. Minutes by M.H. Murphy, January 24, 1962. FCO9/314. D. Scott Fox, Helsinki, to G. Brown, FO, February 16, 1967; FO371/159309. NF1072/2. C. O’Neill, Helsinki, to R.H. Mason, FO, February 15, 1961; FO371/180075, “The Soviet Union and the Nordic Countries. Record of a Meeting held in Helsinki on 24 March, 1965”; FO1110/481; FO371/180069. CM1071/1. A.E. Lambert, Helsinki, to D.S.L. Dodson, FO, February 11, 1965; FCO26/274. R.D.J. Scott Fox, to B.R. Curson, FCO, May 28, 1968; Jarkko Vesikansa, “”Viides Kolonna” Pohjolassa. Ison-Britannian kuva Pohjoismaiden kommunismista 1947-1956” in *Ajankohta. Poliittisen historian vuosikirja 2002*, ed. Markku Jokisipilä (Turku: Poliittinen Historia. Helsingin ja Turun yliopistot, 2002), pp.257,263,269-270,275-276.

⁸⁷ See for example NA. FO371/134769. NF1051/7. Minutes; T. Brimelow, FO, to D.L. Busk, Helsinki, October 7, 1958; FCO33/1585. W.B.J. Ledwidge, Helsinki, to A. Douglas-Home, FCO, January 20, 1971.

⁸⁸ NA. FO371/134769. NF1051/7. “Memorandum” by the British Embassy, August, 1958; See also FCO26/274. R.D.J. Scott Fox, Helsinki, to B.R. Curson, FCO, May 28, 1968.

solve.⁸⁹ Firstly, from the Western point of view it was beneficial to promote economic development in Finland for the same reason as in most other non-communist countries, that is, increased prosperity would make people less likely to support communism.⁹⁰ In 1950 the GDP per capita in Finland was only 70 per cent of the UK level, 46 per cent of the US level and 66 per cent of the Swedish level,⁹¹ and the country was considered to be, within the Western European framework, relatively undeveloped. The Second World War had made the situation much worse, and according to the CIA, Finnish losses during the Second World War and the hard terms of the armistice (1944) and peace treaties (1947) had left Finland in an impoverished situation. Finland lost 13 percent of its territory, 11 percent of cultivated land, 10 percent of total industrial production and 32 percent of hydroelectric power to the Soviet Union, the latter valuable for woodworking industries. Large reparations payments in kind, and Soviet demand that most of them should be paid with non-traditional export products, had created an additional burden.⁹²

The Finnish election results gave an added significance to the considerations regarding Finnish economic development. Many Finnish and Western observers were baffled by the fact that for decades, from the late 1940s onwards, 20-25 per cent of Finnish voters chose freely to support the Communist-dominated political party "Suomen Kansan Demokraattinen Liitto" (SKDL). The overwhelming majority of these same voters had defended Finland against the Soviet Union in the wars of 1939-1940 and 1941-1944 with little sign of unease, but now they saw no difficulty in casting their vote in favour of the party which seemed to take its orders from Moscow. One popular, although by no

⁸⁹ Memorandum by the Secretary of State and the Director of Mutual Security (Harriman) to the Executive Secretary of the National Security Council: Sixth Progress Report on NSC 104/2. United States Policies and Programmes in the Economic Field which May Affect the War Potential of the Soviet Bloc. FRUS 1952-1954, volume I, p. 925; NA. FO371/159327. NF1541/2. C. O'Neill, Helsinki, to Earl of Home, FO, March 14, 1961.

⁹⁰ NA. FO371/133325. UEE10432/22/G. G.F. Thorold, Washington, to P. Gore-Booth, FO, February 1, 1958; FO371/133226. UEE10432/28/G. "Brief for Washington Talks. Economic Policy towards Underdeveloped Countries Particularly in the Light of Sino-Soviet Economic Penetration." February 1958; Corelli Barnett, *The Lost Victory. British dreams, British realities 1945-1950* (London: 1995), p.105; D.J. Morgan, *The Official History of Colonial Development.*, vol. 3. A Reassessment of British Aid Policy, 1951-1965 (London: The Macmillan Press Ltd., 1980), pp.84-91; Kaufman, *Trade and Aid*, p.10; NARA. SD. RG59. Decimal Files on Finland 1955-1959, box 4711. 860E.10/9-1258. "Finnish Loan", a memo from C.B. Elbrick to D. Dillon, September 12, 1958.

⁹¹ Yrjö Kaukiainen, "Suomi Maailmantaloudessa" in *Sotakorvauksista vapaakauppaan. Kauppa- ja teollisuusministeriön satavuotisjuhlakirja* (Helsinki: Valtion Painatuskeskus. Kauppa- ja teollisuusministeriö, 1988), p.13.

⁹² "Intelligence Memorandum. Recent trends in Finnish-Soviet Trade". CIA/RR IM 59-2. March 10, 1959. CIA FOIA, Electronic Reading Room. <http://www.foia.cia.gov> (25.5.2002).

means only, answer to this dilemma, supported by many Finnish politicians and academics as well as Western diplomats, was that the voting behaviour reflected dissatisfaction regarding the harsh social and economic conditions, which many people in Finland were facing.⁹³ The US Ambassador John D. Hickerson claimed to know in 1957 that there were really only 30,000-40,000 “*hard core communists*” in Finland.⁹⁴ The non-communist Finns themselves liked to remind Western observers that the rising living standards, low unemployment and generally improving economic conditions would weaken communist support in Finland.⁹⁵ As President Kekkonen explained to the US Vice President Lyndon B. Johnson in September 1963, if the USSR’s living standards rose to higher levels than in Finland, this would make democracy and market economy seem less attractive, especially for the Finnish worker.⁹⁶

Secondly, although the majority of Finnish foreign trade was directed to Western countries, Finnish-Soviet trade was a source of regular and intense concern for the West, because it made Finland economically vulnerable to Soviet pressure. The Soviets had demanded that most (60 per cent) of the war reparations (\$300 million paid with goods valued in 1938 prices⁹⁷), should be paid with products of the engineering and

⁹³ Andreas Küng, *Mitä Suomessa tapahtuu* (Jyväskylä: Kirjayhtymä, 1978), p.181; NA. FO371/142885. NF1151/12. Minute by D.L. Busk, March 4, 1959; Juhani Suomi, *Kuningastie. Urho Kekkonen 1950-1956* (Helsinki: Kustannusosakeyhtiö Otava, 1990), pp.205,384,525; NA. T299/12. “USSR 1/60 Research Department Memorandum: An outline of Fenno-Soviet Relations” Soviet Section, Research Department, July 1, 1960; FO371/142874. NF1121/8/G. D.L. Busk, Helsinki, to J.E. Chadwick, FO, May 13, 1959; “International Limbo” by Patrick O’Donovan. New York Herald Tribune August 9, 1963; Kansallisarkisto, Helsinki, Finland (Hereafter KA) JKP. V:27. ”Muistio Yhdysvaltain senaatin ulkoasiainvaliokunnan puheenjohtajan Mt. Alexander Wileyn käynnistä ulkoasiainministeri Kekkonen luona 23.8.1954”. J. Nykopp, August 24, 1954; NARA. SD. RG59. Decimal Files on Finland 1950-1954, box 3794. 760E.00/3-2053. J.K. McFall, American Legation, Helsinki, to SD, March 20, 1953.

⁹⁴ Northern European Chiefs of Mission Conference, London, September 19-21, 1957: Summary of Proceedings. FRUS 1955-1957, volume IV, p.619.

⁹⁵ See for example Memorandum of Conversation, by the Director of the Office of European Affairs (Hickerson), March 14, 1948. FRUS 1949 V, p. 438; and the next footnote.

⁹⁶ Telegram From the Embassy in Finland to the Department of State, September 7, 1963. FRUS 1961-1963, volume XVI, p. 502; KA. AK. 15/I. “Muistiinpano Tasavallan Presidentin ja varapresidentti Lyndon P. Johnsonin keskusteluista Linnassa 7.9.1963”. S. Pietinen, September 27, 1963. See also the same message to the British: PREM11/4535. “Her Majesty’s Ambassador’s and Sir Patrick Reilly’s Meeting with the President of Finland”, D.L. Busk, Helsinki, to Lord Home, FO, August 22, 1960.

⁹⁷ The value of the war reparations in current prices has been estimated to be much higher than in 1938 prices. Various Finnish estimates have put it between 445 and 570 million dollars. During the inconclusive attempts to agree on cessation of hostilities in the spring of 1944, the Soviet Union had demanded \$600 million in reparations. In the successful peace negotiations in the fall of 1944, the Soviets dropped their demand to \$300 million. It was not before the interim peace treaty had been concluded that the Soviets demanded that the reparations should be paid in 1938 prices, which from the Finnish and British point of view nullified the concession the Soviets had made compared to their previous position. The Soviets did later reduce their demands to \$226 million and extended the term of payment to eight years from the original six years. Heikkilä, *Liittoutuneet*, pp.13,26,63-64,66; Kimmo Rentola, “Stalin, Mannerheim ja Suomen rauhanehdot 1944”. *Historiallinen Aikakauskirja*, no. 1 (2001), pp.50-52,60;

shipbuilding industries,⁹⁸ even though these industries had been relatively insignificant in the pre-war Finnish economy. They had already been expanded during the war to cover the needs of the war economy, but now the war reparations payments lead to fundamental structural changes in the Finnish economy, which made the combined engineering and shipbuilding industries the second largest industry in Finland.⁹⁹ Before the war the industries in question had accounted for 10 per cent of total Finnish industrial production, less than three per cent of exports and 15 per cent of industrial labour, in the mid-1950s these figures were respectively 22, 14 and 29 per cent.¹⁰⁰ The rapid expansion of industries, which had previously largely concentrated on serving the limited needs of the largely protected small home market and had no competitive advantages, compared to competitors in other Western countries, made little economic sense. Too high production costs made them uncompetitive in world markets,¹⁰¹ and hence dependent upon the Soviet market which, after the war reparations were over, agreed to buy most of the production.¹⁰²

The share of the Eastern bloc of Finnish foreign trade peaked in 1953, when 30.4 per cent of total Finnish exports were sold to socialist countries, and 34.1 per cent of imports came from them. After Finland had liberalised its imports from Western European countries in 1957, the Eastern bloc was not able to hold on to its share. In 1961 only 18.1 of Finnish exports came from the Eastern bloc, although the socialist

Heikki Oksanen and Erkki Pihkala, *Suomen ulkomaankauppa 1917-1949, Studies on Finland's Economic Growth VI* (Helsinki: Bank of Finland, 1975), p.27. According to CIA (1959), the value of the reparations actually paid to the Soviet Union was over \$500 million in current prices. "Intelligence Memorandum. Recent trends in Finnish-Soviet Trade". CIA/RR IM 59-2. March 10, 1959. CIA FOIA, Electronic Reading Room. <http://www.foia.cia.gov> (27.5.2002); According to the British Embassy in Helsinki the sum was \$570 million, NA. FO371/106194. NF1011/1. "Finland Annual Review for 1952". It unclear whether the British and the American figures were their own estimates or borrowed from someone else.

⁹⁸ Kai Hoffman, "Teollisuus" in *Sotakorvauksista vapaakauppaan* (Helsinki: Valtion Painatuskeskus. Kauppa- ja teollisuusministeriö, 1988), pp.130-132.

⁹⁹ *Ibid.*, p.131-136.

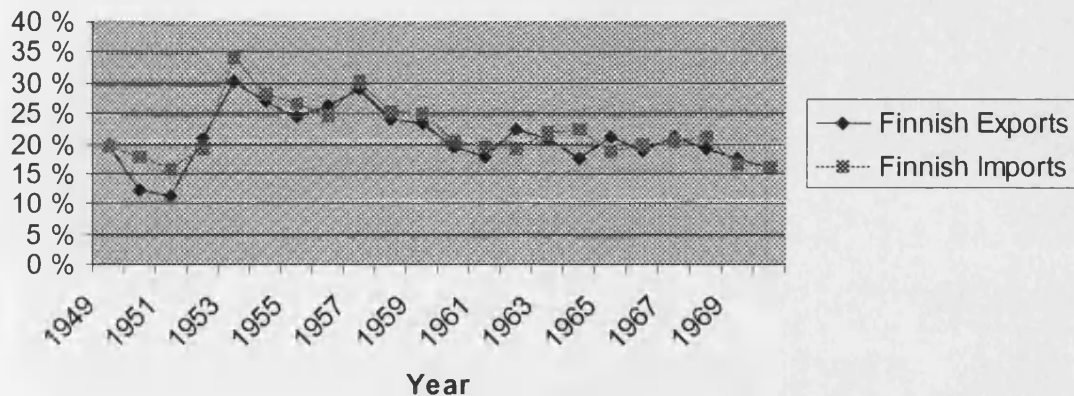
¹⁰⁰ *Ibid.*, pp.143-145."Intelligence Memorandum. Recent trends in Finnish-Soviet Trade". CIA/RR IM 59-2. March 10, 1959. CIA FOIA, Electronic Reading Room. <http://www.foia.cia.gov>.

¹⁰¹ An IBRD mission to Finland estimated, according to a CIA report, that the production costs in the Finnish shipbuilding industries were 30-40 per cent higher than in the shipyards in the West. "Intelligence Memorandum. Recent trends in Finnish-Soviet Trade". CIA/RR IM 59-2. March 10, 1959. CIA FOIA, Electronic Reading Room. <http://www.foia.cia.gov>. (27.5.2002).

¹⁰² BEA. OV30/4. "Report on Finland". C.A. Gunston, August 19, 1946; NA. FO371/159327. NF1541/2. C. O'Neill, Helsinki, to Earl of Home, FO, March 14, 1961; "Self help in Finland. Struggle to pay reparations and resettle refugees". *The Times*, May 12, 1951.

countries did improve their performance during the following years only to lose ground again at the end of the 1960s.¹⁰³

Figure 1: The Eastern bloc's share of total Finnish exports and imports



Sources: Paavonen, *Suomalaisen protektionismin*, p.343; Suomen Virallinen Tilasto 1 A Ulkomaankauppa 1959-1970.

Notes: The Eastern bloc includes the Soviet Union, Poland, East Germany, Czechoslovakia, Romania, Hungary, Bulgaria, Albania, China, North Korea, Mongolia and from 1961 onwards North Vietnam. The figures do not include war reparations deliveries (1944-1952), although they of course made Finland more dependent on the Soviet Union. Figures represent countries of purchase and of sale, not countries of origin and of consumption.

The figures of total trade do not tell the whole story. Western observers were often more concerned about particularly strong dependence of certain industries on the socialist markets than the share of the Eastern bloc of total Finnish foreign trade. On average, between 1954 and 1956 the Sino-Soviet bloc bought 95.1 per cent of the total annual Finnish exports of ships, 89.5 per cent of non-electrical machinery (and parts) exports, 81.8 per cent of copper and copper products exports and 55.3 per cent of electrical machinery (and parts) exports.¹⁰⁴ As a British diplomat put it in 1964, “*at any time almost the entire Finnish shipbuilding industry could be brought to a standstill by a stroke of the pen in Moscow.*”¹⁰⁵

¹⁰³ Figure 1; Paavonen, *Suomalaisen protektionismin*, p.343; Suomen Virallinen Tilasto 1 A Ulkomaankauppa 1959-1970.

¹⁰⁴ “Intelligence Memorandum. Recent trends in Finnish-Soviet Trade”. CIA/RR IM 59-2. March 10, 1959. CIA FOIA, Electronic Reading Room. <http://www.foia.cia.gov> (27.5.2002).

¹⁰⁵ NA. FO371/174892. CM 1102/2. “The Finnish Market”. P.D. Stobart, February 26, 1964. Appendix “B” to A. Lambert’s letter from Helsinki to R.A. Butler, FO. February 28, 1964.

The metal-working industries were more labour-intensive than the woodworking industries, which made them politically more important and vulnerable targets for communist influence in times of increased unemployment.¹⁰⁶ Hence, severe economic dependency was created: if the Soviets decided to stop their imports from Finland, this would mean that the metal-working industries, now second only to the woodworking industries in importance, could not sell their products to any other country, since they were uncompetitive, and the home market could hardly absorb more than a small part of the production. As a result of this workers would have to be laid off. This would be politically dangerous because the communists had managed to infiltrate trade unions and the workforce, and because, generally, economic hardship tended to help the communists to gather more support. Together these two issues could create a dangerously unstable situation in Finnish society, and challenge the existing political-economic situation.¹⁰⁷

Since the Finnish engineering and shipbuilding industries had been rather small before the Soviets had insisted that Finland should pay the majority of war reparations with these goods, Western observers suspected that the Soviets hoped to expand the number of industrial workers in Finland, and therefore to radicalise Finnish society. Expanding the metal-working industry, which was tied to the Soviet Union with long-term trade agreements after reparations had been paid, would make Finland economically dependent upon the Soviet Union and at the same time increase the number of industrial workers in Finland.¹⁰⁸ Stalin's suggestion that the Finns should build their own iron and steel industry with Soviet assistance was possibly also evidence of this same desire.¹⁰⁹

¹⁰⁶ NA. FO371/111461. NF11338/61. "Finland's Economic Situation in the light of the Fenno-Soviet Trade Agreement for 1956-1960", and appendix to M.J. Creswell, Helsinki, to A. Eden, FO, August 11, 1954; "Metal-working and Employment" Finnish Trade Review No. 94 (No. 4, 1956), pp.104,106; NARA/KA. SD. RG59, box 3794 (760. E.00) 1950-1954. USA TK 20. US Legation, Helsinki, to the Department of State, Washington, October 7, 1952.

¹⁰⁷ NARA/KA. SD. RG59, box 3794 (760 E.00) 1950-54 USA TK 20. Foreign Service Despatch from Amlegation, Helsinki, to the Department of State, Washington, October 7, 1952; NA. FO371/111459. NF1112/1/G. "Soviet Policy Towards Finland" FO, January 8, 1955; FO371/116280. NF11338/13. Minutes by D.N. Lane, January 3, 1956; FO371/174895. CM113138/3. Minutes on the new Finnish-Soviet Five-Year Trade Agreement signed on August 17, 1964; "From the Finland Station". The Economist, May 30, 1959; Kuisma, *Kylmä sota, kuuma öljy*, p.171.

¹⁰⁸ NA. FO371/100487. NF11338/6. Minutes by R.S. Faber, October 4, 1952; T299/12. "USSR 1/60 Research Department Memorandum: An outline of Fenno-Soviet Relations" Soviet Section, Research Department, July 1, 1960; "Crisis in Finland over Foreign Trade". The Sunday Times October 18, 1953.

¹⁰⁹ Jukka Nevakivi, *Miten Kekkonen pääsi valtaan ja Suomi suomettui* (Helsinki: Otava, 1996), p.202.

The Finns sold mainly manufactured goods to the Soviet Union, and received in exchange Soviet oil and other raw materials. Therefore Finland did not have to pay for its imports of raw materials with hard currency.¹¹⁰ If Soviet exports to Finland were cut off, Finland would have to find the necessary raw materials from Western markets. This would create a severe additional burden on the ever-precarious Finnish balance of payments, one which Finland would probably be unable to carry without outside help. If the Soviets chose to use economic pressure, it seemed probable that they would cut trade in both directions. If they did not do this, the end result would still be the same. Finnish-Soviet trade was clearing (barter) trade in which the payments were made through the central banks of the two countries. By definition, trade had to be balanced, since otherwise the imbalance would have to be settled in gold, which neither country would be willing or able to do.¹¹¹ Therefore, cutting off trade in one direction would effectively mean that trade would end in the other direction also.

These were not only theoretical concerns since the Soviet Union showed in 1950 and 1958, that it could, if necessary, stop Finnish-Soviet trade quickly for political reasons. In 1958 this led to the resignation of the Finnish Cabinet. New evidence from the Soviet archives, which were opened in the 1990s, have proved that commercial and financial agreements were also used to support certain politicians, such as President Urho Kekkonen. The war reparations (1944-1952) had given the Soviets an effective tool to pressure the Finns and influence the development of the Finnish economy. When these payments were coming to an end, the Soviet Embassy in Helsinki formulated a plan to expand Finnish-Soviet trade significantly and to promote Finnish exports to the Eastern bloc. This would make Finland again economically dependent upon the Soviet Union and less tied to Western nations.¹¹² According to Jukka Nevakivi, the Soviets were not ready to ignore their commercial interests, but commercial considerations were from time to time abandoned in order to promote Soviet political interests.¹¹³

¹¹⁰ Hannu Heikkilä, "Neuvostoliiton ja Suomen väliset taloussuhteet 1945-1955" in *Suomalais-Neuvostoliittolainen Historiantutkijoiden symposium - Riika 1.-7.12.1985* (Helsinki: Suomen Historiallinen Seura, 1986), pp.109-144.

¹¹¹ The classic work on the Finnish-Soviet trade is Tuomas Keskinen, *Idänkauppa 1944-1987* (Porvoo: Kauppalehti, 1987).

¹¹² Nevakivi, *Miten Kekkonen*, pp.197-200; Tatjana Androsova, "Neuvostoliiton ja Suomen suhteet Urho Kekkonen ensimmäisellä presidenttikaudella". *Historiallinen Aikakauskirja*, no. 1 (1996), pp.3,7.

¹¹³ Nevakivi, *Miten Kekkonen*, p.201.

The Western “Cold Warriors” usually approached the question of Soviet-Finnish trade from a political viewpoint. Discussions regarding Soviet motives concentrated on the perceived Soviet attempt to increase Soviet influence in Finland by making her economically dependent on the Soviet Union. This would create a suitable situation for political pressure, or even a chance to make Finland a Soviet satellite country. As far as the Soviets did have important economic motives, these were related to fact that the Soviets hoped to gain Western European technology through Finland. For example, when the first long-term trade agreements were signed in early 1950s US diplomats in Helsinki estimated that the Soviet Union would support Finnish industry and keep up employment through trade only if this would be beneficial to Finnish communists.¹¹⁴ However, not all British diplomats were willing to agree that the Soviet actions were only motivated by political consideration. Many Soviet actions just simply did not fit this theory, for example the selling of Soviet-owned companies from 1953 onwards.¹¹⁵

The Finns themselves did not always seem to share the Western desire to limit Finnish-Soviet trade. The reasons for this were partly political and partly economic. Trade was important for the new post-war “Paasikivi-Kekkonen Line” of Finnish foreign policy, named after Presidents J.K. Paasikivi (1946-1956) and U.K. Kekkonen (1956-1981). Finnish politicians assumed that the expansion of trade would be interpreted by the Soviet leadership as a sign of Finland’s determination to maintain good relations with her previous enemy. Official Soviet statements similarly emphasised the role of trade in developing the new “Friendship” between the two states. Later the theme of peaceful coexistence further strengthened the political connotations of this trade, when positive relations with Finland were presented in Soviet propaganda as an example to other capitalist states.¹¹⁶

On the other hand, President Paasikivi was suspicious of the Soviets and the expansion of trade, and wanted to ensure that it would not become a lethal danger for Finland.¹¹⁷

¹¹⁴ Rautkallio, *Paasikivi vai Kekkonen*, pp.206-207,246,284-285; Hanhimäki, *Rinnakkaiseloja patoamassa*, pp.83-84,114-115.

¹¹⁵ NA. FO371/106209. NF11338/15. I.D. Scott, Helsinki, to HAF Hohler, FO, September 22, 1953.

¹¹⁶ Roy Allison, *Finland's relations with the Soviet Union, 1944-84. St. Antony's Macmillan series* (London: Macmillan in association with St. Anthony's College Oxford, 1985), pp.112-113; Keskinen, *Idänkauppa*.

¹¹⁷ Blomstedt and Klinge, eds., *Paasikivi's diary, vol. 2*, April 9, 1950, col. 189, May 12, 1950, col. 212. August 21, 1950, col. 253-154, October 20, 1952, col. 311, March 6, 1954, col. 770.

Paasikivi wanted to limit the expansion of Finland's "Eastern trade". The "safety limit" could be 20-25 per cent of total Finnish foreign trade. Finland should also have alternative sources in place for important products sourced from East.¹¹⁸ His successor Urho Kekkonen took a different view and he encouraged the expansion of "Eastern trade". During President Kekkonen's time in office, trade became more and more a symbol of "Friendship and Co-operation" and an integral part of Kekkonen's foreign policy. Limiting trade relations would have implied wider problems in the relationship between the Soviet Union and Finland.¹¹⁹ According to Juhani Suomi, Kekkonen also assumed that if the Soviet Union became tied to long-term deliveries from Finland, it would be less inclined to create political problems.¹²⁰ Well-publicised trade agreements were concluded between Finland and the Soviet Union. Still these presidential views did not always have a crucial impact on the share of the trade on total Finnish foreign trade. During the early 1950s the level of Finnish trade grew above the "safety limit", while during Kekkonen's presidency the strong growth of Finnish trade with Western countries led to a relative decline in Finnish-Soviet trade.¹²¹

Economic sanctions are, according to K.J. Holsti, more effective when used against friends, large trading partners and allies than against hostile nations, with whom there is usually much less trade.¹²² If we approach Finnish-Soviet trade from this perspective, as many Western observers did, the situation looks bleak for Finland. The further trade was expanded in the name of "Friendship", the more Finland became dependent on the Soviet Union. Many Finnish politicians were suspicious of Soviet intentions, but limiting trade would have led to serious problems in the economy and therefore to unemployment, social unrest and the rise of radicalism, and especially of communism. Therefore, the expansion of Soviet-Finnish trade led to greater prosperity, which gradually limited communist support in the country,¹²³ and in fact the interests of the Soviet state and the goal of world communism in this way were in conflict.

¹¹⁸ Keskinen, *Idänkauppa*, pp.65,152,157; Rautkallio, *Paasikivi vai Kekkonen*, pp.237-238.

¹¹⁹ Juhani Suomi, *Presidentti. Urho Kekkonen 1962-1968* (Helsinki: Kustannusosakeyhtiö Otava, 1994), p.147; Juhani Suomi, *Taistelu puolueettomuudesta. Urho Kekkonen 1968-1972* (Helsinki: Kustannusosakeyhtiö Otava, 1996), p.90; Allison, *Finland's relations*, p.114.

¹²⁰ Suomi, *Presidentti*, pp.147-148; Suomi, *Taistelu puolueettomuudesta*, p.90.

¹²¹ See tables 2 and 3.

¹²² K. J. Holsti, *International politics: a framework for analysis*, 7th ed. (London: Prentice-Hall International, 1995), p.178.

¹²³ NA. FO371/100487. NF11338/10. H.A.F. Hohler, FO, to A. Noble, Helsinki, November 22, 1952.

The decline of the Soviet share of Finnish exports and imports in the late 1950s and at the beginning of the 1960s was an encouraging trend from the point of view of the British Embassy and the FO.¹²⁴ Con O'Neill, the British Ambassador to Helsinki between 1961 and 1963, argued in 1961 that *"though the political situation is awkward internally and dangerous externally, the factors which strengthen Finland's links with the West are still, I think, moving in our favour. The most important of these factors, without a doubt, is trade."*¹²⁵ Even Finnish shipbuilding and engineering industries were gradually finding markets in the West. In 1960 only 65 per cent of exports of these industries went to the Soviet bloc. The Embassy hoped to see further decline, but it estimated that this was going to be a slow process. In the meantime, the industries were still vulnerable to Soviet pressure and would form *"the pressure points which the Soviet thumb would seek"*.¹²⁶ *"Soviet peaceful penetration through trade"*¹²⁷ was still a real danger.

The Soviets and their Finnish trade partners seemed to be imaginative in developing new methods of increasing trade between the two countries. Some of these were never actually implemented but this did not become apparent for a long time. The proposals included oil and gas pipelines from the Soviet Union to Finland¹²⁸ and the construction of Soviet-designed nuclear plants in Finland. They would tie Finland's energy supplies even more closely to the Soviet Union. Indeed, Markku Kuisma, Jukka Seppinen and Milka Sunell have linked proposals for increased energy co-operation during the 1960s to the Soviet desire to draw Finland closer to the Soviet Union.¹²⁹ In 1963 the Soviets suggested that they could increase the purchase of paper from Finland instead of increasing domestic Soviet production. In exchange the Soviets would sell cars and tractors to Finland. O'Neill suspected that the purpose of this proposal was to tie the paper industry to Soviet markets.¹³⁰ Woodworking exports had traditionally been

¹²⁴ NA. FO371/159309. NF1072/1. Telegram no. 19 from O'Neill, Helsinki, to FO, February 8, 1961; NF1072/2. C. O'Neill, Helsinki, to R.H. Mason, FO, February 22, 1961; NF1072/3. "Brief No.1. Fenno-Soviet Relations". Foreign Office, April 7, 1961.

¹²⁵ NA. FO371/159309. NF1072/2. C. O'Neill, Helsinki, to R.H. Mason, FO, February 22, 1961.

¹²⁶ NA. FO371/159327. NF1541/2. C. O'Neill, Helsinki, to Earl of Home, March 14, 1961.

¹²⁷ NA. FO371/171675. NF1101/1. C. O'Neill, Helsinki, to Earl of Home, FO, January 7, 1963.

¹²⁸ NA. FO371/171680. NF103138/6. C. O'Neill, Helsinki, to Earl of Home, FO, March 19, 1963.

¹²⁹ Seppinen, *Ahti Karjalainen*, pp.376,380-385; Kuisma, *Kylmä sota, kuuma öljy*, pp.344-345; Milka Sunell, "Miten Suomen yksityinen metsäteollisuus hankki länsimaisen ydinvoimalan. Tutkimus taloudellisesta ja poliittisesta vallankäytöstä 1970-luvulla" (MA thesis, Department of Social Science History, University of Helsinki, 2001), p.171.

¹³⁰ NA. FO371/171680. NF103138/10. C. O'Neill, Helsinki, to Earl of Home, FO, April 17, 1963.

directed to Western markets and this was one of the strongest economic links between Finland and the Western countries.¹³¹ The lease of Saimaa Canal from the Soviet Union, which did materialise, was not a good idea either. For Finland it was going to be both unprofitable and dangerous. The canal had to be repaired which was going to be expensive, and when it was ready for traffic “*the Russians could exert some very damaging pressure at any moment by a turn of the tap.*”¹³²

Thirdly, the Western countries were trying to limit the export of those goods defined as strategic to the Soviet Bloc, a policy which culminated in the founding of the Coordinating Committee by the Western alliance in 1949. From their point of view Finland was a loophole in the embargo, because of Soviet political influence and the dependence of the Finnish metal-working industries on the Soviet Union.¹³³ At times in the 1950s and 1960s Finland actually became the most important Western trading partner for the Soviet Union.¹³⁴ Some products, which the Finns sold to the East, were considered to be strategic by the Western powers, and the US and British diplomats complained repeatedly to the Finns about this, but for political and economic reasons, which the Western diplomats understood well, the Finns mostly ignored these complaints.¹³⁵ In 1953 Finnish exports to the Soviet Union represented 47.7 per cent of total Western European exports¹³⁶ to the Soviet Union. Although the Finnish share declined fast, when the general East-West Trade expanded, the Finnish share was still 24.4 per cent in 1963.¹³⁷

The United States government tried to make sure that there was no strategic content of US origin in the products which the Finns sold to the Soviets; after all Finnish industry

¹³¹ Kuisma, *Kylmä sota, kuuma öljy*, pp.27-29.

¹³² NA. FO371/180073. CH1421/2. A.E. Lambert, Helsinki, to A. E. Davidson, FO, August 26, 1965.

¹³³ Paavonen, *Suomalaisen protektionismin*, p.81.

¹³⁴ *Ibid.*

¹³⁵ NSC Staff Study on the Position of the United States With Respect to Scandinavia and Finland. An Attachment to NSC 121. January 1952. FRUS 1952-1954, volume VIII, p. 756; Harry S. Truman Library, Independence, Missouri, copies in Kansallisarkisto (Finnish National Archives). Oral history interview (Jack K. McFall) by Jerry N. Hess, June 24, 1970; FO371/106209. NF11338/2. A. Noble, Helsinki, to A. Eden, FO, January 6, 1953.

¹³⁶ Sweden, Switzerland, Austria, Finland, Belgium, Luxemburg, Denmark, France, Greece, Italy, Netherlands, Norway, Portugal, Turkey, United Kingdom.

¹³⁷ Adler-Karlsson, *Western economic warfare*, p.267. Adler-Karlsson also suspects that the Soviets increased their trade with Finland in the early 1950s to compensate for the decline of trade with Western Europe because of the embargo policies. *Ibid.*, p.199.

had to import raw materials and components.¹³⁸ Finland's special situation was visible with regard to Western export controls against the Soviet Union. The British and the US government and later the CoCom decided in 1949 that Finland and Yugoslavia were special cases, and as such were not freed entirely from export restrictions, but were treated differently from the Soviet Bloc countries.¹³⁹ Decisions on export licences were made on a case-by-case basis. The Western countries banned exports only in exceptional circumstances, while in most cases they merely tried to make sure that no more sensitive goods were sold to Finland than necessary for the health of the Finnish economy and for normal peaceful requirements. The UK should not, for example, sell Finland unnecessary amounts of transport equipment, which invading Soviet military forces could make use of.¹⁴⁰

The US officials considered that they could not enforce export control legislation very extensively in the case of Finland or to support tighter controls within CoCom, since if the US refused to supply Finland with goods which were important to the Finnish economy, this would weaken it,¹⁴¹ give the Finnish communists and the Soviets an excellent propaganda argument and the Soviets the chance to supply Finland with items previously imported from the West making the Finnish economy even more dependent on the Eastern bloc. Moreover, the Western European members of the CoCom, and above all the Nordic countries, would not accept the tightening of export controls against a fundamentally friendly and pro-Western country, and the Danish, for example, were already questioning whether it was even necessary for member countries to report statistics on strategic exports to Finland, as was current practice.¹⁴²

¹³⁸ NSC Staff Study on the Position of the United States With Respect to Scandinavia and Finland. An Attachment to NSC 121. January 1952. FRUS 1952-1954, volume VIII, p. 756.

¹³⁹ Current Economic Developments No. 187: Modified Application of Export Controls to Finland and Yugoslavia Recommended. January 31, 1949. FRUS 1949, volume V, p. 75-76; The Executive Secretary of the Advisory Committee on Requirements (Garrett) to the Director of the Office of International Trade of the Department of Commerce (Blaisdell), March 3, 1949. FRUS 1949, volume V, pp. 88-90; Frank M. Cain, "Exporting the Cold War: British Responses to the USA's Establishment of COCOM, 1947-1951". *Journal of Contemporary History* 29 (1994), p.512.

¹⁴⁰ NA. FO371/87211. UR3437/11. European Recovery Department, FO, to Chanceries of British Embassies in the OEEC countries, April 14, 1950, Annex A: "Results of Paris discussions in November, 1949, January and March 1950"; UR3437/13. "Security Controls on Exports to Finland. Brief for the U.K. Representative" May 1, 1950.

¹⁴¹ NSC Staff Study on the Position of the United States With Respect to Scandinavia and Finland. An Attachment to NSC 121. January 1952. FRUS 1952-1954, volume VIII, pp. 756-757.

¹⁴² Progress Report on a Program of Possible US Actions To Lessen Finland's Economic Dependence on the Soviet Bloc. June 22, 1953. An appendix to Progress Report by the Under-Secretary of State (Smith) on the Implementation of NSC 121. August 25, 1953. FRUS 1952-1954, volume VIII, pp. 761-762.

Western fears of the Soviet desire to obtain strategic goods and technology from Finland were not totally unfounded. In the mid-1950s the post-Stalinist leadership of the Soviet Union became interested in a more extensive utilisation of Western technology. According to Tatjana Androsova, Finland was an obvious first target in this policy.¹⁴³ The scientific and technology exchange agreement between Finland and the Soviet Union was signed in 1955. Jukka Nevakivi and Tatjana Androsova have shown that the Soviet Union was hoping that the agreement would help her to gain Western technology via Finland. The Soviets had similar hopes with regards to Nordic scientific co-operation. The situation was difficult for Finland, since she could not endanger her trade relationship with the West by allowing the latter's technology to flow through Finland to the East. This kind of arrangement would have been contrary to the Western strategic embargo against the Soviet Union. As the Finns demanded, the treaty also included a paragraph excluding technology imported to Finland from third countries from the exchange. Furthermore, many Finns were suspicious of the whole Finnish-Soviet agreement and scientific co-operation in general in the early days was mainly just cultural exchange. The Soviets did not pressure the Finns strongly in this case even if they were not happy with the situation.¹⁴⁴ In practice, in order to protect their trade with the West, the Finns prevented the flow of the most sensitive Western technologies and goods to the Soviet bloc through Finland throughout the Cold War.¹⁴⁵

The economic motives and British foreign economic policy

Post-war British governments had two main economic reasons for promoting the expansion of British foreign trade. Firstly, the UK economy needed to import certain essential supplies, above all raw materials, from foreign countries. Secondly, the UK government hoped to be able to improve the British balance of payments and the prosperity of the UK economy. The first motive was an important issue immediately

¹⁴³ Androsova, "Neuvostoliiton", pp.14-15.

¹⁴⁴ Nevakivi, *Miten Kekkonen*, pp.203-206; Androsova, "Neuvostoliiton", pp.14-15; Keskinen, *Idänkauppa*, pp.171-173; Pekka Jauho, *Ensiksi kielsin konditionaalien* (Helsinki: Terra Cognita, 1999), pp.198-201; Ville Pernaa, "Reaalipolitiikan pelimerkkejä - Tieteen ja kulttuurin suomalais-neuvostoliittolaisen valtiollisen yhteistyön synty" in *Ajankohta. Poliittisen historian vuosikirja 2000*, ed. Ville Pernaa (Poliittinen historia. Helsingin ja Turun yliopistot, 2000), pp.199-202,214.

¹⁴⁵ Mastanduno, *Economic containment*, p.292n; Kaukiainen, "Suomi Maailmantaloudessa", p.83; "Intelligence Memorandum. Recent trends in Finnish-Soviet Trade". CIA/RR IM 59-2. March 10, 1959. CIA FOIA, Electronic Reading Room. <http://www.foia.cia.gov> (27.5.2002); KA. AK. 16/XIII. "P.M. (Koboltin vienti)". T. Nevalainen, April 19, 1963.

after the war, when there was a worldwide shortage of raw materials and many other vital commodities.¹⁴⁶

In British foreign policy towards Finland in the late 1940s, the need to obtain sufficient supplies of woodworking products played a central role as Hannu Heikkilä has shown. Although in general Finland was only the fourteenth on the list of importers to the UK in 1937, as far as woodworking products were concerned the situation was different.¹⁴⁷ In 1938 Finland had been the most important supplier of softwood (23 per cent of all British imports) and mining timber (40 per cent) to the UK and a significant supplier of many other woodworking products. British officials estimated in 1944 and 1945 that the failure to secure these supplies would have had a detrimental effect on British reconstruction efforts and for the British building, paper and mining industries in general. Above all, the British needed timber to rebuild and repair the buildings damaged during the war and pit props to raise coal production. Even if adequate supplies could be secured from other sources despite international scarcity, the removal of Finland from world markets would lead to higher international prices and would force the British to continue buying more woodworking products from dollar sources, as they had to do during the war, despite the post-war dollar shortage.¹⁴⁸

The Finns and Nordic producers were more committed to supplying the British market, than those of North America, which had the large US market to supply. The British authorities had tried to encourage Canadian producers to take more interest in the UK market, but many of these wanted to find permanent customers, and import cuts from North America, relating to the war and post-war dollar shortage, had convinced many that customers like these could not be found in the UK.¹⁴⁹

¹⁴⁶ NA. BT11/4989. "Report of the Bilateral Trade Negotiations Committee". (1953).

¹⁴⁷ Heikkilä, *Liittoutuneet*, p.46.

¹⁴⁸ *Ibid.*, pp.48-54; In English see Hannu Heikkilä, *The Question of European Reparations in Allied Policy, 1943-1947* (Helsinki: Finnish Historical Society, 1988); NA. BT161/207. Inward telegram from Washington to BOT, July 14, 1951.

¹⁴⁹ NA. BT161/207. "Memorandum" by H.G. Paul, Acting Paper Controller, August 1, 1951; Raija Volk, *A model for Finnish exports of printing and writing paper to the United Kingdom and Germany, Raportteja ja artikkeleita N:o 29* (Espoo: Pellervon Taloudellinen Tutkimuslaitos, 1983), p.3; "Supplies of Newsprint" A letter to the editor by G. Goyder of British International Paper Limited. *The Times*, March 11, 1950; "Softwoods". *The Times*, October 11, 1950.

Table 3: Finnish share of total British imports on certain woodworking products and the rank as a supplier, 1950-1960

Year	Pit props		Sawn Coniferous wood		Woodpulp		Plywood		Paper, paperboard	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
1950	40.8	1	15.4	3	25.9	2	47.0	1	16.3	2
1951	42.3	1	22.1	2	33.9	2	28.5	1	14.0	2
1952	30.6	1	12.2	3	27.9	2	46.1	1	17.9	3
1953	21.8	2	22.6	2	21.1	2	42.2	1	11.8	3
1954	21.4	2	19.3	3	19.4	2	48.3	1	13.0	3
1955	25.0	2	19.6	3	19.7	2	46.5	1	14.6	3
1956	48.3	1	17.8	3	19.3	2	39.0	1	13.8	3
1957	38.4	1	18.7	3	19.3	2	35.6	1	13.7	3
1958	40.2	1	23.4	2	19.7	2	35.1	1	15.6	3
1959	65.8	1	27.6	1	19.6	2	31.6	1	14.5	3
1960	55.9	1	30.3	1	18.2	2	32.4	1	13.7	3

Sources: Annual Statement of the Trade of the United Kingdom with Commonwealth Countries and Foreign Countries 1950. Compared with the Years 1946-1949. HMSO: London 1952. Volume II, pp. 125-126,131,168-173,341,482-483; Volume IV, p, 134; 1954. Compared with the Years 1951-1953. HMSO: London 1956. Volume II, pp. 104-105, 108-110, 226, 232-233; 1955. Compared with the Years 1952-1954. HMSO: London 1957. Volume II, pp. 105-106, 109-111, 232, 238-239; 1958. Compared with the Years 1955-1957. HMSO: London 1960, Volume II, pp.97-98, 101-103, 212,219; 1962. Compared with the Years 1959-1961. HMSO: London 1964. Volume II, pp. 97-98,101-104, 207-208,215.

Notes: Plywood includes laminboard, block board and batten board; Paper, paperboard includes manufactures thereof and newsprint

These supply considerations became relatively less significant when the post-war timber shortage was over, but they never totally disappeared during the 1950s. There were two reasons for this. Firstly, purchases from Finland could be paid for in sterling and not in dollars, as in the Canadian or US cases.¹⁵⁰ Before the general convertibility of the OEEC currencies was established at the end of the 1950s, this was a valid argument although much less so than in the late 1940s.¹⁵¹ Secondly, although there were competing sources of supply both in North America and in Europe (especially Norway, Sweden and the Soviet Union), the removal of Finland from the international markets, for example for political reasons, would mean that there would be fewer supplies and the British would have to pay higher prices for their timber and pulp imports, and possibly spend more dollars. During the 1950s, Finland was the most important supplier of pit props and plywood to the UK, and within the three most important suppliers of

¹⁵⁰ NA. T236/2514. Memo by S.H. Levine, BOT, March 4, 1950, copy for Try.

¹⁵¹ Heikkilä, *Liittoutuneet*, p.48; John Fforde, *The Bank of England and Public Policy 1941-1958* (Cambridge University Press, 1992), p.602.

pulp, softwood and paper.¹⁵² Since Finland was less developed and relatively more dependent on exports of woodworking products than its Scandinavian competitors, it was often willing to offer these products at lower prices in order to secure markets, and therefore the presence of Finland in world markets was very beneficial for an importing nation like Britain.¹⁵³

At the end of the 1950s, the whole OEEC bought 19 per cent of woodpulp and 20 per cent of paper and board imports from Finland. The Board of Trade's Commercial Relations and Exports Department estimated in 1959, when post-war shortages were already over, that Finland was an important enough producer that the inability to buy from Finland would have at least a "dramatic" impact on the world market.¹⁵⁴ In 1959 Finland supplied the UK with, among other things, 28 per cent of its softwood imports, 32 per cent of its plywood imports and 20 per cent of woodpulp imports.¹⁵⁵ Even if the FO and BOT officials kept supply considerations in mind, already from the early 1950s onwards the role of Finland as an export market dominated British thinking. The British diplomatic or BOT correspondence rarely discusses supply considerations with regards to imports from Finland in detail after the beginning of the 1950s, and practically never in the 1960s, but there was an extensive discussion regarding the desire to sell more British goods to Finland.¹⁵⁶ The significance of the pit prop supplies declined particularly drastically during the 1950s, because they started to lose ground to metal props and bars and to pit props produced from British wood.¹⁵⁷

During the time period of this study, the second motive, the improvement of the British balance of payments was usually the dominant issue.¹⁵⁸ The balance of payments

¹⁵² Table 3.

¹⁵³ NA. T238/220. "Finland. Note by the Treasury", October 1947; BT161/207. "Programmes Committee" - a minute by R.F. Bretherton, August 30, 1951.

¹⁵⁴ NA. FO371/142873. NF1121/6. BOT to B. Miller, FO, April 1, 1959.

¹⁵⁵ Table 3.

¹⁵⁶ See for example NA. BT241/1-13, 382; FO371/134769; FO371/142884.

¹⁵⁷ "Pitwood". The Timber Trades Journal, July 1, 1961, p.13; UM 58B2 Englanti/hiili. Kivihiihen ja koksen tuonti Englannista 1958-60 ja kaivospuun vienti Englantiin. "P.M. National Coal Board'in ja metsähallituksen kaivospuukauppa vuonna 1959." H. Gripenberg, September 18, 1959.

¹⁵⁸ Andrew Shonfield, *British Economic Policy Since the War* (Harmondsworth, Middlesex: Penguin Books, 1958), pp.71-73,85; Sir A. Cairncross, "Reconversion, 1945-51" in *British Economy Since 1945*, ed. N.C.R Crafts and N.W.C. Woodward (Oxford: Clarendon Press, 1991), pp.26-32; Jim Tomlinson, *British Macroeconomic Policy since 1940* (London: Croom Helm, 1985), pp. 44-45; Britain did win the war, but the war effort combined with the economy legacy of the First World War and the inter-war period created serious economic problems. Britain, which had sold most of its overseas investment to pay for the war, and borrowed heavily from the Commonwealth and the USA, was facing a massive balance

consisted of “visible” imports and exports of physical goods and “invisible” payments and receipts of services, interests, profits and dividends, which formed the current account, but also of investments and other capital transactions. At the end of the 1950s the Treasury hoped that the UK would obtain an annual current account surplus of £450 million. As we see from table 4 during the 1950s the UK current account balance was actually usually positive although the target of £450 million was not achieved before the end of the 1960s. On the other hand, between 1950 and 1970 the balance on the current account was often positive only because invisible earnings exceeded the deficits on visible trade. Nevertheless, the real problem was that foreigners held a lot of sterling and there was a constant danger that these funds would be removed from London. These capital flows could (and did for example during the Suez crisis in 1956) undermine positive balances on current account and turn total currency flows to negative territory.¹⁵⁹

Why was the Treasury so interested in the balance on the current account if the real problem was capital flows? It wanted to maintain and strengthen the capacity for the UK to export capital and to improve the balance on the current account in order to strengthen Britain’s gold and foreign currency reserves, which would help to defend the pound against speculators.¹⁶⁰ Besides, the surpluses on the current account were not as large as the Treasury had hoped and the danger of deficits seemed to be a real one. According to the often-repeated logic, since the United Kingdom was a country dependent on the import of raw materials, foodstuffs and to a lesser degree manufactured products, it had to earn foreign currency in order to pay for these. When

of payments crisis. During the previous decades, the British (visible) export earnings had not been enough to pay the country’s import bill, but this gap in visible earnings had been covered by invisible earnings from investments abroad, shipping, and other services. The immediate post-war crisis, including the severe dollar shortage, was avoided with the help of a large American loan (\$3,75 billion) to the British government and successful expansion of exports, but the underlying problems remained, although in a milder form during the time period of this thesis. Paul Kennedy, *The Realities Behind Diplomacy. Background Influences on British External Policy 1865-1980* (London: Fontana Press, 1989), p.317; Sir Alec Cairncross, "Economic policy and performance, 1945-1964" in *The Economic History of Britain since 1700*, ed. Roderick Floud and Donald McCloskey (Cambridge University Press, 1994), pp.36-41; A.P. Thirlwall and Heahter D. Gibson, *Balance-of-Payments Theory and the United Kingdom Experience*, Fourth ed. (London: Macmillan, 1992), pp.5,225-227.

¹⁵⁹ Thirlwall and Gibson, *Balance-of-Payments*, p.229; Tomlinson, *British Macroeconomic*, p.56; G.C. Peden, *The Treasury and British Public Policy, 1906-1959* (Oxford University Press, 2000), p.455; Table 4.

¹⁶⁰ Charles Feinstein, "Success and failure: British economic growth since 1948" in *The Economic History of Britain since 1700*, ed. Roderick Floud and Donald McCloskey (Cambridge University Press, 1994), pp.101-102; Jim Tomlinson, "British economic policy since 1945" in *Ibid.*, p.266; Thirlwall and Gibson, *Balance-of-Payments*, p.229; Tomlinson, *British Macroeconomic*, pp.44-45.

economic growth accelerated, this tended to lead to an increase in imports, and increased demand in the home market diverted potential exports in that direction. As economic capacity became more fully utilised, prices and wages increased and this harmed the competitiveness of British exports. As a result of all this, the balance of payments got worse, and the government used deflationary demand management to depress demand for imports and to modify interest rates to improve the capital balance. Instead of stable economic growth the UK was in a “stop-go” economic cycle.¹⁶¹

In addition to the import bill the UK would have to service overseas debts and pay for government expenditure overseas, such as foreign aid and the expense of the British military units stationed abroad.¹⁶² However, if a country has a current account deficit this can be financed by imports of capital. This solution had several drawbacks. For example, in order to attract capital the interest rates had to be high, which can discourage domestic investment. Secondly, capital flows are liquid and this means that the government’s freedom of action is limited by the need to please international speculators.¹⁶³ In short, by improving the balance on the current account the government could ease problems related to liquid capital flows by increasing reserves and diminishing dependence on international capital flows.

How could the UK government improve the British balance of payments? For a country interested in retaining what was left of its great power status, giving up overseas commitments was not a desirable scenario, although cuts had to be made on these expenditures throughout the 1950s and 1960s, the most famous of which was the decision made in 1967-1968 to withdraw British troops from the east of Suez.¹⁶⁴

¹⁶¹ J. H. B. Tew, "Policies aimed at improving the balance of payments" in *British Economic Policy 1960-74*, ed. F. T. Blackaby (Cambridge University Press, 1978), p.353.

¹⁶² Between 1958 and 1968 the average annual negative net impact of the "government services and transfers" (mainly expenditure on troops abroad, diplomatic representation and aid to developing countries) on the invisible account was £371m. United Kingdom Balance of Payments 1969. London: HMSO 1969, p.5.

¹⁶³ Thirlwall and Gibson, *Balance-of-Payments*, pp.2,6-8.

¹⁶⁴ Kennedy, *The Realities Behind Diplomacy*, pp.328,332-335; Tomlinson, *British Macroeconomic*, p.211.

Table 4: The UK balance of payments, 1950-1970 (£ million)

Year	Current Balance					Investment and other capital flows	Total Currency Flow
	Visible trade			Invisible	Total		
	Exports	Imports	Balance				
1950	2261	2312	-51	358	307	128	575
1951	2735	3424	-689	320	-369	92	-334
1952	2769	3048	-279	442	163	-404	-175
1953	2683	2927	-244	389	145	119	296
1954	2785	2989	-204	321	117	-48	126
1955	3073	3386	-313	158	-155	-195	-229
1956	3377	3324	53	155	208	-409	-159
1957	3509	3538	-29	262	233	-300	13
1958	3406	3377	29	315	344	-121	290
1959	3522	3639	-117	269	152	-108	18
1960	3732	4138	-406	151	-255	286	325
1961	3891	4043	-152	158	6	-316	-339
1962	3993	4095	-102	224	122	-3	192
1963	4282	4362	-80	204	124	-99	-58
1964	4486	5005	-519	137	-382	-305	-695
1965	4817	5054	-237	188	-49	-332	-353
1966	5184	5257	-73	157	84	-574	-547
1967	5124	5681	-557	242	-315	-600	-671
1968	6274	6922	-648	377	-271	-1,007	-1,410
1969	7063	7206	-143	587	444	-106	743
1970	7893	7881	12	669	681	547	+1,420

Sources: United Kingdom Balance of Payments 1972. London: Her Majesty's Stationary Office 1972, pp. 5-7; United Kingdom Balance of Payments 1971. London: Her Majesty's Stationary Office 1971, p.7.

Notes: Exports and Imports f.o.b. Investment and other capital flows include European Recovery Programme and post-war loan drawings; Investment and other capital flows for years 1967 and 1968 include Exchange Equalisation Account losses in operations in forward exchange market; Total currency flow included special grants to and from the UK government and balancing item.

The UK could also ease the balance of payments problems by placing new restrictions on imports, limiting British investment overseas or devaluing the currency, but all of these methods would probably have a negative effect on the cherished role of sterling as

a global currency, and the first one could provoke other countries to retaliate.¹⁶⁵ The expansion of exports would not have negative implications like these and could also in theory produce a more permanent solution to the balance of payments problems, and therefore export promotion became the favoured option.¹⁶⁶

There were some good results. When there was a surplus in the visible trade account in 1956 and in 1958, it was the first time since 1822 that this had happened.¹⁶⁷ Still, the balance of payments issue was a constant theme in the British government's agenda throughout the 1950s and the 1960s,¹⁶⁸ but of course the intensity of concern reflected the changes in the balance of payments figures. The policy-makers drew surprisingly strong conclusions from short-term developments on the basis of these figures, even if by definition they were estimates, which were repeatedly revised.¹⁶⁹ This meant that the policy-makers had to formulate policies on the basis of figures which were often later substantially revised.¹⁷⁰ In fact, Alan Booth has stated that the first estimates of the balance of payments by the Central Statistical Office are "*notorious for substantial later revisions.*"¹⁷¹ Scholars have later noticed that the actual deficits were usually relatively modest when compared to the later deficits.¹⁷²

There was a severe balance of payments crisis in 1951 related to the re-armament and rise in commodity prices as a result of the Korean War,¹⁷³ and less severe deterioration

¹⁶⁵ Tomlinson, *British Macroeconomic*, p.211; NA. CAB128/34. CC (60) 45 July 25, 1960; CC(60) 26 April 13, 1960, CAB129/101. C(60)60 "Balance of Payments Prospects and External Investment. Memorandum by the Chancellor of the Exchequer" March 28, 1960.

¹⁶⁶ See for example NA. CAB129/101. C(60)60 "Balance of Payments Prospects and External Investment. Memorandum by the Chancellor of the Exchequer" March 28, 1960; FO371/172402. UEE1048/72. "Export Promotion Policy. Review of Current Policies and Activities", an attachment to N. Kipping's, FBI, letter to R. Powell, BOT, July 26, 1963; The Conservative Party Election Manifesto 1964: "Prosperity with a Purpose" <http://www.psr.keele.ac.uk/area/uk/man/con64.htm> (1.6.2002); Conservative Party Election Manifesto 1955: "United for Peace and Progress: The Conservative and Unionist Party's Policy" <http://www.psr.keele.ac.uk/area/uk/man/con55.htm> (1.6.2002).

¹⁶⁷ Thirlwall and Gibson, *Balance-of-Payments*, p.229.

¹⁶⁸ Cairncross, "Economic policy and performance, 1945-1964", p.36.

¹⁶⁹ See the Central Statistical Office's annual publication "United Kingdom Balance of Payments" (HMSO), which contains information on the revisions of the previously published figures.

¹⁷⁰ Douglas Jay, *Change and Fortune. A Political Record* (London: Hutchinson, 1980), p.412.

¹⁷¹ Alan Booth, "Introduction" in *British economic development since 1945*, ed. Alan Booth, *Documents in Contemporary History* (Manchester and New York: Manchester University Press, 1995), p.2.

¹⁷² See for example N.C.R Crafts and N.W.C. Woodward, "The British Economy since 1945: Introduction and Overview" in *The British Economy Since 1945*, ed. N.C.R. Crafts and N.W.C. Woodward (Oxford: Clarendon Press, 1991), pp.8-9.

¹⁷³ Cairncross, "Economic policy and performance, 1945-1964", pp.36,43-44; Peter Catterall, ed., *The Macmillan Diaries. The Cabinet Years, 1950-1957* (London: Pan Books, 2004), January 22 and 24, 1952 (pp.134-135), February 29, 1952 (pp.146-147).

in 1955-1957 and in 1959-1960. In 1960 the Treasury expected that the unfavourable trend would continue for years,¹⁷⁴ and in response to this development the Prime Minister Harold Macmillan argued in September 1960 that unless the British could permanently and substantially increase British overseas earnings, this would jeopardise government policies in many domestic and foreign issues. Therefore Macmillan urged all his cabinet colleagues and their departments to do all they could to increase exports and other overseas earnings, and give priority to this consideration as much as possible over any potentially competing issues.¹⁷⁵ In 1961 Alec Douglas-Home, the foreign secretary, reflecting both the short- and the long-term anxieties in Whitehall, declared that if the UK wanted to remain a leading trading nation and fulfil her overseas commitments, the country would have to earn an extra £500m a year, over and above the yearly increase defined as “normal”.¹⁷⁶

Yet the deficit in 1960 turned out to be smaller than the Treasury had expected, and in 1961-1963 the balance of payments on the current account were again in the black, although when the new Labour government came to power under Harold Wilson in 1964 the numbers were expected to plunge into new lows.¹⁷⁷ This provoked the Wilson cabinet to impose a temporary 15 per cent surcharge on all imports to the UK in 1964, which caused a furious negative reaction in other countries, and especially in the member countries of the European Free Trade Area (EFTA), which were working with the UK to remove tariffs from intra-EFTA trade. After all, it was a direct violation of the EFTA agreement, and the member countries were in the process of abolishing duties between themselves.¹⁷⁸ The import surcharge was only a temporary solution. Heavy selling of sterling eventually led to its devaluation in 1967.¹⁷⁹

¹⁷⁴ NA. CAB128/34. CC(60) 26 April 13, 1960.

¹⁷⁵ NA. CAB129/102. C.(60) 135. September, 1960: “Exports. Directive of the Prime Minister”.

¹⁷⁶ Stuart de la Mahotière, *The Hard Sell. Britain and her Overseas Markets*. (London: Hodder and Stoughton, 1966), p.5.

¹⁷⁷ Cairncross, “Economic policy and performance, 1945-1964”, pp.60-61; Thirlwall and Gibson, *Balance-of-Payments*, p.234; Table 4.

¹⁷⁸ NA. FO371/177333; FO371/177334.

¹⁷⁹ Sir Alec Cairncross, “Economic policy and performance, 1964-1990” in *The Economic History of Britain since 1700*, ed. Roderick Floud and Donald McCloskey (Cambridge University Press, 1994), pp.73-75; J. Foreman-Peck, “Trade and Balance of Payments” in *The British Economy Since 1945*, ed. N.C.R Crafts and N.W.C. Woodward (Oxford: Clarendon Press, 1991), pp.168-169; Thirlwall and Gibson, *Balance-of-Payments*, pp.238-239.

The second reason for export promotion was that the proponents of export-led growth argued that increasing exports offered a possible solution to the problem of relatively low rates of economic growth in Britain in comparison with the Continental countries. Between 1950 and 1973 the annual average growth rates of real GDP per head were 4.9 per cent in West Germany and 4.0 in France, but only 2.5 in the UK.¹⁸⁰ The idea of the crucial significance of exports to the national economy was shared by most Western European countries, and especially by West Germany, where according to Alan Milward, attributing the country's positive economic and political development to success in exports became "*a political cult*".¹⁸¹ While the Germans saw exports as the key to their success, in Britain many saw the relative failure of British exports to grow as an explanation for the relatively slow British growth. According to this view, export-led growth seemed to offer a way forward for a country like the UK, which was suffering from a relatively slow growth and balance of payments constraints.¹⁸²

According to Tomlinson, the acceleration of the British growth rate became an agreed goal of British government policy in the mid-1950s, when comparative international estimates of growth rates were published. At first the Conservative government relied only on removing obstacles perceived to be hampering the work of market forces, but in the beginning of the 1960s the government started to use active policy measures to promote growth.¹⁸³ The view that the UK was suffering from relative economic decline became popular, and this had a clear impact on government policy, even if the growth rate was high compared to previous time periods.¹⁸⁴

The strength of the economy was politically significant in many ways. The government needed economic resources to implement its domestic and foreign policies; adequate resources could only be obtained from a reasonably healthy economy. During the 1950s and the 1960s the relative economic power of the UK was clearly weakening, and the ability of the UK government to support its foreign policy with adequate economic resources was diminishing. Even if the UK was still one of the biggest economies in the

¹⁸⁰ Booth, "Introduction", p.1.

¹⁸¹ Alan S. Milward, *The European Rescue of the Nation-State*, Second ed. (London New York: Routledge, 2000), p.126.

¹⁸² *Ibid.*, pp.122-127; Nicholas Kaldor, "Conflicts in National Economic Objectives" *The Economic Journal* 81, no. 321 (1971), pp.1-16.

¹⁸³ Tomlinson, *British Macroeconomic*, pp.82-84.

¹⁸⁴ Jim Tomlinson, *Public Policy and the Economy since 1900* (Oxford: Clarendon Press, 1990), pp.238-239.

world, its economic resources seem to be too small to back the desire to be a global power.¹⁸⁵

For electoral reasons the government hoped that economic prosperity and the government's social reforms could help to secure the voters a high standard of living. A strong economy could also increase the prestige of the country abroad. Economic growth, impressive in absolute terms even in countries suffering from relative failure, rapidly increased purchasing power and the demand for and number of various manufactured products. Many of these had been considered luxury items in previous decades, but now they became part of everyday life. In addition, the high level of exports helped to limit unemployment. Although the general level of unemployment in Western European industrial countries was very low in the "golden age" of the 1950s and the 1960s (compared to most periods of the 20th century), even a small increase in unemployment could lead to political problems for governments, since a general (probably exaggerated) view was that the government had effective means, especially Keynesian demand-management to combat employment.¹⁸⁶ The UK unemployment rate was only 1.9 per cent in 1955, 2.9 per cent in 1960 and 2.5 per cent in 1965,¹⁸⁷ but more serious unemployment levels in the declining industrial areas could create political problems.¹⁸⁸

The third reason to support the export efforts of British companies was that in foreign trade the exporting companies and the government usually have common interests. If a company gets a profitable order from a foreign country, this is beneficial not just for the company, but also for the national economy, because the order has a favourable impact

¹⁸⁵ Laurence Martin and John Garnett. *British Foreign Policy. Challenges and Choices for the Twenty-first Century*, Chatham House Papers (London: The Royal Institute of International Affairs, 1997), p.42; *Report of the Committee on Representational Services Overseas appointed by the Prime Minister under the Chairmanship of Lord Plowden 1962-1963*, pp.2-3; Wolfram Kaiser and Gillian Staerck, "Introduction" in *British Foreign Policy, 1955-64. Contracting Options*, ed. Wolfram Kaiser and Gillian Staerck (Houndmills, Basingstoke, Hampshire: Palgrave Macmillan, 2000), pp.xv-xvi; Tomlinson, *British Macroeconomic*, p.85.

¹⁸⁶ Milward, *European Rescue*, pp.122-127; William Keegan and Rupert Pennant-Rea, *Who runs the economy? Control and influence in British economic policy* (London: Temple Smith, 1979), pp.9-25; Jim Tomlinson, *The Politics of Decline: Understanding Post-war Britain* (Harlow, England: Longman, 2001), p.10; Cairncross, "Economic policy and performance, 1945-1964", p.32; Stephen Broadberry, "Employment and unemployment" in *The Economic History of Britain since 1700*, edited by Roderick Floud and Donald McCloskey. Cambridge University Press, 1994, p.195; Tomlinson, *British Macroeconomic*, pp.115,120; Tomlinson, *Public Policy*, pp.259-260,274.

¹⁸⁷ Stephen Broadberry, "Employment and unemployment", p.201.

¹⁸⁸ *Ibid.*, pp.202-203.

on the balance of payments, employment, tax revenues and the general economic activity in the country.¹⁸⁹ As John Dickie has pointed out, the commercial and financial interests of the country are promoted by assisting the efforts of British companies to sell more abroad.¹⁹⁰ The students of International Relations (IR) even argued that as a result of the increasingly important role of foreign economic relations for governments, economic aspects were generally receiving more of a central role in policy-making. Many authors argued that the old International Relations distinction between “high” and “low” foreign policy, with the former concentrating on political and military matters of national security and the latter on a large number of secondary, although not insignificant, issues, including foreign trade and investment, was changing, when foreign economic relations, including monetary and financial relations assumed central political importance.¹⁹¹ Richard Rosecrance declared the emergence of “*a trading state*”, a nation more interested in acquiring economic wealth through international trade than traditional political and military power or territorial control.¹⁹²

Traditionally, political work played a crucial role in the FO and in the British Embassies, while commercial, consular and other matters were in subordinate roles. The

¹⁸⁹ Tratt, in her book about the Macmillan government and Europe, argues that the government ministers did not respond to the pressure of the industrialists, but they recognised that in an advanced industrial economy the interests of the industry were synonymous with the national interest. Jacqueline Tratt, *The Macmillan Government and Europe. A Study in the Process of Policy Development* (London: Macmillan Press Ltd, 1996), p.190; However, as Ronald W. Cox has stated, it is very difficult to prove causality when one is studying the impact of business on government policy. Ronald W. Cox, *Power and profits. U.S. Policy in Central America* (Lexington: The University Press of Kentucky, 1984), p.16. If government policies are favourable to business interests is this because the companies have successfully lobbied the decision-makers, or just because the government and the companies happen to share common interests?

¹⁹⁰ John Dickie, *Inside the Foreign Office* (London: Chapman, 1992), pp.44-45.

¹⁹¹ Richard N. Cooper, "Trade Policy is Foreign Policy". *Foreign Policy*, no. 9 (1972-1973), p.18; Edward L. Morse, "Crisis Diplomacy, Interdependence and the Politics of International Economic Relations" in *Theory and Policy in International Relations*, ed. Raymond Tanter and Richard H. Ullman (Princeton: 1972), pp.123,126,131; Harald B. Malmgren, "Managing Foreign Economic Policy". *Foreign Policy*, no. 6 (1972), p.57; The distinction between “high” and “low” foreign policy was mostly based on the world-view of Realism, dominant school of thought within the International Relations from the Second World War until the 1960s. Realism, which in its modern form had emerged as a reaction to the failure of Western policy of appeasement towards Hitler, saw power and the use of it by states as a central issue in international politics and argued that nation’s central aim was to seek security against foreign political and military threat. Classic texts of Realism are Edward Hallett Carr, *The twenty years' crisis, 1919-1939: an introduction to the study of international relations* (London: Macmillan and co. limited, 1939) and Hans Joachim Morgenthau, *Politics among nations: the struggle for power and peace*, 5th , rev. ed. (New York: Knopf, 1978); The realist view of international trade was based on the vulnerability, which dependence on foreign trade with other states supposedly creates. Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley: University of California Press, 1945).

¹⁹² Richard Rosecrance, *The Rise of the Trading State. Commerce and Conquest in the Modern World* (New York: Basic Books, Inc., Publishers, 1986).

shift of export promotion from “Low” to “High” foreign policy changed this situation, and many Embassies seemed to become predominantly occupied with commercial work, for example providing British companies with information on markets, tariffs and special trade opportunities. They also recommended local sales agents, helped visiting representatives of British companies and investors and publicised British goods.¹⁹³ The status of the commercial officers in the FO’s unofficial hierarchy had traditionally been lower than that of those engaged in political work. Profound change in this respect occurred gradually during the late 1950s and early 1960s, when hitherto unfashionable commercial work became a field of diplomacy suitable for ambitious young men as well as distinguished old Ambassadors.¹⁹⁴

How could Finland contribute to the improvement in the British balance of payments and to the general prosperity of the UK? While the invisible currency flows had a major impact on the general British balance of payments, this was not the case in Anglo-Finnish economic relations. In 1945 Finland and the UK had concluded a payments agreement, which, with its successors, formed the basis of Finnish-British financial relations. The British were not willing to hold inconvertible Finnish Marks and all payments were made through a sterling bank account, which the Bank of Finland opened in the Bank of England.¹⁹⁵ The invisible capital flows between the two countries were unimportant, and the invisible transactions were mainly connected to the visible trade.¹⁹⁶ The UK government restricted the outflow of capital, and therefore the Finnish received only a few large loans from the UK.¹⁹⁷ British-registered companies had not made big investments in Finland, and therefore the remittance of profits to the UK was not a major factor.¹⁹⁸ Indeed, the British Ambassador to Helsinki, Sir Con O’Neill,

¹⁹³ *Report of the Committee on Representational Services Overseas appointed by the Prime Minister under the Chairmanship of Lord Plowden 1962-1963*, pp.8,59; Zara S. Steiner, *The Foreign Office and Foreign Policy, 1898-1914* (Cambridge University Press, 1969), pp.168-171,184-185.

¹⁹⁴ Geoffrey Moorhouse, *The Diplomats. The Foreign Office Today* (London: Jonathan Cape, 1977), pp.300-302; Ruggero Ranieri, "Introduction" in *Negotiating Britain's Membership of the European Communities: 1961-3 and 1971-2* by Sir Christopher Audland and Sir Roy Denman, ed. Ranieri Ruggero, *Working Papers in Economic and Social History No. 43. Special Jean Monet issue.* (University of Manchester. Department of History, 2000), p.7; *Report of the Committee on Representational Services Overseas appointed by the Prime Minister under the Chairmanship of Lord Plowden 1962-1963.* pp.3,59,63,147.

¹⁹⁵ Johan Nykopp, *Kauppa ja diplomatiaa* (Hämeenlinna: Kirjayhtymä, 1975), p.48.

¹⁹⁶ Lehtola, "Puuta", p.1.

¹⁹⁷ See Chapter 4.

¹⁹⁸ The Finnish government did restrict outflow of profits and royalties and this was annoying for the British companies involved, even if the British government departments were not usually actively involved in these disputes. ICI, for example, had a long-running dispute with the Bank of Finland about

observed in 1963 that the number of British subsidiaries in Finland was surprisingly small considering the level of British-Finnish trade.¹⁹⁹ O'Neill and his successor, Andrew Lambert, attributed this partly to the nationalistic desire to limit foreign ownership of Finnish companies.²⁰⁰ The small size of the market, remoteness and proximity to the Soviet Union undoubtedly played their part in diminishing the desire of foreign companies to invest in Finland.²⁰¹

The largest British-owned companies in Finland in 1959 were subsidiaries of Royal Dutch Shell, Hoover Ltd., Unilever and British-American Tobacco. Imperial Chemical Industries (ICI) owned one third of a chemical manufacturer, Finnish Chemicals Oy, and Peter Dixon & Son Ltd. owned a small cellulose and mechanical pulp manufacturer Toppila Oy. The remainder of the British investments consisted of a few sales offices, import agencies, and shares in small manufacturing companies.²⁰² British Petroleum acquired 50 per cent of shares in a small Finnish oil company in March 1960.²⁰³ The total book value of the accumulated assets of the UK in Finland in 1968 (excluding oil companies) was a mere £5.4 million or 0.10 per cent of total UK overseas direct investment (excluding oil investments).²⁰⁴

As a market for British goods Finland was perceived to have more potential. While Finland sold the UK mainly raw materials of a very limited range, the UK sold Finland a wide variety of goods, mainly manufactured goods. The main British export products to Finland after the Second World War were textiles, iron and steel, chemicals, machinery and motor vehicles,²⁰⁵ while before the War British exports had mainly

the profits of the highly profitable Finnish Chemicals. Karl-Erik Michelsen, *Sähköstä ja Suolasta Syntynyt. Finnish Chemicals Oy. Nokia Chemicals 1937-1987* (Jyväskylä: Nokia Chemicals, 1989), pp.110-111,147-150; NA. BT241/9. R.A. Daniell, Helsinki, to P.J.L. Homan, BOT, December 31, 1954.

¹⁹⁹ NA. FO371/171685. NF1102/2. C. O'Neill, Helsinki, to Earl of Home, FO, April 17, 1963.

²⁰⁰ NA. FO371/171685. NF1102/2. C. O'Neill, Helsinki, to Earl of Home, FO, April 17, 1963; NF1102/10. A.E. Lambert, Helsinki, to Earl of Home, FO, July 19, 1963.

²⁰¹ NA. T312/355. "Access to the London Market – Finland", W.D. Pattinson, Treasury, July 26, 1963.

²⁰² NA. FO371/142886. NF1151/28. A list of British commercial interests in Finland, sent by D. Busk, Helsinki, to FO, June 8, 1959

²⁰³ NA. POWE61/277. Minutes by A.A. Jarratt, February 18, 1963; "BP in Finland". The Times, March 18, 1960.

²⁰⁴ Michael Hodges, *Multinational Corporations and National Government. A case study of the United Kingdom's experience 1964-1970* (Westmead, Farnborough, Hants England: Saxon House / Lexington Books, 1974), p.23.

²⁰⁵ See Appendix B: The structure of British exports to Finland.

consisted of the products of old British staple industries and raw materials.²⁰⁶ Trade between Finland and the UK during the 1950s and the 1960s represented therefore a classical complementary exchange of goods between a developed industrial country and a less-developed country.

Finland was not one of the most important markets for British goods, not after the Second World War, and not before it, as many Finnish historians have pointed out.²⁰⁷ Yet, this fact did not mean that British government departments or companies would be uninterested in the Finnish market or other small markets. As Esa Sundbäck has pointed out, British trade statistics do not give an accurate picture of British commercial priorities. "*Exceptions were not based on actual circumstances, but rather on speculation as to how British trade might develop*".²⁰⁸ Government departments were often particularly interested in those markets where a strong increase in demand was expected because of modernisation programs and/or increased national income.²⁰⁹ When the Iraqi economy started to benefit for the first time on a large scale due to oil revenues in the early 1950s, Sir Frank Lee, permanent secretary of the Board of Trade, quickly contacted the Federation of British Industries and proposed action to ensure that "*they will spend it sensibly to benefit the country, and mainly with us*",²¹⁰ the emphasis being most likely on the latter part of the statement.

Efforts in smaller markets could indeed, in some cases, be very beneficial to an exporting nation. When West German export trade was experiencing its greatest boom in 1954-57, three small Scandinavian countries, Denmark, Norway and Sweden, together accounted for 12.13 per cent of the increase in German exports, while the

²⁰⁶ UM 12L:9 Suomen suhteet muihin maihin. Englanti. "P.M. Suomen ja Englannin kauppavaihto". V. Sampovara, July 18, 1963; UM 58B2 Englanti/yl. Suomen ja Englannin kaupp/yleistä 1956-1964. "Summary of Lecture on Finnish-British Trade by Mr. P.D. Stobart, Commercial Counsellor of British Embassy, Helsinki – April 1963".

²⁰⁷ For example Martti Julkunen, "Saksan vai Englannin vaikutusvalta Suomessa 1930-luvulla. Unkari Suomen kansainvälisen aseman vertailukohtana" in *Studia Historia in Honorem Vilho Niitemaa Hänen 70-vuotispäivänään 16.3.1987* (Tammisaari: Turun Historiallinen Arkisto 42, 1987), p.113; Jukka Nevakivi, *Apu jota ei annettu. Länsivallat ja Suomen talvisota 1939-1940* (Porvoo: Werner Söderström Osakeyhtiö, 2000), p.17.

²⁰⁸ Esa Sundbäck, *Finland in British Baltic Policy. British political and economic interests regarding Finland in the Aftermath of the First World War, 1918-1925* (Helsinki: The Finnish Academy of Sciences and Letters, 2001), p.302.

²⁰⁹ See for example, the case of Iran. Moorhouse, *The Diplomats*, p.298.

²¹⁰ Sir Norman Kipping, *Summing Up* (London: Hutchinson of London, 1972), p.238. See also "Minister Stresses Value of Middle East Oil Markets". The Board of Trade Journal, October 8, 1955, p. 783; Britain's Trade Prospects in the Middle East Countries". The Board of Trade Journal, February 11, 1956, pp. 245-247.

combined share of the two large Western European countries, France and Italy, was only slightly more, 13.15 per cent.²¹¹

The need to expand British exports was a constant theme in official government statements, with ministers and officials repeating over and over again the same arguments.²¹² They had doubts whether all businessmen fully understood the importance of exports to the national economy, but the officials certainly seem to have got the message. The government bureaucracy in London and the global network of British diplomatic representatives got to work and as a result presented countless countries all over the world as more or less promising potential markets. Not all of them seemed so promising to every observer,²¹³ but then again one of the functions of governmental export promotion work was to direct the attention of British companies to those markets, which they themselves had not thought of as potentially interesting. The fact that British government export promotion efforts were not limited to only the big markets, but to a wide variety of markets, small and large, suggest that it was felt that Britain should try to achieve at least a small increase in most markets of the world with the hope that the combined effect of these increases would make an important impact on the British balance of payments. The British government departments seemed to be aiming at an across-the-board increase of their exports to small countries as well as to large countries. If a country could absorb only a few percentages or even fractions of a percentage of total British exports this did not mean that UK companies should not bother to make determined efforts to expand their exports to it. Finland was a small piece of a big puzzle, but you could not concentrate solely on the big pieces, most of which were major competitors of the UK.

Throughout the 1950s the Board of Trade had forcefully, although not always with much success, tried to push the Finnish government to grant more licences for the exporters of British goods.²¹⁴ From the end of the 1950s onwards, the Foreign Office and the British Embassy in Helsinki started to support more and more British exporters after the decline of the British market share in Finland and the deterioration of the

²¹¹ Milward, *European Rescue*, pp.163,197.

²¹² See for example the numerous statements reported in the Board of Trade Journal.

²¹³ See for example "Great Exceptions in Portuguese East Africa". The Board of Trade Journal, September 24, 1955, pp. 699-700; "Costa Rica's Economic Expansion Creates Openings for British Goods". The Board of Trade Journal, December 24, 1955, pp. 1371-1372.

²¹⁴ NA. BT241/1-11.

British balance of payments had become apparent.²¹⁵ The Embassy still occasionally sent proposals to London about ways to increase Finnish exports to other non-communist countries,²¹⁶ but the FO files clearly show that the Embassy staff spent most of their time developing ways to promote British exports to Finland. At the same time both the British government departments and business organisations, such as the Federation of British Industries (FBI) and the London Chamber of Commerce started to underline the attractiveness of the Finnish market and to encourage British exporters to take a more active interest in the Finnish market.²¹⁷

As a result of strong economic growth (on average 4.4 per cent a year between 1945 and 1980)²¹⁸ Finland, which in the early 1950s was still a predominantly agricultural country, became a modern industrial nation in a matter of two to three decades, and this led to rapidly increasing demand for, initially, mostly capital goods and raw materials, and later, to a larger degree, consumer products. The British wanted to take an increasing share of the expanding market,²¹⁹ and some promising signs of success, such as the ten-fold increase of British passenger car exports to Finland between 1959 and 1963,²²⁰ underlined how the growing purchasing power of the Finns could help the British to increase their exports. Given these kinds of considerations and the British balance of payments difficulties, the British were motivated to promote their exports to Finland, small country or not.

²¹⁵ For example NA. FO371/142886; FO371/169411; FO371/171699; FO371/165945.

²¹⁶ For example NA. FO371/171689. NF1151/17; FO371/165931. NF103138/42. R.H. Mason, FO, to T. Brimelow, Washington, June 4, 1962.

²¹⁷ For example Kipping, *Summing Up*, pp.252-256; NA. BT11/7027. "President's Visit to Finland 7th-9th December 1969. Brief VIII: 'Britain in Finland 1970'". BOT, December 4, 1969; Finland-England. A special issue of the Finnish Trade Review published in connection with the British Trade Fair and Exhibition Helsinki 1957; NA. FO371/174892. CM 1102/2. "The Finnish Market". P.D. Stobart, February 26, 1964. Appendix "B" to A. Lambert, Helsinki, to R.A. Butler, FO, February 28, 1964; FCO33/1585. W.B.J. Ledwidge, Helsinki, to A. Douglas-Home, FCO, January 20, 1971.

²¹⁸ Kaukiainen, "Suomi Maailmantaloudessa", p.12.

²¹⁹ Yrjö Kaukiainen et al., *Sotakorvauksista vapaakauppaan: kauppa- ja teollisuusministeriön satavuotisjuhlakirja* (Helsinki: Kauppa- ja teollisuusministeriö, 1988); NA. FCO9/336. R.D.J. Scott Fox, Helsinki, to G. Brown, FO, December 12, 1967; FCO33/718: D. Scott Fox, Helsinki, to M. Stewart, FCO, July 21, 1969; Modern Records Centre, University of Warwick Library, UK (Hereafter MRC). MSS. 200/C/3/C1/2/2 "Export Council for Europe. Report of the National Convention Eastbourne 1961", pp.1,16,15,21,34,47; "Finland as a market". Board of Trade Journal, January 31. 1969, pp. 264-265; In 1940 63 per cent of the Finnish workforce was employed in agriculture and forestry, in 1970 only 21 per cent. Pentti Virrankoski, *Suomen taloushistoria kaskikaudesta atomiaikaan* (Helsinki: Kustannusosakeyhtiö Otava, 1975), p.276.

²²⁰ Part of the success was due to the originally low level of car exports to Finland, but this did not weaken the British enthusiasm. NA. FO371/174892. CM 1102/2. "The Finnish Market". P.D. Stobart, February 26, 1964. Appendix "B" to A. Lambert's letter from Helsinki to R.A. Butler, FO. February 28, 1964.

In 1960 the Finnish share of total British exports was only 1.3 per cent,²²¹ but rather than highlighting this, the British government departments and the FBI liked to emphasise, for example, that the Finns bought, in absolute terms, more British goods than the whole Soviet Union,²²² or that Finland bought in 1964 more goods from the UK than more populous countries like Austria, Greece, Turkey, Argentina, Pakistan or Japan, but on the other hand less than Norway and Denmark, both of which had roughly as many inhabitants as Finland. The conclusion, which one was supposed to derive from these figures was that Finland was a good market, and could be even better.²²³ A British diplomat even observed in 1968 that for the UK the small country of Finland had become “*a major trading partner, comparable in importance with India*”,²²⁴ although this was at least as much a result of the decline in British exports to India than of an increase in Finnish-British trade.

British exports to Finland consisted of a large variety of goods, mostly manufactured products, but also raw materials. In addition, in many other areas of business where the British did not eventually manage to sell any products, such as locomotives or nuclear plants, they still considered Finland to be an important potential market.²²⁵ This was especially true in the case of nuclear plants, since, for a few years at the end of 1960s, the British seemed to have a good chance of winning a contract to sell one or two Steam Generating Heavy Water Reactors (SGHWR) to Finland. Acquiring this kind of contract would be especially important given Britain’s repeated failure to find buyers for their nuclear technology, development of which had taken huge R&D –resources.²²⁶ Duncan Burn has estimated that by 1965 Britain had spent at least £950m on development of nuclear power.²²⁷ Finding even one buyer for SGHWR-reactors was seen to be of great importance, because then the British would have a reference plant in

²²¹ Annual Abstract of Statistics 1967. London: HMSO, p. 226.

²²² During the 1960s, this was true in every year except 1963 and 1968. Annual Abstract of Statistics 1971. London: HMSO, pp. 249-250; 1967, p. 226.

²²³ NA. FO371/174892. CM 1102/2. “The Finnish Market”. P.D. Stobart, February 26, 1964. Appendix “B” to A. Lambert’s letter from Helsinki to R.A. Butler, FO, February 28, 1964; Guildhall Library. London Chamber of Commerce. MS 16,529/1. Anglo-Finnish Section Minute Book – 1923-63. “Minutes of the Annual General Meeting of the Finnish Section held on Friday, 8th February, 1963 at 3.00. p.m.”

²²⁴ NA. FCO 9/328 A. C. Stuart, Helsinki, to A. E. Davidson, FO, August, 28 1968.

²²⁵ For example NA. FO371/171689; FO371/174896; AB 65/376; T 312/1658.

²²⁶ NA. AB 65/376.

²²⁷ Quoted in Nick Tiratsoo and Jim Tomlinson, *The Conservatives and Industrial Efficiency 1951-64*, Routledge Explorations in Economic History (London: Routledge LSE, 1998), p.159.

continental Europe, which could lead to further orders, a sizeable increase in exports, and a chance of clawing back some of the money spent on development.²²⁸

The desire to promote the image of the UK as “a *technologically dynamic and economically strong*” country in Finland,²²⁹ became a central task for the British government departments in the late 1960s. This was a challenging task considering that strikes and economic difficulties in the UK had recently received a lot of publicity in Finland.²³⁰ The British believed that the UK was, technologically, a far more advanced country than Finland,²³¹ and, since Finland was modernising and diversifying its economy, it would be an interesting potential market for various high-tech capital and consumer goods.²³² UK industry had managed to capture certain large capital goods contracts in Finland by the end of the 1960s. Rautaruukki Oy had bought steel making and other equipment worth £12 million, Walmsleys had sold paper machines for Finnish paper industry, and English Electric gas turbines to power plants.²³³ This was the first time since the early 1950s that the British had been able to sell major power equipment to Finland.²³⁴

The fact that the UK was Finland’s most important customer, taking the bulk of Finnish paper, pulp and timber exports, was seen to provide the British with important bargaining power in their attempts to get the Finns to buy more British goods,²³⁵ as it had done in the 1930s.²³⁶ In addition, the Finnish association agreement with the British-led European Free Trade Area (1961), gave the British preferential access to the Finnish market, an advantage the British saw as crucial in their attempts to overcome

²²⁸ NA. T 312/1658. A. Hodgson, ECGD, to D. L. Hawkins, Treasury, October 17, 1967; J. C. M. Mason, FO, to D.L. Hawkins, Treasury, October 18, 1967.

²²⁹ NA. BT11/7027. W.B.J. Ledwidge, Helsinki, to M. Stewart, FO, December 10, 1969, copy for BOT.

²³⁰ NA. BT11/7027. W.B.J. Ledwidge, Helsinki, to M. Stewart, FO, December 10, 1969, copy for BOT; *Financial Times*, December 9, 1969: “Our image ‘distorted’” Mason tells Finns”.

²³¹ NA. BT241/2133. “British/Finnish Joint Commission on Technological Co-operation” P.S. Preston, April 26, 1971.

²³² NA. BT11/7027. “Private Office Minute No. 818. President’s visit to Finland”. R.H.F. Croft, December 12, 1969; “President’s Visit to Finland 7-9th December 1969 Steering Brief. Brief no. 1”. BOT, December 1969; FCO9/336. R.D.J. Scott Fox, Helsinki, to G. Brown, FO, December 12, 1967; BT11/6864; FCO9/310. D. Scott Fox, Helsinki, to G. Brown, FO, January 5, 1968.

²³³ NA. BT11/7027. “President’s Visit to Finland 7th-9th, December, 1969. Annex E to Brief No. IV: Some recent Major British Export Success Stories in Finland”. BOT, December 1969.

²³⁴ “Opportunity: Finland in the seventies” by A.H. Reed. *The Board of Trade Journal*, March 22, 1970, p. 301.

²³⁵ See for example Heikkilä, *Liittoutuneet*.

²³⁶ Tim Rooth, *British protectionism and the international economy: overseas commercial policy in the 1930s* (Cambridge University Press, 1993), pp.173-181.

West German competition.²³⁷ Based on these considerations, the British government saw Finland as a country where British government export promotion efforts could lead to a significant increase in exports.²³⁸

Table 5: The main sources of Finnish imports (%)

	UK	USSR	Sweden	France	W.Germany	USA
1931-1935	20.3a	4.1	10.1	2.4	25.6b	8.3
1946-1950	22.3	11.4	6.2	5.9	1.9	11.7
1951-1955	19.1	14.3	5.1	7.1	9.2	5.9
1956-1960	17.1	16.4	8.1	5.3	15.9	5.6
1961-1965	15.2	15.3	12.5	4.8	19.0	5.1
1966-1970	15.7	14.8	15.9	3.7	16.4	4.1

Source: Suomen Tilastollinen Vuosikirja. Uusi sarja LXVII 1971 (Helsinki 1971), p. 159; XLIX 1953 (Helsinki 1954); p.137.

Notes: a) Includes Ireland; b) Pre-1938 Germany

In absolute terms, British exports to Finland did grow from £21 million in 1950 to £129 million in 1970 (at current prices),²³⁹ but in proportional terms the British performance was more disappointing. The UK share of imports declined from 19 per cent in 1951-1955 to less than 16 per cent in 1966-1970. The main beneficiaries were West Germany and Sweden. While the growth of the West German share started to decline during the late 1960s, Sweden's share continued to grow. In the end, the Finnish association with the European Free Trade Area helped Swedes more than the British.²⁴⁰

David Sanders has analysed the destinations of total British exports between 1955 and 1984. His research shows that the relative importance of Finland and other Nordic countries to Britain declined considerably when compared to other non-communist European countries. The relative magnitude of increase of British exports in Western Europe was worst in Norway (13 times increase in nominal terms) while Denmark and Finland were jointly the second worst growth areas (16 x). The increase of exports to

²³⁷ NA. FO371/171324. M1076/34. C.M.P. Brown, BOT, to L. Pliatzky, Treasury, July 12, 1963, copy for FO; FO371/171684. NF1101/1. Finland: Annual Economic Report for 1962; FO371/174892. CM 1102/2. 'The Finnish Market' by P. D. Stobart. February 26, 1964; FCO33/1585. W.B.J. Ledwidge, Helsinki, to A. Douglas-Home, FCO, January 20, 1971; MRC. MSS.200/C/3/C1/2/2. Export Council for Europe. Report of the National Convention. Eastbourne 1961.

²³⁸ See for example NA. FCO33/1583. FO33/728-9.

²³⁹ Table 1 in chapter 1.

²⁴⁰ European Free Trade Association, *EFTA Trade 1959-1967* (Geneva 1969), pp.27,73 and Table 5.

Sweden (30 x) was more than the global increase (24 x), but less than the average increase in Western Europe (45,1 x).²⁴¹

Conclusion

Economic methods played a central role in Western Cold War policy planning regarding Finland, because military and political methods of tying Finland more closely to the West were either impractical or too dangerous, and because Western countries had three reasons to frown upon the growth of Finnish-Soviet trade. Firstly, many Western observers hoped that the growth of living standards in Finland would make voters less likely to support communism. Secondly, war reparations (1944-1952) had made a large section of the Finnish economy, mainly the engineering and shipbuilding industries, dependent upon the Soviet Union, which gave the latter an excellent means of political pressure. Thirdly, Finland was a loophole in the West's strategic embargo against the Soviet Union. During a part of the 1950s and the 1960s Finland was actually the most important Western trading partner for the Soviet Union.

In the Finnish case, the British had, generally speaking, the same economic motives as in their general foreign economic policy: to obtain adequate supplies from Finland and to expand exports to it. In the 1940s the first objective was the dominant one, but from the 1950s onwards, the British government started to show an active interest in the Finnish market, surprisingly strong interest in fact, considering the small size of the country. As part of the general British government export promotion efforts, government departments, the Federation of British Industries and the London Chamber of Commerce tried to encourage British companies to take more interest in the growing Finnish market.

²⁴¹ Sanders calculated also a "corrected magnitude of increase index" by dividing the magnitude of increase by 24 (the global increase). An index figure 1 indicates that a country is exactly as important for UK in 1984 as in 1955), The index number for Finland and Norway is 0.67, for Denmark 0.54 and for Sweden 1.25. David Sanders, *Losing an empire, finding a role: an introduction to British foreign policy since 1945* (Basingstoke: Macmillan, 1990), pp.151-155.

3. The bureaucratic politics approach to the study of British foreign economic policy

Bureaucratic politics approach

*"Departments matter. They lead lives of their own."*²⁴²

Peter Hennessy

*"We write 'the British' when we mean 'the few members of the Foreign Office who happened to concern themselves with this question'"*²⁴³ the famous British historian A.J.P. Taylor has written. While this method may be valid when one is studying British foreign policy issues which were of little interest to government departments other than the FO, this section will argue that applying this method to the study of British foreign economic policy will create distorted explanations. Still, many historians seem to believe that the FO and Cabinet documents offer adequate evidence in the study of British foreign economic policy and that there is no need to consider files of the economic departments.²⁴⁴

The Cabinet is the highest level of the British administrative machine, the FO the institution which is usually responsible for the implementation of British foreign policy, but many other departments are involved in the decision-making process, and often the only role for the Cabinet is merely to approve decisions made at a lower level²⁴⁵ and for

²⁴² Peter Hennessy, *Whitehall* (London: Pimlico, 2001), p.380.

²⁴³ A.J.P. Taylor, *The Trouble Makers. Dissent Over Foreign Policy 1792-1939* (London: Hamish Hamilton, 1957), p.11.

²⁴⁴ See for example those scholars studying British foreign economic policy towards Finland during the Cold War Rautkallio, *Kekkonen ja Moskova*; Rautkallio, *Paasikivi vai Kekkonen*; Kuisma, *Kylmä sota, kuuma öljy*; Seppinen, *Suomen Efta-ratkaisu*; Lehtola, "Puuta" as well as many of those studying British policy on the Western embargo policies against the Soviet bloc during the Cold War. Jackson, *Economic Cold War*; Alan P. Dobson, "Anglo-American Relations and Diverging Economic Defence Policies in the 1950s and 1960s" in *Twentieth-Century Anglo-American Relations*, ed. Jonathan Hollowell (Houndmills, Basingstoke, Hampshire: Palgrave, 2001), pp.143-165; Dobson, *US Economic Statecraft*; Cain, "Exporting"; John W. Young, "Winston Churchill's Peacetime Administration and the Relaxation of East-West Trade Controls, 1953-1954". *Diplomacy & Statecraft* 7, no. 1 (March 1996), pp.125-140.

²⁴⁵ Officially ministers and the Cabinet make the important decisions of policy, but in practice the civil servants have a strong role in the policy formulation. Even if a Secretary of State in a British government department has several junior ministers to help him, the ministers can take control or participate effectively only in a very small number of issues. Since they are politicians, they also have to allocate a lot of time to party functions, and Parliamentary and constituency activities. Even when the ministers are

the FO to implement decisions made by, or in consultation with, the other departments. The “black box” method of studying British foreign economic policy, where one ignores the institutional processes, is valid if you are interested in the “end result” of the decision-making policy, i.e. what the policy is and how it is justified to outsiders. However, if one wants to know *why* certain policies were adopted, as explored in this thesis, one must take into account the bureaucratic processes and interests involved in the decision-making. For these reasons this section advocates the use of so called bureaucratic politics approach to the study of British foreign economic policy, and it goes on to explain the interplay of interests and the bureaucratic structure in the formulation of British foreign economic policy towards Finland, and how this system made it difficult for the FO to successfully promote political motives within Whitehall.

The origins of the bureaucratic politics approach date back to the 1950s in the United States, but the most well-known proponents of the approach have been Graham Allison and Morton Halperin, who wrote their major works at the beginning of the 1970s.²⁴⁶ The advocates of this approach underline the fragmentation of government. Various agencies and departments promote their interests in competition with each other, and they fight for various benefits, such as budget or personnel resources or tasks. Bureaucrats are not neutral or mechanical implementers of policy. The bureaucrats

actively involved, their decisions are usually based on the information they receive from the civil servants. The ministers usually have little specialist knowledge of the sphere of their department's activities when they come to office, and frequent Cabinet reshuffles mean that they spend only a couple years in one post. In contrast, the civil servants work in the same departments for most or even their entire working life, develop an extensive knowledge of its activities, absorb its culture and philosophy. The role of civil servants is even further strengthened in relatively minor issues like the British policy towards an individual small country like Finland, where only a few, or even none of the ministers has detailed knowledge or strong views on the subject. In comparison, all major departments, which are actively involved in the field of foreign relations, have officials, who have detailed information on the subject. One can therefore expect that the role of the officials in the cases like the UK policy towards Finland is central. Gavin Drewry and Tony Butcher, *The Civil Service Today*, 2nd ed. (Oxford: Blackwell, 1991), pp.156-161; Keith Dowding, *The Civil Service* (London and New York: Routledge, 1995), p.113; Peter Kellner and Lord Crowther-Hunt, *The Civil Servants. An Inquiry into Britain's Ruling Class* (London: Macdoland Futura Press, 1981), pp.205-238; Maurice Kogan, *The Politics of Education. Edward Boyle and Anthony Crosland in conversation with Maurice Kogan* (Harmondsworth, Middlesex, England: Penguin Education, 1974), p.48; Clive Ponting, *Whitehall. Tragedy and Farce* (London: Hamish Hamilton, 1986), p.14; Tratt, *Macmillan*, pp.192-199; Ranieri, "Introduction", pp.5-6; Tony Benn, *Out of the Wilderness. Diaries 1963-67* (London: Arrow Books Limited, 1988), pp.222-223,281-282,360,447; Richard Crossman, *The Diaries of a Cabinet Minister*, vol. One. Minister of Housing 1964-66 (London: Book Club Associates, 1977), pp.23-26,78,342-343,614-628; R.A.W Rhodes, "From Prime Ministerial Power to Core Executive" in *Prime Minister, Cabinet and Core Executive*, ed. R.A.W. Rhodes and Patrick Dunleavy (London: St. Martin's Press, 1995), pp.24-26.

²⁴⁶ Graham T. Allison, *Essence of Decision: Explaining the Cuban Missile Crisis*. (Boston: Liittle, Brown and Company, 1971); Morton H. Halperin, *Bureaucratic Politics and Foreign Policy* (Washington D.C.: The Brookings Institution, 1974); Morton H. Halperin, "Why bureaucrats play games?". *Foreign Policy*, no. 2 (1971), pp.70-90.

adopt the culture of their department and their views and perceptions depend upon their role within the system. The government on the whole represents more a confederation than a hierarchy and policy is an outcome of bureaucratic bargaining.²⁴⁷ Graham Allison's study "The Essence of Decision" (1971)²⁴⁸ is the most famous of the works written by the proponents of this approach, and most of the academic discussion on the bureaucratic politics approach has concentrated on the validity of Allison's arguments. In the book, Allison explicitly and clearly defined the basic principles of bureaucratic politics paradigm and applied them to the analysis of the Cuban Missile Crisis.

In "The Essence of Decision", and his previous article on the same subject,²⁴⁹ Allison underlines the need to understand the conceptual models, which the analyst uses to study foreign policy. Allison argues that most politicians, laymen and even academics analyse foreign policy on the basis of largely implicit conceptual models, and these have crucial consequences on the results of the analyses. Most observers approach questions of foreign policy on the basis of a model, which Allison has defined as the Rational Actor Model (or Model I). In this model, the state is a rational unitary actor. Government behaviour can be understood and explained in the same way as one analyses the behaviour of a rational value-maximising individual. For Allison, at least in his later works, rationality means both classical comprehensive rationality and bounded rationality. A government policy is a calculated action or response to a problem. An action by the government can be (and often implicitly is) explained merely by showing why it was rational for the government to act as it did.²⁵⁰ The decision-making process is therefore closed in a "black box", and the analyst has no need to open it.²⁵¹ This model has the advantage that the information needed is available for research earlier than that needed for the models described below. Roger Hilsman, himself a supporter of

²⁴⁷ Graham T. Allison and Morton H. Halperin, "Bureaucratic Politics: A Paradigm and Some Policy Implications" in *American Foreign Policy. Theoretical Essays*, ed. G. John Ikenberry (HarperCollinsPublishers, 1989), pp.378-409; David C. Kozak, "The Bureaucratic Politics Approach: The Evolution of the Paradigm" in *Bureaucratic Politics and National Security. Theory and Practice*, ed. David C. Kozak and James M. Keagle (Boulder/London: Lynne Rienner Publishers, 1988), pp.5-8; Halperin, *Bureaucratic*, p.ix.

²⁴⁸ Allison, *Essence*; The views presented here are based on the second revised edition of the book, which Allison published with Philip Zelikov in 1999. Graham T. Allison and Philip Zelikov, *Essence of Decision. Explaining the Cuban Missile Crisis*, Second ed. (New York: Longman, 1999).

²⁴⁹ Graham T. Allison, "Conceptual Models and the Cuban Missile Crisis". *The American Political Science Review* LXIII, no. 3 (1969), pp.689-718.

²⁵⁰ Allison and Zelikov, *Essence*, pp.3-4,13-54; Allison, "Conceptual", pp.690-695.

²⁵¹ Roger Hilsman, *The Politics of Policy Making in Defence and Foreign Affairs. Conceptual Models and Bureaucratic Politics* (Eaglewood Cliffs, New Jersey: Prentice-Hall, 1987), p.46.

bureaucratic politics approach, has pointed out that “the black-box model” is often useful, since policy-makers often do promote “state goals”, and therefore the explanation based on this model is often accurate.²⁵² The counter-argument for this is that different departments have conflicting views of what “the national interest” is and the machinery of co-operation is not necessarily effective.

The second model, the Organizational Behaviour Model, or Model II, is based on organisation theory, use of which, in the study of foreign policy, was uncommon before the 1960s. According to this model, the government consists of a conglomeration of semi-independent, loosely allied organisations. Allison wants to draw the reader’s attention to the bureaucratic processes of policy formulation and implementation. Government behaviour is not based on deliberate choices made by a unitary actor, but it is an *output* of large organisations, which operate according to their traditions and standard operation procedures. The bureaucratic processes and routines define how information is processed and analysed; they limit the number of available options to policy-makers and guide implementation of the policy. Individual organisations have their own culture and identity and these shape the behaviour and the views of those working in them.²⁵³

The third model, a Governmental Politics Model, shares a lot of common ground with the previous model, but it underlines the conflict between organisations. Government behaviour is a result of various bargaining games within the government between different players. These players act according to various, and often conflicting, conceptions of national, organisational and personal objectives.²⁵⁴ Government decisions are not made “*by a single, rational choice but by pulling and hauling that is politics.*”²⁵⁵ Bargaining occurs through regular channels. Each player, for example the minister or an official from a particular department, feels the need to focus on the ramifications the issue under scrutiny has on his bureaucratic domain, and each sees different faces of the issue. Their view of “national interest” will be defined by their position within the government machinery. In short, “*Where you stand depends on*

²⁵² Ibid., p.49.

²⁵³ Allison and Zelikov, *Essence*, pp.5-6,143-185; Allison, “Conceptual”, pp.698-703.

²⁵⁴ Allison and Zelikov, *Essence*, pp.5-7,255-313; Allison, “Conceptual”, pp.707-712; Allison and Halperin, “Bureaucratic”, p.381.

²⁵⁵ Allison and Zelikov, *Essence*, p.255.

where you sit”, although Allison is not so deterministic about this as the statement suggests. Opponents of a particular policy can sometimes frustrate or delay its implementation.²⁵⁶ Model III does not claim that the players are irrational, it says rather that the result or net effect of the internal games is not necessarily the same as if a unitary rational actor had made the decision.²⁵⁷

Who wins? Allison does not assume that the best argument wins. Rather, the result depends on the relative power of the players. Power is based on bargaining advantages, the skill and desire to use them and on the perceptions of the first two. Bargaining advantages can be based on formal authority and responsibility, control of resources necessary to carry out the action or of information, expertise and personal persuasiveness.²⁵⁸ The way players use their power has an impact on their future position. *“Power wisely invested yields an enhanced reputation for effectiveness. Unsuccessful investments deplete both the stock of capital and reputation. Thus each player must pick the issues on which he can play with high probability of success.”*²⁵⁹ Unfortunately Allison does not explain how one can measure the relative importance of various bargaining tools or to predict the impact they will have on the decisions.

Halperin gives us a useful analysis of how information is used in the bargaining process, and how the arguments presented might differ from the actual motives of the actors. In fact the role of argument is to justify and gather support for the policy or policy proposal, not explain the real logic behind it. It is necessary for the participants in the decision-making process, who try to get their policy proposals accepted, to gather wide support for it. In order to do this, the participants do not necessarily explain their own reasoning or in what way the proposal is beneficial to them. Instead, the participants put forward information and arguments, which are most likely to convince the majority, and try to show that their proposal is in the interest of the state as a whole. The information and arguments can also be “tailored” so that each opposing organisation is told those facts and arguments which are most likely to make an impact in their case. On the other hand, the other participants in the decision-making process might not accept the

²⁵⁶ Ibid., pp.5-7,255-313; Allison, "Conceptual", pp.707-712; Allison and Halperin, "Bureaucratic", p.385; Halperin, *Bureaucratic* på.16-17,26,85; Halperin, "Why", pp.72-74.

²⁵⁷ David A. Welch, "The Organizational Process and Bureaucratic Politics Paradigms. Retrospect and Prospect". *International Security* 17, no. 2 (1992), p.118.

²⁵⁸ Allison and Zelikov, *Essence*, p.300.

²⁵⁹ Ibid.

reasoning behind the proposal, but decide to support it anyway, because they have some other reasons to do so, and again it may not be useful to explain these reasons to the others.²⁶⁰ “Organizational calculations are best kept within the organization.”²⁶¹

Allison argues that he is not claiming that one of his three approaches is the correct one. What he is trying to do is to encourage the researcher to become self-conscious about what conceptual models he is using, to show that by utilising different approaches we achieve a greater understanding of the issue under scrutiny and to direct our focus to those aspects and evidence we would otherwise overlook.²⁶² The best research would “weave strands from each of the three conceptual models into their explanations”.²⁶³ However, as Bendor and Hammond have pointed out, the reader of his work gets the impression that Model I has been set up at least partly so that it can be knocked down.²⁶⁴ The debate on Allison’s models has largely focused on the characteristics of models II and III. Many critics have pointed out that in fact models II and III are not easy to separate from each other,²⁶⁵ and in a later joint article (1972) with Halperin, Allison in fact merges these two models together.²⁶⁶

Allison’s models have been criticised on many grounds.²⁶⁷ The criticisms include the originality of his views, the use of evidence, his analysis of the Cuban Missile Crisis,

²⁶⁰ Halperin, *Bureaucratic*, pp.135-136.

²⁶¹ *Ibid.*, p.136.

²⁶² Allison, "Conceptual", p.715.

²⁶³ Allison and Zelikov, *Essence*, p.392.

²⁶⁴ Jonathan Bendor and Thomas H. Hammond, "Rethinking Allison's Models" *The American Political Science Review* 86, no. 2 (1992), p.319.

²⁶⁵ Desmond J. Ball, "The Blind Men and the Elephant: A Critique of Bureaucratic Politics Theory". *Australian Outlook* 28, no. 1 (1974), p.84; J.P. Cornford, "The Illusion of Decision". *British Journal of Political Science* 4, no. 2 (1974), p.241; Bendor and Hammond, "Rethinking", p.302.

²⁶⁶ Allison and Halperin, "Bureaucratic".

²⁶⁷ For a convenient summary of these criticisms and their main arguments see Steve Smith, "Allison and the Cuban Missile Crisis: A Review of the Bureaucratic Politics Model of Foreign Policy". *Millennium: Journal of International Studies* 9, no. 1 (1981), pp.21-40; Steve Smith, "The Utility of Foreign Policy Approaches: Bureaucratic Politics" in *An Introduction to Foreign Policy Analysis: The Foreign Policy System*, ed. Michael Clarke and Brian White (Ormskirk and Northridge: G.W. & A. Hesketh, 1981), pp.75-93; For a more detailed arguments see for example Miriam Steiner, "The Elusive Essence of Decision: A Critical Comparison of Allison's and Snyder's Decision-Making Approaches". *International Studies Quarterly* 21, no. 2 (1977), pp. 389-422; Dan Caldwell, "A Research Note on the Quarantine of Cuba October 1962". *International Studies Quarterly* 22, no. 4 (1978), pp.625-633; Welch, "Organizational"; Cornford, "Illusion"; Stephen D. Krasner, "Are Bureaucracies Important? (Or Allison Wonderland)" in *American Foreign Policy. Theoretical Essays*, ed. G. John Ikenberry (HarperCollinsPublishers, 1989), pp.419-433; Robert J. Art, "Bureaucratic Politics and American Foreign Policy: A Critique" in *American Foreign Policy: Theoretical Essays*, ed. G. John Ikenberry (HarperCollinsPublishers, 1989), pp.433-457; Davis B. Bobrow, *International Relations: New*

his description of the US political system, and the normative implications of his theories. The most relevant criticisms for this thesis relate to methodological issues and the applicability of the model to the analysis of British foreign policy. Critics have argued that the concentration on bureaucratic process and conflict leads one to ignore the values and views of the policy-makers. Objectives reflect values as well as perceptions of what kind of policy should be formulated, and bureaucratic conflicts might just reflect underlying differences in values.²⁶⁸

The relative importance of bureaucratic clashes might depend on the homogeneity of the belief systems. Policy-makers can share common views and assumptions on many issues, and therefore there is no conflict in these cases. Bureaucratic conflicts may seem important in the USA during the Cold War, where the view of the need to contain the expansion of the Soviet Union is dominant, but when the Cold War ends, the competition between new values and beliefs may become the dominant aspect of the decision-making system.²⁶⁹ Unlike Allison, Halperin does take into account the role of “shared images” in his work.²⁷⁰ All this, however, does not mean that bureaucratic politics can be ignored. Even if bureaucratic differences reflect only an underlying clash of values, this does not mean that the institutional framework is unimportant nor does it mean that the formulation of policy would be a result of rational weighing up of various options. When organisations and humans are in conflict, it seems likely that the outcome does not reflect only the strength of their arguments, but also their skills of presentation and their relative position of power and influence within the system.

Many critics have argued that the claim that the organisational position of the person defines his view is often simply false, and they prove this by practical examples.²⁷¹ Some players do not “sit” anywhere.²⁷² Yet, the individual examples refer usually to politicians and the highest members of the political decision-making, and one would

Approaches (New York, London: The Free Press, Macmillan Limited, 1972), pp.37-42; Ole R. Holsti, "Review of the Essence of Decision". *The Western Political Quarterly* XXV, no. 1 (1972), pp.136-140.

²⁶⁸ Smith, "Utility", pp.82-83; Krasner, "Are Bureaucracies Important?", p.423; Smith, "Allison", pp.30-31.

²⁶⁹ Dan Caldwell, "Bureaucratic Foreign Policy-Making". *American Behavioral Scientist* 21, no. 1, September-October 1977, p.95.

²⁷⁰ Halperin, *Bureaucratic*, pp.11-16.

²⁷¹ Bendor and Hammond, "Rethinking", p.317; Krasner, "Are Bureaucracies Important?", p.423.

²⁷² Bendor and Hammond, "Rethinking", p.317.

imagine the rule applies better to civil servants who usually spend longer in an individual department.

According to Lawrence Freedman, Allison takes too narrow and short-term a view when he concentrates on conflict, because this ignores the fact that the absence of conflict on some issues might just be an outcome of previous conflict, which created the currently dominating shared assumptions and images. Model III leads one to concentrate on the current battles rather than the underlying power structure.²⁷³ Bendor and Hammond have claimed that the models are too simplistic and need reformulation.²⁷⁴ For example, in Model II, Allison does not take into account how complex and surprising the behaviour of organisations and individuals can really be, even when constrained by rules and standard operating procedures.²⁷⁵ Yet, since Allison is trying to create models, it is not surprising that he has to simplify the reality.

Caldwell points out that Model II does not provide a sufficiently analytical framework for analysing innovation in organisations. The model is too focused on the mechanism and cannot explain the origins of innovative policies.²⁷⁶ More seriously, several critics have pointed out that Allison's models do not allow one to create predictions or hypothesis, which could be tested in order to define the correctness of the models, or to prove that one of the models is better than the others. None of his three models for the analysis of the Cuban Missile Crisis is clearly superior to the others.²⁷⁷

Ole R. Holsti argues that Allison's "models" might be more correctly called "perspectives". His models tend to be more metatheoretical than theoretical; they identify factors, which one needs to take into account, but there is little "if-then" –type of proposition. What is needed is more refined proposition, for example exploring questions such as when do personal preferences overrule organisational interest and norms?²⁷⁸ The critics are right in the sense that Allison does not really offer "models" even if he has branded them as such, but "conceptual lenses". He provides a wider

²⁷³ Lawrence Freedman, "Logic, Politics and Foreign Policy Processes. A critique of the bureaucratic politics model". *International Affairs* 52, no. 2 (1976), pp.434-449.

²⁷⁴ Bendor and Hammond, "Rethinking".

²⁷⁵ *Ibid.*, p.309.

²⁷⁶ Caldwell, "Bureaucratic", p.92.

²⁷⁷ Smith, "Allison", pp.34-35.

²⁷⁸ Holsti, "Review", pp.137-138.

framework, not models, which could create hypotheses. Yet, I argue that these conceptual lenses can be very useful for research, since they can direct one's focus to aspects which would be overlooked in a "black box"-type of analysis.

The paradigm of bureaucratic politics was developed in the USA, and Allison, Halperin and their critics and commentators normally focused their attention, explicitly or implicitly, on the US political system. Can the paradigm be applied to the analysis of foreign policy in Western Europe? A collection of articles (1978) took a sceptical view of this question.²⁷⁹ One of the contributors, William Wallace, did not consider bureaucratic politics a crucial aspect of the decision-making in his comparative analysis of foreign policy making in Bonn, Paris and London,²⁸⁰ but he does not completely reject the paradigm. In his well-known book on the foreign policy process in Britain he states that "*Whitehall is not Washington; the open conflicts between sections of the administration which characterize bureaucratic politics in America have no exact parallel in Britain.*" This does not mean that conflicts do not exist, but rather that Whitehall tried to mute the difference and hide them from the public eye.²⁸¹

According to Wallace, officials strongly promote their own and their department's views and although all departments might agree on the common goal of promoting "national interest" their views on the definition of this term differ according to their departmental tasks. For example, the Department of Trade and Industry tends to put emphasis on industrial issues, the Foreign Office the political and the Ministry of Defence on security issues. "Where you stand depends where you sit" is according to Wallace as relevant a statement in the UK as in the USA. The outcome of departmental clashes depends on several factors such as who has a key role in defining the issue, managing the policy formulation, preparing background briefs and implementing the policy; the abilities of the officials; the support the departments have from domestic interests and the relative influence of their ministers within the government.²⁸²

²⁷⁹ William E. Paterson, "Foreword" in *Foreign policy making in Western Europe. A comparative approach*, ed. William Wallace and W.E. Paterson (Westmead, Farnborough, Hants., England: Saxon House, 1978), p.2.

²⁸⁰ William Wallace, "Old states and new circumstances: the international predicament of Britain, France and Germany" in *Ibid.*, p.48.

²⁸¹ William Wallace, *The Foreign Policy Process in Britain* (London: Allen and Unwin [for] the Royal Institute of International Affairs, 1977), p.9; See also Bill Jenkins and Andrew Gray, "Bureaucratic Politics and Power: Developments in the Study of Bureaucracy" *Political Studies* XXXI (1983), p.192.

²⁸² Wallace, *Foreign Policy Process*, pp.9-10.

Wallace rejects the Rational Actor Model, because in the decision-making process governments are rarely unified, information is usually inadequate, objectives are not clearly defined and the consequences of policy are uncertain. However, Wallace does not whole-heartedly support the bureaucratic policy approach either, rather he sees it as one aspect of the whole process in which the information received, the interpretation of this information, domestic and international pressures as well as the assessment of various and often competing objectives all have an impact on the policy. Besides, the administrative structure depends, to a large degree, on the views and priorities of those in charge of it in the present as well as the views and priorities of past reformers.²⁸³

Hill estimates that the “organisational process” is a more sophisticated model than the bureaucratic politics model, since the latter “*seems to demand that an adherent swallow a whole (conflictual) view of human nature in order to accept its descriptive value.*”²⁸⁴ Hill sees bureaucracies as an essentially conservative force within the political system, “a memory” of traditional values, policies and procedures, which does not welcome enthusiastically radical changes in policy. To ensure the stable, regular and high-quality operation of large organisations, Standard Operating Procedures have been set up, but these also diminish flexibility within the system. Lack of co-operation between different organisations is another recurrent problem, but Hill doubts that bureaucratic politics paradigm will ever be widely accepted as generally applicable to the analysis of foreign policy. Hill questions whether the bureaucratic politics model really does differ essentially from the “rational model” since he argues that the only real difference between them is that the rational actor model treats state as a unitary actor and the bureaucratic model does not. The traditional “rational model” assumes that that states try to maximise their interests, mainly power and security, and, in the same way, the bureaucratic model assumes that the individual departments’ motive is to promote their self-interest and power.²⁸⁵ “*Few people will need convincing that this is questionable, and one-dimensional view of human nature, whether levelled at states, departments, or*

²⁸³ Ibid., pp.5-8.

²⁸⁴ Christopher Hill, “A theoretical introduction” in *Foreign policy-making in Western Europe. A comparative approach*, ed. William Wallace and W.E. Paterson (Westmead, Farnborough, Hants., England: Saxon House, 1978), p.17.

²⁸⁵ Ibid., pp.17-19.

individuals."²⁸⁶ Hill therefore assumes that Allison's and Halperin's model is over-ambitious, but in a more limited way it provides useful hypotheses of bureaucratic behaviour. The model is unlikely to become a more partial than general theory on the formulation of foreign policy. Its usefulness depends on the historical traditions and characteristics of the political and administrative system of the country in question.²⁸⁷

Martin and Garnett have been more willing to accept the bureaucratic explanation of the British foreign policy process:

*"Policy is not made solely by rational calculation; it emerges from complex, interrelated organizations responding to a multitude of pressures. Policy develops out of a highly 'political' process in which the interplay of power and interest of various organizations and government departments is at least as important a determinant of policy as any cool calculations of national interest by Foreign Office mandarins."*²⁸⁸

The differing views of various government departments are evident, not only within the decision-making system, but also in the implementation of policy. On the other hand, Martin and Garnett warn against overemphasising differences, because "*arrangements and procedures exist to iron out serious inconsistencies of policy and to achieve a reasonable degree of inter-departmental coherence.*"²⁸⁹ What Martin and Garnett do not say is that these arrangements do not necessarily promote a more rational formulation of policy and definition of British interests, but only a more coherent implementation of policy. The result may just reflect the relative strength of the bargaining positions of the competing departments, not the strength of their arguments.

Greenway, Smith and Street approached the question of the usefulness of theories in foreign and domestic policy analysis through six case studies.²⁹⁰ They found a vast gap between the operation of the actual British policy-making system and the Rational Actor Model despite the fact that politicians use the model regularly to explain and justify their actions and policy. In these case studies the decision-makers had

²⁸⁶ Ibid., p.19.

²⁸⁷ Ibid., p.20.

²⁸⁸ Martin and Garnett, *British Foreign Policy. Challenges and Choices for the Twenty-first Century*, p.66.

²⁸⁹ Ibid., p.67.

²⁹⁰ John Greenway, Steve Smith, and John Street, *Deciding factors in British politics. A case-studies approach* (London and New York: Routledge, 1992).

incomplete and contradictory information as well as conflicting preferences and could inadequately predict the consequences of their policy. Reality seemed much closer to Herbert Simon's theories of bounded rationality than to the classical RAM model.²⁹¹ The authors also found countless examples of decisions which were formulated as a result of bargaining between government departments.²⁹²

Philip Darby, in his detailed investigation (1973) into British defence policies East of Suez 1947-1968, found that Britain had no integrated policy. Rather departments pursued different and sometimes contradictory policies and had their own administrative priorities. Although Darby did not have access to internal government documents he feels confident enough to conclude that the performance of the committee system, designed to co-ordinate the actions of various departments, was disappointing.²⁹³

Not all students of British foreign policy have been willing to accept the importance of the bureaucratic aspects. Sanders believes that the rational actor model is the most relevant for the analysis of British foreign policy, since policy makers have, according to him, been engaged in a process of rational calculation and formed policies which they believed would maximize perceived British interests.²⁹⁴ He does not totally reject the usefulness of the bureaucratic politics and has identified a few issues when it had a prominent, though not crucial, role. He also believes that after the relevant government files have been opened for scholars, bureaucratic politics may gain more a prominent role in historical research.²⁹⁵ Sanders believes that rational actor and bureaucratic politics can be combined. With the help of the Rational Actor Model a student of foreign policy can identify and understand the main policy objectives of the decision-makers and by analysing the administrative and political process he can study how different actors manoeuvred to promote their own views within the decision-making system.²⁹⁶

²⁹¹ Ibid., pp.215-219.

²⁹² Ibid., pp.223-225,232-233.

²⁹³ Philip Darby, *British Defence Policy East of Suez 1947-1968* (London: For the Royal Institute of International Affairs by Oxford University Press, 1973), pp.135-142.

²⁹⁴ Sanders, *Losing*, p.286.

²⁹⁵ Ibid., pp.275-277.

²⁹⁶ Ibid., pp.273-274.

Some critics of Graham Allison have pointed out that he does not give adequate attention to the interest groups in policy formulation,²⁹⁷ but other supporters of bureaucratic politics, such as Hilsman, have argued that individual bureaucratic groups form strong ties to “their client” groups and that they use these outside ties to raise support for themselves.²⁹⁸ This argument fits well with the so the “policy communities” or “policy networks” approach, originally introduced by J. J. Richardson and A.G. Jordan in 1979 to conceptualise the relationships between “insider” pressure groups and government departments in Britain.²⁹⁹

Richardson and Jordan emphasised the fragmentation of policy-making and the close interrelationships between government departments and private actors. The representatives of pressure groups and departmental officials formed a wide variety of “policy communities” on individual policy areas. These sub-systems of the whole system of British policy-making usually consisted of a government department, and those groups in regular contact with it, while the general public and “outsider groups” are closed off. Members of a particular community develop to a large degree a common language and common perceptions on issues, and there is a strong tendency to seek consensus, although this does not imply a lack of conflict between the actors. Strong boundaries exist more often between different policy communities than between public and private actors.³⁰⁰ The membership of a policy community does not easily change.³⁰¹

If we take a step back from foreign policy and consider the wider context of British political decision-making, we see many indications of the fragmentation and the strong role of individual departments in the British policy system. Anthony Sampson argued in 1971 that “[t]he departments are inclined to treat each other more as foreign powers than as part of the same central government”³⁰² It is difficult to believe that this would

²⁹⁷ See for example Caldwell, “Bureaucratic”, p.96.

²⁹⁸ Hilsman, *Politics*, p.63.

²⁹⁹ J. J. Richardson and A. G. Jordan, *Governing under pressure: the policy process in a post-parliamentary democracy, Government and administration series* (Oxford: Martin Robertson: Basil Blackwell, 1986).

³⁰⁰ *Ibid.*; Jeremy. J. Richardson, “Interest Group Behaviour in Britain: Continuity and Change” in *Pressure groups*, ed. Jeremy. J. Richardson (Oxford: Oxford University Press, 1993), pp.92-95; Wyn Grant, *Pressure Groups and British Politics*, ed. John Benyon, *Contemporary Political Studies* (Houndmills, Basingstoke: Macmillan, 2000), pp.48-51.

³⁰¹ Helen J. Mercer, *Constructing a competitive order: the hidden history of British anti-trust policies* (Cambridge University Press, 1995), p.4.

³⁰² Anthony Sampson, *The New Anatomy of Britain* (London: Hodder and Stoughton, 1971), p.254.

not be reflected in the field of foreign relations. The general literature on the British civil service and the administrative structure of the British government has traditionally underlined the fragmentation of Whitehall or, as Drewry and Butcher put it, “*the chronic problem of departmentalism that impedes the development of coherent government strategy and stands in the way of long-term policy planning.*”³⁰³ Only during a war are the differences muted, but even then they do not disappear altogether. Departments fight for scarce resources and for the “territorial” extent of their responsibilities,³⁰⁴ but Drewry and Butcher do not see cynical self-interest as the only motivation for these battles. Departments have their own tasks, and fight to acquire the necessary resources to fulfil them.³⁰⁵

Smith, Marsh and Richards argue that it is widely accepted that departments are the key institutions in the British policy-making system, but despite this the study of departments has been neglected compared with other aspects of central government.³⁰⁶ Rhodes and Dowding have pointed out that the departments make a lot of important decisions without referring to the Cabinet or to the Prime Minister.³⁰⁷ Many of these decisions are made without ministerial involvement.³⁰⁸ Several commentators have underlined the importance of the strong individual cultures and traditional preferences

³⁰³ Drewry and Butcher, *The Civil Service*, p.86; See also Dennis Kavanagh and David Richards, “Departmentalism and Joined-up Government: Back to the Future?”. *Parliamentary Affairs* 54 (2001), pp.1-18.

³⁰⁴ Drewry and Butcher, *The Civil Service*, pp.84-85; Peter Howlett, “New Light through Old Windows: A New Perspective on the British Economy in the Second World War”. *Journal of Contemporary History* 28 (1993), pp.361-379; Peter Howlett, “Resource Allocation in Wartime Britain: The Case of Steel, 1939-45”. *Journal of Contemporary History* 29 (1994), pp.523-544.

³⁰⁵ Drewry and Butcher, *The Civil Service*, pp.84-85; The government departments compete with each other, but on the other hand theories of “Village Life” in Whitehall underline the close informal contacts between civil servants, shared identity and social and educational background, suspicion toward outsiders. *Ibid.*, pp.90-92.

³⁰⁶ Martin J. Smith, David Marsh, and David Richards, “Central Government Departments and the Policy Process” in *Prime Minister, Cabinet and Core Executive*, ed. R.A.W Rhodes and Patrick Dunleavy (London: St. Martin's Press, 1995), p.38.

³⁰⁷ R.A.W Rhodes, “From Prime Ministerial Power to Core Executive” in *Ibid.*, ed. R.A.W. Rhodes and Patrick Dunleavy, p.11; Dowding, *The Civil Service*, pp.113-115; In his book about the Western strategic export controls, Tor Egil Førland argues that the historians have been too preoccupied with political executives at the expense of the lower-levels of the hierarchy. Førland was struck by how little influence the top policy-makers really had on the export control policies, and how little understanding they had on these policies. The most important decision-makers were in fact the non-political officials. Tor Egil Førland, *Cold Economic Warfare: The Creation and Prime of CoCom, 1948-1954* (University of Oslo, 1991), pp.9,307.

³⁰⁸ Smith, Marsh, and Richards, “Central Government”, p.51.

of departments. These “departmental philosophies” or “departmental views”³⁰⁹ are “frameworks through which policy questions are viewed and which may in effect screen out policy options.”³¹⁰ The departments are conservative, and the frameworks do not change easily, but this can and does happen from time to time, as a result of political pressure, major events or new fashionable ideas.³¹¹

Since “the government” consists of several departments, there has to be a system of co-ordination. How does the co-ordination mechanism work? According to James, the system operates at three levels. The departments can have bilateral discussions, between civil servants or between ministers and, if a decision is not achieved at this level, the issue can be taken up at Cabinet committees or in the “shadow” committees, which are Cabinet committees consisting of civil servants. In the final stage, the issue can be discussed and decided in a full Cabinet meeting. Decisions are made at as low a level as possible, because the availability of the Cabinet or individual ministers is very limited. Therefore departments are always under strong pressure not to refer matters to the Cabinet, Cabinet committees or even to ministers. It was the desire of the Whitehall officials to try to formulate a common line before presenting any issues to the Ministers. The chairmen of the committees try to dissuade their colleagues from bringing numerous issues to the committees.³¹² If a minister brings too many issues to the Cabinet, he loses credibility. His ability to promote really significant cases weakens, if he has previously brought in too many relatively minor ones.³¹³ As James puts it “*Ministerial time is one of the scarcest commodities in Whitehall*”.³¹⁴ The exceptions to this rule are major decisions, which officially need Cabinet or ministerial approval even if there is broad agreement on what the decision should be.

When a new issue emerges, requiring interdepartmental action, the officials first try to settle it by telephone or letter, or by an interdepartmental working party. If the officials

³⁰⁹ Ibid., p.52; Greenway, Smith, and Street, *Deciding factors*, p.30; Jenkins and Gray, “Bureaucratic”, p.178; William I. Jenkins and Andrew Gray, *Administrative Politics in British Government* (Brighton: Wheatsheaf Books Ltd, 1985), pp.34-35; Dowding, *The Civil Service*, pp.113-115.

³¹⁰ Greenway, Smith, and Street, *Deciding factors*, p.30.

³¹¹ Ibid., p.31; Ponting, *Whitehall*, p.96.

³¹² Simon James, *British Cabinet government*, 2nd ed. (London: Routledge, 1999), pp.53-54,59. See also Peden, *Treasury*, p.14.

³¹³ Hugh Heclo and Aaron Wildavsky, *The Private Government of Public Money. Community and Policy inside British Politics*, Second ed. (London and Basingstoke: Macmillan, 1984), p.165.

³¹⁴ James, *British Cabinet government*, p.56.

cannot reach an agreement, the matter is referred to ministers, who try to reach a common decision on the issue. If this fails, the issue goes to a ministerial Cabinet committee, but before it does, a shadow committee of officials deal with it. The shadow committee tries to reach a decision, so that the issue does not have to go to the ministers, and if all disagreements cannot be resolved, the officials at least try to limit the number of points of conflict and highlight the crucial aspects, which deserve ministerial consideration.³¹⁵ But do these co-operation mechanisms create balanced, rational results? Jenkins and Grey do not believe that decisions are the product of rational calculations, but of “political” negotiations, in which participants try to defend their positions or transform departmental interests into general government policy.³¹⁶

According to Clive Ponting, Whitehall tries to present a monolithic face to the outsiders as a system where co-operation works smoothly, but in fact fierce conflicts and rivalries between and within departments are common. There is no adequate mechanism (“*The Hole in the Centre of Government*”³¹⁷) to control these rivalries and conflicts, which, combined with pressure from interest groups and vested interests, leads to confusion and poor compromises.³¹⁸

*“Much of the work of Whitehall is institutionalised conflict between the competing interests of different departments. Each department will defend its own position and resist a line that, while it might be beneficial to the government as a whole or in the wider public interest, would work against the interests of the department.”*³¹⁹

The expansion of the co-operation mechanism might not therefore ensure the emergence of a balanced policy, and in some ways it can make situation worse. Labour politician and Cabinet Minister Douglas Jay claimed that it created much new bureaucratic delay: “*What took three hours to decide in 1944, and three days in 1950, too often took three months in 1965.*”³²⁰

³¹⁵ Ibid., pp.55-56; Brian C. Smith and Jeffrey Stanyer, *Administering Britain, Studies in public administration* ([London]: Fontana/Collins, 1976), pp.168-169.

³¹⁶ Jenkins and Gray, *Administrative*, p.36.

³¹⁷ Ponting, *Whitehall*, p.104.

³¹⁸ Ibid., p.97.

³¹⁹ Ibid., p.102.

³²⁰ Jay, *Change*, p.315.

The administrative machinery and formulation of British foreign economic policy towards Finland

Problems relating to co-operation, and therefore the role of bureaucratic conflict, were particularly strong in the field of foreign economic policy, since it was by definition an inter-departmental area. The departments and governmental institutions most actively involved in the formulation of British foreign economic policy towards Finland were the Foreign Office, the Board of Trade, the Treasury, the Ministry of Supply³²¹ and the Bank of England. In addition, the Ministry of Technology briefly became a major force during the late 1960s,³²² and the Ministry of Agriculture, Fisheries and Food (and its predecessors) as well as the Commonwealth Office occasionally became involved.

Not surprisingly, given the number of institutions involved, the division of responsibilities in commercial and trade policy had long been recognised as a practical problem.³²³ After a series of interdepartmental debates a separate Department of Overseas Trade (DOT) was set up in 1917 to solve the problems related to the separation of responsibility in commercial diplomacy between the FO and the BOT. Reflecting this old division, the political head of the new DOT was responsible to both the FO and the BOT. The DOT combined the new Commercial Diplomatic Service as well as the Consular Service and the Trade Commissioner Service in the Dominions,

³²¹ The Ministry of Supply was created in July 1939 to satisfy the material needs of the expanding armed forces, and in this process it had a crucial impact on the British industry and controlled, among other things the allocations of raw materials to various industries. In 1945 it was merged with the Ministry of Aircraft Production, and given a primary responsibility for government policy towards engineering industry. The new Ministry of Supply was not only a defence supply department, but a major civil industrial department, and a rival of the Board of Trade as well. It remained the "sponsoring" department for the engineering industry until 1955 when this task was transferred to the Board of Trade. David Edgerton, "Whatever happened to the British warfare state? The Ministry of Supply, 1945-1951" in *Labour Governments and Private Industry. The Experience of 1945-1951*, ed. H. Mercer, N. Rollings, and J.D Tomlinson (Edinburgh: Edinburgh University Press, 1992), pp.95-97; Hennessy, *Whitehall*, pp.100,117-118; William P. Snyder, *The Politics of British Defence Policy. 1945-1962* (Mershon Center for Education in National Security. Ohio State University Press, 1964), pp.141-142.

³²² The Ministry of Technology was set up in 1964 by the new Harold Wilson government, and it gradually took over most of the industrial responsibilities of the Board of Trade, which was left with little more functions than the foreign economic relations and export promotion. In 1970, the Conservative government merged the Board of Trade and the Ministry of Technology to a new giant Department of Trade and Industry. Yet, despite these Ministry-level re-organisations, there was a remarkable continuity in personnel. Wallace, *Foreign Policy Process*, pp.177-178.

³²³ J.W.T Gaston, "Trade and the Late Victorian Foreign Office". *International History Review* IV, no. 3 (1982), pp.317-338; Donald Greame Boadle, "The Formation of the Foreign Office Economic Relations Section, 1930-1937". *Historical Journal* 20, no. 4 (1977), pp.919-936.

but the FO and the BOT retained ultimate control of these Services and their activities.³²⁴ This new organisational structure was therefore not particularly simple, and it proved to be unworkable. The Foreign Office had particularly good reason to dislike the new arrangement and the results of it. Ephraim Maisel has concluded that the department was in practice deprived of its ability to influence economic, financial and commercial matters. Economic departments dominated the decision-making.³²⁵ The system was abolished in 1946 and most of the commercial work was concentrated in the hands of the Board of Trade and the Foreign Office.³²⁶ Unfortunately, the existing literature does not give a clear answer to the question of whether the reforms of 1946 increased the influence of the FO.

The new division of tasks between the FO and the BOT was, in theory, relatively clear: the former took the lead in matters which had a strong political content, such as negotiations with the European Economic Community, and the Board of Trade in everything else. In issues relating to international financial relations, the Treasury naturally took the lead, but the FO was expected to participate if the issue in hand had important political implications, as was often the case.³²⁷ In practice, the situation was anything but clear, and a large number of small matters required lengthy interdepartmental consultation.³²⁸

The Duncan Committee report (1969), which tried to define in clear terms the division of responsibility between the FO and the BOT, illuminates the confusing nature of the system. The report divided trade policy into sixteen tasks, two of which belonged to the BOT only, one to the FO only, thirteen belonging jointly to the BOT and FO, but in eight of these the BOT was “initiating the action”, and in the remaining five the FO was doing this. By definition, the FO and the BOT were therefore expected to consult each

³²⁴ Ephraim Maisel, "The Formation of the Department of Overseas Trade, 1919-1926". *Journal of Contemporary History* 24 (1989), pp.169-190; J.W. Grove, *Government and Industry in Britain* (London: Longmans, 1962), pp.346-347; Wallace, *Foreign Policy Process*, p.177; Lord Strang, *The Foreign Office, The New Whitehall Series* (London: George Allen & Unwin Ltd. Oxford University Press Inc, 1955), pp.66,109-111; Steiner, *Foreign Office*, pp.170-171.

³²⁵ Maisel, "Formation", pp.184-187.

³²⁶ R.P.T. Davenport-Hines, *Dudley Docker. The life and times of a trade warrior* (Cambridge University Press, 1984), pp.136-137.

³²⁷ Hugo Young and Anne Sloman, *But, Chancellor* (London: British Broadcasting Corporation, 1984), pp.84-102; Wallace, *Foreign Policy Process*, pp.163-177; *Report of the Review Committee on Overseas Representation 1968-1969. Cmnd. 4107*. Chairman Sir Val Duncan (London: Her Majesty's Stationary Office), p.63.

³²⁸ Moorhouse, *The Diplomats*, pp.310-311; Barnett, *The Lost Victory*, p.196.

other, formally and informally, on the current issues. Not surprisingly, the committee found that the division of responsibilities was blurred and that it led to “*a certain waste of effort and duplication of activity in London.*”³²⁹ In practice the system defined the wide field of British foreign economic policy as “a grey area”, and unless the ability of the different government departments to co-operate in this one area was much greater than within the British government as a whole, we can assume that British foreign economic policy-making would be a target for particularly intense interdepartmental conflicts. Certainly it is not difficult to find evidence of “turf wars” between the FO and the BOT in this field.³³⁰

To make matters worse, the departments themselves were in no way coherent and tightly controlled organisations. Within the Board of Trade, (and from 1970 within the Department of Trade and Industry) the main responsibility for foreign trade and commercial policy was held by the Commercial Relations and Exports Department (CRE), which was split into five divisions. CRE1 was responsible for all kinds of commercial policy, while the other departments had a more limited geographical scope. In the late 1950s CRE3, which was responsible for Western Europe, became more and more focused on the questions relating to European economic organisations, such as EEC, EFTA, and OEEC/OECD. Because of the increased workload, many other tasks relating to Western Europe countries had to be moved to CRE5. CRE3 continued to be responsible for the individual EFTA countries and Finland.³³¹ The CRE tried to reduce and remove barriers, both tariffs and non-tariff, for British exports in foreign countries through multi- and bilateral negotiations and to encourage and aid British exporters to exploit commercial opportunities abroad.³³²

³²⁹ *Duncan Committee*, pp.63-66.

³³⁰ See for example the conflict about the role of the FO in export promotion. NA. FO371/178110. UEE1048/88. Minutes by D.T. West, October 26, 1964 and December 16, 1964; UEE1048/102. “Export Promotion and the Joint Standing Committee” D.T. West, November 5, 1964.

³³¹ In 1960 CRE2 was responsible for the Commonwealth, the Irish Republic and Japan and CRE4 for Sino-Soviet Bloc, Middle East and Far East (except Japan). CRE5 was responsible for the United States, Latin America, Benelux, France, Japan, Western Germany, Italy, Spain, Yugoslavia, Greece and Iceland. “Memorandum submitted by the Board of Trade: History, Functions and Present Organisation of the Board of Trade”. Second Report from the Select Committee on Estimates. Session 1959-60. Board of Trade. London: HMSO, pp. 2-3 and Q.7-8,12; *Duncan Committee*, p.193.

³³² Peter Byrd, “Trade and Commerce in External Relations” in *The Management of the Britain's External Relations*, ed. Robert Boardman and A.J.R. Groom (London and Basingstoke: Macmillan, 1973), pp.175,177.

The CRE was not the only division of the BOT, which participated in the formulation of foreign trade policy or export promotion. Somewhat misleadingly the General Division of the Board of Trade also had a Export Services Branch and the Export Publicity and Fairs Branch, which were responsible for the day to day export promotion efforts such as supplying information to British companies about export promotion and to prospective customers about the British industry. The Industries and Manufactures Department was in charge of BOT relations with British industry, and it reported the views of the industry to the CRE and other departments, and advised on the industrial implications of various foreign trade policies. Finally, there was the Tariff and Import Policy Division, which was responsible mainly for the administration of import duties and licenses, applications for changes in tariffs as well as anti-dumping duties.³³³

The situation was somewhat simpler in the Foreign Office and in the Treasury. In 1955 the Foreign Office was divided into 38 divisions called “departments”, not divisions as in other government departments. Nine of these were ‘political’ departments, which were in charge of distinct geographical areas. The Northern Department was responsible for relations with Finland until 1963, when the Central Department took over. After the Foreign Office was merged with the Commonwealth Office in October 1968, to form the Foreign and Commonwealth Office (FCO), the responsibility for Finland was transferred to the Western Department. There were in total nineteen ‘functional’ departments in 1955 and a number of these departments, the Economic Relations Department in particular, were actively involved in the formulation of policy towards Finland.³³⁴

In the Treasury the Overseas Finance Division was responsible for most of the issues relating to Finland. According to Wallace and Roseveare, the division dominated the whole Treasury in the late 1940s and 1950s.³³⁵ The nature of the tightly regulated post-

³³³ Second Report from the Select Committee on Estimates. Session 1959-60. Board of Trade. London: HMSO, pp.viii,ix, xx-xxi; “History, Functions and Present Organisation of the Board of Trade. Memorandum submitted by the Board of Trade”, pp. 3-4.

³³⁴ Strang, *The Foreign Office*, pp.57-60; See the annual Foreign Office List and Diplomatic and Consular Year Book and the catalogues of the UK National Archives for changes in the departmental tasks. In addition to the political and functional departments there were administrative departments. The records of the Northern and Central Departments and most of the records of the functional departments are located in the FO371 series in the National Archives. The records of the Central Department for years 1967-1968 are in the FCO9 series, and the records of the Western Department of the FCO are in the FCO33 series.

³³⁵ Wallace, *Foreign Policy Process*, p.164; Henry Roseveare, *The Treasury: the evolution of a British institution* (London: Allen Lane, 1969), p.317.

war international trade and payments had dramatically increased the workload of the division, and between 1939 and 1949 the size of the division grew ten-fold. The dominating issue for the division was the UK balance of payments situation.³³⁶ In 1962 a complete re-organisation of the Treasury was carried out and a new Finance Group was founded to replace the Overseas and Home Finance Divisions and certain other divisions.³³⁷

The wide division of responsibilities was understandable, since foreign economic relations usually had a profound impact on both the economic development of the UK and on its political relations with other countries. One could certainly find several legitimate motives for foreign economic policy. As Tinbergen has stated (1952):

*“economic policy, like any real activity, has to reckon with many aspects originating from very different realms of life, and hence certainly not only economic view-points: institutional, juridical, technical in the widest sense of the word, and psychological”.*³³⁸

I.M. Destler has argued that *“the core of the problem of foreign economic policy is the need to balance domestic and international concerns.”*³³⁹ These considerations were not necessarily mutually exclusive, and in order to make sure that all the various viewpoints and interests were taken into consideration in the policy-making process, the various departments were expected to co-operate with each other. The literature on British foreign economic policy describes the system of interdepartmental consultations,³⁴⁰ but offers little information on how interdepartmental co-operation between the FO and other departments in foreign economic policy really worked. This is not necessarily surprising. Policy-making is a complex process and Dowding has shown that it is difficult to measure the relative influence of various policy-makers and outside pressures. It might even be difficult for the participants themselves to identify when the decisions were made and what exactly the relative influence of various actors was.³⁴¹

³³⁶ Lord Bridges, *The Treasury, The New Whitehall Series No. 12* (London: George Allen & Unwin, 1964), pp.74,76.

³³⁷ *Ibid.*, pp.65,142.

³³⁸ Quoted in Jim Tomlinson, "British economic policy since 1945" in *The Economic History of Britain since 1700*, ed. Roderick Floud and Donald McCloskey (Cambridge University Press, 1994), p.255.

³³⁹ Destler, *Foreign economic policy*, p.1.

³⁴⁰ See for example Byrd, "Trade and Commerce", pp.194-195.

³⁴¹ Dowding, *The Civil Service*, pp.122-123.

Despite the Board of Trade's officially leading role on foreign trade issues, the Foreign Office was anxious to emphasise that, in the words of Sir Douglas Busk, former Ambassador to Finland, Commercial Secretaries in the Embassy should always keep in mind "*that economics and politics are merely two aspects of one whole. Economic advantage may have to be sacrificed to political exigency*"³⁴² and that "*despite of the vital importance of economics, politics must hold the primacy in foreign relations*"³⁴³ Although, in theory, other departments might have accepted this view, at a more practical level it was a matter of controversy, when and why exactly economic considerations and motives should take a second role. The Treasury was often criticized for taking too "narrow" an approach by considering only financial issues.³⁴⁴ Not surprisingly, the Treasury was also much less willing to sacrifice balance of payments or budgetary considerations than the "spending" departments.³⁴⁵ The department was consistently hostile to increases in public expenditure. This was the basis of its internal culture.³⁴⁶ The Treasury control on government expenditure meant that other departments needed its approval on all projects and on other spending. This gave the Treasury a very strong role. It also caused irritation among the other departments, who resented the Treasury's willingness to argue about the merits of particular projects, even where it had no expertise on the policy fields in question.³⁴⁷

At least occasionally, Board of Trade officials deeply resented the desire of the FO to use trade policy as a tool of foreign policy. The FO was, for example, interested in concluding commercial treaties (which regulated the institutional framework of bilateral trade) with foreign governments if a treaty like this could be useful for political reasons, even if there were no commercial reasons for doing so. The Board of Trade on the other hand felt that treaties like this should be concluded only when they would be beneficial to the commercial interests of the UK. "*It follows that we should not negotiate a*

³⁴² Douglas Busk, *The craft of diplomacy. Mechanics and development of national representation overseas* (London: Pall Mall Press, 1967), pp.74-75.

³⁴³ *Ibid.*, p.81.

³⁴⁴ Wallace, *Foreign Policy Process*, p.184.

³⁴⁵ Byrd, "Trade and Commerce", p.194; Wallace, *Foreign Policy Process*, p.180; Anne Deighton, "British Foreign Policy-Making: the Macmillan Years" in *British Foreign Policy, 1955-64. Contracting Options*, ed. Wolfram Kaiser and Gillian Staerck (Houndmills, Basingstoke, Hampshire: Palgrave Macmillan, 2000), p.11.

³⁴⁶ Ponting, *Whitehall*, p.101.

³⁴⁷ Young and Sloman, *But, Chancellor*, pp.43-47; Roseveare, *The Treasury: the evolution of a British institution*, pp.285-296,294; Tony Benn, *Office Without Power. Diaries 1968-72* (London: Arrow Books, 1989), p.2; Hennessy, *Whitehall*, pp.76-78; Hecló and Wildawsky, *Private*, p.111.

commercial treaty of which the benefits would be entirely or predominantly political.”³⁴⁸ Similarly, the Board of Trade and other home departments often criticised the FO for promoting the interests of foreign nations at the expense of British commercial interests.³⁴⁹

The positions of the Board of Trade and the Treasury were strengthened by their expertise in economic policy. They often had little respect for the opinions of the non-economic departments, including the Foreign Office, as far as economic issues were concerned. The FO did have its own Economic Relations Department (ERD), which was supposed to help the creation of a balanced and combined picture of the economic and political aspects of current issues, act as an intermediary between the FO and the economic departments of Whitehall, and provide the FO with its own expertise to talk “*on equal terms*”³⁵⁰ to the Treasury, the Bank of England and the Board of Trade, but according to the existing literature these goals were too ambitious.³⁵¹

It is difficult to challenge another department on its “home ground.” According to Halperin, within the US government machinery, there is a strong tendency to “*defer to expertise.*” For example, officials within the Foreign Service have been extremely reluctant to challenge the US Treasury on economic issues or the military on military issues.³⁵² The same seems to be true in the British case, and according to Frankel “*Although the Foreign Office was naturally concerned with many economic matters, it traditionally accepted without question the expertise of the Treasury on international finance.*”³⁵³ According to Wallace, before the end of the 1960s both the involvement and the expertise of the Foreign Office in international financial policy were small. The Treasury was certainly reluctant to let the FO become more involved in financial

³⁴⁸ NA. BT11/4974. Minute by J. Leckie, August 14, 1952; See also minute by A.L. Burgess, July 22, 1952 and the letter from Sir R. Makins, FO, to Sir F. Lee, BOT, July 12, 1952.

³⁴⁹ See for example the complaint by H.S. Gregory that FO defended the interests of the Germans in the British occupation zone in Germany against British industrialists. NA. BT11/4974. Minute by H.S. Gregory, August 15, 1952; Jay’s comments about the proposed aeroplane sales to China. Jay, *Change*, p.304 and Wallace, *Foreign Policy Process*, p.50.

³⁵⁰ Simon Jenkins and Anne Sloman, *With respect, ambassador: an inquiry into the Foreign Office* (London: British Broadcasting Corporation, 1985), p.109.

³⁵¹ Wallace, *Foreign Policy Process*, pp.158,170; Jenkins and Sloman, *With respect, ambassador: an inquiry into the Foreign Office*, pp.108-109; Maisel, “Formation”, p.185.

³⁵² Halperin, *Bureaucratic*, pp.146-147.

³⁵³ Joseph Frankel, *British Foreign Policy 1945-1973* (London: For the Royal Institute of International Affairs by Oxford University Press, 1975), p.261.

issues.³⁵⁴ If the Treasury and the Board of Trade chose to be ignorant or dismissive of the basic political arguments concerning foreign economic decision making, and stuck to their basic desire to protect and promote solely economic interests, arguing that the promotion of these interests was essential, it would be hard for the FO to oppose their “expert opinion” successfully, its own core expertise lying in political issues.

The widely-held view, from the end of the Second World War onwards, that the British should try to improve their balance of payments situation and to promote economic growth by limiting British spending overseas and expanding exports,³⁵⁵ gave the economic departments an effective weapon to oppose policies, which would not be compatible with these goals, even if their negative impact on the British balance of payments would be limited or even negligible. They could also argue that the increased prosperity and health of the British economy would make an important contribution to the total economic power of the West.

British government documents on the policy towards Finland give some indication of how the co-operation machinery actually worked. The departments usually kept each other informed about their actions and views, and it was not uncommon that a letter sent from department A to department B was copied to half a dozen other officials in departments C, D, E etc.³⁵⁶ There were also frequent interdepartmental meetings, both *ad hoc* and regular, to discuss current policy issues. The most important of these was the Overseas Negotiations Committee, which dealt mainly with bilateral trade negotiations during the 1950s. All this did mean that the departments were well informed about each other’s viewpoints, but it did not mean that the department, which held primary responsibility for the issue in hand, would *have to* do more than just listen (or read) what the other departments were saying.

³⁵⁴ Wallace, *Foreign Policy Process*, pp.169-170.

³⁵⁵ Cairncross, “Reconversion”, pp.26-32; Tomlinson, *British Macroeconomic*, pp.44-49; Milward, *European Rescue*, pp.122-127.

³⁵⁶ As a by-product of the need to co-operate policies, large amount of letters were exchanged regularly between the departments concerning various trade issues, and therefore a historian has a large amount of material, which gives important insights on the views of different departments. However, one should be careful when analysing these documents. The arguments presented were often selected on the basis of to whom they were addressed to.

The only option left for the disappointed departments was to take the issue to Cabinet, where ministers could defend the interests and arguments of their own departments.³⁵⁷ Since Cabinet time was limited, it could discuss only a limited number of issues, and therefore only few controversies could be referred to it. Discussions on foreign policy usually concentrated on purely political and military issues, and British foreign secretaries were usually more interested in subjects like the East-West summits and disarmament negotiations than economic issues. This attitude discouraged officials from presenting their ministers with papers relating to economic issues.³⁵⁸

The great majority of interdepartmental consultation regarding Finland was implemented through letters, phone calls and ad hoc meetings. The committee machinery and the ministers were rarely involved, and it is for this reason that the detailed description of the formulation of the British policy towards Finland described in the next chapters focuses mainly on the correspondence between officials in the various participating departments. Only in the case of the Finnish association to the European Free Trade Area was a series of committees, ministerial and officials, involved.³⁵⁹

Even if the FO did not manage to convince the economic departments by correspondence and phone calls, it did not usually try to challenge them in Cabinet committees. As James has shown,³⁶⁰ there was strong pressure to settle issues at as low a level as possible. Most interdepartmental conflicts between the Foreign Office, the Board of Trade, the Treasury and the Ministry of Power, which were a common feature of the foreign economic policy decision-making process, never arose in Cabinet.³⁶¹ If the FO had raised the issue of Finland at a higher level, it would have taken time from other, often purely political, issues, which the FO generally cared much more about.

³⁵⁷ Byrd, "Trade and Commerce", p.195; Drewry and Butcher, *The Civil Service*, pp.85-86; Tratt, *Macmillan*, p.9.

³⁵⁸ Wallace, *Foreign Policy Process*, pp.49,162,170; Alec Douglas-Home, the British foreign secretary 1960-1963 and 1970-1974 and the Prime Minister 1963-1964 made the famous comment: "*There are two problems in my life. The political ones are insoluble and the economic ones are incomprehensible.*" <http://www.number-10.gov.uk/output/page612.asp> (20.5.2002)

³⁵⁹ These views are based on my detailed research on the records of the British government files on Finland in the NA.

³⁶⁰ James, *British Cabinet government*, p.54.

³⁶¹ Moorhouse, *The Diplomats*, pp.137-38; Busk, *The craft of diplomacy*, pp.72-73; Sampson, *The New Anatomy*, p.209; Richardson and Jordan, *Governing under pressure*, pp.25-31; James, *British Cabinet government*, p.40.

When the bargaining position of the department was weak, it would probably lose this battle as it had done at lower levels.

Being aware of its weaker bargaining position, the FO would also have to consider if it was worth using very much energy on waging battles against the economic departments, if the chances of success were slim. On the other hand, it might be preferable to simply concentrate efforts on the handful of issues which were defined as crucial and give up in a large number of other issues, the Finnish case undoubtedly being one of them. All this meant that the “end result”, the government policy, was not necessarily based on careful consideration of all factors involved, political, economic, cultural and military alike, and on some sort of balanced estimate of what “the British national interest” in any given subject really was.

Conclusion

This chapter has advocated the need to open the “black box” of the UK government when analysing UK foreign economic policy. Graham Allison and Morton H. Halperin and others have advocated the so called “bureaucratic politics approach” to the study of foreign policy. While their studies mainly focus on US foreign policy and they have been criticised on many grounds, they convincingly show that the student of foreign policy should take into account the bureaucratic structure of the foreign policy decision-making, although this of course is not the only relevant factor.

Students of the British political system have often underlined the fragmentation of Whitehall, the strong internal cultures of the individual departments and the conflicts between them. It would be very surprising if these characteristics would not have an impact on the formulation of British foreign economic policy, where many government departments are involved. In order to co-ordinate the process of policy-making and the implementation of the policies, multilevel consultation machinery had been created, but it is rarely asked how effectively this system worked. I argue that the informal and formal consultations within Whitehall did not mean that the “end-result”, the actual policy, would have in fact represented a balanced estimate of the “British national interest”. Rather it reflected the bargaining power of competing departments. The

strength of their arguments was only one source of this power. In the debates between government officials, the FO was not strong enough to oppose the policies of the Treasury and the BOT, mainly because these two departments had the leading roles in trade and financial policies, because they represented the “expert view” on economic issues and because the general view of the need to solve the balance of payments problems gave them an effective argument to use against the FO.

In the following chapters I will analyse British government foreign economic policy decision-making with the help of the bureaucratic politics approach. Unlike previous research carried out on the Finnish case, I will study in detail documents of all government departments included in the decision-making process in the issues under scrutiny. I will not treat the British government as a rational unitary actor, but seek to establish how much influence particular individual departments had on the formulation of government policy. Specific attention is to be given to the critical analysis of the arguments expressed by the departments, since Halperin has suggested that the role of these is to justify policy or policy proposals rather than to explain the real logic behind them.³⁶² This does not have to mean that strength of the arguments is an unimportant factor in the decision-making process or that Halperin’s comment would necessarily apply to all cases.

On the other hand, Lawrence Freedman reminds us that the absence of conflict can be only a result of previous conflicts and therefore we have to take also into consideration the underlying power structure³⁶³ and not only the current interdepartmental debates and conflicts. There is little detailed literature on how effectively British foreign economic policy decision-making operated during the Cold War, and therefore conclusions from the Finnish case can contribute to our understanding of the general British Cold War decision-making processes.

³⁶² Halperin, *Bureaucratic*, pp.135-136.

³⁶³ Freedman, "Logic".

4. Economic aid to Finland?

Countering Soviet pressure

According to the CIA (1959), Finnish economic ties with socialist countries constituted “*a latent danger*” to the country, but still the Finnish situation was not hopeless if the West was willing to help. If necessary, imports from the Soviet bloc could be replaced with those from the West, since Finnish needs were relatively modest when compared to total Western production and resources. As far as Finnish exports to the Soviet bloc were concerned, the situation was more difficult, and Western emergency aid in the form of loans would be needed during a transitional period. With these funds Finland could keep production going in industries that normally exported to the East, as well as reconstructing those industries in order to make them competitive in Western markets, and financing essential imports from the West to replace imports from the East.³⁶⁴

Many statements made by the FO and the British Embassy suggest that the British shared the US view that the West should help Finland. For example, a brief supplied by the Foreign Office to Prime Minister Harold Macmillan in 1961 suggested that “*Western policy in general, and particularly in Scandinavia, would suffer a severe setback if Finland became a Soviet satellite...It is therefore in the interests of the West that Finland should retain the maximum degree of independence and should retain and strengthen her links with the West.*”³⁶⁵ The British Ambassador to Finland, David Scott Fox, stated in 1967 that “*Whilst it may largely be true that Finland must ultimately work out her own salvation, it would be shortsighted of the West to refrain from giving her such help as it can*”.³⁶⁶ In this chapter I will look at those periods, 1950 and 1958 to 1961 in particular, when giving economic aid to Finland was under consideration in London. As I will show, the attitude of the UK government economic departments to these projects was less enthusiastic. These departments successfully opposed any suggestion that the UK should provide part of the funds or make some other economic contribution. The FO in turn lacked adequate funds of its own for projects like this. The

³⁶⁴ “Intelligence Memorandum. Recent trends in Finnish-Soviet Trade”. CIA/RR IM 59-2. March 10, 1959. CIA FOIA, Electronic Reading Room. <http://www.foia.cia.gov> (27.5.2002).

³⁶⁵ NA. FO371/159307. NF1051/39. “Visit of Finnish President. Brief No.1. Finland’s position in East-West Relations”. Foreign Office 1961.

³⁶⁶ NA. FCO9/314. D. Scott Fox, Helsinki, to G. Brown, FO, February 16, 1967.

FO and the State Department did successfully support loans to Finland from the World Bank.

Bureaucracy, economic aid and the lack of will

If the FO wanted to provide aid to Finland, the structure of the British foreign economic policy decision-making machinery and the relative economic weakness of the UK made it very difficult for it to do so. The FO had its own funds to channel as financial direct assistance to foreign countries, but for the financial year 1957-1958, the total FO budget estimate for “*Foreign Office Grants and Services*” was a mere £16.3 million, and from this sum the FO had to pay among other things, in addition to the grants to foreign countries, the UK subscriptions to certain international organisations, the costs of special missions overseas and operational costs of information services.³⁶⁷

Whether the FO wanted to use its own funds or ask for further funding for the project in hand, it had to get the approval of the Treasury in accordance with the traditional Treasury control on government expenditure. This system gave the Treasury in effect the right to veto any suggestion to help Finland. If the FO received a request for aid from a foreign country, the Treasury would be brought into the picture at a very early stage, even before the FO would have fully formed its own view of the situation. The Treasury would give its own views on the merits of the case, and whether the UK could afford to grant the necessary funds.³⁶⁸ If the initial Treasury reaction was negative, the proposal might die at a very low level, but if the FO chose to press on with the proposal, it would have to make a formal request to the Treasury for authority to spend a certain amount on aid. If the Treasury would not agree, the FO might take the matter to one or several of the interdepartmental committees dealing with economic matters. If a satisfactory decision was not reached, FO officials could ask the Foreign Secretary to

³⁶⁷ “Memorandum submitted on behalf of the Secretary of State for Foreign Affairs: Control of Expenditure”. Sixth Report from the Select Committee on Estimates. Session 1957-58. Treasury Control of Expenditure. London: HMSO, pp.165,168-173.

³⁶⁸ Sixth Report from the Select Committee on Estimates. Session 1957-58. Treasury Control of Expenditure, Q. 1437-1438; Peden, *Treasury*, p.14.

Speak or write to the Chancellor of the Exchequer or even to send a minute to the Prime Minister. The last option would be to take the matter up in Cabinet.³⁶⁹

From the FO point of view, the problem with the system was not just that it might not get the money it needed, but that it was inflexible and took a lot of time to reach a decision, even if the political situation required rapid decisions. A common reaction from the Treasury at least at the end of the 1950s was to state that if the FO wanted to give aid to a particular country, it would have to find the money by cutting its own expenditure elsewhere.³⁷⁰ Sir Fredrick Hoyer Millar, the Permanent Under-Secretary of State at the FO argued in front of a parliamentary select committee in 1958 that one *“cannot conduct foreign policy like that. You do not know when a crisis will happen. For example, we cannot provide more money for a hard-pressed country in the Middle East by cutting off our subscriptions to the United Nations.”*³⁷¹ What Hoyer Millar was arguing was that the FO would have needed a contingency fund of, for example, £2 million, which would be available when a quick reaction was needed.³⁷² Not surprisingly, these demands met successful Treasury resistance.³⁷³ In 1962, the Foreign Secretary, Earl of Home, demanded more flexibility for aid policies. A FO memo submitted by Home to the Economic Policy Committee of the Cabinet argued that aid was an instrument of foreign policy, especially in attempts to counter the Communist threat. Therefore adequate provision should be made for it. The Treasury again disagreed, and the Economic Policy Committee supported it, although a more thorough government review was started which in the end met some of the requests of the Foreign Office.³⁷⁴

Britain's financial resources were of course much more limited than US resources, and in addition a great majority, (roughly 80 per cent in the first post-1945 decades) of British foreign aid was directed to the Commonwealth countries.³⁷⁵ This left little

³⁶⁹ Sixth Report from the Select Committee on Estimates. Session 1957-58. Treasury Control of Expenditure, Q. 1442-1443; Peden, *Treasury*, p.14.

³⁷⁰ Sixth Report from the Select Committee on Estimates. Session 1957-58. Treasury Control of Expenditure, Q.1438,1451, 1520.

³⁷¹ Sixth Report from the Select Committee on Estimates. Session 1957-58. Treasury Control of Expenditure, Q. 1451.

³⁷² Sixth Report from the Select Committee on Estimates. Session 1957-58. Treasury Control of Expenditure, Q.1452-1453, 1514-1515.

³⁷³ Wallace, *Foreign Policy Process*, p.59.

³⁷⁴ Morgan, *Reassessment of British Aid Policy*, pp.225-229.

³⁷⁵ Frankel, *British*, pp.279-281.

money for other purposes, but the problem in London was not just the lack of funds but also the lack of will. Even if the money was found, there was no general agreement in Whitehall that it was indeed in the British interest to promote economic development in Finland. From the political Cold War perspective the answer was clearly “Yes” and many FO officials and some British politicians were interested in supporting economic development in Finland for political reasons, but the economic departments usually poured cold water over plans like this. The Whitehall response to a suggestion made by Lord Lucas in 1950 showed the divisions in viewpoints in London that would emerge repeatedly during the following years, as we shall see later in this chapter.

When Lord Lucas, who had led a British Parliamentary Delegation to Finland in 1949, advocated technical assistance to and co-operation with the Finns to help them develop their secondary industries, S.H. Levine of the BOT stated that:

“It is of course vital to remember that it is not a self-evident function of ours to make Finland an efficient industrial country. Our interest is probably in encouraging her to concentrate on her timber and pulp industries so that she can provide us with all the timber and pulp we need as cheaply as possible and thereby earn sterling wherewith to buy our manufactures. It would be of very doubtful wisdom to help her to foster inefficient secondary industries which would divert labour from the things she could do best.”³⁷⁶

In other words, Finland should remain as a relatively undeveloped country, continuing to supply Britain with raw materials, timber and pulp, and buying manufactured goods from the UK. The British needed raw materials, not a new competitor. J.F. Wearing of the FO doubted if the British would have from an economic point of view “*very much to fear*” even if the Finnish economy were to be diversified. Besides, would not the political benefits outweigh economic disadvantages?³⁷⁷ However, the Foreign Office was not the department, which formulated British economic policies, and the instructions sent to the British Embassy concerning possible actions as a result of Lord Lucas’ report reflected the BOT’s views. The BOT would only be willing to encourage informal visits from Finland to study British industrial methods.³⁷⁸

³⁷⁶ NA. FO371/86438 NF1052/1. S.H. Levine, BOT, to R.G.A. Etherington-Smith, FO, March 15, 1950.

³⁷⁷ NA. FO371/86438 NF1052/1. Minute by J.F. Wearing, March 24, 1950.

³⁷⁸ NA. FO371/86438 NF1052/1. R.G.A. Etherington-Smith, FO, to A.R. Kellas, Helsingfors, April 13, 1950; S.H. Levine, BOT, to R.G.A. Etherington-Smith, FO, March 15, 1950.

During the 1950s and 1960s the British engineering and shipbuilding industries suffered heavily from foreign competition, and it is therefore understandable that the BOT was not anxious to help new competitors to emerge,³⁷⁹ but in 1950 foreign competition was still weak because many old competitors such as West Germany and Japan were still economically weak. Certainly, there were worrying signs that international competition was increasing, but for example in 1950 the order books of the British shipbuilding industry were still full. In 1949 the UK share of world shipbuilding was still an impressive 40.7 per cent.³⁸⁰ The BOT attitude in 1949-1950, therefore, did not simply reflect the state of the British industry.

Aid for Finland or for British exporters?

The possibility of giving emergency aid to Finland was first considered in 1949 and 1950 when Finnish-Soviet trade negotiations did not seem to lead to a successful conclusion.³⁸¹ Members of the Finnish government as well as Western diplomats started to suspect that the Soviets were deliberately holding up negotiations in order to weaken President Paasikivi's chances of re-election in the presidential elections of March 1950, and/or to weaken the position of the social democratic minority (Fagerholm) government.³⁸² Finnish historians have described how US and British officials began making preparations to increase Western supplies of those raw materials, mainly grain and oil, which Finland normally imported from the Soviet Union.³⁸³ Yet, as far as Britain is concerned, this is a misleading picture. The FO did want to make special arrangements to supply Finland with the necessary materials, but the economic departments overruled the diplomats.

From the point of view of the FO, the Finns had been successful in avoiding a fall under Communist domination and had managed to limit Communist influence within their

³⁷⁹ Edward Lorenz and Frank Wilkinson, "The Shipbuilding Industry, 1880-1965" in *The Decline of the British Economy*, ed. Bernard Elbaum and William Lazonick (Oxford: Clarendon Press, 1986), p.109.

³⁸⁰ Barnett, *The Lost Victory*, pp.299-302.

³⁸¹ NA. FO371/86482. NF 1532/1. Telegram no. 1068 from FO to Washington, February 24, 1950; Nykopp, Kauppaa, pp.105-106.

³⁸² NA. FO371/86453. NF11338/2. Chancery, Helsinki, to Northern Department, FO, January 18, 1950; NF11338/5. Telegram no. 21 from Scott, Helsingfors, to FO, January 24, 1950; NF11338/10. Minutes by J.E. Powell-Jones, February 25, 1950.

³⁸³ Hanhimäki, *Rinnakkaiselo patoamassa*, pp.82-84; Kuisma, *Kylmä sota, kuuma öljy*, pp.33-36.

borders. The FO was anxious to make sure that Soviet economic pressure did not reverse these developments, and strongly argued in favour of supplying Finland with those essential goods from the UK or other Western sources, which had been previously imported from the Soviet Union. On the other hand, the Board of Trade concluded that the Foreign Office was not really demanding concessions for the Finns which would not be commercially justified from the British point of view.³⁸⁴

The Economic Intelligence Department of the Foreign Office estimated that Finland would need above all petroleum products (81 per cent of Finnish consumption in 1950 was originally supposed to come from the Eastern bloc), cereals, fertilisers and iron and steel. If the Finns had to buy their requirements from dollar sources, it would mean a significant dollar expenditure, in 1950 \$8-10 million for oil and \$7-8 million for cereals. If the Soviet satellite countries followed the Soviet example of halting their trade with Finland, the Finns would need to find new sources of supply for Polish coke and coal, which accounted for 75 per cent of Finnish imports in 1949. In the most negative (and not particularly realistic scenario as far as the Economic Intelligence Department was concerned), when additional supplies of essential goods were not available from Western Europe, Finland would be facing an additional dollar expenditure of 50 million, which meant that it would need a loan from the USA.³⁸⁵

As far as the main Finnish exports to the Soviet Union were concerned, the British Legation estimated that the engineering and shipbuilding industries would suffer heavy financial losses and that unemployment would grow dramatically, if they were unable to export to the Soviet bloc. Cutting off sales of prefabricated (timber) houses to the Soviet Union would create problems for individual firms, but it would not be disastrous since the timber could be sold to Western markets. On the whole the problems could be overcome if the West helped, and Finland could be drawn economically closer to the non-communist world, and especially the United Kingdom. If the Poles cut off their coal and coke sales to Finland, the UK could regain its pre-war position as the main

³⁸⁴ NA. T236/2513. C.W. Harrison, FO, to S.H. Levine, BOT, February 20, 1950, copy for Treasury; BT11/2839. Minute by S.H. Levine, March 8, 1950.

³⁸⁵ NA. T236/2513. "Note on Probable effects on Finland of a breakdown in Fenno-Soviet Trade Negotiations." J.V. Denkin, FO, February 2, 1950, copy for Try.

source of coal and coke for Finland.³⁸⁶ The worst scenarios did not come true, but Finland's reserves of convertible currencies began to diminish rapidly, when the country needed to increase imports from the West to compensate for the loss of supplies from the East.³⁸⁷

Since the Finns had few dollars to spend on oil and relatively more sterling, the UK was a natural Western source of oil and other goods for Finland.³⁸⁸ Increasing British shipments of various raw materials to Finland through normal trade channels, within the framework of the annual trade agreement, would also be a more inconspicuous way of giving Western economic aid to Finland than emergency shipments or US dollar loans.³⁸⁹ The trade agreement negotiations between Finland and the UK began in February 1950 and the Finns hoped to compensate for the decline of imports from the Soviet Union by increasing imports from the UK and to get as much freedom as possible to spend sterling on imports from other countries if necessary.³⁹⁰

Yet, the proposal that the British should agree to special arrangements for supplying Finland with the goods she could not get from Soviet sources, did not receive support from the economic departments in Whitehall. These arrangements would be acceptable only if they were compatible with British economic interests. The Treasury and the Board of Trade did not want to sell any more sterling oil to the Finns, since the UK was itself trying to substitute British dollar oil imports with the increased use of sterling oil. If the UK sold the Finns oil, it would itself have to import more dollar oil.³⁹¹ The British were also concerned about recent US criticism of British discrimination against dollar

³⁸⁶ NA. FO371/86453. NF11338/2. Chancery, Helsinki, to Northern Department, FO, January 18, 1950; NF11338/16. O. Scott, Helsinki, to E. Bevin, FO, February 22, 1950 and the attachment "The viability of the Finnish economy and its potential resistance to a possible Soviet economic blockade".

³⁸⁷ A speech by Kekkonen in Kuopio, January 22, 1951, published in Ari Uino, ed., *Viidesti pääministeri. Urho Kekkonen 1950-1956* (Helsinki: Kustannusosakeyhtiö Otava, 2000), p.83; Suomi, *Kuningastie*, p.41.

³⁸⁸ NA. FO371/86453. NF11338/2. Chancery, Helsinki, to Northern Department, FO, January 18, 1950; KA. CE. 110. A memo of the meeting between the Finnish prime minister K.A. Fagerholm and J.M. Cabot, February 28, 1950. M. Lintulahti, March 2, 1950.

³⁸⁹ NA. FO371/86453. NF11338/10. Minutes by C.W. Harrison, February 7, 1950; NARA. SD. RG59. Decimal Files on Finland 1950-1954, box 5147. 860E.00/3-2450. R.M. Brandin, American Legation, Helsinki, to SD, March 24, 1950.

³⁹⁰ Metsäteollisuus ry:n arkisto, Helsinki, Finland (Hereafter ME) 03.31. Englanti, kauppa 1950-1953. "Muistio kauppaneuvotteluista Englannissa 28.2.-13.3.1950". J. Nykopp, March 20, 1950, copy for the Central Association of Finnish Woodworking Industries.

³⁹¹ NA. FO371/86453. NF11338/11. Minute by T.F. Brenchley, February 13, 1950; FO371/86482. NF 1532/1. M. Rudd, Treasury, to T. F. Brenchley, FO, February 16, 1950.

oil within the sterling area.³⁹² The economic departments refused to agree to any increases in oil sales to Finland,³⁹³ even if the Finns in the end requested much less from the British than the latter had expected. This brought the difference between what the Finns were asking for and what the British were willing to offer on commercial grounds down to 30,000 tons of petroleum products.³⁹⁴ The strict line with oil and similar line with wheat seemed surprising even to the Foreign Secretary, who asked for an explanation from his officials.³⁹⁵

Unable to secure enough oil from UK controlled-sources, the FO approached the State Department, which in turn approached Standard Oil of New Jersey. Standard tried to arrange the necessary shipment from Italy and agreed to sterling payment from the Finns.³⁹⁶ According to US sources, someone in London blocked this purchase as well for a while but did let Standard arrange a sterling purchase from France.³⁹⁷ The Treasury later reluctantly agreed to the shipment from Italy.³⁹⁸

The Ministry of Food, supported by the Treasury, opposed the suggestion that the Finns should be given the right to buy wheat from Argentina with sterling, because this would interfere with the Ministry of Food's own plans to buy from Argentina,³⁹⁹ and because the Overseas Negotiations Committee decided to ensure that Argentina used the sterling to settle its old debts to the UK.⁴⁰⁰ Overall, there was little possibility that the UK would provide Finland with the goods it needed beyond the amounts they were ready to sell on

³⁹² NA. FO371/86482. NF1532/7. Telegram no. 1287 from FO to Washington, March 8, 1950.

³⁹³ NA. FO371/86462. NF1151/15. Minutes by J.F. Wearing, March 9, 1950.

³⁹⁴ NA. FO371/86482. NF1532/7. Telegram no. 1287 from FO to Washington, March 8, 1950.

³⁹⁵ NA. FO371/86462. NF1151/19. "Trade with Finland". C.W. Harrison, March 15, 1950 and Secretary of State's handwritten comments on it.

³⁹⁶ NA. FO371/86462. NF1151/19. "Trade with Finland" C.W. Harrison, March 16, 1950; FO371/86482. NF 1532/1. Telegram no. 1068 from FO to Washington, February 24, 1950; NF1532/8. Telegram no. 819 from Franks, Washington, to FO, March 10, 1950; NF1532/11. Telegram no. 934 from Franks, Washington, to Italy, March 21, 1950.

³⁹⁷ NARA. SD. RG59. Decimal Files on Finland 1950-1954, box 5147. 860E.00/3-2450. R.M. Brandin, American Legation, Helsinki, to SD, March 24, 1950, compare with 860E.00/2-2651. Annual Economic Report of the American Legation, Helsinki, February 26, 1951.

³⁹⁸ NA. FO371/86482. NF1532/8. Try draft of a FO telegram to Washington; NF1532/9. Telegram no 1448 from FO to Washington, March 16, 1950; NF1532/11. Telegram no. 934 from Franks, Washington, to FO, March 21, 1950.

³⁹⁹ NA. T236/2514. T.M. Wilson, Ministry of Food, to R.S. Symons, Treasury, March 1 1950; "Mr. Bancroft. Treasury Cocktail Party to the Finns", R.S. Symons, March 15, 1950; T238/220. O.N.(50) 48, February 21, 1950: "Finland: Note by the Board of Trade"; S.H. Levine, BOT, to F.C. Milner, Treasury Chambers, March 6, 1950.

⁴⁰⁰ NA. FO371/86462. NF1151/15. Minutes by J.F. Wearing, March 9, 1950; NF1151/19. "Trade with Finland" C.W. Harrison, March 16, 1950.

purely commercial grounds, but the conclusion of the Anglo-Finnish trade agreement did ease the Finnish supply position and therefore strengthen their hand in negotiations with the Soviets.⁴⁰¹

Fortunately for the Finns they managed to buy enough grain from world markets anyway⁴⁰² and, more importantly, the Finnish-Soviet deadlock was finally resolved without the need for outside help. In the spring of 1950, Finnish-Soviet negotiations began again and this time led to a successful conclusion. On June 13, 1950 the Finns and the Soviets concluded two trade agreements, one for the year 1950 and one long-term trade agreement.⁴⁰³ This was probably useful for the British too, since they did not have to reveal the underlying reluctance within Whitehall to the Americans and Finland. After all, the US Minister in Helsinki, John M. Cabot, had already told the Finnish Prime Minister K.A. Fagerholm that the US *and the British* governments were willing to supply Finland with oil, grain and other necessary supplies if needed.⁴⁰⁴

Ironically, the British-Finnish trade agreement, which in the end was a normal commercially motivated agreement from the British point of view, might have made the Soviets more inclined to solve the crisis.⁴⁰⁵ FO officials concluded that the Soviets had been unsuccessful in preventing President Paasikivi's re-election and to get Finnish Communists included in the government, and had therefore decided to give up their policy of economic pressure.⁴⁰⁶ In the changed circumstances the conclusion of trade agreements offered a convenient way to support Urho Kekkonen and his Agrarian Party against the anti-communist social democrats.⁴⁰⁷

The Board of Trade had not been willing to offer any special treatment for Finland for political reasons, but they were willing to add insult to injury. The department was

⁴⁰¹ NA. FO371/86453. NF11338/21. Telegram no. 103 from Scott, Helsingfors to FO, April 12, 1950; FO371/86462. NF1151/25. O. Scott, Helsingfors, to E. Bevin, FO, April 19, 1950.

⁴⁰² Nykopp, *Kauppa*, pp.106-107.

⁴⁰³ NA. FO371/86454. NF11338/42. O. Scott, Helsinki, to K. Younger, FO, June 15, 1950; Suomi, *Kuningastie*, pp.59-63.

⁴⁰⁴ Hanhimäki, *Rinnakkaiseloja patoamassa*, p.82; KA. CE. 110. A memo of the meeting between the Finnish prime minister K.A. Fagerholm and J.M. Cabot, February 28, 1950. M. Lintulahti, March 2, 1950.

⁴⁰⁵ Kimmo Rentola, *Niin kylmää, että polttaa. Kommunistit, Kekkonen ja Kreml 1947-1958* (Helsinki: Otava, 1997), p.135.

⁴⁰⁶ NA. FO371/86453. NF11338/21. Minutes by R.G. Etherington-Smith, April 12, 1950; NF11338/27. C.W. Harrison's memo, April 27, 1950.

⁴⁰⁷ NA. FO371/86454. NF11338/44. Minutes; A. Kellas, Helsinki, to K. Younger, FO, June 21, 1950.

ready to criticise the Finns when it emerged that the crisis may have had a negative effect on British exports to Finland. The Finns had to use a larger proportion of their sterling for purchases of essential goods such as wheat and oil, and correspondingly less on the less-essential consumer goods from the UK. This provoked criticism from the Board of Trade. The other departments did not recognise the validity of the BOT's figures, and in accordance with their normal policy, the Treasury and the Bank of England refused to limit Finland's right to spend sterling in other countries in order to pressure it to buy more British goods.⁴⁰⁸

US government officials continued to develop methods of strengthening Finland's economic ties with the West without provoking Soviet counter-reactions. In the beginning of 1954, several ways to support Finland were listed in the US National Security Council paper outlining US policy towards Finland. Above all, the United States should be prepared to give economic aid to Finland, if Finland asked for it, and to continue to support loans to Finland from the World Bank. In addition, if Finland applied for membership of the European Payments Union (EPU), the United States should support the application, and at the end of 1954, the Eisenhower administration secretly earmarked ten million dollars of US funds to be used for Finland if the country joined the EPU. As a more immediate measure, the US government granted Finland a loan of \$5 million in Finnish marks in January 1954 for purchases of tobacco and cotton from the United States, and reserved a total of \$20 million to be used for loans to Finland during the budgetary year of 1955. The Battle Act of 1951, which forbade the US government from giving aid to a country, which sold "strategic goods" to the Soviet Union, was not allowed to stand in the way, since the government argued, as required by the law, that aid to Finland promoted US national security.⁴⁰⁹

The British had no plans to give credit themselves to the Finns, except those normal export credits, which were guaranteed by the Export Credit Guarantees Department and

⁴⁰⁸ BEA. OV30/7. "Meeting held at the Treasury on the 8th November, 1950 to discuss Mr. Levine's letters of 24th October and 7th November on Finland"; "Finland", R. Sherman Wright. November 8, 1950; Nykopp, *Kauppaa*, pp.106-107.

⁴⁰⁹ Rautkallio, *Kekkonen ja Moskova*, pp.165-167; Statement of Policy Proposed by the National Security Council, NSC 5403: U.S. Policy Towards Finland. January 12, 1954. FRUS 1952-1954, volume VIII, pp.776-777. Waivers of this kind were given often. According to Dobson, only on one occasion did the US retaliate against a country (Sri Lanka) trading with a communist country as the Battle Act stipulated. This did not have much effect, since Sri Lanka was not receiving any aid from the USA at that time anyway. Dobson, *US Economic Statecraft*, pp.110,323.

given for commercial reasons.⁴¹⁰ Some FO officials hoped that the UK could give similar help to Finland as the Americans, but on the whole even the FO recognised that the UK had no money to give to the Finns.⁴¹¹ The only case where the UK did give Finland “economic assistance”, is illuminating, since, even if the payments in question were legally defined as such, they were motivated by British supply considerations, and the Treasury and the Board of Trade did not even bother asking the FO’s opinion.

Before the Second World War, British timber merchants had regularly made advance payments to Finnish exporters, and after the war, when this trade became state-controlled, the UK government’s Timber Control continued this system by paying advances on pitwood, softwood and, from the year 1947 onwards, also pulp, and in effect provided the Finns with working capital, £5 million in total in 1950. The Treasury was far from happy about this system, since they considered it necessary to limit British credit to foreign countries only to those special cases, where it was especially advantageous for British interests. However, given the scarcity of timber products, the Treasury had to reluctantly agree that this was just such a case, although they would have preferred that the Finns found their working capital from somewhere else.⁴¹²

The UK Timber Control was abolished in 1950 and the timber import trade was transferred to private British companies. The Finns still expected advance payments from the UK, but neither the private companies nor the City were ready to provide the necessary funds, unless the Export Credit Guarantee Department would provide insurance cover for the payments. The banks argued that the political risks, a military conflict in Finland or the loss of Finnish independence, were so strong, that they could not carry the risk themselves. The Treasury agreed that the political risk involved in any loans to Finland was real, but the refusal of the commercial banks to provide credits created anxiety within Whitehall, because if the Finns did not receive their payments, there was a reasonable chance that they would sell their goods to other countries, leaving the UK without adequate supplies. There was still a shortage of timber in world markets, and if the UK could not buy from Finland, it was far from certain that it could

⁴¹⁰ BEA. OV30/10. K.S. Weston, Try, to S.J. Cregeen, BofE, December 1, 1950.

⁴¹¹ See for example the FO minutes in NA. FO371/65934, especially in N1123 and on FO371/106197. NF1015/40.

⁴¹² NA. T236/2513. “Mr. Levine’s letter of 23rd January” a minute by G.M. Thorley, January 26, 1950; R.S. Symons, Try, to S.H. Levine, BOT, January 28, 1950; “Advance Payments for Finnish Softwood” R.S. Symons, Try, February 7, 1950.

find enough from other sources, or at least from countries, which did not demand dollar payments.⁴¹³

However, there were two problems with the proposed ECGD cover. Firstly, the ECGD had already provided cover to some British exports to Finland, and the Treasury was anxious to make sure that the total amount of credits guaranteed was as small as possible. Secondly, the ECGD was an organisation that was supposed to cover British *exports*, not imports. Now the British government should guarantee partly both. On the other hand, the Export Guarantee Act of 1949 included a Section 2 that stated that ECGD could also cover imports, if this cover could be defined as “economic assistance” and important for the national interest of the UK.⁴¹⁴ The definition was not publicly known and the Treasury was extremely reluctant to formally give “*economic assistance to a country which has not formally asked for it and to which we do not particularly want to give economic assistance any way.*”⁴¹⁵ After a long debate with the Board of Trade the Treasury reluctantly agreed that supply considerations were important enough for it to sanction the cover under Section 2. Despite the fact that the UK government was now giving, although only formally, economic assistance to Finland, the Treasury did not even bother to inform the Foreign Office about the issue before the decision had been made, and the Finns were not told at all that legally they were receiving economic assistance from the UK.⁴¹⁶

Night-frost Crisis

The British attitude during the Finnish-Soviet crisis in 1958-1959 was very similar to the 1949-1950 crisis. At the end of 1958 there was a serious prospect that Finnish unemployment could rise to 100,000- 120,000 during the winter, and the US and British Ambassadors hoped that this could be avoided with the help of new Western (US or

⁴¹³ NA. T236/2773. M. Stevenson, Try, to T. Eatough, ECGD, January 5, 1951; BEA. OV30/7. M. Stevenson, Try, to H. Somerville Smith, ECGD, October 19, 1950, copy for Bank of England; “Finland. Note of a meeting at H.M. Treasury, 3 p.m. 28th December”. R. Sherman Wright, January 1, 1951.

⁴¹⁴ NA. T236/2773. M. Stevenson, Try, to T. Eatough, ECGD, January 5, 1951; BEA. OV30/7. M. Stevenson, Try, to H. Somerville Smith, ECGD, October 19, 1950, copy for Bank of England; “Finland. Note of a meeting at H.M. Treasury, 3 p.m. 28th December”. R. Sherman Wright, January 1, 1951.

⁴¹⁵ NA. T236/2773. M. Stevenson, Try, to T. Eatough, ECGD, January 5, 1951.

⁴¹⁶ NA. T236/2773. “Finnish Timber” by M. Stephenson, December 29, 1950; C.G. Thorley, Try, to R.G.A. Etherington-Smith, FO, January 11, 1951.

World Bank) loans.⁴¹⁷ The “Night Frost Crisis” in 1958-1959 between Finland and the Soviet Union, which had been regarded as a casebook example of successful economic coercion,⁴¹⁸ made the question of credit to Finland more urgent.

The crisis started in August 1958, when a social democrat politician, K.A. Fagerholm formed a new coalition government. The Soviets disapproved of the new Cabinet, and showed this in many ways in September and November of 1958. The Soviet Ambassador was recalled home without notifying the Finnish government, the Soviets organised a press and radio campaign against the Finnish government and Finnish communists actively criticised the Finnish government. The Soviets refused to set a date for trade negotiations for the following year’s trade agreement, cancelled all other important economic negotiations, and several existing contracts, delayed payments on old ones and told several large Finnish firms they would not get any new orders from the Soviet Union.⁴¹⁹ All this put the Finns in an economically difficult situation, and the FO and the State Department began considering ways to help Finland.

The Americans acted quickly and the US Ambassador, John D. Hickerson, was authorised to offer the Finnish government economic contingency aid in the form of credit. The Americans had also started to make arrangements to supply Finland with those commodities it could no longer import from the Soviet Union. He approached the Finnish authorities in November 1958 and made it clear that the US government could offer economic aid in the form of supplies and credit to Finland.⁴²⁰ With regards to the question of Western loans to Finland, the FO was mainly a sympathetic bystander in what was mainly a US operation.⁴²¹ There was no serious possibility of British loans to

⁴¹⁷ NA. FO371/134762. NF1015/34. D.L. Busk, Helsinki, to Selwyn Lloyd, FO, November 4, 1958; NF1015/35. D. L. Busk, Helsinki, to M.G.L. Joy, FO, November 12, 1958.

⁴¹⁸ See for example Holsti, *International politics*, pp.171-172; Allen, *Soviet economic warfare*, p.40. Memorandum of Conversation. February 8, 1959. FRUS 1958-1960, volume IV, p. 39.

⁴¹⁹ NA. FO371/134762. NF1015/34. D.L. Busk, Helsinki, to Selwyn Lloyd, FO, November 4, 1958; NF1015/35. D. L. Busk, Helsinki, to M.G.L. Joy, FO, November 12, 1958; “Intelligence Memorandum. Recent trends in Finnish-Soviet Trade”. CIA/RR IM 59-2. March 10, 1959. CIA FOIA, Electronic Reading Room. <http://www.foia.cia.gov> (27.5.2002); NA. FO371/142867. NF10338/21. “Soviet-Finnish Relations” A FO memo (1959); NARA. SD. RG59. Decimal Files on Finland 1955-1959, box 4710. 860E.00/12-558. Finland Weekly Economic Review no. 49, American Embassy, Helsinki, December 5, 1958.

⁴²⁰ Juhani Suomi, ed., *Urho Kekkosen päiväkirjat*, vol. 1 (1958-62) (Helsinki: Kustannusosakeyhtiö Otava, 2001), November 26, 1958 (p.146), November 29, 1958 (p.147), December 10, 1958 (p.155); Tasavallan Presidentin Arkistosäätiö, Orimattila, Hovila, Finland (Hereafter TPA). UKA. Yearbook 1958. ”Muistiinpano”. O. Kaila, November 26, 1958.

⁴²¹ NA. FO371/134778.

Finland in 1958; this was something the British argued that they could not afford,⁴²² and the British Ambassador, Douglas Busk, considered that for tactical reasons the Finns might have given a somewhat too bleak picture to Hickerson about the state of the Finnish economy.⁴²³ The British Ambassador did hope that the British could help by encouraging an increase in Finnish-British trade, but this would be a slow process, and could not provide immediate help for the Finns. He was more interested in the possibility that the Germans could buy more from Finland and help to balance Finnish-West German trade, but argued that the German “*selfishness*” would make it unlikely that they would in fact do this.⁴²⁴ Rather an unfair criticism considering that the UK itself was always unwilling to increase purchases from Finland or give the country any economic support.

The West Germans were also suggesting that the NATO council should consider possibilities of giving economic aid to Finland, and the heads of the British, American, French and German diplomatic missions in Helsinki should do the same in Finland. The Americans were not enthusiastic about these suggestions, which could prove to be counter-productive. Ambassador Busk and the FO firmly opposed the West German initiative, because if the news about discussions like this leaked to the Soviets, the results for Finland would, according to Busk, be disastrous. Presumably he feared Soviet counteractions especially since the initiative had come from the Germans.⁴²⁵ The fact that the British Embassy believed that the main West German diplomatic representative in Finland had “*probable Nazi background*”, was “*pushing*”, “*prone to believe wild rumours*”, and was claimed to be “*unscrupulous and untrustworthy*”, did not make the situation any easier.⁴²⁶ It seems that the NATO proposal was dropped because of the fall of the Finnish government. Busk felt that if the Germans wanted to help, they should just buy more from Finland.⁴²⁷ The Political Advisors’ Committee of

⁴²² NA. FO371/134762. NF1015/34. D.L. Busk, Helsinki, to Selwyn Lloyd, FO, November 4, 1958.

⁴²³ NA. FO371/134762. NF1015/35. D.L. Busk, Helsinki, to M.G.L. Joy, FO, November 12, 1958.

⁴²⁴ NA. FO371/134762. NF1015/34. D.L. Busk, Helsinki, to Selwyn Lloyd, FO, November 4, 1958.

⁴²⁵ NA. FO371/134772. NF1121/32. D.L. Busk, Helsinki, to T. Brimelow, FO, December 10, 1958; M.G. L. Joy, FO, to D. Busk, Helsinki, December 16, 1958; NF1121/34. D. Busk, Helsinki, to M.G.L. Joy, FO, December 18, 1958; FO371/134763. NF1015/52. “Secret. Finland”. M.G.L. Joy, December 19, 1958.

⁴²⁶ NA. FO371/134772. NF1121/34. D. Busk, Helsinki, to M.G.L. Joy, FO, December 18, 1958.

⁴²⁷ NA. FO371/134772. NF1121/32. D.L. Busk, Helsinki, to T. Brimelow, FO, December 10, 1958.

NATO did discuss the Finnish situation, in utmost secrecy, on January and February 1959, but at that time the crisis was already over.⁴²⁸

Despite British unwillingness to help Finland, they did want to encourage the Finns to take a tougher line against Soviet actions.⁴²⁹ The only way the British were prepared to help concretely was by supporting a loan to Finland in the IBRD, and in January 1959, when the crisis was already almost over, the British representatives urged the IBRD staff to expedite the administrative preparations for the \$37 million loan to be granted for the modernisation of the Finnish woodworking industry.⁴³⁰ Besides being an effective way to support the Finnish economy, the IBRD loan was perceived to have the positive aspect that it would not directly cost anything for the UK.⁴³¹

The attitude of British policy-makers towards the American plans to supply Finland with oil and other fuels, as well as wheat and cotton, from Western sources was not very enthusiastic. In short, they were willing to offer supplies to Finland only if this would be economically beneficial for the UK and provided a possibility of increasing British market share in Finland. The initiative for the preparations came from the US Embassy in Helsinki, which feared that the Soviet-Finnish trade agreement, due to expire at the end of the year, would not be renewed, and that the Soviets would cut off their supplies to Finland. The US government had enquired confidentially whether US oil companies operating in Finland, Standard Oil of New Jersey and Gulf Oil, would be willing to help Finland if necessary by extending credit or by entering barter agreements, i.e. taking Finnish products such as barges, oil-field equipment and prefabricated houses in exchange for oil. Not surprisingly, the companies were not enthusiastic about barter agreements. They would have to take products, which might be difficult to sell forward. They did agree to provide extended credit of 120 to 180 days provided that all three Western oil companies operating in Finland adopted a common line. Common Anglo-American action was therefore needed and on November 17, 1958 the State Department contacted the British Petroleum Attaché in Washington and informed him of the American actions. The State Department asked the British government to discover

⁴²⁸ Jukka Seppinen, *Mahdollomasta mahdollinen. Suomen tie Euroopan unioniin* (Helsinki: Ajatus Kustannusosakeyhtiö, 2001), pp.282-283.

⁴²⁹ NA. FO371/134762. NF1015/34. D.L. Busk, Helsinki, to Selwyn Lloyd, FO, November 5, 1958.

⁴³⁰ NA. FO371/142872. NF1111/1. Minutes; Telegram no. 34 from Busk, Helsinki, to FO, January 26, 1959; Telegram no. 27 from FO to Helsinki, January 30, 1959.

⁴³¹ NA. FO371/134778. NF11345/5. D.L. Busk, Helsinki, to D.A.H. Wright, FO, December 4, 1958.

Shell's views on the matter. The Americans also had similar suggestions about coal and coke, and they were planning to exchange these for pit props.⁴³²

In principal, Shell expressed support for the US suggestions, but in practice it downplayed the risk that the Soviets might cut off supplies. Nor was the company very enthusiastic about making economic concessions to the Finns. Based on the general Soviet record of honouring contracts, Shell felt that it was not likely that they would cut off supplies, and the company had little evidence in this case to think otherwise.⁴³³ Rather a surprising statement, considering that the oil companies were always warning about the dangers of becoming too dependent on "Red oil". Contrary to what the State Department had claimed, Shell informed the Ministry of Power that existing contracts between Finland and the Soviet Union would in fact cover supplies for 1959.⁴³⁴ The FO view was that the real danger was the cutback of Soviet imports from Finland, not exports to Finland.⁴³⁵ Busk felt that the Soviets would probably not cut off their exports to Finland, since this would make them visibly guilty of creating economic problems for Finland and because the present method of reducing imports from Finland was quite effective enough.⁴³⁶ The Board of Trade took the line that they did not want either to encourage or discourage barter agreements regarding oil or coal, but the department was not particularly keen on granting any special import facilities for products from Finland.⁴³⁷ This was a crucial issue, since it was probable that the Finns would not have adequate foreign currency reserves to buy oil from the West.

Increasing Shell's supplies to Finland would not be a problem in practical terms. Earlier in 1958 the Finnish government, anxious to import more from the Soviet Union in order to balance Finnish-Soviet trade, had asked Western companies to reduce their supplies to Finland. Shell and Gulf had reluctantly agreed to "slow down" their imports from Western sources, even if they did not formally concede to reduce the total amounts

⁴³² NA. FO371/134783. NF1531/3. Telegram no. 3132 from Caccia, Washington, to FO, November 18, 1958 and telegram no. 3199 from Hood, Washington, to FO, November 24, 1958; FO371/134778.

NF11345/4. M.G.L. Joy, FO, to D.L. Busk, December 2, 1958; NARA/KA. SD. RG59, box 3488 (760 E.00) 1958-59 USA TK 21. Department of State. Memorandum of Conversation, November 18-20, 1958.

⁴³³ NA. FO371/134783. NF1531/4. J.R. Jenkins, MOP, to J. Doyle, FO, November 25, 1958; FO511/134. Telegram no. 234 from FO to Helsinki, November 27, 1958.

⁴³⁴ NA. FO371/134783. NF1531/5. J. Cooper, Shell, London, to J.R. Jenkins, MOP, November 26, 1958, copy for FO.

⁴³⁵ NA. FO371/134783. NF1531/5. Telegram no. 8445 from FO to Washington, November 27, 1958.

⁴³⁶ NA. FO371/134772. NF1121/33. D.L. Busk, Helsinki, to M.G.L. Joy, FO, December 9, 1958.

⁴³⁷ NA. FO371/134783. NF1531/3. D. W. Savage, BOT, to R.G. Stuart, MOP, November 24, 1958.

agreed in previous contracts. If the Soviet suppliers were to cut off, it would not be difficult to restore Western suppliers to the previous level. Similarly, extending credit to six months was not a problem in the short run, since for various reasons, Shell had already done this for its subsidiary in Finland before. A period longer than six months would, however, create an undesirable international precedent,⁴³⁸ and barter agreements were totally unacceptable.⁴³⁹

Sourcing coal for Finland from the UK also seemed possible. In fact, the Finns had been slow to take all the coal contracted before from the UK, because of the shortage of funds and possibly also because they had been able to buy it cheaper from the Soviet Union and Poland. In fact, coal stocks were at present at a very high level in Finland. If Soviet and Polish sales to Finland were cut off, there would in fact be an interesting commercial opportunity to increase British sales to Finland. If for some reason the British could not supply coal, the West Germans or the Belgians most likely could. Finding coal was not therefore really a problem, but shipping it to Finland might be. J.E. Chadwick, Head of the Economic Relations Department of the FO, felt that if the Soviets cut their supplies during the winter when the Baltic ports were frozen, it might not be possible to get additional quantities of coal and coke to Finland.⁴⁴⁰

At the time Shell made its decision to join the common Western front the Fagerholm government had already resigned. The immediate urgency disappeared, but the potential threat still remained and the State Department decided to put its supply plans, including the oil companies' promises, on "ice", to wait for potential new problems.⁴⁴¹ Before the crisis had ended, the Finns had also rejected US help, because it was feared that it would only lead to further deterioration in Finnish-Soviet relations. President Kekkonen even publicly rejected American offers by saying that offers of this kind, "however

⁴³⁸ NA. FO371/134783. NF1531/4. J.R. Jenkins, MOP, to J. Doyle, FO, November 25, 1958; FO511/134. Minutes by W.N.R. Maxwell, November 20, 1958.

⁴³⁹ NA. FO371/134783. NF1531/5. J. Cooper, Shell, London to J.R. Jenkins, MOP, November, 26, 1958, copy for FO.

⁴⁴⁰ NA. FO371/134778. NF11345/4. D.L. Busk, Helsinki, to M.G.L. Joy, FO, December 2, 1958; J. E. Chadwick, FO, to P.L. Carter, Washington, December 5, 1958; FO371/134772. NF1121/33. D.L. Busk, Helsinki, to M.G.L. Joy, FO, December 9, 1958.

⁴⁴¹ NA. FO371/134783. NF 1531/5. J. Doyle, FO, to J.R. Jenkins, MOP, December 11, 1958; FO371/142897. NF1531/1. D. Eagers, Washington, to J.R. Jenkins, MOP, December 29, 1958, copy for FO.

well-meaning” would just be dangerous for Finland.⁴⁴² However, his unwillingness to take Western aid and loans applied only to contingency aid in the time of acute crisis, not any long-term aid given in the less critical periods and without publicity.⁴⁴³ Soon after the immediate crisis was over the Finnish, the US and the World Bank officials began to negotiate about new “less political” loans for Finland. The most visible results of these discussions were the \$5 million US government loan to Finland for the construction of small ships, which was paid with Finnish marks accumulated through the sale of US agricultural surpluses to Finland, and the \$37 million IBRD loan to the Finnish woodworking industry.⁴⁴⁴

The Foreign Office was willing to support IBRD loans to Finland, and in the spring of 1959 the Ambassador, Douglas Busk, and some Foreign Office officials considered the possibility of giving additional long-term Western aid to Finland. This would relieve unemployment in the backward areas of Northern and Eastern Finland (the electoral districts of Lapland, Oulu and Kuopio East) and make Finland less dependent on the Soviet Union. The Communists had made significant gains in the areas in question in recent elections, and this fact was widely considered to be the result of the bad social and economic conditions facing the local population. By improving living standards in these areas, the growth of communist support could be halted or even reversed.⁴⁴⁵

These suggestions did not receive crucial support from the upper levels of the FO. Commenting on Busk’s suggestions the Under-Secretary of State, Con O’Neill, whose area of responsibility included the Northern Department, argued that “*they did to a*

⁴⁴² Rautkallio, *Kekkonen ja Moskova*, pp.309-316; Ahti Karjalainen and Jukka Tarkka, *Presidentin ministeri. Ahti Karjalaisen ura Urho Kekkonen Suomessa* (Helsinki: Kustannusosakeyhtiö Otava, 1989), pp.72-73; Suomi, ed., *Kekkonen, diary, vol. 1*, November 21, 1958 (p.143), November 26, 1958 (p.146), November 29, 1958 (p.147), December 10, 1958 (p.155).

⁴⁴³ NA. FO371/142867. NF10388/31. Minutes by R.D.C. McAlpine, June 17, 1959; “Record of conversation between the President, the Parliamentary-Under-Secretary and the Ambassador”. British Embassy, June 1959; FO371/142886. NF1151/24. D.L. Busk, Helsinki, to T. Brimelow, FO, April 21, 1959; Suomi, ed., *Kekkonen, diary, vol. 1*, March 17, 1959 (p.211), April 29, 1959, (p.227), November 15, 1960 (p.375); Juhani Suomi, *Kriisien aika. Urho Kekkonen 1956-1962* (Helsinki: Otava, 1992), p.189.

⁴⁴⁴ NA. FO371/142881. NF11345/3. D. L. Busk, Helsinki, to Selwyn Lloyd, FO, June 5, 1959; Rautkallio, *Kekkonen ja Moskova*, pp.320-326; UM 12 L:181 Yhdysvallat 1951-1973. ”Suomen ja Yhdysvaltain suhteet vuonna 1959”. R.R. Seppälä, Washington, January 20, 1960; NARA. SD. RG59. Decimal Files on Finland 1955-1959, box 4712. 860E.10/5-2259. Telegram from Dillon, SD, to American Embassy, Helsinki, May 22, 1959.

⁴⁴⁵ NA. FO371/142873. NF1121/4-5; FO371/142874. NF1121/8/G. D.L. Busk, Helsinki, to J.E. Chadwick, FO, May 13, 1959; “Aid for Finland” by T. Brimelow, April 14, 1959; NF1121/9G. Third draft of Joint Economic Measures Committee paper “The Economic Position of Finland. Note by the Foreign Office”.

considerable extent represent the special pleading which one naturally expects from an Ambassador in a friendly country” In O’Neill’s view, unemployment in the whole of Finland (5 per cent during the previous winter) was not particularly high in international comparisons, and even if the unemployment problem in Northern Finland was indeed severe, this area had also relatively few inhabitants. It would not seem wise to use financial resources in order to influence the voting behaviour of a relatively small number of voters. In addition, the Finns themselves had not asked for help and it seemed odd to give money to a country that had not requested it, when there were many countries, which had asked for support. Instead O’Neill preferred further loans from the IBRD and the US Export-Import Bank.⁴⁴⁶ Curiously O’Neill apparently felt that his arguments about unemployment were not relevant if the money came from these sources. O’Neill’s views received support from other FO officials, who were also conscious of the fact that, in order to help Finland with British money, the FO would have to ask for funds from the UK Parliament. ECGD might be able to loan funds for Finland, but this would have to be tied to sales of British goods. The whole issue was eventually abandoned without even taking the prepared paper up before the inter-departmental Joint Economic Measures Committee, as had been intended.⁴⁴⁷

Ironically, Con O’Neill himself was appointed as the next Her Majesty’s Ambassador to Helsinki. In his new position O’Neill took the time to study in detail the crisis of 1958, and as a result he now concluded that the views he had held at the time had been ill informed. The Ambassador changed his views about the desirability of giving British aid to Finland and on his suggestion the FO decided to carry out a study of the history of the 1958 Finnish-Soviet crisis and considered examining with the US State Department how the West could diminish possible Soviet economic pressure by providing economic support. O’Neill felt that since such pressure had been successful in 1958 and still provided an obvious tool for the Soviets to promote their interests, it was likely that the next time they decided to intervene in Finland’s internal affairs, the same

⁴⁴⁶ NA. FO371/142874. NF1121/8/G. Minutes by C. O’Neill. April 15, 1959; The communist-dominated SKDL had received 12,900 additional votes in the last parliamentary elections in the three electoral districts concerned. NA. FO371/142874. NF1121/8/G. D.L. Busk, Helsinki, to J.E. Chadwick, FO, May 13, 1959.

⁴⁴⁷ NA. FO371/142873. NF1121/5/G. Minutes; FO371/142874. NF1121/8/G. Minutes by D.A.H. Wright, April 16, 1959; NF1121/9G. Minutes.

approach would be taken.⁴⁴⁸ “*Russian take-over in Finland would be a severe blow indeed to the West and equally the frustration of a Russian attempt to do so would be a great gain*”,⁴⁴⁹ wrote R.H. Mason, the Head of the Northern Department of the FO. As it soon turned out, not everyone in Whitehall or even in the Foreign Office agreed with him about the importance of Finland.

The State Department shared O’Neill’s fears for the future of Finland and in fact, in January 1961, the Department had proposed to the Foreign Office joint Anglo-American talks on the current Finnish situation, and especially the EFTA-issue.⁴⁵⁰ The two departments concluded in their secret bilateral talks in April 1961 that the situation was paradoxical in the sense that on the surface there were few problems; Finnish-Soviet relations seemed to be good, the Finnish economic situation was prosperous, unemployment was very low, and trade with the West was expanding. On the other hand, the Soviets might again try to intervene in Finnish affairs as they had done in 1958, and Western diplomats were also very concerned about a number of issues in the internal politics of the country, such as the split of the Social Democrat party, which was seen to increase Communist influence.⁴⁵¹

Representatives of the State Department and the Foreign Office agreed that the former would prepare a draft study on Finnish-Soviet trade and possible economic support to Finland.⁴⁵² The conclusions of the US paper “Finland’s Ability to Resist Soviet Pressure” were not very surprising to anyone who had been aware of Western thinking on this subject. The paper suggested that if Finnish trade with the Soviet Union was cut off, it would lead to serious unemployment in the engineering and shipbuilding industries, and would make it difficult to pay for essential imports and to find new markets for products which had previously been exported to the Soviet Union. Finland could solve these problems by expanding trade with the West, but this would take time.

⁴⁴⁸ NA. FO371/159309. NF1072/3. “Trends in Finland”, R.H. Mason, April 7, 1961; NF1072/4. Con O’Neill, Helsinki, to A.D. Wilson, FO, April 5, 1961; Wilson to O’Neill, April 7, 1961.

⁴⁴⁹ NA. FO371/159309. NF1072/3. “Trends in Finland”, R.H. Mason, April 7, 1961.

⁴⁵⁰ Rautkallio, *Novosibirskin lavastus*, pp.29-30.

⁴⁵¹ NA. FO371/159309. NF1072/6. “US-UK Bilateral Talk April 14, 1961 Ad referendum. Finland”.

⁴⁵² NA. FO371/159309. NF1072/6. J.B. Denson, Washington, to R.H. Mason, FO, April 3, 1961; NF1072/6. “US-UK Bilateral Talk April 14, 1961 Ad referendum. Finland”; FO371/159307. “Visit of Finnish President. Brief No. 1: Finland’s position in East-West Relations”. Foreign Office, April 28, 1961.

During the transitional period Finland would need Western credits, which, according to very uncertain preliminary estimates, could be something like \$100 to \$150 million.⁴⁵³

If the operation did indeed cost no more than \$150 million, O'Neill and R.H. Mason believed it would be a cheap price for achieving the objectives. O'Neill felt that the US and the UK governments should agree to offer Finland economic aid if Finland asked for it because of Soviet economic pressure. The Ambassador believed that the US government would be ready to pay most of the costs, but that the UK and other Europeans should pay a smaller amount of the requirements. Not everyone in Whitehall agreed with this assessment. The idea that the British should provide financial aid to Finland, supported by the Northern Department and the British Embassy in Helsinki,⁴⁵⁴ was shot down by the Economic Relations Department of the FO (ERD) before it even formally made its way to the interdepartmental Joint Economic Measures Committee. F.C. Mason, Head of the ERD, found a number of reasons to oppose the aid proposals. The most important of these related to the UK's weak balance of payments situation. General UK aid commitments for 1962 and 1963 already exceeded the limits set by the Chancellor of the Exchequer by £20 million, and the UK's prospective membership of the Common Market and new demands from Commonwealth countries might give rise to new financial demands. Therefore F.C. Mason concluded that, in the case of Finland, the UK "*simply cannot afford to undertake new commitments, however hypothetical*". Besides, Mason suspected that O'Neill was overestimating Finland's importance in the general Western Cold War framework.⁴⁵⁵

In the longer-term, there was a danger that Finland would be unsuccessful in its efforts to expand exports to the West, which in F.C. Mason's view meant that Finland would become "*a semi-permanent pensioner of the West*" for at least several years. If, on the other hand, attempts to expand exports to the West were successful, Finnish products would compete with British exports in world markets, which would be an unwelcome development. Mason felt that the British should not therefore encourage Finland to stop

⁴⁵³ NA. FO371/159317. NF 1151/12. "Helping Finland to withstand Soviet Pressure", Draft memo by R.H. Mason, September 1961.

⁴⁵⁴ NA. FO371/159317. NF 1151/12. "Helping Finland to withstand Soviet Pressure", Draft memo by R.H. Mason, September 1961; FO371/159297. NF103138/9. C. O'Neill, Helsinki, to R.H. Mason, FO, September 12, 1961.

⁴⁵⁵ NA. FO371/159317. NF1151/12. Minutes by F.C. Mason, October 3, 1961.

exporting to the Soviet Union. He called this trade “*natural*”⁴⁵⁶, even if the basic argument of Western diplomats had for years been that war reparations had distorted the structure of Finnish foreign trade by artificially and unnaturally creating an industry that was not competitive in world markets and could only export to the Eastern bloc.⁴⁵⁷ Mason also argued that since Soviet export pressure in 1958 had not transformed Finland into a satellite, there was no clear reason to believe that renewed pressure would now do so.⁴⁵⁸

The Board of Trade’s and the Treasury’s attitude was feared to be negative,⁴⁵⁹ and indeed A.G. White, the senior Board of Trade official most actively involved in Finnish-British trade issues, had already taken an extremely hostile view of the US paper. Finnish behaviour in the EFTA context⁴⁶⁰ had left the Board of Trade with such bitter memories that they had little desire to support aid proposals. He accused the US paper of exaggerating the vulnerability of the Finnish economy in many ways. Firstly, White felt that the paper did not underline strongly enough the fact that the products of the woodworking industry, which at the time amounted to \$40m of total Finnish exports of \$140m to the Soviet Union, would also be competitive in Western markets and could find new outlets there. Secondly, White was not at all certain that if Soviet Union cut off its trade with Finland, this would mean that other communist countries would have to do so too. Thirdly, White accused the paper of the selective and confusing use of labour statistics in a way, which seemed to underline too strongly the role of Finnish-Soviet trade as a source of employment.⁴⁶¹

Having said all that, White admitted that if three important groups of Finnish exports to the Soviet Union, namely engineering products, ships and dairy products, which accounted for 11 per cent (\$92m) of total Finnish exports to all countries in 1959, were cut off, it could prove impossible to find alternative markets for several years. Still, only

⁴⁵⁶ NA. FO371/159317. NF1151/12. Minutes by F.C. Mason, October 3, 1961.

⁴⁵⁷ See for example NA. FO371/111461. NF11338/61. “Finland’s Economic Situation in the light of the Fenno-Soviet Trade Agreement for 1956-1960”, and appendix to M.J. Creswell, Helsinki, to A. Eden, FO, August 11, 1954; FO371/142867. NF10338/21. “Soviet-Finnish Relations” A FO memo (1959); FO371/165931. NF103138/42 R.H. Mason, FO, to T. Brimelow, Washington, June 4, 1962; FO371/111459. NF1112/1/G. “Soviet Policy Towards Finland” FO, January 8, 1955.

⁴⁵⁸ NA. FO371/159317. NF1151/12. Minutes by F.C. Mason, October 3, 1961.

⁴⁵⁹ NA. FO371/159309. NF1072/8. R.H. Mason, FO, to C. O’Neill, Helsinki, September 25, 1961.

⁴⁶⁰ White was probably referring to the question of most favoured nation treatment. See chapter six.

⁴⁶¹ NA. FO371/159297. NF103138/8. A.G. White, BOT, to R.D.C. McAlpine, FO, August 31, 1961.

1.4 per cent of the total Finnish work force was unemployed in March 1961, and from an economics point of view, White considered that it would pose “*no insoluble problems*” for the Finnish to tackle the problem of increased unemployment.⁴⁶²

Considering the political consequences was not the Board of Trade’s responsibility. This gave White a convenient reason to ignore the fact that Western diplomats mostly feared the political consequences, i.e. labour unrest, the potential increase of communist power within the industrial workforce, in which they were already heavily represented, and as a result of these developments, the general increase of the communist and Soviet influence within Finland. White’s faith in the ability of the Finnish government to tackle this problem was, to a large degree, based on the Finnish ability to resettle the 425,000 Finnish refugees evacuated from the areas ceded to the Soviet Union in the Second World War. Again, White ignored the huge economic and social cost involved in this operation, including the founding of a large number of uneconomic small farms. White had less faith in the Finnish ability to tackle the serious balance of payments crisis, which he expected to follow from the cutting off of Finnish-Soviet trade, and he expected that they would need Western financial aid in this situation.⁴⁶³ Despite his critical attitude towards the US paper White had to therefore admit that Finland would need Western help. N.J. Barrington of the FO admitted that the Americans might have indeed exaggerated the economic vulnerability of Finland, but he pointed out that the Soviets had already used economic pressure successfully against Finland in 1958.⁴⁶⁴

When they considered the new proposals, the officials in the ERD remembered very well the fate of their 1959 paper on Finland, which never even got as far as the Joint Economic Measures Committee.⁴⁶⁵ F.C. Mason, Head of the ERD, did not want to strain the FO’s “*credit in Whitehall*” by making proposals to other departments, which would most likely be rejected. If the FO proposed giving aid to Finland anyway, and received approval from the other departments, a maximum financial limit would have to be set on the amount of UK aid to be given. Mason suggested that the FO could propose a limit of £15 million, expecting that this would be cut to £10 million. Other European

⁴⁶² NA. FO371/159297. NF103138/8. A.G. White, BOT, to R.D.C. McAlpine, FO, August 31, 1961.

⁴⁶³ NA. FO371/159297. NF103138/8. A.G. White, BOT, to R.D.C. McAlpine, FO, August 31, 1961.

⁴⁶⁴ NA. FO371/159297. NF103138/8. Minute by N.J. Barrington, September 22, 1961.

⁴⁶⁵ NA. FO371/159297. NF103138/8. “Procedure for getting a Whitehall view on aid to Finland”. N.J. Barrington, September 25, 1961.

countries, especially West Germany and Sweden, would also have to participate. West German action could cause political problems in Finnish-Soviet relations, but, for example, the Board of Trade and the British shipbuilding industry would expect that the Germans share part of the financial burden.⁴⁶⁶ Mason's colleague R.D.C. McAlpine echoed his feelings, although in a less critical manner. He agreed with Mason's view that finding support from Whitehall would be problematic, and hoped that funding for the Finnish metalworking industries could come from the World Bank and the International Finance Corporation. The transformation of Finnish industry would be a very difficult practical problem, and it could cost much more than the Americans had estimated.⁴⁶⁷

Faced by opposition from his colleagues, R.H. Mason, the head of the Northern Department, had to conclude that there would be little chance of getting sufficient general Whitehall support for aid to Finland because of the current UK economic problems. Besides, the successful implementation of any aid project would require co-operation with the Finnish government, and it was far from certain that President Kekkonen or other Finnish politicians would be interested in Western proposals. The possibility that funds for Finnish engineering and shipbuilding industries would come from the World Bank or the International Finance Corporation seemed a much more realistic option for the Foreign Office.⁴⁶⁸

Note Crisis

Western fears of a possible new crisis in Finnish-Soviet relations were not unfounded, and on October 30, 1961, less than two weeks after R.H. Mason formulated the negative conclusions described above, the Soviet Union sent the Finnish Government a note proposing military consultations based on the Finnish-Soviet Treaty of 1948 and referring to the "West German military threat". This action created what has since become known as "the Note Crisis", a highly controversial and debated episode in Finnish political history. The two most popular explanations for the Soviet action have

⁴⁶⁶ NA. FO371/159317. NF1151/12. Minutes by F.C. Mason, October 3, 1961.

⁴⁶⁷ NA. FO371/159317. NF1151/12. Minutes by R.D.C. McAlpine, October 11, 1961.

⁴⁶⁸ NA. FO371/159317. NF1151/12. R.H. Mason, FO, to T. Brimelow, Washington, October 17, 1961.

been the international East-West crisis concerning Berlin at that time, and the Soviet desire to intervene in Finnish internal politics to strengthen their own and President Kekkonen's position. A wide coalition of Finnish political parties, including the large Conservative (Kokoomus) and Social Democratic Parties, had formed a broad anti-Kekkonen alliance seeking to replace Dr. Kekkonen in the following year's presidential elections with a non-political figure, the former attorney-general Olavi Honka.⁴⁶⁹

While the "Note Crisis" seemed to prove that Western concern about the future of Finland was justified, the Soviets did not at this time use economic sanctions as the FO and the State Department had expected. Still, as part of wider US plans to support Finland in the crisis, the US Ambassador brought President Kekkonen a personal letter from President J.F. Kennedy, in which the latter offered Finland economic and political aid.⁴⁷⁰ The State Department continued to expect that the Soviets would use economic means, as well as a variety of other methods to put pressure on the Finnish government,⁴⁷¹ but Kekkonen rejected Western economic aid saying that he did not expect such pressure.⁴⁷² Based on earlier discussions in Whitehall, the FO decided that the British would not offer economic aid to Finland, but would give diplomatic support within the United Nations, if needed.⁴⁷³ When O'Neill came to see Kekkonen on November 21, 1961, the same day as his US colleague, he offered no help for Finland.⁴⁷⁴

President Kekkonen was reluctant to receive any help from Western powers. The Finnish government argued that Finland should rely on its own, and especially on its President's abilities to solve the crisis with diplomatic measures, because any obvious

⁴⁶⁹ The Finnish literature on the Note Crisis is extensive. The semi-official biographer of President Kekkonen, Juhani Suomi, has presented a picture of a severe crisis, which President Kekkonen solved successfully with skilful personal diplomacy, while those observers and historians, whose attitude towards President Kekkonen has generally been more negative have underlined the usefulness of the Soviet note to President Kekkonen in his attempts to secure his own re-election in the Presidential elections of 1962. Hannu Rautkallio has even argued that the whole crisis was pre-arranged and staged jointly by President Kekkonen and the Soviet Communist Party in order to secure Kekkonen's re-election. Suomi, *Kriisien aika*; Rautkallio, *Novosibirskin lavastus*; Rautkallio, *Kekkonen ja Moskova*; T. Junnila, *Noottikriisi tuoreeltaan tulkittuna*. (Helsinki: WSOY, 1962).

⁴⁷⁰ Telegram from the Department of State to the Embassy in Finland, November 20, 1961. FRUS 1961-1963, volume XVI, pp. 419-420.

⁴⁷¹ Telegram From the Department of State to the Embassy in Finland, November 21, 1961. FRUS 1961-1963, volume XVI, p.420.

⁴⁷² Telegram From the Embassy in Finland to the Department of State, November 21, 1961. FRUS 1961-1963, volume XVI, p. 423.

⁴⁷³ NA. FO371/159301. NF103138/98. R. H. Mason's "Finland – Western policy", November 22, 1961.

⁴⁷⁴ Suomi, ed., *Kekkonen, diary, vol. 1*, November 21, 1961 (p.447).

Western help could only weaken the Finnish position by deepening Soviet suspicions. Broadly speaking the European NATO countries most involved in the Finnish question, the United Kingdom, Norway, Denmark as well as neutral Sweden shared Kekkonen's views. The Foreign Office also knew very well that the UK would not be ready to give economic support to Finland, and in general there was no point in offering Western aid, since the country would most likely refuse to accept it. Even if the Finns took a tougher line against the Soviet Union because of hopes of Western support, it was unlikely that any Western aid would be effective. In NATO Council Norway, Denmark, Belgium and Turkey successfully opposed US suggestions that the organisation should make a public statement rejecting the claims of the note.⁴⁷⁵ Faced with this opposition, the US government acted alone, and made \$10 million available for Finland for the purchase of military equipment. Bearing in mind the Finnish unwillingness to accept demonstrative aid, the American Embassy did not offer this money to Finland as aid, but simply informed the Finns that they could buy military equipment at advantageous prices. This information received Kekkonen's initial approval, but he soon changed his mind because of the Cuban Missile Crisis.⁴⁷⁶

The Note crisis was finally solved when Honka gave up his presidential candidacy, the coalition backing him was dissolved and President Kekkonen flew to Novosibirsk in Siberia to negotiate personally with Nikita Khrushchev. In the negotiations in Siberia both parties agreed that no military consultation would be needed at the moment. This removed the direct threat to Finland, but the crisis did not increase confidence in Finland's ability to remain a non-communist country, since, after all, the Soviets had

⁴⁷⁵ NA. FO371/159298. NF103138/37. "Soviet Note to Finland". R.D.C McAlpine, November 7, 1961; "Soviet Note to Finland". R.H. Mason, November 13, 1961; "Memorandum. North Atlantic Council. Soviet Note to Finland. Council Meeting: Wednesday, November 8, 1961". UK delegation to NATO, Paris, November 8, 1961; S.J. Rose, UK delegation to NATO, to R.D.C. McAlpine, FO, November 9, 1961; Rautkallio, *Novosibirskin lavastus*, pp.201-234,246-255; Telegram From the Department of State to the Mission to the North Atlantic Treaty Organization and European Regional Organizations, November 28, 1961. FRUS 1961-1963, volume XVI, pp. 432-434; NARA. SD. RG59. Decimal Files on Finland 1960-63, box 1853. 760E.00/1-561. Memorandum of Conversation "Situation in Finland" between T. Brimelow, British Embassy, Washington, and M.C. Rewinkel, SD, November 22, 1961.

⁴⁷⁶ Telegram From the Department of State to the Embassy in Finland, February, 14 1961. FRUS 1961-1963, volume XVI, p.445; Letter From Secretary of Defense McNamara to the Deputy Under Secretary State for Political Affairs (Johnson), March 29, 1962. FRUS 1961-1963, volume XVI, pp.452-453; Paper Prepared in the Department of State: United States Position on Revising the Finnish Peace Treaty, undated. FRUS 1961-1963, volume XVI, p, 469; Telegram From the Embassy in Finland to the Department of State, August 6, 1962. FRUS 1961-1963, volume XVI, p. 475; Telegram From the Embassy in Finland to the Department of State, September 29, 1962. FRUS 1961-1963, volume XVI, p. 482-483; Telegram From the Embassy in Finland to the Department of State, December 14, 1962. FRUS 1961-1963, volume XVI, p. 491.

managed to successfully influence Finnish internal politics, and had shown again Finnish vulnerability to Soviet pressure. As far as any possible British economic aid was concerned, the Note Crisis did not, however, have any real impact on British government policy. The British Embassy in Helsinki and the Northern Department of the Foreign Office were still interested in proposals to tighten Finnish economic ties with the UK as part of wider joint Western efforts,⁴⁷⁷ but they did recognise that there was little chance of pushing this view successfully through Whitehall departments. This became clear in 1962, when possible economic support to Finland was again under consideration.

FO officials had learned their lessons from the unsuccessful attempts to take up the question of economic aid to Finland in the Joint Economic Measures Committee in 1959 and 1961. When the US State Department was considering new aid proposals in the spring of 1962,⁴⁷⁸ neither the Northern Department nor the Economic Relations Department saw any chance of gaining support from the Treasury or the Board of Trade to agree to any British contingency aid contribution in advance. Unless the FO could present "*cut and dried proposals*",⁴⁷⁹ the Treasury would not even be willing to consider providing the necessary funds, and the Board of Trade would not be willing to support any scheme resulting in increased competition to UK industry, although in a crisis situation the FO's chances would be stronger. The Northern Department also hoped that, as the Norwegian Foreign Minister, Halvar Lange, had suggested, Western powers could buy more products from those Finnish industries, which were dependent on the Soviet market, and perhaps co-ordinate these efforts within the OECD. However, the ERD and the European Economic Organisations Department of the FO could not see how the British government could encourage British firms to buy more Finnish products, if there was no commercial incentive to do so.⁴⁸⁰ The FO also considered that the Finns would be embarrassed by any activity within the OECD, because this would quickly come to the attention of the Soviets, and create a Soviet counter-reaction against

⁴⁷⁷ Rautkallio, *Novosibirskin lavastus*, p.255.

⁴⁷⁸ NA. FO371/165931. NF103138/42. T. Brimelow, Washington, to R. H. Mason, FO, April 4, 1962 and April 18, 1962.

⁴⁷⁹ NA. FO371/165931. NF103138/42. "Helping Finland to Withstand Possible Soviet Pressure". R.H. Mason, March 27, 1962.

⁴⁸⁰ NA. FO371/165931. NF103138/42. Minutes by N.J. Barrington, April 13, 1962; "Helping Finland to Withstand Possible Soviet Pressure". R.H. Mason, March 27, 1962; F.C. Mason's and F.G.K. Gallagher's minutes with the same name, April 6, 1962 and May 8, 1962 respectively; R.H. Mason, FO, to T. Brimelow, Washington, June 4, 1962.

the Finns. In these circumstances FO minds turned again to the World Bank and the IFC.⁴⁸¹

The British Embassy in Helsinki was still trying to argue, with little success, that the UK's strongest competitors were also her best trading partners and the development of the Finnish economy would probably mean that the country could buy more from the UK, and this expansion of British exports to Finland would offset any losses caused to UK industry by increased Finnish competition.⁴⁸²

The Americans were more active, and in 1963, with the support of the Finnish government, they were developing ways of increasing the exports of the Finnish engineering and shipbuilding industries to those undeveloped countries which were receiving aid from the US Agency for International Development. (AID). Finnish industry would supply goods and these would be paid for with AID-funds. Otherwise the AID-funds would hamper Finnish exports in those cases where Finnish producers were competing with the US producers, as had happened at least in some cases. The AID officials were also encouraging Finnish industry to sell to the US market, although they could not of course offer financial support for this purpose.⁴⁸³

“Non-political” loans: World Bank and the Western capital markets

In the debates about emergency aid to Finland, FO officials had repeatedly seen the World Bank as their last hope to provide aid for Finland, when attempts to offer British aid were rejected in London. The FO had another reason to support World Bank loans to Finland. NATO countries hoped that if they could help the modernisation of the Finnish economy, this would lead to a rise in living standards and would make Finnish industries more competitive and therefore able to expand their sales to Western markets. The Finns were anxious to develop the country's industry, and especially the dominant

⁴⁸¹ NA. FO371/165931. NF103138/42. R.H. Mason, FO, to T. Brimelow, Washington, June 4, 1962.

⁴⁸² NA. FO371/165937. NF1121/11. C. O'Neill, Helsinki, to R.H. Mason, FO, June 19, 1962.

⁴⁸³ KA. AK. 15/I. “P.M.” of T. Nevalainen, October 22, 1963; “P.M. Yhdysvaltain AID-ohjelmasta ja Suomen metalliteollisuuden viennistä Washingtonissa lokakuussa 1963 käydyistä keskusteluista”. T. Nevalainen, October 22, 1963; Telegram from New York to the Ministry for Foreign Affairs, October 2, 1963; “Muistiinpano Tasavallan Presidentin ja varapresidentti Lyndon P. Johnsonin keskusteluista Linnassa 7.9.1963”. S. Pietinen, September 27, 1963

woodworking industry. One of the key problems in this was the lack of capital. Finland badly needed capital from other countries, but it was hard for a country with a difficult and dangerous political situation to get loans from private international sources.⁴⁸⁴ Western European governments had imposed strict controls on the international movement of capital,⁴⁸⁵ further limiting the amount that could come to Finland, but even if capital movements had been unrestricted it is hard to believe that Finland would have been high on the list for international investors looking for opportunities. As we shall see, Western diplomats wanted to solve the problem of lack of capital by arranging government-to-government loans to Finland as well as loans from international institutions such as the World Bank and the International Monetary Fund (IMF).

The International Bank for Reconstruction and Development (World Bank) was the main source of long-term loans for Finland from the end of the 1940s to the beginning of the 1960s.⁴⁸⁶ The first World Bank loan to Finland was granted in 1949 and from this loan onwards the State Department and the Foreign Office took an active interest in World Bank loans for Finland for mostly political reasons.⁴⁸⁷ For the same reasons the FO pressed the Treasury to agree to the Finnish request to draw funds from the IMF in 1952.⁴⁸⁸

World Bank loans were particularly useful for the purpose of strengthening the Finnish economy for two reasons. Firstly, of course, the Bank was founded to help undeveloped countries like Finland, which could not borrow the necessary funds from private sources, and secondly, the loans were superficially less political than direct loans from Western governments. This was an important argument in the Western economic strategy, which sought to be low-key on the surface but still effective. Economic

⁴⁸⁴ Jaakko Lassila, *Markka ja ääni. Suomalaisen pääoman palveluksessa*. (Helsinki: Kirjayhtymä, 1993), p.43; Rainer von Fieandt, *Omaa tietään kulki vain* (Helsinki: Kirjayhtymä, 1970), pp.113-114; Tarkka, *Suomen kylmä sota. Miten viattomuudesta tuli voima*, p.11; Nykopp, *Kauppaa*, p.45; Riitta Hjerppe, "Jos ei voi ottaa, täytyy lainata - Suomen valtion velka sotien välisenä aikana" *Kansantaloudellinen aikakauskirja* 93, no. 1 (1997), p.15; NA. FO371/142874. NF1121/9/G. Third draft of Joint Economic Measures Committee paper "The Economic Position of Finland. Note by the Foreign Office".

⁴⁸⁵ David Kynaston, *The City of London. Volume IV: A Club No More 1945-2000* (London: Chatto & Windus, 2001), p.3.

⁴⁸⁶ KA. MK. Neste Oy Historiahaastattelut. Interview of K. Waris by M. Kuisma, February 2, 1989, p.4.

⁴⁸⁷ For the Western attitude to the first World Bank loan to Finland see Memorandum by the Director of the Office of European Affairs (Hickerson) to the Secretary of State, March 1 1949; Memorandum by the Secretary of State's Special Assistant (Carter) to the Secretary of State, March 3, 1949; Memorandum by the Director of the Executive Secretariat (Humelsine) to the Secretary of State's Special Assistant (Battle), March 9, 1949. FRUS 1949, volume V, pp.434-437.

⁴⁸⁸ NA. FO371/98182. UEE223/2. P. Ramsbotham, FO, to M. Stevenson, Try, November 26, 1952.

considerations were not unimportant for the Bank. Bank representatives studied the Finnish loan proposals in detail to establish the economic viability of the projects in question. The Finnish tendency to request loans only for proposals that usually passed this scrutiny, as well as an excellent international credit record, appealed to the staff of the bank, and eventually led to the situation at the end of the 1960s, when the Bank could refuse to give more loans to Finland on the grounds that it had become a developed country, a result for which the bank undoubtedly took some credit itself.⁴⁸⁹

As stated above, the British had their own reason, in addition to the two mentioned above, for supporting World Bank loans to Finland. This was the fact that they would not directly cost them anything.⁴⁹⁰ I would argue that this was the crucial reason why the British supported World Bank loans to Finland, since in the other cases, described in this chapter, where the British were supposed to provide funds of their own, the proposals met with fatal opposition. The UK had provided funds to the Bank, as other member governments had done,⁴⁹¹ but loans to one small country like Finland were hardly large enough to have an impact on the British financial contributions to the World Bank.⁴⁹²

Even if the economic profitability of the projects funded by the World Bank was not an unimportant factor, probably more important for the success of the Finnish applications was the fact that they had the strong backing of the country that provided the Bank with the lion's share of its funds, the United States, supported by the weaker but still not insignificant Great Britain. State Department and Foreign Office documents leave little doubt that British and US diplomats saw the IBRD loans as part of the general economic programme to strengthen the Finnish economy and to tie it more closely to the West, indeed, as much an integral part of this policy than direct US government

⁴⁸⁹ Lassila, *Markka*, p.43; Fieandt, *Omaa tietään kulki vain*, pp.113-114; ME. Annual Report of the Central Association of Finnish Woodworking Industries 1949, pp. 19-20

⁴⁹⁰ NA. FO371/134778. NF11345/5. D.L. Busk, Helsinki, to D.A.H. Wright, FO, December 4, 1958.

⁴⁹¹ Edward S. Mason and Robert E. Asher, *The World Bank since Bretton Woods: the origins, policies, operations, and impact of the International Bank for Reconstruction and Development and the other members of the World Bank group: the International Finance Corporation, the International Development Association [and] the International Centre for Settlement of Investment Disputes* (Washington: Brookings Institution, 1973), p.804.

⁴⁹² In 1971 the UK subscription to World Bank was 10.89 per cent of the total subscriptions. The loans to Finland were only 1.7 per cent of total IBRD net loans to all countries. *Ibid.*, pp.804,830-831.

loans.⁴⁹³ The bank, dominated as it was by the Anglo-Saxon countries,⁴⁹⁴ consulted the foreign ministries on new loan proposals, and whenever the State Department and the Foreign Office decided that the West should find new funds for Finland, the World Bank was one of the most likely sources.⁴⁹⁵

Date	Nominal value \$	Interest %	Loan period, Years
1.8.1949	12 500 000	4	15
17.10.1949	2 300 000	3	2
30.4.1952	20 000 000	4.75	18
13.11.1952	3 479 464	4.75	18
24.3.1955	12 000 000	4.625	15
22.5.1956	15 000 000	4.75	20
16.3.1959	37 000 000	5.75	15
9.8.1961	25 000 000	5.75	15
15.8.1962	25 000 000	5.75	20
18.9.1963	7 000 000	5.5	16
10.7.1964	28 500 000	5.5	15
30.6.1965	14 000 000	5.5	17
27.4.1966	20 000 000	6	15
24.1.1969	22 000 000	6.5	17
15.10.1970	20 000 000	7.25	17
Total	263 779 464		

Source: Suomen Pankin vuosikirja 1970. Helsinki 1971, p. 46.

As table 6 shows, between 1949 and 1970 the Bank granted Finland fifteen loans, 263.8 million dollars altogether, and the Western desire to tie Finland more closely to the West and diminish dependence on the Soviet Union had an important influence on these decisions.⁴⁹⁶ The Bank of Finland founded a subsidiary, the Mortgage Bank of Finland, to distribute the money to individual companies and other organisations. Over half of

⁴⁹³ See for example NA. FO371/142872. NF1111/1; FO371/142873. NF1121/6. Minute by D.L. Busk, March 4, 1959; FO371/111462; NARA. SD. RG59. Decimal Files on Finland 1950-1954, box 5147. 860E.00/10-3053. "Proposed Economic Aid to Finland" from Mr. Trivers to Mr. Frank, October 30, 1953, box 5148. 860E.00/2-1254. "Possible Dollar Loan to Finland for Purchase of U.S. Roadbuilding Equipment". W. Barnes, American Legation, Helsinki, to SD, February 12, 1954; Decimal Files on Finland 1955-1959, box 4711. 860E.10/11-1758. Telegram from Hickerson, Helsinki, to SD, November 17, 1958.

⁴⁹⁴ In 1951, the United States had 33.46 per cent of votes in the bank, and the UK had 13.85 per cent. Mason and Asher, *World Bank*, p.802.

⁴⁹⁵ By 1971 only five countries had received more credit from the World Bank than Finland on per capita basis. *Ibid.*, p.199.

⁴⁹⁶ See for example Hanhimäki, *Rinnakkaiselo patoamassa*, pp.102,132-133; UM 12 L:181 Yhdysvallat 1951-1973. "Suomen ja Yhdysvaltain väliset suhteet v. 1954" J. Nykopp, January 6, 1955.

the sum was used for the development of Finland's basic infrastructure, mostly the electricity supply sector, and to lesser degree the transport sector.⁴⁹⁷ Most of the rest was allocated to the woodworking industry, the principal export sector, and Western loans became one of the cornerstones in the large and ultimately successful investment programmes of the Finnish forest industry in the 1950s and 1960s. Unlike the engineering industry, which was largely dependent on Soviet markets, the woodworking companies sold the majority of their products to the West, where the largest customer was the United Kingdom. With the help of new funds, the companies managed to expand and modernize their production. This led to strong growth in Finland's trade with Western countries and living standards in Finland, and on the other hand, the relative decline of the country's trade with the Soviet Union.⁴⁹⁸ This process, which helped to make Finland less dependent on the Soviet Union, and therefore less vulnerable to Soviet economic pressure, was an important achievement in the Western long-term programme of keeping Finland part of the capitalist and democratic world.

The World Bank loans had a surprisingly strong impact on the Finnish economy considering that during the 1950s long-term foreign loans for Finland barely covered the corresponding total outflow of funds in repayments and interest payments.⁴⁹⁹ One can conclude that if Finland had not received loans from the World Banks, the outflow of funds would have far exceeded the inflow. Not a desirable scenario for a country suffering from lack of capital. During the 1960s the new long-term loans far exceeded the outflow of funds.⁵⁰⁰

⁴⁹⁷ Finnish Trade Review No. 93 (3/1956); p.93; Timo Myllyntaus, *Electrifying Finland: the transfer of a new technology into a late industrialising economy* (Basingstoke: Macmillan in association with ETLA, 1991), p.202; Lassila, *Markka*, pp.43-44; Fieandt, *Omaa tietään kulki vain*, pp.308-311; Marko Nenonen, "Tierakennuksen ja työllisyyspolitiikan yhteiselo päättyy" in *Pikeä, hikeä, autoja. Tiet, liikenne ja yhteiskunta 1945-2005*, ed. Jaakko Masonen and Mauno Hänninen, *Tuhat vuotta tietä, kaksisataa vuotta tielaitosta. Volume 3.* (Helsinki: Tielaitos. Painatuskeskus, 1995), pp.156-167.

⁴⁹⁸ Erkki Pihkala, "Kauppapolitiikka ja Ulkomaankauppa 1945-1986" in *Sotakorvauksista vapaakauppaan. Kauppa- ja teollisuusministeriön satavuotisjuhlakirja* (Helsinki: Valtion Painatuskeskus. Kauppa- ja teollisuusministeriö, 1988); Suomen Pankin vuosikirja 1959. [The yearbook of the Bank of Finland 1959]. Helsinki 1960, p.56; ME. Annual Reports of the Central Association of Finnish Woodworking Industries: 1949, pp. 3-4, 19-20; 1950, p. 4; 1954, p. 18; 1955, p. 3; 1958, pp. 2-3, 16; NARA. SD. RG59. Decimal Files on Finland 1950-1954, box 5147. 860E.00/10-3053. "Proposed Economic Aid to Finland" from Mr. Trivers to Mr. Frank, October 30, 1953.

⁴⁹⁹ Reino Airikkala and Tuomas Sukselainen, eds., *Suomen maksutaseen kehityslinjat vuosina 1950-1974, A:41* (Helsinki: Suomen Pankki, 1976), p.48.

⁵⁰⁰ *Ibid.*, pp.48-49.

At the beginning of the 1960s Finland was able to get its first normal loans from international capital markets, and the United States tried to encourage lending of this kind both in the Western European and New York markets.⁵⁰¹ However, political aspects continued to create problems. In 1961 the Finnish Government issued a public loan through a consortium of Swiss banks. This was the first Finnish loan to be floated abroad for almost three decades,⁵⁰² and the Finnish Minister of Finance declared it to be a measure of Finland's "*new economic stability*".⁵⁰³ Unfortunately, a few months later, the "Note Crisis" began. The Note was widely interpreted in West as a Soviet attempt to establish military bases in Finland or even to make Finland a satellite country.⁵⁰⁴ Although these fears eventually proved unfounded, they weakened the belief in Finland's credit-worthiness, and potential investors' interest in the new Finnish loan plummeted. It took a couple of years for Finland's reputation as a borrower to recover. The second foreign bond loan (\$12.5 million) was floated successfully by a group of US banks lead by Harriman & Ripley in 1963. In the same year German banks organised two normal loans for the development of Finland's industry,⁵⁰⁵ and a Belgian bank arranged a bond loan for the state-owned energy company Imatran Voiman Oy.⁵⁰⁶

The Bank of Finland estimated that the state of the international financial markets made it impossible to raise further funds in 1963, but in the following year estimated demand had sufficiently improved and the Finnish government and companies floated no less than ten loans (344,2 million Finnish marks, which is \$107.0 million or £38.4 million) in the international financial markets. The eagerness of Finnish industry to raise funds

⁵⁰¹ Paper Prepared in the Department of State: Finland. Guidelines of U.S. Policy and Operations, January 1963. FRUS 1961-1963, volume XVI, p. 495-496; For example the US authorities gave Finnish loans exemption from the Interest Equalisation Tax, which was set up by the Kennedy Administration to restrict the outflow of dollars from the United States. This tax could have diminished the ability of Finland to raise funds from US markets. After all the tax did have a considerable impact on the international financial markets and gave a boost to the development of the so called "Eurodollar" market in the Western Europe at the expense of the New Your market. Finland was one of the few Western countries to receive this preferential treatment. In 1964 Finland floated two new loans, both \$15 million, in the New York capital market. UM 12 L:181 Yhdysvallat 1951-1973. "Suomen ja USAn suhteet v. 1964" Finnish Embassy, Washington, January 4, 1965.

⁵⁰² Suomen Pankin vuosikirja 1961. [The yearbook of the Bank of Finland 1961]. Helsinki 1962, p. 25; Suomen Pankin vuosikirja 1964. [The yearbook of the Bank of Finland 1964]. Helsinki 1965, p. 30.

⁵⁰³ NA. FO371/159311. Telegram no. 24 from O'Neill, Helsinki, to FO September 5, 1961.

⁵⁰⁴ See for example Memorandum of Conversation. November 1, 1961. FRUS 1961-1963, volume XVI, pp. 409-410; Telegram from the Embassy in Finland to the Department of State, November 16, 1961. FRUS 1961-1963, volume XVI, pp. 413-414.

⁵⁰⁵ Lassila, *Markka*, p.51. Suomen Pankin vuosikirja 1963. [The yearbook of the Bank of Finland 1963]. Helsinki 1964, p. 30; KA. AK. 15/I. "P.M. Suomen valtion lainasta Ruotsissa". K. Waris, December 2, 1963.

⁵⁰⁶ Suomen Pankin vuosikirja 1963. [The yearbook of the Bank of Finland 1963]. Helsinki 1964, p. 30.

was so strong that the Bank of Finland refused to sanction certain loan proposals, because it felt that their terms were too harsh and would impose too heavy a burden on the Finnish balance of payments, or that they would have a negative effect on the ratings of previous loans. Most of the loans were nominated in Deutsche Marks or dollars. There was only one sterling loan, which formed part of the financial package offered to the Rautaruukki steel company for the purchase of steel-making equipment from the UK.⁵⁰⁷ Sterling did not capture a large role in the years to follow. In the end of the year 1970 only six per cent of all existing unpaid Finnish foreign loans were nominated in sterling.⁵⁰⁸

Although the US government facilitated Finnish attempts to borrow from the international financial markets, it could not prevent negative reaction in these markets to some Finnish events. For example, in the London market, it was difficult to find buyers for Finnish loans, even if the interest was relatively high, and when buyers were eventually found, the rates of the bonds started to decline. This was partly due to the tightness of international capital markets, but also to political developments in Finland. In 1966, when Finnish communists gained a few seats in the new centre-left Finnish coalition government, the decline of Finnish bond rates in the London market visibly accelerated.⁵⁰⁹ The Foreign Office and the British Embassy had indeed feared that the inclusion of communists might create friction in economic relations between Finland and the West. Co-operation with EFTA countries might be jeopardised.⁵¹⁰ The Board of Trade started to investigate the potential implications, but it gradually became clear that

⁵⁰⁷ Suomen Pankin vuosikirja 1964. [The yearbook of the Bank of Finland 1964]. Helsinki 1965, pp. 29-31.

⁵⁰⁸ Suomen Pankin vuosikirja 1970. [The yearbook of the Bank of Finland 1970]. Helsinki 1971, p.35; This does not necessarily mean that none of the other loans were floated in London, since it was a centre of the so-called Eurodollar, Eurocurrencies and Eurobond markets. Eurodollars were US dollars deposited outside the USA (not necessarily in Europe). "The Eurocurrencies" was a general term for the convertible currencies deposited outside their home countries. These funds could be traded with little government interference. The Eurobond market emerged in 1963 when a group of banks floated a \$15 million for Autostrade in London, an Italian organisation responsible for highways. Kynaston, *The City, volume IV*, pp.277-280; Christopher Tugendhat, *The Multinationals, Pelican Library of Business and Management* (Harmondsworth, Middlesex, England: Penguin Books, 1976), pp.191-197. Financially weak countries like Finland had of course to pay higher interest rates than stronger companies or even large companies, as Christopher Tugendhat illustrated by showing how in 1967 Procter & Gamble and National Biscuit floated dollar issues with interest rates of 6.61 per cent and 6.66 per cent respectively, while the government of Finland had to pay a rate of 7.21 per cent and Portugal 7.24 per cent. *Ibid.*, pp.197-198.

⁵⁰⁹ KA. AK. 15/A. Leo Tuominen, London, to A. Karjalainen, October 5, 1966; Ilaskivi, Raimo: "Teollisuutemme mahdollisuudet koti- ja ulkomaisen pääoman saantiin". *Teknillinen Aikakauslehti* 1/1967.

⁵¹⁰ NA. FO371/180067. CM1051/5. Minutes by D.S.L. Dodson, November 12, 1965; A. Lambert, Helsinki, to D.S.L. Dodson, October 6, 1965.

a few communists in the government did not really lead to any change in Finnish policy. They could, however, damage Finland's image abroad.⁵¹¹

While fears about Soviet and communist actions had created problems for the Finns in many financial centres of the world, in London the British government proved to be a serious obstacle. Access for Finland to the London capital market, one of the most important in the world, and therefore potentially a very valuable source of funds for Finland, became in the early 1960s much more difficult than access to the Swiss, Swedish, or US markets.

The United Kingdom had traditionally been an important exporter of capital, but tight exchange controls after the war had completely changed this situation.⁵¹² Despite the regulations, the City still remained an international trading and financial centre, and provided short-term trade credits for exporters and importers from various parts of the globe.⁵¹³ Finnish companies did acquire some of these credits in the 1950s, although the Treasury tried to limit them.⁵¹⁴ British investments or loans to Finland were not entirely ruled out, but they would be acceptable only if the underlying motives were economic, not political, i.e. if the loans were beneficial to the British economy. In 1954 the trade organisation of the Finnish pulp makers, the Finnish Cellulose Union, suggested to the Ministry of Materials, that British companies could provide funds for the expansion of Finnish pulp production, and in exchange the British would get long-term guarantees of pulp supplies.⁵¹⁵ The Treasury, which would have to sanction the necessary transactions, showed cautious approval. The suggestion would “*not be entirely ruled out*” if the raw material supplies in question were essential and could not be obtained on reasonable terms from the sterling countries of the Commonwealth.⁵¹⁶

⁵¹¹ NA. FO371/185720. CM1015/10. “The New Finnish Government”, D.S.L. Dodson, June 3, 1966; CM1015/11. A.E. Lambert, Helsinki, to M. Stewart, FO, June 10, 1966; CM1015/16. A.E. Lambert, Helsinki, to M. Stewart, FO, August 12, 1966.

⁵¹² Kynaston, *The City*, volume IV, p.52.

⁵¹³ *Ibid.*, pp.121-122.

⁵¹⁴ NA. T236/2773; T236/2774.

⁵¹⁵ NA. FO371/111463. NF1151/13. A.S. Gilbert, Ministry of Materials, to D.F. Hubback, Treasury, June 18, 1954, copy for FO.

⁵¹⁶ NA. FO371/111463. NF1151/13. A.J.W.S. Leonard, Try, to A.S. Gilbert, Ministry of Materials, July 13, 1954, copy for FO.

While the Finns did get some short-term credits from the UK on economic grounds during the 1950s, there was no question that they would be allowed to raise long-term loans from the London capital market, unless these were linked to particular exports of British capital goods.⁵¹⁷ The Treasury feared that if foreign governments and companies were able to raise capital in London, and the regulation of British foreign direct investment was removed this would create an additional heavy short-term burden on the British balance of payments and divert funds needed from domestic investments to foreign ones, and for these reasons, only the Commonwealth and Scandinavian countries, (because of their membership of Uniscan), were allowed to borrow in London.⁵¹⁸ This was not an insignificant privilege: the Treasury estimated in 1963 that the supply of British capital to Commonwealth countries was the most important single economic benefit these countries gained from the existence of the Commonwealth.⁵¹⁹ Japan was the first non-Commonwealth, non-Scandinavian, non-Sterling Area country, which was allowed to raise a sterling loan, £5 million in 1963, in London.⁵²⁰

The British government gave the EFTA governments access to the London capital markets at the EFTA meeting in Lisbon in May 1963. This move was part of the general effort to strengthen EFTA, and was linked to British efforts to gather support from other member countries for the acceleration of tariff reductions within EFTA. Norway, Denmark, Austria and Portugal had been reluctant to accept the proposed acceleration, and were ready to do so only after they had received certain individual concessions for themselves.⁵²¹ Since Finland was merely an associate member, British officials concluded that the decision to grant access did not apply to it. The officials did, however, hope that Finland would participate in the acceleration process, and were quick to recognise that the question of access could potentially provide the British with

⁵¹⁷ BEA. OV30/19. "Finland", I.D. Lewis, October 14, 1959; OV30/10. K.S. Weston, Try, to S.J. Cregeen, BofE December 1, 1953; S.J. Cregeen, BofE, to K.S. Weston, Try, December 12, 1953; C40/1215. J.M. Stevens, BofE, to J.R. Colville, Philip, Hill, Higginson, Erlangers Limited, October 15, 1959.

⁵¹⁸ Kynaston, *The City, volume IV*, pp.271,274; NA. T295/10. "Inward and outward investment". Treasury, April 10, 1963; Uniscan was founded by the UK, Sweden, Norway and Denmark in 1950 to develop Anglo-Scandinavian economic co-operation. Juhana Aunesluoma, "An Elusive Partnership: Europe, Economic Co-operation and British Policy towards Scandinavia 1949-1951". *Journal of European Integration History* 8, no. 1 (2002), pp.103-119.

⁵¹⁹ NA. T295/10. "Inward and outward investment". Treasury, April 10, 1963.

⁵²⁰ Kynaston, *The City, volume IV*, pp.282-283.

⁵²¹ NA. FO371/171370; FO371/171371; T312/355. "Access to the London Market – Finland" J.G. Owen, August, 21, 1963; FO371/177332. M1071/2. Sir E. Cohen, Geneva, to R.A. Butler, FO, January 7, 1964: "European Free Trade Association (EFTA): Annual Review for 1963".

significant bargaining power in their attempts to persuade the Finns to speed up their tariff reductions as much as the EFTA members had agreed to do. Referring to their economic problems, and opposition from Finnish trade unions, the Finnish government expressed its reluctance to accelerate as much as the EFTA countries.⁵²²

The question of access to the London capital market was not purely an economic one. The Foreign Office, which was responsible for political considerations, recognised that, in general, it was important to tie Finland as closely as possible to EFTA, especially since the “*important, if not the main*” benefits of the FINEFTA agreement were political, i.e. making Finland less dependent on the Soviet Union and strengthening Finnish ties with the West. For this reason the FO supported the suggestion to grant access for Finland, but agreed that in the negotiations with the Finns the concession should be linked to the acceleration, and offered to the Finns at the best tactical moment.⁵²³

It was not eventually necessary to make this connection, since in the end agreement with Finland was reached about the acceleration more easily than expected, when the Finnish government made a compromise solution which was very close to the EFTA timetable.⁵²⁴ The general view in Whitehall was now that Finland should be granted access, because otherwise the British government might be accused of discrimination. After the question of acceleration was resolved the Swedes were willing to grant the Finns access to their own capital market, and the Swiss considered that their previous decision to give EFTA countries access to the Swiss market applied also to Finland⁵²⁵ However, unfortunately for the Finns, before the final decision was made in Whitehall, British views changed after a hard-working Treasury official, J.G. Owen, developed a new approach to the whole question of Finnish access.

Owen’s basic idea was that the “access-card” should be used to solve purely bilateral disputes between Finland and Britain. At the beginning of September 1963, he reported

⁵²² NA. FO371/171324. M1076/40. G.H. Baker, Geneva, to E.J.M. Richardson, FO, July 24, 1963.

⁵²³ NA. T312/355. H.B.C. Keeble, FO, to L. Pliatzky, Treasury, July 22, 1963.

⁵²⁴ NA. FO371/171325. M1046/43. Telegram no. 143 from Scott, Geneva, to FO, July 26, 1963; M1076/48. “Finland and E.F.T.A. tariff acceleration.” H.B.C. Keeble, August 2, 1963.

⁵²⁵ NA. T312/355. “Access to the London Market – Finland” A.K. Rawlinson, September 4, 1963; “Access to the London Market – Finland”; S. Goldman, September 5, 1963; FO371/171324. M1076/34. C.M.P. Brown, BOT, to L. Pliatzky, Treasury, July 12, 1963, copy for FO; Telegram no. 137 from Sir E. Cohen, Geneva to FO, July 18, 1963; Telegram no. 139 from G.H. Baker, Geneva to FO, July 19, 1963.

seeing “*more or less by chance*”⁵²⁶ a list of outstanding bilateral issues between Britain and other EFTA countries. In the case of Finland he spotted four different cases: British Petroleum oil exports to Finland, the steel plant equipment contracts for Rautaruukki steel works, the locomotive acquisitions of the Finnish State Railways and the revenue duties on British cars. Owen’s idea was that access should be given to Finland, only if some of the problems could be solved in the way the British had hoped.⁵²⁷ This was certainly compatible with the previous British view that the UK should get something in return if it gave Finland access to the London Capital Market.⁵²⁸

Owen’s idea was quickly accepted by his superiors. The Lord Privy Seal, Edward Heath, raised the issue privately with the Finnish foreign minister Veli Merikoski and the head of the foreign trade section at the Foreign Ministry, Olavi Mattila, just before the FINEFTA council meeting in Helsinki on September 14. Owen, who was present, reported that Heath said “*very bluntly*”⁵²⁹ to Merikoski that Finland would not get access to the capital market before outstanding bilateral commercial problems concerning cars, oil and Finnish state contracts were resolved.⁵³⁰ The refusal was not just a theoretical issue, since the British investment bank Hambros asked at the beginning of October for the right to make a market issue of £4 million for Finland in the London market.⁵³¹ “*They did not like, but they obviously appreciated the*

⁵²⁶ NA. T312/355. “Access to the London Capital Market” J.G. Owen, September 6, 1963.

⁵²⁷ NA. T312/355. “Access to the London Capital Market” J.G. Owen, September 6, 1963; The reason why nobody had thought of making this connection was probably the structure of Whitehall foreign economic policy machinery. The access to the London capital markets and the acceleration of tariff reductions were EFTA issues dealt separately from and often by different officials than the bilateral grievances about the British exports to Finland, which belonged more to the spheres of general export promotion and support for British economic interests’ abroad. Therefore, while the idea of linking the questions of acceleration and access was easy to develop, linking access to the individual grievances about British exports required both more innovation and more extensive knowledge about current issues in British foreign economic policy.

⁵²⁸ The British were not the only ones, who had got an idea that the access to EFTA capital markets should be used as a bargaining counter in attempts to get the Finns to comply with the views of EFTA members. The Swedish foreign minister Lange had proposed to the British on September 10, 1963 that the Finnish access to Swedish and British capital markets could be made contingent upon Finnish agreement upon the non-discrimination rules by public undertakings within EFTA. NA. T312/355. “Record of Meeting between the Lord Privy Seal and the Swedish Delegation at the Fotel Forests on September 10”, FO, September 24, 1963 copy for Try.

⁵²⁹ NA. T312/355. “Access to the London Market – Finland”. J.G. Owen, September 17, 1963.

⁵³⁰ NA. T312/355. Telegram no. 289 from Lambert, Helsinki, to FO, September 14, 1963, copy for FO; “Access to the London Market – Finland”. J.G. Owen, September 17, 1963; FO371/171326. M1076/70. Edward Heath’s memo on his discussions with the Finns, September 18, 1963.

⁵³¹ NA. T312/255. L. Pliatzky’s “Borrowing by Finland”, October 10, 1963; L. Pliatzky, Treasury, to H.B.C. Keeble, FO, October 21, 1963; KA. AK. 15/I. “P.M. Suomen valtion lainamahdollisuudesta Lontoossa”. K. Waris, October 11, 1963; K. Waris, Governor of the Bank of Finland, to O.P. Karttunen, Minister of Finance, October 29, 1963, copy.

commonsense of the line we were taking. I imagine that they are not unused to receiving this sort of treatment at the hands of the Russians"⁵³², was Owen's interpretation of the Finnish reaction.⁵³³

The Finnish government did not give up easily. Finally, on February 24, 1964 the British firm Davy and United received a Letter of Intent concerning the Rautaruukki rolling mill order.⁵³⁴ On February 25, British Petroleum was informed of a positive decision on their part.⁵³⁵ The unofficial "package deal" was finally wrapped up in mutual understanding with no formal agreement.⁵³⁶ On March 26, the Finns were informed that Finland had received the right to access the London capital market.⁵³⁷

Conclusion

The general British government views regarding the desirability of providing economic aid to Finland depended on who was providing the funds. When it was suggested that the British government should supply part of the necessary funds, the majority view in Whitehall was that plans to help Finland were impractical in many ways, but if the money was being supplied by the World Bank or the Americans, the same plans and suggestions suddenly became practical. This suggests that the main reason for the opposition to the plans to help Finland was the unwillingness to invest British money for this purpose, not the fact that the plans were regarded as impractical.

The proposals made by the FO and the Americans that the British should provide credits for the Finns received even less support than the suggestions to manipulate trade relations. The Finns were anxious to develop their industry, but one of the key problems in this was the lack of capital. The FO hoped that the British could participate in joint Western efforts to provide funds for Finland, but the Board of Trade, the Treasury, and

⁵³² NA. T312/355. "Access to the London Market – Finland". J.G. Owen, September 17, 1963.

⁵³³ For the link between the London capital market and the Anglo-Finnish trade disputes see also Kuisma, *Kylmä sota, kuuma öljy*, pp.347-348.

⁵³⁴ NA. FO371/174896. CM1151/8. Telegram no 35 from Lambert, Helsinki, to FO, February 24, 1964.

⁵³⁵ NA. FO371/174896. CM1151/8. Telegram no 37 from Lambert, Helsinki, to FO, February 25, 1964.

⁵³⁶ NA. POWE61/278. Minutes by N.E. Martin, February 24 and 26, 1964.

⁵³⁷ NA. FO371/174896. CM1151/8. E. Heath, President of the Board of Trade, to O.J. Mattila, Finnish Minister for Trade and Industry, March 26, 1964.

occasionally also the economic sections of the Foreign Office effectively torpedoed any attempts by the FO to provide British economic assistance to Finland.

Understandably, because of the UK's own economic difficulties, the British government could not offer large loans to Finland, but this was not the sole reason for the British attitude, even if this is the picture they liked to present to their Western allies. Despite the Cold War rhetoric expressed by the FO and the Americans, to the Ministry of Supply and the Board of Trade, Finland was solely a trading partner and in some fields an actual or potential competitor in world markets, and the departments refused to look at matters in a different light. If the Americans and the British Foreign Office were successful in their endeavours to move the direction of the exports of the Finnish shipbuilding and engineering industries from the Eastern bloc to the Western markets, they would become competitors of Britain's own industries. Even if it was unlikely that a small country like Finland could become a particularly formidable competitor in world markets, the British economic departments strongly opposed a policy that would further integrate Finnish engineering and shipbuilding industries into the (Western) world economy, an attitude that was much closer to Soviet policy than to the FO or US policy. The British interest in promoting their own economic concerns culminated in the issue of Finnish access to the London capital market, when the British forced the Finns to grant them steel plant and oil contracts in exchange for the right of access.

5. Finnish exports of woodworking products and butter to the UK

The UK as the traditional market for Finnish exports of woodworking products

The UK had been an important market for Finnish tar as far back as the 17th century,⁵³⁸ and at the end of the 19th century Britain became the most important market for the new Finnish woodworking industries. After the collapse of the Russian Empire in 1917, the UK became the most important trading partner for Finland. The main Finnish export product to the UK was timber, but the British also imported paper and agricultural products from Finland.⁵³⁹ The UK share of total Finnish exports was 38.1 per cent during the 1920s and almost 47 per cent between 1931 and 1935. After the Second World War, the UK regained its position as the most important market for Finnish exports, although its share was much lower than before the war, between 1946 and 1950 only 26.7 per cent.⁵⁴⁰

In 1950 no less than 97 per cent of Finnish exports to the UK consisted of timber, woodpulp, paper and other woodworking products. During the time period of this thesis the share of woodworking products declined gradually, but in 1970 it was still over 80 per cent. Most of the Finnish exports of woodworking products consisted of timber and pulp, which were in effect raw materials for British industries, although the export of manufactured goods such as paper (including newsprint) gradually grew during the 1950s and the 1960s.⁵⁴¹ Of the new Finnish export products; the most important were butter and other agricultural products.⁵⁴² The Finnish government subsidised agricultural exports heavily,⁵⁴³ and therefore the success of the Finns in this sphere did not reflect increasing competitiveness of production.

⁵³⁸ Markku Kuisma, *Metsäteollisuuden maa. Suomi, metsät ja kansainvälinen järjestelmä 1620-1920* (Helsinki: Suomen Historiallinen Seura, 1993), pp.36-37.

⁵³⁹ Virrankoski, *Suomen*, pp.173-174,211,213-214; Kuisma, *Metsäteollisuuden*, pp.275-278. The standard English-language book on Finnish economic history is Riitta Hjerpe, *The Finnish economy 1860-1985: growth and structural change, Studies on Finland's economic growth 13* (Helsinki: Bank of Finland, 1989).

⁵⁴⁰ Table 1; Suomen Tilastollinen Vuosikirja. Uusi sarja XLIX 1953. (Helsinki 1954), p. 137.

⁵⁴¹ Appendix A: The structure of British imports from Finland.

⁵⁴² Appendix A: The structure of British imports from Finland.

⁵⁴³ Jukka-Pekka Pietiäinen, *Leivän syrjässä. Maatilahallitus ja sen edeltäjät 1892-1992* (Helsinki: Kustannusosakeyhtiö Otava, 1992), pp.164-182; Paavonen, *Suomalaisen protektionismin*, pp.140-141.

Since the UK was traditionally the most important market for Finnish export products an increase in Finnish-British trade might seem to be a natural way to support the Finnish economy. US diplomats certainly argued so in the early 1950s.⁵⁴⁴ While Finland was an important supplier of woodworking products to the UK market, it was not the only one. In 1952 Finland supplied less than one-third of the total British imports of pit props and wood pulp, 12 per cent of softwood, and 18 per cent of paper and paperboard.⁵⁴⁵ This left a lot of room for Finland's competitors. The UK could have bought more from Finland at the expense of other suppliers. Until 1957 Finnish-British trade was based on bilateral annual trade agreements,⁵⁴⁶ and Vesa Lehtola has pointed out that normal trading offered a convenient way to support the economy of Finland.⁵⁴⁷ As we shall see in the second section, several suggestions like this were made between the end of the 1940s and 1957, but all were rejected. With the help of comparative analysis of Anglo-American policies, I will show that the economic departments of the British government were not willing to let political considerations influence trade policy towards Finland, despite the fact that the British Legation in Helsinki and the Foreign Office often supported the option.

The British explained to the US government that their refusal to help Finland was the result of the UK's economic difficulties, notably the balance of payments, the lack of adequate methods to effectively influence the activities of private buyers, and differing estimates of whether there was really an urgent need to give Finland help.⁵⁴⁸ In the third section I will make a critical examination of the official arguments advanced by the British to justify their policy.

While in day-to-day political debates supporters of the Cold War arguments failed to influence British government policy, it can be argued that the wider "structure" of Finnish-British trade relations was beneficial for Finland and strengthened its links with the

⁵⁴⁴ Hanhimäki, *Rinnakkaiseloja patoamassa*, p.128; Progress Report on a Program of Possible US Actions To Lessen Finland's Economic Dependence on the Soviet Bloc. June 22, 1953. An appendix to Progress Report by the Under-Secretary of State (Smith) on the Implementation of NSC 121. August 25, 1953. FRUS 1952-1954, volume VIII, pp. 763.

⁵⁴⁵ Table 3.

⁵⁴⁶ NA. BT241/1-12.

⁵⁴⁷ Lehtola, "Puuta", Abstract,33-34,40.

⁵⁴⁸ Hanhimäki, *Rinnakkaiseloja patoamassa*, p.128; NA. FO371/106209. NF11338/1. Minutes by H.A.F. Hohler, December 31, 1952; FO371/106211. NF1151/27. "Record of Conversation". D.A.H. Wright, May 28, 1953.

West. In the fourth section I will argue that even if the British attitude seemed “benevolent”, it was really only a result of their weak bargaining position and commercially motivated desire to buy woodworking products from Finland. If British policy towards Finnish exports was not influenced by Cold War considerations, how was it formulated and what factors did have an impact on it? These questions are analysed in sections four and five. In the sixth section I will look at Finnish butter exports to the UK, the only important Finnish non-woodworking product sold in significant quantities to the UK.

Bilateral trade relations 1950-1957, aid in disguise?

In theory, British diplomats hoped to encourage the political and economic independence of Finland and encourage links with the West as early as the late 1940s, but in practice they did very little.⁵⁴⁹ After the outbreak of the Cold War and consolidation of the Western and Eastern alliances, FO officials gradually started to see Finland as a useful, although not crucial, outpost of Western democracy and market economy, than just a defeated enemy and a source of raw materials. By the end of the 1940s, Cold War considerations had started to dominate the FO’s views on Finland, and the department and British Legation (upgraded to Embassy status in 1954) started to argue that the British should try to support the expansion of Finnish trade with Western countries. Since the UK was Finland’s best customer their eyes naturally turned towards Finnish woodworking exports to the UK.⁵⁵⁰

In 1948 when the British and Americans adopted a policy of “keeping Tito afloat”, i.e. economically supporting the Yugoslav government, which had broken off from the Soviet bloc,⁵⁵¹ a number of FO officials started to argue that the British and US should assume a similar policy towards Finland in a coordinated effort. The West should help Finland to develop maximum independence from the Soviet Union, as long as this did not mean that the Finnish economic capacity would grow to such dimensions that it

⁵⁴⁹ NA. FO371/65910. N2330. “British policy in Finland: Activities of Legation staff and British Council”. Mr. Shepherd to Mr. Bevin, February 15, 1947.

⁵⁵⁰ NA. FO371/71426. N12192. Minutes; R.G.A. Etherington-Smith, FO, to C.G. Thorley, Try, December 31, 1948.

⁵⁵¹ Lees, *Keeping Tito afloat: the United States, Yugoslavia, and the Cold War*, Ann Lane, Britain, the Cold War and Yugoslav unity, 1941-49 (Chichester: Sussex Academic Press, 1996), pp.125-149.

would be helpful for the Soviets during a time of general world war, when the Soviets would most likely occupy Finland. But if the West limited its assistance to helping the growth of the Finnish timber industry, and excluded the more strategic engineering industry, this would have few negative strategic repercussions. The FO was not blind to the economic constraints that the weak state of the UK economy placed on British foreign policy, nor the traditional considerations relating to Finland as a source of raw materials, but they still thought that something could be done to help Finland. This policy could be defended on political as well as economic grounds, since Finland was also an important source of raw materials for the West.⁵⁵² Yet, as I will show in this chapter, these wishes met determined opposition from the economic departments, and the only real change in the first post-war years was rhetorical.

Developments in Finland increased concern. The Finnish and Soviet authorities concluded in 1950 a long-term trade agreement for the years 1951-1955. The Finnish authorities regarded the agreement as economically very beneficial. From the US perspective the agreement seemed less positive, even if it increased prosperity within the Finnish workforce and therefore diminished the Communists' chances to gather support. The Americans felt that the agreement would tie Finland more closely to the Soviet Union and give the latter a possibility of increasing its influence within Finland. The Soviets could also use it as a propaganda weapon and precedent in international politics by showing how useful trade between socialist and capitalist countries could be, at the same time as the Americans were tightening their policy of strategic export controls against the Soviet Union.⁵⁵³

The British Minister in Helsinki, Oswald Scott, was disappointed as well. He had hoped that the Finns had learned their lesson from Finnish-Soviet relations in 1949-1950, which showed clearly Finland's vulnerability to Soviet economic pressure, and would now make efforts to find new markets for their engineering products from the non-communist world.⁵⁵⁴ Scott feared that the agreement would lull the Finns into a false

⁵⁵² NA. FO371/71426. N12192. Minutes; R.G.A. Etherington-Smith, FO, to C.G. Thorley, Try, December 31, 1948.

⁵⁵³ Hanhimäki, *Rinnakkaiselo patoamassa*, pp.86-88,99; Rautkallio, *Paasikivi vai Kekkonen*, pp.206-207,210,246; Progress Report by the Under-Secretary of State (Smith) on the Implementation of NSC 121. August 25, 1953. FRUS 1952-1954, volume VIII, p.758.

⁵⁵⁴ NA. FO371/86453. NF11338/25.O. Scott, Helsinki, to E. Bevin, FO, April 19, 1950.

sense of security and lead them to slow down their efforts to find new markets.⁵⁵⁵ However, the FO officials clearly understood the economic benefits that the treaty offered to Finland, at least in the short-term, as it provided employment for the industries previously tied to the war reparations production.⁵⁵⁶

The Foreign Office and the British Legation might have been converted to the Cold War frame of mind, but this did not mean that all of Whitehall would follow them. The latter could not accept the basic idea that considerations other than the economic benefit of the UK should guide foreign economic policy regarding Finland. Criticising the views of the Northern Department of the FO, C.G. Thorley of the Treasury wrote in January, 1949 that

*“It is open to doubt whether there is, between the United States and the United Kingdom, a common ‘attitude which should govern our economic relations with Finland’. I should have thought that it was more on political matters that we should be on common ground with the Americans.”*⁵⁵⁷

A FO official rejected this comment as *“absurd”*, because it suggested *“a watertight division between politics and economics.”*⁵⁵⁸

At the beginning of the 1950s when British diplomatic representatives in Finland and the FO did not receive crucial support from the other departments in London, they became critical of their own government’s economic policy towards Finland. The British Legation staff argued that the British government should take into consideration the political desire to support the Finnish economy and her independence, when making decisions about British trade policy. They were not asking for any large financial contribution. What they were suggesting was that the British should buy more woodworking products from Finland and sell Finland more of those scarce goods than would seem rational from a purely commercial point of view, or at least avoid making new cuts.⁵⁵⁹

⁵⁵⁵ NA. FO371/86454. NF11338/28. Telegram no. 122 from Scott, Helsingfors to FO, May 15, 1950.

⁵⁵⁶ NA. FO371/86454. NF11338/42. Minutes; NF11338/44. Minutes; A. Kellas, Helsinki, to K. Younger, FO, June 21, 1950.

⁵⁵⁷ NA. FO371/77369. N314. C.G. Thorley, Try, to R.G. Etherington-Smith, FO, January 8, 1949.

⁵⁵⁸ NA. FO371/77369. N314. Minutes

⁵⁵⁹ NA. BT11/2840. J.H. Wright, Helsinki, to S.H. Levine, BOT, January 9, 1951; FO371/94629. NF1151/30. J.H. Wright, Helsinki, to R.C. Bryant, BOT, July 25, 1951, copy for FO; FO371/100488.

*“For some time there has been a tendency, in friendly circles, to ask why, if the United Kingdom attaches importance to keeping Finland with the West, we are compelling her to a constantly increasing extent to look Eastwards for markets and supplies”*⁵⁶⁰

wrote a member of the Legation to London in 1951. Partly these comments were related to the Finns’ fear that Finland would become a victim of Western embargo policies against the Soviet bloc, and the Western unwillingness to buy engineering goods from Finland. It was easy for the Legation to reply to these comments by referring to the very high prices of Finnish engineering goods and to deny that the CoCom regulations would apply to Finland, but the diplomats found it difficult to explain to the Finns, the Americans or even to themselves why the British were not willing to buy more of the generally competitive Finnish woodworking products or sell slightly more scarce steel or oil to Finland.⁵⁶¹

The outbreak of the Korean War in 1950 put new pressure on the British economy. The Cabinet approved a three-year £4.7 billion re-armament programme in 1951 as part of NATO efforts to strengthen Western European defences against the Soviet Union. The annual British defence expenditure would double and a quarter of the capacity of the British engineering industry would be needed for military work. This would lessen the capacity available for export production at the same time as prices of imported raw materials were rising fast as a result of the Korean War, and there was a surge of imports from Western Europe. The result was a severe balance of payments crisis.⁵⁶² The government imposed strict regulations and cuts on the import of raw materials, including woodworking products. A new department, the Ministry of Materials took over the supply of most raw materials to industry.⁵⁶³ The Ministry of Materials’ decision to cut imports from Finland in 1951-1953 as strictly as from the other

NF1151/25. A.N. Noble, Helsinki, to E.A. Berthoud, FO, May 29, 1952; E.A. Berthoud, FO, to A.N. Noble, June 3, 1952; NF1151/44. Minutes.

⁵⁶⁰ NA. BT11/2840. J.H. Wright, Helsinki, to S.H. Levine, BOT, January 9, 1951.

⁵⁶¹ NA. BT11/2840. J.H. Wright, Helsinki, to S.H. Levine, BOT, January 9, 1951; First draft of telegram to Helsinki; Telegram no 3 from Scott, Helsingfors to BOT, January 9, 1951.

⁵⁶² Corelli Barnett, *The Verdict of Peace. Britain Between Her Yesterday and the Future* (London: Pan Books, 2002), pp.42-43; F.S. Northedge, *Descent from Power. British Foreign Policy 1945-1973* (London: George Allen & Unwin Ltd., 1974), pp.278-279; Sean Greenwood, *Britain and the Cold War 1945-91* (Houndmills, Basingstoke, Hampshire and London: Macmillan Press Ltd, 2000), p.101; Milward and Brennan, *Britain's Place*, pp.70-77.

⁵⁶³ "Responsibilities of the New Ministry of Materials". Board of Trade Journal, June 23, 1951, pp. 1322-1323; Shonfield, *British Economic Policy*, pp.70,75-76.

supplying countries provoked new comments from the FO and the British Legation in Helsinki. Import restrictions, the decision to abolish traditional short-term trade credits to Finnish exporters, and diminished demand in the UK market all had a drastic effect on Finnish exports to the UK.⁵⁶⁴

FO officials did suspect that the Finns at times over-exaggerated the level of Soviet threat and their economic problems in order to receive more preferential treatment from the British, but still the FO regarded it important to bolster Finnish willingness to resist Soviet demands and to strengthen the Finnish economy.⁵⁶⁵ The British Minister in Helsinki, Andrew Noble, argued that the British should keep in mind the political significance of Finnish-British trade especially since Finland was particularly dependent on the UK market.⁵⁶⁶ British diplomats in Helsinki proposed that, if the cuts were indeed necessary, they should be focused on imports from other countries, and not from Finland, because a strong decline in Finnish exports to the West could lead to increased dependence on the Soviet bloc and possibly to internal social and economic instability.⁵⁶⁷ In the case of Sweden, Norway, Canada or the Soviet Union, there was no need for similar considerations. The Legation could not understand why the British could not concentrate their import cuts on those countries, which were not in as precarious a political situation as Finland, and especially on those countries demanding dollars as payment. "*There is more at stake than simply the Ministry of Materials' estimate of our need for timber products*",⁵⁶⁸ wrote the frustrated Noble to London in 1951.

Warnings detailing the rise of Communist support in Finland, the increase in Soviet influence and the propaganda opportunities the British were providing to the communists made little impact on the economic departments in Whitehall. Neither did the British Legation's argument that cuts in Finnish exports to the UK would lead to corresponding cuts in Finnish purchases from the UK, since the Finns had only small sterling reserves, and therefore on balance the British balance of payments might not

⁵⁶⁴ UM 5C. Raportit: Lontoo 1-16/1953. Mf. E.O. Soravuo, February 20, 1953, Report no. 3; ME. Annual Reports of the Central Association of Finnish Woodworking Industries: 1951, p. 2; 1952, pp. 1-2,10-11.

⁵⁶⁵ NA. FO371/94628. NF1151/7; Minutes; H. McErlean, FO, to R.C. Bryant, BOT, February 9, 1951; BT241/6. D.A.H. Wright, FO, to M.E. Welch, BOT, March 17, 1953.

⁵⁶⁶ NA. FO371/106211. NF1151/23. A. Noble, Helsinki, to W. Churchill, May 12, 1953; BT241/6. A.N. Noble, Helsinki, to J.E. Coulson, FO, February 25, 1953, copy for BOT.

⁵⁶⁷ NA. T236/2773. J.H. Wright, Helsinki, to R.C. Bryant, BOT, July 25, 1951, copy for Treasury.

⁵⁶⁸ NA. BT241/4. A.N. Noble, Helsinki, to E.A. Bethoud, FO, July 3, 1952, copy for BOT.

improve at all.⁵⁶⁹ The power in trade and financial matters was firmly in the hands of the economic departments, although, in theory, final decisions were usually made in the interdepartmental Overseas Negotiations Committee. The FO had a chance to present its political arguments,⁵⁷⁰ but these made little impact on the economic departments, whose actions were based on their own economic logic. Occasionally the economic departments neither consulted nor informed the FO and the British Legation in Helsinki about decisions to make new import cuts. The FO first heard from the Finnish Minister in London about the Ministry of Materials' politically damaging decision to cut newsprint imports from Finland in 1953 by over 50 per cent compared to the previous year.⁵⁷¹

A Bank of England official, who visited Helsinki in December, 1952, when financial issues were in the forefront of Anglo-Finnish relations, got the impression that HM Minister and his Legation had been left "*rather in dark*" about financial issues, even if the Legation staff tried to keep themselves informed about them.⁵⁷² This lack of information made it of course difficult for the FO and the Legation to promote their views. The Foreign Office was not blind to the economic arguments and constraints. For example, in the case of newsprint import restrictions, FO officials found it difficult to reject the need for these restrictions on imports from Finland, since the restoration of the economic health of the UK would be economically as well as politically crucial. What the FO and the British Embassy opposed was the tendency to almost totally ignore the political issues involved.⁵⁷³

Cuts in British imports of woodworking products from 1951 to 1953 were the result of the serious British balance of payments difficulties and the departments refused to make

⁵⁶⁹ NA. BT241/3. A.N. Noble, Helsinki, to E.A. Berthoud, FO, May 29, 1952, copy for BOT; BT241/4. A.N. Noble, Helsinki, to E.A. Bethoud, FO, July 3, 1952, copy for BOT; A.N.Noble, British Legation, Helsinki, to E.A. Bethoud, FO, June 26, 1952, copy for BOT; "Record of Conversation" D.A.H. Wright, February 7, 1952; FO371/100488. NF1151/2 Minutes by S.J. Whitwell, January 2, 1952; Telegram no. 1 from A. Noble, Helsingfors, to FO, January 1, 1952.

⁵⁷⁰ See for example NA. FO371/100488. NF1151/33. D.A.H. Wright, FO, to A. Noble, Helsinki, July 7, 1952; FO371/100487. NF11338/10. Minutes by R.L. Wade Grey, November, 17, 1952; CAB 134/1097. O.N.(54) 34th Meeting, September 9, 1954.

⁵⁷¹ NA. FO371/100488. NF1151/44. D.A.H. Wright, FO, to A.S. Gilbert, Ministry of Materials, December 1, 1952; FO371/106210. NF1151/12. "Memorandum. Re: Export of Newsprint to U.K." Finnish Legation, London, February 26, 1953.

⁵⁷² BEA. OV30/9. "Finland: Borrowing". H.C.B. Mynors, December 13, 1952.

⁵⁷³ NA. FO371/100488. NF 1151/43. Minutes by D.H. Wright and H.A.F. Hohler, October 23, 1952 and P. Mason, October 24, 1952.

exceptions in the Finnish case. The Finnish suggestion that if the British relaxed their import restrictions, the Finns would commit themselves to buying equal amounts of British exports was refused, because it was stated that the UK needed both to reduce imports but nevertheless increase exports. Exceptions in the Finnish case would therefore be against general British economic policy.⁵⁷⁴ Yet, these principles could be abandoned if the economic benefits for the UK were large enough and such decisions originated from the Board of Trade's attempts to improve the prospects of British trade. Only six months after the Finnish proposal had been rejected, the UK was willing to offer Sweden, Norway and Finland a deal in which the UK would increase its total import programme of paper (from all sources), if the three countries would increase their combined imports from the UK by the same amount. The price was too high for the Nordic countries.⁵⁷⁵

Jussi Hanhimäki has concluded that, by the end of 1952, concern about Finnish economic ties with the Soviet Union became a primary issue in US foreign policy towards Finland.⁵⁷⁶ The new Finnish-Soviet trade agreement for 1952-1955 led to a further increase in Finnish-Soviet trade and secured a market for those sections of Finnish industry, which had been up until 1952 tied to war reparation shipments. At the same time as demand in Western markets for the products of the Finnish wood-working industry was declining, the US expected that trade with the Soviet bloc would account for 30-35 per cent of Finnish foreign trade in 1953, making the Soviet Union the most important trading partner for Finland instead of Great Britain, which had traditionally been the most important destination for Finnish exports.⁵⁷⁷ The Soviets understood that this increased their influence in Finland.⁵⁷⁸

US officials were extremely worried about the growth of Finnish-Soviet trade, but they felt that there was little they could do to stop it, especially since it was feared that strong

⁵⁷⁴ NA. FO371/100488. NF1151/46. J.E. Coulson, FO, to A.N. Noble, Helsinki, January 17, 1953.

⁵⁷⁵ NA. CAB134/1095. O.N.(53)150, July 28, 1953: "Finland. (Note by the Board of Trade); ME03.33 Tuontisäännöstely ja globaalikiintiöt 1951-1955. Telegram from the Ministry for Foreign Affairs of Finland to the Finnish Legation London, June 16, 1953, copy for the Central Association of Finnish Woodworking Industries.

⁵⁷⁶ Hanhimäki, *Rinnakkaiseloä patoamassa*, pp.116-118.

⁵⁷⁷ Progress Report by the Under-Secretary of State (Smith) on the Implementation of NSC 121. August 25, 1953. FRUS 1952-1954, volume VIII, p.758.

⁵⁷⁸ Tuomo Polvinen, *J.K. Paasikivi. Valtiomiehen elämäntyö 5. 1948-1956* (Helsinki: Werner Söderström Osakeyhtiö, 2003), p.191.

US activity would provoke Soviet counteraction. The US State Department tried to convince the Swedes, the British and the Germans to expand their purchases of Finnish goods.⁵⁷⁹ Above all, the Americans hoped that the UK's "*trade policy towards Finland [would] be oriented towards supporting that country's economy to the greatest possible degree*"⁵⁸⁰, since the UK had historically been Finland's most important trading partner.⁵⁸¹ The British were not ready to do this, not even on a limited scale.

In theory, the FO were fully aware of the dangers involved in Finnish-Soviet trade, and in fact the original FO views seemed to be very close to those of the US. The FO feared that, economically, Finland might drift increasingly towards the Soviet Union and if, at the same time, the country continued to suffer from the lack of sterling, the combined political results might be serious. Since the expanded Finnish heavy industries could find markets only in the Soviet Union, the latter was in a strong position to try to control the Finnish economy or, by cutting imports from Finland, cause unemployment and social unrest, which might even lead to communist take-over.⁵⁸² It proved difficult to "sell" these views to the other government departments. The Board of Trade was not particularly concerned about the structure of Finnish foreign trade, and considered it a natural result of the uncompetitiveness of Finnish engineering exports.⁵⁸³ The Bank of England took a similar line; the high level of Soviet-Finnish trade was a predictable result of geography, political relations and the impact of war reparation deliveries, and any question of resisting this was, according to one official, a "*typical American piece of nonsense*".⁵⁸⁴

The Treasury argued that the Finnish sterling shortage was a result of the "*gross mismanagement of her foreign payments*" at the end of 1951 and the beginning of 1952,

⁵⁷⁹ Hanhimäki, *Rinnakkaiselo patoamassa*, pp.126-128; Rautkallio, *Paasikivi vai Kekkonen*, p.210; NA. FO371/106209. NF11338/2. Minute by H.A.F. Hohler, March 4, 1953; NARA. SD. RG59. Decimal Files on Finland 1950-1954, box 5147. 860E.10/12-1252. "Conversation with Minister Artturi Lehtinen, Chief of the Commercial Department of the Ministry for Foreign Affairs", and attachment to W. Barnes, American Legation, Helsinki, to SD, December 12, 1952.

⁵⁸⁰ Progress Report on a Program of Possible US Actions To Lessen Finland's Economic Dependence on the Soviet Bloc. June 22, 1953. An appendix to Progress Report by the Under-Secretary of State (Smith) on the Implementation of NSC 121. August 25, 1953. FRUS 1952-1954, volume VIII, pp. 762.

⁵⁸¹ Progress Report on a Program of Possible US Actions To Lessen Finland's Economic Dependence on the Soviet Bloc. June 22, 1953. An appendix to Progress Report by the Under-Secretary of State (Smith) on the Implementation of NSC 121. August 25, 1953. FRUS 1952-1954, volume VIII, pp. 762-763.

⁵⁸² NA. FO371/100484. NF 1121/6. D.A.H. Wright, FO, to C.G. Thorley, November 14, 1952; NF1121/7. Minutes.

⁵⁸³ NA. FO371/100484. NF1121/7. Minutes.

⁵⁸⁴ BEA. OV30/9. "Trade between the U.S.S.R. and Finland". P.A. Parsons, February 26, 1953.

when, blinded by the growing export earnings during the Korean boom, the Finnish government had licensed substantially more imports than the country could afford. Now the situation was stabilising and the Western-oriented timber industries would provide Finland with a regular flow of sterling.⁵⁸⁵

The British Minister in Helsinki, Sir Andrew Noble, recognised the Soviet trade as a potential threat to Finland, but he felt that the Americans were overreacting:

*“The Americans, as usual, are a bit more excited about the threat to Finland’s economic independence than we are and, also as usual, inclined to rush out with various ill considered suggestions for dealing with what they believe to be the situation.”*⁵⁸⁶

Certainly some of the US suggestions were indeed wildly unrealistic. One American diplomat suggested to the British that the latter should propose to the Finns that they should simply dismantle the capacity created within their engineering industry as a result of the war reparations! The West could help by providing secure markets for Finland’s raw materials.⁵⁸⁷ According to the British Ambassador to Finland, Andrew Noble, the Soviet share of total Finnish foreign trade in the first quarter of 1953 was 28.8 per cent and as long as this share did not increase there was no serious risk of Finland falling under Soviet economic domination. This would, however, depend also on the UK policy and the British should increase their purchases from Finland, or at least avoid new cuts.⁵⁸⁸ The British could not influence the absolute size of Soviet trade with Finland, but they could make an impact on its relative size by promoting British-Finnish trade.⁵⁸⁹

The awareness of Britain’s economic problems, the opposition from other departments and the British Legation’s risk assessments made the FO unwilling to press for any immediate action regarding Finland, although they wanted to remind the other

⁵⁸⁵ NA. FO371/100484. NF1121/9. C.G. Thorley, Try, to D.A.H Wright, FO, November 27, 1952.

⁵⁸⁶ NA. FO371/106209. NF11338/3. A.N. Noble, Helsinki, to HAF Höhler, FO, January 6, 1953.

⁵⁸⁷ NA. FO371/106209. NF11338/1. Minutes by H.A.F. Höhler, December 31, 1952.

⁵⁸⁸ NA. FO371/106211. NF1151/23. A. N. Noble, Helsinki, to Sir W. Churchill, FO, May 12, 1953.

⁵⁸⁹ NA. FO371/106211. NF1151/23. A. N. Noble, Helsinki, to Sir W. Churchill, FO, May 12, 1953 and the appendix “Anglo-Finnish trade” by J.H. Wright; FO371/106205. NF1102/1. A. Noble, Helsinki, to A. Eden, February 10, 1953.

departments of the need to keep Finnish-British trade at a high level.⁵⁹⁰ This latter comment did not gather enthusiastic support from the other departments, but the FO did get one surprising ally, namely the Ministry of Fuel and Power, which wanted to make sure that Finnish sterling earnings were large enough to finance oil imports from Shell.⁵⁹¹

After interdepartmental consultations the British ended up arguing that the US fears were premature. The US recognised that the British had strong economic counterarguments, above all their concentration on attempts to make sterling convertible again, and concentrate their economic resources on developing the British defence and economy, which according to the British would help “the common cause” of the Cold War more, but still the Americans could not understand the strength of British opposition. The British were not even willing to initiate discussions on the Finnish economy in OEEC or CoCom or in any other Western organisation, as the Americans had suggested.⁵⁹²

“The disturbing element in the British attitude is that they apparently admit the element of long-term danger inherent in the present situation; yet they deny the necessity of taking immediate measures of correction that might be carried forward into the long-term”⁵⁹³

⁵⁹⁰ NA. FO371/106209. NF11338/2. Minutes by H.A.F. Hohler, January 27, 1953; D.A.H. Wright, FO, to R.S Symons, Try, February 18, 1953; FO371/106205. NF1102/1. Minutes by R. Faber, February 18, 1953 and H.A.F. Hohler, March 4, 1953; FO371/106210. NF1151/8. J.E. Coulson, FO, to A. Noble, Helsinki, March 25, 1953; The Finnish Minister in London, E.O. Soravuo, had a correct view on the formulation of British policies, when he described the British attitude towards Finland in his annual report for 1953. He described how the British political leadership had displayed undiminished “understanding” towards the Finnish position throughout the year, but concluded that this had not been clearly visible in economic matters. The reason for this, according to Soravuo, was, that especially the Treasury, but also the Board of Trade, had an independent position. The two ministries and the Ministry of Materials had been able to deal with issues within their own sphere of activities freely and to a large degree ignored political considerations. The economic and financial position of the UK had been their only guiding principle. UM 12 L Englanti v. 1953-1955. E.O. Soravuo’s “Suomen ja Britannian suhteista” to Helsinki, March 27, 1954.

⁵⁹¹ NA. FO371/106209. NF11338/6. H.J. Gummer, MFP, to D.A.H. Wright, FO, February 28, 1953.

⁵⁹² The Americans had two reasons for their request: firstly, the traditional close trading links between Finland and the UK, and secondly the US view that “any initiative on the part of the US is ipso facto disturbing to our Allies, having as they do basic fears regarding United States objectives in the Cold War.” Progress Report on a Program of Possible US Actions To Lessen Finland’s Economic Dependence on the Soviet Bloc. June 22, 1953. An appendix to Progress Report by the Under-Secretary of State (Smith) on the Implementation of NSC 121. August 25, 1953. FRUS 1952-1954, volume VIII, pp. 763.

⁵⁹³ Progress Report on a Program of Possible US Actions To Lessen Finland’s Economic Dependence on the Soviet Bloc. June 22, 1953. An appendix to Progress Report by the Under-Secretary of State (Smith) on the Implementation of NSC 121. August 25, 1953. FRUS 1952-1954, volume VIII, pp. 763.

an official US report concluded. The only real result of the Anglo-American consultations about Finland in 1952-1953 turned out to be the slight deterioration of the relationship between the two powers in this policy sphere. The British were annoyed that the Americans continued to “pester”⁵⁹⁴ them for months about Finland, and present unrealistic ideas and views.⁵⁹⁵

The US anxiety did not disappear. When the Finns and the Soviets concluded a new five-year agreement in July 1954, the CIA estimated that the Soviet share of Finnish foreign trade was going to increase from the present level of 30 per cent, if the total Finnish foreign trade remained at the same level. The only hope of preventing this development was to increase Finnish trade with the West.⁵⁹⁶ Unable to gather support from Western Europe, the US government acted alone. The US Minister Jack McFall offered loans and other forms of economic assistance to the Tuomioja Cabinet in April 1954 and warned about the extension of Soviet-Finnish trade and about the planned sales of tankers to China. Tuomioja’s cabinet had plans to liberalise Finnish foreign trade, which, according to McFall, would strengthen Finnish economic ties to the West, and weaken those to the East.⁵⁹⁷

US officials in Washington and in Helsinki continued to study various proposals to increase Finnish trade with the West, some of them rather imaginative. These possibilities included the purchase of Finnish goods for the US armed forces in Europe, the diverting of Yugoslav and Formosan pulp and paper purchases, which were funded by the USA, to Finland as well as the general placing of US funded off-shore procurement contracts in Finland. Other suggestions included the extension of small Finnish rural industrial enterprises and support for Finnish initiatives to develop cobalt mining, so that the US government could buy the production to increase its strategic stockpiles and prevent it from being sold to the Soviets. The State Department even lobbied American carpenters’ unions to lift their ban on installing non-American doors,

⁵⁹⁴ NA. FO371/106211. NF1151/27. “Record of Conversation”. D.A.H. Wright, May 28, 1953.

⁵⁹⁵ NA. FO371/106209. NF11338/15. I.D. Scott, Helsinki, to H.A.F. Hohler, FO, September 22, 1953.

⁵⁹⁶ “Finnish-Soviet Trade Relations” IP-367, August 4, 1954; FOIA, Electronic Reading Room. <http://www.foia.cia.gov> (27.5.2002).

⁵⁹⁷ Blomstedt and Klinge, eds., *Paasikivi's diary, vol. 2*, April 27-28, 1954; Max Jakobson, *Veteen piirretty viiva. Havaintoja ja merkintöjä vuosilta 1953-1965* (Helsinki: Kustannusosakeyhtiö Otava, 1981), pp.48-49; UM 12 L:181 Yhdysvallat 1951-1973.”P.M. Taustaa USAn suhtautumiselle Suomeen” E.A. Wuori, January 1955; ”Suomen ja Yhdysvaltain väliset suhteet v. 1954” J. Nykopp, January 6, 1955.

which was hindering Finnish door sales to the USA.⁵⁹⁸ Many of these projects turned out to be impractical, which had been recognised as a probable conclusion from the start, but some were implemented successfully, such as the Greek purchase of Finnish timber, which was financed by the US government.⁵⁹⁹

The desire of the US government to encourage Finnish exports to the US market became painfully clear to the American plywood producers in the plywood dumping case in the 1950s. According to Eckes, unlike the more protectionist-minded US Congress, the executive branch of the US government was never particularly willing to enforce antidumping legislation when it came into conflict with foreign policy goals. In November 1953 the US Hardwood Plywood Institute had formally accused Finland of dumping plywood and hardboard on the US market. The US Treasury studied the accusation and concluded that the Finns had indeed dumped products on the US market, and therefore violated the Antidumping Act of 1921, but before the decision was made public the State Department intervened and explained to the Treasury that a decision like this would have a negative effect on US policy towards Finland. Because of this intervention, the Treasury modified its method of calculating the “less-than-fair value” of dumped goods in order to make the Finnish offence seem less severe, and then decided that, despite the evidence of dumping, no new duties on Finnish products should be imposed.⁶⁰⁰

Yet, US officials estimated that unilateral US actions, even if the majority could be implemented, could do no more than diminish the Soviet Bloc’s share to ca. 25 per cent.⁶⁰¹ It was, however, market trends which gave the Americans and the Finns significant help, and the growth in demand for Finnish woodworking products made Britain in 1954 once again the most important trading partner for Finland. Even if the Soviet position as Finland’s most important trading partner proved to be short-lived,

⁵⁹⁸ Progress Report on a Program of Possible US Actions To Lessen Finland’s Economic Dependence on the Soviet Bloc. June 22, 1953. An appendix to Progress Report by the Under-Secretary of State (Smith) on the Implementation of NSC 121. August 25, 1953. FRUS 1952-1954, volume VIII, pp. 764-767.

⁵⁹⁹ Rautkallio, *Paasikivi vai Kekkonen*, pp.256-264,284-286.

⁶⁰⁰ Eckes, *Opening America's market*, p.268; UM 12 L:181 Yhdysvallat 1951-1973. ”Suomen ja Yhdysvaltain väliset suhteet v. 1954” J. Nykopp, January 6, 1955.

⁶⁰¹ Progress Report by the Under-Secretary of State (Smith) on the Implementation of NSC 121. August 25, 1953. FRUS 1952-1954, volume VIII, p.759.

from the US point of view this did not change the basic problem, but slightly lessened its severity.⁶⁰²

The British might have downplayed the risk of Finnish-Soviet trade in 1952 and 1953, but in 1954 the Foreign Office was becoming more concerned.⁶⁰³ Soviet political activity towards Finland was growing,⁶⁰⁴ the Soviets offered a gold or hard currency loan to Finland and there was talk about Soviet sales of fighters and radar equipment to Finland.⁶⁰⁵ In addition, the new British Minister in Helsinki, Michael Creswell, was generally far less confident about the ability and willingness of the Finns to resist Soviet pressure than his predecessor, Sir Andrew Noble, as Vares has correctly noted.⁶⁰⁶

The new Finnish-Soviet trade agreement for 1956-1960 stipulated a 13 per cent increase in trade.⁶⁰⁷ The initial FO assessments of the agreement were pessimistic, although the figures were not as bad as the FO officials had originally feared. They had estimated that the Soviet bloc's share of Finnish foreign trade could grow to over 40 per cent by 1960.⁶⁰⁸ It now seemed that the Soviet bloc's share would remain roughly one-third of Finland's total foreign trade, but if direct trade with the Soviet satellites increased or there was recession in Western markets, the Soviet bloc's share could indeed rise to over 40 per cent.⁶⁰⁹

The agreement was economically beneficial to Finland,⁶¹⁰ but Finnish dependence on the Soviet Union had grown to "*frightening dimensions*".⁶¹¹ In 1954-1955, FO officials

⁶⁰² Statement of Policy Proposed by the National Security Council, NSC 5403: U.S. Policy Towards Finland. January 12, 1954. FRUS 1952-1954, volume VIII, p.775.

⁶⁰³ NA. FO371/111461. NF11338/48. "Finnish/Soviet Relations" by J.G. Ward, July 14, 1954 and H.A.F. Hohler, July 10, 1954; FO371/111460. NF11338/14. Minute by Lord Norwich, March 17, 1954; A. Noble, Helsinki, to A. Eden, FO, March 11, 1954; NF11338/16. Minute by Lord Norwich, April 1, 1954.

⁶⁰⁴ NA. FO371/111461. NF11338/57. M.J. Creswell, Helsinki, to A. Eden, FO, July 29, 1954.

⁶⁰⁵ NA. FO371/111461. NF11338/48. "Finnish/Soviet Relations" by H.A.F. Hohler, July 10, 1954; NF11338/57. M.J. Creswell, Helsinki, to A. Eden, FO, July 29, 1954; NF11338/66.

⁶⁰⁶ Vares, "Englanti ja Kekkonen", pp.217-218.

⁶⁰⁷ NA. FO371/111461. NF11338/61. "Finland's Economic Situation in the light of the Fenno-Soviet Trade Agreement for 1956-1960", an appendix to M.J. Creswell, Helsinki, to A. Eden, FO, August 11, 1954.

⁶⁰⁸ NA. FO371/111460. NF11338/25. J.O. May, Helsinki, to A. Eden, May 26, 1954; FO371/111460. NF11338/40. "Soviet influence in Finland". Lord Norwich, July 7, 1954.

⁶⁰⁹ NA. FO371/111461. NF11338/61. "Finland's Economic Situation in the light of the Fenno-Soviet Trade Agreement for 1956-1960", an appendix to M.J. Creswell, Helsinki, to A. Eden, FO, August 11, 1954.

⁶¹⁰ NA. FO371/111461. NF11338/56. M.J. Creswell, Helsinki, to A. Eden, FO, July 28, 1954.

⁶¹¹ NA. FO371/111461. NF11338/50. Minutes by W. Klatt, August 21, 1954.

compared Soviet foreign economic policies to those of Hitler's Germany before the Second World War and suggested that the Soviet Union might use trade as an instrument of power politics, as Hitler had done. Frequent references were made to Dr. Hjalmar Schacht, the head of the German central bank and the economics minister in the 1930s.⁶¹² In addition to political concerns, the British resented the Finnish policy of favouring some Soviet goods at the expense of British ones.⁶¹³

The staff of the British Legation in Helsinki made a more detailed assessment of the agreement and concluded that it did not in itself show that the Soviets were trying to absorb Finland economically within the Soviet Union in the near future. This kind of absorption would probably be "*neither profitable nor necessary*"⁶¹⁴ at the moment and the Soviets might be content on merely preventing the weakening of Finnish ties with themselves. On the other hand, to avoid possible gradual absorption the Finns would have to steadily increase their trade with the West, and if the Soviets wanted to pressure the Finns economically, they could do it quickly and effectively.⁶¹⁵ The latent danger existed.

The Under-Secretary of State at the FO, Anthony Nutting, and the British diplomats warned the Finns about their growing economic dependence on the Soviet Union, and complained about the preferential treatment given to Soviet goods,⁶¹⁶ cautioning in unofficial conversations that Finland seemed to be "*clearly slipping Eastwards*",⁶¹⁷ but in the end this was all the British did. In the summer of 1954 the new British Minister in Helsinki, Michael Creswell, proposed the re-examination of the entire British foreign economic policy towards Finland. Creswell was concerned about the political and

⁶¹² NA. FO371/111461. NF11338/48. "Finnish/Soviet Relations" by H.A.F Hohler, July 10, 1954; FO371/111460. NF11338/40. Minutes by H.A.F. Hohler, July 8, 1954; NF11338/41. J.G. Ward, FO, to M.J. Creswell, Helsinki, July 21, 1954; FO371/111459. NF1112/1/G. "Soviet Policy Towards Finland" FO, January 8, 1955; FO371/106211. NF1151/35. "Anglo-Finnish Commercial Negotiations". H.A.F. Hohler, December 21, 1953; On Schacht, see Larry Neal, "The Economics and Finance of Bilateral Clearing Agreements: Germany, 1934-8" *Economic History Review* XXXII, no. 3 (August, 1979), pp.391-404.

⁶¹³ NA. FO371/111461. NF11338/48. "Finnish/Soviet Relations" by H.A.F Hohler, July 10, 1954.

⁶¹⁴ NA. FO371/111461. NF11338/61. M.J. Creswell, Helsinki, to A. Eden, FO, August 11, 1954.

⁶¹⁵ NA. FO371/111461. NF11338/61. M.J. Creswell, Helsinki, to A. Eden, FO, August 11, 1954 and appendix: "Finland's Economic Situation in the light of the Fenno-Soviet Trade Agreement for 1956-1960".

⁶¹⁶ NA. FO371/111461. NF11338/49. A minute by H.A.F Hohler, July 17, 1954; A memo by Anthony Nutting, July 15, 1954; NF11338/55. Telegram from Creswell, Helsinki, to FO, copy, July 28, 1954; UM 12 L. Englanti v. 1953-55. E.O. Soravuo's annual report for 1954, January 21, 1955; R.R. Seppälä's memo on his discussion with Creswell, April 13, 1955.

⁶¹⁷ UM 12 L. Englanti v. 1953-55. E.O. Soravuo's annual report for 1954, January 21, 1955.

commercial consequences of Finnish-Soviet trade to British interests, and had understood that there was growing awareness among Finnish officials of the dangers involved in this trade. Anxious to limit the problems that preferential Soviet access to the Finnish market was creating for British export efforts, and to counteract Soviet influence by tying Finland more closely to the West, Creswell suggested that the British should make determined efforts to increase Finnish-British trade in both directions. Creswell suggested that the British should press the Finns to give better treatment to British exports, to exchange views with them on the possible liberalisation of Finnish foreign trade and payments, and jointly to explore possibilities of increasing Finnish exports to the UK by making long-term agreements as regards the major export products, and by increasing the exports of “secondary”, i.e. traditionally less-significant products, such as cheese, butter and wooden furniture to the UK.⁶¹⁸

Creswell’s suggestions were rejected by the Board of Trade and “*the F.O. mind was divided between the desire to offer a helping hand to Finland and a desire to coerce or to persuade the Finns to take more United Kingdom imports,*”⁶¹⁹ as a BOT official found. Yet, the FO representative argued in the Overseas Negotiations Committee for the need to leave the door open for wider discussions about trade with the Finns. According to the FO, the present Finnish government was actively in favour of increasing trade with the West, unlike the previous government, and the FO was anxious not to discourage these tendencies. The Board of Trade successfully resisted these suggestions. The department argued that the UK government had liberalised most of the imports from Finland, and the British could only raise false hopes by initiating discussions about possible expansion of British imports from Finland. The committee decided to instruct the British Minister in Helsinki to indicate to the Finnish government that the UK government did not want anything other than routine discussion about trade in the forthcoming trade negotiations, and, if the Finnish government presented any concrete proposals about the expansion of trade, the UK delegation should try to

⁶¹⁸ NA. FO371/111464. NF1152/9. M.J. Creswell, Helsinki, to A. Eden, FO August 11, 1954; NF1152/10. M.J. Creswell, Helsinki, to J.E. Coulson, FO, August 12, 1954.

⁶¹⁹ NA. BT241/8. Minute by P.J.L. Homan, August 27, 1954.

encourage the Finns to think “*realistically*” and state only that the proposals would be sent to London for consideration.⁶²⁰

As the ONC had decided, the reply to Helsinki by the FO regarding Creswell’s suggestions reflected rather the views expressed by the BOT than those of the FO itself. Whitehall departments considered that the British bargaining position was weak, and that there was little chance to push the Finns towards liberalisation. The suggestion about joint investigations with the Finns concerning secondary Finnish exports to the UK was considered to be impractical since HMG could not do very much on this issue, as it imposed few restrictions on Finnish exports and the trade was mostly in private hands. Joint talks could only raise false hopes. If Finnish businessmen considered it desirable to study British markets in more detail, they would do so themselves. Furthermore, the total amount of secondary Finnish exports to the UK was only about £1 million, and it was not reasonable to expect a very large absolute increase in this figure. Long-term contracts were considered to be against the British government’s general policy of authorising contracts of this kind only if they were important for supply reasons and not in order to extract advantages for British exports. If they were indeed important for the British economy they could not be used as bargaining methods.⁶²¹ The timetable of the trade discussions did not give the British Minister the chance to underline to the Finns that the UK was not interested in anything other than routine discussion, but to the relief of the Board of Trade the Finns did not make any exceptional suggestions either.⁶²²

The British Ambassador, Michael Creswell, suggested in December 1956 that the British government should try to encourage British timber importers to boycott Soviet timber, perhaps by taking advantage of anti-Soviet feeling in the UK, caused by the recent Soviet military intervention in Hungary. The Soviets had been trying to expand their share of the United Kingdom market by selling timber to the British at lower prices than the Swedes and Finns. This had had a harmful effect on Finnish sterling earnings

⁶²⁰ NA. CAB134/569. O.N.(54)34th Meeting, September 9, 1954; CAB134/1100. O.N.(54)123. September 8, 1954; of the FO attitude, see also BT241/8. A.D. Wilson, FO, to J.R.D. Gildea, Cabinet Office, September 9, 1954.

⁶²¹ NA. FO371/111464.. NF1152/13. A.D. Wilson, FO, to M.J. Creswell, September 13, 1954; NF1152/12. H.O. Hooper, BOT, to J.E. Coulson, FO, September 1, 1954; BT241/8. “Finland (Note by the Board of Trade)” Draft. September 3, 1954; Minute by P.J.L. Homan, August 27, 1954.

⁶²² NA. CAB134/1100. O.N.(54)129, September 24, 1954: “Finland. (Note by the Board of Trade)”.

and balance of payments, and would, according to Creswell, have a negative effect on British exports to Finland, since these were dependent on the level of Finnish sterling earnings.⁶²³ Creswell's suggestion was rejected by the Board of Trade and the Foreign Office. Even if the FO in principle understood the repercussions that Soviet timber exports would have on Finnish timber exports and British exports to Finland, the suggestion was considered not to be either "*expedient or practicable*". The Foreign Office could argue that the Soviets were dumping timber on the British market, but the competitors suffering from this were not British or Commonwealth companies. Without Soviet competition, timber prices would rise and the British would have to pay higher prices for their supplies and buy more Canadian timber, paid for with dollars, which were in short supply. The Board of Trade would "*find it difficult and embarrassing*" to pressure the timber importers not to buy from the cheapest source.⁶²⁴

No other choice?

Why was the British government not willing to do anything to help Finland during the 1950s by supporting exports of the Finnish woodworking industries? Officially, there were three reasons for this and these reasons were explained, for example to the Americans, when they were asking the UK to do more to help Finland. Firstly, the British argued that even if the British government wanted to expand purchases of Finnish products, it could not force British companies to do so. Secondly, the British referred to their "economic problems", which were rarely specified in exact terms, but usually meant the balance of payments difficulties. According to the British, they simply could not afford to provide economic help to the Finns. Thirdly, the British argued that the situation in Finland was not as severe as the Americans were claiming, and that even if there were underlying political dangers, there was no immediate threat of Finland being lost to the Soviets.⁶²⁵

⁶²³ NA. FO371/122267. NF10338/44. M.J. Creswell, Helsinki, to D.A.H. Wright, FO, December 12, 1956.

⁶²⁴ NA. FO371/122267. NF10338/44. D.A.H. Wright, FO, to M.J. Creswell, Helsinki, January 9, 1957.

⁶²⁵ Hanhimäki, *Rinnakkaiseloja patoamassa*, p.128; NA. FO371/106209. NF11338/1. Minutes by H.A.F. Hohler, December 31, 1952; FO371/106211. NF1151/27. "Record of Conversation". D.A.H. Wright, May 28, 1953.

We cannot automatically assume that the reasons given are, in fact, those that really motivated the British actions, because the arguments could have just been used to justify the British attitude. A detailed examination of these arguments gives a rather different view of their validity. First of all, the argument that the British could not force private companies to buy more from Finland was strictly speaking true, but it ignores the fact that, until 1957, companies involved in Finnish-British trade operated in a tightly regulated framework where the governments had an important impact on their actions. For example, the British government protected its home market with large-scale use of quantitative import restrictions until the end of the 1950s,⁶²⁶ and until the beginning of the decade the government was directly responsible for a large slice of UK imports. In 1951 the UK government was still directly responsible for 37 per cent of the value of imports,⁶²⁷ but this share declined fast during the following years.

Between 1951 and 1953 the British government liberalised most imports of woodworking products or placed them under global quota, in which case the importer could freely decide its suppliers. In these cases, the ability of the UK government to direct trade to Finland would indeed be limited, but this change was not necessary permanent. In December 1953 when the BOT were unhappy about the Finnish attitude in the trade negotiations towards British exports, the Overseas Negotiations Committee considered removing Finland from the list of those countries from which plywood and timber could be freely imported. Finland would get national quotas, and these could be used as bargaining weapons in Finnish-British trade negotiations. If Finland wanted to get better treatment for its exports, it would have to make corresponding concessions to the British.⁶²⁸ Indeed, in trade negotiations the British side expressed this threat to the Finns.⁶²⁹ Since this type of retreat to bilateralism was possible, one may ask why it could not be used for political purposes to increase British purchases from Finland? By increasing Finnish quotas at the expense of global quotas, Finnish exports to the UK would be bound to increase.

⁶²⁶ Milward and Brennan, *Britain's Place*.

⁶²⁷ *Ibid.*, p.37.

⁶²⁸ NA. FO371/106211. NF1151/47. Minute by D.R. Hurd, Decemebr 11, 1953; Telegram no. 190 from FO, to Helsinki, December 14, 1953; BT241/7. Minute by I. Gray, December 11, 1953.

⁶²⁹ NA. FO371/106211. NF1151/35. "Anglo-Finnish Commercial Negotiations". H.A.F. Hohler, December 21, 1953.

Not all British imports were liberalised between 1951 and 1953. The United Kingdom Newsprint Supply Company was the sole importer of newsprint to the UK. It was a private organisation, but the government had to approve its purchasing programme,⁶³⁰ and it is hard to see why it could not have been encouraged to direct more purchases to Finland. The potential benefits to the Finns were not only theoretical. In March 1953 a FO official estimated that if the British government would let the Finns export more newsprint to the UK, British newspapers would be willing to buy additional Finnish products at the expense of paper manufactured in Britain, because Finnish prices were lower. The Finns were pushing the British government to reduce cuts on newsprint imports from Finland, but in order to protect the British paper industry this was rejected. The Finnish delegation had spoken to the acting British Foreign Secretary and was under the impression that the FO was supporting the Finnish proposal, while the Ministry of Materials and the Board of Trade opposed it. A similar suggestion, the decontrol of hardwood imports, was also rejected. Because the prices of Finnish hardwood were lower than those imported from the Sterling Area, the latter would suffer.⁶³¹

The second argument, that the British simply could not afford to make expensive contributions, ignored the fact that, as far as trade was concerned, nobody was asking them to make large contributions. Many of those methods which the Americans used, such as buying Finnish goods for third countries and for the US armed forces, required funds, which the British undoubtedly did not have, but nobody was suggesting that they should resort to methods like this. Neither the FO nor the Americans made serious suggestions that the British should buy Finnish engineering products unless they somehow first became competitive. What the FO and the State Department were suggesting was that the British should buy more Finnish woodworking products at times when Finland was not necessarily the cheapest source. Since these Finnish products were usually competitive, the additional cost to the UK would not necessarily be very high.

⁶³⁰ Milward and Brennan, *Britain's Place*, p.284; UM 58 B1 Englanti, ko 34. "Suomen vienti Englantiin ja Englannin tuontisäännöstely" Osmo Orkomies, London, November 19, 1953.

⁶³¹ NA. FO371/106209. NF11338/2. Minute by R.L. Wade-Gery, March 4, 1953; FO371/106210. NF1151/12. "Memorandum. Re: Export of Newsprint to U.K." Finnish Legation, London, February 26, 1953; ME03.31. Englanti, kauppa 1950-1953. "Ison-Britannian kanssa käydyt kauppaneuvottelut maaliskuussa 1953".

When the Finnish Minister in London was concerned in May 1954 about certain comments made by some British newspapers and MPs that the Finnish economy was completely tied to the Soviet Union, and that Finland was economically as much a Soviet satellite as Poland, the Under-Secretary of State at the FO (junior minister), Anthony Nutting, promised to help. Nutting suggested that the British government might prompt *The Times* newspaper to publish an article describing in detail the Finnish economic and trade situation.⁶³² Such an act would not cost the UK anything, but the Board of Trade still opposed it. The department was upset about the Finnish policy of favouring some Soviet exports at the expense of British goods, and before this policy was abandoned, the British government should not do anything to promote a better public image of Finland.⁶³³ This incident was very revealing. The BOT had opposed many other suggestions to support Finland by referring to the “economic problems” of the UK, but suggesting that one British newspaper should write a single article would hardly require sacrifices from the British. This shows that economic constraints were not the only motive behind the BOT’s reluctance to help Finland. The department simply did not share the FO’s desire to support Finland for political purposes. Fortunately for the Finns, *The Times*, without British government involvement, had already produced an article of the kind Nutting was hoping it would publish.⁶³⁴

We may also criticise the third argument about the lack of immediate danger in Finland. No “right” answer to the question of how vulnerable the Finnish situation really was at any particular time can be provided, without detailed examination of the Soviet documents. Andrew Noble and his head of Chancery were certainly less concerned about Finland’s immediate future than the Americans or Noble’s own successor in the British Legation/Embassy, and this had a real impact on the FO line on the subject. However, trying to show that there was not a serious reason for concern, the Whitehall departments referred rather selectively to the British Embassy’s assessments of Finnish vulnerability. For example, in their negotiations with US officials in 1953, the Whitehall department chose from the Legation’s letters those comments downplaying the vulnerability of the Finnish engineering and shipbuilding industries to Soviet pressure, but ignored the repeated comments made by the Legation about the negative effect the

⁶³² NA. FO371/111454. NF1051/1. Minutes by Anthony Nutting, May 12, 1954.

⁶³³ NA. FO371/111454. NF1051/1. Minutes by H.K. Matthews, May 20 and 25, 1954

⁶³⁴ NA. FO371/111454. NF1051/1. Minutes by P. Mason, May 26, 1954.

cuts in British imports from Finland had on the Finnish economy, and on the political situation, and the general need to keep up Finnish-British trade.⁶³⁵ After all, this would have required the British to change their policy.

Based on a detailed examination of the British decision-making process in the Finnish case, I would argue that it is doubtful that British decisions about whether to help the Finns or not were indeed based on the three reasons mentioned above. The implicit suggestion the British were making by presenting these arguments was that policy decisions were made after careful examination of the various economic, political and strategic viewpoints involved. The FO carried out studies such as these, but BOT files indicate that the Board of Trade was not willing to do the same and along with the Ministry of Materials quickly rejected all suggestions made by the FO and British diplomats in Finland to take into consideration the political Cold War objectives during the annual Finnish-British trade negotiations in the 1950s. In fact, except for the presence of the FO letters in the Board of Trade files on trade with Finland, these files give little indication that the Cold War existed at all, or that there were any Cold War political motives related to Finnish-British trade.⁶³⁶ Inconvertible currencies and bilateral trade agreements dominated European trade, and the BOT had power to influence the flow of British exports and imports, but it refused to make these decisions on political basis, even on a limited scale. It consistently and successfully supported only those policies which would promote British economic interests, and received support from the Ministry of Supply, which wanted to protect British production in the face of Finnish competition.⁶³⁷

Was the reason for the British policy the lack of will or the lack of means? The answer is that it was a combination of both. Yet, within the economic departments in London the lack of will to implement economic policies, which would be more beneficial to the Finnish economy at the expense of the UK, was such that it is difficult to believe that UK economic policy would have substantially changed even if the government had more concrete ways to influence the flows of trade.

⁶³⁵ NA. BT241/3. A.N. Noble, Helsinki, to E.A. Berthoud, FO, May 29, 1952, copy for BOT; BT241/4. A.N. Noble, Helsinki, to E.A. Bethoud, FO, July 3, 1952, copy for BOT; A.N.Noble, Helsinki, to E.A. Bethoud, FO, June 26, 1952, copy for BOT; Telegram no. 1 from A. Noble, Helsingfors, to FO, January 1, 1952; FO371/106209. NF11338/7. A. Noble, Helsinki, to A. Eden , FO, February 25, 1953.

⁶³⁶ See especially BT241/1-15.

⁶³⁷ NA. FO371/111463. P.J.L.Homan, BOT, to Lord Norwich, FO, June 18, 1954.

”The wooden bridge”

As we have seen in the previous section, the suggestions that the British should direct more of their purchases to Finland in order to tie the country to the Western world were again and again rejected during bilateral trade relations in the 1950s. But in some ways, Finnish-British trade at this time promoted the integration of Finland to the non-communist world economy, even if the concrete Cold War-motivated policy proposals were rejected. During the time period of this thesis, the British bought more woodworking products from Finland than any other country. For example in 1960 the British share (by value) of total Finnish woodworking exports was 30.4 per cent.⁶³⁸ This strengthened economic ties between Finland and the West at a time when two other important industries, engineering and shipbuilding, were dependent on the Soviet market. As historian Markku Kuisma has put it, the exports of the Finnish timber industry were a “*wooden bridge*” connecting Finland to the West. It represented a perfect combination of the geopolitical and economic interests of the West. By merely satisfying their own need to buy raw materials from Finland, the West at the same time acquired important geopolitical benefits.⁶³⁹ According to George Maude, the dependence of the Finnish economy on exports of woodworking products to the West prevented the country from being too closely integrated into the Soviet economic system.⁶⁴⁰

Both of these historians have provided us with important insights, but in this section and the next I am offering a somewhat more complex view of the nature of the “bridge”. First of all, to see “the West” as a unitary actor is misleading because the US and British policies were hardly similar, except in the field of rhetoric. There was genuine desire in Washington to help Finland, and this desire was strong enough to overcome the protectionist opposition. In London the supporters of geopolitical argument suffered a

⁶³⁸ Next three most important customers were West Germany 12.0 per cent, The Netherlands, 7.5 per cent and the Soviet Union 5.8 per cent. ME. Annual Report of the Central Association of Finnish Woodworking Industries 1962, table no. 5.

⁶³⁹ Kuisma, *Kylmä sota, kuuma öljy*, pp.27-31.

⁶⁴⁰ George Maude, “Has Finland been Finlandized?” in *Soviet Foreign Policy Towards Western Europe*, ed. George Ginsburgs and Alvin Z. Rubinstein (New York: Praeger Publishers, 1978), p.62; George Maude, *The Finnish Dilemma. Neutrality in the Shadow of Power* (London: Published for the Royal Institute of International Affairs by Oxford University Press, 1976), p.109.

series of defeats.⁶⁴¹ The benefits to Finland from British-Finnish trade were an unintentional by-product of the British foreign trade policy and the UK demand for raw materials for its industry. Geopolitical considerations played little part in British trade policy in this respect. By emphasising the advantages of the trade in woodworking products for Finland, we can easily forget this.

In many ways Finnish-British trade was economically beneficial to Finland. Finnish exports to the United Kingdom grew from £34 million in 1950 to £73 million in 1957. There was a persistent imbalance in Finland's favour. It rose from £13 million in 1950 to £36 million in 1957.⁶⁴² The Finns were able to spend their sterling earnings in other countries, such as West Germany, in order to buy essential capital goods and raw materials important for the expanding Finnish economy, as well as consumer goods for the people of Finland who wanted a share of the new prosperity.⁶⁴³ All this did help to strengthen Finnish economic ties to the West, therefore limiting dependence on the Soviet Bloc, and to raise living standards in Finland, which was considered to make the population less likely to support the Communists. Despite these developments and the FO view of Finland as a Cold War front-line country, I argue that British trade policy, which made these developments possible, was not in the end motivated by Cold War calculations, but by purely economic considerations and by estimates of the relative Finnish and British bargaining positions in bilateral trade negotiations,⁶⁴⁴ even if attempts were occasionally made to explain the UK policy as an expression of British "goodwill" towards Finland.⁶⁴⁵ The "wooden bridge" to Britain existed only because it was economically beneficial to the UK, and because the British lacked the necessary bargaining power to change the structure of Finnish-British trade.

Throughout the 1950s, the British regularly expressed their unhappiness as regards the imbalance of Finnish-British trade, but these complaints had little effect on Finnish

⁶⁴¹ See the previous section.

⁶⁴² Table 1 in Chapter 1.

⁶⁴³ See for example "The Pound and the Finnmark" Göran Ehrnrooth. Finland-England. A special issue of the Finnish Trade Review published in connection with the British Trade Fair and Exhibition Helsinki 1957, pp. 142-143; NA. FO371/111460. NF11338/44. "Finland's trade with the United Kingdom and the Soviet Union". BOT, July 1954.

⁶⁴⁴ See for example NA. BT241/8. A.D. Wilson, FO, to M.J. Creswell, September 13, 1954, copy for BOT.

⁶⁴⁵ See for example NA. BT241/8. M.J. Creswell, Helsinki, to A. Eden, FO, August 11, 1954, copy for BOT.

trade policy.⁶⁴⁶ Why were the British so unsuccessful? The basic problem was that, despite the fact that the UK was the most important market for Finnish goods, the British had very few practical methods to pressure the Finns, as frustrated Whitehall officials regularly concluded when they were preparing for the annual trade negotiations.⁶⁴⁷

Those methods which did exist could not be used, since they were estimated to cause so much damage to the overall British economic interest, that any concessions the Finns could give would not be enough to offset this, and making empty threats was not wise, since the Finns were suspected to be aware of the British weakness. Above all, the British could threaten to limit Finnish exports to the UK or to remove the transferability of sterling, but these threats could not be put into action. Cutting off or limiting imports of woodworking products could indeed be an effective method, but the benefits would be outweighed by the limiting of potential supply sources of woodworking products, which would probably lead to a rise in cost. In December 1953 the Ministry of Materials even estimated that if imports from Finland to the UK stopped, the UK would be unable to source all the necessary materials from other countries, even if it was ready to pay higher prices. The British could deny or restrict the Finns the right to use sterling in third countries, but this action would diminish confidence in sterling as an international currency among other countries holding it, confidence that the Treasury and the Bank of England were anxious to promote. After the UK placed most of the non-dollar countries on the Transferable Account Area in March 1954, sterling could flow freely between these countries. The existence of this system, of which Finland was a member, was useful for general promotion of UK exports, and to undermine this system in order to promote exports in one individual country could be harmful for the general development of British exports.⁶⁴⁸ For these reasons, throughout the 1950s the

⁶⁴⁶ NA. BT241/1-11.

⁶⁴⁷ The British had already had to face their lack of negotiating power in the first trade negotiations after the war in 1945, when, in order to buy Finnish timber products, the British had to, with extreme reluctance and contrary to general British policy, offer a wide variety of scarce goods to Finland as payment, some of which the British themselves had to buy with dollars so that they could be re-exported to Finland. Heikkilä, *Liittoutuneet*, pp.112-153.

⁶⁴⁸ NA. BT241/7. Minute by E.A. Cohen, December 15, 1953; "Finland". M.E. Welch, December 15, 1953 and the appendix on the possibilities of replacing Finnish imports with imports from other countries; "Finland". L. Lowne, Ministry of Materials, December 15, 1953; BT241/8. A.D. Wilson, FO, to M.J. Creswell, Helsinki, September 13, 1954, copy for BOT; H.O. Hoper, BOT, to J.E. Coulson, FO, September 1, 1954; FO371/111463. P.J.L. Homan, BOT, to Lord Norwich, FO, June 18, 1954; FO371/128591. NF1151/13. J.B. Smith, BOT, to H.S. Lambert, Treasury, February 22, 1957, copy for

Treasury and the Bank of England came out strongly against the suggestions made by the Board of Trade and British companies to impose any new limitations on the Finnish right to use sterling where they wanted to spend it.⁶⁴⁹ In fact, Finland benefited from the gradual removal of British government restrictions on the use of sterling by non-residents during the 1950s.⁶⁵⁰

Before 1958 Finnish imports from the UK were ultimately dependent on the level of Finnish sterling earnings, because the Bank of England did not want to hold inconvertible Finnish marks. Therefore the Finns could argue that any drop in those earnings would lead directly to cuts in Finnish imports from the UK, since Finnish sterling reserves (and foreign currency reserves in general) were small. The low level of Finnish sterling reserves gave an additional reason to argue for the need to limit sterling expenditure so that the Bank of Finland could build these up to a satisfactory level. The definition of “satisfactory” was a debated issue between the two governments in the annual trade negotiations, as was, of course, the estimated amount of the following year’s Finnish sterling earnings. Not surprisingly, the Finnish negotiators usually presented lower estimates of Finnish earnings than the British, who wanted to maximise Finnish purchases from Great Britain.⁶⁵¹

Compared to the level of Finnish sterling earnings, which set an ultimate limit to how much the Finns could buy from the UK, actual Finnish purchases from the UK theoretically left wide scope for the expansion of British exports. This is true even if we take into account the fact that since the UK was Finland’s most important customer, the Finns had to spend some of their sterling to buy essential goods which the British could not offer, from those countries which did not buy enough Finnish goods. There would have been more demand for British goods in Finland, as well as for other foreign goods, but the obstacle was the Finnish government. With limited success, the Board of Trade

FO; T236/3610. “Trade Negotiations with Finland. Report by the Overseas Negotiations Committee” Draft. December 11, 1953; FO371/116281. NF1152/6. K.S. Weston, Try, to J.B. Smith, BOT, copy for FO; BT241/7. “Anglo-Finnish Negotiations”. M.M. Ord Johnstone, May 28, 1954; Guildhall Library. London Chamber of Commerce. MS 16,529/1. Anglo-Finnish Section Minute Book – 1923-63. “Minutes of A Meeting of the Committee of the Anglo-Finnish Section, held on 21st of July, 1953, at 2.30 p.m.”

⁶⁴⁹ See for example NA. FO371/128591. NF1151/13; Guildhall Library, London. MS 16,529/1. London Chamber of Commerce. Anglo-Finnish Section Minute Book – 1923-63. “Minutes of A Meeting of the Committee of the Anglo-Finnish Section held on Tuesday, 23rd of June, 1953, at 2.30. p.m.” and on July 21, 1953 at 2.30 p.m.

⁶⁵⁰ Fforde, *Bank of England*, pp.492-505,566,585.

⁶⁵¹ NA. BT241/1-9.

and British industry tried to get the Finns to buy more from the UK in order to limit the wide imbalance in Finland's favour in Anglo-Finnish trade, and especially to buy more so called "less-essential" manufactured goods from the UK and not to concentrate purchases on "essential goods", above all raw materials and certain capital goods, which were regarded as absolutely necessary for the Finnish economy.⁶⁵²

In addition to these "negative" methods, the British could use the "positive" approach of offering the Finns those materials, of which there was a scarcity in world markets or in Great Britain, but the value of this method diminished when the shortages came to end during the early 1950s.⁶⁵³ *"There is therefore nothing but words that we are really willing to use against the Finns"*, was the way in which a FO official summarised the situation in the spring of 1957,⁶⁵⁴ but as it was painfully clear to the frustrated British officials, words, such as repeated reference to the fact that the United Kingdom was the "best customer" for Finland, had little influence on Finnish policies.⁶⁵⁵

The gradual liberalisation of British imports during the 1950s made the British bargaining position even worse. While almost all British exports to Finland still required individual import licenses in the mid-1950s, most Finnish exports to the UK entered that country relatively freely, under open general license, or global import quotas, since most of these were considered to be raw materials important for the British economy. It might be possible to impose new restrictions on Finnish exports, but this would create administrative difficulties as well as the need to interfere in commercial contracts, and could in fact be counter-productive for the UK, since other exporters of woodworking products could then demand higher prices from the British. All this made the Board of Trade feel that they had little chance to oppose those Finnish policies which seemed harmful to UK interests, such as the protection of certain Finnish industries, above all the textile industry, the discrimination against Western goods in

⁶⁵² NA. T236/3610. "Finland" K.S. Weston, December 14, 1953; FO371/128591. NF1151/13. "United Kingdom Trade Policy and the Competitive Position of United Kingdom Exports to Finland" (British Embassy, Helsinki, February 1957); Pihkala, "Kauppapolitiikka", pp. 30-31; UM 56 A Taloudellinen tiedotustoiminta Englanti 1936-1939, 1947-1959. File 32. Finnish Legation, London: Taloudellinen tiedotus n:o 2. A. v. Heiroth, March 31, 1953; Nykopp, *Kauppaa*, pp.51-52,55.

⁶⁵³ NA. T236/3610. "Trade Negotiations with Finland. Report by the Overseas Negotiations Committee" Draft. December 11, 1953.

⁶⁵⁴ NA. FO371/128591. NF1151/13. J. E. Chadwick, FO, to M.J. Creswell, Helsinki, March 4, 1957.

⁶⁵⁵ NA. FO371/128591; BT241/6-8.

favour of imports from the Eastern bloc in many cases, and the spending of sterling on imports from third countries.⁶⁵⁶

Timber or paper – the drawbacks of Finnish-British trade for Finland

In addition to the total level of Finnish exports to the UK, the structure of this trade was important for Finland. If we look at Finnish-British trade in the 1950s from this perspective, it looks much less beneficial for Finland than the total trade figures could lead one to expect. Finland could sell to the UK unprocessed goods and raw materials, such as roundwood and woodpulp, or manufactured goods, such as paper and newsprint. The entry of these manufactured goods to the UK market was largely blocked by high tariffs and quantitative restrictions. A few grades of paper were already protected under the Safeguarding of Industries Act (1921), and as a result of the Import Duties Act of 1932 the protection became almost complete. Newsprint remained the only exception. According to Owen, the protection and the cartels arrangements insulated the industry from competition. The industry was protected from foreign competition, but at the same time it could import raw materials duty-free. After the Second World War, paper imports were even more tightly regulated since, in addition to the tariffs, the government had also imposed quotas on foreign imports.⁶⁵⁷

The UK government restricted imports with the help of quotas, which, during the 1940s, included all the major Finnish export products to the UK. Import restrictions, which limited imports of paper and promoted the growth of domestic production, were major obstacles to the Finnish desire to raise the degree of processing of its export products. Finnish woodworking exports consisted mainly of timber and pulp, in other words raw materials, and the aim of the Finnish industry was to shift the emphasis to manufactured

⁶⁵⁶ NA. BT241/7. "Finland". M.E. Welch, December 15, 1953; BT241/9. Minutes by J.B. Smith, November 23, 1954; "Finland. Note by the Board of Trade" Draft. January 18, 1955; "Paper for O.N. Committee. Finland. Note by the Board of Trade" Draft. December 20, 1954; "Luncheon to the Finnish Trade Delegation. Lancaster House, Wednesday 12th January, 1955. Note for the Parliamentary Secretary" January 11, 1955: FO371/128591. NF1151/13. "United Kingdom Trade Policy and the Competitive Position of United Kingdom Exports to Finland" (British Embassy, Helsinki, February 1957).

⁶⁵⁷ Geoffrey Owen, *From Empire to Europe. The Decline and Revival of British Industry Since the Second World War* (London: Harper Collins, 1999), pp.153-155; "The Story of the Paper Import Duties". *The Paper Maker*, March 1966, p. 33; "Unfounded fears?" *The Paper-Maker and British Paper Trade Journal*, February 1960, p. 43.

products such as paper and newsprint. The Finnish paper industry had to look increasingly to other directions for outlets for its expanding production.⁶⁵⁸

British imports of raw materials like timber were gradually liberalised from quota restrictions during the early 1950s. Softwood was freed from quota restrictions in 1952 and from consumption controls in 1953, but the imports of manufactured goods like the various types of paper were liberalised from quantitative restrictions only during the late 1950s. The quotas for pulp, paper and board were removed in July 1956 and quotas for paper manufactures in September 1958. The Newsprint Supply Company was responsible for newsprint imports until 1958. It operated under government instructions and regulations.⁶⁵⁹

The official general justification for the UK quantitative restrictions were the balance of payments constraints, but Milward and Brennan have identified a number of other reasons, including the protection of infant, strategic or politically influential industries, providing a secure home market for an industry obliged by the government to export a high share of its production, retaining a bargaining counter for international trade negotiations, and regional policy. Usually there was more than one reason involved.⁶⁶⁰ It was also possible for private interest groups to influence the government decision-making process, and Milward and Brennan have found cases where it was hard to explain the existence of quota restrictions on the grounds of public good.⁶⁶¹ They conclude that the balance of payments considerations were indeed the most important reason for quantitative restrictions during the 1950s. Imports of pulp, paper and board were freed from state trading in 1950, but during the Korean War they became the second biggest identifiable item in the growth of imports from European countries. This culminated in the balance of payments crisis in 1951. It is not therefore surprising that controls were re-imposed on these goods.⁶⁶²

⁶⁵⁸ Sakari Heikkinen, *Paper for the World. The Finnish Paper Mills' Association - Finnpap 1918-1996* (Helsinki: Otava Publishing Company Ltd., 2000), pp.228-230; Holger Nystén, "Paperi- ja kartonkiteollisuuden kehitys ja tulevaisuuden näkymät". *Unitas*, no. 2 (1962), pp.71-72.

⁶⁵⁹ Milward and Brennan, *Britain's Place*, pp.95,281-287; NA. CAB134/1026. M.A.C.(55) 34th Meeting, August 30, 1955; "Liberalisation at 94 Per cent". *The Economist*, July 21, 1956; "Free market – and Lower Prices", *The Economist*, December 27, 1958; "Remaining Controls on Softwood Removed". *Board of Trade Journal*, November 14, 1953, p. 1011.

⁶⁶⁰ Milward and Brennan, *Britain's Place*, pp.5-6,98-99,132-133.

⁶⁶¹ *Ibid.*, p.10.

⁶⁶² *Ibid.*, p.281.

The balance of payments considerations were not the only reason. According to Milward and Brennan the British suspected that the Nordic producers were trying to keep prices at an artificially high level, after all these producers had national export cartels and had also developed intra-Nordic cartels and other co-operation mechanisms. They exchanged information on pulp and paper sales, and issues related to them, and, with varying success, tried to limit production and promote and co-ordinate sales, especially when demand and prices were weak. Nordic producers of paper and board in turn accused the UK of industrial protection. The Nordic countries hoped to sell the British more finished products, such as paper, than pulp or timber, because the former offered higher profits. The ratio of paper and board imports (excluding newsprint) to availability (output and imports) was 25.5 per cent in 1938. After the war this ratio declined when the import restrictions were tightened, while during periods of relaxation the share of imports grew. It was not before 1963 that the ratio of imports reached the 1938 level.⁶⁶³ Finnish sales to the UK reflected these trends. It was not before the beginning of the 1960s that Finnish paper exports to the UK reached the level of those in the mid-1930s.⁶⁶⁴

Even so, the UK still bought only 14 per cent of Finnish paper and board exports, while it bought almost 40 per cent of the Finnish roundwood, sawn timber and plywood and ca. 27 per cent of pulp exports.⁶⁶⁵ This system did not reflect Finnish wishes, but it did give effective protection for the British paper and board industry, and when demand was growing, the British industry had protected opportunities for expansion.⁶⁶⁶ Yet, the only official motive for import restrictions was the balance of payments considerations and

⁶⁶³ Ibid., pp.133,282-283; 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), p.424; Arne M. Anderson and Olle Ohlsson, "Sweden: Its Forest Industries in the World Market" in *International Trade in Forest Products*, ed. András Nagy (Bicester: International Institute for Applied Systems Analysis. A B Academic Publishers, 1988), p.158; Heikkinen, *Paper for the World*, p.238; Toivo Nordberg, *Yhtyneet Paperitehtaat Osakeyhtiö 1952-1969. Juuso Waldenin aikaan, Vuosisata paperiteollisuutta III* (Valkeakoski: UPM-Kymmene Oyj, 1998), pp.315-316; Suomen Selluloosayhdistys Finncell. Vuosikertomus 1966, p. 3.

⁶⁶⁴ Heikkinen, *Paper for the World*, p.238.

⁶⁶⁵ UM 12L:9 Suomen suhteet muihin maihin. Englanti. "P.M. Suomen ja Englannin kauppavaihto". V. Sampovara, July 18, 1963.

⁶⁶⁶ Milward and Brennan, *Britain's Place*, p.10; "President Outlines Problems of Newsprint Supply". The Board of Trade Journal March 26, 1955, p. 657; "Questions in Parliament: Supplies of Newsprint". The Board of Trade Journal, April 2, 1955, p. 721

on these grounds British government representatives rejected the Finnish demands and suggestions for early liberalisation of paper and board imports.⁶⁶⁷

From the point of view of the British paper industry and the Board of Trade, the post-war system was beneficial.⁶⁶⁸ The Finns sold raw materials to the British and the latter used these to manufacture finished products. Why would the British want to change this system? The British supply authorities were concerned about the increasing tendency of the Nordic countries to expand their production of paper and board at the expense of raw materials such as pulp and timber. From the British point of view, before the 1950s Finland had been less “guilty” of this behaviour than Sweden or Norway, even if the economic departments had reason to think that the Finns would follow the example of their Nordic neighbours.⁶⁶⁹ The situation was indeed about to change and between 1953 and 1963 Finnish production of paper and board increased faster than that of Norway or Sweden.⁶⁷⁰

The Board of Trade was using import restrictions in a classic way to influence the international location of manufacturing.⁶⁷¹ It was discouraging the import of finished goods and encouraging the import of raw materials in order to maximise the domestic production of finished goods at the expense of the producers of raw materials. The countries selling raw materials were not completely helpless against this strategy since they could tax the export of raw materials and even subsidise the export of finished goods, as indeed the Nordic countries often did. According to Kindleberger, in the European paper industry in general this kind of contest has been particularly widespread, and in the long run the producers of raw materials have been more successful.⁶⁷²

⁶⁶⁷ NA. FO371/111466 NF1531/26. “Note of Meeting with Finnish Minister of Trade and Industry” S.W. Waring, BOT, December 4, 1954, copy for FO; “Newsprint Supplies”. Board of Trade Journal, June 27, 1953, p. 1283; ME03.33 Tuontisäännöstely ja globaaliikiintiöt 1951-1955. P. Dixon, FO, to E.O. Soravuo, Finnish Legation, June 5, 1953, copy for the Central Association of Finnish Woodworking Industries; ME03.32. Englanti, kauppa 1954-1961. “P.M. kauppaneuvotteluista Iso-Britannian kanssa 10-20. I. 1956”. J.O. Söderhjelm, January 17, 1956; BT241/2. “Note of Meeting with the Finnish Foreign Secretary and the Secretary for Overseas Trade”. R.C. Bryant, February 12, 1952.

⁶⁶⁸ NA. BT11/2839. Minute by A.S. Gilbert, February 18, 1951.

⁶⁶⁹ NA. BT161/207. “Memorandum” by H.G. Paul, Acting Paper Controller, August 1, 1951.

⁶⁷⁰ “Paper & Board: Trends and Prospects”. National Institute Economic Review. Number 32, May 1965, p. 66..

⁶⁷¹ See Charles P. Kindleberger, *Foreign trade and the national economy, Studies in comparative economics*, 2 (New Haven: Yale University Press, 1962), p.145.

⁶⁷² *Ibid.*, pp.145,147.

The British paper and board industry certainly had cause to oppose the liberalisation of imports. Britain had the largest paper industry in Europe, which, at the beginning of the 1960s, had an annual turnover of £300 million, and employed 96,000 people directly and 100,000 in paper conversion.⁶⁷³ The gradual liberalisation had had no effect on the level of production, which in 1960 reached a new record level of four million tons, over 1.5 million tons more than in 1950, but the increased competition had curtailed profits.⁶⁷⁴ *The Economist* noted in 1957 that the British paper industry had grown in recent years faster than any other major industry in the UK, except chemicals and motor vehicles.⁶⁷⁵

The half-hearted liberalisation, 1958-1970

Despite the gradual removal of quantitative import restrictions, Finnish paper hardly had free access to the British market. In 1957 the British paper industry was still largely insulated from world markets by tariffs of 14 to 20 per cent.⁶⁷⁶ The European economic integration process, which included the desire to remove trade barriers, was a threat to this situation. Therefore the British paper and board industry bitterly opposed any plan that would give the Nordic paper industries a less restricted access to the UK market, including the original proposal for a large Western European free trade area, a smaller EFTA, and the acceleration of tariff reductions within it.⁶⁷⁷

In fact, the British paper industry and the paper industries of the Six joined forces to demand the exclusion of the paper industry from the proposed wide Free Trade Area in 1958. Otherwise the Scandinavians and the Austrians would conquer the Western European markets.⁶⁷⁸ A free trade area could have only negative repercussions for the

⁶⁷³ NA. BT11/5569. "The British Paper and Board Industry. E.F.T.A. and the Common Market". A BOT memo, ca. 1961.

⁶⁷⁴ "Outlook for British Paper Industry" by William R.M. Watson, *Pulp & Paper International*, April 1961, p. 32; "How British Industry Grows; Makes 18% of Europe's Total". *Pulp & Paper International*, August 1961, p. 7.

⁶⁷⁵ "Free Trade in Paper". *The Economist*, May 4, 1957.

⁶⁷⁶ "Too Much Wrapping". *The Economist*, December 21, 1957.

⁶⁷⁷ NA. BT258/91-92; BT11/5569.

⁶⁷⁸ Valtioneuvoston arkisto, Helsinki, Finland (Hereafter VNA). KTM. Kauppaosasto. Ha 10 a. "Euroopan paperiteollisuus ja vapaakauppa-alue". July 31, 1958; "News from Around the World". *Pulp & Paper International*, July 1961, p. 28.

British paper and board industry, the leaders of industry declared. Sir Herbert Hutchinson, the Director-General of the British Paper and Board Makers Association, claimed in October 1956 that the logical conclusion of free trade would be the domination of the whole market by the Scandinavian industry with its close access to raw materials. Even the Germans would be in a stronger position than the British, because of the German tradition of cartel arrangements, and the British would be disadvantaged compared to their continental competitors unless British producers were allowed to make similar arrangements. Hutchinson saw no benefits from a free trade area. According to him, the British paper industry had already achieved “*full economics of scale*”.⁶⁷⁹ The President of the British Paper and Board Makers Association, W.R.M. Watson claimed, in 1959, that the industry believed that the effect of the “small” EFTA on it was going to be “*catastrophic*”⁶⁸⁰. The British paper industry even sent their own delegation to Saltsjöbaden in Sweden in 1959, where the seven countries were in negotiations about the formation of EFTA, in order to prevent the creation of this organisation, or, more realistically, to attempt some safeguards from increased competition.⁶⁸¹

The British paper industry argued that protection from imports was absolutely necessary, because its competitors in the Nordic countries had access to abundant raw materials. They could create “integrated” mills, in which pulp and paper production were combined, removing the need for certain production stages, especially for the drying of the woodpulp for transport to the paper mill. The British paper industry claimed that the removal of this phase reduced costs by 17 to 20 per cent. The Nordic producers could also raise the price of their pulp sales to the UK, while at the same time keeping their price for paper at the previous level, which would make British paper production uncompetitive. This had been done in individual cases, although it was by no means a general policy. The formation of EFTA was even more damaging from the point of view of the industry than the creation of a larger trading area. As a result of EFTA, the British industry claimed that they would have to face the full pressure from the Nordic producers, since, if the common tariff of the EEC made sales to “the Six”

⁶⁷⁹ NA. BT258/91. “Plan G”, minutes by K. McGregor, October 11, 1956.

⁶⁸⁰ NA. BT258/92. “Free Trade Area of the Stockholm Group: Impact on Industry. The British Paper and Board Makers Association. (Note of a Meeting)”, BOT, July 8, 1959.

⁶⁸¹ UM 5C 7. Lontoo. R-Series “Suomen paperi- ja kartonkiviennin kasvu Iso-Britanniaan on jatkuvasti huolen aiheena saarivaltakunnassa; viime vuosien ja nykyhetken näkymiä”. Leo Tuominen, November 12, 1967.

more difficult, they would direct an increased proportion of their production to the UK market.⁶⁸²

The effect of tariff reductions would not be harmful for all the British woodworking companies. Some of those companies using Finnish timber as raw materials, for example furniture makers, would benefit,⁶⁸³ as would of course the paper import agents. These defended the formation of EFTA and downplayed the risk involved for the British paper industry, much to the annoyance of the paper industry itself.⁶⁸⁴ The Board of Trade, which had to defend government integration policy, could find several arguments to support it. The department and the import agents pointed out that paper consumption in the UK was rising fast, and that there was room both for imports and domestic production; the tariff reductions would be implemented only gradually, and that while the Nordic producers had the benefit of cheap and abundant raw materials, the British had the benefit of closeness to the markets, and could also specialise to the finest grades of paper.⁶⁸⁵

Many other British observers pointed out that the growth in demand would leave room both for the British and the Nordic production. Since the Finns were increasing pulp as well as paper production, and the UK paper industry was the most important market for Finnish and Scandinavian pulp, the Nordic woodworking companies had no reason to wish for the destruction of the British paper industry, rather they needed to find a balance in sales of paper and pulp.⁶⁸⁶ When they were in a more relaxed mood, even the representatives of the British industry agreed with this view.⁶⁸⁷

⁶⁸² Owen, *From Empire to Europe*, p.156; NA. BT258/92. "E.F.T.A.: the paper and board industry and 'acceleration' of tariff reductions." (1961); BT11/5569. "The British Paper and Board Industry. E.F.T.A. and the Common Market". A BOT memo, ca. 1961; "European Free Trade Association". *The Paper-Maker and British Paper Trade Journal*, January 1960. p. 40; "Mr. Langley and the Outer Seven". *The Paper-Maker and British Paper Trade Journal*, March 1960, p. 41; "Europe's Economic Integration" by Julius Grant. *Pulp & Paper International*, May 1960, p.36.

⁶⁸³ "Common Market". *The Timber Trades Journal*, August 5, 1961, p. 50.

⁶⁸⁴ "European Free Trade Association". *The Paper-Maker and British Paper Trade Journal*, January 1960. p. 40.

⁶⁸⁵ NA. BT258/92. "E.F.T.A.: the paper and board industry and 'acceleration' of tariff reductions." (1961); "Brief for President's meeting with representatives of the U.K. Paper and Board Makers' Association, including the appendix: A "Statement on the European Free Trade Association and the Paper Industry (Issued by the Paper Agents' Association". October, 1959.

⁶⁸⁶ "Paper & Board: Trends and Prospects". *National Institute Economic Review*. Number 32, May 1965, p. 55; "Free Trade in Paper". *The Economist*, May 4, 1957.

⁶⁸⁷ "Outlook for British Paper Industry" by William R.M. Watson, *Pulp & Paper International*, April 1961, p. 34.

Scandinavian producers and some observers in Britain were questioning whether in the new situation, it was worthwhile at all to produce mass consumption grades in the UK or in Common market countries, but to specialise in certain high-quality grades instead. Most of the British paper industry had no desire to do this. Defending their case, British paper producers pointed out that many British industries were dependent on imported raw materials, and if closeness to raw materials were a necessary precondition for success, many British industries would face a bleak future. On the other hand, many British producers did consider the concentration on speciality grades and conversion a viable strategy in the new situation, and since the UK was unable to create integrated pulp and paper mills, it should create integrated paper and paper conversion mills instead.⁶⁸⁸ The Wiggins Teape Group adopted a more uncommon strategy and built the UK's first pulp mill. It used domestic hardwood and made no profits during the trial period, but was declared a success, because it provided the company with a particular type of woodpulp, which could not be bought from normal sources.⁶⁸⁹

Sir Herbert Hutchinson claimed in January 1960, when the EFTA Convention was signed, that the threat of EFTA and the division of Western Europe into two trading blocks was "*outrageous, damaging and unjust*". He believed that never had the industry been so united and spoken so plainly as it did on this topic.⁶⁹⁰ The British paper and board industry was especially annoyed about Finland's association with EFTA, because they felt that the Finnish competition was particularly damaging for the British industry.⁶⁹¹

The Nordic producers were increasing paper production capacity in order to benefit from the lowering of trade barriers.⁶⁹² The Finnish industry calculated that growing demand combined with the Finland-EFTA treaty would create a suitable setting for the marketing of increased production.⁶⁹³ The British paper industry was particularly bitter

⁶⁸⁸ "Outlook for British Paper Industry" by William R.M. Watson, *Pulp & Paper International*, April 1961, p. 33; Mr. Langley and the Outer Seven". *The Paper-Maker and British Paper Trade Journal*, March 1960, p. 41.

⁶⁸⁹ "Britain's First Home-made Woodpulp". *Pulp & Paper International*, January 1960, pp. 21-22.

⁶⁹⁰ "Paper Machinery Makers. 15th Annual dinner". *The Paper-Maker and British Paper Trade Journal*, February 1960, p. 62.

⁶⁹¹ NA. FO371/158235.M622/270. J. McKenzie, FO, to G.H. Baker, UKDEL, EFTA, Geneva, November 22, 1961.

⁶⁹² "European Free Trade Association". *The Paper-Maker and British Paper Trade Journal*, January 1960, p. 40.

⁶⁹³ Veikko Konttinen, "Suomi ja Maailman metsäteollisuus". *Talouselämä*, n:o. 10, March 11, 1961

about the expansion,⁶⁹⁴ and from its point of view the World Bank policy, supported by the State Department and the Foreign Office, of providing funds for this expansion, must have been unwelcome. As mentioned before, the World Bank funds formed an important part of the expansion programme in Finland.⁶⁹⁵ In 1959 the Bank gave a loan of \$37 million for the expansion and modernisation programme of nine Finnish woodworking companies.⁶⁹⁶ In 1961 a loan of \$25 million was granted for the same purpose for seven more companies.⁶⁹⁷ More World Bank loans helped to build up the infrastructure essential for these companies.⁶⁹⁸

The President of the Board of Trade and the Paymaster-General made it clear to the representatives of the industry that there could be no special safeguards for the paper industry, although the general safeguards of the EFTA convention might in certain cases help it.⁶⁹⁹ The unwillingness of the BOT to accept the demands of the British paper and board industry was probably not really the result of their confidence in the ability of the industry to compete successfully with foreigners. The paper and board industry was one of the few industries to which the Nordic involvement in the free trade area was a real danger, and the interests of this industry were by no means important enough to justify a general change of policy. The BOT was the sponsoring department of the paper industry, but the department had many other "clients", i.e. manufacturing industries that would benefit from better access to EFTA markets.⁷⁰⁰ The British paper industry had to reluctantly conclude that the British government seemed to be more interested in selling goods like cars to the Nordic countries than in protecting the British paper industry from foreign competition.⁷⁰¹ The paper industry did not even get the support it felt it deserved

⁶⁹⁴ NA. FO371/171324. M1076/24. A.G. White, BOT, to P.D. Stobart, Helsinki, May, 6, 1963, copy for the FO.

⁶⁹⁵ Lauri Borenus: "Metsäteollisuutemme Tulevaisuus". *Talouselämä*, N:o. 41, October 7, 1960, p. 987.

⁶⁹⁶ Suomen Pankin vuosikirja 1959. [The yearbook of the Bank of Finland 1959]. Helsinki 1960, p.56.

⁶⁹⁷ Suomen Pankin vuosikirja 1961. [The yearbook of the Bank of Finland 1961]. Helsinki 1962, p.33.

⁶⁹⁸ Suomen Pankin vuosikirja 1962. [The yearbook of the Bank of Finland 1962]. Helsinki 1963, p.34.

⁶⁹⁹ NA. BT11/5729. "Consultative Committee for Industry. Brief for meeting at 4 p.m. on 26th November". November 25, 1959; "Consultative Committee for Industry. Minutes of the 56th Meeting of the Committee held at 2 p.m. on Wednesday, 29th July, 1959". BOT.

⁷⁰⁰ NA. BT11/5569; BT258/91-92.

⁷⁰¹ "B.P. & B.M.A. Annual Meeting and Dinner. Col. Davidson re-elected President". *The Paper Maker*, April 1966, p. 67; "Paper Machinery Makers. 15th Annual dinner". *The Paper-Maker and British Paper Trade Journal*, February 1960, p. 62.

from the Federation of British Industries, which took a much more positive view of the EFTA.⁷⁰²

Immediately after the European Free Trade Area had been set up in 1959-1960, the British industry started to claim that it was causing serious material harm to it. In their investigations, Board of Trade officials could find little evidence for this. Neither could they find evidence that the Nordic producers were adjusting pulp and paper to harm the British industry.⁷⁰³ This did not mean that the BOT would not try to help the industry. EFTA had already been formed and therefore the need of other clients had been satisfied.

While the British government integration policy could not be changed just to please the paper industry, the BOT continued to respond positively to other demands to protect the home market against Finnish competition. In 1963 it was encouraging new “voluntary” inter-industry agreements between the Nordic and the British producers to limit “disruptive” paper exports to Great Britain, which would otherwise most likely increase significantly because of the new tariff cuts.⁷⁰⁴ These agreements limited the usefulness of tariff reductions for the Finnish industry.⁷⁰⁵ Domestic politics made it difficult for the British government to completely ignore the wishes of the British paper industry, since it was located in Scotland and North-Eastern England, which were suffering from high unemployment. The British paper industry was especially keen on limiting competition from the Finnish producers, which were, from their perspective, the “*rogue elephants*” in the market,⁷⁰⁶ and caused more concern among British producers than the other Nordic producers did. In practice, the inter-industry arrangements meant that the price of Nordic paper exported to the UK was raised, which greatly diminished the value of

⁷⁰² “British Leader Asks Paper Men To Support a “United Europe””. Pulp & Paper International, June 1961; MRC. MSS.200/F/3/P6/25/1.

⁷⁰³ NA. BT258/92. Minutes by Y. Lovat Williams, April 24, 1961 and D.N. Charlish, April 27, 1961; BT11/5569. Minute by D.N. Charlish, June 22, 1962; “The British Paper and Board Industry. E.F.T.A. and the Common Market”. A BOT memo, ca. 1961.

⁷⁰⁴ NA. FO371/171324. M1076/32. A.G. White, BOT, to E. Cohen, Geneva, July 3, 1963, copy for FO; Telegram no. 98 from Sir E. Cohen, Geneva to FO, July 8, 1963; C.M.P. Brown, BOT, to L. Pliatzky, Treasury, July 12, 1963, copy for FO; FO371/171689. NF 1151/10. Speaking Notes: Acceleration of EFTA Tariff Reductions. FO memo April 19, 1963; NF 1151/18. C.M.P. Brown, BOT; to J.A.M. Majoribanks, FO, July 26, 1963; BOT303/173. Minutes by C.M.P. Brown, July 10, 1963.

⁷⁰⁵ NA. FO371/171324. M1076/34. C.M.P. Brown, BOT, to L. Pliatzky, Treasury, July 12, 1963, copy for FO.

⁷⁰⁶ NA. FO371/171324. M1076/32. A.G. White, BOT, to E. Cohen, Geneva, July 3, 1963, copy for FO.

the new tariff cuts for Finland by limiting the potential increase in Finnish exports to the UK.⁷⁰⁷

The deteriorating British balance of payments led in 1964 to new restrictions on Finnish exports. The new Labour government, led by Harold Wilson, introduced a number of new and improved measures to promote exports in 1964, including improved export credit guarantees for UK exports.⁷⁰⁸ These did not seem to be having an effective enough impact on UK exports, and in October 1964, when the UK was believed to be facing a balance of payments deficit of £800 million, HMG imposed a temporary 15 per cent surcharge on all imports of manufactured goods. One Labour Cabinet Minister, Richard Crossman, called the surcharge in his diary “*blatantly a flagrant violation of the EFTA treaty*”.⁷⁰⁹

The balance of payments crisis was a severe one, but the surcharge was not the only possible solution for it. The government could have imposed quota restrictions, which would have been a legal method of addressing a balance of payments crisis according to the EFTA and the GATT treaties. The President of the Board of Trade, Douglas Jay opposed the imposition of the surcharge on the grounds that it was illegal and that it would harm Britain’s relations with the EFTA countries, and favoured quota restrictions, but got no support. The officials argued that quota restrictions would create too much administrative work and take longer to impose. The economists preferred taxes instead of physical controls and the British Ambassador to EFTA expected only mild protests. When Jay later inquired from Board of Trade officials, they told him that the quota restrictions would not have in fact taken substantially longer to impose. The EFTA reaction turned out to be fiercely negative; ironically Jay had to defend the policy in public.⁷¹⁰

The EFTA countries rejected the surcharge as a violation of the EFTA treaty, complained about its high level and expressed concern that the British action might

⁷⁰⁷ NA. FO371/171324. M1076/32. A.G. White, BOT, to E. Cohen, Geneva, July 3, 1963, copy for FO; Telegram no. 98 from Sir E. Cohen, Geneva to FO, July 8, 1963; C.M.P. Brown, BOT, to L. Pliatzky, Treasury, copy for FO, July 12, 1963; FO371/171689. Speaking Notes: Acceleration of EFTA Tariff Reductions. FO memo April 19, 1963; NF1151/18. C.M.P. Brown, BOT, to J.A.M. Majoribanks, FO, July 26, 1963.

⁷⁰⁸ Tew, “Policies”, pp.338-339.

⁷⁰⁹ Crossman, *Diaries 1964-66*, January 3, 1965 (p.113).

⁷¹⁰ Jay, *Change*, pp.297-302,308-311.

create an unwelcome precedent.⁷¹¹ Embarrassingly for the British, the Norwegians recalled that the British themselves had in 1959, during the drafting of the treaty, insisted that measures like the import surcharge were unacceptable. Apparently, the British views had changed 180 degrees!⁷¹² Norway, Finland and Sweden pointed out that it would give the British paper industry an effective protection against foreign competition, and the Finnish government complained that for the first time this included even newsprint.⁷¹³ The Finns estimated that the surcharge applied to 36-37 per cent of Finnish exports to the UK, but despite the fears and complaints the immediate effect was not drastic. Those companies that suffered most had tried to take advantage of the Finnish association with EFTA by introducing new manufacturing products to the UK market.⁷¹⁴

In 1965 Finnish paper exports to the UK by value declined by 2.3 per cent compared to the previous year, board exports by 0.7 per cent, fibreboard exports by 9.3 per cent, while plywood exports in fact increased by 5.3 per cent. Not all of the losses could be attributed to the import surcharge. The numbers, however, do not tell the whole story. The Finnish paper industry had raised their prices in other markets to reflect the increase in production costs, but they had to refrain from doing this in the UK market.⁷¹⁵ It is probably mainly due to this fact that the Finnish paper industry argued that the import surcharge did have a clear negative effect on Finnish paper exports to the UK.⁷¹⁶ A more balanced conclusion from the figures quoted above would be that the import surcharge had a negative but in no way devastating effect on those exports.

The way the British government had handled the matter had also damaged political relations between Finland and the UK, and between the UK and the Nordic countries in general. The Finns claimed to be especially offended that the British had not consulted

⁷¹¹ NA. FO371/177332-177333.

⁷¹² NA. FO371/177332. M1071/49. Telegram no. 338 from Hancock, Oslo, to FO, October 26, 1964.

⁷¹³ NA. FO371/177333. M1071/45. Telegram no. 925 from FO to Oslo, October 26, 1962; M1071/49. Telegram no. 338 from Hancock, Oslo to Geneva, October 26, 1964; M1071/55 "Aide-Mémoire" by the Finnish Embassy, London, October 28, 1964; Telegram no. 398 from FO to Helsinki, October 28, 1964;

⁷¹⁴ ME03.34 Englanti, kauppa 1962-1967. "Englannin tuontiveron vaikutus Suomen vientiin.

Kiertokysely". Finnish Foreign Trade Association, November 12, 1964, copy for the Central Association of Finnish Woodworking Industries; "Englannin 27.10.1964 lukien toimeenpannun lisätuontimaksun alainen Suomen vienti Englantiin v. 1963". The Ministry for Foreign Affairs of Finland, November 1964, copy for the Central Association of Finnish Woodworking Industries.

⁷¹⁵ ME03.34 Englanti, kauppa 1962-1967. "Englannin tuontimaksun vaikutuksista metsäteollisuuden vientiin", September 15, 1966.

⁷¹⁶ Suomen Paperitehtaitten Yhdistys. Vuosikertomukset 1964-1965. Helsinki.

them before and reminded them about their previous representations to Finland about Finnish policies.⁷¹⁷ The Finnish Ambassador in London, Leo Tuominen, complained bitterly to his government about British attempts to defend the surcharge by “hypocritically” claiming that the UK was thinking as much of the interests of the EEC and the EFTA countries as of its own. It had imposed the surcharge, apparently, because it would be beneficial to all if the UK managed to overcome its economic difficulties. The EFTA countries should stop complaining and start helping the UK. According to Tuominen, a new popular saying had emerged: “*England expects every country to do its duty...*”⁷¹⁸ As far as the GATT was concerned, the Chancellor of the Exchequer explained that the treaty was clearly deficient and in need of revision, if it gave only one legitimate method to address a balance of payments crisis.⁷¹⁹

The import surcharge was reduced to 10 per cent in April 1965 and in May 1966 the abolition of the surcharge was announced, coming into effect at the end of November.⁷²⁰ The abolishment of the final EFTA duties on December 31 1966 and the removal of the import surcharge, raised fears of an increased flow of goods from the Nordic countries to the UK market. Unfortunately for the British producers, these changes coincided with a recession in the UK market. In the first quarter of 1967, imports of paper and board to the UK market were up 18 per cent, while British production of these goods was down 8 per cent compared to the same period in 1966.⁷²¹ Finnish paper exports to the UK grew by 39 per cent.⁷²²

The British government had officially declared that the import surcharge was a “temporary” measure, and that it would be removed eventually. The British paper industry did not look forward to the prospect of increased competition, and from October 1964 onwards it was rumoured that the British industry lobbied the government to re-impose quotas or another restrictions on paper imports.⁷²³ The British industry

⁷¹⁷ NA. FO371/177333. M1071/55 Telegram no. 398 from FO to Helsinki, October 28, 1964.

⁷¹⁸ UM 5C 7. Lontoossa olevan suurlähetystön R-sarja 1965. Leo Tuominen to the Foreign Minister January 9, 1965.

⁷¹⁹ “Chancellor on import charge and encouragement for exports”. Board of Trade Journal, November 13, 1964, p. 1050.

⁷²⁰ Tew, “Policies”, p.344.

⁷²¹ “United Kingdom: Paper and Board Imports Rise 18& in 1st Quarter”. Pulp & Paper International, July 1967, p. 16.

⁷²² “B.P. & B.M.A. Memorandum to Members of Parliament”, The Paper Maker, July 1967, p. 72.

⁷²³ ME03.34 Englanti, kauppa 1962-1967. L. Tuominen, Finnish Embassy London, to Ministry for Foreign Affairs of Finland, May 15, 1965, copy for the Central Association of Finnish Woodworking

soon started to accuse the Nordic producers of dumping in public. The accusations were often directed in particular towards the Finnish producers, although in private meetings the British industrialists adopted a markedly polite and conciliatory attitude.⁷²⁴ Various counter-methods were considered, including negotiations with the Scandinavians about voluntary limits, and the boycotting of Finnish pulp unless the Finns stopped the “dumping” of paper to the UK market.⁷²⁵ The British industry started a political campaign to recruit government support. In this process 101 MPs were approached.⁷²⁶ Targeting those Members of Parliament which had paper mills in their constituencies, the trade association of the industry vividly described the rise of unemployment and the deterioration of the balance of payments that the flow of imports was going to cause, and how much foreign exchange could be saved by increasing domestic paper production at the expense of imports, and even describing how self-sufficiency in paper and board would be strategically beneficial for the country in times of war and other emergencies.⁷²⁷

The Nordic producers had reason to be worried. The Industries and Manufactures Division of the Board of Trade wanted to avoid giving the impression to the British paper and board industry that the British government was not taking the difficulties it was facing seriously.⁷²⁸ When the British paper and board industry repeated its old complaints about the ability of the Nordic manufacturers to manipulate prices of paper and pulp after the devaluation of sterling in 1967,⁷²⁹ the British government officially supported it. The British government protested to Nordic governments, claiming that the

Industries; “Neuvottelut U.K:n teollisuuden kanssa Lontoossa maaliskuun 1. ja 2. pñä 1967”; ME03.39. Englanti, kauppa 1968-72. K. Weedy, British Paper and Board Makers’ Association, to L. Kirves, the Central Association of Finnish Woodworking Industries, May 7, 1969.

⁷²⁴ ME03.34. Englanti, kauppa 1962-1967. “P.M. Englannin paperin ja kartongin tuonti”, September 11, 1967; ”Paperineuvottelut Englannissa varsin teknisellä pohjalla”. Helsingin Sanomat, March 4, 1967.

⁷²⁵ ”Britain battles Scandinavian imports. Industry is not down and not out, states new leader”. Pulp & Paper International, April 1967”, p. 10; ME03.34. Englanti, kauppa 1962-1967. “P.M. Englannin paperin ja kartongin tuonti”, September 11, 1967; ME03.39.

⁷²⁶ “United Kingdom: Paper and Board Imports Rise 18& in 1st Quarter”. Pulp & Paper International, July 1967, p. 16; ME03.34. Englanti, kauppa 1962-1967. E. Pajari, Finnish Embassy London, to Ministry for Foreign Affairs of Finland, June 29, 1967, copy for the Central Association of Finnish Woodworking Industries.

⁷²⁷ “B.P. & B.M.A. Memorandum to Members of Parliament”, The Paper Maker, July 1967, p. 72; “Paper must look to itself”. The Times, July 27, 1967; ME03.34. Englanti, kauppa 1962-1967. E. Pajari, Finnish Embassy London, to Ministry for Foreign Affairs of Finland, June 29, 1967, copy for the Central Association of Finnish Woodworking Industries; Copy of memo by the British Paper and Board Makers’ Association, June 1967, distributed to the MPs.

⁷²⁸ NA. BT11/6865. Minutes by H.F. Heinemann, September 4, 1967.

⁷²⁹ NA. BT258/2682. G.L. Pethick, the British Paper and Board Makers’ Association, to D.N. Charlish, BOT, January 3, 1967.

Finnish, Norwegian and Swedish producers had raised their prices of pulp more than their prices of paper. The difference disappeared in 1968, but it was unclear whether the UK protests had any role in this. In August 1970 HMG sent similar notes to the three Nordic governments, because the British industry argued that the Nordic producers had not raised their paper prices sufficiently to reflect the increase in the price of the pulp content of the paper. The chief target of this criticism was Finland. The Nordic governments rejected these claims, arguing that the British were overestimating the level of vertical integration of the Nordic industry, and its ability to influence global price levels. The prices of paper and pulp reflected normal changes in world markets. During the early 1960s pulp prices had remained at a low level because of overcapacity due partly to the increase in Finnish production. During the late 1960s, demand had grown slower than production, which naturally had led to increased prices. These battles continued well into the 1970s.⁷³⁰

Despite the Doomsday-comments by the British paper industry, neither EFTA nor the final removal of import duties within this sphere at the end of 1966, led to the quick demise of the UK paper industry. The production of paper in the UK grew from 4.1 in 1960 to 4.9 million tons in 1970, while imports grew at the same time from 1.4 to 2.5 million tons (from 26.4 to 34.7 per cent of consumption).⁷³¹ In 1970 the industry still produced 65 per cent of paper (by volume) consumed in the country. It was still the second largest paper industry in Europe (after West Germany) and the sixth largest in the world. Finnish paper and board exports to the UK were a quarter of the total value of UK imports.⁷³² While the real effect of EFTA on the British paper industry during the first decade of the association was not devastating, Geoffrey Owen has described the psychological effect as "*the EFTA Shock*".⁷³³

⁷³⁰ NA. BT258/2682-2684; BT241/2133. "UK/Finland Joint Commission. First Meeting, Helsinki 18-21 April, 1971. Brief no. 4: Pulp and Paper" Department of Trade and Industry, April 7, 1971, UM 5C 7. Lontoo. R-Series "Suomen paperi- ja kartonkiviennin kasvu Iso-Britanniaan on jatkuvasti huolen aiheena saarivaltakunnassa; viime vuosien ja nykyhetken näkymiä". Leo Tuominen, November 12, 1967; UM 58B2 Englanti/yl.. Suomen ja Englannin kauppalyleistä 1965-1974. "Suomen ja Englannin välinen kauppa". B. Ådahl, September 16, 1970; ME03.39. Englanti, kauppa 1968-72. A memo by Aarne Castrén, Central Association of Finnish Woodworking Industries, to President Kekkonen, July 7, 1969; "Pulp price squeeze is denied". The Times, April 23, 1969; "Alarm at growth of paper and board imports", The Financial Times, April 23, 1969; ME03.36.

⁷³¹ Owen, *From Empire to Europe*, p.158.

⁷³² BT241/2133. "UK/Finland Joint Commission. First Meeting, Helsinki 18-21 April, 1971. Brief no. 4: Pulp and Paper" Department of Trade and Industry, April 7, 1971.

⁷³³ Owen, *From Empire to Europe*, p.157.

When considering the impact of liberalisation during the 1960s it is important to note that the competition was not, however, completely free since the temporary import surcharge, and the intra-industry agreements protected British production 1963-1966. The accusations of dumping may have encouraged the Nordic industries to moderate their behaviour in the UK market. Therefore the competitive position of the British industry might have been weaker than its market share would lead one to expect. The impact of the British entry to the EEC (1973) was more devastating, because the British industry came under attack from the Continental industries, at the same time as the common tariff of the EEC was not high enough to keep out Nordic paper.⁷³⁴

How much did the Cold War have an impact on the debates about Finnish exports of woodworking products to the UK during the 1960s? In his "*proposal to draw Finland into Western Bloc to counter USSR pressure to draw her into the Soviet bloc*" in 1965, Ambassador Sir Anthony Lambert criticised covertly this habit of promoting mainly narrow national interests and argued that the British and other Western countries should always keep "*in mind that every activity undertaken in Finland has a high political content*". This would not eliminate the possibilities for normal commercial competition. The goal of Western policy should be to bind Finland to the West with "*hoops of steel*", which meant that narrow national interests should be put in second place in order to promote Finland's closer integration with the West.⁷³⁵ The FO and FCO files contain no evidence that Lambert's suggestion about trade led to any action with regards to Finnish exports to the UK, nor did they indicate that the FO, FCO or the Embassy had tried to encourage the Board of Trade to adopt a more compromising line towards the Finns.

Had the Embassy and the FO/FCO completely given up the Cold War-motivated desire to encourage Finnish trade relations with Western Europe? Not really. In integration issues they still kept this goal in mind,⁷³⁶ but why did this not apply to Finnish woodworking exports to the UK? One reason could be that since the Soviet share of total exports had been declining since the 1950s, it was felt that there was no urgent reason to make any special arrangements for Finland's benefit. I do not think this was

⁷³⁴ *Ibid.*, pp.157-162.

⁷³⁵ NA. FO371/180069. CM1071/1. A. Lambert, Helsinki, to D.S.L. Dodson, FO, February 11, 1965.

⁷³⁶ See for example NA. FCO59/423. C.D. Powell, Helsinki, to R.G. Giddens, FO, March 12, 1968; R.G. Giddens, FO, to S.J. Barrett, Helsinki, February 25, 1968; FO371/165931. NF103138/42 R.H. Mason, FO, to T. Brimelow, Washington, June 4, 1962; FCO9/314. D. Scott Fox, Helsinki, to G. Brown, FO, February 16, 1967; FCO9/310. D. Scott Fox, Helsinki, to G. Brown, FO, January 5, 1967..

the only reason. The FO and the FCO files on Finland contain in general very little evidence on issues like dumping. There is little evidence of interdepartmental conflict or even normal debate in which the FO/FCO would have been involved. Instead, the Board of Trade files contain detailed information on the formulation of British policy on dumping and they clearly prove that it was the BOT and, to a lesser degree, the Treasury that formulated British government policy on these issues. The FO was rarely consulted, even if the Embassies often conveyed British government views to the Nordic governments.⁷³⁷ My conclusion is that diplomats responsible for Finnish-British relations were simply not part of the decision-making process in these kinds of issues. In European integration policy, however, they were.

Finnish butter exports to the UK, 1958-1970

In 1958 New Zealand, Denmark, Kenya, the British National Farmers' Union and the Milk Marketing Boards, accused Finland, Sweden, Ireland and Argentina of dumping butter on the UK market, and applied for anti-dumping or countervailing duties to be imposed on butter imports from these countries. UK government officials concluded that Finland, Sweden and Ireland had indeed sold subsidised butter to the UK market at prices below their home market prices, and that this had contributed to the decline of prices in the UK market, which had caused material injury to producers in New Zealand, but not to the UK industry.⁷³⁸ New Zealand, which was more dependent on butter exports than any other country in the world, sold two-thirds of its butter output (92 per cent of its exports) to the UK market. The collapse of butter prices in the UK market had a drastic effect on New Zealand's export earnings.⁷³⁹ The events in 1958 were not unique. In the years to follow Finnish butter exports to the UK received unwelcome attention. As in the case of woodworking products, Cold War arguments were soon integrated to the debates and they were similarly rejected.

⁷³⁷ NA. BT 258/2683-2685.

⁷³⁸ NA. CAB129/92. C(58) 93. "Imports of Butter. Report by an Inter-departmental Working Party of Officials". Board of Trade; "Applications for Anti-Dumping Duties on Butter". The Board of Trade Journal, February 28, 1958, p. 472; "Englannin hallitus harkitsee toimenpiteitään voijutussa". Helsingin Sanomat, March 25, 1958; "Keskustelu voikaupasta alkaa tänään Lontoossa". Helsingin Sanomat, April 10, 1958.

⁷³⁹ John Singleton and Paul L. Robertson, "Britain, Butter and European Integration, 1957-1964". *Economic History Review* 50. New Series, no. 2 (1997), pp.329-330.

The UK was the most important market for many exporting countries, since there were few large markets open to foreign butter imports. The British consumed roughly half a million tons of butter in a year, and 400,000 to 430,000 tons of these were imported. Most British butter imports came from New Zealand, Australia and Denmark, and the rest from various, mainly European, countries. Especially in times of surplus, some importers had a tendency to dump subsidised butter on the British market, and this had a drastic effect on prices.⁷⁴⁰

The dumping accusations against Finland were not unfair. The Finnish government gave extensive financial support to Finnish agriculture and protected it from foreign competition.⁷⁴¹ At the same time as the production of butter grew, increased consumption of margarine reduced that of butter.⁷⁴² Finland exported butter for the first time after the war in 1950, but it was not before the mid-1950s that Finland permanently became a butter exporter.⁷⁴³ When *The Economist* reported in November 1956 that the UK government was going to present to Parliament a new anti-dumping law, Finnish officials quickly recognised that this law might be fatal to Finnish butter exports to the UK. In the Anglo-Finnish trade negotiations in January 1957, the Finns raised the matter and the British side assured them that there were no immediate plans to limit butter imports from Finland. If the UK government decided to limit imports, Finland would be treated no worse than any other supplier.⁷⁴⁴ These statements did not remove the potential threat. There was more subsidised butter flowing to the international markets, and Finnish butter exports could very well face new obstacles in the future.⁷⁴⁵

⁷⁴⁰ NA. BT11/7027. "President's Visit to Finland 7-9th December 1969. Brief no. X: Butter." BOT, December 3, 1969; "Butter dumping". *The Times*, May 21, 1958; "Cheap butter". *The Times*, April 10, 1958.

⁷⁴¹ Pietiäinen, *Leivän syrjässä*, pp.164-182. In 1960, the production costs of one kilogram of butter totalled 632 Finnish marks, but it was sold to the foreign markets at a price of 246 marks. Paavonen, *Suomalaisen protektionismin*, pp.140-141.

⁷⁴² Hans Perttula, "Maatalouden tuotantopolitiikka suuntaa etsimässä". *Unitas*, no. 2 (1958), pp.64-65.

⁷⁴³ Kari Hokkanen, *Maidon tie. Valio ja osuusmeijerijärjestö 1905-1980* (Helsinki: Kirjayhtymä, 1980), pp.107,193.

⁷⁴⁴ UM 58B1. Englanti box 37. "Muistio Suomen ja Englannin välisistä kauppaneuvotteluista Helsingissä 15-25 päivänä tammikuuta 1957". Pentti Talvitie, February 6, 1957; undated "P.M. Voin Suomen-Englannin kauppasopimusneuvotteluissa v. 1957".

⁷⁴⁵ Perttula, "Maatalouden tuotantopolitiikka", pp.61-62,65.

In 1957 Finland sold 20,000 tons of butter (£5 million) to the UK. The price was half that of butter in the Finnish market.⁷⁴⁶ The existence of subsidies was not in this case a very serious issue, since, as the British officials knew very well, most countries protected and supported their agriculture. This had created a surplus of butter in world markets, which was the main reason why so many foreign countries tried to export their butter to the UK, the only substantial market in the world not yet protected by quantitative restrictions on butter imports. According to Singleton and Robertson, in 1957 the share of the UK of the *world* butter imports was no less than 68 per cent.⁷⁴⁷

On the other hand, UK officials felt they could not ignore New Zealand's request, because this could harm British relations with an important Commonwealth country, and could encourage New Zealand to make trade policy decisions harmful to British exports.⁷⁴⁸ It is for these reasons that the British government, reluctantly, according to Singleton and Robertson, decided to ask Sweden, Finland, Poland and the Irish Republic to "voluntarily" reduce their butter exports to the UK. Otherwise the British government would impose a new special duty on them.⁷⁴⁹ Finnish butter exports were limited to 7500 tons a year.⁷⁵⁰ Careful consideration was given to various aspects of the problem, but the Cold War desire to promote Finnish exports to the West does not seem to have been one of them.

This desire to protect the economic interests of Britain and New Zealand had an adverse effect on the Cold War economic competition in Finland. Limiting exports of one of Finland's leading export products to its main foreign market was not compatible with the general Western desire to strengthen Finnish economic ties to the West. The Finns

⁷⁴⁶ NA. FO371/134769. NF1051/2. "Finnish butter and the United Kingdom 1957 Customs Act". A brief for Sir F. Hoyer-Miller for the visit of the Finnish Ambassador, Leo Tuominen on March 14, 1958; The Swedes had sold 14,100 tons and the Irish 14,500 tons, but the difference between their home prices and export prices was slightly smaller. Together these three countries captured 13.4 per cent share of the total British imports in 1957, compared to 3.1 per cent in 1956. NA. CAB129/92. C(58) 93. "Imports of Butter. Report by an Inter-departmental Working Party of Officials". Board of Trade.

⁷⁴⁷ Singleton and Robertson, "Britain, butter", p. 328.

⁷⁴⁸ NA. CAB129/92. C(58) 93. "Imports of Butter. Report by an Inter-departmental Working Party of Officials" by the Board of Trade and the Appendix: "Imports of Butter. Report by Officials of the Treasury, Board of Trade, Ministry of Agriculture and Ministry of Power." April 21, 1958; Michael Tracy, *Government and Agriculture in Western Europe 1880-1988*, Third ed. (New York: Harvester Wheatsheaf, 1989), p. 226.

⁷⁴⁹ NA. CAB128/32. CC (58) 39 May 8, 1958; CC (58) 41 May 13, 1958; UM 58B2 Englanti, Vienti Voi. Suomen anti-dumpinglain soveltaminen voin tuontiin Suomesta 1958. A note by the British Embassy, Helsinki, to the Finnish Ministry for Foreign Affairs, May 17, 1958.

⁷⁵⁰ UM 58B2 Englanti, Vienti Voi. Suomen anti-dumpinglain soveltaminen voin tuontiin Suomesta 1958. A note by the British Embassy, Helsinki, to the Finnish Ministry for Foreign Affairs, May 17, 1958.

suggested that the cuts were economically harmful for the British as well. The import cuts led to increased prices in the UK market, which hurt the consumer. The Finns claimed that the limitation of butter exports would hurt not only Finnish exports but imports from the UK as well, since when Finnish export earnings declined, she might have to cut imports.⁷⁵¹ This might have been true, but British losses in the Finnish market would hardly be as large as the losses in New Zealand's market. New Zealand had claimed that if the price of its butter did not increase, it would have to cut purchases from the UK by £50 million in 1958.⁷⁵²

The British government's reluctance to ignore the wishes of the New Zealand producers left the field open for the Soviets who managed to score a propaganda victory. After the British government imposed restrictions on Finnish butter exports the Finnish authorities approached the Soviets, who agreed to buy the Finnish surplus at reduced prices in exchange for Soviet wheat.⁷⁵³ The British decision was presented to the Finnish government on May 17, 1958, and the Soviet decision to buy 12,000 tons of butter in exchange of wheat was announced only a few days later during President Kekkonen's visit to the Soviet Union (May 22-31, 1958).⁷⁵⁴ The deal was not quite as beneficial for Finland as it originally seemed, and it took a long time before the Soviets and the Finns reached an agreement on the details. The Finns wanted to re-export the wheat to other countries, and it proved to be difficult both to find suitable customers and to get the Soviet agreement for the re-exporting. The Soviets did not want the wheat to compete with their own direct wheat exports.⁷⁵⁵ "The night-frost period" at the end of 1958, when the Soviets were temporarily limiting their trade with Finland slowed down

⁷⁵¹ NA. FO371/134771. NF1121/9. W.N.R. Maxwell, Helsinki, to D.W. Savage, BOT, March 18, 1958; BT241/12. "Note of Meeting. Minister of State Office Minute 1038". E.C.J. Davis, November 14, 1958; D.W. Savage, BOT, to W.N. Maxwell, Helsinki, March 25, 1958; "Butter Quotas", *The Financial Times*, May 21, 1958.

⁷⁵² "Cheap butter". *The Times*, April 10, 1958.

⁷⁵³ NA. FO371/134777. NF11338/3. D.L. Busk, Helsinki, to Selwyn Lloyd, FO, July 2, 1958; Seppinen, *Suomen Efta-ratkaisu*, pp.68-69.

⁷⁵⁴ NA. FO371/134777. NF11338/1. Finland: Economic Report, May 1958; D. NF11338/3. D.L. Busk, Helsinki, to Selwyn Lloyd, FO, July 2, 1958; UM 12 L Neuvostoliitto, ko 124 "Keskustelutilaisuus 29.5.1958 klo 15.00 Kremlissä."; UM 58B2 Englanti, Vienti Voi. Suomen anti-dumpinglain soveltaminen voin tuontiin Suomesta 1958. A note by the British Embassy, Helsinki, to the Finnish Ministry for Foreign Affairs, May 17, 1958.

⁷⁵⁵ UM 58 B1. Neuvostoliitto ko. 122. Minutes of the meeting between the Soviet minister of foreign trade, Patolitshev and Ahti Karjalainen in Leningrad, January 23, 1959; Suomi, ed., *Kekkonen, diary, vol. 1*, October 2, 1958 (p.122); Kauko Rumpunen, ed., *Aikoja ja tapauksia Ahti Karjalaisen elämästä* (Porvoo: Werner Söderström Osakeyhtiö, 1997), May 30, 1958 (p.163), June 17, 1958 (p.164), June 26, 1958 (p.165).

negotiations about the details of the deal.⁷⁵⁶ Still, the disadvantages of the butter-wheat deal were not originally apparent to outsiders, and therefore the situation was politically embarrassing for the British. The Soviets seem to be helping the Finns out of the difficulties caused by the British actions.⁷⁵⁷

When the Finnish-Soviet crisis started at the end of 1958, Ambassador Busk saw a chance to correct this unfortunate situation. Busk now suggested that the British should change their policy on butter imports to help the Finns, and take additional quantities of Finnish butter, for example 100 tons a month.⁷⁵⁸ The fall of the Finnish government put this plan on hold,⁷⁵⁹ but after prices had risen in the UK market and the British government had consulted the New Zealand government, it did decide in December 1958, to remove the butter import restrictions.⁷⁶⁰ Unfortunately, the Finns were still obliged to send 6000 tons of butter to the Soviet Union as a part of the butter-wheat deal. They could not take full advantage of the lifting of the restrictions in the short term.⁷⁶¹ There were some encouraging signs. European butter production declined in 1959 and many countries could offer less butter to the UK. This gave some countries, such as Finland, the chance to increase temporarily the value of its butter exports to the UK.⁷⁶² Many Finns heaved a sigh of relief, but some farsighted observers pointed out that this solution was by no means a final one. The basic characteristics of the international butter markets had not changed.⁷⁶³

When the Board of Trade announced on December 23, 1958 that import restrictions were going to be removed, it warned that if imports of dumped or subsidised butter

⁷⁵⁶ Hokkanen, *Maidon tie*, p.109.

⁷⁵⁷ NA. FO371/142860. NF1011/1. D.L. Busk, Helsinki, to Selwyn Lloyd, FO, January 14, 1959; BT241/12. "Note of Meeting. Minister of State Office Minute 1038", E.C.J. Davis, November 14, 1958; UM 12 L Neuvostoliitto ko. 124, "Muistiinpano keskustelusta ministeri Kabanovin kanssa" Ralph Enckell, May 26, 1958.

⁷⁵⁸ NA. FO371/134779. NF1151/21. D.L. Busk, Helsinki, to T. Brimelow, FO, December 1, 1958.

⁷⁵⁹ NA. FO371/134779. NF1151/21. Minute by B. Miller, December 10, 1958.

⁷⁶⁰ UM 56A. Taloudellinen tiedotustoiminta Englanti 1936-1939, 1947-1959. File 32. "Suomen ja Yhdistyneen kuningaskunnan välinen kauppa v. 1958 täkäläisen kauppatilaston valossa". K.V. Mäkelä, Finnish Embassy London. February 14, 1959; UM 58B2 Englanti, Vienti Voi. Suomen anti-dumpinglain soveltaminen voin tuontiin Suomesta 1958. A note by the British Embassy, Helsinki, to the Finnish Ministry for Foreign Affairs, December 23, 1958 and the attachment "Text of announcement to be made by the Board of Trade on December 23, 1958".

⁷⁶¹ UM 58B2 Englanti Voin vienti Englantiin 1967-68. "P.M. Voin vienti Englantiin". Valio, August 26, 1968.

⁷⁶² UM 56A. Taloudellinen tiedotustoiminta Englanti 1960-1963. File 33 "Suomen ja Englannin kaupalliset suhteet v. 1959". P. Talvitie, Finnish Embassy London. February 17, 1960.

⁷⁶³ Samuli Suomela, "Maatalouden ylituotanto-ongelma". *Unitas*, no. 2 (1959), pp.59-60.

caused material injury again to New Zealand producers, the British government would take action against these imports.⁷⁶⁴ In the summer of 1961 New Zealand accused many European producers, France, Ireland, Poland, Sweden and Finland of dumping and asked HMG to impose duties on the imports to the UK from these countries. Instead the British government introduced a butter quota system in April 1962, which secured the three largest importers 75 per cent of the British market.⁷⁶⁵ Busk's successor Con O'Neill urged Whitehall to adopt a more positive attitude towards Finnish butter imports,⁷⁶⁶ but there is no evidence that these initiatives had any effect on the British policy on butter imports. Finland did not get preferential treatment. The Finnish authorities claimed that it had received less than its fair share. The British government tried to find a solution for the butter dispute in GATT consultations in 1962. In these negotiations it had been estimated that the Finnish quota should be ca. 15,600 tons, but when the consultations failed the British government allocated Finland a quota of only 11,500 tons.⁷⁶⁷ On the other hand, in 1961 when the British producers accused Finland of dumping milk powder into the UK market, the Board of Trade concluded that the accusation was unfounded.⁷⁶⁸

While Finnish butter exports to the UK encountered new restrictions, doors to the Soviet Union opened again a few years later after President Kekkonen intervened at the request of the Agrarian Party. When he visited Moscow in April 1965 the Soviets agreed to buy 11,000 tons of milk powder, 1500 tons of cheese, 3000 tons of butter and 3500 tons of eggs.⁷⁶⁹ In August 1964 the Finnish and Soviet governments signed the formal agreement to an exchange of these and future Finnish agricultural surplus products for Soviet weapons. In this way, Finnish arms purchases were directed

⁷⁶⁴ UM 58B2 Englanti, Vienti Voi. Suomen anti-dumpinglain soveltaminen voin tuontiin Suomesta 1958. "Text of announcement to be made by the Board of Trade on December 23, 1958", an attachment to a note by the British Embassy, Helsinki, to the Finnish Ministry for Foreign Affairs, December 23, 1958.

⁷⁶⁵ NA. FCO33/657. Annex "The Butter Quota System" to the brief on butter for Lord Chalfont for his visit to Copenhagen and Helsinki, September 8-14, 1969; Hokkanen, *Maidon tie*, pp.113-114.

⁷⁶⁶ NA. FO371/165933. NF1051/1. C. O'Neill, Helsinki, to A.D. Wilson, FO, January 4, 1962.

⁷⁶⁷ KA. AK. 15/II. "P. M. Englannin vointuontia koskevat rajoitukset" April 4, 1962, an appendix to the minutes of the meeting of the foreign policy committee of the Finnish Cabinet 16/1962; UM 58B2 Englanti Voin vienti Englantiin. Voikiintiöiden jako 1962. "Aide Memoire" by the British Embassy, Helsinki, March 19, 1962.

⁷⁶⁸ UM 56A. Taloudellinen tiedotustoiminta Englanti 1960-1963. File 33 "Suomen ja Englannin kauppavaihto v. 1961" 1959". P. Talvitie, Finnish Embassy London. May 3, 1962.

⁷⁶⁹ TPA. UKA. 21/32. "P.M. Suomen maatalouden vientitarve 1964-1965". April 5, 1964; "Neuvostoliiton ostot merkittävä helpotus maatalouden ylijäämäpulmiin". *Kansan Uutiset*, April 20, 1964; Suomi, *Presidentti*, pp.261-262.

increasingly towards the Soviet Union.⁷⁷⁰ This was not the only controversial aspect of the agreement. Some newspapers did not approve of the unorthodox way in which the agreement was concluded and the initial lack of information about detailed terms. Nor was the solution a complete one. Agricultural subsidies still promoted the growth of surpluses.⁷⁷¹

The world surplus of butter continued to grow for the rest of the 1960s, and various producers tried to press more of this butter onto the UK. The Finns and the British discussed butter quotas every year, and until 1966, the Finnish authorities were relatively content with the size of the Finnish quotas, although they did press the British to buy additional quantities of Finnish butter. In addition to the basic Finnish quota of 12,370 tons, Finland and most of the other exporters regularly secured a supplementary quota, which depended on the level of British consumption. The total Finnish quotas between 1963 and 1969 fluctuated between 15,000 and 20,000 tons, and in the mid-1960s, the combined quotas were roughly equivalent to Finland's export capacity to the UK, indeed sometimes the Finnish producers could not even fulfil their entire quota.⁷⁷²

In 1966 the British decided to reduce their butter imports, and as a part of this move, the Finnish supplementary quota was reduced by 3600 tons. The Finns complained, and although the Finnish supplementary quota was increased in 1967,⁷⁷³ the Finnish government again found reason to complain as they did in fact every year for the rest of the 1960s. At the end of the 1960s Finland produced some 100,000 tons of butter a year, and 75,000-80,000 tons of this was consumed in the country. Most of the rest was

⁷⁷⁰ Salminen, *Puolueettomuuden nimeen*, pp.335-336; Sakari Simelius, *Puolustusvoimien puolesta. Jalkaväenkeräälän muistelmat*, ed. Martti Sinerma (Porvoo: Werner Söderström Osakeyhtiö, 1983), pp.258-261; KA. AK. 15/X. Minutes of the meeting 12/1969 of the foreign policy committee of the Finnish Cabinet, August 22, 1969.

⁷⁷¹ "Yllättävä kauppa". *Uusi Suomi*, April 20, 1964; "Pulmaa lykätään". *Helsingin Sanomat*, April 21, 1964.

⁷⁷² UM 5C7. Lontoossa olevan suurlähetystön R-sarja 1966. Leo Tuominen to the Foreign Minister January 5, 1966; UM 12L:9 Suomen suhteet muihin maihin. Englanti. "Suomen ja Englannin kauppavaihto. Erikoiskysymyksiä" [1963]; NA. FCO67/54. "Imports of Finnish butter into the United Kingdom during the quota periods 1968-69 and 1969-1970". Aide Memoire by the Finnish Embassy, London, November 21, 1968; TPA. UKA. 21/32. "P.M. Maitotaloustuotteiden ylijäämä ja niiden vientimahdollisuudet 1964-1965". *Valio*, January 29, 1964; UM 58B2 Englanti Voin vienti Englantiin 1963-1964. "P.M. Voin vienti Englantiin". R. Aarva, March 19, 1964; Unsigned letter from the Finnish Ministry for Foreign Affairs to the Finnish Ambassador, London, March 31, 1964.

⁷⁷³ NA. BT11/6866. "Navigare '67. Minister of State's visit to Finland 12th to 16th September, 1967. Briefing on topics likely to be raised at interviews".

traditionally exported to the United Kingdom, which was in practice the only substantial foreign outlet for Finnish butter.⁷⁷⁴

The British government was under pressure from several countries to allow them to sell more butter to the UK market, and in this competition the position of Finland or the other small suppliers was not strong. The UK had treaty obligations towards the four major suppliers, New Zealand, Denmark, Australia and Ireland, which supplied a majority of British needs, in 1968/1969 87 per cent. The rest was divided between 15 small suppliers, including Finland, which had a quota of 17,190 tons in 1968/1969. The minor suppliers were hardest hit when cuts were made. Total Finnish butter exports in 1968 were worth £5 million.⁷⁷⁵

The Finnish authorities and marketing organisations had unsuccessfully pushed the British government, from the end of 1968 onwards, to increase the Finnish quota, since Finnish stocks were becoming higher than could be stored.⁷⁷⁶ These efforts continued throughout 1969, but with little success. In fact, in March 1969 the British government decided to cut imports to 397,000 tons, when butter stocks in the country reached exceptionally high levels. In practice the quotas for each of the small suppliers were cut by over 50 per cent, while proportional cuts in the quotas of the main suppliers were much smaller. This provoked strong comments from the Finnish and other governments.⁷⁷⁷ The British Ambassador in Helsinki warned that the butter surplus problem might lead to a political crisis in Finland, where agricultural over-production was already a severe problem, and to the resignation of the Centre (former Agrarian) Party from the Cabinet,⁷⁷⁸ but the British authorities rejected any suggestion that Finland should be treated differently from other minor suppliers. The British government had contractual obligations to the four biggest suppliers, and therefore their

⁷⁷⁴ NA. FCO30/362. "Finnish butter". R.H.S. Wells, January 10, 1969; "P.M. Imports of Finnish butter into the United Kingdom during quota periods 1968-1969 and 1969-1970". Finnish Embassy, January 10, 1969.

⁷⁷⁵ NA. BT11/7027. "President's Visit to Finland 7-9th December 1969. Brief no.X: Butter." BOT, December 3, 1969.

⁷⁷⁶ NA. FCO30/362. "Finnish butter". R.H.S. Wells, January 10, 1969; "P.M. Imports of Finnish butter into the United Kingdom during quota periods 1968-1969 and 1969-1970". Finnish Embassy, January 10, 1969; FCO67/54, Minutes by R.H.S. Wells, BOT, November 22, 1969, copy for FCO.

⁷⁷⁷ NA. BT11/7027. "President's Visit to Finland 7-9th December 1969. Brief no. X: Butter." BOT, December 3, 1969; UM 58B2 Englanti/yl. Suomen ja Englannin kauppa/yleistä 1965-1974. "Suomen ja Englannin välinen kauppavaihto". December 5, 1969.

⁷⁷⁸ NA. FCO30/362. R.D.J. Scott Fox, Helsinki, to H.T Morgan, FCO, April 16, 1969.

quotas were not reduced as much as those of the minor suppliers.⁷⁷⁹ The Finns even informally warned the tractor manufacturer Massey Ferguson and the British steel-plant equipment maker, Davy United, that they might lose their contracts in Finland.⁷⁸⁰

In October 1969 the Finns renewed their demands for larger quotas. They now argued that Finnish lactic butter was a distinct product with separate demand in Britain, and therefore it should receive a special quota. The British officials were not impressed.⁷⁸¹ It had also become clear, that UK stocks had declined, and that more butter imports would be allowed into the country in 1970/1971. The Finns were pushing HMG to give a larger quota for Finland for this year.⁷⁸² The Finnish Foreign Minister Ahti Karjalainen, a member of the Centre Party, raised the issue when he met the President of the Board of Trade, Roy Mason, in December 1969 in Helsinki. Mason only promised that the British government would consider the Finnish requests sympathetically.⁷⁸³

The Finns did get the impression from Mason's statements in Finland that the British government might really be ready to increase Finnish quotas.⁷⁸⁴ This impression proved to be a false one,⁷⁸⁵ but Finnish butter exports did recover slightly in 1970 and even more so in 1971 because many major suppliers, such as Denmark and New Zealand, could not temporarily fulfil their quotas.⁷⁸⁶ However, there was a new serious danger looming: the prospective British membership of the EEC. The Finns feared that it would prevent the exports of Finnish butter to the UK,⁷⁸⁷ which indeed happened. Again, an

⁷⁷⁹ NA. FCO30/362. "Aide Memoire". Board of Trade, April 15, 1969; W. Hughes, BOT, to O. Wartiovaara, Finnish Embassy, London, April 15, 1969.

⁷⁸⁰ NA. BT11/7027. "President's Visit to Finland 7-9th December 1969. Brief no. X: Butter." BOT, December 3, 1969.

⁷⁸¹ NA. BT11/7027. "President's Visit to Finland 7-9th December 1969. Brief no. X: Butter." BOT, December 3, 1969; FCO30/362. "Aide Memoire" by the Finnish Ministry for Foreign Affairs, October 27, 1969; UM 58B2. Englanti. Voin vienti Englantiin 1971. "Butter", a memo by the British Embassy, Helsinki, January 12, 1971.

⁷⁸² NA. BT11/7027. Tel no. 2 from FCO to Helsinki, December 15, 1969; "President's Visit to Finland 7-9th December 1969. Brief no. X: Butter." BOT, December 3, 1969.

⁷⁸³ NA. FCO33/729. "Note of a discussion between the President of the Board of Trade and Dr. A. Karjalainen, Finnish Minister of Foreign Affairs, at the Foreign Ministry, Helsinki at 09.30 hours, on Monday, 8 December 1969".

⁷⁸⁴ UM 58B2 Englanti Voin vienti Englantiin v. 1969. Telegram from the Finnish MFA to the Finnish Embassy, London, December 9, 1969.

⁷⁸⁵ UM 58B2 Englanti Voin vienti Englantiin v. 1969. Telegram from the Finnish Embassy, London, to the Finnish MFA, December 12, 1969.

⁷⁸⁶ UM 58B2. Englanti. Voin vienti Englantiin 1971. Valio to the Finnish Ministry of Trade and Industry, August 24, 1971; "Butter import move to ease supply shortage". Financial Times, January 20, 1971.

⁷⁸⁷ UM 58B2. Englanti. Voin vienti Englantiin v. 1972.

increase in exports to the Soviet Union helped the Finns to overcome their difficulties.⁷⁸⁸

British government reluctance between 1958 and 1970 to let the Finns export more butter to the UK is not surprising. The government was constantly under pressure from numerous countries to increase their butter quotas, and a finely tuned system was created to divide the quotas. This could not be disrupted, even for a very good reason, which from the point of view of the economic departments was economic benefit. The British Embassy in Helsinki suggested in 1962 that the British should use Finnish butter exports to the UK to secure larger import quotas for British car exports to Finland.⁷⁸⁹ The BOT recognised the advantages butter imports could have as bargaining tool, but reluctantly the department had to conclude that for practical reasons it could not be used. The administration of the quota system was difficult enough as it was; British action against Finnish butter would be a violation of the GATT, and linking butter quotas with car quotas, would draw Finnish attention to the fact that the British themselves favoured certain countries at the expense of others in the administration of butter import restrictions.⁷⁹⁰

In 1969 a Finnish government minister suggested that, if the British would dispose of 10,000 tons of Finnish butter in addition to the normal Finnish butter exports to the UK, the Finns would order a nuclear power plant from the UK.⁷⁹¹ British government ministries, Mintech, the Board of Trade and the FO/FCO, as well as the United Kingdom Atomic Energy Authority, had for years worked exceptionally hard to sell a nuclear plant to Finland.⁷⁹² Still the deal did not materialise. If the UK increased imports of Finnish butter, the other suppliers would undoubtedly protest, and agreement emerged in Whitehall that they should not start to tamper with the elaborate system of

⁷⁸⁸ Hokkanen, *Maidon tie*, pp.110-111,114-116.

⁷⁸⁹ NA. FO371/165937. NF1121/3. Telegram no. 31 from O'Neill, Helsinki, to FO, February 2, 1962.

⁷⁹⁰ NA. FO371/165944. NF1151/2. A.G. White, BOT, to P.D. Stobart, Helsinki, March 13, 1962, copy for FO; Sir Patrick Reilly of the Foreign Office specifically asked the Finnish Ambassador in London to convey to the Finnish government a message that the small butter quota was not in any way a result of the British unhappiness about the Finnish government treatment of British car and other exports. UM 58B2 Englanti Voin venti Englantiin. Voikiintiöiden jako 1962. L. Tuominen, Finnish Embassy London, to the Finnish Ministry for Foreign Affairs, April 10, 1962.

⁷⁹¹ NA. FCO55/314. Telegram no. 132 from Scott Fox, Helsinki, to FCO, May 14, 1969; "Meeting with Minister Linnamo 14 May 69"; A.H. Reed, Helsinki, to C.J. Audland, FCO, May 14, 1969.

⁷⁹² See for example NA. FCO55/314-315; EG8/101-102; FCO55/97-99; AB38/597: AB38/483.

butter quotas.⁷⁹³ The desire to sell a nuclear plant to Finland had much more support in Whitehall than the politically motivated plans to help Finland,⁷⁹⁴ and if even the prospect of a nuclear plant order could not persuade the government departments to change their policy, neither could the Cold War.

Conclusion

In the early 1950s, the Americans and often the British Legation in Helsinki, as well as the Foreign Office, argued that Western countries should use trade as a method to tie Finland more closely to the Western world, but the Board of Trade rejected all these suggestions. In most cases the operations would not have been expensive, but the BOT and the Ministry of Materials regarded them as an unwelcome interference in the formulation of trade policy, and refused even to consider in detail the possibility of helping Finland by increasing purchases from it. It is true, as the British claimed, that the government did not have many methods available to help the Finns, but I believe that the main problem was not the lack of method but the lack of will.

As stated previously, Lawrence Freedman has warned students of foreign policy not to concentrate only on active conflicts. According to Freedman the bureaucratic politics model leads one to concentrate on current battles rather than the underlying power structure.⁷⁹⁵ It is for this reason I have analysed the structural aspects of British-Finnish trade during the era of bilateral trade relations in the 1950s, and shown that, while the trade was beneficial for the Finns, this was an accidental by-product of the British policy as well as a result of the UK's weak bargaining position, not a result of a deliberate UK policy of supporting the Finns economy for political purposes. The Board of Trade was mainly responsible for the formulation of British trade policy, and if it had had stronger bargaining tools to use in the trade negotiations with the Finns and the UK had needed fewer raw materials from Finland, it would have tried to change the existing

⁷⁹³ NA. EG8/102. "Finnish butter". J.H. Axford, May 19, 1969; "Round up of Export Activities 19/20th May, 1969". P.J. Kelly, May 20, 1969; FCO55/314. "Nuclear Power Station for Finland". S.P. Day, June 13, 1969; EG8/122. P.J. Kelly, Mitech, to S.A. Ghalib, The Nuclear Power Group, June 6, 1969.

⁷⁹⁴ NA. FCO55/314-315; EG8/101-102; FCO55/97-99; AB38/597: AB38/483; T312/1658.

⁷⁹⁵ Freedman, "Logic".

situation that benefited the Finns regardless of whether this would have been compatible with Cold War desires.

British import restrictions protected the British paper and board industry from further Finnish competition. The existing situation, where quantitative restrictions and tariffs protected the British industry, but left the Finns relatively free to export timber and woodpulp, both regarded as raw materials, to the UK, was from the BOT's point of view a very beneficial situation. Not surprisingly, the BOT firmly opposed Finnish and Nordic requests for liberalisation of imports of woodworking products from quantitative restrictions.

The interests of the British paper and board industry were eventually sacrificed in the EFTA and Finland-EFTA negotiations in 1959-1961, but this was done because the benefits from the Free Trade Area to other industries were regarded as important enough to offset any damages to the British paper and board industry. Yet, for the rest of the 1960s, the policies of the BOT and the Treasury formed almost constantly either a potential or actual threat to Finnish exports to the UK. The British government supported in 1963 intra-industry agreements on paper imports that would help the British industry to overcome the negative effects of tariff reductions; in 1964 the government imposed an import surcharge on all manufactured imports; during the late 1960s the government officially supported British paper industries' dumping-accusations against the Nordic producers. There is no evidence to suggest that the Cold War desire to tie Finland more closely to the West had any impact on policies concerning these issues or that the FO/FCO played any important role in the decision-making process. The British government also limited Finnish butter exports to the UK even if this method helped the Soviets gain propaganda victories by appearing to help the small nation. On the other hand, it is unlikely that the government departments had any real choice in this case.

6. The UK and Finnish participation in European economic integration

The outsider

Jukka Seppinen has underlined the role of Western political desire to tie Finland to the West. He argues that the UK played a crucial role in the birth of the association agreement between the European Free Trade Area and Finland (1961), and that the UK government did this mainly because they wanted to tie Finland more closely to the West.⁷⁹⁶ By taking a broader perspective, I will suggest that the British policy towards Finnish participation in the integration process was more complicated. Between 1954 and 1958 the US and British governments in fact had very different views of this issue although the British did their best to hide the extent of their opposition from the Americans. When the British decided to support the Finnish association to the EFTA in 1959-1960, this was not done only for political purposes. It was essential that the economic departments concluded that the Finnish association was beneficial for the UK. Each of the UK government departments were interested in the particular implications the integration issues would have on their own interests with regards to Finland.

The Finnish government had been interested in participating in the European Recovery Programme (Marshall Programme) in 1947, because Finland desperately needed foreign credits. When the Soviet Union made its negative opinion absolutely clear to the Finnish and Eastern European countries, the Finnish government had to refuse to participate in the programme, which meant not only that Finland did not receive Marshall aid from the USA, but also that it could not join the new Organisation for European Economic Co-operation (OEEC) or the European Payments Union (EPU). Both of them were too closely linked to the USA and NATO from the Soviet point of view.⁷⁹⁷ Finland was excluded from the Western European economic integration

⁷⁹⁶ Seppinen, *Suomen Efta-ratkaisu*. Harri Salmi was the first scholar to use the recently opened British government documents to study the British attitude towards the Finnish association to the European Free Trade Area. He, and later Jukka Seppinen, have offered a detailed account of how the peculiar institutional ties between the EFTA and Finland were formulated. Harri Salmi, *Iso-Britannia ja EFTA syntyy. Iso-Britannian asennoituminen Suomen liittymiseen EFTAan*. (St. Anthony's College, Oxford: Unpublished research report, 1991); Seppinen, *Mahdottomasta mahdollinen*.

⁷⁹⁷ Mikko Majander, "The Limits of Sovereignty. Finland and the Question of the Marshall Plan in 1947". *Scandinavian Journal of History* 19, no. 4 (1994), pp.309-326; Paavonen, *Suomalaisen protektionismin*, pp.72-76. The European Payments Union, founded in 1950, was a mechanism designed to make possible the establishment of a multilateral payments system within the OEEC. Most Western European currencies

process, but she did become a member of the General Agreement on Tariffs and Trade (GATT, 1950), the International Bank for Reconstruction and Development (1948) and the International Monetary Fund (1948).⁷⁹⁸

Staying out of the OEEC and the EPU was not fatal to Finnish foreign trade, partly because OEEC liberalisations applied usually not only to imports from OEEC countries, but to the whole "Relaxation Area", which in the British case included also their colonies and other dependencies, as well as few other non-dollar countries, including Brazil, Egypt, Finland, Indonesia, Spain, Israel and Sudan. If a British importer got an Open General License, he or she could usually import from any of these countries as well as the OEEC members.⁷⁹⁹ These countries could therefore benefit from the liberalisation of imports in the OEEC without the need to offer reciprocal concessions for the UK goods. The Board of Trade resented the fact that some countries, including Finland, could benefit from liberalisation without obligations of their own.⁸⁰⁰

In 1953 the British had tried to find possibilities to benefit for this concession to non-OEEC countries, by using it as a bargaining advantage,⁸⁰¹ but the BOT investigation found that in the Finnish case the risks outweighed the potential advantages. The Finns might complain to the GATT and to accuse the British of discrimination or just cut

were inconvertible "soft" currencies, which were of a limited value in international trade, because of they could be only used for purchases from one country. Individual countries were generally reluctant to hold inconvertible foreign currencies, which they might accumulate if they had a trading surplus with another country. Under the bilateral trade and payments agreements, the debtor country would have to settle liabilities like this with gold or hard currencies, although many agreements did permit a small "swing" in the bilateral payments, and therefore perfect balance was not necessary. Still, if it seemed that a country was importing significantly more from a country than it was exporting to it, it would impose drastic restrictions on imports in order to avoid settling liabilities with gold or hard currencies. Within the EPU, the Bank for International Settlements calculated monthly net balances of each country with other countries, and cancelled offsetting liabilities and consolidated remaining balances. An individual country would not any more have liabilities to any individual country but to the EPU area as a whole, and for this reason it was not necessary to make sure that bilateral trade between two countries was in balance. A country, which had a deficit, could settle its debts initially with credit, but when the deficit grew, the country in question would gradually have to pay an increasing amount of gold and hard currencies. The US government provided the necessary initial funds for EPU. Barry Eichengreen, "The European Payments Union: an efficient mechanism for rebuilding Europe's trade?" in *Europe's post-war recovery*, ed. Barry Eichengreen (Cambridge University Press, 1995), p.171; Alan S. Milward, *The Reconstruction of Western Europe 1945-1951* (London: Routledge, 1992), p.221.

⁷⁹⁸ Paavonen, *Suomalaisen protektionismin*, pp.85,89-90.

⁷⁹⁹ Milward and Brennan, *Britain's Place*, p.38.

⁸⁰⁰ NA. BT241/7. "Finland". M.E. Welch, December 15, 1953; BT241/11. S.J. Gross's memo to J.B. Smith, April 4, 1957; FO371/111463. NF1151/1. President's Meeting with the Finnish Minister in London". I. Gray, December 23, 1953, copy for FO.

⁸⁰¹ NA. BT241/6. Minutes by R. Burns, September 18, 1953; CAB134/1096. O.N.(53) 187, October 19, 1953 "Liberalisation of trade policy towards "Soft" Non-OEEC countries"; CAB134/1031. O.N. (53) 52nd Meeting, July 31, 1953, "4. Liberalisation of trade: policy towards soft non-O.E.E.C. countries".

imports from the UK, the Swedes would raise their prices when the competition from Finland became weaker, and the long-term contracts would make effective implementation difficult.⁸⁰² The Anglo-Finnish trade agreement for the year 1953 stipulated that if the Finnish exports to the UK grew, the UK would also get extra import facilities to its exports to Finland, although in a more limited scale, and there was little realistic chance of improving this situation.⁸⁰³ In December 1953, the President of the Board of Trade and some of his leading officials considered the proposal to complain to GATT about Finnish quota restrictions, because the British felt that they could not be justified on the balance of payments grounds. The proposal was abandoned because the other GATT members might not take an attack on a small country like Finland, with poor representation in GATT, seriously. They might even resent it.⁸⁰⁴

Ever since the Soviets had made their view of Marshall aid clear to the Finns, the Finnish government had adopted a very cautious attitude towards European integration. The reasons were not entirely political; the state and structure of the Finnish economy would also make it difficult to undertake the liberalisation obligations of OEEC membership. Still, Finland was dependent on Western European markets; 53 per cent of Finnish exports went to OEEC countries in 1956.⁸⁰⁵ In 1956 the British, who had become concerned about the plans of “the Six” (France, West Germany, the Benelux countries and Italy) to set up a customs union, proposed the formation of a wide Western European Free Trade Area (FTA). This British proposal, known as “Plan G”, was less ambitious than the plans of the Six and therefore better suited to the British. There would be no common external tariff, strong central institution or move towards deep integration. Agriculture would be excluded.⁸⁰⁶

⁸⁰² NA. BT241/6. M.E. Welch’s minutes on “O.N.(53)187. Liberalisation of Trade. Policy towards Soft Non-O.E.E.C. Countries”, October 20, 1953; Minutes by P.J.L. Homan, September 23, 1953.

⁸⁰³ NA. CAB134/1096. O.N.(53) 187, October 19, 1953 “Liberalisation of trade policy towards “Soft” Non-OEEC countries”.

⁸⁰⁴ NA. BT241/7.”Trade Negotiations with Finland“. President’s Office Minute 466. I. Gray, December 21, 1953.

⁸⁰⁵ Paavonen, *Suomalaisen protektionismin*, pp.97-99; Minna Helena Teivonen, "Suomen tie OECD-jäsenyyteen 1956-1969. Miten säilyttää suhteet itään ja kauppasuhteet länteen?" (Master of Arts thesis, Department of Social Science History, University of Helsinki, 2000), pp.1,9-14; Seppinen, *Mahdottomasta mahdollinen*, p.230.

⁸⁰⁶ John W. Young, *Britain and European unity, 1945-1999*, 2nd ed. (Basingstoke: Macmillan, 2000), p.46; Hugo Young, *This Blessed Plot. Britain and Europe from Churchill to Blair* (London: Papermac, 1999), p.115.

It was important for Finland to be involved in this process and to participate in multilateral trade and payments in some way. Finland had already benefited from the removal of quota restrictions in many OEEC countries, and the gradually liberalised imports from the West between 1955 and 1957, but if Finland were left outside the new Free Trade Area, Finnish exporters would be in a worse position than their Scandinavian competitors. At the end of 1955 automatic licensing covered half of the Finnish imports from the OEEC countries and in 1957 the Finnish government liberalised roughly 80 per cent of its imports (from bilateral quantitative restrictions) and created a new system of multilateral trade and payments arrangements between Western Europe and Finland, which was known as the "Helsinki Club". This was an important step closer to the West both on an institutional and practical level, not least because it led to the strong growth of imports from the West at the same time as Finnish imports from the Soviet Union were declining. In January 1957 the Finnish Cabinet decided to start investigations about what sort of membership in or link with the OEEC and the EPU would be possible for Finland, and in September the government decided to start preliminary negotiations about membership of the OEEC and in the EPU. This would be necessary for participation in the Free Trade Area. The Finns feared that full membership of the OEEC would provoke Soviet anger, especially since the convention of the organisation referred to the Marshall programme, and so the Finns initially considered some sort of associate membership. The protection of Finnish-Soviet trade was important also for purely economic reasons. Finland had to find a solution that would protect its trade with both East and West.⁸⁰⁷

The Americans were hoping that Finland could be drawn closer to Western European economic institutions. The US government decided in 1954 that it would be ready to support possible Finnish membership of the European Payments Union and to make a contribution for an initial credit to Finland in the EPU,⁸⁰⁸ as it had already done for the other countries. In April 1954 the US government expressed concern unofficially

⁸⁰⁷ Paavonen, *Suomalaisen protektionismin*, pp.98-99,183,186-191; Teivonen, "Suomen tie", pp.11-12,14. Seppinen, *Suomen Efta-ratkaisu*, pp.47-49; VNA. KTM. Kauppaosasto. Ha 10 a. "Näkökulmia Suomen asennoitumisesta Länsi-Euroopan taloudelliseen yhteistyöhön nähden". O. Kaila, February 18, 1958.

⁸⁰⁸ Statement of Policy Proposed by the National Security Council, NSC 5403: U.S. Policy Towards Finland. January 12, 1954. FRUS 1952-1954, volume VIII, p.776.

through diplomatic channels in Oslo about the Finnish position and hinted that the US might be willing to offer financial aid, grants and loans, for Finland, if it joined the EPU.⁸⁰⁹

The US continued to support closer Finnish association with the EPU and the OEEC during the following years,⁸¹⁰ even if the Finns themselves were very cautious about the whole issue. The British Chancellor of the Exchequer, R.A. Butler, expressed encouraging views about Finnish participation in European integration when he met Sakari Tuomioja, the Finnish Ambassador to London in the summer of 1955. According to Tuomioja, Butler regretted the fact that Finland had been left out of the European integration process and suggested that Finland should reconsider joining the OEEC. Butler recognised that Finland had benefited from the increased convertibility of the pound and removal of import restrictions in Western Europe without making corresponding sacrifices of its own. But as long as Finland made efforts to follow the lead of Western Europeans, he would personally try to help Finland to get special exemptions from the convertibility obligations for a transitional phase.⁸¹¹

These authoritative comments made by a leading British politician might suggest that the British supported further integration of Finland to the OEEC, but this was not the case. The British FO, BOT and Treasury officials responsible for the policy regarding the OEEC were much less enthusiastic than the Americans or Butler appeared to be. Finland would probably be more of a liability than an asset in the OEEC, and besides, the nature of the Finnish-Soviet trade would be incompatible with possible Finnish participation in general Western European liberalisation involving currency convertibility.⁸¹² An invitation for Finland to join the OEEC would just be a political embarrassment for Finland. Not that the Finns would see any economic reason to join, because at present they gained many advantages from Western European liberalisation without assuming obligations themselves.⁸¹³

⁸⁰⁹ Teivonen, "Suomen tie", p.10.

⁸¹⁰ Telegram From the Department of State to the Mission at the North Atlantic Treaty Organization and European Regional Organizations, January 29, 1958. FRUS 1958-1960, volume VII, p. 7.

⁸¹¹ TPA. UKA 21/44. S. Tuomioja, Finnish Embassy London, to the Finnish Ministry for Foreign Affairs, July 4, 1955.

⁸¹² NA. FO371/111457. NF1102/5; Minutes FO371/111461. NF11338/61. M.J. Creswell, Helsinki, to A. Eden, FO, August 11, 1954.

⁸¹³ NA. BT241/8. Minute by P.J.L. Homan, August 27, 1954; FO371/111457. NF1102/5. Minute by N.G.S. Beckett, September 7, 1954; NF1102/7. P.J.L. Homan, BOT, to Lord Norwich, FO, October 25, 1954.

The UK delegation to the OEEC (Paris) reported in September 1955 that the US Embassy in Helsinki was interested in the possibility of granting Finland observer status in the OEEC, because it wanted to strengthen Finnish political and economic ties with the West. Finland would not be able to become a full member for political reasons, (i.e. Soviet attitude), and although Finland would not be able to undertake the economic obligations of membership, observer status would be a step in the right direction.⁸¹⁴

Within the Foreign Office, the Mutual Aid Department (MAD) was in charge of the formulation of the FO attitude towards the Finnish question. This was just one of the departments of the FO dealing with European integration. According to Jacqueline Tratt, before January 1960, issues relating to European integration were dealt with either by MAD, the Economic Department or the Western Department, and there was no means of developing a co-ordinated policy.⁸¹⁵ MAD took over the question of Finnish observers, because it was generally in charge of relations with the OEEC and this had clear impact on the British attitude. If the Northern Department, which was usually responsible for Finland, had been in charge of it in this case, we can assume that it would have taken a line resembling the US policy. The Northern Department usually underlined the need to integrate Finland more closely to the West.⁸¹⁶ MAD, in contrast, seems to have looked at the whole issue mainly from the point of view of UK general policy towards the OEEC and it was not particularly interested in using the OEEC to draw Finland closer to Western Europe.⁸¹⁷

MAD and the Board of Trade were not convinced about the US arguments or the wisdom of the US idea of Finnish observers. The Finns had to decide themselves whether they wanted to become observers or not, but the British should certainly not try to push them in this direction. The OEEC already had a lot of work with similar negotiations with Spain and Yugoslavia, and MAD officials were not enthusiastic about accepting further observers, since they were generally “*a nuisance*”. The political or economic benefits from accepting observers from Finland did not seem as important as

⁸¹⁴ NA. FO371/116089. M551/63. “Record of Conversation”, an attachment to W.Harpam’s, UK delegation to OEEC, Paris, to A.J. Edden, FO, September 21, 1955.

⁸¹⁵ Tratt, *Macmillan*, pp.145-146.

⁸¹⁶ See the previous chapters in this thesis.

⁸¹⁷ NA. FO371/116089. M551/63, 70.

in the Spanish and Yugoslav cases to the MAC or the BOT. In the case of Spain, and less so with Yugoslavia, there was a prospect of future full membership, but in the Finnish case this seemed less likely. The Northern Department did not challenge this view, but there is little evidence of consultation with it.⁸¹⁸ The staff of the British Embassy in Helsinki were much more convinced about the US proposal than the officials in Whitehall, and saw no strong reason to oppose it, but, on the other hand, did not believe that the Finns would accept.⁸¹⁹

After interdepartmental consultations, the Mutual Aid Department instructed the UK delegation to the OEEC to try to discourage the Americans from going ahead with the proposal.⁸²⁰ This attempt was clearly not successful, since the USA made an informal approach to the Finnish government in November 1955.⁸²¹ The Americans proposed that Finland should apply for observer status at the organisation. The US government would be ready to support this proposal.⁸²² At the same time, the Scandinavians were encouraging the Finns generally to seek a closer relationship with the OEEC.⁸²³ Information about US activity and the recent decision of the Pulp and Paper Committee of the OEEC to invite the Finns to send an observer to the Committee made the MAD officials feel that the UK government should soften up its position. Suddenly, the idea of Finnish observers seemed a much more sensible one. Certainly there would not be any immediate political or economic benefit, but in the long run there would be a “*considerable gain*” if Finland were to modify its policies to become acceptable for OEEC membership. The UK should not try to actively discourage a development of this kind, but it should not take the initiative in this issue or otherwise actively encourage the Finns either.⁸²⁴

⁸¹⁸ NA. FO371/116089. M551/63. Minutes; J.E. Coulson, FO, to W. Strath, Try, October 6, 1955; R.F. Bretherton, BOT, to W. Strath, Try, October 10, 1955, copy for FO; R.W.B. Clarke, Try, to J.E. Coulson, FO, October 21, 1955.

⁸¹⁹ NA. FO371/116089. M551/70. Chancery, Helsinki, to Mutual Aid Department, FO, October 11, 1955.

⁸²⁰ NA. FO371/116089. M551/63. A.J. Edden, FO, to W. Harpam, UK delegation, Paris, October 31, 1955.

⁸²¹ NA. FO371/116090. M551/96. Chancery, Helsinki, to MAD, FO, December 12, 1955.

⁸²² Seppinen, *Suomen Efta-ratkaisu*, p.38; UM 60. D 1 a b. OEEC. Suomen mahdollinen liitt. 1955-1959. ”Muistio keskusteluista Mr. Cunningham’in ja Mr. Ainsworth’in kanssa 9.11. – 55.” V. Makkonen, November 10, 1955.

⁸²³ Teivonen, “Suomen tie”, p.11.

⁸²⁴ NA. FO371/116090. M551/96. M.D.W McCann, FO, to A.J. Collier, Try, December 31, 1955; G.F. Rodgers, FO, to J.O. May, Helsinki, January 9, 1956; FO371/121981. M551/73. Draft letter to E. Warner, UK Delegation, Paris, September 1956.

The basic negative attitude of the MAD did not really change,⁸²⁵ the department just did not want to actively oppose the Finnish link with the OEEC, because this might provoke criticism from the Americans or the Scandinavians and it would be hard to give a convincing justification for opposition when the OEEC was at the same time considering closer association with Spain and Yugoslavia. The Finnish economic system was by no means less liberal than the systems of these countries, Yugoslavia being of course a socialist country.⁸²⁶ The unenthusiastic official British line to possible Finnish membership of the OEEC as suggested by the Mutual Aid Department of the FO and approved by the interdepartmental Mutual Aid Committee in September, 1956 was that in general the UK welcomed the accession of any country, which was willing and able to undertake the obligations involved, to the OEEC and the EPU. If the Finnish government applied for membership, the OEEC should investigate the ability of Finland to undertake its economic obligations.⁸²⁷

If the Free Trade Area, which the British were proposing, became a reality, this might have a more drastic effect on the future development of Finnish foreign trade. Creswell concluded at the beginning of 1957 that the Finns were going to try to join the new Free Trade Area at some point, because she could not compete successfully, if left out, and could not rely totally on the Soviet bloc as a market and a source of supply. Membership would, however, require Soviet acceptance and the Finns should solve the problems related to their trade relationship with the East.⁸²⁸ The President of the Board of Trade told the Finnish Ambassador in February 1957 that his view was that any country willing to assume the obligations of FTA membership could join. The Ambassador doubted whether Finland could do so.⁸²⁹

A Board of Trade memo in August 1957 highlighted in similar terms the economic difficulties Finland would face if it stayed out of the Free Trade Area. The exports of unprocessed wood would probably not be seriously affected, but the impact on paper and board exports would be more severe. In addition, the Finns would have to abandon

⁸²⁵ See NA. FO371/121977. M551/7. Minutes by G.F. Rodgers, May 31, 1956.

⁸²⁶ NA. FO371/121981. M551/73. "O.E.E.C. and Finland". M.D.W. McCann, August 23, 1956.

⁸²⁷ NA. CAB134/1282. M.A.C.(56) 26th Meeting, September 25, 1956; CAB134/1286. M.A.C.(56)117, September 20, 1956.

⁸²⁸ NA. FO371/128334. Telegram no. 20 from Creswell, Helsinki, to FO, February 5, 1957.

⁸²⁹ NA. FO371/128591. NF1151/15. "Note of a meeting between the President and the Finnish Ambassador". S.W. Wearing, February 25, 1957, copy for FO.

any hope of finding an outlet for their metal working industries in Western Europe. The economic interests of the UK itself would not be seriously affected. The import of timber, pulp and newsprint from Finland would continue and British exports to Finland would face the same tariffs as the exports of other Western nations. The crucial question according to the memo was, how large an impact the Finnish decision to stay out of or join in the FTA would have on the overall size of the Finnish market. BOT officials did not make any predictions of this or conclusions on what the British policy should be, but they cautiously estimated that for UK interests, Finnish membership would be the better solution.⁸³⁰

In January 1958 the Finnish Ambassador in Paris, R.R. Seppälä asked formally on what conditions Finland could join the OEEC.⁸³¹ The British now had to decide what their official opinion on Finnish membership was, and it was far from certain that the conclusion would be positive for Finland. The Finnish Ambassador to London, Leo Tuominen, came to the Foreign Office on February 4, 1958 to meet D.A.H. Wright, who was the superintending under-secretary in charge of OEEC and EPU issues at the FO. Tuominen said that the Finnish government could not join the OEEC at least in the near future, but it would be interested in acquiring observer status. The Finns did hope to be allowed to participate in the work of the European Payments Union and in the Free Trade Area negotiations, because most of their trade was now on a multilateral basis. Before making formal decisions on these issues, the Finnish government wanted to know informally what the attitude of HMG and the West German government to these issues was.⁸³²

D.A.H. Wright's attitude was not very encouraging. Wright said that the British were anxious to help the Finns, but if Finland did not become a full member of the OEEC this raised difficulties as far as the EPU and the FTA negotiations were concerned.⁸³³ In a follow-up discussion Wright clearly stated to Tuominen that the British could not support an arrangement that would give Finland the benefits it was looking for without

⁸³⁰ NA. FO371/128355. M611/856. "Finland and the Free Trade Area" A BOT memo, August 6, 1957, copy for FO.

⁸³¹ NA. BT241/12. H. Ellis-Rees, Paris, to R.R. Seppälä, Finnish Ambassador, Paris, March 24, 1958. Copy.

⁸³² NA. FO371/134771. NF1131/4. D.A.H. Wright, FO, to Mutual Aid Department, FO, February 4, 1958.

⁸³³ NA. FO371/134771. NF1131/4. D.A.H. Wright, FO, to Mutual Aid Department, FO, February 4, 1958.

the need to become a member of the OEEC. If on the other hand, Finland would be willing to apply for membership, the British attitude might be different.⁸³⁴

The Paymaster-General, Reginald Maudling made it clear to Seppälä in Paris that the British view was that only as a full member of the OEEC could Finland participate in Free Trade Area negotiations. Otherwise other countries, which were not full members of the OEEC, could try to join the negotiations.⁸³⁵ The Germans and the secretariat expressed similar discouraging comments to the Finnish Ambassador. On the basis of these discussions he concluded that, unless Finland joined the OEEC, it could not participate in a meaningful way in the European Payments Union or in the negotiations about the Free Trade Area. Since the main reason why the Finns were interested in the link with the OEEC, seemed to be their interest in the new FTA, the Finns discarded their suggestion of an observer status.⁸³⁶

Possible Soviet opposition as well as Finnish-Soviet trade were obvious potential obstacles to Finnish membership, but even if these issues did not prove to be fatal, the British had other reasons for questioning the wisdom of supporting Finland. Above all, would Finland be economically strong enough to undertake the obligations involved in the OEEC or in the FTA; would her special status make the general FTA-negotiations more complicated, and would the "green light" for Finland inspire other weak European countries to seek membership of the FTA?⁸³⁷ The UK government departments feared that several OEEC members (Turkey, Greece, Iceland, Ireland and perhaps Portugal), which the civil servants, for the lack of a better word, called "*peripheral*" countries, could not undertake the full trade obligations involved in a new free trade area. If they got easier terms this could provoke criticism from GATT members and Commonwealth countries, and generally create difficulties in British relations with the under-developed

⁸³⁴ UM 60. D 1 a b. OEEC. Suomen mahdollinen liitt. 1955-1959. "Muistiinpano". L. Tuominen, February 8, 1958.

⁸³⁵ VNA. KTM. Kauppaosasto. Ha 10 a. "Muistio II keskusteluista OEEC:sta". R.R. Seppälä, February 19, 1958.

⁸³⁶ NA. CAB134/2202. M.A.C.(58)6, March 13, 1958. "Finland and the O.E.E.C." A memo by the Foreign Office; FO371/134772. NF1121/26. D.L. Busk, Helsinki, to D.A.H. Wright, FO, October 15, 1958; VNA. KTM. Kauppaosasto. Ha 10 a. "Muistio II keskusteluista OEEC:sta". R.R. Seppälä, February 19, 1958.

⁸³⁷ NA. FO371/134488. M611/100. D.A.H. Wright, FO, to Sir R. Hankey, Stockholm, February 25, 1958.

non-European countries.⁸³⁸ As far as the UK government was concerned, the OEEC already had quite enough “*lame-duck and candidate members.*” The same applied to Finnish membership in the prospective Free Trade Area. Balancing between the “*extreme demands*” of the French and special requirements of the economically weak countries, such as Greece, Turkey, Iceland and Ireland, British officials were reluctant to complicate matters by accepting any new countries to the FTA-negotiations even as observers. If on the other hand, Finland first became a member of the OEEC, the UK would have no grounds for opposing Finnish participation in the FTA negotiations.⁸³⁹

All the main Whitehall departments probably shared an unwillingness to weaken the OEEC or the proposed FTA or to create new difficulties for the Free Trade Area negotiations. The FO had also a political agenda of its own, which it shared with the US State Department. In an interdepartmental Mutual Aid Committee meeting, the FO representative argued that it was politically important to draw Finland closer to the West with the help of the OEEC. His colleagues from the other departments did not question this, but pointed out that some other OEEC members might not support Finnish membership, and therefore the UK should try to avoid a situation where she would be the sole supporter of Finland within the OEEC. Before supporting Finland, the UK should make sure that at least the Scandinavian and Benelux countries and West Germany supported the proposal.⁸⁴⁰ The FO hoped that OEEC membership would at least help Finland to avoid stronger economic reliance on the Soviet Bloc, or even diminish it.⁸⁴¹

⁸³⁸ NA. CAB134/1856. E.S.(E.I.)(57) 40th Meeting, September 17, 1957; CAB134/1862. E.S.(E.I.)(57) 240 (Revise), “The problem unable to accept the full obligations of a free trade are”, a memo circulated under covering note.

⁸³⁹ NA. FO371/134488. M611/100. D.A.H. Wright, FO, to Sir R. Hankey, Stockholm, February 25, 1958. UK officials were not particularly enthusiastic about the proposed Nordic Customs Union (NCU) of the Scandinavian countries, including Finland, either. The Foreign Office saw this as a method of integrating Sweden and Finland tighter to the West, and not as a development that could create “*semi-neutralist Nordic bloc*”, which would loosen Nordic ties to the West as the FO believed the Soviets saw the political role of the NCU. Despite these political considerations, the British attitude to the NCU was “*one of benevolent interest rather than whole-hearted support*”. The reason for this was that it was still unclear what the economic implications of the plan to the British economic interests would be. NA. FO371/134488. M611/100. D.A.H. Wright, FO, to Sir R. Hankey, Stockholm, February 25, 1958.

⁸⁴⁰ NA. CAB134/2202. Mutual Aid Committee (MAC) (58)1st Meeting, February 28, 1958: “Finland and the O.E.E.C.: Draft Submission to Ministers” Cabinet Office, March 3, 1958.

⁸⁴¹ NA. CAB134/2202. M.A.C.(58)6, March 13, 1958. “Finland and the O.E.E.C.” A memo by the Foreign Office.

Before the spring of 1958 there was little clear evidence that the Soviets were going to object to Finnish membership of the OEEC. The Finns claimed that the Soviets were not trying to intervene. This was very surprising from the British point of view, and British officials remained suspicious that the Soviets might have some kind of sinister motives for their behaviour, and that they might intervene at a later stage. The interdepartmental Mutual Aid Committee decided that the risk that, for political reasons, the Finns might later be unable to carry out their obligations within the OEEC was worth taking, both from an economic and political point of view.⁸⁴²

It was the agreed policy of the UK government not to oppose a membership application, if the country in question was able and willing to undertake the obligations involved, and if it would not become “a structural debtor”.⁸⁴³ The strength and the structure of the Finnish economy and her foreign trade were therefore crucial questions. The Finnish economy did not seem as weak as some British observers had originally feared. There was no reason to believe that Finland would become “a structural debtor”, and membership of the OEEC would promote the stability of the Finnish economy. Finnish dependence on only a few export products made her particularly dependent on fluctuations in world markets. This made it likely that she would need credits, but only during unfavourable periods in international trade.⁸⁴⁴ On the other hand, it would probably be more difficult for her to fulfil future FTA obligations, but the issue at hand was OEEC membership, and she seemed to be qualified for this.⁸⁴⁵ The examination by three OEEC institutions showed that Finland would be able economically strong enough to undertake the necessary obligations.⁸⁴⁶ The Whitehall departments signalled agreement with this conclusion and recommended that the UK delegation to the OEEC should be instructed to endorse the conclusion of the OEEC investigations.⁸⁴⁷ The OEEC delegations decided unanimously that Finland would be eligible to join the

⁸⁴² NA. CAB134/2202. Mutual Aid Committee (MAC) (58)1st Meeting, February 28, 1958: “Finland and the O.E.E.C.: Draft Submission to Ministers” Cabinet Office, March 3, 1958.

⁸⁴³ NA. CAB134/2202. M.A.C.(58) 4, February 25, 1958: “Finland and the O.E.E.C.” FO draft to the MAC.

⁸⁴⁴ NA. CAB134/2202. Mutual Aid Committee (MAC) (58)1st Meeting, February 28, 1958: “Finland and the O.E.E.C.: Draft Submission to Ministers” Cabinet Office, March 3, 1958.

⁸⁴⁵ NA. CAB134/2202. M.A.C.(58)6, March 13, 1958. “Finland and the O.E.E.C.” A memo by the Foreign Office.

⁸⁴⁶ NA. CAB134/2022. M.A.C.(58)7, March 18, 1958, “Finland and the O.E.E.C. Note by the Treasury (H.O.P.S.)”; BT241/12.H. Ellis-Rees, Paris to R.R. Seppälä, Finnish Ambassador, Paris, March 24, 1958. Copy.

⁸⁴⁷ NA. CAB134/2202. M.A.C.(58)7, March 18, 1958, “Finland and the O.E.E.C. Note by the Treasury (H.O.P.S.).

OEEC.⁸⁴⁸ The UK Ambassador, Douglas Busk, told President Kekkonen in June 1958 that the British were not trying to push Finland either to the OEEC or the Free Trade Area, but that they would be willing to help if Finland wanted to join.⁸⁴⁹

British support was not unanimous. D.W. Savage, a principal in the CRE Department of the BOT still expressed doubts in July 1958 about whether Finland could really adhere to the liberal trading spirit of the OEEC, because of the measures necessary to safeguard Finnish-Soviet trade.⁸⁵⁰ W.N.R. Maxwell, First Secretary of the British Embassy in Helsinki did not try to deny that Savage's fears were justified, but he argued that the main advantage for the UK from Finnish membership was political, namely, the Western desire to diminish the dependence of Finland on the Soviet Union.⁸⁵¹

Whether or not the BOT was really ready to agree with this conclusion we do not know, because while the OEEC members showed a "green light" for the Finnish application to the OEEC, the Soviets struck a series of fatal blows to it.⁸⁵² British diplomats in Helsinki heard from several sources that, during March and April, the Soviets had expressed their displeasure at the prospective Finnish membership of the OEEC and demanded guarantees that Finnish-Soviet trade should be maintained at the present level. A.B. Horn of the British Embassy did not believe that this would be enough to make the Finns abandon their plans to join, but that they would seek some sort of special terms for admission.⁸⁵³ The Finns claimed that the Soviets were not trying to keep Finland out of the OEEC, but were merely ensuring that their own trade position would not suffer. The FO refused to believe this. The Soviets were certainly interested in keeping their trade at the present level, but their main reason was to prevent generally Finnish association with Western organisations, because this implied a more Western-oriented foreign policy and a weakening of Soviet influence in Finland.⁸⁵⁴ The pessimistic interpretation proved to be the correct one.

⁸⁴⁸ Seppinen, *Suomen Efta-ratkaisu*, p.50.

⁸⁴⁹ NA. FO371/134766. NF10338/13. A.B. Horn for HM Ambassador, Helsinki, to Selwyn Lloyd, FO, June 10, 1958; Suomi, ed., *Kekkonen, diary, vol. 1*, June 3, 1958 (p.81).

⁸⁵⁰ NA. BT241/12. D.W. Savage, BOT, to W.N.R. Maxwell, Helsinki, July 11, 1958.

⁸⁵¹ NA. BT241/12. W.N.R. Maxwell, Helsinki, to D.W. Savage, BOT, August 5, 1958.

⁸⁵² Paavonen, *Suomalaisen protektionismin*, pp.99-101.

⁸⁵³ NA. CAB134/2202. M.A.C.(58) 8, May 2, 1958: A copy of a letter from A.B. Horn, Helsinki, to A.J. Edden, FO, April 23, 1958.

⁸⁵⁴ NA. BT241/12. J.E. Chadwick, FO, to W.N.R. Maxwell, Helsinki, August 8, 1958, copy for BOT; A.J. Edden, FO, to D.L. Busk, Helsinki, May 29, 1958, copy for BOT; H. Ellis-Rees, UKDEL OEEC to A.J. Edden, FO, June 10, 1958, copy for FO.

President Kekkonen and other Finnish authorities seemed to expect initially that the Soviets would not try to prevent Finnish membership of the OEEC. This attitude was partly due to the messages they received through secret channels from the Soviet Union. Viktor Vladimirov, a KGB representative told Ahti Karjalainen in February 1958 that the Soviet press would criticise Finnish membership in the OEEC, but the Soviet Union would refrain from other measures if Finland did not try to change its general foreign policy,⁸⁵⁵ which the latter of course was not trying to do. Confusingly other Soviet representatives made very different statements. In March the Soviet Ambassador Lebedev underlined to the Finnish foreign minister P.J. Hynninen that thirteen of the seventeen members of the OEEC were members of NATO, and suggested that, when making decisions about its relations with the OEEC, Finland should take into consideration the benefits of Soviet-Finnish co-operation, and avoid taking steps that would harm Finnish-Soviet relations, and especially trade relations. A few days later Lebedev criticised the preparations for OEEC membership to Kekkonen directly,⁸⁵⁶ and these and similar statements made during his trip to Moscow in May made Kekkonen very cautious about the whole issue.⁸⁵⁷

Finnish preparations for membership of the OEEC slowed down conspicuously and OEEC members started to ask why there was no progress on the Finnish side. In the autumn of 1958, Soviet displeasure about the fall in Finnish purchases from the Soviet Union and the Finnish attempt to participate in Western European integration combined with international tensions and the Soviet distrust of the new cabinet, lead by a social democrat, K.A. Fagerholm, created the "Night-frost crisis", which lead to the fall of the cabinet. The idea of OEEC membership was cast aside.⁸⁵⁸

⁸⁵⁵ Suomi, ed., *Kekkonen, diary, vol. 1*, February 22, 1958 (p.48).

⁸⁵⁶ *Ibid.*, March 12, 1958 (p.54), March 18, 1958 (p.56).

⁸⁵⁷ Suomi, *Kriisien aika*, pp.112-113, 123-124.

⁸⁵⁸ Paavonen, *Suomalaisen protektionismin*, pp.99-101; Teivonen, "Suomen tie", pp.18-19.

The road to FINEFTA

After the Six had founded the European Economic Community in 1957, it gradually became clear that the wide Free Trade Area would not become a reality. Seven other OEEC members ("The Outer Seven": the UK, Austria, Sweden, Switzerland, Austria, Portugal, Denmark, Norway) responded by starting to negotiate in 1959 over a small free trade area, which eventually became the European Free Trade Area. This resembled the FTA the British had proposed in 1956. For many British politicians and officials the EFTA was just a temporary solution or halfway house. They hoped to find in the future a more permanent solution, which would also include the EEC, and would still be compatible with UK interests,⁸⁵⁹ but in the meantime the Board of Trade focused on the preparations for the new free trade area.⁸⁶⁰ The European Free Trade Area Agreement was signed in Stockholm on January 4, 1960 and it became valid on May 3, 1960.⁸⁶¹

Finland had been negotiating with the Scandinavian countries about a Nordic customs union, but the Scandinavians had instead decided to found the European Free Trade Area with the British, the Austrians, the Swiss and the Portuguese. The failure of Finland to join the OEEC earlier meant that the country was not involved in these negotiations, even though the Finns were interested in membership of the organisation. The Finns had received very little information about the initial stages of the discussions of the Seven, and when the representatives of these countries gathered for crucial talks in Saltsjöbaden in Sweden in June 1959, to negotiate a firm structure for the new organisation, Finland hoped to be allowed to send an observer. What little information Finland had received about the state of negotiations had come mainly from the Swedes, and the Swedes supported the Finnish request.⁸⁶² This created a conflict between the Swedes and the British in which the Finns themselves were ironically outsiders even if the issue was the right of Finland to send observers. The Swedes had already told the Finnish government on June 4, 1959 that the Seven were not going to accept observers

⁸⁵⁹ Mikael af Malmberg and Johnny Laursen, "The Creation of EFTA" in *Interdependence Versus Integration. Denmark, Scandinavia and Western Europe, 1945-1960*, ed. Thorsten B. Olesen, *Odense University Studies in History and Social Science* no. 193 (Odense University Press, 1995), pp.197-212; Tratt, *Macmillan*, p.49; Young, *This Blessed Plot*, pp.116-118; Young, *Britain and European Unity*, pp.61-63.

⁸⁶⁰ Tratt, *Macmillan*, p.142.

⁸⁶¹ *The European Free Trade Association*, 2nd ed. (Geneva: EFTA Secretariat, 1980), p.10.

⁸⁶² Seppinen, *Suomen Efta-ratkaisu*, pp.86-89; Malmberg and Laursen, "The Creation of EFTA", pp.202-204.

from Finland,⁸⁶³ but behind the scenes the Swedes continued to press the Finnish case for a couple of months. The Swedish government saw Finland as a useful military bulwark against the expansion of the Soviet Union, and it was therefore in the national interest of Sweden to support Finnish independence.⁸⁶⁴

The FO decided to oppose the proposition even if the Swedes supported the Finns strongly and the British estimated that the other five members of the Seven were not likely to object. The FO recognised the political need to establish a close link between Finland and the Seven, and feared that the US might resent the British attitude towards “*plucky little Finland*”, but the problem with the Finnish request were the possible implications to British relations with other “peripherals”, that is, Ireland, Greece, Turkey, Spain, and Iceland. If Finland were allowed to send an observer, the other peripherals might demand closer involvement in the project,⁸⁶⁵ or they might feel rejected, and seek closer involvement with the EEC.⁸⁶⁶ The various geographical departments of the FO lobbied in favour of “their” countries by arguing against the proposal to let the Finns send an observer, and the Commonwealth Relations Office was concerned about the Irish position. These officials were not necessarily well aware of the details of the Finnish case. For example E.J.W Barnes from the Southern Department, who was probably unaware of the views of the Northern Department on Finland, argued that Finland could “*by no stretch of the imagination be described as a Western European country*” and claimed that if Finland were included, Greece and Turkey might resent this.⁸⁶⁷ Thomas Brimelow, Head of the Northern Department, criticised the decision to deny Finland the right to send an observer.⁸⁶⁸

The question of observers created an intense debate between the UK and the Swedes. The latter continued to argue for several weeks in favour of Finland, but FO officials refused to change their attitude, even if it became clear that the other peripherals, except

⁸⁶³ Seppinen, *Suomen Efta-ratkaisu*, p.89.

⁸⁶⁴ Mikael af Malmberg, "Swedish Neutrality, the Finland Argument and the Enlargement of "Little Europe"". *Journal of European Integration History* 3, no. 1 (1997), pp.65,80.

⁸⁶⁵ NA. CAB134/1871. E.S.(E.I.)(59)55(Revise), July 30, 1959. "Stockholm Group: relations with Finland, Ireland, Greece, Turkey, Spain and Iceland. Note by the Foreign Office".

⁸⁶⁶ NA. FO371/142625. M6120/36/G. Telegram no. 381 from FO to Stockholm, September 9, 1959.

⁸⁶⁷ NA. FO371/142624. M6120/11. Minutes by E.J.W. Barnes, July 15, 1959; FO371/142625. M6120/28. Minutes by P.H. Gore-Booth, September 9, 1959.

⁸⁶⁸ NA. FO371/142624. M6120/14A. Minutes by T. Brimelow, July 30, 1959.

Ireland, had shown little interest in the FTA or in observer status,⁸⁶⁹ and the Permanent Secretary of the Treasury, Sir Roger Makins, intervened on the Finns behalf. Sir Roger argued to Sir Paul Gore-Booth of the FO that many of the Britons involved in the Stockholm negotiations, including Sir Roger himself, felt that the UK attitude towards Finland was too stiff, and that the British were “*over-doing our anxiety to placate the other peripherals*”.⁸⁷⁰ This intervention by Sir Roger Makins, is interesting since it suggests that the committee machinery was not working very effectively and it left even high-level civil servants like Makins dissatisfied. The policy that he was criticising had been approved in interdepartmental committees, where all departments, including the Treasury, had been represented.⁸⁷¹

The Swedes finally gave up, and it was agreed that they would keep the Finns privately informed about negotiations in Stockholm.⁸⁷² Unfortunately for the British, the episode had managed to create an impression in Finland that the UK was opposed to Finnish participation in the FTA. The Finnish foreign minister, Ralf Törngren even claimed that the UK was determined to exclude Finland from the FTA because the British feared that Finnish timber and paper exports to the UK would increase.⁸⁷³ The British Ambassador was instructed to reject claims like this,⁸⁷⁴ but rumours about British opposition and divisions within the British Cabinet continued to circulate in Helsinki for a long time.⁸⁷⁵

⁸⁶⁹ NA. FO371/142624. M6120/16. Telegram no. 271 from Hankey, Stockholm to FO, August 12, 1959; M6120/18. Telegrams no. 275 and 276 from Hankey, Stockholm, to FO, August 14, 1959; M6120/19. R. Hankey, Stockholm, to D.A.H. Wright, FO, August 19, 1959; M6120/22. Minutes by L.G. Holliday, August 27, 1959, and D.A.H. Wright, August 27, 1959; FO371/142625. M6120/28. Telegram no. 298 from Hankey, Stockholm, to FO, September 8, 1959; Minutes by A.R.N. Morey, September 9, 1959; M6120/36/G. P. Gore-Booth, FO, to R. Makins, Treasury, September 18, 1959; M6120/50. J.E. Coulson, Paymaster General's Office, to P. Gore-Booth, FO, October 5, 1959.

⁸⁷⁰ NA. T236/6094. R. Makins, Try, to P. Gore-Booth, FO, September 17, 1959.

⁸⁷¹ NA. FO371/14262. M6120/36/G. P. Gore-Booth, FO, to R. Makins, Treasury, September 18, 1959; Another explanation for Makins' intervention could of course be that those supporting his view had suffered a defeat in the interdepartmental committees, and now Makins was using other channels to try to change the decisions made. However, I have not found any evidence on earlier intervention through committee machinery.

⁸⁷² NA. FO371/142626. Telegram no. 220 from FO to Helsinki, September 15, 1959.

⁸⁷³ NA. FO371/142625. M6120/14. Telegram no. 231 from Busk, Helsinki, to FO, September 3, 1959.

⁸⁷⁴ NA. FO371/142625. M6120/14. Telegram no. 213 from FO to Helsinki, September 3, 1959; Telegram no. 234 from Busk, Helsinki, to FO, September 7, 1959.

⁸⁷⁵ NA. FO371/142625. M6120/42. A.B. Horn, Helsinki, to Selwyn Lloyd, FO, September 23, 1959; Daily Telegraph, September 22, 1959: "Finns fear 'split' in London"; FO371/142626. M6120/57. D.L. Busk, Helsinki, to T. Brimelow, FO, October 16, 1959; FO371/150307. M6120/25. Telegram no. 34 from Busk, Helsinki, to FO, February 22, 1960; UM Kc5. "Muistiinpano". M. Jakobson, February 29, 1960.

The persistence of the rumours was partly due to the Swedes, who made clear to the Finns what the role of the UK in the observer dispute had been, and even expressed suspicions of whether the UK really wanted Finland in the EFTA in the first place.⁸⁷⁶ Certainly, there were influential officials in Whitehall, who had doubts about the wisdom of Finnish membership, above all because she might not be able to undertake the economic obligations of membership, namely the abolishment of quota and tariff barriers, and because the special Finnish relationship with the Soviet Union might complicate efforts to create a wider Free Trade Area between the EFTA and the EEC.⁸⁷⁷ The majority view, however, seemed to be in favour of Finnish association with the EFTA, but only in a way that would not hinder the creation and the consolidation of the new organisation itself, or the attempts to find a solution to the rift between the EEC and the EFTA. A solution had to be found, which would be compatible both with wider British policy towards European integration and with the desire to link Finland with the EFTA. What it would be was unclear, but it seemed likely to be some sort of association rather than a full membership. Therefore Finland could be excluded from the EFTA Council decisions, which would require a unanimous decision. This would remove the theoretical possibility that the Soviets might in some way try to use Finland to sabotage general EEC-EFTA settlement.⁸⁷⁸

The Finnish Minister of Trade and Industry, Ahti Karjalainen and Olavi Munkki, the head of the foreign trade section of the Finnish foreign ministry, met the EFTA ministers in Saltsjöbaden on July 21, 1959 and expressed the interest of Finland in the new free trade area. The British and the others made polite and positive statements about the need to create a link between Finland and the Seven.⁸⁷⁹ The officials of the Seven continued the preparations for the founding of the EFTA during September and October, and before November 1959 the Whitehall departments had been tied up in the creation of the EFTA, and they had simply not had the time to make a detailed study of the Finnish case.⁸⁸⁰

⁸⁷⁶ Seppinen, *Suomen Efta-ratkaisu*, pp.115,149.

⁸⁷⁷ NA. FO371/142625. M6120/44. "Finland and the Seven". F.G.K. Gallagher, September 24, 1959; FO371/142626. M6120/54. "Note of Discussion. Finland and the E.F.T.A." D.W. Savage, October 14, 1959, copy for FO.

⁸⁷⁸ NA. FO371/142625. M6120/49. L.G. Holliday, FO, to Sir Douglas Busk, October 20, 1959; FO371/142626. M6120/69. Unsigned and undated FO memo, November, 1959.

⁸⁷⁹ Seppinen, *Suomen Efta-ratkaisu*, pp.103-104.

⁸⁸⁰ NA. FO371/142625. M6120/49. L.G. Holliday, FO, to Sir Douglas Busk, October 20, 1959.

When the negotiations between the Seven and the drafting of the Stockholm treaty were completed, and the Finnish government had formally expressed its desire to participate in the EFTA, British officials started to study the question of the Finnish association. British policy was mainly formulated in a few Cabinet committees, which consisted of officials. The most important committee was the sub-committee on closer economic association with Europe, which was chaired by Treasury official Sir Richard Clarke. When it was abolished in March 1960, the Economic Steering (Europe) Committee, chaired by Sir Frank Lee of Treasury, took over. All the main departments were represented in these committees.⁸⁸¹ Within the Foreign Office, a new European Economic Organisations Department replaced the old Mutual Aid Department. The old head of the MAD, L.G. Holliday, led the new department until July 1960 when F.G.K. Gallagher took over.⁸⁸² The policy was now formulated in a more careful way and by more senior civil servants than previously; in fact I would argue that it was formulated with more consideration to the various aspects of the issues than ever before in British foreign economic policy towards Finland since 1950.

However, the politicians did not take a larger role. The comparisons of the minutes and memoranda of officials' committees and the ministerial committees show that British ministers had a minor role in the decision-making process.⁸⁸³ Ministers were not necessarily aware of the progress of the negotiations even if they did receive memos about them from the officials. "*Has not Finland joined EFTA?*",⁸⁸⁴ asked Prime Minister Harold Macmillan in September 1960, when he saw a report that referred to the EFTA issues. This was six months before the agreement between Finland and the EFTA was signed.⁸⁸⁵

Consensus quickly emerged in Whitehall that it was in the interest of the UK both from a political and economic point of view to find a solution for the Finland-EFTA issue, which could be compatible with the special Finnish needs,⁸⁸⁶ provided that this did not give the Soviets a chance to sabotage the activities of the EFTA or attempts to create

⁸⁸¹ Salmi, *Iso-Britannia*, pp.9,31; NA. CAB134/1852. CAB134/1869.

⁸⁸² The Foreign Office List and Diplomatic and Consular Year Book 1960. Harrinson and Sons Ltd, London, p.4; 1961, p. 4; 1964, pp. 213,251

⁸⁸³ NA. CAB134/1852. CAB134/1869; CAB134/1819-1820; CAB134/1876.

⁸⁸⁴ NA. FO371/151491. NF1051/9. Tim Bligh to A. A. Acland, FO, September 20, 1960.

⁸⁸⁵ Robert Allan (see below), the Parliamentary Under-Secretary of State (junior minister) of the Foreign Office, was an obvious exception.

⁸⁸⁶ NA. FO371/142627. M6120/74. W.P. Carston, for Holliday, FO, to D.L. Busk, December 1, 1959.

wider Western European trade arrangements. Since the Finns seemed to be more interested in associate than full membership, it would not be difficult to take account of these precautions.⁸⁸⁷

As a Treasury memo put it in March 1960 some types of Finnish association to the EFTA would have both political as well as economic benefits for the UK. Politically it would tie Finland more closely to the West and economically Finnish membership or association would bring “*appreciable benefits to United Kingdom exporters with little detriment to Commonwealth interests*”⁸⁸⁸: British industry would suffer only in a limited way from the increased Finnish competition. This would be really harmful only for the British paper industry. Certain products of the Finnish engineering industries might also gain a foothold in the British market, but the Finns did not have similar natural advantages in this field as they had in the woodworking industries, and the British engineering industries would face much stiffer competition from the other EFTA members, like Sweden and Austria.⁸⁸⁹

From the political point of view the association of Finland with EFTA had a number of advantages to the UK and the West in general. It was expected to strengthen Finnish ties with the West, including the Scandinavian countries, bolster Finnish morale and remove their sense of isolation and possibly to encourage them to take a less compromising attitude towards any new Soviet demands.⁸⁹⁰ If attempts to associate Finland with EFTA failed, the FO estimated that Finland would become increasingly isolated economically, which in turn would lead to growing economic and political dependence on the Soviet Union.⁸⁹¹ In the opposite case, Finland would become more closely tied to the West, and the present level of her trade with the EFTA countries would be safeguarded and prospects for growth would improve. The inclusion of a new member, even an associate

⁸⁸⁷ NA. FO371/142627. M6120/74. “Problems arising in connection with membership of or association with E.F.T.A.” A draft note by the Treasury, copy for FO; M6120/78. “Finland and the E.F.T.A.” J.A. Robinson, December 4, 1959.

⁸⁸⁸ NA. T236/6095. “Finland” by Frank Lee to Mr. Bell, March 11, 1960.

⁸⁸⁹ NA. CAB134/1876. ES(EI)(60)32, February 22, 1961. “Finland and the E.F.T.A. (Note by the Board of Trade)”. Attachment for the covering note.

⁸⁹⁰ NA. FO371/159309. NF1072/3. Anglo-American Discussions. Brief No. 6 “Political Advantages of Finland’s Association with E.F.T.A.”; CAB134/1823. E.Q.(O)(60)7, March 25, 1960. “E.F.T.A. Negotiations with Finland. Brief for United Kingdom Delegation”.

⁸⁹¹ NA. FO371/150309. M6120/53. “Finland and the E.F.T.A.” F.G.K. Gallagher, March 22, 1960.

one, would strengthen EFTA and make it easier to get United States support for it.⁸⁹² If the failure of the negotiations between the EFTA members and Finland were attributed to the British attitude, this would damage British relations with the Scandinavian countries.⁸⁹³

Most of the Finnish exports to the UK were raw materials, which had small or no duties. In 1959, Finland sold £78 million worth of exports to the UK. £30 million of this faced no duties, and £20 million of tariffs of less than one per cent.⁸⁹⁴ The impact on paper, cardboard, plywood, and blockboard would be more severe, since they had heavier duties, and in fact, when the first EFTA tariff reductions came into effect in July 1960, Finnish producers had to respond by lowering their prices. The immediate economic impact on British-Finnish trade would not be disastrous, and the Soviets utilised this fact in their propaganda against the Finnish-EFTA link. The biggest problem would not be any short-term effects, but long-term developments. The Finnish forest industries were committed to a strategy of developing their production from raw materials and semi-raw materials, such as timber and pulp, to more refined goods such as paper and hardboard, which were more profitable both for the companies and the Finnish national economy on the whole. The failure of the Finnish-EFTA negotiations would be a severe blow to this strategy.⁸⁹⁵

The first phase of negotiations between Finland and the EFTA countries started in January 1960.⁸⁹⁶ As Timo Soikkanen has concluded, Finland was trying to get the full economic benefits of an EFTA membership, but with substantial reductions on the obligations. In practice, the Finns were asking for a number of exceptions to the EFTA rules in order to protect certain Finnish industries and above all Finnish-Soviet trade.⁸⁹⁷

⁸⁹² NA. FO371/150328. An Annex to the brief for Lord Privy Seal's visit to Stockholm on Finland and EFTA. FO, November, 1960.

⁸⁹³ NA. CAB134/1853. E.S.(E)(60)13, May 11, 1960. "Finland. Ministerial Brief for Lisbon Meeting of E.F.T.A."

⁸⁹⁴ NA. CAB134/1853. E.S.(E)(60)13, May 11, 1960. "Finland. Ministerial Brief for Lisbon Meeting of E.F.T.A."

⁸⁹⁵ NA. FO371/150327. M6120/313. P.D. Stobart to J. Whaley, ECGD, November 18, 1960, copy for FO; UM 5C Raportit: The report no. 29 by E.A. Wuori "Novoje Vremja ulkoseitsikosta" to the Finnish Foreign Ministry, October 8, 1959; Max Jakobson, *Kuumalla linjalla. Suomen ulkopolitiikan ydinkysymyksiä 1944-1968* (Porvoo: Werner Söderström Osakeyhtiö, 1968), pp.119-120.

⁸⁹⁶ Seppinen, *Suomen Efta-ratkaisu*, p.159.

⁸⁹⁷ Timo Soikkanen, *Presidentin ministeriö. Ulkoasiainhallinto ja ulkopolitiikan hoito Kekkonen kaudella I. Kansainvälistymisen ja muutosvaatimusten paineessa 1956-1969*. (Helsinki: Ulkoasiainministeriö, 2003), p.219.

The British generally accepted that the Finns needed some special privileges to protect their trade with the Soviets,⁸⁹⁸ and while the Foreign Office hoped that the Finnish association with the EFTA would strengthen Finnish economic ties with the West, the FO goal was not to inflict serious damage to Finnish-Soviet trade. The Finns would never accept this, either for political or for economic reasons. However, the British were trying to limit the exceptions to the minimum amount necessary, so that the benefits for British exports from the Finland-EFTA treaty could be maximised, and the treaty would not be challenged in the GATT.⁸⁹⁹

The exceptions the Finns were asking for covered 13.9 per cent per cent of UK exports to Finland (1959),⁹⁰⁰ but this figure does not tell the whole story, because the British were also looking to improve or at least protect the position of those UK exports, mainly liquid and solid fuels, which had suffered heavily from the Finnish government policy of favouring imports from the East in the 1950s. In the negotiations the British interest focused on motor vehicles, solid and liquid fuels, textiles and agriculture, but in most of these cases the Finns got what they wanted.

As far as solid fuels were concerned, the National Coal Board resisted the Finnish desire to protect coal imports from Poland and the Soviet Union,⁹⁰¹ but in practice the import restrictions had little practical effect. The British coal industry found it hard to compete against cheap Polish coal in Denmark, where there were no import restrictions, and it did not seem likely that they would do any better in Finland.⁹⁰² The Chairman of the Finnish delegation in the negotiations with the EFTA countries in February 1960 Olavi Munkki, stated that the Finns might liberalise coal imports in the future, but the result of this would probably be that the Poles would capture an even larger share of the

⁸⁹⁸ See for example the Cabinet Economic Policy Meeting: NA. CAB134/1819. E.Q.(60) 7th Meeting, May 16, 1960, item 2. "Negotiations for the Association of Finland with the European Free Trade Association."

⁸⁹⁹ NA. CAB134/1819. E.Q.(60) 7th Meeting, May 16, 1960, item 2. "Negotiations for the Association of Finland with the European Free Trade Association."; CAB134/1877. E.S.(E.I.)(60)50, March 7, 1960. "Relations between Finland and the E.F.T.A. Note by the Treasury."

⁹⁰⁰ NA. CAB134/1823. E.Q.(O)(60)7, March 25, 1960. "E.F.T.A. Negotiations with Finland. Brief for United Kingdom Delegation". Annex I, p. 13.

⁹⁰¹ NA. FO371/142627. M6120/74. "Problems arising in connection with membership of or association with E.F.T.A." A draft note by the Treasury, copy for FO.

⁹⁰² NA. FO371/142627. M6120/74. "Finland's Reservation on Quantitative Import Restrictions", A BOT draft memo, November 20, 1959, copy for BOT.

market.⁹⁰³ Soviet coal, however, was not as competitive as Polish coal, and of poor quality, and it might suffer under liberalised conditions.⁹⁰⁴ The Finns offered a quota for UK coal, and the negotiations soon focused on how large this should be. Since the British negotiators feared that the quota might be criticised in the GATT as a discriminatory measure against other GATT countries, the quota would be at least nominally for all GATT countries.⁹⁰⁵ Total Finnish imports of solid fuel were roughly 2.5 million tons a year, and the British were demanding a quota of 250,000 to 300,000 tons (10-12 per cent). This was more than the UK coal and coke exports to Finland in 1958 (126,000) or 1959 (107,000), but less than the average of 1954 to 1957 (350,000). The Finns were offering 150,000 tons.⁹⁰⁶

The British negotiators pushed more strongly to defend the interests of the British oil industry, which in this case meant Shell. The Finnish government had limited Shell's right to import crude oil and oil products from the West throughout the 1950s, and Shell and other Western oil companies had been forced to use their wide distribution networks to distribute products made from Soviet oil. The Ministry of Power was quick to recognise that the EFTA negotiations offered a chance to stop this negative development and seek protection of the present share of British oil, or limited growth.⁹⁰⁷ In the first stage of the negotiations, the Ministry briefed the other government departments about the oil aspect of the negotiations without asking Shell's opinion, but later the Petroleum division of the department drafted with Shell the arguments the British team could use in negotiations with the Finns.⁹⁰⁸

The British recognised that crude oil was not really "an EFTA product", even if it was sold by British companies, because it came from non-EFTA oil fields, but the

⁹⁰³ NA. FO371/150308. M6120/29. "Meeting between Representatives of EFTA Countries and a Finnish Delegation on February 25 and 26, 1960", R.S. Crawford, U.K. Delegation to OEEC, February 27, 1960.

⁹⁰⁴ NA. FO371/150310. M6120/60. Telegram no. 22 from Sniders, Geneva, to FO, March 24, 1960.

⁹⁰⁵ NA. FO371/150310. M6120/60. Telegram no. 216 from FO to Geneva, April 1, 1960.

⁹⁰⁶ NA. FO371/150312. M6120/74. "EFTA(WP)(60)33, March 29, 1960. E.F.T.A. Working Party. Negotiations with Finland: Imports of Fuel (Note by the Ministry of Power) 29th March, 1960.

⁹⁰⁷ NA. FO371/150307. M6120/23. "Finland and the E.F.T.A." Board of Trade, February 11, 1960; M6120/27. A.A. Jarratt, Ministry of Power, to A.G. White, BOT, March 2, 1960, copy for FO.

⁹⁰⁸ Shellin Historiallinen Arkisto, Vantaa, Finland. (Hereafter SHA). BOX 80. "Managerial 1.1.1959-31.9.1961". "Oil Developments - Finland", an attachment to E.G. Duncan's, Shell, letter to J.F. Gwynn, MOP, October 25, 1960; "Finland and the European Free Trade Area". E.G. Johnson. March 2, 1960, copy for E.G. von Bloeme, O/Y Shell A/B.

negotiations offered too good an opportunity of taking this matter up.⁹⁰⁹ The refined petroleum products would be EFTA products, but the Finnish government wanted to protect the state refinery, which produced 60 per cent of Finnish requirements, and the trade with the Soviets, who sold most of the rest to Finland. The British government wanted to press the Finns for liberalisation but they and Shell recognised that there would be little chance of success. The limited and more realistic objective was to gain assurances that the UK position in the Finnish market would not be further curtailed in the future.⁹¹⁰ The Finnish negotiators were not going to give in easily. Munkki referred to the Western-owned distribution systems in Finland, and claimed that if imports of liquid fuel were liberalised, the Western oil companies would import only from their own Western sources, even if the Soviet oil were cheaper. Munkki even gave the impression that Shell was using its pricing policy as a tax evasion method.⁹¹¹ Shell said to MFP that it had the same pricing policy in Finland as in other countries,⁹¹² and the MFP and the FO duly sent this argument forward to the British negotiators.⁹¹³

The British delegation proposed a confidential exchange of letters about oil. Finland would agree to give the EFTA (i.e. British) companies reasonable opportunities in the Finnish market, and agree not to reduce crude oil imports from EFTA companies without consulting these companies.⁹¹⁴ This British attempt to “freeze” their share of the Finnish market was not acceptable to the Finns.⁹¹⁵ Munkki rejected the exchange of letters on the grounds that it would require parliamentary approval.⁹¹⁶

⁹⁰⁹ NA. CAB134/1823. E.Q.(O)(60)7, March 25, 1960. “E.F.T.A. Negotiations with Finland. Brief for United Kingdom Delegation”; FO371/150310. M6120/60. Telegram no. 297 from FO to Geneva, April 20, 1960.

⁹¹⁰ NA. CAB134/1823. E.Q.(O)(60)7, March 25, 1960. “E.F.T.A. Negotiations with Finland. Brief for United Kingdom Delegation”; SHA. BOX 80. “Managerial 1.1.1959-31.9.1961”. “Note for File. Finland – Outer Seven Negotiations”. RGB/JW, March 31, 1960; UM Kc5. “Suomen kysymys EFTA:n kokouksessa Wienissä maaliskuussa 1960”. E.O. Raustila, March 15, 1960.

⁹¹¹ NA. FO371/150308. M6120/29. “Meeting between Representatives of EFTA Countries and a Finnish Delegation on February 25 and 26, 1960”, R.S. Crawford, U.K. Delegation to OEEC, February 27, 1960; FO371/150310. M6120/60. Telegram no. 22 from Sniders, Geneva, to FO, March 24, 1960.

⁹¹² SHA. BOX 80. “Managerial 1.1.1959-31.9.1961”. “Note for File. Finland – Outer Seven Negotiations”. RGB/JW, March 31, 1960.

⁹¹³ NA. FO371/150310. M6120/60. Telegram no. 216 from FO to Geneva, April 1, 1960.

⁹¹⁴ UM Kc5. The text of the British suggestion on the confidential exchange of letters;

⁹¹⁵ UM Kc5. “P.M. Suomen ja EFTA-valtoiden edustajien väliset neuvottelut Genevessä 22.-24.3.1960”. O. Lares, March 28, 1960.

⁹¹⁶ UM Kc5. “Muistio EFTA-neuvottelujen toinen kierros Genevessä 5-7.4.1960” O. Munkki, April 1, 1960; This did not stop Munkki for suggesting later an exchange of confidential letters to the Soviets about tariff benefits. Soikkanen, *Presidentin ministeriö. Ulkoasiainhallinto ja ulkopoliittikan hoito Kekkonen kaudella I. Kansainvälistymisen ja muutosvaatimusten paineessa 1956-1969*, p.223.

After intense negotiations, a combined compromise solution was reached for solid and liquid fuels. According to the Finnish association agreement with the EFTA, Finland was allowed to keep quantitative restrictions, but Article 4(2) of the same agreement stated that Finland should give “*suppliers in Member States the opportunity to compete with other suppliers on fair and equal terms for a reasonable share of the Finnish market*”, while taking into consideration “*the normal development of trade.*” This vague Article was designed to protect the existing activities of the EFTA oil companies in the Finnish market. Since Royal Dutch Shell and British Petroleum (from 1960) were the only EFTA companies operating in Finland, the section would mostly protect their interests. The vagueness of the article later created (in 1962-1964) a bitter dispute between the British and Finnish governments about how much “EFTA” (in fact British) crude oil Finland should import. The compromise result was 13.3 per cent of total Finnish imports.⁹¹⁷

The British motor industry gained few immediate benefits from the Finland-EFTA treaty even if the influential SMMT had tried to actively promote the interests of the industry,⁹¹⁸ which in 1958 had been responsible for 22.8 per cent of British exports to Finland.⁹¹⁹ The original Stockholm agreement of the Seven had contained a stipulation about revenue duties, which was copied to the new Finland-EFTA agreement. The EFTA members had to gradually abolish protective tariffs only, but if there was no home production to protect, there was no need to remove duties, if they were registered as revenue duties. The Finns wanted to keep revenue duties on motor vehicles and parts, which meant that the UK motor industry would not get an EFTA preference in the Finnish market.⁹²⁰ The British delegation opposed this, but without results, since the Finns could refer to similar treatment in many other EFTA countries, and pointed out that otherwise they would discriminate against Soviet cars in a situation where the Finns were trying to find a way to win Soviet approval for the Finnish association with the EFTA.⁹²¹

⁹¹⁷ See for example NA. T312/355; POWE61/277.

⁹¹⁸ NA. FO371/151495. NF1121/12. W.G. Onslow's memo, October 31, 1960, copy for FO.

⁹¹⁹ Appendix B: The structure of British exports to Finland.

⁹²⁰ NA. FO371/150307. M6120/23. “Finland and the E.F.T.A.” Board of Trade, February 11, 1960.

⁹²¹ NA. FO371/150314. M6120/100. “Association of Finland with EFTA”. U.K. Delegation to EFTA, April, 1960; Telegram no. 321 from Busk, Helsinki, to FO, October 21, 1960; FO371/150329. M6120/349. “Finnish Association with E.F.T.A.” F.G.K. Gallagher, December 6, 1960; FO371/158228. M622/125. J. McKenzie, FO, to G.H. Baker, Geneva, February 27, 1961; CAB134/1820. E.Q.(60)23, May 12, 1960: “Finland's Negotiations with E.F.T.A. Memorandum by the President of the Board of

Finland won concessions on solid and liquid fuels and on motor vehicles mainly because the British and other EFTA countries recognised that these were essential for the protection of Soviet-Finnish trade. The failure to maintain this trade would drive Finland to a severe balance of payments crisis, since it could no longer rely on importing raw materials from the Soviet Union without the need to pay for them with hard currency, and would at the same time lose the main market for its engineering and shipbuilding industries. The political implications might be even more disastrous, since the Soviets would not accept the collapse of Finnish-Soviet trade, and would probably seek to prevent the conclusion of the Finland-EFTA treaty. The Finnish government, whose policy was based on maintaining good political relations with the Soviet Union and on profitable trade with it, would not accept terms for association like this. The collapse of the Finnish negotiations with the EFTA countries would not be in the interests of the UK, neither from an economic nor from a political point of view. What else could the UK therefore do but give the Finns the concessions they wanted?

There were a few instances where the British successfully opposed Finnish suggestions. The Board of Trade did want to make sure that the UK paper industry had the right to buy land in Finland,⁹²² and opposed the continuing desire of the Finns to limit exports of round wood, raw material for pulp and paper industries, at the same time as Finland had the right to sell paper to the EFTA markets.⁹²³ The Finnish at first expressed the desire to keep up the export restrictions, but they soon gave up.⁹²⁴

The Finns had to give in also in the agricultural field, where Finnish hopes of bilateral agricultural negotiations with the UK about butter exports were rejected by the Ministry of Agriculture and the Commonwealth Relations Office.⁹²⁵ Britain had, however, made

Trade"; UM Kc5. "Suomen kysymys EFTA:n kokouksessa Wienissä maaliskuussa 1960". E.O. Raustila, March 15, 1960.

⁹²² NA. FO371/142626. M6120/54. "Note of Discussion. Finland and the E.F.T.A." D.W. Savage, October 14, 1959, copy for FO.

⁹²³ NA. FO371/150307. M6120/23. "Finland and the E.F.T.A." Board of Trade, February 11, 1960; FO371/150307. M6120/25. Telegram no. 34 from Busk, Helsinki, to FO, February 23, 1960.

⁹²⁴ NA. CAB134/1877. E.S.(E.I.)(60)50, March 7, 1960. "Relations between Finland and the E.F.T.A. Note by the Treasury.", appendix: "E.F.T.A. Negotiations with Finland. Draft brief for the United Kingdom Delegation."

⁹²⁵ NA. FO371/150308. M6120/29. "Meeting between Representatives of EFTA Countries and a Finnish Delegation on February 25 and 26, 1960", RS Crawford, U.K. Delegation to OEEC, February 27, 1960; M6120/31. "Preparatory Committee, Notes on Meeting with Delegation from Finland"; VNA. KTM.

some concessions on agricultural imports (bacon, canned pork luncheon meat, blue-veined cheese and canned cream) to other EFTA countries and the other departments wanted to use these concessions as bargaining chips in the negotiations and in the end grant them to Finland. MAFF was not particularly happy about this. The officials of the ministry believed that the effect of the concessions on actual imports was going to be negligible, but the concessions could create internal political difficulties for the Minister of Agriculture and his department. "The Beaverbrook press" and the farming press had been claiming that HMG was "selling out" British agriculture to foreigners, and it was fear of press headlines that influenced MAFF's attitude. Other departments had to buy MAFF's agreement to the negotiations with Finland by agreeing that the Ministers would consider "sympathetically" the restriction of imports of bacon from Poland, another small supplier. In this way, the Minister could point out to critics that he was helping British agriculture and the departments got MAFF's approval to Finnish negotiations with the EFTA.⁹²⁶

Holger Nystén, head of the organisation of Finnish paper manufacturers and a member of the Finnish delegation in the Finland-EFTA negotiations,⁹²⁷ tried to secure concessions on butter and textiles from the UK through private channels. Nystén approached his old friend, Robert Allan, the Parliamentary Under-Secretary of State (junior minister) of the Foreign Office. Nystén told him that these concessions were necessary to get the support of the trade unions and the farmers for the Finnish association. Otherwise it would be difficult to get the Finnish Parliament to accept the treaty. For textiles, the Finns needed a delayed timetable for the tariff cuts, and for butter the right to sell a nominal quantity to the UK market.⁹²⁸ According to Nystén, Finland would need no other concessions, apart from the ones he mentioned and those needed to secure Finnish trade with the Soviet Union. Personally Allan supported very strongly the Finnish desire to join EFTA for political reasons. He knew that it was not

Kauppaosasto. Ha29. "Memorandum Concerning Finnish agricultural exports to Great Britain within the framework of the EFTA Convention", March 17, 1960.

⁹²⁶ NA. MAF322/26. "Submission to the Minister. Relations between Finland and E.F.T.A."; J. Arthur, MAFF, to D.H.J. Hilary, Home Office, March 30, 1960; J. Hare, Minister of Agriculture, to D. Heathcoat-Amory, Chancellor of Exchequer, March 16, 1960. Young, *Britain and European Unity*, p.62.

⁹²⁷ For the role of Nystén see also Heikkinen, *Paper for the World*, pp.276-295.

⁹²⁸ NA. FO371/150308. M6120/37. R.A. Allan's memo on his discussion with Nystén, March 3, 1960; UM 73D1 EFTA 12. L. Tuominen, Finnish Embassy, London, to the Finnish Ministry for Foreign Affairs, March 3, 1960; Notes on a telephone conversation between Nystén and O. Munkki, March 2, 1960.

the task of the FO to decide the question of possible butter and textile concessions, but wondered whether sufficient attention was being given in the negotiations to the political aspects of the Finland-EFTA issue.⁹²⁹ The Secretary of State, Selwyn Lloyd, minuted that he agreed “*very strongly*” with Allan in this last point.⁹³⁰

However, the officials came to the conclusion in interdepartmental negotiations, that the UK could not offer more concessions to Finland than it had granted to the EFTA countries. Therefore, by giving the normal EFTA concessions to Finland, but refusing similar concessions on butter, eggs and hard-pressed cheese, which the Finns were also interested in, the UK was coming at least halfway to meet Finnish demands.⁹³¹ The Finns would probably have disagreed with this view, since all they were getting in the agricultural field was concessions on items, which in practice they did not traditionally sell to the UK.

In textiles the purely political considerations of the FO played a crucial role. The Finnish delegation insisted that Finland needed a special tariff timetable for her politically sensitive textile industry, above all, because otherwise the trade unions and the Parliament would not support the treaty.⁹³² The FO successfully pressed the Board of Trade to give in to Finnish requests by underlining the negative political repercussions, which the failure to associate Finland with the EFTA might have, and the general desire in the FO “*from the Foreign Secretary downwards*” to link Finland with EFTA. R.W. Jackling of the FO pointed out also that the Finns were asking for less than the Portuguese had won before, and that since other EFTA members seemed willing to give concessions to the Finns, there was a danger that the UK would be held responsible for the failure of the negotiations.⁹³³ Robert Allan, after a new talk with Nystén, stated to Sir Edgar Cohen, the British Ambassador to the OEEC, that “*If Finland were not able to join EFTA, then it would be virtually impossible for her to maintain her political or economic independence from Russia*”⁹³⁴ The Board of Trade officials gave up,⁹³⁵ and

⁹²⁹ NA. FO371/150308. M6120/37. R.A. Allan’s memo on his discussion with Nystén, March 3, 1960.

⁹³⁰ NA. FO371/150308. M6120/37. F.G.K. Gallgher, FO, to R.L. Workman, Treasury, March 17, 1960.

⁹³¹ NA. FO371/150309. M6120/46. “Finland and E.F.T.A.” L.G. Holliday, March 9, 1960;

FO371/150312 M6120/73. L.G. Holliday, FO, to E. Roll, Ministry of Agriculture, April 1, 1960.

⁹³² NA. FO371/150316. M6120/145. Telegram no. 432 from Sniders, Geneva, to FO, May 5, 1960.

⁹³³ NA. FO371/150316. M6120/48. R.W. Jackling, FO, to D.E. Ackroyd, BOT, May 6, 1960. M6120/150. R.A. Allan’s memo Sir Edgar Cohen, May 6, 1960.

⁹³⁴ NA. FO371/150316. M6120/150. R.A. Allan’s memo Sir Edgar Cohen, May 6, 1960.

⁹³⁵ NA. FO371/150316. M6120/152. Telegram no. 500 from Snyder, Geneva to FO, May 14, 1960.

got authority to do so from the President of the Board who “*did not seem to care either way*”.⁹³⁶

Finland and the EFTA countries came to an agreement about the terms of the association, but there remained still the thorniest of the many obstacles in front of the Finnish association with the EFTA: the Soviet attitude and the most favoured nation status granted by Finland to the Soviet Union in 1947. The Soviets argued that the Finns should respect this status and make sure that the association with the EFTA did not mean discrimination against Soviet products in the Finnish market.⁹³⁷ In practice, Finland would have to abandon the whole EFTA project or grant the same rights to the Soviet Union as to the Seven. The latter option would be a violation of Finland’s GATT obligations, unless Finland granted the same rights to all the GATT countries. All EFTA countries, except Portugal, had granted similar status to the Soviet Union in their bilateral agreements, but they bluntly argued that they did not have to grant the EFTA privileges to the Soviet Union regardless of the previous m.f.n. arrangements. The UK and the Soviet Union had granted m.f.n. rights to each other in their bilateral trade agreement in 1934. The British argued that both parties had since violated them and therefore m.f.n. status was no longer valid.⁹³⁸ Finland was too vulnerable, politically and economically, to Soviet pressure to take the same line as the EFTA countries had done, which the Foreign Office understood very well.⁹³⁹ Some of the EFTA governments, and especially the Austrian government, feared that if Finland gave in to Soviet demands, the latter would use this to apply stronger pressure to the EFTA governments.⁹⁴⁰

The m.f.n. issue loomed like a dark shadow over Finnish-EFTA negotiations, while the other issues were gradually settled. President Kekkonen managed to secure Soviet approval for the Finnish association, but with a price. In November 1960 the Finns in

⁹³⁶ NA. FO371/150316. M6120/147. Minutes on “Finnish Textile Exceptions”.

⁹³⁷ NA. FO371/142626. M6120/61. Telegram no. 289 from Busk, Helsinki, to FO, October 30, 1959; M6120/64. D.L. Busk, Helsinki, to L.G. Holliday, FO, November 4, 1959.

⁹³⁸ NA. FO371/142627. M6120/74. “Problems arising in connection with membership of or association with E.F.T.A.” A draft note by the Treasury, copy for FO; Seppinen, *Suomen Efta-ratkaisu*, pp.130-137,155,161-165.

⁹³⁹ NA. FO371/142626. M6120/68. E.S. (E.I.) Convention (59)65 “Closer Economic Association with Europe. Working Party on the Free Trade Area Convention. Finland and the E.F.T.A. Note by the Foreign Office”, November 12, 1959.

⁹⁴⁰ Seppinen, *Suomen Efta-ratkaisu*, p.155.

practice granted all the EFTA tariff privileges to the Soviets.⁹⁴¹ The UK and the other EFTA countries deeply resented the new Finnish-Soviet treaty. The Finns had granted the Soviets m.f.n. despite the fact that the EFTA countries had strongly warned them not to do so. The Finns had presented the EFTA countries with a “fait accompli”, even though they had promised to consult them before coming to an agreement with the Soviets.⁹⁴²

This was a severe blow to the Finnish image in the EFTA capitals. The FO estimated that the treaty had several possible repercussions. If the EFTA countries accepted Finnish behaviour, they would be helping the latter to undermine general GATT rules. The Soviets might use the treaty as a way to intensify their pressure against the EFTA countries, which had not granted similar rights to the Soviet Union. The British considered that Austria was the most vulnerable country in this respect, and as a response to a direct FO question, the Whitehall departments decided that if the Finnish-Soviet treaty put Austria in a difficult position, it was important to defend it even at the expense of the association of Finland with EFTA. The Finnish-Soviet treaty might also lead to infiltration of Soviet goods to EFTA countries through Finland, and make it difficult to get the necessary GATT approval for the Stockholm treaty.⁹⁴³

In December 1960, the EFTA countries decided to agree to the association with Finland despite the Finnish-Soviet treaty.⁹⁴⁴ To prevent potential negative repercussions, the EFTA countries decide to make a number of administrative and institutional changes to the draft agreement between Finland and the EFTA. These included tighter origin rules for goods in order to prevent the infiltration of Soviet goods through Finland to the EFTA countries, as well as the exclusion of unreliable Finland from the EFTA council, and the founding of a new separate Joint Council, which would consist of Finland and

⁹⁴¹ Ibid., pp.244-253.

⁹⁴² NA. FO371/150329. M6120/345. “Finland and E.F.T.A.; Mr. Munkki’s visit” J. McKenzie, December 1, 1960; CAB134/1853. E.S.(E)(60)13, May 11, 1960. “Finland. Ministerial Brief for Lisbon Meeting of E.F.T.A.”, annex: “Finland. Brief for Officials”; Karjalainen and Tarkka, *Presidentin ministeri*, pp.94-95; Rumpunen, ed., *Aikoja ja tapauksia*, November 4, 1960 (p.195), November 6, 1960 (p.195), November 19, 1960 (pp.196-197).

⁹⁴³ NA. FO371/150328. M6120/333. Telegram no. 295 from FO to Geneva, December 2, 1960; FO371/158225. M622/62. “European Economic Questions. Working Party on the European Free Trade Association Finland “ Meetings, January 20 – February 3. Treasury, March 16, 1961.

⁹⁴⁴ NA. FO371/150331. “Finland and the E.F.T.A.” F.G.K. Gallagher, December 16, 1960.

the EFTA countries. Except for the original rules, the commercial content of the treaty remained unchanged.⁹⁴⁵

When the Finns granted the “EFTA privileges” to the Soviets, revenue duties on cars were no longer necessary for the protection of Finnish-Soviet trade, and could therefore be removed.⁹⁴⁶ Munkki was only ready to do this at an unspecified later stage, and claimed that otherwise Finland would be discriminating in favour of the Soviets and against US, French and German cars at a time, when they were trying to get GATT approval for the new commercial treaties.⁹⁴⁷ The Board of Trade, including the President of the Board of Trade, continued to insist on this, and demanded that the UK should not sign the Finland-EFTA Agreement before the Finns had given a firm assurance that they would take car duties from their list of revenue duties,⁹⁴⁸ but they had to give in because of strong FO opposition. The FO officials argued that further delay in the association of Finland with EFTA was not desirable for political reasons and if the UK set new conditions for the association at this late stage, it would look as if it was trying to find excuses to delay the conclusion of the agreement, which would provoke anti-British feeling among the EFTA countries and in Finland. Therefore the FO officials threatened to advise the FO minister to oppose the proposition in the Cabinet, unless the BOT dropped their proposition.⁹⁴⁹

After the British had reassured themselves through diplomatic channels that the EFTA countries were going to withstand Soviet pressure for the extension of EFTA rights to the Soviet Union, and that the most important members of GATT were going to agree quietly to the Finnish breach of GATT rules, the British Cabinet decided formally to sign the agreement.⁹⁵⁰ The Seven and Finland signed the “Agreement creating an

⁹⁴⁵ NA. FO371/150331. M6120/383. “Finland and the E.F.T.A.” undated and unsigned; “Finland and E.F.T.A.” F.G.K. Gallagher, December 15, 1960; CAB134/1829. E.Q.(O)(61)19 Final, February 9, 1961. “E.F.T.A. Ministerial Meeting. Finnish Association”.

⁹⁴⁶ NA. FO371/158228. M622/125. J. McKenzie, FO, to G.H. Baker, Geneva, February 27, 1961.

⁹⁴⁷ NA. FO371/158228. M622/137. G.H. Baker, Geneva, to J. McKenzie, FO, March 2, 1961.

⁹⁴⁸ NA. FO371/158228. M622/137. A.G. White, BOT, to F.G.K. Gallagher, FO, March 8, 1961. FO371/158230. M622/161. BOT draft of a Cabinet paper on the Finnish association with the EFTA, copy for FO.

⁹⁴⁹ NA. FO371/158230. M622/161. F.G.K. Gallagher, FO to A.G. White, BOT, March 16, 1961; M622/170. Minutes by E.J.M. Richardson, March 22, 1961.

⁹⁵⁰ NA. CAB128/35. CC(61)17, March 23, 1961. “European Free Trade Association: Finland. Memorandum by the President of the Board of Trade”; PREM11/4535. “Finnish Association with the E.F.T.A.”, March 22, 1961; In February 1961 there had still been doubts among the non-FO officials about the validity of the political arguments in favour of the Finnish-EFTA treaty and about the wisdom

Association between the Member States of the European Free Trade Association and the Republic of Finland” (from here on “the FINEFTA agreement”) in Helsinki on March 27, 1961.⁹⁵¹ The British had also tried to gather wider support for the Finnish association. The British Chancellor of Exchequer argued on behalf of Finland to the Americans, the Canadians and the EFTA countries.⁹⁵² The UK did recruit wider Western support for the FINEFTA agreement by arguing that it was politically beneficial to the West. For tactical reasons it was more useful for the UK to build a case for its negotiations with GATT countries, which was based on common Western political interests, than just to explain how the treaty would benefit the EFTA countries economically.

The much-feared discussion about the FINEFTA Agreement in the GATT became an extraordinary event. The leading Western countries wanted to make sure that the Finnish violation of the GATT obligation did not set a precedent, but on the other hand, they did not want to sabotage the Finnish association with the EFTA after a lot of work had been done to create a link between them. As a result, the Western countries staged a debate in which they criticised Finnish behaviour and underlined the importance of the basic principles of the institution. The Finns had been told how they should present their agreement with the Soviets to the GATT members and in what way the Western countries were going to criticise it. After the debate was over, the issue was deliberately allowed to fade away.⁹⁵³

The political and administrative peculiarities of the Finland-EFTA association did not make much difference from the point of view of a British exporter. P.D. Stobart, the Commercial Counsellor of the British Embassy argued in the Board of Trade Journal in April 1961 that for the British exporter “*Finland will become, for most practical purposes, an EFTA market.*”⁹⁵⁴ The major exceptions were the delayed timetable of Finnish tariff cuts and the import restrictions on certain industries. 80 per cent of

of approving the breach of the GATT obligations. NA. FO371/159309. NF1072/1. Minute by R. Barclay, February 8, 1961.

⁹⁵¹ *The European Free Trade Association*, 2nd ed. (Geneva: EFTA Secretariat, 1980), pp.37,120.

⁹⁵² NA. FO371/150330. M6120/366. Telegram no. 125 from Hankey, UK Delegation to OEEC, to FO, December 13, 1960; M6120/367. Telegram no. 124 from Hankey, UK Delegation to OEEC, to FO, December 13, 1960.

⁹⁵³ Paavonen, *Suomalaisen protektionismin*, pp.112-115; Seppinen, *Suomen Efta-ratkaisu*, pp.293-297; Gustafsson, *Ritarikadun renki*, p.103.

⁹⁵⁴ “Finland – the New EFTA Partner” by P.D. Stobart, Board of Trade Journal, April 14, 1961, p. 845.

imports would be freed from the need for licences, while 16 per cent (for example motor cars, textiles and televisions sets) were subject to global quotas and 4 per cent (for example liquid and solid fuel, grain and sugar) individual quotas.⁹⁵⁵ Anyway, the UK would get free entry to all but £1-2 million of her total industrial exports of £37 million to Finland (in 1959 figures) by 1970.⁹⁵⁶ The Finnish associate agreement to the EFTA remained the basis for Finnish-British trade relations until 1973 when the British joined the EEC.

In the longer run, the greatest benefactor of EFTA was Sweden. During the 1960s Swedish-Finnish trade grew faster than Finnish trade with Germany or the trade with the UK. FINEFTA helped the Finnish engineering industry to finally break its dependence on the Soviet market. Sweden became a major market for Finnish engineering goods, and the industry also managed to find new customers in the other EFTA countries.⁹⁵⁷ Politically this was important, because it reduced Finnish vulnerability to Soviet pressure, which had been a major cause of concern during the 1950s and the early 1960s. Yet, the British government documents suggested, that the British officials, including the FO diplomats, were too preoccupied with their own export trade to give much attention to the changing pattern of Finnish exports.⁹⁵⁸

The new arrangement in danger

The FINEFTA agreement entered into force on June 26 1961⁹⁵⁹ but only a month later the whole carefully constructed arrangement was endangered, when the UK government decided, as many observers had been suspecting for months, to seek membership of the EEC.⁹⁶⁰ The FO officials recognised that it would endanger the main benefits of the Finland-EFTA agreements. If the United Kingdom with some of the other EFTA

⁹⁵⁵ "Finland – the New EFTA Partner" by P.D. Stobart, Board of Trade Journal, April 14, 1961, p. 849.

⁹⁵⁶ NA. FO371/150321. M6120/222. "Finnish Association with the E.F.T.A.", a brief for the Lord Privy Seal, September 13, 1960 by F.G.K. Gallagher.

⁹⁵⁷ Erkki Pihkala, "Ulkomaankauppa ja ulkomaiset maksusuhteet" in *Teollisuus-Suomi 1945-1980*, ed. Erkki Pihkala (Helsinki: Kustannusosakeyhtiö Tammi, 1987), pp.44-46; FCO33/1585. W.B.J. Ledwidge, Helsinki, to A. Douglas-Home, FCO, January 20, 1971.

⁹⁵⁸ For example, NA. FO371/165944-165945; FO371/169409; FO 371/169411; FO371/171689; FO371/174896, FO371/174897; FO371/180067; FCO9/328.

⁹⁵⁹ *The European Free Trade Association*, 2nd ed. (Geneva: EFTA Secretariat, 1980), p.37.

⁹⁶⁰ George Wilkes, ed., *Britain's Failure to enter the European Community 1961-1963. The enlargement negotiations and crises in European, Atlantic and Commonwealth relations.* (London: Frank Cass, 1997).

countries joined the European Economic Community, it would eliminate most of the positive effects of the Finnish-EFTA agreement of 1961 and push Finland closer to the Soviet Union. This was a serious problem, about which the British Foreign Office officials were thinking actively between 1961 and 1963 when the UK made its first attempt to join the Common Market.⁹⁶¹

The FO suspected in 1961 that it was unlikely that the Soviets would let Finland negotiate a similar agreement with the EEC as she had concluded with the EFTA. Furthermore, it was questionable whether the EEC countries would be willing to accept a solution in which Finland gave similar rights to the Soviet Union, as it had done in the Finnish-Soviet agreement link to EFTA, because the EEC countries would risk an indirect flow of Soviet goods to their market. If the Finns were excluded from Western economic areas, they would be left “*at the economic mercy of the Soviet Union*” as a FO memo concluded.⁹⁶² The Soviets clearly stated to President Kekkonen in March 1961, that they would not accept Finnish participation in the alliance of the EFTA and the EEC. Kekkonen assured them that Finland was not going to join.⁹⁶³

When the UK made its second attempt to join the EEC in 1966-1967, the attitude of the British Embassy resembled the views of the FO in 1961-1963. The British Ambassador to Finland, David Scott Fox stated “*[w]e should leave the Finns in no doubt that their future is of genuine concern to us, and that we can, for instance, be relied upon to try to see that their trade with the West does not suffer from any merger of the EFTA members with the EEC.*”⁹⁶⁴ When the UK made a new attempt to join the EEC at the beginning of the 1970s, Scott Fox’s successor recommended that the British government should keep in mind Finland’s needs, when the British were negotiating with the EEC about UK membership, although the UK could not of course alter its negotiating position just to please the Finns.⁹⁶⁵ He got at least some support from the FCO.⁹⁶⁶

⁹⁶¹ NA. FO371/159309. NF1072/6. R.H. Mason, FO, to T. Brimelow, Washington, July 24, 1961; FO371/171687. NF113138/1. Minutes by T.G. Copeman, January 23, 1963; C. O’Neill, Helsinki, to Earl of Home, FO, January 14, 1963; FO371/165933. NF1051/1. Minutes by E.J.W. Richardson, January 31, 1962; C. O’Neill, Helsinki, to A.D. Wilson, FO, January 4, 1962; FO371/165931. NF103138/42 R.H. Mason, FO, to T. Brimelow, Washington, June 4, 1962.

⁹⁶² NA. FO371/159309. NF1072/8. “Second Round of Anglo-American talks on Finland. Brief No. 3. Effect on Finland of British Membership of the E.E.C.” Foreign Office, 1961.

⁹⁶³ Suomi, ed., *Kekkonen, diary, vol. 1*, March 9, 1961 (p.410).

⁹⁶⁴ NA. FCO9/314. D. Scott Fox, Helsinki, to G. Brown, FO, February 16, 1967; See also FCO9/310. D. Scott Fox, Helsinki, to G. Brown, FO, January 5, 1967.

⁹⁶⁵ NA. FCO33/1173. W.B.J. Ledwidge, Helsinki, to Secretary of State, FCO, February 24, 1970.

Not everyone in Britain was unhappy in 1961 about the harmful effects the UK membership of the EEC would have on Finland. From the point of view of the UK paper industry, the Nordic producers would face the external tariffs of the Common Market, and this would again give tariff protection against these competitors. If the Scandinavians became members of the EEC, or could negotiate preferential access to it for their exports, the position of the British industry would still improve, and the pressure of the Scandinavian competition would be more evenly divided into several countries compared with the present situation. Not surprisingly, the British paper and board industry declared that it supported the UK application to the EEC, and even Scandinavian membership of it, provided that duty free imports of pulp and pulpwood would be accepted, and that, as a temporary measure, the UK industry would be protected against the remaining EFTA tariff reductions. In short, "*U.K. paper makers would prefer to be a member of the E.E.C. rather than the dumping ground of E.F.T.A.*"⁹⁶⁷

In November 1962 one influential person within the British industry even went so far as to express delight to the Finnish Ambassador regarding Finland's misfortune. Finland should not have invested heavily in the expanded production of paper, but should have limited the expansion only to pulp production, because the UK and the Six were always ready to buy these raw materials for their industry. Finland had been foolhardy, and now it was going to pay the price for this.⁹⁶⁸ General de Gaulle's famous "No", which ended the first attempt of the UK to join the EEC in 1963 must have been a severe disappointment to many within the UK paper industry. The attitude of the British paper industry to the UK EEC membership in 1966-1967 and 1969-1972, when the UK government made new attempts to join, was positive for the same reasons they had supported membership in 1961-1963.⁹⁶⁹

⁹⁶⁶ NA. FCO51/133. "Finland's accession to EFTA". A. Thorpe, September 24, 1970.

⁹⁶⁷ "B.P. & B.M.A. and the E.E.C". The Paper-Maker and British Paper Trade Journal, December 1961, p. 41.

⁹⁶⁸ UM 5C 7. Lontoo. R-Series "Suomen paperi- ja kartonkiviennin kasvu Iso-Britanniaan on jatkuvasti huolen aiheena saarivaltakunnassa; viime vuosien ja nykyhetken näkymiä". Leo Tuominen, November 12, 1967.

⁹⁶⁹ MRC. MSS.200/C/3/INT/3/22. "C.B.I. Report on Britain and the Common Market" by The Bowater Paper Company Limited, November 1969; M.R. Norman, Wiggins Teape Limited, to D.J. Ezra, CBI, November 3, 1969; Maude, *Finnish Dilemma*, p.119.

We have to note that the archival material about the British attitude towards the future of Finland in the case of the UK joining the EEC only reflects the views of the FO, not the policy of the UK government. I have found no information about the detailed views of the economic departments as far as the years 1961-1963 and 1966-1967 are concerned. It is unlikely that such documents exist. The Board of Trade and the Treasury were most likely too preoccupied with the negotiations over UK membership to have time or energy to think about the Finnish case.⁹⁷⁰ It is not certain that the FO would have been able to convince the other departments of the importance of Cold War motives in the Finnish case, if the British government had really had to formulate a policy regarding Finland. However, the precedent of the Finland-EFTA negotiations and the fact that Finland managed to conclude a free trade agreement with the enlarged EEC in 1973 suggests that the FO would have been successful.⁹⁷¹

For the same reasons as the FO and the Embassy supported the Finnish association to the EFTA, they also favoured Finnish membership of the OECD. The membership would strengthen Finnish ties with Western Europe and subject her to beneficial Western influences.⁹⁷² The Soviets originally refrained from criticising the prospective Finnish OECD-membership, but later started to express their disapproval for it. They also opposed Finnish membership of the proposed Nordic economic organisation, Nordek. The OECD was, according to the Soviets, a closed group of Western countries, which was tied to NATO, while Nordek seemed to them like the first step towards the EEC, and a move that would increase the influence of the NATO in Northern Europe.⁹⁷³ The British Prime Minister, Harold Wilson said to the Finnish President Urho Kekkonen that the British attitude towards “*benevolent neutrality*”⁹⁷⁴ Nordek never

⁹⁷⁰ In the case of EFTA, the British officials started to analyse the British policy towards Finland only after the actual EFTA convention had been drafted. NA. FO371/142625. M6120/49. L.G. Holliday, FO, to D. Busk, Helsinki, October 20, 1959.

⁹⁷¹ Nobody has so far done any detailed research in the British archives on the British policy towards Finland during the Finland-EEC negotiations in the early 1970s.

⁹⁷² NA. FCO59/423. C.D. Powell, Helsinki, to R.G. Giddens, FO, March 12, 1968; R.G. Giddens, FO, to S.J. Barrett, Helsinki, February 25, 1968; FO371/165931. NF103138/42 R.H. Mason, FO, to T. Brimelow, Washington, June 4, 1962; FO371/159309. NF1072/8. "Second Round of Anglo-American Talks in Finland. Brief no. 2. Finland and O.E.C.D." Foreign Office, 1961.

⁹⁷³ Suomi, *Taistelu puolueettomuudesta*, pp.102-104,171,173,182-183,185,194,341,347-349; Teivonen, "Suomen tie", pp.30,35,38-39,42-43.

⁹⁷⁴ NA. FCO 33/724. "Visit of the President of Finland to London, July 1969. Record of a Meeting held at 10 Downing Street, S.W.1. on Thursday, 17th July 1969 at 4.45 p.m."

became a reality, but the Finnish government made the formal decision to join the OECD in January 1969, despite Soviet opposition.⁹⁷⁵

Conclusion

The United States' and the British attitude towards the Finnish role in European integration were very different before the actual EFTA negotiations started. Ever since 1954, the US State Department had tried to find ways to tie Finland to the European integration process, but the British approached the question from a much more cynical point of view. Even the FO, where responsibility for the issue was in the hands of the Mutual Aid Department, and not in the hands of the Northern Department, which was usually responsible for issues concerning Finland, had a basically critical attitude to the question, even if it did not want to openly oppose it. MAD, the Treasury and the BOT did not want new members of the OEEC and the proposed free trade area, unless it was certain that they were able to carry out the economic obligations of membership. The weakness of the Finnish economy and her curious political position raised doubts. In 1958 the departments agreed, with little enthusiasm, to Finnish membership with the OEEC, which in the end never materialised.

When negotiations about the Finnish association with the European Free Trade Association began, the British policy was formulated in a more careful way than before. The UK government ended up supporting the Finnish association to the EFTA with more enthusiasm than her membership with the OEEC. When the EFTA had been successfully launched, Finland was no longer a potentially complicated factor, and Whitehall could concentrate on the Finnish case. The agreement was justified mainly on political grounds, but we have to understand that the wide Whitehall support for the Finnish-EFTA agreement was not the result only of the political desire to integrate Finland to the West. I doubt that the economic departments would have been willing to agree to it on these grounds unless the arrangement was also economically beneficial for the UK. Certainly the Whitehall departments did consider in detail the economic

⁹⁷⁵ Suomi, *Taistelu puolueettomuudesta*, p.173.

implications of the agreement to the UK trade interests. In addition, they defended the interests of their clients. The Ministry of Power supported Shell, and that with less enthusiasm than the coal industry. The Board of Trade supported the British manufacturing industries, especially the car industry and the Ministry of Agriculture the interests of British agriculture.

7. Conclusion

During the Cold War the Foreign Office hoped to enhance the security of the UK by limiting the possibilities for Soviet expansion in the world. The world economy was one of the “frontlines” of the Cold War, and therefore political arguments and motives should apply to it too. Finland was a clear example of this new “economic Cold War”. When the Cold War started in the late 1940s, Foreign Office officials gradually started to see Finnish trade relations with the West as a potentially useful method of drawing Finland closer to it and to prevent its fall under Soviet domination. The Foreign Office therefore followed economic developments in Finland much more actively than in many other small countries. However, the British government did very little to support Finland. Why was this so? One obvious answer was post-war concern about the state of the British economy. Martin and Garnett have argued that “*if there is one single explanation for the weakness of British foreign policy since the Second World War it is that the economic foundations on which it was built were inadequate.*”⁹⁷⁶ Economic constraints undoubtedly limited the policy options available for those within the FO who wanted to support Finland. Finland was only one of the many frontlines of the Cold War, and more important projects easily drained available limited resources. The second reason was that the FO was often less concerned about developments than the US State Department, as some historians have pointed out before.⁹⁷⁷

However, we cannot explain Britain’s lukewarm policy towards Finland simply by referring to economic constraints or to the differences between the US and British perception of the threat. Lack of resources would not have ruled out all the possibilities of tying Finland more closely to the West, because the economic costs involved were often insignificant. Even if the FO expressed views that were different from those of the US State Departments, there is adequate evidence in the Foreign Office files to prove that these departments generally shared the desire to prevent Finland from falling under Soviet domination. The FO recognised that Soviet influence in Finland far exceeded Western influence in the country, and that the West had only a limited number of methods to support Finland, but this did not mean that the British should not do anything to help Finland. Furthermore, I have concluded that the Foreign Office views

⁹⁷⁶ Martin and Garnett, *British Foreign Policy*, p.42.

⁹⁷⁷ See chapter 1.

on Finland regarding commercial matters were often almost irrelevant, because the influence of the department in these issues was much more limited than that of the economic departments. When we read British diplomats' sophisticated analyses of Finnish foreign trade it is easy to forget this.

An alternative explanation is offered here to supplement, but not to replace, the two explanations offered above. This third "bureaucratic" or "institutional" explanation challenges the notion that there really was such a thing as "British policy" towards Finland or "British views" on Finland during the 1950s. In fact, throughout the decade there were two policies: one supported by the FO and another supported by the economic departments. Both of these were based on the tasks of those government departments rather than on open debate about what the British government policy should be. The Foreign Office never managed to convince the other departments of the validity of its Cold War considerations relating to Finland. The Treasury, the Board of Trade and the other economic departments of the British government consistently refused to modify their existing policy, which was based on the traditional desire to promote British national economic interests. The problem was not really that these departments were not quite convinced of the political assessments of the Foreign Office, but rather that they just did not want them to interfere with their own policies and aims. Throughout the 1950s and the 1960s the Whitehall machinery spent a considerable amount of energy in trying to increase the benefits gained by the UK from its trade with Finland (and undoubtedly with countless other countries) and in this context policy proposals designed to support Finland were unwelcome. Therefore the Cold War rhetoric of the FO gives a misleading picture of the actual British government priorities.

This third explanation is to some degree of course connected to the first one, the economic constraints. Because the departments in Whitehall had generally recognised the need to improve Britain's economic position, they were less likely to accept suggestions that contradicted this aim. But we can see other reasons for the strong desire to support British economic interests. One was business pressure. Their pressure focused on their "sponsoring" departments, usually the Board of Trade or the Ministry for Fuel and Power. Why would the Board of Trade have tried to defend Cold War-motivated policy proposals against business opposition when it itself did not believe in the desirability of these proposals? Secondly, in a modern world countries usually

support their own companies in the global commercial struggle, mainly because this supports the economic development of the country. This is done regardless of whether the domestic economy is weak or strong.

I have argued in this thesis that previous historians, who have written about UK foreign economic policy towards Finland, have failed to understand the need to take into consideration the bureaucratic structure of the UK government and have used mainly the documents of the FO, believing that FO views and actions represent the views and actions of “the UK government” on the whole. When they write “the British” they in fact usually mean “the FO” without fully realising it. This has led to misleading conclusions. Many historians seem to believe incorrectly that the Cold War had a clear impact on British foreign economic policy towards Finland and that “the British” were willing to do something concrete to help the Finns, even if the contribution of the UK had to be more limited than the contribution of the economically stronger United States. None of them thinks that political considerations entirely dominated British foreign economic policy, but still they have overemphasised the role of the Cold War in the British policy. When the economic departments opposed politically motivated proposals made by the FO, it repeatedly “*deferred to expertise*”, as Halperin has suggested that departments do.⁹⁷⁸ To overrule the economic departments, the Foreign Office would have had to make the Finnish case a high priority issue and challenge the economic departments within the Cabinet machinery. Finland was never important enough to merit this treatment.

Gradually, from the end of the 1950s onwards, the interest of the FO in using Finnish-British trade relations as a method of drawing Finland closer to the West gradually diminished. The diplomats in the British Embassy in Helsinki still occasionally sent Cold War-motivated suggestions to London, but mostly the Embassy and the FO now concentrated on promoting British economic interests. In practice this meant export promotion, designed to reduce the imbalance in Finnish-British trade, which was a part of the general policy of improving the UK balance of payments situation. This stronger emphasis on economic benefits in the minds of the FO officials removed a source of disagreement between the FO and the economic departments of the British government.

⁹⁷⁸ See Chapter 3.

There was also a learning process going on in the FO: the diplomats gradually realised during the early 1960s that they could not gather wider Whitehall support for their proposals, and this was one factor why they were less willing to make them in the 1960s than in the 1950s.

The only case when political (Cold War) motives had an important impact on British foreign economic policy was the association of Finland to the EFTA (1961). Between 1959 and 1961 British policy towards the Finnish role in European integration was formulated in a more careful way and at a higher level than before, and this helped the Foreign Office to promote its political desire to integrate Finland more closely to Western Europe with the help of the European Free Trade Area. A wide consensus emerged in Whitehall that the association was desirable from the UK point of view, and this policy was usually justified with political arguments. This is a very important exception, but we should understand that the emergence of this consensus was only possible because the economic departments were convinced that the association would be beneficial for the UK economy, and Finland would not become just an economic burden or an institutional problem within the EFTA.

If we adopt a counterfactual perspective and ask whether British foreign policy towards Finland would have been different if there had been no Cold War, the answer is clearly "No". The arguments relating to the Cold War had been rejected within Whitehall, and even if the FO had had no Cold War to fight, this would have had no important impact on British foreign economic policy. The Finnish association to the EFTA (1961) was the only case where political motives were important, but there were also valid economic arguments for this link. On the other hand, if the Soviets had not opposed the closer involvement of Finland with Western economic organisations, Finland would not have been a special case in the European integration process at all.

This thesis can make a limited contribution to the general Cold War literature concerning British foreign economic policy. As theories of bureaucratic politics assume, in practice in the formulation of UK policy, government departments often seemed to be interested only in promoting their own limited departmental tasks and not particularly interested in open dialogue about what the policy of the UK should be. However, it cannot be said that competition for benefits, such as budget or personnel resources, was

an important factor. The critics of Graham Allison have pointed out that bureaucratic conflicts might just reflect underlying differences in belief-systems and values. There was indeed a profound difference of views in Whitehall concerning UK priorities, but these differences usually reflected departmental tasks. For example, the Board of Trade did not want to support the development of Finnish industries, because they could become competitors of British industries, while the FO view was opposite because the development could make Finnish voters less likely to support communism and the Finnish economy less dependent on the Soviet bloc.

The Whitehall co-operation machinery managed to ensure that “the British government” usually spoke with one voice to outsiders, but not that balanced conclusions were reached. The result of interdepartmental debates and conflicts reflected the strength of the departments’ bargaining positions and not just the force of their arguments. The only department that was often willing to take a broader line was the Foreign Office. Although the FO naturally was most interested in the promotion of political motives, the strength of Finnish ties with the West, and the desire not to harm British relations with the US or other countries, it was well aware of the importance of competing economic considerations and the constraints that inadequate economic resources put on British foreign policy. Although the British and US diplomats did share broad common goals, in practice they often viewed things differently. British government policy cannot be explained simply on the basis of bureaucratic politics approach. Flows of information from outside and international and domestic pressures all played their part.

If the co-operation within Whitehall was as weak in the formulation of embargo policies as it was in the Finnish case, students of UK Cold War foreign economic policy should adopt a more institutional perspective for the study of UK foreign policy and open the “black box”. The Finnish case suggests that the explanation for the underlying aspirations of the British Cold War foreign economic policy should be based on a detailed examination of the decision-making process, and not just on the official British expressions regarding the importance of their trading links to the national economic development or on other arguments used to justify the UK policy.

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Appendix A: The structure of British imports from Finland

	1950 £	1950 %	1954 £	1954 %	1958 £	1958 %	1962 £	1962 %	1966 £	1966 %	1970 £	1970 %
<u>Woodworking products</u>	32 864 788	97.3 %	57 712 666	97.8 %	64 085 109	94.3 %	83 076 565	93.6 %	108 304 280	88.2 %	159 620 000	81.9 %
of which												
Roundwood, pulpwood	432 862	1.3 %	694 282	1.2 %	163 358	0.2 %	341 579	0.4 %	321 541	0.3 %	186 000	0.1 %
Sawn hardwood	1 180 149	3.5 %	270 154	0.5 %	196 950	0.3 %			620 729	0.5 %	581 000	0.3 %
Sawn softwood	6 290 779	18.6 %	21 021 684	35.6 %	21 894 546	32.2 %	30 907 563	34.8 %	32 810 639	26.7 %	38 563 000	19.8 %
Pit props	2 996 667	8.9 %	1 973 106	3.3 %	2 816 992	4.1 %	2 843 308	3.2 %	646 837	0.5 %	1 183 000	0.6 %
Telegraph poles	850 859	2.5 %	956 026	1.6 %	780 862	1.1 %	1 625 477	1.8 %	961 777	0.8 %	826 000	0.4 %
Woodpulp	11 985 859	35.5 %	16 756 348	28.4 %	19 106 355	28.1 %	19 834 124	22.4 %	30 579 948	24.9 %	37 485 000	19.2 %
Veneer, plywood, blockboard	3 598 623	10.7 %	8 857 783	15.0 %	7 326 550	10.8 %	10 604 651	12.0 %	13 419 760	10.9 %	21 687 000	11.1 %
Paper, cardboard (excl.newsp.)	2 765 301	8.2 %	4 093 818	6.9 %	4 471 772	6.6 %	8 261 707	9.3 %	17 876 801	14.6 %	39 561 000	20.3 %
Newsprint	2 107 120	6.2 %	2 390 513	4.1 %	6 599 649	9.7 %	7 509 567	8.5 %	10 541 254	8.6 %	15 820 000	8.1 %
Other woodworking products	656 569	1.9 %	698 952	1.2 %	728 075	1.1 %	1 148 589	1.3 %	524 994	0.4 %	3 728 000	1.9 %
<u>Agricultural products</u>	138 093	0.4 %	713 725	1.2 %	2 902 090	4.3 %	3 456 242	3.9 %	6 376 867	5.2 %	8 695 000	4.5 %
of which												
Butter			605 153	1.0 %	2 837 777	4.2 %	2 642 362	3.0 %	5 151 273	4.2 %	3 483 000	1.8 %
Other agricultural products	138 093	0.4 %	108 572	0.2 %	64 313	0.1 %	813 880	0.9 %	1 225 594	1.0 %	5 212 000	2.7 %
<u>Others</u>	758 135	2.2 %	577 071	1.0 %	964 687	1.4 %	2 207 563	2.5 %	8 177 067	6.7 %	26 584 000	13.6 %
<u>Total UK imports</u>	33 761 016	100.0 %	59 003 462	100.0 %	67 951 886	100.0 %	88 740 370	100.0 %	122 858 214	100.0 %	194 899 000	100.0 %

Sources: Annual Statement of The Trade of the United Kingdom with Commonwealth Countries and Foreign Countries 1950. Compared with the Years 1946-1949. HMSO: London 1952. Volume II, p.472; Volume IV, pp. 133-134; 1954. Compared with the Years 1951-1953. HMSO: London 1956. Volume II, p.233; 1954. Compared with the Years 1951-1953. HMSO: London 1956. Volume IV, pp. 164-166; 1955. Compared with the Years 1952-1954. HMSO: London 1957. Volume IV, pp. 168-170; 1958. Compared with the Years 1955-1957. HMSO: London 1960. Volume IV, pp. 175-177; 1962. Compared with the Years 1959-1961. HMSO: London 1964. Volume IV, pp. 178-180; 1966. HMSO: London 1967. Volume IV, pp. 132-134; 1970. HMSO: London 1971, Volume 2, pp. 56-62, 154-168; 1970. HMSO: London 1971. Volume IV, pp.4,41-43;

Notes: Values c.i.f.; Because of the adoption of the Standard International Trade Classification by the British authorities, the figures for 1970 are not strictly comparable with previous years and they are not as precise as before.

Appendix B: The structure of British exports to Finland

	1950 £	1950 %	1954 £	1954 %	1958 £	1958 %	1962 £	1962 %	1966 £	1966 %	1970 £	1970 %
Food, Beverages and Tobacco	297 989	1.5 %	210 184	0.7 %	438 167	1.4 %	754 240	1.4 %	1 266 458	1.7 %	3 351 000	2.6 %
Basic Materials	3 354 439	16.3 %	4 676 097	14.7 %	3 689 541	11.6 %	3 814 679	7.0 %	5 000 832	6.6 %	6 311 000	4.9 %
of which												
Wool, other animal hair, tops	3 027 127	14.7 %	4 011 277	12.6 %	2 959 607	9.3 %	2 340 694	4.3 %	2 384 698	3.2 %		
Man-made fibres					138 756	0.4 %	435 304	0.8 %	575 025	0.8 %	670 000	0.5 %
Clay	166 866	0.8 %	266 934	0.8 %	405 464	1.3 %	725 611	1.3 %	1 161 235	1.5 %	2 766 800	2.1 %
Others	160 446	0.8 %	397 886	1.3 %	185 714	0.6 %	313 070	0.6 %	879 874	1.2 %	2 874 200	2.2 %
Mineral Fuels and Lubricants	1 701 326	8.3 %	2 804 468	8.8 %	1 482 278	4.7 %	1 565 192	2.9 %	2 592 652	3.4 %	2 694 000	2.1 %
of which												
Coal	280 117	1.4 %	662 757	2.1 %	313 626	1.0 %	17 585	0.0 %		0.0 %	642 000	0.5 %
Coke	1 201 371	5.9 %	1 697 519	5.3 %	570 678	1.8 %	679 106	1.2 %	140 409	0.2 %	431 000	0.3 %
Petroleum and Petroleum prod	219 838	1.1 %	341 609	1.1 %	593 594	1.9 %	728 744	1.3 %	1 936 930	2.6 %	1 612 000	1.3 %
Others			102 583	0.3 %	4 380	0.0 %	139 757	0.3 %	515 313	0.7 %	9 000	0.0 %
Manufactured goods	15 038 414	73.3 %	23 757 814	74.9 %	25 844 271	81.2 %	47 888 298	87.6 %	65 848 266	87.1 %	115 072 000	89.3 %
of which												
Chemicals	1 334 678	6.5 %	2 736 718	8.6 %	2 835 359	8.9 %	4 566 528	8.4 %	8 223 669	10.9 %	14 437 000	11.2 %
Rubber manufactures	299 669	1.5 %	561 976	1.8 %	529 509	1.7 %	939 802	1.7 %	1 522 544	2.0 %	3 973 000	3.1 %
Textiles	2 715 024	13.2 %	5 162 048	16.3 %	2 932 074	9.2 %	3 880 210	7.1 %	6 597 326	8.7 %	15 838 000	12.3 %
Iron and Steel	2 861 168	13.9 %	4 418 893	13.9 %	3 503 072	11.0 %	3 889 673	7.1 %	5 429 848	7.2 %	9 830 000	7.6 %
Non-ferrous base metals	708 309	3.5 %	884 769	2.8 %	735 673	2.3 %	1 253 844	2.3 %	2 498 007	3.3 %	4 433 000	3.4 %
Manufactures of metals	633 900	3.1 %	557 310	1.8 %	1 026 547	3.2 %	1 570 634	2.9 %	2 555 846	3.4 %	4 319 000	3.4 %
Electrical goods and apparatus	419 655	2.0 %	1 311 412	4.1 %	1 412 041	4.4 %	2 846 767	5.2 %	3 242 566	4.3 %	2 340 000	1.8 %
Other machinery and parts	3 093 944	15.1 %	3 141 620	9.9 %	3 656 459	11.5 %	7 578 983	13.9 %	11 559 292	15.3 %	13 949 000	10.8 %
Motor vehicles	1 756 892	8.6 %	3 684 313	11.6 %	7 250 023	22.8 %	17 627 826	32.2 %	18 161 002	24.0 %	16 137 000	12.5 %
Others	1 215 175	5.9 %	1 298 755	4.1 %	1 963 514	6.2 %	3 734 031	6.8 %	6 058 166	8.0 %	29 816 000	23.1 %
Miscellaneous	131 478	0.6 %	285 263	0.9 %	374 123	1.2 %	652 217	1.2 %	854 218	1.1 %	1 428 000	1.1 %
Total UK exports	20 523 646	100.0 %	31 733 826	100.0 %	31 828 380	100.0 %	54 674 626	100.0 %	75 562 426	100.0 %	128 856 000	100.0 %

Sources: Annual Statement of The Trade of the United Kingdom with Commonwealth Countries and Foreign Countries 1950. Compared with the Years 1946-1949. HMSO: London 1952. Volume IV, pp.134-136; 1954. Compared with the Years 1951-1953. HMSO: London 1956. Volume IV, pp. 166-169; 1955. Compared with the Years 1952-1954. HMSO: London 1957. Volume IV, pp. 170-173; 1958. Compared with the Years 1955-1957. HMSO: London 1960. Volume IV, pp. 177-180; 1962. Compared with the Years 1959-1961. HMSO: London 1964. Volume IV, pp. 180-184; 1966. HMSO: London 1967. Volume IV, pp. 134-137; 1970. HMSO: London 1971. Volume IV, pp.4,41-43.

Notes: Values f.o.b.; "Motor Vehicles" includes engines, parts and tractors. Because of the adoption of the Standard International Trade Classification by the British authorities, the figures for 1970 are not strictly comparable with previous years and they are not as precise as before.