

Erkki Liikanen: Finland, UK and the European Union

Speech by Mr Erkki Liikanen, Governor of the Bank of Finland, at the "A Century of Political and Trading Links between Finland and Britain 1917-2017: a Celebration Conference", organised by the Anglo-Finnish Society and the Finnish-British Chamber of Commerce, London, 27 October 2017.

* * *

Ladies and gentlemen,

It is a great honour and pleasure for me to address this conference on A Century of Political and Trading Links between **Finland** and **the UK**. I thank you for the invitation.

This occasion is even more significant because the economic and political relationship between our countries is undergoing a deep change, the content of which is yet uncertain. In this kind of juncture, it is useful to see things in a larger perspective. So, let me start with some remarks on the early years of Finnish independence and follow the development of our relations with Britain, and Europe, since then.

For Finland, as a small and newly independent nation a hundred years ago, it was of utmost importance to develop trading links with the European markets. It was not easy because of the protectionism that dominated international trade at the time. Difficult negotiations were required, and the Finnish negotiating position as a small nation was not strong.

The first trade agreement between Finland and the UK was signed in 1923. It was very successful by any standard. During the inter-war years, Britain became Finland's most important market by far, taking about half of our exports.

Finnish foreign trade during the inter-war years was so concentrated in Britain that in economic and financial terms Finland was clearly in the British sphere of influence. From our side, the relationship was based on Finnish exports of newsprint and other forest industry products to the UK.

As a consequence of the trade links, the links were also close in monetary policy. In the 1920's, for example, Finland followed the UK to the gold standard, and again followed the UK out when it had to leave the gold standard during the European currency crisis of 1931.

After the Great Depression, the Finnish markka was stabilized by linking it – to the pound sterling, of course. There was a fixed rate of 227 markkaa to the pound from 1933 up to the outbreak of the Second World War. Throughout the inter-war years, the Governor of the Bank of Finland, **Risto Ryti** developed a close relationship with the great **Montagu Norman**, his counterpart at the Bank of England.

After the Second World War, the reconstruction of Europe started. The **Marshall Plan** was launched in 1947 and played a major role in these efforts. The Soviet Union considered the Plan as an attempt to interfere in the internal affairs of the participating states and refused the plan. For political reasons, Finland too was forced to stay outside.

This had major consequences.

Besides losing the important financial benefits of the Plan, Finland also could not join the Organization for European Economic Cooperation (**OEEC**). As a result, it had to stay outside the European Payments Union (**EPU**), which made the Western European currencies mutually convertible in the 1950s.

In the face of such restrictions, the participation in other forms of multilateral economic integration was seen as even more vital in Finland. Before the relations between the superpowers deteriorated further, Finland used the window of opportunity in 1947 and early 1948 to join both the **International Monetary Fund**, the **World Bank** and the General Agreement on Tariffs and Trade (**GATT**). Even Sweden joined the IMF more than three years later than Finland.

In April 1948, the Treaty of Friendship, Cooperation and Mutual Assistance between Finland and the Soviet Union was signed and it set up the framework for the Finnish relations to the Soviet Union and sometimes even beyond that for about 40 years.

Winston Churchill had given his famous speech in Zurich on 'a kind of United States of Europe', already in September 1946. As a first step, he called the creation of a Council of Europe. This speech launched many initiatives. One of them was a **Congress of Europe** in The Hague in May 1948.

The Congress of Europe was attended by a great number of leading European politicians and statesmen, among them **Konrad Adenauer** from West Germany and three former French prime ministers, **Paul Renaud**, **Éduard Daladier** and **Paul Ramadier**. From the UK, Winston Churchill naturally was there but also **Harold Macmillan**, and **Sir Maxwell – Fyfe**, who had become famous during the Nuremberg trials.

I participated in the 50th anniversary event of the Congress of Europe in 1998. **Peter Mandelson** spoke on behalf of the UK Government. I tried to find out if any Finn had been present 50 years before. I found the list of participants. Not one was on that list. But on the list of observers, there was one Finn, **Hjalmar J. Procopé**, a former minister of foreign affairs. Unfortunately, as later research tells, he was only invited, but in the end even he did not attend. His friends advised him not to go. This story tells how far Finland was from the European discussion at the time.

So it was no surprise that Finland was not among the founding members of the Council of Europe in May 1949. Actually, Finland did not join the Council of Europe before 1989.

Early in the 1950's, the **European Coal and Steel Union** was founded at the initiative of **Robert Schuman**, former French prime minister and was followed by the EEC, European Economic Community, created by the Treaty of Rome 60 years ago.

Finland's two biggest trading partners, UK and Sweden decided to stay outside the EEC at that time. Those countries, which in 1957 had not taken part of the Treaty of Rome, founded instead the **European Free Trade Association (EFTA)** in 1960, a trade bloc of seven countries centred around the UK, its biggest member.

The founding of EFTA was a big challenge for Finnish trade policy. The major part of the Finnish exports went to Western Europe. The trade with Soviet Union was on the average around fifteen per cent during the post-war period. For this reason, a major objective for Finland was again to secure the access to the markets in Western Europe and, at that time, especially the UK.

The UK and the other participants agreed that the Finnish government could follow the negotiations on the EFTA agreement. However, at the demand of the British, Finland's observers were not allowed to be present in the negotiation room but were to be kept informed, in the first place, through Sweden. That was the solution for Finland. We were there, but not allowed to sit at the tables where decisions were taken.

So, the UK being a founding member of EFTA, Finland negotiated the so-called Fin-EFTA agreement, which made us an associate member of EFTA in 1961 and gave us access to the markets of the area. As a political condition, Finland gave the same trade concessions also to the Soviet Union.

The associate membership of Finland was a delicate operation due to the suspicions in Moscow. But for Finland it was important and beneficial. EFTA exposed Finnish industries to more competition from abroad and opened new markets to our exports, especially in the UK and Sweden. This diversified our economy and started structural changes, which made us more competitive in larger markets.

In some sense you can draw a parallel between the Sterling club of the 1930's and the EFTA of the 1960's. Both included the UK and the Nordic countries. EFTA was of course a trade bloc unlike the sterling club, and it was a different time, but in both instances Britain and Finland were joined by a form of special economic relationship.

The contacts between our countries have been frequent on many levels, including the highest. In 1963, soon after the Finnish associate membership in EFTA had been achieved, the UK Prime Minister Harold Macmillan visited Finland. President Urho Kekkonen hosted a dinner in his honour. In his dinner speech, Kekkonen told a story, which tested everybody's sense of humour. He spoke about the arrival of the British Bishop Henry in Finland. This happened more than 850 years ago for the purpose of converting our ancestors to the Christian faith.

"The attempt failed", Kekkonen stressed, "for the Bishop was killed here with an axe. But our ancestors were not ungrateful killers. Proof of this is that they later realized the good and honest intentions of the Bishop, and made him the patron saint of Finland. This course of events – at least its latter part – would probably in Britain be regarded as fair play", Kekkonen told the visiting British Prime Minister.

EFTA was seen by many as only an intermediate stage in European integration. Already in 1961, the British and Danish applied for membership in the EEC, closely followed by Norway. The neutral EFTA states Sweden, Austria and Switzerland applied for association. Due to our geopolitical position, Finland was not able to follow the same course of action. The EEC was seen, already then, as more than just a trade area, and rightly so. This political dimension precluded the Finnish participation at the time.

But the enlargement negotiations failed twice in 1963 and 1967, mainly due to the "Non!" to British membership by French president **de Gaulle**.

Meanwhile, Finland took prudent steps towards the west, and in 1968 we became a member of the OECD, the successor to OEEC, that had been established for the delivery of Marshall Aid. We also participated in the Nordek negotiations of 1968–70 aiming for a customs union or an economic community between the Nordic countries. These negotiations did not lead to an agreement.

In France, President **Georges Pompidou** followed de Gaulle and **Edward Heath** became Prime Minister of the UK. They de-blocked the still pending issues and the EEC membership for the UK, Ireland, Denmark and Norway was again on the table. In 1973, the UK joined the EEC together with Ireland and Denmark.

For Finland, this was the first Brexit, then from EFTA.

Due to the importance of the British trade, this was a serious challenge, and negotiations were begun on a free trade agreement between Finland and the EEC.

Finland and the other remaining EFTA countries were offered free trade in industrial goods. The Soviet attitude towards Finland, however, had again tightened after the occupation of Czechoslovakia. The process leading to the free trade agreement with the EEC involved various gestures and measures to convince the Soviet leadership that an agreement would not mean a re-orientation in Finland's foreign policy. The free trade agreement between Finland and the EEC was successfully concluded in the end of 1973.

Jacques Delors became president of the European Commission in 1984 and **Lord Cockfield** the vice-president responsible for the internal market. They launched a major project for the Single market. It deepened integration and the four freedoms: the free movement of goods, services, labour and capital.

The follow-up question for Finland and the other EFTA members was how to guarantee access to the Single market. The negotiations led to the creation of the **European Economic Area (EEA)**. The EEA included all four freedoms: the free movement of goods, services, capital and labour, plus participation in a Cohesion Fund. At the time when the project was started, it was supposed that EFTA and the EEC would remain separate organizations. But the world and Europe changed. The unification of Germany in 1990 and the dissolution of the Soviet Union in 1991 changed everything.

The EEA agreement was signed on in May 1992 but by that time, Finland had already applied for EU membership. The EEA agreement entered into force in January in 1994. This was the solution for Finland for one year only.

Why did Finland apply for EU membership so soon? President **Mauno Koivisto** explained this well in his speech in Parliament: We want to have a seat at the table where the decisions are made. We needed the European Economic Area, but we also wanted to have influence. We wanted both access and a say.

Membership negotiations with the EC (soon to be the EU) lasted over a year, starting in the spring of 1993, simultaneously with other applicant countries. In the Finnish referendum of October 1994, the EU membership was approved with 57 percent against 43, i.e. with a large majority. On the 1st of January 1995, our membership entered into force – and you could say that we were again united with Britain in the same club.

Britain has traditionally been a supporter of a wider Europe, and also we Finns enjoyed the support from the UK during our accession process. As members, we both have been strong supporters of free trade and the Single market.

Finland and the UK were first together in EFTA. Then the UK moved on and joined the EEC. Our reunion in the EU took place in 1995, 22 years later, in 1995, when Finland joined.

Now, in 2017, we have been members together for another 22 years. The general assessment of the membership in Finland is overwhelmingly positive.

I just quote two respected statesmen and thinkers from Finland.

Max Jakobson, the great Finnish diplomat and historian told his daughter Linda two years after Finland had joined the European Union: *"Listen, only during last few days I have understood that Finland is, for the first time in her history, fully independent"*

Mauno Koivisto, our late president, said at his 90th birthday dinner: *"I belong to the generation which fought for independence. Then we worked for integration in order to gain more influence. The pessimists were wrong."*

From 1990 onward, I followed and participated in the events as the Finnish ambassador to the EC. The autumn of 1991 was a decisive period. Sweden had followed Austria and applied for the EC membership. The Soviet Union was falling apart. In the UK, **John Major** was the new prime minister after Margaret Thatcher, defending British interests in the negotiations leading to the Maastricht Treaty.

I had great colleagues in the British foreign office. **John Kerr** was the permanent representative then. Let me mention, that as EU commissioner from 1995 I had of course the good fortune to cooperate with outstanding individuals from the UK: **Leon Brittan**, **Neil Kinnock**, and **Chris Patten**. I have very fond memories of cooperation with them.

There have also been differences between our countries' choices and policies within the EU. Most importantly, Finland became an early member of the Economic and Monetary Union in 1999, while the UK remained outside the euro. Britain has of course stayed outside the Schengen Area, too, together with Ireland. To compensate for its geographic distance from the continent, Finland has wanted to be in the institutional core.

A word about central banks: although Britain never joined the single currency, the Bank of England is a member of the European System of Central Banks, where we co-operate on many things, even if not monetary policy. There and elsewhere I have had the opportunity to work together with the Bank of England Governors Mervyn King and Mark Carney. The Bank of England is an institution highly respected also by us at the ECB.

Ladies and gentlemen: We are now entering a new phase in the economic and political relationship between the UK and Finland, as the UK has decided to leave the EU.

The EU gave us -the Finns and the British – a new platform, where both countries have worked together daily for our common interests and been like-minded on many issues. The Brexit vote in the 2016 Referendum was a surprise and also disappointment for most Finns.

There is still a lot of uncertainty. Today, more than a year after the Brexit vote, we still don't know the overall framework of our future relations. This tells much of the complexity of the situation.

But whatever is the final outcome of the Brexit process, Finland and the UK will remain close European partners. Our common interests in many issues will not disappear and we must find ways to collaborate, drawing inspiration from the long history of our good bilateral relations.

Thank you for your attention.