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# Negotiations for Benelux: An Annotated Chronicle 1943-1956

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By

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# PRINCETON STUDIES IN INTERNATIONAL FINANCE

This is the sixth number in the series called Princeton Studies in International Finance, published from time to time under the sponsorship of the International Finance Section of the Department of Economics and Sociology in Princeton University. The author, Professor James E. Meade, is at present responsible for the teaching of international economics at the London School of Economics. Before the war he was the author of the World Economic Survey published annually by the League of Nations. During and immediately after the war he was a member, and later director, of the Economic Section in the Offices of the British Cabinet. During the last few years he has given much attention to the theory of international economic policy and to the study of problems of economic union.

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Gardner Patterson, *Director*
International Finance Section

*Princeton University*
*March 1957*

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## I. Introduction

The following pages contain a catalogue of the negotiations which have taken place between the Dutch, Belgian, and Luxembourg governments between 1943 and 1956 in their attempt to build the Benelux Economic Union.[1] This catalogue is accompanied by a running commentary outlining the general economic background against which the negotiations were taking place. It is hoped that this manner of presentation may (at the cost of some inevitable repetition) give a realistic impression of the sort of problems and processes which are involved in building a full economic union between sovereign national States in modern economic conditions.

The Benelux Economic Union did not spring like Athene fully armed from the head of Zeus. On the contrary, after more than a dozen years of painful and tedious labour the birth is not yet complete. In a formal legal sense Benelux does not yet exist. The final Treaty of Economic Union is not yet written; there have been only a number of preliminary negotiations, protocols, and partial conventions preparing the way for this final goal. Nevertheless, the Benelux Economic Union is already a real thing in the sense that as a result of these many preliminary steps goods, people, and capital already move much more freely between the three partner countries than between Benelux and the outside world.

[1] This account has for the most part been written on the basis of the original press communiqués, protocols, conventions, treaties, and similar documents. In the few cases in which secondary sources have been used, these are indicated in footnotes. This study is the result of work which the author, with the help of the Economic Research Division of the London School of Economics, is undertaking for the Royal Institute of International Affairs.

## II. War-time Agreements and Aspirations, 1943-1944

*Bilateral Monetary Agreement. London; 21st October 1943.*

The first negotiations for the formation of the Benelux Economic Union were undertaken in London by the three governments in exile during the last years of the second world war. This history in effect opens with the signing of a monetary agreement between the Belgian and Dutch governments in London in October, 1943.

This agreement was a bilateral payments agreement of the now familiar type. In it the two governments agreed upon the official rate of exchange of 16.52 francs[1] to the guilder. This rate corresponded to the rate which was ruling at the outbreak of the war. It implied some devaluation of the Dutch guilder, because in 1940 the franc, but not the guilder, had been devalued in terms of the pound sterling and the French franc. It is an interesting commentary upon the fallibility of human foresight (and in particular upon the difficulties involved in fixing exchange rates at levels which will in fact correspond to future conditions of supply and demand) to observe that the choice of this rate was in some quarters regarded as a concession on the part of the probably strong guilder to the probably weak franc. It appeared to some to be an unnecessary admission of weakness for the Dutch currency that it should be devalued in gold content to bring it in line with the 1940 devaluation of the Belgian currency.

Under this agreement the central monetary authority in each country (the Banque Nationale de Belgique in Belgium and the Nederlandsche Bank in the Netherlands) would supply its own currency to the central monetary authority in the other country in amounts necessary to finance all payments from the latter to the former country permitted by the exchange control authority of the paying country. Each month a balance of net indebtedness between the two monetary authorities was to be struck. On any part of the net indebtedness in the one direction or the other which exceeded the sum of 500 million francs

1 Hereafter "franc" will always refer to the Belgian currency. When reference is made to Luxembourg or French currency these will be clearly specified as "Luxembourg franc" or "French franc."

(30.25 million guilders) the debtor authority would pay interest at a rate equal to the official rate of discount in the debtor country. If the net balance of indebtedness in either direction rose above 1,000 million francs (60.5 million guilders) then the two governments would consult together to see what remedial action might be taken. But, while the debtor might if it wished pay off the debt in gold, it was expressly agreed that it would not be under any obligation to do so.

Such was the basic character of the monetary agreement of October 1943: a payments agreement under which each central bank would provide its own currency to the other central bank at a fixed rate of exchange to finance all permitted payments made by the latter to the former country, without—in this case—any obligation for the debtor authority to repay in gold any balance of indebtedness but with the obligation to consult to see how the growth of indebtedness above a certain figure could best be prevented.

There were certain subsidiary features of this agreement which are worth noting.

First, the agreement was intended to cover the whole of the Belgian monetary area (including overseas territories such as the Belgian Congo) and the whole of the Dutch monetary area (including overseas territories such as Indonesia). For this purpose the Belgian authorities undertook to supply to the Dutch authorities Congolese francs in return for Belgian francs, and the Dutch authorities undertook to supply to the Belgian authorities Indonesian guilders in return for Netherlands guilders.

Second, the agreement was to be started without any blocking of existing balances. All existing balances of francs held by the Dutch could be freely used to make payments in Belgium or the other parts of the Belgian monetary area, and vice versa.

Third, while all francs owned by the Dutch could be used freely to make payments within the Belgian monetary area, they could be used by the Dutch to make payments to third countries outside the Belgian monetary area only with the permission of the Belgian authorities. And vice versa, guilders could be used by the Belgians to make payments outside the

Dutch monetary area only with the permission of the Dutch monetary authorities.

Fourth, as has already been noted, the central monetary authority of the country which was a net debtor under the agreement could always at its option repay the debt in gold. Subject to the agreement of the creditor country, the debtor could also repay the debt in other foreign currencies. In this connection there was an interesting provision in the agreement. It was expressly stated that payment should be made in a foreign currency if the debt had arisen through a transaction by which the creditor country had lost and the debtor country had gained foreign exchange. For example, suppose that Belgium had paid foreign exchange for the import of raw materials which had been sold to the Dutch (thus putting the Dutch in debt to the Belgians) and which had been used by the Dutch to produce exports which were sold for foreign exchange. Then it was intended that the Dutch should repay their debt to the Belgians in foreign exchange which the Dutch had gained and the Belgians had lost through this chain of transactions.

In form the agreement was a bilateral payments agreement of a familiar pattern. But in fact it must be regarded as something more than a purely technical arrangement to facilitate payments between one particular pair of countries. The two countries concerned were especially closely linked in historical experience, geographical position, and in language and culture; and they were about to embark upon an attempt to build a close and complete economic union. Indeed, in the text of the monetary agreement itself there are already signs of this wider meaning. In it the two governments agreed to consult closely in the future on economic and financial policies. The agreement was, moreover, negotiated at a time when international discussions were being initiated for a wider and more generalized machinery for post-war international payments—discussions which resulted finally in the Bretton Woods conference and the foundation of the International Monetary Fund and the International Bank for Reconstruction and Development. In their bilateral monetary agreement the Dutch and the Belgians showed their belief in a wider solution of the problems of international payments in two ways. First, they agreed that the bilateral agreement could itself be made of wider scope by the adherence of third countries to it, provided that both the Dutch and Belgian governments agreed. Second, it was expressly stated in the monetary agreement that it did not prevent Belgium and the Netherlands from adherence to a wider multilateral agreement for the stabilization of exchange rates. But at the same time the monetary agreement displayed the specially close tie between the two countries: they expressly bound themselves in the agreement to enter any wider multilateral monetary arrangement only jointly and by joint decision of the two partner countries.

*The Customs Convention. London; 5th September 1944*

The second milestone on the journey to Benelux was the signing in London in September 1944 (nearly a year after the signing of the monetary agreement) of a convention to establish a Customs Union between Belgium, Luxembourg, and the Netherlands. But as every student of economic unions well knows, a "customs union" is an ambiguous term and can mean little or much according to its interpretation. The meaning and effect of the convention of September 1944 needs detailed discussion.

The first point to realise is that the convention was a convention between the governments of three independent sovereign States—Belgium, Luxembourg, and the Netherlands. But of these three, two—namely Belgium and Luxembourg—were already bound together economically into a close economic union by the treaty of 1921.[2] Diplomatically the convention was, therefore, a treaty between three sovereign States; but economically it was an engagement of marriage between two partners, the Belgium-Luxembourg Economic Union on the one hand and the Netherlands on the other. Theoretically, this fact might make the position of Luxembourg in the constitution of the Benelux Economic Union somewhat anomalous. In the structure of commissions and committees which were set

[2] For an account of the main features of the Belgium-Luxembourg Economic Union as it developed between 1921 and 1939, see J. E. Meade, "The Belgium-Luxembourg Economic Union, 1921-1939," *Essays in International Finance No. 25*, International Finance Section, Princeton University, March, 1956.

up under the customs convention of September 1944 and under subsequent Benelux treaties and agreements, Luxembourg has always found a place as an equal partner. Yet, under the treaty of economic union with Belgium of 1921 Luxembourg had in fact committed to the Belgian government the final decision about the level of excise duties, customs duties, and other commercial restrictions for the Belgium-Luxembourg area as a whole. How then could Luxembourg play the role of an equal independent partner on matters on which it had already agreed that Belgium should take the final decision after close bilateral consultation with Luxembourg? This conundrum is of greater theoretical than practical interest. In fact, in the Belgium-Luxembourg Economic Union Belgium has not overridden any strongly expressed desires and interests of Luxembourg in commercial policy; and, in consequence, Benelux has worked by the reaching of agreements between all the three governments concerned.

In the agreement of September 1944 it was decided that the Netherlands and the Belgium-Luxembourg Economic Union would impose the same import duties on imports from third countries, and a common tariff of import duties was annexed to the agreement. It was also decided that no import duties would be levied on trade between the partner countries. But the agreement did not provide for the immediate removal of all duties between the partner countries, because it was expressly stated that it did not prevent the levying of domestic excise duties in accordance with the existing tax regimes of the partner countries, or the consequential levying of excise duties at the frontier on goods imported from third countries, or from the other partner countries. Nor did the agreement itself make any provision for the removal of quantitative restrictions on trade between the partner countries, or of trade barriers other than customs duties.

According to the definitions subsequently adopted officially (in November 1947) by the countries forming the European Study Group for a Customs Union,[3] a *tariff community* involves

[3] These definitions were reproduced in the official report of the ministerial meeting of the Benelux countries at The Hague, 10th-13th March 1949. They

only the adoption of a common tariff for imports and the abstention as far as possible of levying import duties on trade between the partner countries; this becomes a *customs community* when it is supplemented by the adoption of uniform laws and regulations for the application of the single tariff; it is turned into a *customs union* only when domestic excise duties and similar consumption taxes have been unified so that it is not necessary to levy any customs or excise duties on the trade between the partner countries; and finally a full *economic union* comes into existence only when (i) all obstacles to the free movement of people, goods, and capital between the partner countries have been removed, (ii) domestic economic, financial, and social policies are carried out in a coordinated manner, and (iii) in its relations with third countries the union appears in every relevant economic, financial, and social respect as a single entity.

By a strict interpretation of these definitions the convention of September 1944 decided upon the institution of the first stage in this process, namely the *tariff community*. But the convention certainly foresaw and made some provision for the further stages of development. Thus the preamble to the convention expressly stated that it was to be regarded as the first step towards a full *customs union*; and in the agreement itself it was laid down that its application would cease when the full *economic union* which the parties intended to form should come into force.

But in addition to these general statements of intention the convention of September 1944 set up some joint Benelux administrative institutions whose function it was to promote the further progress of economic union.

Thus an Administrative Council on Customs Duties, consisting of representatives of each of the three partner countries, was to be set up. Its task was to propose measures for the unification of laws and regulations affecting the levying of import duties. It was to be helped by a Commission on Customs Dis-

can, therefore, probably be accepted as a more or less accurate interpretation of the stages of progress which the Benelux negotiators had in mind.

putes to which the national governments could appeal in the case of disputes about particular customs problems.

More fundamental was the decision that an Administrative Council for the Control of Foreign Trade[4] should be set up. This body was to give advice on the measures which the partner countries proposed to take to regulate trade by quantitative restrictions and similar measures; it was also to attempt as far as possible to see that a common regime of trade control for the whole Benelux area was built out of these national trade controls and to provide a machinery for the administration of any restrictions on trade with third countries which were common to the whole Benelux area; and it was also to give advice on any subsidies to domestic production which the member countries might propose to pay.

Finally, there was to be a Commercial Agreements Council whose function was to coordinate the commercial agreements which the partner countries might make with third countries so as to obtain, as far as possible, a single joint commercial policy for the union vis-à-vis the outside world.[5]

The convention was to come into operation either after ratification or provisionally, as soon as the countries were liberated and the governments in exile in London were restored.

It was thus the intention of those in London who negotiated this first and basic Benelux convention that the common tariff and the general removal of customs duties between the partner countries should come into operation immediately after the liberation of the two countries. Belgium was liberated in September 1944 and the Netherlands in May 1945. But the Customs Convention was ratified by legislation in the three countries only during the second half of 1947; and the common tariff came into operation only at the beginning of 1948. Moreover, it was the clearly implied intention of the framers of the convention of

[4] Subsequently called the *Council for the Economic Union*. See p. 16 below.

[5] In the course of time a large number of permanent committees and subcommittees of these councils and, in particular, of the Council for the Economic Union were set up to deal with particular problems in the building of Benelux. When special Benelux committees (such as the Agriculture, Food, and Fisheries Committee) are mentioned in the following pages, it should be realised that they are a part of this committee structure.

September 1944 that the *tariff community* should be rapidly followed by a full *customs union* (with the unification of domestic excise duties and similar taxes and the consequent lapse of the need for tax purposes of the maintenance of a customs frontier between the partner countries) and that the *customs union* should soon give place to a full *economic union* with complete freedom of movement of people, goods, and capital between the partner countries. It is now more than ten years after the final liberation of the Benelux countries; and, although much very real and important progress has been made towards the final goal of complete economic union, excise and similar duties have not been fully unified and obstacles still remain in the way of the movement of people, goods, and capital between the partner countries.

## III. Post-War Difficulties and the Institution of the Common Tariff, 1945-1948

The difficulties which have made the road towards complete economic union so unexpectedly slow and laborious may perhaps be best grouped under three closely interrelated headings, all of which were underestimated by the first architects of Benelux.

First, there are the straightforward economic and political difficulties involved in submitting an important and previously protected section of an economy to the full blasts of competition from its more economic partners. The already existing need under the Belgium-Luxembourg Economic Union to continue some measure of protection for Luxembourg agriculture against Belgian agricultural products is a good case in point; and the similar need to continue some protection for Belgian agriculture against Dutch products within Benelux provides a second notable example of this.

Second, in the modern world many countries have found it difficult to maintain equilibrium in their balance of payments with other countries without imposing restrictions on the money payments which may be made to other countries or on the quantity of goods and services which may be bought from other countries. As will be seen in what follows, the first years of the formation of Benelux were dogged with this problem of the need for the Netherlands (with its deficit on its balance of payments) to restrict imports from, and movements of capital to, the Belgium-Luxembourg Economic Union (with its balance-of-payments surplus).

Third, a common market for goods and services and for labour and capital is hard to establish and may have very undesirable effects if conditions in various parts of the market are differently affected in the partner countries by divergences in domestic economic, financial, and social policies. To take only a few examples, differences in the rate of taxes on or the rate of subsidies to the production of similar products; differences in measures of price control over similar products; differences in the extent and severity of the rationing of consumers' goods