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CUSTOMS POLICY REGARDING MARITIME TRADE THROUGH THE BALTIC SEA – INTERWAR PERIOD AND PRESENT

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Abstract: In the article the history of customs and modernity as the lessons of the past for the present and the future is presented. It is described how customs policy affected the usage of maritime trade links between ports and harbors at the Baltic Sea in the interwar period, and the parallel to the modern situation is drawn. Interwar period of time is taken into consideration as the geopolitical and economic situation in the region resembled the present one fairly well (at least compared to other historical eras). Customs policy of the countries depending on the level of their economic development during this period of time is characterized. From the experiences of protectionism or cooperation and dealing with rising political tensions conclusions about the impact of customs policies on trade and economic development of certain countries and the region in general are made. In the article it is stated that learning from the past events will be helpful in shaping current customs policies at the Baltic in a way that enables better utilization of its trade potential and higher prosperity.

Keywords: customs policy, the Baltic Sea, trade zone, tariffs, interwar period

Introduction. The Baltic Sea due to its inland location was always busy with ships throughout passing centuries of European history. Although as a major geographical obstacle it separates nations from each other (mainly Scandinavian peninsula from the Central and Eastern Europe), it also facilitates shipment of large amounts of goods between the coastal regions. In addition, through Danish straits, it allows access to the ocean, and so to European and Global maritime trade. «The seaborne trade of the Baltic Sea region is operated by more than 500 ports and harbors, of various (mainly small and moderate) sizes. An outright concentration of cargo flows occurs in ports located in western and south – eastern parts of the sea» [1]. Obviously, the economic importance of The Baltic Sea isn't limited just to its coastline areas and its immediate surroundings. Mainly through Polish and German rivers, roads and railways it is connected to the inland part of Europe. As rail freight between China and Europe through Russia is rapidly increasing in recent years, in the near future Baltic sea ports may become well

connected even to the Far East, gaining additional importance due to transshipment of its goods.

Nevertheless, fully utilizing beneficial Baltic routes was never easy, due to tensions and disputes between the states surrounding the sea. In this report we concentrate on how customs policy, mainly imposed tariffs and regulations affected the usage of maritime trade links between ports and harbors at the Baltic Sea in the interwar period, and look for modern parallels. An analysis of that period of time should be useful, as the geopolitical and economic situation in the region resembled the present one fairly well (at least compared to other historical eras). From the experiences of protectionism or cooperation and dealing with rising political tensions we will try to draw conclusions about the impact of customs policies on trade and economic development of certain countries and the region in general. We hope that learning from the past events will be helpful in shaping current customs policies at the Baltic in a way that enables better utilization of its trade potential.

The past. During 20s and 30s years the goods shipped through the Baltic Sea mostly consisted of wood, iron ore, agriculture and rearing products, coal and some manufactured goods. «Generally, one could say that production of respective Baltic countries was quite unidirectional, where Denmark can be considered as good example with its agriculture and rearing, or Sweden holding much iron ore and forests. Therefore, enhancing necessity of exchange and its importance (...)» [2]. Iron ore mostly flowed from Sweden to Poland and Germany, coal was mostly transported from southern Poland up north, wood and cellulose mostly from north to south and from east to west. During the period in hand, the inner structure of economies of Denmark and Sweden remained mostly stable. On the other hand, newly independent nations had to implement many reforms and new ideas to consolidate and develop its underserved territories. After WWI the Soviet Union concentrated its maritime trade at Black Sea ports and Murmansk, showing relatively little interest in the Baltic. During the 30s German share in the trade with other Baltic countries was gradually shrinking, whereas English grew in similar manner filling the void. It is also worth mentioning that both trade and production in all countries of the region, except maybe isolated USSR, greatly diminished after 1929 crisis, and started slowly growing back around 1934-35. Regarding political relations, within the group consisting of Denmark, Sweden, Finland, Estonia, Latvia, Lithuania, Poland can be described as rather peaceful and positive, maybe with an exception of territorial dispute between two last ones. Relations between USSR and other countries were rather tense, especially the newly independent ones, however German –

Soviet cooperation was increasingly intensifying during the 30s. Polish- German relations due to territorial claims and disputes over Free City of Danzig were rather hostile, resulting in a long customs war.

Customs policy in the region varied depending on the country and type of good. Due to average height of tariff rates countries can be divided into 3 main categories. Rich and well industrialized, Sweden, Denmark and Germany generally kept tariffs low, around 20–30% of imported goods value, due to high quality and competitiveness of their products. Recently liberated countries, Poland, Baltic States and Finland, maintained much higher barriers, what can be interpreted as attempt to protect their developing enterprises. However, the most impenetrable market in the region and also in Europe in general was without a doubt USSR, consistently aiming at self-sufficiency. Table 1 below represents average tariff rates for foodstuffs in some countries of the region and also in Belgium and France for comparison. Table 2 below represents average tariff rates for manufactured imports for those countries and additionally for UK and Netherlands (ad valorem equivalents, percent).

It is easy to notice, how all of the countries mentioned reacted to great depression, by implementing protectionist policies, especially aiming to help its own agriculture productions. During the interwar period at the Baltic besides tariffs and protectionist regulations another field of struggle between countries to maximize trade income of its own was merchant navy. The more ships a country possessed, the more income it could gain not only from exporting products but also transporting them to the final or intermediary destination.

Table 1

Average tariff rates for foodstuffs

Source: Krpec, Oldrich; Hodulák, Vladan. «Trade and Power: Historical Analysis of Trade Policy» (2014), p.151

	1927	1931
Belgium	11,8	23,7
France	19,1	53,0
Germany	27,4	82,5
Sweden	21,5	39,0
Finland	57,5	102
Poland	72,0	110

Table 2

Average tariff rates for manufactured imports

Source: Krpec, Oldrich; Hodulák, Vladan. «Trade and Power: Historical Analysis of Trade Policy», (2014), p.155

	1931
UK*	5
Netherlands*	6
Germany	18,3
Sweden	23,5
Finland	22,7
Poland	52,0
USSR	tough regulations

* - in 1925

It is easy to notice, how all of the countries mentioned reacted to great depression, by implementing protectionist policies, especially aiming to help its own agriculture productions. During the interwar period at the Baltic besides tariffs and protectionist regulations another field of struggle between countries to maximize trade income of its own was merchant navy. The more ships a country possessed, the more income it could gain not only from exporting products but also transporting them to the final or intermediary destination. Therefore maintaining dominant position by more competitive navies, or favoring (sometimes even subsidizing) ships waving national ensign over foreign ones in attempts to nationalize seaborne transport, were common root of disputes. Another field of competition were attempts to transform certain seaport into the center of transshipment and distribution of goods for other countries in the region, which would undoubtedly be a profitable intermediation. Broadly speaking, it is hard to call contemporary Baltic Sea a free trade zone. It seems to be more of a place where given country would consider exceptional reduction of certain tariffs in order to utilize particular trade route better or allow beneficial transfer through its territory.

Denmark is obviously natural middleman in trade between the Baltic region and the west, which made Copenhagen a great center of transshipment. However, import control regulations imposed in 1931 diminished its importance in transit of goods to the Baltic. «For example, in 1935 for the total amount of import from abroad, amounting to 1 286 689 000 Danish Crowns, only goods of value 54 068 000 Danish Crowns were then exported back abroad,

so it is just 4,2%» [3]. From countries of the region shipping with Sweden was especially privileged, due to friendly relations and large amount of close-range sea connections. Trade and Navigational agreement with Poland from 1924 were also operative, and Danish merchant navy was carrying many connections from Polish coast. Both sides agreed to treat respective country's ships equally to their own. «That rule involved port tolls, tonnage tolls, pilot fees and all kinds of taxes» [4]. This situation changed in the 30s when Poland began to develop and favor its own merchant navy in the newly built Gdynia seaport, which resulted in tensions.

Sweden was known for its liberal policy towards its seaports, that were practically self-governing bodies. Although Sweden put a lot of effort into simplifying regulations and creating an atmosphere for maritime trade to grow, harbor fees in this country were exceptionally high, and high demands in social standards for sailors made its merchant navy a little uncompetitive. Seaborne transport played great role both due to many connections with other nations and the inner system of ports, canals and lakes. After WWI Sweden attempted to make free ports of Goteborg, Malmo and Stockholm centers of transshipping of goods to neighboring countries, but that initiative was not successful. Instead they began to serve as «duty-free warehouses for goods intended for domestic market» [3].

Despite its apparent geographical location Finland can be practically regarded as an island. About 99% of total trade flows in this country were carried out through sea. Although Finnish growth was heavily based on free market enterprises, the government maintained some high

barriers for external trade. «The Finnish tariff policy during this time was, however, not only driven by government revenues. Problems of self-sufficiency in food production triggered the idea of protecting domestic production against foreign competition. Industries producing for domestic markets also claimed the need for protection» [5]. Similarly to Finland, Estonia also attempted to protect some of its production from foreign competition. For example, import of fruits from the south was completely outlawed during summer and autumn seasons, and heavily burdened with prohibitive customs during the rest of the year. Speaking about Finland and Estonia, it is also worth to mention probably the biggest nuisance for customs officials on the Baltic coasts – spirits smuggling. «On 1 June 1919 the Finnish Parliament passed the Prohibition Act forbidding the production, transportation, sale, and storage of alcohol. In Sweden, alcohol consumption had been limited by the so-called Bratt system(...). In Denmark, Germany, and Poland, the governmental policies regarding alcohol regulated its consumption through heavy taxation» [6]. Therefore causing high demand for smuggled alcohol.

As mentioned earlier, soviet trade on the Baltic was strictly controlled, mostly carried by its own merchant navy of high tonnage. The main goods getting through Leningrad seaport were pig iron, machines, caoutchouc and cotton. However, as the port was freezing for even half of a year, a newly built and railway-connected, non-freezing port in Murmansk was gaining more significance.

Most of Latvian sea connections involved UK and Germany. German ships were preferred largely due to significant minority of Baltic Germans and clearing agreement signed with that country. After coup d'état in 1934 Latvian ship owners' union was reorganized within Chamber of Industry and Commerce, and government attempted to develop larger merchant navy of its own. Also some unauthorized lines were operating, tolerated because of confluence with domestic industry's interest.

Between 70% and 80% of Lithuanian foreign trade passed through Klaipėda. The region contained significant economic value, and therefore was an area of dispute with Germany. Similar situation can be attributed to Poland, which at the beginning of the period in

hand, had very limited access to the sea «...only 15% of the whole territory lied within 200 km from its own seacoast...» [7]. Therefore large-scale action was conducted to construct a new seaport of its own – Gdynia. Even so Gdynia in 1921 was just a small fishing village, in the late 30s it became a modern seaport of size comparable to Danzig, and due to trade and border conflicts with Germany now majority of Polish foreign trade was getting through it. One of the main paradigms of Polish marine policy was to win competition for its trade with German railways and seaports, especially Stettin and Hamburg. As the amount of goods transported was increasing, Polish authorities attempted to find an alternative railway rout to Baltic through Riga, and therefore special agreement about tariffs on transport was signed in 1936 with Latvia, but the consequences were rather unsatisfactory for both sides. Another issue was situation of Eastern Prussia, separated from main part of German territory. Due to political barriers port in Königsberg couldn't benefit from its natural hinterland as it did before the World War One. Regarding Germany in general, it seems that its market did not need much protection, due to superior German bargaining power in trade with its smaller and less developed partners. «Therefore, Germany forced bilateral trade and payment agreements onto its small trading partners and/or maneuvered the agreements in a way that favored their own interests» [8].

The present time. Similarly to the past, economies around the Baltic consist of rich and developed countries, then recently independent rapidly modernizing ones, and Russia as a separate area. All of those countries except Russia belong to EU, which makes them a unified customs area. Therefore the main issue remains facilitating trade and transport between the EU and Russia, including its Kaliningrad exclave. As Russia belongs to Eurasian Economic Union, goods shipped to its Baltic ports can then easily reach other member states as well. According to World Bank Group Enterprise Survey Average Time to Clear Imports from Customs (days) amounted to 19.3 in Russia (2012), 7.7 in Latvia (2013), 4.4 in Poland (2013) compared to just 2.1 in Sweden (2014) [9]. Similarly to East Prussia, Kaliningrad Oblast also struggles economically because of its political isolation from adjoining lands [10]. In recent times Baltic Sea

also became an area of transport and refinement of fossil fuels like gas and oil.

Conclusions. In comparison to the 20s and 30s, conditions for development of trade in the Baltic region improved greatly, but it is still far from the level of integration that its coasts could reach, if its potential in trade, transport and tourism were fully developed. «With respect to the region, consumers would benefit from goods and services at lower costs and producers could become more competitive as inputs would become less costly. Liberalisation would allow resources of economies to be used more efficiently and their competitive advantages to be

more fully exploited» [11]. As mentioned in the beginning, besides local integration Baltic has also potential to gain more significance in global economy. The experience of interwar period shows how barriers, regulations and disputes can cripple regional development and cooperation and therefore often push much of sea connections outside of the area. Today we also have to deal with some political tensions and distrust, and got through global economic crisis, nevertheless long term benefits of better cooperation at the Baltic are noteworthy.

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