

## Review Article

### Denmark: Consequences of EC-Membership

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This paper seeks to contribute to a better understanding of the consequences for Denmark of membership in the European Communities. The principal aim is to reveal changes in Denmark's relations with Britain and Germany, for the last century Denmark's two most important trading partners. The primary claim in this paper is that Denmark as a member of the European Community now follows Germany, instead of Britain, in international economic and commercial affairs.

With regard to European economic integration, Denmark has in the post-war period consistently sought the establishment of either a European free trade area, which would include agricultural products, or a form of Nordic economic cooperation which could be accommodated within a larger European economic arrangement. Denmark participated in various attempts to create closer economic links among the Nordic countries. These never materialized, due either to Denmark's insistence on the inclusion of agriculture and an adaptability to a larger European framework, or to Finland's relations with the Soviet Union, Norway's nationalism and economic situation, and/or Sweden's neutrality. Not only did the various Nordic attempts at closer economic cooperation fail; the Nordic countries were not even able to agree on a common position vis-à-vis EFTA or the EC. Their national interests were much too different. In fact, the greatest progress in Nordic economic cooperation was made within a European framework, EFTA. Fortunately for the sake of Nordic economic cooperation (also appeasing Danish EC-opponents), one last attempt, in the form of NORDEK, was made before Denmark joined the EC. This last effort demonstrated that there was no basis for the establishment of a Nordic common market. In fact, Denmark joined the European Community knowing that it would be the only Nordic country to do so.

Economically, Denmark has never pursued a solely Nordic orientation, as Britain and Germany have traditionally been its most important trading partners. Even though Denmark's membership in EFTA greatly increased its trade with the other Nordic countries, the country's economic orientation remained European, an orientation which, of course, was further strengthened by joining the EC. As a small country on the periphery of European developments, Denmark has tradi-

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Economically, Denmark has never pursued a solely Nordic orientation, as Britain and Germany have traditionally been its most important trading partners. Even though Denmark's membership in EFTA greatly increased its trade with the other Nordic countries, the country's economic orientation remained European, an orientation which, of course, was further strengthened by joining the EC. As a small country on the periphery of European developments, Denmark has tradi-

tionally been dependent on the core states of Britain and Germany. Bordering on Germany, Denmark has not been able to ignore German influence, and dependence upon a German core area has been largely proportional to the rise and fall of German economic, military, and political power. However, in the economic and, to a large extent, in cultural fields, Britain has also been a core area. From the 1880's until EC-membership, Britain was by far Denmark's most important export market, particularly for agricultural products.

Before Britain and Denmark joined the European Community, it was feared that they would form an Anglo-Danish bloc within the EC, since both had in the post-war period pursued a pragmatic intergovernmental approach to European cooperation, rejecting the continental European federalists' proposals for supranational integration. For instance, Denmark followed Britain into EFTA and subsequently into the EC. This paper maintains that Britain and Denmark do not form a bloc within the European Community. On the contrary, they often have conflicting views, Denmark's policies now in fact often coinciding with those of Germany.

Denmark's relations vis-à-vis Germany and Britain might be explained by the concept of core areas. Rejecting the concept of a *balance of power* in studying international integration, Karl Deutsch (1957, 138) found that:

the development of a strong core, or nucleus, seemed to promote integration if the core areas had certain capabilities. One was the capacity to act – a function of size, power, economic strength, and administrative efficiency. The other was the ability to respond to the other units involved. These core areas were larger, stronger, more advanced political units around which integration developed. By 'advanced' we mean politically, administratively, economically and educationally, without any implication of superiority in moral or aesthetic values. Furthermore, not only the existing capabilities, but the growth in those capabilities, seemed important.

Such a core area would seem bound to attract weaker peripheral nations which might expect to share in the growth and progress of the core area. Once Denmark's two core areas, Britain and Germany, decided to create closer links within the EC, we would expect them automatically to draw Denmark with them into this new and more powerful core area. Once Britain decided to join the EC, there would be no feasible alternative for Denmark but to join the Community as well, if it wanted to survive economically. As a member of the Community along with Britain, we would expect Denmark's dependence on this new larger core area to increase, particularly as regards Germany. This dependence on Germany would further increase if at the same time British capabilities to act and ability to respond to Denmark were to stagnate or diminish. In order to ascertain Denmark's state of relations with Britain and Germany, as they have developed after EC-membership, we might look at trade patterns, and monetary, agricultural, fisheries and industrial policies.

### 1. Trade

One important indicator of economic interdependence and change is trade flows, especially for a country highly dependent on foreign trade. Increasingly, the

member-states of the Community have become each other's most important trading partners. If we look at each of the nine individually to ascertain which of the other member-states is its most important trading partner, we will find that it is Germany for all except Ireland. For Britain, however, the United States ranks ahead of Germany if we include non-member states.

The present European trade pattern places Germany in a position of decisive importance, making her the economic hub of the Community, the core area of Western Europe. Never before has Germany held such a powerful economic position vis-à-vis these eight other countries at the same time. Moreover, trade barriers have been dismantled while consultation and policy-making have been institutionalized through the creation of the various Community institutions. Through its crucial economic position, Germany will therefore not only be able to influence trade, but also economic and monetary policies, and ultimately more 'political' issues. Nevertheless, it must be remembered that Germany has only attained, and can only maintain, this position by virtue of the European Community.

Until World War II, at least half of Denmark's exports were destined for Britain, while in the post-war period Britain's share of Danish exports has steadily diminished, amounting to about 12.8 per cent in 1978. With the creation of the EEC and EFTA, Sweden gradually emerged as Denmark's second largest export market after Britain, particularly for industrial products. From 1967 to 1976, Germany thus ranked as Denmark's third most important export market after Sweden.

Britain was the largest single market for Danish exports until 1976. In 1975 and 1976, Danish exports to Britain stagnated, while 1977 marked a decline. Exports to Sweden remained at the same level in 1976 and 1977, even dropping slightly in 1978, while Danish exports to Germany steadily increased. In 1977, Germany emerged as the largest market for Danish exports, while Britain fell to third place after Sweden. In 1978, Denmark's exports to Sweden dropped by 2.8 per cent compared to 1977, while exports to Britain increased by 10.9 per cent and exports to Germany increased by a remarkable 21.1 per cent.

Denmark has traditionally had a favourable balance of trade with Britain, the surplus at times being very large. In 1977, however, Denmark had for the first time in generations a deficit in its British trade. On the other hand, Denmark has traditionally had a deficit in trade with Germany. In 1977, this deficit decreased as Denmark imported less from Germany while exporting more than the year before. The Danish deficit vis-à-vis Germany was further diminished in 1978.

While Denmark's share of the British and Swedish markets has fallen since 1973, it has been able to maintain its share of the German market. Denmark's share of the German, British, and Swedish markets was respectively 1.1, 1.9, and 6.2 per cent in 1977. Since 1973, the trend has been for Denmark's share of the British and Swedish markets to fall, a development which is likely to continue for some years, by which time Germany will clearly be established as Denmark's most important trading partner.

The improvement in exports to Germany for both agricultural and industrial products is probably due to the fact that, unlike Sweden, Germany increased her value of total imports in 1977, while the Danish krone had twice during that year been devalued against the German mark. The marked increase in trade with Germany is of course also due to EC-membership, as the dismantling of the tariff

wall between the two countries has had a trade-creating effect, Danish exports to Germany doubling during the first five years of EC-membership.

Close to one-half of Denmark's trade is with the other eight EC countries. In both 1976 and 1977, a little over one-third of Danish exports to the Community were destined for Germany, while just under one-third were exported to Britain. The Community's share of Denmark's total foreign trade has in fact gradually, albeit only slightly, increased, both for exports and imports. Britain's share of Danish trade as a percentage of total trade, however, has diminished, while Denmark's trade with the original Six has increased. After less than five years of EC membership, Germany has surpassed both Britain and Sweden, emerging as Denmark's most important trading partner, for both imports and exports.

The reason for Germany replacing Britain might well be due to the composition of exports. Most of Denmark's exports to Britain are agricultural products, in which sector the opportunity for expansion is limited, whereas most exports to Germany are industrial goods, where the possibilities for expansion should be good. Moreover, the German economy has generally been dynamic over the last three decades, which has not been true of the British economy.

## *2. External Monetary Policy*

Within the Bretton Woods Monetary System, the Danish krone was pegged with reference to the British Pound Sterling. When Britain devalued the Pound in September 1949, and in November 1967, Denmark followed suit by also devaluing the Danish krone. When Germany, the Netherlands, Switzerland, and Austria let their currencies float in May 1971, and the United States announced the suspension of the convertibility of the dollar into gold later in August, the Danish krone still, more or less, followed the British Pound Sterling. As a result of the Smithsonian Agreement in December 1971, exchange rates among the major currencies were significantly altered compared to the rates in effect prior to August.

The Europeans were opposed to the American proposal of floating exchange rates, and an agreement to establish a joint float vis-à-vis the American dollar was finally reached in May 1972 by the EC member-states, as well as the four applicants: Denmark, Norway, the United Kingdom and Ireland. A joint float was set up where the participating currencies would float as a unit against the American dollar, within a certain margin, while maintaining stable rates within a margin of 2 1/4 per cent among themselves. The narrower band was called the 'Snake' while the wider band of permissible fluctuations vis-à-vis the dollar was termed the 'Tunnel'.

On 23 June 1972, Britain and Ireland left the Snake due to British balance of payments difficulties and speculation against the Pound. The Danish government feared that the krone too would come under pressure and it therefore tried to obtain support from the other EC member-states, above all from Germany, in case the krone should be threatened. The Danish foreign exchange reserves would have had to be supplemented by considerable loans in order to safeguard the krone, but the EC member-states did not wish to commit themselves to a country that was not yet a member. Denmark therefore decided to leave the Snake in order to have as much freedom of movement as possible, lest the krone should come under pressure. Some months later, after the referendum in October 1972, the krone returned to the Snake.

Britain and Ireland were only in the Snake for the first two months of its existence. Italy dropped out of the Snake in 1973, France first in 1974 and again in 1976, Sweden in 1977 and Norway in 1978. The Snake in the Tunnel had a short life. In January 1973, the Swiss franc had been floated and a two-tier exchange market had been established for the Italian lira; but when the dollar was devalued by 10 per cent in February 1973, the lira left the Snake. By March 1973, the rest of the Snake countries gave up trying to keep the exchange rate of the dollar within the margin of the Tunnel. The Tunnel exploded, but the Snake, the joint float, continued to exist. The centre of the Snake was the deutsche mark (DM); the other Snake countries could almost be said to belong to a German currency area. The smaller members found it desirable to tie their currency to their principal trading partner, which more than any other country in recent years has managed to maintain the real value of its currency.

Denmark has been a firm supporter of fixed, but adjustable, exchange rates. There are several reasons for this. For Denmark exchange rates moving in different directions at different speeds has been a highly unsatisfactory development. Further, Denmark found the situation ridiculous where exchange rates are fixed for agricultural trade, but floating for trade in industrial goods. Secondly, Denmark wanted to see the creation of a Economic and Monetary Union; and the Snake and its successor, the European Monetary System, may be one instrument for reaching this goal. Third, outside the Snake, or now the European Monetary System, the krone would fall drastically in value thereby creating much greater inflation. Being a member of a joint monetary system has forced the Danish government to maintain a certain discipline in its economic policies. At the time of writing, for instance, only two member-states, Germany and the Netherlands, have central bank rates which are lower than Denmark's.

Britain on the other hand, has never been a warm supporter of the Snake, the European Monetary System, or the Economic and Monetary Union, being a member of the Snake only for a brief two months. The role of sterling created additional complications for the negotiations on entry and had earlier been used as the main excuse for General de Gaulle's second 'veto' in 1967. The prospect of economic and monetary union was quickly seized upon by the British opponents to EC-membership as fresh ammunition. In Britain, the Snake, the European Monetary System, and Economic and Monetary Union have been identified with fixed exchange rates: not an attractive proposal for a country with a weak currency and a long history of balance of payments deficits. In short, before Denmark joined the EC, the currency of reference was the British Pound Sterling, but since the Danish EC-referendum in October 1972, the krone has been pegged to the DM.

### *3. Agriculture*

The fact that the EC had a Common Agricultural Policy was a major determining factor in Denmark's decision to join the Community. Denmark wanted secure markets for its agricultural exports, which are a significant source of foreign exchange earnings. As Britain and Germany are the two largest markets for Danish agricultural exports, it was only natural that Denmark welcomed Britain's decision to join the EC, since then the two major export markets would come under the same regime. As a consequence, Denmark has been able to maintain her large agricultural production as well as her traditional export markets.

Nevertheless, Denmark, like the other member-states, has not been satisfied with the functioning of the Common Agricultural Policy. In Denmark's case the major issue has been the continued existence of the monetary compensatory amounts. One of the fundamental principles of the Common Agricultural Policy is that each farmer should be able to obtain the same price in his own national currency, whether his product is sold in his own country or in one of the other member-states. This can be accomplished without difficulty where there is a fixed rate of exchange between the national currencies and the Unit of Account used in defining common prices. This was the case in the late 1960's.

This precondition no longer existed when floating exchange rates were introduced, since the old fixed exchange rate for the Unit of Account was maintained for defining common prices in the agricultural sector. While the British Pound Sterling has depreciated greatly, Britain has not wanted to see an increase in food prices, which would normally have been the consequence of such depreciation. On the other hand, the DM has increased in value, which would have meant that the German market could have been flooded with cheaper food imports, detrimental to the German farmer. To secure low food prices in Britain and to maintain a decent price level for the German farmer, it has been necessary to devise a special exchange rate system within the Common Agricultural Policy: the monetary compensatory amounts (MCAs).

The existence of the monetary compensatory amounts is nevertheless against the principles set down for agriculture in the Treaty of Rome, and they are a burden on the Community budget. The monetary compensatory amounts also disrupt prices and costs as changes in the national exchange rate are not reflected in the agricultural sector, nor do revaluations or devaluations affect the economy as a whole. Moreover, production and trade is distorted within and between countries through the artificial price and cost levels. For Britain, France and Italy, countries with a depreciated currency, the monetary compensatory amounts act as an import subsidy and export charge. For Germany and the Benelux countries they act as an import charge and an export subsidy. Until being joined by Ireland in early 1979, Denmark was the only member-state not to apply monetary compensatory amounts.

Denmark has consistently sought their abolition. On 26 October 1976, the Commission in Brussels presented to the Council of Ministers a proposal for a permanent system for the adjustment of monetary compensatory amounts. To adapt regularly the green rates to economic realities, the Commission proposed to calculate every six months the average depreciation of a currency by taking the last eighteen months as a reference period. The average rate thus calculated would six months later be the green rate applicable in agricultural calculations. With regard to the appreciated currencies, the Commission proposed to act differently because there the operation is more delicate since it takes the form of a drop in agricultural prices. To avoid such a prospect the adjustments would only be made when the annual prices were established. The Commission also proposed an upper limit which the green rate could not exceed. In order to prevent sudden or constant adjustments, the Commission wished to introduce a 'buffer' applicable for a certain number of months to prevent the increase in certain agricultural prices in countries with devalued currencies from exceeding the average inflation rate. This Commission proposal was strongly supported by Denmark, while Germany and

Britain thought that such a permanent system was much too rigid. No final decision could therefore be reached to abolish monetary compensatory amounts at that time.

On 4 May 1977, the Danish government sent the Commission and the other eight member-states a memorandum on monetary compensatory amounts. The Danish government reiterated the importance it placed on the Commission's proposal of October 1976 to abolish monetary compensatory amounts. The memorandum stated that the system had annulled the common price level, distorted competition, and was a burden on the budget. According to the Danish government, a solution would have to include all sectors and all countries; so far, all adjustments had been made on an ad hoc basis. The Danish government therefore attached great importance to the resumption of negotiations regarding the Commission's proposals to abolish the monetary compensatory amounts.

On 27 October 1977, the Commission presented another proposal for their abolition over a seven year period. The chosen formula was relatively simple: each year currently existing MCAs would be cut by at least one-seventh. In regard to possible MCA increases during the fiscal year, if new monetary disorders should arise, they would be abolished the following year. However, the total resulting adjustments in the green rates would not exceed 5 per cent per year, any fraction above 5 per cent being carried over to the following year. These new Commission proposals were not, however, adopted by the Council; Germany and Britain could not accept them.

Denmark's aim has not only been to have British MCAs abolished – Danish farmers sell much butter and bacon to Britain as a result of them – but also to have the German MCAs dismantled, since they discourage Danish agricultural exports to Germany. Moreover, Germany's agricultural exports, which compete with Denmark's, are subsidized. Germany can be quite content with the present functioning of the Common Agricultural Policy, which protects German farmers; and it has fought unyieldingly to maintain the present status quo vis-à-vis both Britain and France. Britain, on the other hand, has never really accepted the principles of the Common Agricultural Policy. The United Kingdom would prefer to guarantee farmers' income through government-paid deficiency payments instead of through guaranteed high prices. Britain would rather buy food supplies on the world market, usually at a cheaper price, than from Community farmers whose guaranteed prices are relatively high for a country with a depreciated currency. But apart from the dispute over the continued existence and abolition of MCAs, Denmark, unlike Britain, has accepted the fundamental principles of the Common Agricultural Policy, as does Germany.

#### *4. Fisheries*

With the advent of the United Nations Conference on the Law of the Sea, the recognized need for conservation measures and the declarations by Iceland and Norway to establish a 200 mile fishing zone, the Commission felt it was necessary to establish a Common Fisheries Policy. In 1970, the Council had decided that Community fishermen must have equal access to the territorial waters of all member-states, that it was necessary to implement certain conservation measures, and that it was imperative to coordinate further existing national fisheries policies.

With the accession of Britain, Denmark, and Ireland in 1973, certain accommo-



dations were made in regard to Community fishing rights. All member-states were permitted to declare a six mile exclusive zone for their own fishermen, and a 12 mile exclusive zone was allowed in certain areas where fishing is of vital importance to the local inshore communities. These areas are, among others, the Shetland and Orkney Islands, parts of the Scottish and English east coast, Greenland and most of the west coast of Jutland, as well as the French coast of Normandy and Brittany. These exclusive zones were permitted for a period of ten years.

In October 1976, the Commission outlined its proposal for a new Common Fisheries Policy, with both an External Fisheries Policy and an Internal Fisheries System. The Commission's proposals were based on a Community fisheries zone of 200 miles and on the crucial need to conserve the existing stock of fish by implementing quotas as well as other conservation measures. The main features of the proposals were: the creation of a 200 mile Community fisheries zone on 1 January 1977; the opening of negotiations with third countries to agree on rights of access; the establishment of a 12 mile zone around Community coasts to protect the interests of the local inshore fishermen; the maintenance of traditional and historical rights of other fishermen within the 12 mile zone; the introduction of catch quotas coupled with other conservation measures; the adoption of a licensing system for fishing boats to ensure strict supervision of Community measures; the allocation of 400 million Units of Account over five years for streamlining and modernizing the fishing industry.

The Council was able to agree to extend the Community fisheries zone to 200 miles and to open negotiations on rights of access with third countries. Meanwhile, the other proposals presented serious problems. Britain and Ireland could not accept 'only' a 12 mile zone within which other member-states would retain their historic fishing rights. The British fishermen demanded a 100 mile exclusive coastal belt, while both the British and Irish governments were willing to consider a belt varying from 12 to 50 miles in different areas according to regional factors. Thus no agreement could be reached within the Council, as Britain and Ireland were adamant in their positions. At the Council Meeting on 3 November 1976, at The Hague, the member-states agreed, however, that if the Council was unable to reach a decision, then the individual member-states could take national measures to implement conservation legislation, as long as these measures were approved by the Commission.

At the Council Meeting on 18 January 1977, everybody except Denmark wanted to ban the fishing of herring for three to four months, herring stocks having dwindled considerably over the past few years. No agreement on this urgent matter could be reached. It was consequently placed on the agenda for the next Council Meeting. Danish fishermen were against the herring ban. In terms of tons, herring is the most important catch for Denmark. Moreover, whole industries and communities along the west coast of Jutland depend on the fishing of herring.

In this connection it should be kept in mind that even without Greenland and the Faeroe Islands, Denmark is the largest fishing nation of the Nine, catching about one-third of all fish landed in the Community. Furthermore, the Danish fishing industry has been able to develop and expand without state aid and each Danish fisherman brings home to Denmark twice as much foreign exchange as the average Danish farmer. The Danes are the largest consumers of fish in the Community,

eating about twice as much fish per capita as the British, who come second. Of the Nine, Denmark is also the largest exporter of fish, the major export market by far being Germany.

Another important aspect is that only about 30 per cent of the Danish catch is sold for direct consumption; the remainder is made into fishmeal to be used as fertilizer and animal feed. Denmark has been vehemently criticized for her industrial fishing. The fact is that about 95 per cent of the so-called industrial fishing is for indirect human consumption, as fishmeal is used as a fodder additive in order to increase the rate of production of chicken and pigs, or more directly to manufacture oil and margarine. Meanwhile, the political fishery disputes among the Nine as well as the various fishing bans have only shown a moderate regard for the delicate ecological pattern of fishery stocks.

Last but not least, after the division of the whole North Sea into zones among the coastal states, most Danish catches are now caught in waters under British jurisdiction. On the other hand, the British used to fish considerably in Norwegian, Icelandic, and Faeroese waters, where to a great extent they have now been excluded from fishing. The British are therefore not keen to share their own waters with others, even if these are EC member-states.

In spite of the Danish fishermen's opposition to the ban on fishing herring, the Danish government knew it had to modify its position. The government was also concerned about the need for herring conservation measures. The Danish position was that Denmark was ready to reduce her fishing industry if there were biological grounds for doing so, but could not accept any further cuts for political reasons.

At the Council Meeting in February 1977, no common agreement could be reached on all fishery questions, as Britain ultimately forced Denmark to use her veto in the Council. The Danish minister yielded to British demands on several occasions and thus several compromises were reached. However, every time Denmark gave in, Britain would advance new demands and finally Denmark had to say no and use its veto. The negotiations broke down because Britain was not willing to let Denmark fish whiting off the coast of Scotland. One-third of Danish whiting catches are traditionally caught off the Scottish coast.

In reality, Britain's objective was not to ban the fishing of whiting, but to get the negotiations to break down and to be able to blame it on Denmark. This was a carefully calculated tactic, which of course, would result in no agreement, whereby Britain could impose unilateral measures according to The Hague Accord. In the final analysis, however, this tactic totally failed. Germany, France, the Netherlands, Luxembourg, and Belgium all supported Denmark. In sum, the confrontation involved on the one hand, Britain and Ireland, which intended to introduce very restrictive measures, and on the other Denmark, which wanted to continue fishing to an extent regarded as excessive by other delegations, and Germany, which defended the activity of her processing ships and regarded the proposed quotas for Britain and Ireland as too high. Since Denmark had accepted a ban on the fishing of herring in the North Sea, a ban was imposed for the month of March and April 1977. Later at the Council Meeting in April, the ban was extended to the end of May. At each Council Meeting since then the fishing ban on herring has been extended.

At the Meeting of the Council of Fishery Ministers, on 24 October 1977, the Commission presented its proposals for an Internal Fisheries Arrangement, de-

fining general principles. The main features of the Commission's proposals established the size and distribution of quotas; technical conservation measures; management, control, and enforcement measures; structural and social measures; and aid to herring fishermen. The reaction to the Commission's proposals were negative. Britain was the most critical, while Denmark, Germany, France, Italy and Ireland were certainly not in agreement with the proposals. Again, no agreement was reached on an Internal Fisheries Arrangement.

From November 1977 to June 1978, very little progress was made in establishing a common Fisheries Policy. Generally, at each meeting of the Fishing Council, the herring ban was extended until the next meeting. Similarly, the agreements concluded with various third parties (the Faeroe Islands, Norway, Sweden, Iceland etc.) were extended from month to month. Furthermore, the dividing line by June 1978 was between the United Kingdom and the Eight, as Ireland had gradually moved to a position of accepting the Commission's proposals for a Common Fisheries Policy.

At the beginning of June 1978, Fisheries Commissioner Finn Olav Gundelach visited the various capitals in an endeavour to break the deadlock. On 15 June 1978, Gundelach informed the plenary session of the European Parliament in Strasbourg that Britain was not willing to accept the present Commission fisheries proposals, whereupon most of the Parliament's speakers appealed to Britain to get the talks out of deadlock. The Fishing Council Meeting a few days later, on 20 June 1978, was described as a total failure. Apart from a further one-month extension of agreements with third countries, no agreement was reached between the United Kingdom and the Eight.

Commissioner Gundelach summed up Britain's demands in six points. Thus the United Kingdom wanted: to eliminate historic fishing rights in a permanent exclusive coastal zone of 12 miles around the British coasts; to increase further its quotas, despite the large sacrifices already made by the other member-states in Britain's favour; to increase its share of catches in Norwegian and Faeroese waters within the framework agreements with these countries; to increase its fishing quotas until 1982, which would entail giving Britain nearly 100 per cent of the total catches in waters under British fisheries jurisdiction; to have priority in any increase in fishing quotas which might be allotted to member-states in the event of an improvement of stock; and to apply fishing plans which would lead to flag discrimination between nationals of member-states. In addition, Commissioner Gundelach stated that the Commission would not draw up any new proposals, as virtually no sacrifices had been asked of the United Kingdom in the distribution of resources, while for all the other member-states, with the exception of Ireland, losses would range from 15 to 30 per cent.

In summing up the fisheries situation, it is not difficult to single out Denmark's most consistent opponent in the Fishing Council, namely Britain. In fact, in fisheries policy, the division is between the United Kingdom on the one hand, and the Commission and the Eight on the other. If Denmark was not a member of the Community, then Denmark would have had to face Britain alone, as well as the Commission. Being a member of the Community has been an advantage for Denmark, because in this way it has been able to find allies for its position on fisheries in the North Sea. This is, and has been, of vital importance to Denmark, as in the Community it is the largest fishing nation as well as the largest fish exporter.

## 5. *Industrial Policy*

The economic structure of Denmark is characterized by certain traits which are of crucial significance for economic relations with other countries. First, Denmark has few raw materials or energy resources. In order to export, it must first of all import raw materials. Since both industry and agriculture are dependent on imports, a major goal has been to secure supplies as well as markets. Second, due to the high level of external trade, foreign commercial policies and the state of the world economy have far reaching consequences for the Danish economy. Denmark is therefore very vulnerable. Third, a large proportion of Danish exports is agricultural products. Industrialization aside, agriculture's share of total exports has been diminishing over the last decades, not because Danish agriculture has not been competitive, but because of the protectionist agricultural policies of most other countries. As a consequence, Denmark has faced great difficulties in exporting her agricultural products. Fourth, Denmark's two most important export markets have been Britain and Germany, especially for agricultural products. It has therefore been in the Danish interest to try to avoid these markets being closed, or separated, either by protectionist measures or by them joining different trading blocs.

Given this economic structure, the objectives of Danish foreign economic policy can be said to be: liberalizing international trade, including agriculture; securing stable marketing conditions, especially for agricultural exports; and preventing the European market from being divided into different trade blocs. If the national security dimension is introduced, then a fourth economic objective could be added: preventing international economic cooperation which could restrict other aspects of Danish foreign policy, for instance Nordic cooperation or NATO membership. Given that Denmark pursues these economic objectives within the European Communities, we would expect it to pursue a liberal commercial policy, fighting protectionist measures whether it be in the textile or shipbuilding sector, both of which have been severely affected during the current economic recession. Further, we would expect Denmark to attempt to secure stable marketing conditions, be it in the agricultural or monetary field.

The Danish government's position has traditionally been not to intervene directly in the affairs of industry, but to create a framework for industrial activity and progress. This means that the politically desired objectives have generally been pursued by indirect means such as credit facilities and provisions for depreciation. Danish governments have usually not been willing to subsidize or bail out ailing industries. The argument has been that the Danish treasury cannot compete with those of other countries. Nationalization has been out of the question. The objective has been to create a competitive industrial base able to expand on its own at home as well as on export markets.

In addition, Denmark is strongly committed to free trade. Denmark has played an active role in the liberalization of trade, and has often called for the further dismantling of tariffs as well as non-tariff barriers. Denmark has traditionally had one of the lowest tariff walls in Europe and has only to a limited extent made use of import restrictions. Highly dependent on trade, the country must import both raw materials and finished goods. In Denmark, a policy of autarky, or even a limited industrial policy as that implemented in France in the post-war period, has not been attempted, nor even considered. In fact, one of the main objectives in Danish

trade policy has been the pursuit of greater access to export markets.

Denmark wants the European Community to ban all state aids to ailing industries. The former Danish Foreign Minister, K. B. Andersen, who was President of the Council in the first half of 1978, ordered during his term an investigation into industrial subsidies in all Community countries. In this endeavour he was supported by Germany, which in May 1978 sent a memorandum to the Council warning of the rising protectionism within the Community.

When Denmark took over the Presidency in January 1978, K. B. Andersen set himself eleven objectives. The first was that Denmark would not promote selfish interests. This remark was aimed at Britain, which during its presidency in the first half of 1977, had tried to pursue distinct British interests in agriculture, fisheries, energy and textiles. The second Danish objective was to continue the fight against trade barriers and protectionism. The other nine objectives pertained to specific policies.

The United Kingdom has nationalized various industries: coal, steel, automobiles, aircraft, and shipyards. Moreover, Britain has provided various industries with state grants and has increasingly pursued protectionist policies, about which both Denmark and Germany have complained. On the other hand, the Federal Republic of Germany has pursued a policy of free trade and free enterprise, and is opposed to the nationalization of industry as well as state subsidies to ailing industries. It is not Denmark which has changed position on these matters. It is Britain and Germany which have switched roles. Whereas it was formerly Britain which was the champion of free trade and free enterprise, it is now Germany which takes this liberal stand. If Denmark is to find support for the fight against protectionism as well as for its industrial and commercial policies, it is now more likely to find Germany supporting this position than Britain.

## 6. Conclusion

The creation of the European Community has fostered trade and economic interdependence among the member-states. For each of the Nine, the other Eight have increasingly become the most important export market as well as supplier. Within the Community, Germany has emerged as the economic power house. For all the member-states, except Ireland and Britain, Germany is the most important trading partner. The fact that Germany is now Denmark's most important trading partner is not unique, as this is the case for the other original member-states of the Community. Denmark is thus merely falling into line with previous developments. For Britain and Ireland as well, trade with Germany has increased substantially after EC membership.

For the first fifteen years after the Nazi occupation, Denmark was not ready to join a customs union or common market which included Germany, but not Britain. For political reasons, Denmark therefore followed Britain, which was also Denmark's largest export market, particularly for agricultural products. Moreover, Denmark favoured Britain's approach to economic cooperation in Europe, following Britain into EFTA and subsequently into the EC. In fact, Denmark's official policy was to follow Britain, Denmark's EC-application being tied to the British application. Membership in conjunction with Britain did not seem as dangerous politically, and further, it would guarantee access to both the British and German markets, especially in agriculture.

In the post-war period, Denmark also participated in various attempts to create closer economic links among the Nordic countries. The various Nordic attempts of closer economic cooperation failed because their national interests were much too different. Economically, however, Denmark has never pursued a solely Nordic orientation, as Britain and Germany have traditionally been the most important trading partners. So while Denmark's security policy has an Atlantic dimension as a member of NATO, and its cultural affinity with the other Nordic countries remains extremely close, the economic orientation has all along been primarily European.

With the collapse of NORDEK and the subsequent Danish membership of the EC, some Danes felt that Nordic cooperation might now be a dead issue. Denmark's membership of the EC has not, however, hindered Nordic cooperation. In fact, the challenge presented by the Community seems to have strengthened the necessity of continued Nordic cooperation. Denmark now often serves as a bridge between the EC and the Nordic countries. It might also be recalled that according to the 1971 negotiation results between the EC and the applicants, the Nordic countries would remain a free trade area for industrial goods after Danish EC-membership.

From the 1870's until EC membership, Britain was Denmark's most important export market, buying half of Denmark's exports until World War II. Meanwhile, Germany was clearly Denmark's second most important trading partner. One of the consequences of EFTA membership, however, was that Sweden surpassed Germany to become Denmark's second most important trading partner, particularly for industrial goods. One of the most significant consequences of EC membership is that after five years Germany has surpassed both Sweden and Britain, to emerge as Denmark's most important trading partner, both for imports and exports. Joining the EC customs union has had a trade-creating effect, above all in trade with Germany.

According to *Denmark in Europe 1990*, a report published in 1977 by the Hudson Institute in Paris, 'it is doubtful whether the traditional Danish non-interventionist liberal philosophy – at least as it affects the operation of the economy – will be able to survive the next decade.' The report states that the demise of Denmark's liberal economic policies is due to EC-membership, particularly because of the protectionist positions continuously being taken by Britain, France, and others. Denmark will thus increasingly have to rely on Germany to resist the implementation of further protectionist policies within the European Community. The present paper, after examining five economic sectors, comes to the same conclusion.

Denmark does not follow Germany just because Germany has emerged as the economic leader of Western Europe, or because Germany has become its leading trading partner, but primarily because Germany pursues policies which are similar to the ones that Denmark would like to see implemented in the Community. Denmark follows Germany since it is in Denmark's own national interest to do so. In addition, Denmark's policies often coincide with the Commission's policy proposals. As a consequence, Denmark's ally is frequently either the Commission and/or Germany.

Before joining the European Community, it was generally believed in Denmark that Britain and Denmark would cooperate very closely within the EC. On the other hand, some Danes felt that Denmark's natural allies within the EC would be

the other small member-states: Belgium, the Netherlands, and Ireland. Few Danes pointed to Germany as the closest ally and partner. The Danish EC opponents pointed to Germany, not as an ally and partner, but as a threat. They feared that Denmark would be drawn closer to Germany, which increasingly would come to control and even to own Denmark. In time, the opponents argued, Denmark would become a German region or *Land*. The opponents have in this way exploited the anti-German sentiment in Denmark, which does exist due to the Slesvig question and the Nazi occupation. In no instance, however, has there been a violent clash with Germany within the EC, comparable to the way Denmark has collided with Britain on several occasions. It is fortunate that Denmark has not clashed with Germany, as this might have reinforced the anti-German sentiment in Denmark; it would also have provided the internal EC opponents with deadly ammunition, and so jeopardize Danish EC membership.

The clashes with Britain emphasize the advantages of EC-membership, as outside the EC Denmark would have had to face either Britain or the Community alone. Danish interests, be they in agriculture, fisheries or industry, might not then have received support from anyone else. The really significant factor is that support has often come from Germany, a fact that might not be appreciated by all Danes, especially not the EC-opponents who are all too often unwarrantably anti-German.

The Danish EC-opponents, however, have been fairly successful in their campaign against continued EC membership. Since late 1973, according to various opinion polls, more Danes would vote against membership than for, the percentage against membership having gradually increased over time. Voting in an opinion poll does not, of course, carry the same weight and responsibility as voting in a referendum. The negative stance might be explained by the fact that shortly after joining the EC, Denmark was severely affected by the oil crisis and high levels of inflation and unemployment. That apart, there seems to be a certain correlation between increasing economic dependence on the European Community and increasing public opposition to continued membership as revealed in public opinion polls. So while Denmark has become more integrated economically with the EC, this is not reflected in the Danes' approbation of membership. A dichotomy exists between economic and social indicators, which is certainly one area for further research. According to various Eurobarometer opinion polls, there are more people against than for EC-membership in both Denmark and Britain. Whereas Britain's negative attitude is reflected in policies, this is not true for Denmark. Further research in relation to this present study might also be done in the field of European political cooperation. The main focus in this study has been economic sectors, but it might be interesting to investigate to what extent Denmark follows Britain or indeed Germany in more political matters as for instance enlargement of the Community to include Greece, Portugal and Spain and in matters concerning NATO, GATT and UNCTAD.

Focusing on one member-state, the approach of this study has revealed that the European Community is not one monolithic entity. On the contrary, the nation-state is still the most important actor in the international system. Further, this study has ascertained that the economic and political relations among the member-state of the EC are changing, which in turn might affect international power constellations regionally as well as globally.

All in all, it appears that Denmark joined the EC for economic, not political reasons. Economically, membership has been a distinct benefit. Denmark has gained access to a very large market, which includes agriculture. Further, the Treaties are based on free trade and free enterprise. The fears that EC-membership would entail Denmark being flooded by Italian labour as well as by German capital have proved to be unfounded. Similarly, membership has not been a political threat. The surrender of sovereignty has in fact been much more limited than anticipated in 1972, and we therefore find the Danish government in the situation where instead of resisting further integration, it now actually supports further Community cooperation in numerous fields. As a member of the EC, Denmark's policies have steadily become more active and unconditional, a statement which cannot be said about Britain's policies.

By being a member of the EC, Denmark is able to exert some influence on developments in Europe; at least its voice will be heard. Moreover, issues are dealt with multilaterally through common institutions. Denmark is thus able to ally itself with others and does not stand alone vis-à-vis Germany or Britain, as in the 1930's. Denmark's former balancing act between Germany and Britain was at times very delicate, but since World War II has finally been eliminated through the three countries' membership first in NATO and subsequently in the EC. With EC-membership, Denmark was able to retain her close ties with Britain, while at the same time relations with Germany have fallen in place, whereby not only a natural and normal, but also a close relationship can now be said to exist between the two countries. Thus the close relations Denmark often had with Germany throughout the centuries of Danish history were in most respects finally re-established when Denmark joined the EC. Due partly to German protectionistic policies after the unification of the German Reich, Denmark followed Britain in economic matters from the 1870's until EC-membership, Britain being the largest market for Danish exports as well as a staunch supporter of free trade. For these reasons Denmark followed Britain in European commercial and economic policies. After EC-membership, however, Denmark has increasingly been following Germany, which has emerged as the most resolute supporter of free trade and has become Denmark's most important trading partner. In short, after over a century, Denmark has returned to its traditional relationship with Germany.

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