

## Big Business and Small States: Unilever and Norway in the Interwar Years<sup>1</sup>

When the British Lever Brothers and the Dutch Margarine Unie decided to join forces in 1929 under the name of Unilever, they created a giant. In the words of *The Economist*, it was ‘one of the biggest industrial amalgamations in European history’, and Unilever became Europe’s largest company measured by share capital.<sup>2</sup> The new company not only dominated the European margarine and soap markets, but also had a strong influence on a number of related businesses, as well as the markets for animal, vegetable and marine oils.

The decision to merge Lever Brothers and Margarine Unie did not only create a huge company, it also had consequences, potentially enormous consequences, for large parts of the world. Both soap and margarine was made from oilseeds and fats like West African palm oil, Indian groundnuts, or whale oil, and these different products were largely interchangeable as substitutes.<sup>3</sup> As the world’s largest purchaser of oils and fats, Unilever could influence the outcome for different economies which depended on the sales of these commodities. The sheer size of the company therefore gave Unilever, or the ‘fat trust’ as it was soon nicknamed, an enormous market power which caused unease among the company’s competitors, suppliers and clients.

As the subsequent developments in Norway illustrates, that unease was not unwarranted. After the merger, the newly established Unilever aimed at wiping out most of Norway’s independent margarine and soap industry. Unilever was practically the only customer of the important Norwegian export products seal and whale oil, and the company used this as a leverage to press the Norwegian authorities to grant Unilever concession to purchase a controlling block of shares in Lilleborg, Norway’s most important domestic producer of soap and vegetable oil. As Lilleborg was the main supplier of industrial fats to the Norwegian margarine and soap industry, this could easily give Unilever de facto control over the national market.

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<sup>2</sup> *The Economist*, 27 December 1930, quoted in [Wilson, \*History of Unilever\*, I, p. xvii](#). For the size of the company, see Cassis, *Big business*, p. 37.

<sup>3</sup> Olukoju, ‘UK and the political economy’, p. 108. Unilever made soap and margarine from copra from the Dutch East Indies, the Philippines and Malaya, palm kernels, coconuts and palm oil from Africa, the Dutch East Indies and Malaya, groundnuts from India, Africa and North America, soy beans from North America and Manchuria, tallow from North America, South America, Australia and Europe, in addition to whale oil and other marine oils from the Antarctic, the Arctic areas and the North Sea. (Wubs, *International business*, p. 18.)

However, as the purchase was dependent on government concession, Unilever became embroiled in a power-struggle with the Norwegian political authorities. The question of whether or not to let Unilever go forward became one of the most contested questions in Norwegian politics in the interwar period. Unilever was intensely attacked by Norwegian nationalists who perceived the company's investments as a threat to the country's economic independence. The debacle led to the downfall of one government and the successor administration had to concede a most humiliating defeat against the foreign company. However, Unilever was in return forced to make substantial concessions. Unilever gained increased access to the Norwegian margarine and soap markets (but not market dominance) and permission to buy the Lilleborg shares only in return for guaranteeing future purchases of Norwegian marine oils.

This article makes two major contributions. The first point concerns the specific historical development of big business during the interwar years, and especially the movement towards economic concentration in the 1920s. In a few intensive years a merger wave swept the continent and Britain, creating firms of a size never before seen in Europe, among them IG Farben (1925), ICI (1926) and Vereinigte Stahlwerke (1926). This development has been well documented, and we have a host of important studies that deal with both specific mergers and the general trend.<sup>4</sup> However, this literature has mainly dealt with the effects the mergers had on either the companies themselves or on their home economies, but precisely because of the size of the new corporations, the merger waves in the larger European countries had consequences on an international level, and especially so in the smaller countries in which they did business. What makes this study distinctive from the current literature is that the question of the Unilever merger is analysed from the point of view of the repercussions it had on Norway. At its core, this is a study that contributes to our understanding of the relationship between large foreign companies and small states.

Secondly, more than just a case study, the history of Unilever in Norway is a lens through which we can investigate the general question of the relationship between powerful multinationals and the host economies in which they operate. From the 1960s and onwards, the question of how multinational companies affect the development of host countries have become a burning political question, and the large size and market power of the companies

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<sup>4</sup> On the general trend, see for instance Hannah and Kay, *Concentration in modern*, pp. 64-82; and Feldenkirchen, 'Concentration in German industry'. The literature on specific companies is extensive and includes Hayes, *Industry and ideology*; Plumpe, *Die IG Farbenindustrie*; Coleman, *IG Farben and ICI, 1925-1953*; Reader, *Imperial Chemical Industries* (two vols.); Fear, *Organizing control*; and Reckendrees, *Das "Stahltrust"-Projekt*.

have raised fears in many groups and countries that they will become overpowered and exploited by multinational companies.<sup>5</sup> In the wake of the political debate has followed a huge scholarly literature that deals with the impact of multinationals on domestic economies. In the social sciences two main schools of thought has dominated. The *Dependencia* critique, originally developed in Latin America in the early 1970s, argues that foreign direct investments lead to serious negative political and economical consequences. Early versions of dependency theories focused on the lack of bargaining power of developing countries vis-à-vis multinational companies and argued that large foreign multinationals were major obstacles to economic growth. Later the critique was modified to accept multinationals as potential engines of growth, but also of creating lop-sided development. The literature focused on the process of ‘denationalization’, where foreign capital absorbs local assets. The foreign firms exploited profit-making opportunities in developing countries but expatriated the profits to the wealthy host countries. Radical versions of the literature argue that multinationals also preempt the development of indigenous industries and firms.<sup>6</sup>

During the last couple of decades, dependency theories have been relegated to the background by a growing scholarly consensus that flows of foreign direct investment generally have positive effects on host economies. These positive effects are thought to include productivity and technology spillovers, increased exports, employment and higher levels of economic growth.<sup>7</sup> To the extent that foreign direct investments are thought to come with negative externalities, it is that governments try to attract investments through race to the bottom policies: by for instance loosening environmental protection, relaxing labour standards, and decreasing levels of capital taxation.<sup>8</sup>

Yet, as business historians have shown, neither the positive, nor the negative, effects are automatic since the strategies of foreign multinationals, and thereby the effects on the local economy, will differ depending on the local environment. Since each multinational company has a unique combination of skills and resources, it will have a discrete, firm-specific impact on a host economy.<sup>9</sup> And as Neil Rollings have argued recently, the subject of the relationship between multinational companies and governments shows the importance of a business history approach, without which the firm-level differences of experience will be ‘pasteurized away in accounts of the overall picture’. By employing a business history

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<sup>5</sup> Gilpin, *Global political economy*, pp. 302-3.

<sup>6</sup> For a short overview of the literature critical towards foreign direct investment, see Jensen, *Nation-states and the multinational corporation*, pp. 33-4.

<sup>7</sup> Blomström et al., *Foreign direct investment*, p. 5.

<sup>8</sup> For a prominent example, see Andrews, ‘Capital mobility’.

<sup>9</sup> Jones, *Multinationals and global capitalism*, p. 261.

approach to the subject we can add depth and richness to the understanding of the subject and also tease out the significance of these different experiences.<sup>10</sup>

According to Geoffrey Jones, the balance of power between multinationals and host governments always rest on a number of factors. First of all, the leverage a company has to challenge or modify government policies is based on the firm-specific assets it possesses. The leverage of the host government, on the other hand, relies on the possession of resources required by the multinational, like for instance a large domestic market or natural resources; the degree of competition between different firms for access to these resources; and the host country's ability to develop resources capable of substituting for those controlled by foreign companies. In addition, the balance between multinationals and host governments is considerably influenced by the domestic politics of policy formation towards multinationals, including the ability of governments to pursue coherent policies, which might be undermined by divisions of opinion or by corruption. And thirdly, the balance of power is also influenced by the role of local firms in shaping policies. Historically, local firms have sometimes cooperated with multinationals and helped influence host governments in their favour, in other instances they have resisted foreign companies and encouraged governments to restrict their activities.<sup>11</sup> In this article we build on Jones' framework to analyse the outcome of the power struggle between Unilever and the Norwegian state in the years around 1930.

In the first part of the article we analyse Unilever's (and the company's predecessors') involvement in the Norwegian market and its relations with local firms. This part establishes the firm-specific assets of Unilever in Norway and outlines what was at stake in this case. In the second part we discuss the Norwegian government's policy formation towards multinationals in an international context. The third part analyse the government's handling of the Unilever-Lilleborg case, and the multinationals response to the Norwegian demands. This part also shows the importance of local firms in influencing policy response towards foreign response. Finally, in the fourth part we consider the findings drawn out by the approach and discuss the larger implications of this case.

## I

Despite the fact that Lilleborg was not involved in whaling, the story of Unilever's attempt to take control over the company can only be properly understood against the backdrop of the

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<sup>10</sup> Rollings, 'Multinational enterprise', p. 429.

<sup>11</sup> Jones, *Multinationals and global capitalism*, p. 277.

political economy of whale oil. For more than half a century, from 1870 and until about 1935, Norwegian companies dominated the international whaling and sealing industry. Yet, whale oil was initially a hard sell. It stank terribly and tasted even worse. It also had a tendency to turn black, qualities that hardly made it suitable for margarine or soap. In addition to this, whale oil was liquid at room temperature. However, due to significant advances in organic chemistry, these obstacles were (more or less) overcome before the outbreak of the First World War. This opened an immense and growing market for the Norwegian whaling industry. It had just found vast new hunting fields in the Antarctic Ocean where thousands of whales could be slaughtered each year. The supply of whales was seen as almost unlimited. Whaling became a booming industry from 1900 to 1930, and in the process it acquired a central role in the Norwegian economy. For a long time it generated around 5 per cent of Norwegian exports. Up to 10,000 men were employed by the Antarctic expeditions, while shipyards and companies that sold equipment and goods to the whaling industry employed thousands more.<sup>12</sup>

As a result of the technological advances, whaling and whale oil became attractive to the European margarine and soap producers. The Dutch margarine company Jürgens invested in a dozen Norwegian whaling companies from 1911 and aimed at obtaining substantial influence over the industry. However, Jürgens' whaling investments were unsuccessful and the company pulled out after a couple of years.<sup>13</sup> In 1912, Lever Brothers bought the South African company Premier Whaling Co. Seven years later it bought the British company Southern Whaling & Sealing.<sup>14</sup> The latter was one of the largest whaling companies outside Norway and secured Lever Brothers a substantial in-house supply of whale oil.

From around 1910, market power started tilting towards the whale oil purchasers. The European industrial fats industry consolidated through a merger wave, and the major margarine and soap producers also established a purchaser-cartel, the so-called Whale Oil Pool. In order to maintain their bargaining power the whalers organised a federation. Prices remained high (primarily due to high demand) and whaling continued to be very profitable.<sup>15</sup>

The whalers also tried to move downstream into the fat processing business. In 1912, Norwegian whalers and the German firm Bremen Besigheimer Oelfabriken (BBO) established the fat-refining and fat-hardening plant Denofa in Fredrikstad in south-eastern

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<sup>12</sup> Tønnessen and Johnsen, *History of modern whaling*, pp. 182ff, 225ff, 292ff; Tønnessen, *Den moderne hvalfangsts historie*, II, pp. 271ff, 348ff, 494ff.

<sup>13</sup> Tønnessen and Johnsen, *History of modern whaling*, pp. 238-9.

<sup>14</sup> Tønnessen and Johnsen, *History of modern whaling*, pp. 240, 306.

<sup>15</sup> Tønnessen and Johnsen *History of modern whaling*, pp. 240, 245, 753.

Norway.<sup>16</sup> BBO contributed with the necessary patents and technology, the Norwegians with the capital. The shares were split 50-50 between the Germans and the Norwegians. The business idea was to transform the smelly whale oil into a delicious and tasty ingredient for margarine which the average German or British workingman could enjoy for breakfast. Let us put aside that this was a bit more technically challenging than envisaged at first. More importantly, Denofa was soon embroiled in an intense battle over patent rights with the large Dutch margarine producer Jürgens. The Dutch company had already built an equivalent plant in Germany, based on the so-called Normann-patents. With its superior access to whale oil, Denofa could well develop into a major contender on the European margarine markets. Jürgens sued Denofa for infringing on the Normann-patents and threatened ‘to smash’ the company.<sup>17</sup> The BBO top management got scared, Jürgens was well known for brutal business tactics, and the Germans pulled out of Denofa in 1913. BBO was mainly a producer of vegetable oil and had Jürgens as a major customer. For BBO whale oil was only a secondary line of business and thus not worth a fight.<sup>18</sup> BBO sold its shares in Denofa to the British soap manufacturer Lever Brothers. With the resourceful British company on board, Denofa won the patent case against Jürgens. Denofa was now a British-Norwegian joint venture and developed into the world’s largest refinery of whale, seal and herring oil. Production reached 29,000 tons in 1915. Some years later the capacity was increased to 60,000 tons.<sup>19</sup>

Denofa’s success served as an inspiration to other Norwegian entrepreneurs. In 1913, another group of Norwegian whalers established the whale oil-refinery Vera. Though we lack good sources about this company, Vera seems to have entered into some kind of alliance with Jürgens and with the large Austrian margarine and soap manufacturer Schicht.<sup>20</sup> However, Vera proved less technologically adept than Denofa and was eventually liquidated in 1921.

Vera was not Denofa’s only competitor. In the post-war boom after World War I, prominent Norwegian whalers tried to challenge Lever Brothers on its home turf. With the help of the London-based Hambro’s Bank they teamed up with West African vegetable oil

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<sup>16</sup> The following two paragraphs are primarily based on Holmboe, *De-No-Fa*, pp. 6-12; Holmboe, *En ingeniør*, pp. 126ff; Tønnessen, *Den moderne hvalfangsts historie*, vol. 2, pp. 505ff; Tønnessen, *Den moderne hvalfangsts historie*, vol. 3, pp. 133ff, 186-9; Tønnessen and Johnsen, *History of modern whaling*, pp. 237-8; **Wilson, *History of Unilever*, I, pp. 130-6.**

<sup>17</sup> Unilever’s archive, Port Sunlight (hereafter UAP), Directors Conference Files 1912-13, Box 13, Meeting of Policy and Tactics Committee, 20 Oct. 1913. See also **Wilson, *History of Unilever*, I, pp. 135-6, and II, pp. 100, 114-15, 142.**

<sup>18</sup> Denofa company archive, Fredrikstad (Hereafter DCA), folder ‘De Nordiske Fabriker AS, Historie’.

<sup>19</sup> Holmboe, *De-No-Fa*, pp. 13-16.

<sup>20</sup> **Wilson, *History of Unilever*, ??? p. 268.**

producers with the aim of establishing a giant soap company in Great Britain that could rival Lever Brothers. However, the grandiose plan foundered with the 1921 recession.<sup>21</sup>

Denofa survived the downturn in 1921 thanks to Lever Brothers' financial support.<sup>22</sup> Denofa sold its production of refined oils partly to the British company, partly to the Dutch margarine producers, and partly to German companies. However, as a result of the ongoing merger process in the European industrial fats industry, the number of customers was rapidly dwindling in the late 1920s. Denofa's bargaining position deteriorated and the company was in a bad financial state when Lever Brothers and Margarine Unie decided to merge in September 1929.

The Norwegian margarine industry was one of Europe's oldest, dating back to the mid-1870s. Consumption reached 47,000 tons in 1930. The four largest firms had almost 50 per cent of the market, while the rest was divided among 27 small and medium-sized companies. The market leaders were competitive as well as technically adept. Three of them, the Mustad, Agra and Pellerin companies, had Swedish subsidiaries.<sup>23</sup> They were thus multinationals, albeit very far from the scale achieved by the Dutch producers Jürgens and Van den Berg.

For the Dutch companies, Scandinavia was a very enticing market. Nobody ate more margarine per capita than the Danes, Norwegians and Swedes. For instance, the Norwegians consumed nearly three times as much margarine per capita than the Britons, and more than 25 times as much as the French.<sup>24</sup> In 1919, Jürgens acquired half of the shares in Agra, Norway's second largest margarine producer (which also owned a factory in Stockholm). Two years later Van den Bergh started exporting margarine to Norway. After the Norwegian tariffs were raised in 1923, the company decided to set up production in Oslo. However, the Norwegian government, with the vocal support of the domestic margarine industry, denied the company permission to buy property in Norway. Yet, Van den Bergh found a judicial loophole. It did not need government permission to lease a factory, and the company was able to rent a site in Oslo. In May 1925, production came on stream and it won a significant market share, in spite of organised boycotts and nationalist opposition. During the ensuing price war, all producers, including Van den Bergh, lost money.<sup>25</sup>

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<sup>21</sup> Tønnessen, *Den moderne hvalfangsts historie*, vol. 2, pp. 188-9; Tønnessen and Johnsen, *History of modern whaling*, pp. 308.

<sup>22</sup> UAP, Lever Brothers Ltd., Board Minute Book No. 6, pp. 431 and 449; Board Minute Book No. 7, p. 431.

<sup>23</sup> Vogt, *Pellerin, Agra margarinfabrik*; and Wicken, *Mustads margarin*, p. 11.

<sup>24</sup> Wilson, *History of Unilever*, ???, p. 148.

<sup>25</sup> Bugge, *Margarinindustrien i Norge*, pp. 17-21. Wilson, *History of Unilever*, ???, p. 269.

The development was somewhat similar in the other Scandinavian countries. The Dutch won market shares, partly through direct exports, partly through acquisition of existing factories. Yet, they found the expansion challenging. According to Charles Wilson, the large Dutch margarine companies met tougher opposition in Scandinavia than elsewhere in Europe, partly because the domestic margarine industries were quite advanced, and partly because of fervent economic nationalism.<sup>26</sup>

At the time of the Unilever-merger, Norway had 39 soap manufacturers. Most of them were small and served a local market. There was one exception, the Lilleborg company in Oslo. It accounted for more than one third of the total soap production. Lilleborg also operated all the oil mills in Norway, and was the main supplier of vegetable fats to the rest of the Norwegian soap and margarine industry.

Lilleborg had one competitor which posed a potential threat, namely the above-mentioned Denofa in Fredrikstad. Denofa's original business idea was to refine whale oil. However, the supply of such oil was somewhat erratic. It depended on the hunting seasons in the Antarctic which varied every year. They were occasionally cut short because of ice conditions or Antarctic storms. Denofa therefore sought to diversify. The company contemplated going into the margarine business, but chose not to, as this would easily have led to conflicts with its customers. In 1924, Denofa and Lever Brothers decided to establish a soap factory on a 50-50 basis.<sup>27</sup> The Norwegian soap industry protested, and asked the government to stop this. It referred to 'the world trust' and 'the danger that threatens our national soap industry', but no avail.<sup>28</sup> The factory aimed for a large part at import substitution as it would produce Lever's well-known brands such as Sunlight.

In addition to this, Denofa also planned building a large oil mill in order to produce vegetable oil for the Scandinavian market. It was this move that started the battle for control over the Norwegian industrial fats industry and brought Denofa and Lever Brothers into a head-on conflict with the leading Norwegian soap and oil company Lilleborg.

Lilleborg was an old joint stock company, dominated by the descendants and relatives of the Kildal business family, which owned most of the shares and filled all top management positions. The company sources leave a strong impression that they were immensely proud of the family business. Some of the family members were willing to accept an alliance with

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<sup>26</sup> Wilson, *History of Unilever*, ??? pp. 266ff.

<sup>27</sup> Holmboe, *De-No-Fa*, p. 16; Holmboe, *En ingeniør*, pp. 228-9.

<sup>28</sup> Lilleborg's company archive, Oslo (hereafter LA), Folder 14 Konesjonssaken 1930-31, Letter from the lawyers Garup Meidell and Frans Meidell to Sæpefabrikantenes forening, 4 Sept. 1924. The quotation is translated from Norwegian by the authors.



Lever Brothers/ Unilever, while others, including the chairman of Lilleborg's board of directors, Trygve Gotaas, were inclined to fight hard to safeguard the company's independence.<sup>29</sup>

The problems started in 1925. Lilleborg had just decided to expand its oil mill in Stavanger, on Norway's west coast, when it was informed that Denofa (in which Lever owned 50 per cent of the shares) contemplated building a similar mill in Fredrikstad. The Denofa/Lever Brothers combination could easily challenge Lilleborg's monopoly position as a supplier of vegetable oils to the Norwegian margarine and soap industries.

Lilleborg initial response to the threat was to ask Denofa and Lever Brothers to enter a market sharing agreement. Yet, Lilleborg's request was turned down. Denofa and Lever Brothers stated that they would build the mill first, and negotiate afterwards. It was soon revealed what they meant by negotiations: instead of a cartel agreement, which was what Lilleborg wanted, Lever Brothers instead wanted to acquire 51 per cent of the Lilleborg shares and include the company in the Lever-group. To achieve this aim, the British company employed the classic combination of veiled threats and generous offers.<sup>30</sup>

However, though Lilleborg was small fry compared to Lever Brothers, the managers of the Norwegian company found a countermeasure. The largest Norwegian shareholder in Denofa, Dietrich Hildisch, was almost bankrupt, and his shares were therefore up for sale. Unfortunately for the British company, Denofa's shares were divided into two classes, one Norwegian and one foreign, and because of this Lever Brothers could not legally purchase the Hildisch-shares. Due to the complex corporate structure of Denofa, the owners of the Hildisch-shares could block any major decisions in the company. Investment decisions (like building an oil mill) had to be approved by a majority in both share classes. Lilleborg was for its part willing to pay considerable more than the market price for these shares in order to prevent Denofa/Lever Brothers to enter its line of business.<sup>31</sup>

However, Lilleborg tried hard to reach a friendly agreement with Lever Brothers. It did not want to provoke the British company into a war by an unfriendly acquisition of the Hildisch-shares. After protracted negotiations in London, the Lilleborg negotiator Ole Gotaas finally accepted that Lever Brothers was to acquire 50 per cent of Lilleborg. His elder brother

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<sup>29</sup> Sandvik, 'Såpekrigen'.

<sup>30</sup> LA, Folder Denofa 1912, Lever/Margarine Union 1912-1929, Diverse 1912-1929, Hildisch 1929-1945 (hereafter just Denofa), Memorandum to Lilleborg's representantskap, 24 April 1926. Copies of letters between Ole Gotaas and Sir Karl Knudsen from May 1925 to May 1926. Ole Gotaas was a Lilleborg manager; Sir Karl Knudsen was a manager in Hambro's Bank in London. Knudsen acted as Lilleborg's representative in the negotiations with Lever Brothers.

<sup>31</sup> Sandvik, 'Såpekrigen'.

Trygve, who was chairman of Lilleborg's board, voiced strong opposition against this move. Trygve managed to persuade the board to refuse Lever Brothers' demand. The board referred to nationalistic considerations, it did not want foreigners to gain control over the firm.<sup>32</sup>

Thereafter Lilleborg bought the Hildisch-shares for 3 million kroner (ca. £150,000) without any agreement with Lever Brothers. Three million kroner was Lilleborg's largest investment ever and equalled its total profits 1920-1925. However, the sceptical Trygve Gotaas protested against this acquisition. He predicted, quite correctly as it turned out, that the investment would make Lilleborg dependent on Denofa, and thereby indirectly of Lever Brothers.<sup>33</sup> With Denofa, Lilleborg got access to a world-class oil processing plant. It could therefore become a potential threat on the international soap market. When Lilleborg voiced its interests for the Hildisch shares, Lever Brothers quickly decided to expand its refining and fat-hardening capacity at Bromborough near its home base in Port Sunlight, outside Liverpool.<sup>34</sup> It aimed at moving parts of the production of refined whale oil from the Denofa plant in Norway to England. This would not only reduce Denofa's profitability, but it would also reduce its strategic value for Lilleborg, as it would deter the company from becoming a contender in the soap industry.

However, Lever Brothers came to respect the professionalism of Lilleborg's managers.<sup>35</sup> The British company therefore consented to increased cooperation between Denofa and Lilleborg on the Norwegian and Scandinavian market. Denofa and Lilleborg were to build a joint oil mill for vegetable oil in Fredrikstad. Lilleborg got exclusive rights to sell the oil on the domestic market (i.e. mostly to the margarine industry), while Denofa was to take care of the Scandinavian and Baltic markets.

The oil mill was quite expensive. Each side had to invest 1.5 million kroner (£75,000). Lilleborg's future thus became more and more dependent on Denofa's development. Once again, Trygve Gotaas protested vehemently against making the investment together with Denofa. He feared that the arrangement would increase Lilleborg's dependence on Denofa/Lever Brothers and thereby endanger its autonomy. His protests were brushed aside and the oil mill was built in 1929.<sup>36</sup>

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<sup>32</sup> LA, Folder Denofa. PM to Lilleborg's board, 3 Feb.1926, by Trygve Gotaas.

<sup>33</sup> LA, Folder Denofa. PM to Lilleborg's representantskap, 24 April 1926.

<sup>34</sup> UAP, Box 17, Director Conference files 1920-21, 1925, Conferences 3 June, 7 Oct. and 30 Dec. 1925.

<sup>35</sup> UAP, Box 17, Director Conference files 1926-1929, Managing Directors Conferences 1926, Conferences 14 July and 7 Oct. 1926.

<sup>36</sup> LA, Folder, Generalforsamling, Representantskap [Shareholder meetings, Board of Representatives] 1899-1926, PM til representantskapet [PM to the Board of Representatives] , 12 June 1928; PM by Trygve Gotaas, 20 June 1928.

The investments in Denofa also led Lilleborg into the complicated world of the European fats industry. Prices and production quotas were to a large extent decided through negotiations and not through ordinary market mechanisms. In 1927, Van den Bergh and Jürgens merged into the combine Margarine Unie. In 1928, several other firms joined the combine. Margarine Unie dominated the German, Dutch and Central European markets for industrial fats. This meant that Denofa only had two large customers left for its refined whale oil, Lever Brothers in Great Britain, and Margarine Unie on the continent.

The 1929 sale quotas for refined whale oil were decided in tough negotiations in late 1928. Margarine Unie now demanded that Denofa – in return for Margarine Unie’s purchases for the German market – should sell cheaper oil to the Dutch-owned margarine factories in Scandinavia. Denofa and Lilleborg found the situation difficult. If the independent – and politically powerful – Norwegian manufacturers of margarine discovered these rebates they would quite certainly counterattack. They could very well build their own oil mill. However, Lever Brothers came to Denofa’s rescue during the negotiations. Denofa’s exports to Germany continued and it avoided giving Margarine Unie any rebates. The end result was described as ‘very satisfactory’.<sup>37</sup> The incident did however expose how vulnerable Denofa’s market position was.

Denofa’s vulnerability became even more apparent when Lever Brothers joined forces with Margarine Unie. Immediately after the Unilever-merger was announced on September 3<sup>rd</sup> 1929, Denofa’s top manager, Fredrik Blom, travelled to London, where he met Lever’s top manager D’Arcy Cooper. Blom was reassured by Cooper that he was ‘still Lilleborg’s and Denofa’s friend’.<sup>38</sup> This contained in fact a grain of truth. Cooper had protected Denofa in the complicated negotiations with Margarine Unie.<sup>39</sup> The Dutch had demanded to get control over Denofa. Cooper had refused this, but he did support Margarine Unie’s request to lease Denofa and Lilleborg’s oil mill, in order to supply their Norwegian margarine factories. Margarine Unie promised in return to purchase more refined whale oil from Denofa.

While this was encouraging news for Denofa, it left Lilleborg in a squeeze. One faction of the owners wanted to go to war as early as possible. The board member and former top manager Trygve Gotaas warned strongly against leasing the mill to the Dutch and thus letting them ‘into our company’. He stated that we ‘will always be the inferior in such a

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<sup>37</sup> LA, Folder, Brevkopier til styret [Copies of letters to the board] 1927-1930, Letter to Lilleborg’s board from Arne Meidell about the negotiations in London, 17 Jan. 1929; PM to the board, 19 March 1929.

<sup>38</sup> LA, Folder, Brevkopier til styret [Copies of letters to the board] 1927-1930, Letter from Fredrik Blom to Lilleborg’s board, 17 Sept. 1929.

<sup>39</sup> Wilson, *History of Unilever*, ??, pp. 302-3.

partnership'.<sup>40</sup> The Dutch, and especially Jürgens, were evidently considered much more of a threat than the relatively friendly British managers in Lever Brothers. Margarine Unie's top brass were considered as 'extremely difficult people'.<sup>41</sup>

Lilleborg's top manager, Arne Meidell, travelled to London in October. The situation – seen from Norway – had now deteriorated. His old friend D'Arcy Cooper was very reserved and urged him to take Lilleborg into Unilever. Anton Jürgens flatly refused to cooperate if Lilleborg chose to stay independent.<sup>42</sup> Cooper and Jürgens had in fact developed quite ambitious plans for Unilever in Norway. They wanted to gain control over 75 per cent of the Norwegian soap and margarine production. Unilever now aimed to 'eliminate the competition' in Norway.<sup>43</sup> Denofa and Lilleborg were the pawns to achieve this.

When Lever Brothers and Margarine Unie merged, Denofa had only one big customer left, namely Unilever, which bought more than 90 per cent of Denofa's production. It was therefore easy for Unilever to pressure Denofa's main shareholder Lilleborg to make some concessions. Unilever could also threaten to move production from Fredrikstad to the new plant in Bromborough. In addition to this, Denofa was still dependent on Unilever's guarantees for loans. Lilleborg had for its part invested nearly 4.5 million kroner in Denofa. If Unilever let Denofa go bankrupt, Lilleborg would suffer a big financial loss.

Lilleborg could not withstand the weight of Unilever's market power, and capitulated in January 1930. The deal was rather complex, but the main items were the following: Denofa (in which Unilever owned 50 per cent) was to acquire 50 per cent of the shares in Lilleborg. The shares would partly be paid in cash, partly by transfer of some of Denofa's property to Lilleborg. The outcome was quite clear. Lilleborg would be strongly bound to Unilever. At the same time, the descendants of the Kildal family would retain some influence in both Lilleborg and Denofa.<sup>44</sup>

In early February 1930, Unilever, Lilleborg and Denofa applied the government for consent to go ahead with the transactions. Foreigners needed a permit from the government in order to acquire 50 per cent (or more) of a Norwegian firm. Denofa, Lilleborg and Unilever

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<sup>40</sup> LA, Folder **Brevkopier til styret** [Copies of letters to the board] 1927-1930, PM to Lilleborg's board by Arne Meidell, 30 Sept. 1929; PM to Lilleborg's board by Trygve Gotaas, 30 Sept. 1929.

<sup>41</sup> LA, Folder **Brevkopier til styret** [Copies of letters to the board] 1927-1930, PM to Lilleborg's board by Arne Meidell, 30 Sept. 1929.

<sup>42</sup> LA, Folder **"Brevkopier til styret [Copies of letters to the board] 1927-1930". PM til Lilleborgs styre fra Meidell og Blom, 6 Nov. 1929.**

<sup>43</sup> UAP, Box 19, Director Conference Files 1930-32, Folder 'Lever Br. Ltd. Minutes of Managing Directors Conferences 1930', Conferences 9 Jan. and 6 Feb. 1930. It should be emphasised that we have only had access to the top managers' conference files, which are quite concise. We have not had access to any internal documents which have described Unilever's Norwegian strategy in any detail.

<sup>44</sup> Sandvik, 'Såpekrigen'.

concluded the application by asking the government to handle it ‘as soon as possible’.<sup>45</sup> They probably realised that the application would spark some protests, especially from the domestic margarine and soap industry, but they could not know that they had just ignited the bitterest conflict over foreign ownership in Norwegian history.

## II

Seen from an international perspective, it may seem strange that Unilever’s attempted acquisition should create such a stir. However, outside the Anglo-American world, restrictions on foreign ownership were increasing in the interwar years. In Britain, foreign owned companies were treated identically to indigenous companies in law and for tax purposes, and though the government did intervene in certain instances when ‘national security’ was involved, it did so not through prohibiting foreign presence, but by promoting a domestic national champion which could prevent the industry from falling under foreign domination. In practice, foreign ownership of important sectors of the economy such as banks, oil companies, telephone companies and defence-related industries were excluded.<sup>46</sup> The United States, which in the period adopted one of the highest levels of protection in the world, still allowed foreign firms to enter and operate there almost without restriction. However, there were some major exceptions to this general rule, as banking, insurance, land ownership and coastal shipping were off limits to foreigners.<sup>47</sup>

In the Nordic countries, the issue of foreign ownership was to a varying degree a contested political question. Denmark was the most lenient. Apart from banking, insurance, retail trade and agriculture there were few restrictions on foreign ownership. The Danes did attract substantial foreign investments in the 1920s.<sup>48</sup> Sweden introduced a concession law in 1916 that put restrictions on foreigners’ ability to purchase land properties and mines.<sup>49</sup> From 1919, Finland demanded that all foreigners had to get a permission to establish business in the country, and foreign companies had to guarantee in advance that the government and the municipalities would get required taxes and other charges.<sup>50</sup> Compared to Denmark and Sweden, few foreign companies invested in Finland.

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<sup>45</sup> Riksarkivet (National Archives, Oslo, hereafter RA) Handelsdepartementets arkiv (Ministry of Trade, hereafter HD), *Industrikontoret [Industrial office ]*, Box Fb 0015 eiendomstransaksjoner [property transactions], file ‘Stortingsmelding [Report to Parliament] 34’, Lilleborg og Denofas konsesjonssøknad [Lilleborg and Denofa’s application] 24 Feb. 1930.

<sup>46</sup> Jones, ‘British government’, pp. 196-8.

<sup>47</sup> Jones, *Multinationals and global capitalism*, pp. 202-3.

<sup>48</sup> Krenschel, *Haandbog i dansk Aktieret; Boje, Danmark og multinationale virksomheder*.

<sup>49</sup> Nordlund, *Upptäkten av Sverige*, pp. 44-54.

<sup>50</sup> Hjerppe and Ahvenainen, ‘Foreign enterprises’, pp. 289-90.

Norwegian policies on foreign ownership were probably more restrictive than the Swedish, but less so than the Finnish. Whereas economic nationalism in many European countries was expressed through protectionism and autarkic policies, Norway continued to pursue relatively liberal trade policies. Rather than traditional protectionism *per se*, the Norwegian State instead put in place heavy restrictions on foreign investment and on foreign ownership. As a small state with a large export sector and a limited home market, Norway could not risk alienating her larger trading partners by erecting high tariff barriers. Yet the Norwegian authorities were deeply worried that powerful foreign economic actors were a threat to national sovereignty. The Norwegian regulatory regime that was established in the period was therefore at heart more about cautiously guarding national sovereignty than about protecting domestic industries. In line with Geoffrey Jones' framework for understanding the balance of power between governments and multinationals it is important to have a clear grasp of the regulatory regime and the domestic policy formation towards foreign companies. As the following paragraphs illustrates, there was a basic coherence to the way that the Norwegian authorities approached foreign investors.

From the late 1890s to 1920, Norway attracted massive investments in the development of hydropower and energy intensive industries. At the same time, Norwegian nationalism reached its apex as the union between Norway and Sweden was dissolved in 1905. Due to the large foreign investments, there was a widespread fear that Norway had got its political independence just as it was about to lose its economic independence. A strict regulatory regime was introduced with the Concession laws 1906-1917. The Concession Laws regulated the ownership and utilisation of hydropower, forests and mineral resources. The final 1917 law stated that foreign ownership of waterfalls should only be accepted under 'special circumstances'. It also stated that foreign investors needed government permission if they acquired 50 per cent or more of the shares of any Norwegian business. However, in most cases the government followed rather pragmatic policies. As long as foreign-owned enterprises avoided trampling on national sensitivities or challenging domestic business interests, investments were normally allowed to proceed.<sup>51</sup>

Norway was more democratic and more egalitarian than most other European nations. Big business wielded less influence than in most other countries.<sup>52</sup> This became especially evident when the cartel legislation was prepared, the so-called trust law. The preparatory work started already in 1914. At the outset, the Norwegian politicians were inspired by the

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<sup>51</sup> Sandvik, *Multinationals, subsidiaries and national business systems*, pp. 14-15, 31-2.

<sup>52</sup> Sejersted, 'Capitalism and democracy', pp. 87ff.

American Sherman Act and not the least the battle against Standard Oil. However, the outbreak of war delayed the Norwegian legislation and helped change its content. The wartime experiences increased the tolerance of political regulation of the economy. The perception of economic cooperation and cartels was also altered during the war years.<sup>53</sup>

A comprehensive law covering cartels (the trust law) was passed in 1926. It was this bill which later became a major stumbling block for Unilever's ambitions in Norway. The bill was devised by the radical wing of the Liberal party, forcefully led by Wilhelm Thagaard (see more below). The law was adopted by the Parliament with the help of the votes from the Farmers' party and the Labour parties, against vehement opposition from the Conservatives. Thagaard advocated that state-regulated cartels could ensure better coordination and higher efficiency. Cartels could thereby be vehicles for a state-led modernisation of the Norwegian society.<sup>54</sup>

Cartels were accepted, but all private agreements regulating competition should be reported to a new state agency, *Trustkontrollen* (trust control). *Trustkontrollen* was to check whether the agreements were beneficial or detrimental to the general society. Another agency, *Trustkontrollrådet* (trust control council), was given judicial authority to intervene in these matters. The trust law not only covered cartels in a strict sense, but also large foreign owned companies (in the law called trusts) that had strong market power and from which the Norwegian state wanted to protect domestic businesses.<sup>55</sup>

The progressive lawyer Wilhelm Thagaard was put in charge of *Trustkontrollen*. He would dominate this institution as well as *Trustkontrollrådet* for decades and came to decide how the law enforcement was carried out.<sup>56</sup> Thagaard welcomed cartelisation, but sought to hinder abuse. He was also an ardent nationalist and did his very best to secure the interests of Norwegian-owned enterprises. An early case signalled his stance, namely the market fixing strategies of the association (cartel) of the importers of agricultural inputs. The importers had boycotted the farmers' cooperatives. As this was a foreign dominated cartel boycotting cooperatives it trampled on Norwegian sensitivities and aroused heavy political opposition. Thagaard and the trust control agencies ruled that the boycott was illegal. Later Thagaard also forced the cartel to show more consideration for Norwegian producers of agricultural inputs.<sup>57</sup>

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<sup>53</sup> Haaland, *Trustloven*.

<sup>54</sup> Dahl, *Høyre og staten*, pp. 105, 115; Espeli, 'Norwegian price and competition policy', pp. 624ff.

<sup>55</sup> *The Norwegian Parliament's Proceedings 1924*, III, **Ot.prp. [Proposition to the Odelsting] 43.**

<sup>56</sup> Andersen, *Rettens stilling*, pp. 143, 212ff; Sejersted, *Historisk introduksjon*, pp. 195-6; Haaland, *Trustloven*, pp. 2-5.

<sup>57</sup> Espeli, *Fra hest*, pp. 165ff, 176ff, especially pp. 191-2.

The lengthiest struggle between Norwegian and foreign business interests was the so-called tobacco-war (*tobakkskampen*).<sup>58</sup> This struggle was later a source of inspiration for Unilever's adversaries. In 1905, the international tobacco combine BATCO established a cigarette factory in Norway which became quite successful. However, when BATCO seven years later entered the traditional Norwegian market for chewing tobacco, the domestic industry, which mainly consisted of small and medium sized enterprises, launched a counterattack. They organised a national boycott against BATCO. Shops which sold BATCO-brands were not allowed to sell domestic brands (which between them still had the largest market share). Newspapers and magazines that printed BATCO-ads were likewise boycotted. The same happened to producers of cardboard boxes and all other firms who did business with BATCO.

One example may show how far the BATCO-boycott went, namely the tourist industry. In 1929, 37 hotels asked the organisers of the boycott for permission to sell *one* BATCO-brand in the tourist-season. As the hoteliers remarked in their petition; upper-class British tourists were somewhat conservative in their smoking habits. For them, chewing Norwegian tobacco was no alternative. But to no avail, the industry turned them down. BATCO and the hoteliers appealed to the Norwegian anti-trust agencies, but without any success. The director of *Trustkontrollen*, Wilhelm Thagaard, sided with the Norwegian industry.<sup>59</sup> Once again, the trust law was used to keep foreign business interests at bay.<sup>60</sup>

Margarine was an even more sensitive product than tobacco. The Dutch expansion into Norwegian markets was therefore bound to provoke reactions. There were at least three aspects that could arouse political strife. 1) Agricultural policy. Margarine was consumed instead of butter, a fact that harmed farming interests. It was sold ten times more margarine than butter in Norway in 1930.<sup>61</sup> However, farming interests seems to have had less clout in this matter in Norway than in for instance the US, Denmark and Sweden. As whale oil and herring oil were used as raw material, the margarine producers had important allies (whalers and fishermen) which could act as counterweights to the farming interest. 2) Welfare policy. Margarine was an essential product for low-income groups. A male industrial worker had to work ca. four hours in order to buy a kilo of margarine in 1925. As a result of intense

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<sup>58</sup> The following is based on *Trustkontrollen nr. 12, 1928: "Om trustkampen i tobakksbransjen"* and Nordvik, 'Conflict and cooperation', pp. 131-60.

<sup>59</sup> *Trustkontrollen* no. 25, 5 June 1930.

<sup>60</sup> Sandvik and Storli, 'Confronting market power', p. 237.

<sup>61</sup> Mork, *Smørmarked*, pp. 112, 142.



competition and falling prices, this declined to two hours in 1930.<sup>62</sup> Consumers dreaded the return of high margarine prices. The merger process that led to the formation of Unilever therefore triggered concerns about monopoly prices. 3) Nationalist fears of foreign ownership.

The margarine industry had thus been embroiled in political strife since the early 1920s. The opposition against Van den Bergh's investment in Norway is mentioned above. In 1928, the domestically owned industry tried to establish an association in order 'to fight the Dutch trust'.<sup>63</sup> The attempt was led by former Vice President of Parliament and top manager of the Goma margarine factory, Oluf Müller. However, the endeavours failed. Margarine Unie already had a too strong market presence as both Jürgens (Agra) and Van den Bergh operated factories in Norway. The independent Norwegian producers instead tried to establish a cartel which included the Dutch. Such an arrangement had been reached in Sweden. The Swedish agreement had been successful, at least seen from a producer perspective. Competition was abolished and prices increased. A similar accord was negotiated in Norway in the autumn of 1929. But at the last moment, the Dutch representatives refused to sign.<sup>64</sup>

### III

The Norwegian margarine industry understood very well why the Dutch refused to sign the agreement. The Unilever merger had strengthened the Dutch and had in, in accordance with Geoffrey Jones' framework, increased the company's firm specific assets at the expense of the Norwegian government's leverage. By merging, the company had become practically the only customer for the key Norwegian export products seal and whale oil, and since Unilever knew that sales of marine oils were more important for the Norwegian state than the Norwegian soap and margarine market was for the company, Unilever had practically all cards on its hands. Unilever was no longer interested in a compromise; the company wanted to take most of the Norwegian market. The effort to include Lilleborg in the Unilever combine was a first step in this direction. This would give Unilever control over all oil mills in Norway and thereby over the supply of raw materials to the independent margarine factories.

However, although the foreign multinational had considerable leverage on the Norwegian government, that could be countered by the ability of local firms in shaping

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<sup>62</sup> Mork, *Smørmarked*, p. 19.

<sup>63</sup> Bugge, *Margarinindustrien*, pp. 24-5.

<sup>64</sup> RA, PA 636 Norges Industriforbund, Box L1347, **Folder 2, Sammenslutning Denofa- Lilleborg og Unilever** [Merger between Denofa-Lilleborg and Unilever] 1930-32, Letter from top manager Kristian Golden in the margarine producing company Mustad & Søn to the director of the Federation for Norwegian Industry, Lorenz Vogt, 18 Sept. 1930.

policy. The domestic producers went straight to the Ministry of Trade and asked for help. They got a sympathetic hearing. The head of the margarine delegation stated that trade minister Lars Oftedal ‘understood the situation at once’.<sup>65</sup> Oftedal already knew Lever Brothers and Unilever quite well. He had for a long time tried to stop Angus Watson (a Lever subsidiary) from gaining control over the Norwegian fish canning industry. This had not been an easy task.<sup>66</sup> 17 Norwegian canneries were according to Oftedal ‘infected’ by Angus Watson and Lever Brothers.<sup>67</sup> But he had to tread carefully when defending the canning and margarine industry as Lever Brothers was the largest purchaser of Norwegian canned fish and dried fish. A frontal attack on Lever Brothers could therefore easily damage Norwegian business interests. Oftedal was a nationalist, but he was also a pragmatic politician who was closely aligned with the Norwegian fishing industry.<sup>68</sup> He had to take the Norwegian whaling industry into consideration as well. It generated more than 5 per cent of Norwegian exports and – as previously said – almost all of the whale oil was sold to the Unilever companies. Compared to whaling and fishing, the domestic margarine industry had secondary importance.

The Norwegian government was therefore prepared to accept the cross-ownership between Denofa and Lilleborg, an arrangement that gave Unilever substantial influence over Lilleborg. But it demanded something in return; the British-Dutch combine had to come to terms with the domestic margarine industry. Unilever balked at this demand. In early May 1930, Unilever’s top managers Anton Jürgens and D’Arcy Cooper communicated this very clearly during a lunch with the Norwegian ambassador to the United Kingdom.<sup>69</sup> However, the government did not back down and in the end Unilever capitulated. In the negotiations with the Norwegian margarine producers Unilever was given 19 per cent of the Norwegian market, its market share at the time. The Unilever also promised not to export any margarine to Norway. In return, Unilever got permission to purchase quotas from independent

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<sup>65</sup> RA, PA 636, Norges Industriforbund, Box L 1347, Folder 2 Sammenslutning Denofa – Lilleborg og Unilever [Merger between Denofa-Lilleborg and Unilever] 1930-32, Stenografisk referat fra diskusjon i Statsøkonomisk forening [Shorthand minutes of the discussion in the Norwegian Association of Economists] 10 December 1930, contribution by director Kristian Golden in Mustad & Søn.

<sup>66</sup> RA, HD, Industrikontoret, Box Fb0015, Eiendomstransaksjoner [Property transactions], Minutes from a meeting in the Parliament’s Control Committee (protokollkomité) 24 Feb. 1931, where trade minister Oftedal was present.

<sup>67</sup> In parliament, Trade Minister Oftedal used the word ‘infisert’, i.e. ‘infected’, by Unilever. (*Norwegian Parliament’s Proceedings, 1931*, VIII, p. 326.)

<sup>68</sup> Sandvik, ‘Såpekrigen’; Kolnes, *Statsråd Lars Oftedal*, p. 32.

<sup>69</sup> RA, HD, Industrikontoret, Box Fb0015, Eiendomstransaksjoner [Property transactions], Folder Diverse konsesjonssaker, bl.a. St.meld. 16 1931 [Miscellaneous applications, i.e. Report to the Storting 16 1931], Letter from Ambassador Benjamin Vogt to the Prime Minister, 5 May 1930.

producers, but the market share was not allowed to exceed 34 per cent. The accord was quite similar to the cartel agreement that Margarine Unie had refused to sign in 1929.<sup>70</sup>

Trade minister Oftedal also tried to negotiate a similar arrangement for soap. Unilever accepted that it was not allowed to increase its market share. (Lilleborg, Denofa and Lever Brothers had a combined share of ca. 40 per cent). However, the independent domestic producers did not manage to agree on how to divide the remaining 60 per cent. In the end, after strong pressure from Oftedal, Unilever, Denofa and Lilleborg publicly declared that they would not exceed their allotted market share and that they would agree to minimum prices.<sup>71</sup>

With the support from the government and the agreement with the domestic margarine producers, everything appeared to be on track. Yet, the process was soon to derail. The trust control agencies also reviewed the cross-ownership between Denofa and Lilleborg as well as the margarine cartel agreement. The trust control council advised the government not to permit the cross-ownership between Denofa and Lilleborg. This was not motivated by consumer interests or market considerations, but by nationalist arguments.<sup>72</sup> If the deal went through foreigners could get a too large an influence over the Norwegian margarine and soap industries. The trust control director Wilhelm Thagaard also had good contacts in the influential Liberal newspaper *Dagbladet*, which started a press campaign against Unilever and the government's alleged betrayal of national interests.<sup>73</sup>

The opposition probably helped trade minister Oftedal to win some extra concessions from Unilever. In mid July 1930, Unilever promised to uphold production at Lilleborg's plants in Stavanger and Trondheim (this was important due to regional interests). Unilever also guaranteed that Denofa would remain one of Unilever's main processing plants for whale oil and other marine oils. Its relative share of Unilever's production of such products would not be reduced. On 22 July 1930, Unilever, Denofa and Lilleborg finally got the government's official blessing for the cross-ownership between Lilleborg and Denofa.<sup>74</sup>

However, Wilhelm Thagaard and the trust control agencies did not give up that easily. When Thagaard understood that the government would give the permit, he convened a new meeting in the trust control council. It did not have the authority to revoke the permit, but it

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<sup>70</sup> *Norwegian Parliament's Proceedings, 1931, II, St. med.* [Report to the Storting] 16.

<sup>71</sup> RA, HD, Industrikontoret, Box Fb0015, *Eiendomstransaksjoner* [Property transactions], Folder Div. skriv vdr. *De-no-fa og Lilleborg Fabrikker* [Miscellaneous documents regarding De-no-fa and Lilleborg Fabrikker], declaration from Denofa and Lilleborg, presented to the Norwegian government, 30 June 1930.

<sup>72</sup> *Norwegian Parliament's Proceedings, 1931, II, St. meld.* [Report to the Storting] 16: 14-15. *Trustkontrollen*, no. 28, 1930.

<sup>73</sup> Mjeldheim, *Den gyldne mellomvegen*, p. 283. See also Dahl et al., *Dagbladet*, pp. 82-7.

<sup>74</sup> *Norwegian Parliament's Proceedings, 1931, II, Stortingsmelding* [Report to the Storting], 16: 13. UAP, Box 19, Director Conference Files 1930-32, Conferences 17 July and 24 July 1930.

could review the margarine cartel agreement which Unilever and the domestic industry previously had agreed to. The council refused to accept the provisions that Unilever could increase its quota to 34 per cent of the Norwegian margarine market. Any purchases had to be reviewed case by case.<sup>75</sup> It had legal authority to do so. This decision was totally unacceptable for Unilever. The British-Dutch company had no illusions that the nationalistic trust control agencies would ever accept that the company made any new acquisitions. Its quota would therefore remain stuck at 19 per cent. This meant that Unilever would get nothing for all the extra concessions it had made in the negotiations with the government.

The trust control council's decision came as a big surprise and it had major economic, as well as political, implications.<sup>76</sup> Firstly: It could endanger Norway's sales to Unilever. This could harm the whaling industry, the sealing industry as well as the fisheries. Denofa's future was also at stake. Denofa was badly in need of financial support from Unilever. It also sold most of its production to this company. Secondly: The trust control council's decision set off a turf war between the government and the trust control agencies. The government was furious that the council tried to decide matters which it perceived being far outside the council's area of authority. Thirdly: the decision set off a battle over the hegemony of the Liberal party. Prime Minister Mowinckel was an avowed internationalist and a supporter of moderate laissez faire capitalism. Most of his government colleagues seem to have been a bit less conservative in their economic outlook, accepting more state intervention and more economic nationalism. However, they supported Mowinckel against his main antagonist in the Liberal party, the progressive trust control director Wilhelm Thagaard.

This is not the place to follow all the political and administrative complications that ensued with regard to Unilever and Lilleborg.<sup>77</sup> The main points are the following. By October 1930, Thagaard had won the turf war against the government concerning the margarine quotas. Because of this, the government decided to change the trust law in order to bypass the objections from the trust control agencies. The opposition interpreted this as a shameful subordination of national interest in order to placate a giant foreign firm. The public debate became increasingly heated during the spring of 1931.

In early May 1931, a motion was put forward in Parliament which severely criticised the government's handling of Unilever and the cross-ownership between Denofa and Lilleborg. The parliamentary debate on this motion provides an interesting source to the

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<sup>75</sup> RA. Trustkontrollkontoret's archive. Box Da-0069 Rådsaker [Board Issues]. Folder "Rådssak [Board Issue] 432". Letter from Wilhelm Thagaard to Stortingets Justiskomiteé 1 May 1931.

<sup>76</sup> The following is based on Sandvik, 'Såpekriegen'.

<sup>77</sup> See Sandvik, 'Såpekriegen'.

prevailing economic thinking among Norwegian political elites and their attitudes towards Unilever. Prime Minister Mowinckel was the sole defender of what could be called a moderate *laissez faire* policy. All others defended some sort of economic nationalism, some of a moderate kind, some of a more radical variety. Economic interests also played a role. There was a tendency that representatives from fishing and whaling districts supported the government's handling of Unilever, while those representing agricultural (and butter-producing) regions were more critical.<sup>78</sup> However, even some of the government's supporters portrayed Unilever as a beast of prey that had to be controlled. The more radical nationalists wanted the Norwegian state to combat the company. Several representatives referred to the above-mentioned tobacco-war where domestic companies successfully had fought off a giant foreign enterprise. One representative, the later Prime Minister Jens Hunsæid, compared Unilever to the Hanseatic League,<sup>79</sup> which (according to general wisdom at the time) helped bring about the downfall of independent Norway in the late middle ages. The message was; something similar could very well happen again if Unilever got free reins. There were also socialist attacks on foreign monopoly capitalism and the government's handling of Unilever.

After a three day debate the motion was approved. It was supported by the Labour party, The Farmers' party as well as two renegades from the governing Liberal party. The government chose to step down. It was now totally in the blue what would happen to Unilever's investments in Norway and to Denofa and Lilleborg.

Unilever's managers were furious about the development in Norway. The company's Norwegian lawyer, Per Rygh, noted in his diary that they were 'deeply insulted and in a very warlike mood'.<sup>80</sup> The company was inclined to pull out of Norway and let Denofa go bankrupt. The consequences for Norwegian whaling were even more serious. In the spring of 1931, Unilever declined to buy any Norwegian whale oil from the coming hunting season. As a result, several thousand whalers lost their livelihood. The effects were also keenly felt by shipyards and other firms which supplied the whaling fleet. Unilever had at this time large stocks of whale oil due to falling demand for soap and margarine. However, Norwegian whalers noted that both Unilever's own whaling ships as well as other British expeditions went to the Antarctic as usual. Unilever's declining purchases almost exclusively hurt Norwegian whalers.<sup>81</sup>

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<sup>78</sup> Sandvik, 'Såpekrigen'.

<sup>79</sup> *Norwegian Parliament's Proceedings, 1931*, VIII, pp. 221-6.

<sup>80</sup> Nasjonalbiblioteket (The National Library, hereafter NB), Per Rygh's diary, 14 May 1931. The original quote is "dybt krenket og sterkt krigersk stemt".

<sup>81</sup> Tønnessen, *Moderne hvalfangsts historie*, III, pp. 392-9.

In his discussion with Per Rygh, Anton Jürgens even threatened to put an end to the Norwegian whaling industry by halting *all* future purchases of whale oil. Per Rygh, who was Norway's top commercial lawyer, was in no doubt that Anton Jürgens was both sincere and capable of doing this.<sup>82</sup> Unilever's defiance must partly be explained by the sheer economic power which the company could wield against a small state like Norway. It must also be interpreted in light of the economic development in 1930-31. The investments in Lilleborg that had seemed quite sound in February 1930 did not look that good in May 1931. Unilever thus seemingly had little to lose from a standoff against Norway.

Per Rygh, at least if we believe his own diaries, was able to convince the Unilever management that they still had a chance to persuade the new Norwegian government to accept the contested cross-ownership between Denofa and Lilleborg and to let Unilever's Norwegian margarine factories acquire 34 per cent of the Norwegian margarine market. Rygh was therefore instructed to communicate Unilever's viewpoints to the new Prime Minister Peder Kolstad.<sup>83</sup>

After Mowinckel and the Liberal party resigned, Peder Kolstad and the Farmers' party formed the next government. This government had a weak parliamentary base and is perhaps most well known for its choice of the later infamous Vidkun Quisling as Minister of Defence. The Farmers' party had been steadfast in its opposition to Unilever. This may partly be explained by the party's strong nationalist traits, but also by the fact that margarine hurt sales of butter and thereby farming interests. One of the first decrees of the new government was to require that butter had to be mixed into all margarine.<sup>84</sup> This measure was of great help to the distressed dairy producers. The decision probably also helped reduce the grudges Norwegian farmers had against the margarine industry and a margarine producing company like Unilever.

In the coming weeks there were tough battles within the government over how to handle Unilever and the cross-ownership between Denofa and Lilleborg. An acceptance would no doubt amount to a significant political defeat. However, Prime Minister Kolstad recognised that a conflict with Unilever could become very costly for Norway. He was eventually able to persuade a majority of his government colleagues to accept Unilever's demands.<sup>85</sup> The government circumvented the trust control agencies by dropping any

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<sup>82</sup> NB, Per Rygh's diary, 18 and 19 May 1931. Unilever's internal documents also show that the company was ready to use whale oil as a bargaining chip. (UAP, Box 19, Directors' Conferences 1930-32, Conference 2 Oct. 1930.

<sup>83</sup> NB, Per Rygh's diary, 14-20 May 1931. The authorization to approach Kolstad is mentioned on 20 May 1931.

<sup>84</sup> Hovland, 'Smør og margarin'.

<sup>85</sup> *Norwegian Parliament's Proceedings, 1931*, VII b, p. 1785; NB, Per Rygh's diary, 26 May, 23 June, 29 June, 6 July, and 7 July 1931; Lindboe, 'Tredveårene', pp. 25-31.

reference to the margarine cartel that was negotiated in June 1930. In return, Unilever guaranteed that it would stand by its earlier promise not to exceed a market share of 34 per cent. In order to achieve this political turnaround, Kolstad probably had to make a sacrifice to the most nationalist part of his party. He grudgingly accepted that Norway was to occupy the Danish governed Eastern Greenland, an act which brought Norway into a harsh dispute with Denmark which ended with a humiliating defeat in the International Court in Hague.<sup>86</sup>

The government gave Unilever, Denofa and Lilleborg the necessary permits on 10 July 1931. However, Unilever protracted and did not sign the agreement. The economic depression was becoming more severe by the day and in July 1931 the investments in Norway were probably seen as utterly unprofitable. Denofa showed catastrophic results. The company lost 4.7 million kroner (£235,000) during the first seven months of 1931. By 31 July, Denofa's total debts amounted to 40 million kroner, all guaranteed by Unilever.<sup>87</sup>

Per Rygh was nevertheless very irritated about Unilever's conduct and its refusal to sign. The government had accepted a major defeat in order to placate the company. If Unilever now pulled out it would lose every grain of political goodwill which it still had in Norway. Neither would such an action have encouraged other governments to deal with Unilever. In the end, in September 1931, Unilever decided to authorise the agreement and to accept the negotiated terms.<sup>88</sup>

The battle over Unilever's expansion thus ended in a compromise. It did get permission to acquire 50 per cent of Lilleborg, the major Norwegian producer of soap and vegetable oils for the margarine industry. But Unilever was not allowed to fully exploit the market power it accrued through this purchase. The company did not achieve its initial aim of gaining 75 per cent of the Norwegian markets for margarine and soap. It had to settle for maximum 34 per cent for margarine and 40 per cent for soap.

In December 1931, Unilever decided to move the production of refined and hardened whale oil from its plant in Bromborough to Denofa,<sup>89</sup> a decision that obviously strengthened the latter company. This development was quite different from what the Norwegian nationalists had feared. In the following years, Unilever and Lilleborg also negotiated cartel

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<sup>86</sup> Lindboe, *Tredveårene*, p. 31; Gabrielsen, *Menn og politikk*, pp. 81-2. This was probably a quid pro quo. Both Prime Minister Kolstad and the foreign minister Braadland were initially against the occupation.

<sup>87</sup> UAP, UNI/S.C Box 47, Treasury 1931-33, Meetings 6 Aug., 27 Aug. and 10 Sept.; DCA, **Direksjonsprotokoll** [Board protocol] 1926-32, meeting 9 Oct. 1931.

<sup>88</sup> UAP, UNI/S.C Box 18, Folder, Special Committee, General Matters, 28 July-31 Dec. 1931, meetings 18 Aug. and 4 Sept. 1931; UNI/S.C Box 33, Folder Special Committee Meetings, Continental Committee, 29 July 1931-14 Dec. 1931, meeting 16 Sept. 1931; NB, Per Rygh's diary, 10 Sept. 1931.

<sup>89</sup> UAP, UNI/S.C Box 33, Folder Special Committee Meetings, Continental Committee, 29 July 1931-14 Dec. 1931, meeting 9 Dec. 1931.



agreements with the domestic margarine and soap industry. The deals were hesitantly approved by the trust control agencies.<sup>90</sup> Unilever had now become quite capable of manoeuvring in the politicized Norwegian economy. It should also be mentioned that at this point (1934-35) Norwegian nationalism was on the wane. After Norway lost its case over the occupation of Eastern Greenland in the international court in Hague in 1933, the nationalists lost clout. Furthermore, the depression showed that it was far more important to secure investments and employment, rather than letting business be bogged down by struggles over the investor's nationality. One conflict remained however. The aging Trygve Gotaas, from the above-mentioned Kildal family dynasty, remained at his post as chairman of the board in Lilleborg. He continued his fight to defend the autonomy of the family firm against Unilever.<sup>91</sup> And although the old man did not live to see it, his quest to defend the autonomy of Lilleborg paid off in the end. In 1958, Unilever agreed to sell all its shares in the company back to Norwegian owners.

#### IV

The birth of Unilever in 1929 was the culmination of a series of mergers that created the largest company in Europe. It was the highpoint of the general merger wave of the 1920s. The main reason for the merger was the common interest of the constituent firms in the raw-materials market, and the merger made it possible for the former competitors to rationalise and coordinate their operations. Yet, as this article demonstrates, the merger was of a great importance not only to the merging partners and their respective home economies, but it also had a huge impact on the countries in which Unilever operated. Such large-scale mergers could put whole economies at stake.

In the power struggle between Unilever and the Norwegian state the balance of power tipped decisively in the foreign company's favour. The firm specific assets of Unilever - the company controlled the fate of Denofa, it controlled the future of Lilleborg, and most importantly it controlled the future of the Norwegian whaling and sealing industry - gave the company overwhelming leverage towards the Norwegian authorities. It was this leverage which made it possible for Unilever to push through the 50 per cent acquisition of Lilleborg, despite the fact that both the Mowinckel and the Kolstad governments were ideologically opposed to the decision. The Kolstad government even came to power because of its

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<sup>90</sup> Bugge, *Margarinindustrien*, pp. 35, 51-8; Mangset, *Industri, stat og karteller*, pp. 112-14.

<sup>91</sup> LA, *Folder Taler, Avskjedstale [Farewell speech] Torvald Moe*, 27 April 1962.



opposition to the concession, and when it had to give in to Unilever's demands it was a shameful political defeat from which it never recovered.

However, on closer inspection, this is not such a black and white story. Although Unilever's position vis-à-vis the national authorities seemed overpowering, the company was not able to achieve the total dominance that it aimed for in Norway. The reason for this was twofold. First of all, Unilever encountered stubborn resistance in Norway, both from local competitors and from the government. The leverage of the Norwegian government was, in accordance with Geoffrey Jones' framework, tied up with the domestic politics of policy formation. The Norwegian authorities could lean on a regulatory framework that put heavy restrictions on the operations of foreign companies, and it demanded concessions from the company in return for letting the purchase go through. The autonomy of the trust control agency made the political process less predictable, and this also contributed to wresting additional concessions from Unilever. As we have demonstrated, government was not a monolithic entity. The most ardent nationalists, including several government ministers, were willing to run the risk of jeopardising the future of the important Norwegian whaling industry in order to halt Unilever's advance. Unilever had for its part nothing to gain from an all out battle with Norwegian authorities. A multinational will always find it challenging to beat adversaries who maximise non-economic aims. The company therefore found it sensible to seek conciliatory solutions.

The second reason why Unilever had to compromise had to do with the company's multinationality. As the company's lawyer, Per Rygh, pointed out, the manner in which the company operated in Norway could affect the way other host countries perceived Unilever. The company was dependent on the goodwill of the host governments and societies in which it operated, and if it trampled over Norwegian sensibilities that could translate into loss of goodwill in other countries. There was thus more at stake in the Lilleborg case than just the Norwegian market.

On a general level, the Unilever-Lilleborg case shows that in the relationship between multinationals and host economies, the outcome is not dictated solely by the direct economic power that the different parties wield. If that had been the situation, Unilever could have imposed the result it wanted. In order to explain the outcome of the case we have to look beyond a cost-benefit oriented analysis of the relationship between the parties, and also study the historical context. The rising nationalist sentiments of the interwar era posed risks and challenges for companies doing business across borders. If necessary, nationalist politicians could sacrifice well-established trade links and growth in order to secure economic

independence. Business success is not only about power, it is also about navigating in politicized environments, in which economic considerations not always come first. Unilever's acquisition of Lilleborg and the Norwegian response thus contributes to our understanding of the political economy of foreign direct investment.