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FROM WASHINGTON TO FOREIGN OFFICE

En Clair

FOREIGN OFFICE AND WHITEHALL
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Sir R. Makins
No. 1724
August 21, 1956

22 AUG 1956
EXH 1
R. 8.17 p.m.

5.45 p.m. August 21, 1956
8.17 p.m. August 21, 1956

Following article by William J. Humphreys headlined "United States kept in dark on Suez - British refusal to share military plans reported" and date lined London August 20 appears in today's New York Herald Tribune.

Begins.

American military authorities said here today that Great Britain had kept them completely in the dark about military planning in the Suez Canal crisis despite the American requests for detailed information.

In asking to be kept fully informed the American authorities explained, they had acted on the theory it would be better for the whole North Atlantic alliance if Britain's principal Ally knew what the British were prepared to do and with what forces in case of armed conflict.

However, this American view was given the cold shoulder and American military men here came to the conclusion that the decision to keep them frozen out of Britain's precautionary planning was wholly political [gp.undec. ? and] blame Government.

The clear-cut impression in American military circles is that their request had the sympathy of some high quarters in Britain's armed services but that the government, anticipating American opposition to force at the outset of the canal crisis, decided against letting the United States in on the secret planning.

The American authorities emphasized that their request was purely a professional action devoid of any political significance and that the British officers with whom they dealt fully appreciated the non-political nature of the American request.

"Our position was simply this", one American officer said, "we try to be ready for any eventuality. So why keep the Commander of the United States 6th Fleet in the Mediterranean in the dark about British commitments and possible intentions there ?

"The

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Washington telegram No.1721 to Foreign Office

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"The 6th Fleet would be severely handicapped should it suddenly be ordered to assist its British Allies when it knew nothing about their disposition, nature or plans", the American officer remarked.

He added that the United States now has complete information about troop movements Britain had made in the canal crisis because London newspaper reports of them had been found to be accurate. But the British freeze on planning still is effective he said.

Ends.

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DECLARATION

BY THE

BOARD OF THE SUEZ CANAL COMPANY.

The Board of the Suez Canal Company, at an emergency meeting held on Friday, August the 3rd 1956, rejected the pretension of the Egyptian Dictator to nationalize the Suez Canal as from July 26th 1956. The original Act of Concession dated 30 November 1854 provides in Article 2 that the duration of the Concession should be for for 99 years from the opening of the Canal between the two seas, that is to say until the 17th November 1968. For one hundred years that claim has never been contested, and it was confirmed by the Cairo Convention of the 7th March 1948 (Article 23) between the Egyptian Government and the Suez Canal Company, which was ratified by Egyptian Law No. 130 of 1948. Also in recent negotiations between the Suez Canal Company and Colonel Nasser's administration the length of the Concession has never been challenged. In the circumstances the Board can only denounce the unilateral termination of their concession and the seizure of their property, without warning and by force, as an unprecedented act of piracy.

These are by no means the only Conventions that Colonel Nasser has broken. For example, the requisitioning of non-Egyptian personnel to carry out his policy under threat of imprisonment was a breach of the international Labour Convention No. 29 approved by the General Congress of the International Congress of the International Labour Organisation which Egypt herself has expressly ratified.

All these proceedings are contrary to the letter and spirit of the United Nations as set forth in the preamble and in the purposes and principles in Article 1 of the Charter as well as in the letter and spirit of the International Convention of Constantinople, 1868.

The preamble of this latter Treaty is headed by the solemn words "Au nom de Dieu Tout Puissant". Most of its clauses are devoted to the avoidance of war in all its forms or the employment of force in the canal and its branches, its materials, establishments, buildings, its free navigation, its ports of access and by implication its personnel.

For

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For many years that Treaty has been the guide to the policy and practice of the Suez Canal Company, which has sought in the technical field of day to day operation and of long-range development to keep the canal "free and open, in time of war as in time of peace, to every vessel of commerce or war, without distinction of flag. (Article I).

Maritime

The Board of the Compagnie Universelle du Canal/de Suez believe that the maritime Powers, whether signatories of the Treaty of Constantinople or not, as well as those responsible for the world shipping that uses the canal and the captains and crews of the individual ships all recognise that their task has been carried out (often in the face of great difficulty and obstruction) with success. In order to restore the confidence of international shipping and trade as soon as possible they earnestly appeal to the Governments and peoples concerned without delay to take all steps within their power to enable the Company to resume the active control of the Canal pending the solution of the political aspects of the ~~problem~~

5 August, 1956.

Approved by the Board of the Suez Canal Company.

O N R E F E

E. 14211/1028 GNL
 J. Mr. Shepherd
 Mr. Phillips
 306 BUA 81
 15/8
 MT J. L. W.

SUEZ CANAL.

There is an obvious danger, to which Mr. Crosthwaite drew attention in his letter of August 2... that the Egyptians may, perhaps, after the London Conference has invited them to accept whatever solution it proposes, appeal to the Security Council on the score that the Anglo-French military preparations constitute a threat of force under Article 24 of the United Nations Charter. As Mr. Crosthwaite pointed out, it would be exceedingly difficult, if not impossible, to defeat an innocent-sounding resolution which deplored the use of force etc.

2. I have therefore been considering what tactics we could employ to counter this danger and I have also discussed it with M. Tind of the French Embassy, whose experience of the United Nations is considerable. M. Tind agreed with our view that it would be a mistake to seek to oppose the inscription of an item relating to the Suez Canal dispute. But we might well dispute the wording of the item on the Security Council agenda. The Egyptians would seek to word it in such a way as to pre-judge the issue: we should be entitled to argue that the item must be objectively worded and should not have undue difficulty in securing a majority for this.

3. After this preliminary skirmish, our next objective would be ~~unrealistic~~ to put a resolution before the Security Council before the Egyptians do so. The Egyptian delegate would have the right to speak first as representative of the country bringing a complaint before the Council. But once an item is inscribed on the agenda it is, I believe, possible to put in a resolution before the debate begins. It would therefore, - at least in theory - be open to us to table a resolution before the debate began. If we decide not to do this we should certainly table a resolution when we or the French replied to the Egyptian case.

4. The terms of our resolution would obviously require careful consideration. It might begin by recalling the failure of Egypt to comply with previous resolutions endorsing the principle of the freedom of navigation in the Suez Canal in respect of Israeli ships. (I realise that we are anxious to keep Israel out of this dispute so far as possible, but the Egyptian refusal to comply with resolutions on this subject is such a strong argument that we can hardly disregard it.) Our resolution could then go on to endorse once more the principle of the freedom of navigation and end up by supporting the proposals of the Western Powers for an international authority for the Suez Canal as a means of ensuring freedom of navigation in the future.

5. If we do not succeed in getting our resolution in first, it would still be open to us to ask for it to be considered before the Egyptian resolution. This is a point of procedure on which the Council would have to vote, but we might well be able to secure a majority in favour of considering our resolution before the Egyptian one. One point we should have to bear in mind is that if our resolution is entirely different in character from the Egyptian resolution, the Egyptians could argue that ours does not preclude theirs and urge that both should be passed. We should therefore try to cover in our resolution at least some of the points the Egyptians are likely

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to make. Owing to the obvious difficulty of forecasting just what the Egyptians would be likely to include in their resolution this is an argument for waiting to see what they propose before putting forward our own resolution. I doubt however if the argument is conclusive since it would always be open to us, in a spirit of magnanimous compromise, so to amend our own resolution as to include any unobjectionable parts of the Egyptian resolution and thus argue that the latter was redundant.

6. Subject to Sir G. Fitzmaurice's views and your own, I think it might be useful to put these points to Mr. Crosthwaite and get the Delegation's views on them. As this is primarily a problem of United Nations procedure the U.S. Dept. or I would be glad to draft.

(I.T.M. Pink)
August 15, 1956.

Sir G. Fitzmaurice.

Mr. Ross.

Copies to: U.N. Dept.
African Dept.

I think this is right. But I would prefer to keep the Israel issue out of it, if possible. I think it would be better to ~~put~~ defend our military preparations on the grounds of precautionary measures in view of our concern for the future of the Canal & the large number of British subjects in the area who might be endangered - & generally play down the extent of our preparations.

W. Bligh
14/8

W. Bligh

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The Suez Conference.

The ISRAEL AMBASSADOR told me today that he regarded yesterday's proceedings as quite satisfactory. A member of the American delegation told him that Mr. Dulles had been rather dismayed by the attitude of the Labour Party and the Left Wing Press here generally. Consequently, he had made his speech stronger than he otherwise would have done.

2. The Ambassador then proceeded to give me another pep talk; and he emphasized that if we wished our friends to rally round us we must leave them in no doubt that we should use force unless we secured an acceptable solution.

3. The Ambassador then went on to say that from the selfish Israel point of view he hoped that we would get what we wanted without war. The outbreak of war and the convulsions which would follow in the Middle East would bring with them great dangers for Israel. His country would prefer it if Nasser could be out down to size and eventually eliminated by a slow process rather than by the quicker one of war.

4. According to the information of the Israel Government there was already considerable dissatisfaction in the satellite countries in regard to reports of Russian aid for Egypt. In particular in Poland, where the population was living on the verge of starvation, it would not be understood if no economic aid were given to Poland and millions poured out on Egypt. But the Ambassador thought that the attitude of the satellites, apart from all other considerations, would have some influence on the Russian conduct of affairs.

JK

August 17, 1956.

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ESECRETNote for Record.

Sir Raghavan Pillai came to see me this afternoon on arrival for the Suez Conference and we had a brief discussion.

2. From the U.K. side I stressed in general terms the arguments contained in the Brief for discussion with Mr. Krishna Menon.

3. Sir R. Pillai's main points were the following:

(a) India was very greatly concerned that we should not resort to force. He realized perfectly well how exasperating Nasser's action had been and the Government of India were fully conscious of this. But it was difficult for him to exaggerate how high our general moral prestige was in India. He thought he spoke equally for Pakistan and Ceylon. Resort to force would have a very grave effect on Indian opinion and he thought in the other two new Dominions also.

(b) In particular it would place in a very awkward position the Asian members of the Commonwealth who were anxious to stay in the Commonwealth. That was the major consideration but at the lower level it would be a real set back to our friends who understood and admired the work of this country and were anxious that there should be no severance. India, in particular, was anxious not to lose or be severed from one of the few good friends she had.

(c) In any event if we were contemplating force, which for the reasons given he most sincerely hoped we were not, it would be much better if we did not say so much and so often that we had it in mind. All this helped to build up feeling against us in Asia and to make the task of those who were anxious to find an accommodation which we could accept more difficult. In India it was in particular true that on the issue generally

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public opinion was much ahead of the Government and took a far less balanced view. It was obvious from the difficulties which Mr. Mohamad Ali had encountered at Karachi as reported in the Press that that was also true of Pakistan.

4. He much regretted that the time which Mr. Krishna Menon and he had spent in Cairo had been so short and he had himself been out of action during part of it. His general impression was, however, that Colonel Masser was in a more chastened mood. They were clear that he was against the type of international control that the Three Powers had in mind but it was possible that something could come out of these discussions which he would accept and which would be acceptable to the other authorities.

5. The Indians had, as I understood Sir R. Pillai, stressed when in Cairo the awkwardness of a situation in which there was no one in touch with the Conference to represent the Egyptian point of view or with whom there could be informal talks by members. That point had, he thought, gone home and it had been put forward independently by Mr. Ali Sabry. He had now heard that Mr. Sabry was being sent over to be attached to the Embassy for the period of the Conference. This might prove very useful. Mr. Sabry had been balanced and careful in his public utterances on behalf of the Egyptian Government and was, he thought, a person of good judgment.

6. Reverting to the question of international control Sir R. Pillai said that India was all in favour of an international partnership and regarding the Canal in effect as an International Public Utility. He thought that the words "authority" or "control" were to be deprecated because of the reaction they tended to produce

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in the minds of the Egyptians. He did not himself envisage a "partnership" which should be merely advisory but rather one under which there should be the closest association on all functional levels with the Egyptians.

7. We were interrupted at this stage and I was unable to take the conversation further but Sir R. Pillai has promised to come back for a further talk.

(Sgd.) GILBERT LAITHWAITE.

J.G.L.
15th August, 1956

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CONFIDENTIAL

JE14211/104(A)

INDEXED

JE14213/133

*in larger
attach*

I attach a letter from Monsieur Charles-Roux to the Secretary of State, enclosing a letter from himself to the President of the International Conference which he requests should be brought to the attention of members of the Conference. *in the letter*

2. The enclosed letter is a plea that the Suez Canal Company, reformed on a broader international basis, should be allowed to continue its functions. It is argued that a decision by the Conference to liquidate the Company would constitute "implicit approval of the arbitrary action taken by Egypt."

3. I see no harm in acceding to Monsieur Charles-Roux' request. I suggest that his letter be circulated to members of the Conference, and that an acknowledgement be sent from the Secretary of State mentioning that this is being done.

*with
V.C.*

4. I submit a draft.

J.H.A. Watson

(J.H.A. Watson)
August 20, 1956.

*I assume that the letter could not be
circulated as a Conference document and
that*

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that all we could do w^d be to circulate it to the other Delegates with a covering letter from the Secretary General written by direction of the Chairman.

This will certainly not help the Company, except to the extent that it constitutes a reservation of all its rights. It may even prejudice Delegates against the Company. On the other hand, I cannot see that it will damage our interests and prospects. To refuse to take any action w^d be discourteous & give rise to suspicion & criticism.

Q: circulate as proposed and reply as in the attached draft.

Sir G. F. Maurice

Mr H. G. G. G. G.

Admiral Ross
29/8

I agree - not as a conference document, but as a letter which I have received as Chairman
 J. G. G. G.

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ETRANSLATION

Paris, 20th August 1956

Compagnie Universelle
du
CANAL MARITIME DE SUEZ

1, Rue d'Astorg

Sir,

On 14th August 1956 I had the honour to send you a letter in which I set out the Suez Canal Company's attitude at the time of the opening of the London Conference. I begged Your Excellency, if Your Excellency thought it possible, to bring the contents of that letter to the knowledge of the members of the Conference.

As I am able to follow the progress of the Conference only from the Press, I have formed the impression that the Conference would probably come to an end soon and I must now call your attention not to the general question of the attitude of the Conference towards the Company but to matters of immediate concern which the Conference does not appear to have so far considered. I refer, on the one hand, to the constraint under which our non-Egyptian personnel is compelled to work and

The Chairman,
The International Conference on the Suez Canal,
London.

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to the operation of the Canal itself which is linked with these conditions of work, and, on the other hand, to the matter of collecting transit dues payable by shipowners since 27th July.

At the pressing request of both Her Majesty's Government and the French Government, the Canal Company agreed to induce its employees to remain at their post until the end of the Conference despite the intolerable conditions under which they have to perform their duties. Information reaching me from Egypt bears witness, more alarmingly as time goes on, of these unacceptable conditions of work and shows that there is no little bitterness among the Company's employees at being compelled by the Company to accept work which is profoundly distasteful to them. These employees expect new instructions from the Company as soon as the Conference has ended and I cannot hide the fact that these instructions can be no other than to stop work and be repatriated. Any other instructions from us would be liable not to be obeyed by the Company's personnel as a whole and this is a situation that the Company will never accept to bring about. In this connection I take the liberty of referring Your Excellency to Memorandum No. 1 enclosed.

It appears essential to me that the London Conference be acquainted with this state of affairs: the enclosed Memorandum will give you further details on the subject and will suggest

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the only means by which the Nations assembled in London could, if they thought it essential, ensure that the Company's employees remained on duty for a few weeks more.

The matter of payment of transit dues, while not being of such vital importance in the immediate future should nevertheless, in our opinion, be considered and settled before the Conference disperses.

Your Excellency is aware that for nearly a month the Company has collected transit dues paid by shipowners of some countries and that with or without the explicit agreement of their Governments shipowners of other countries pay these dues to the Egyptian Government. As all effective control by the Company over payments has ceased it is even possible that some ships have passed through the Canal without paying dues. Such state of affairs cannot continue to exist even for a few weeks without serious deterioration both in the attitude of shipowners and in the future position of the Canal organization.

It seems essential to us that after the Conference all shipowners should pay dues in the same manner and that some form of control should make it possible to verify that dues are paid in every case: the enclosed Memorandum No. 2 outlines the solution which, in the Company's view, would be the only really effective one. This may however be a matter which does not concern the 22 members of the Conference and which could be dealt with by

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a sub-committee composed only of the Nations whose shipowners are the Canal's most important clients.

These, Sir, are the two most important subjects among those which urgently call for discussion between the Conference and the Company. I am very much afraid that if these matters were not considered and settled before the Conference disperses, a very serious deterioration in the operation of the Canal would be unavoidable during the next few weeks, and any solution of an international nature for the future operation of the Canal, even if satisfactory, would be powerless to remedy such deterioration within a short time.

I am, Sir, etc.,

(Signed) F. CHARLES-ROUX

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TRANSLATION.

MEMORANDUM NO. I.

POSITION OF THE SUEZ CANAL COMPANY'S
PERSONNEL AFTER THE END OF THE LONDON CONFERENCE.

It is the duty of the Suez Canal Company to draw the attention of the Powers taking part in the London Conference to the very serious problem of the position in which the Company's employees will be placed after the Conference has ended.

I. Present situation.

Immediately after Colonel Nasser's arbitrary action, the Company's Management, at the request of the French and British Governments, ordered the non-Egyptian employees to remain at their posts, so that there should be no disruption at the Canal before and during the London Conference. The Management also asked the employees to declare their loyalty by having their names put down at the Consulates in the Isthmus and expressing their wish for eventual repatriation. It is possible to say now that the European employees almost unanimously responded to the Company's appeal, thus making it clear that legally, they recognised only the Company and intended to serve only the Company.

But as the Company has no direct contact with the Departments in Egypt, it is no longer taking any actual part in the operation of the Canal. In actual fact the Departments are carrying on under the authority of the new Egyptian management, which has set up a large Headquarters at Ismailia, responsible, in theory for the control of the activities of the Departments. In fact, this new management has immediately done everything to place its own men in all the important positions of the hierarchy, more particularly in the Administrative Department - of which the chiefs are at present all Egyptians - and in the Works Department, to which several Egyptian engineers have just been appointed. Moreover, it interferes at all levels in the execution of work, in contempt of the hierarchy and to the detriment of discipline.

As for the Company's non-Egyptian employees, they are carrying out their duties under conditions which are becoming more and more distressing

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both physically and morally. The loss of their leave, the brutality of the measures taken since 26th July by the Egyptian Authorities and the revolting nature of the penalties provided for by the nationalisation decree if they did not carry on their work; the presence in the Isthmus of armed elements integrated into an improvised militia liable to change, in a matter of hours, into a band of fanatics whose xenophobia could drive them to pillage and murder; the necessity in which they find themselves to mistrust those around them, and the physical and moral isolation forced upon them; the sudden despatch of their families to Europe and the announcement of the permanent closing of the Company's European schools which have been nationalised by law 385; all this is daily becoming a more cruel strain on the nerves, the patience and the powers of endurance of our employees.

Such a situation cannot continue after the London Conference is over. The Company can no longer compel its employees to continue working under the orders of an employer of whom they recognise neither the legal standing nor even the competence, and whom they have agreed to serve only for a very short period.

II. Situation after the Conference has ended.

After the Conference has ended, the Company's Management must therefore give its non-Egyptian employees new instructions, which are impatiently awaited.

Such instructions can only be to stop working under duress and ask for immediate repatriation, seeing that the Company not only is not certain to keep its concession, but also is no longer responsible for the operation of the Canal.

The result of the cessation of work by the European employees, who hold the majority of the technical posts, will undoubtedly be to reduce transit by about 70%, unless ships are allowed to transit without pilots. In any case, transit would take place in the greatest confusion, and incidents, indeed accidents, would undoubtedly increase very rapidly.

If the Powers participating in the London Conference wish traffic to continue for a few weeks under the most normal conditions possible, pending

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the setting up of more definite arrangements, there are only two ways in which to try and get the whole of the Company's employees to remain temporarily at their posts.

The most obvious means, and the only one which would allow the Suez Canal Company to retain responsibility for its employees, and to a certain extent for the operation of the Canal, would be for the Conference to take a decision by virtue of which, pending a final solution, the Suez Canal Company would be re-established in Egypt, and, under international guarantee, restored to its task of management. In that case, it is certain that all the employees would agree, in spite of their sufferings during the past month, to remain at their posts or to return if they are on leave.

If this first solution, which, is the only truly satisfactory one, seems unfeasible, it may be that the Company's non-Egyptian employees would agree to remain for a few more weeks on condition that they would no longer be under the orders of the de facto Egyptian authority which has been set up by violence, but of an international authority which would be represented in the actual Canal zone, at the side of the representative of the Company's Management. By this alternative method, the Company could agree, immediately after the end of the Conference, to inform its employees that it was the wish of the Conference that they should carry on under the temporary authority of the International Committee to be created. At the same time the Company would agree that by acceptance of such authority, the employees would lose none of the benefits of the contracts they have with the Compagnie Universelle du Canal Maritime de Suez alone.

These are the only two possible issues of a situation that has already lasted too long and cannot go on for one more day after the end of the present month.

Both are based on the assumption that the Egyptian Government will be compelled to agree to the setting up, in the actual Canal zone, either, in the first case, of a temporary controlling authority, or, in the second, of a temporary international operating authority.

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TRANSLATION.

MEMORANDUM No. 2PAYMENT OF TRANSIT DUES

There is at the moment the greatest confusion on the question of payment of transit dues. Some Governments have instructed their shipowners to pay dues to the Suez Canal Company; other Governments have requested their shipowners to pay to the Egyptian Authority subject, in certain cases, to legal reservations as to the validity of such payments. Lastly, shipowners in numerous countries are without instructions from their Governments and for the purpose of paying dues, follow a course which appears to them the most expedient to ensure immediate transit of their vessels or a course which best reserves their rights as between themselves and the Company.

In practice, some 50% to 60% of transit dues are paid to the Company; the remainder is probably paid to the new body without there being at the moment any effective control to ensure that transit dues are in fact paid by all.

This confused state of affairs cannot continue without serious repercussions on the operation of the Canal. This state of affairs could be accounted for by the uncertainty existing in the minds of Governments as well as shipowners in regard to the recognition of the new situation brought about by the arbitrary action of Egypt. But there will no longer

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be any valid reason to allow this confusion to persist after the International Conference in London has arrived at a decision which does not recognize the Egyptian body and establishes a new international organization.

The decision to create an international organization must necessarily lead to instructions being immediately given to shipowners to stop making payments to the Egyptian authority.

The most logical conclusion would then be to ask users of the Canal to pay transit dues to the Suez Canal Company, if necessary into a special account opened for the purpose until the international organization has been actually brought into existence.

If for any particular reason it appeared impossible to accept this solution, payment should then be made in a Suspense account opened at a neutral and international organization such, for example, as the Bank of International Settlements.

The Conference should invite all shipowners to follow these instructions but it is obviously possible that they may not be followed by shipowners of countries which are not represented in the Conference or of countries not associating themselves with the decision to create an international organization.

It appears on the contrary that all Governments which agreed in principle to the creation of an international organization should oblige their shipowners to follow these instructions. Taken together, these countries would represent some 80% of Canal traffic.

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The advantage of this solution in the first place would be to free shipowners from present uncertainty by acquainting them with the precise position taken by the Conference, which is to-day the only existing International Authority competent to deal with this problem.

This solution would also be the only effective and peaceful means of obliging Egypt to accept the decisions of the Conference, or at least to begin negotiations with the organization entrusted with the task of enforcing these decisions. If this attitude were adopted, even only by the shipowners of countries having recognised the principle of an international organization, Egypt would be deprived of about 80% of Canal receipts until an agreement had been concluded. Egypt would thus be brought either to accept an agreement or to take it upon herself to stop ships in opposition to the decisions of the Conference.

20th August 1956

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Record of conversation at luncheon at No. 10 Downing Street on Thursday, August 16, 1956.

Present: Prime Minister
Lord Salisbury
Dr. von Brentano
Professor Paulo Cunha
Mr. Muri Birgi
Mr. Millard

PROFESSOR CUNHA expressed his views on the juridical aspects of the Canal question. He thought that the Maritime Powers would be on shaky ground in maintaining that Nasser had no right to nationalise an international company. Firstly there was some doubt as to what constituted an international company. Secondly the British and other Governments had exercised the right to nationalise on many occasions.

He thought that a safer ground on which to take our stand was the unique nature of the services which the Canal performed. The use which the Maritime Nations made of the Canal was comparable to the use which they made of the High Seas and the Canal was therefore analogous to the High Seas. It could no

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more be nationalised than, say, the Straits of Gibraltar. The Portuguese Government were well aware that their own interests were directly threatened by Nasser. It was quite conceivable that Nasser would one day decide that the Portuguese position in Goa was an example of colonialism and assert the right to stop Portuguese shipping. He entirely agreed with the British Government that Nasser could not be trusted and that effective control of the Canal could not be left in his hands.

DR. VON BREYFANO agreed that unfettered control of the Canal by Nasser was unacceptable. He also agreed that Nasser could not be trusted. The difficulty was that Egypt would never accept a solution based on the premise that Nasser could not be trusted.

MR. NURI HIRGI agreed that it was necessary to avoid saying in any solution put forward that Nasser could not be trusted. We must somehow get round this question. He suggested that it could be done by drawing a distinction between natural waterways, such as the Turkish Straits and Gibraltar, and artificial

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waterways, such as the Suez Canal.

In the case of the Suez Canal you could say that the technical requirements of the Canal users and of the Canal itself were such that the operation of the Canal must be subjected to international control.

We should set aside commercial considerations ~~and take our stand~~ and assert the status of the Canal as an international public utility.

As regards nationalisation, he thought that it was important that we should decide where we stood. There were two possible positions which we could adopt:-

1. to accept the principle of nationalisation but to say that the method by which Nasser had carried it out was quite unacceptable. It had been done without consultation, without provision for compensation, and without regard to the international interests involved. In view of the international character of the Canal and of Nasser's arbitrary action, nationalisation must be subject to international control to provide guarantees for the future. This would be a solution on the lines of the one adopted in Persia.

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ii. to say that nationalisation could never be applied to the Suez Canal and that we were therefore going to substitute a new international authority ^{of} ~~on the lines of~~ the old Company. Such a decision might well be justified on the ground suggested by Professor Cunha.

MR. BINGI thought, ^{that} ~~it seemed to him~~ at the moment, that we had not made up our mind between these two courses. Some delegations would favour one solution and some the other, and the Russians would play on the differences between them. This was a dangerous situation, and the friendly delegations should quickly come to a decision as to which course they were going to adopt.

MR. BINGI made it clear that the solution which, on the whole, he himself would recommend, speaking personally and not on the instructions of the Turkish Government, would be the first. His reason for doing so was that such a solution would secure the widest possible support at the Conference and was therefore

- 5 -

are likely to result in a successful negotiation with Egypt.

In saying this, however, MR. BIRGI seemed to be assuming that we had definitely decided on a solution by negotiation and had abandoned the idea of force. He said that if of course we and the French were prepared to impose a solution on Egypt by force that was a different matter and he would have no objection. He thought, however, that the opportunity had passed. We should have intervened militarily against Egypt in the first 24 or 48 hours. The PRIME MINISTER explained that this would not have been practicable.

MR. BIRGI was worried about the effect on the Bagdad Pact countries if the outcome of the Conference could be represented by Nasser as a success for his policy. This was important not only for Iraq but for Persia as well. He was prepared to admit that a solution on the lines of (i) above might be regarded in the Middle East, though not more widely, as a success for Nasser.

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MR. BIRGI thought that if the majority of countries at the Conference reached agreement on these lines, the Arab countries would not support Nasser in resisting it. There was great suspicion of Nasser throughout the Middle East and even the resolution of the Arab League Council had been as non-committal as could be expected. This was a success for Nuri Said.

The PRIME MINISTER asked DR. VON BRENTANO and PROFESSOR GUNIA whether they would be horrified at the idea of our using force. They did not seem to be so. The PRIME MINISTER also threw out the idea of attempting to secure agreement at the Conference that, pending a settlement with Egypt, the Canal dues should be paid to whatever new international body might be set up. DR. VON BRENTANO, PROFESSOR GUNIA and MR. BIRGI all seemed receptive to this idea.

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SUEZ CANAL

JE 1421/1040 (CB)

Monsieur Pineau's letter.

Monsieur Pineau wrote to the Secretary of State on August 22, asking for confirmation of certain understandings about the payment of compensation to the Suez Canal Company.

2. I attach at Flag A a reply drafted by the Treasury and cleared by them with the Bank of England. Sir G. Fitzmaurice has seen and approved it.

3. The French Embassy reminded us on August 29 that the answer to Monsieur Pineau's letter was outstanding.

Reply taken to Paris with S/S

H. Beeley
(H. Beeley)
September 3, 1956.

Private Secretary

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AFFAIRES ETRANGERES

Londres, le 22 Août, 1956.

LE MINISTRE

Monsieur le Secrétaire d'Etat,

Au cours de notre conversation, hier après-midi, sur la question de l'indemnisation de la Compagnie Universelle du Canal de Suez, vous avez dit que les recettes d'exploitation du Canal devraient, à votre avis, être affectées pour partie par l'Autorité dont la création est proposée, à l'indemnisation de la Compagnie.

Je voudrais, à cet égard, souligner que le problème de l'indemnisation se trouvera grandement simplifié et facilité si nous sommes bien d'accord pour estimer que la propriété des avoirs de la Compagnie Universelle situés hors d'Egypte ne saurait en aucun cas être reconnue au Gouvernement Egyptien et que ces avoirs ne sauraient en conséquence être par lui transférés à la nouvelle Autorité.

Je note, d'ailleurs, qu'aucune des délégations présentes à la Conférence n'a soutenu que la nationalisation pouvait s'appliquer à ces avoirs; le Représentant soviétique en particulier ne s'est jamais référé au cours de ses interventions qu'aux biens de la Compagnie situés sur le territoire égyptien.

Enfin, vous m'avez dit hier que les fonds du Gouvernement égyptien bloqués à Londres constituaient pour les Gouvernements britannique et français une garantie que l'indemnisation de la Compagnie Universelle sera effectuée de façon satisfaisante.

Je vous serais obligé de bien vouloir me confirmer que votre appréciation de la situation correspond à la mienne sur

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les sujets mentionnés ci-dessus.

Veillez agréer, Monsieur le Secrétaire d'Etat, les assurances de ma haute considération.

Christian PINEAU

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SECRET

SUEZ CANAL

Compensation to the Suez Canal Company
and the Egyptian Sterling Balances

At a meeting between the Foreign Secretary and M. Pineau on 21st August there was discussion about the compensation to be paid by the Government of Egypt to the Suez Canal Company, during which M. Pineau pressed strongly that there should be a guarantee from the Board which it was proposed should run the Canal, that Egypt would in fact pay whatever compensation was agreed. The record of the discussion concludes:-

"M. Pineau said..... The Suez Canal Company would be much happier to have £40 million guaranteed by the Authority [i.e. the new Board] than £80 million guaranteed by Egypt. The Secretary of State pointed out that the United Kingdom still retained considerable Egyptian sterling balances."

Following this meeting M. Pineau wrote to the Foreign Secretary a letter dated 22nd August pressing his point and including the following:-

"Enfin, vous m'avez dit hier que les fonds du Gouvernement égyptien bloqués à Londres constituaient pour les Gouvernements britannique et français une garantie que l'indemnisation de la Compagnie Universelle sera effectuée de façon satisfaisante."

which may be translated as:-

"Finally, you told me yesterday that the Egyptian Government funds blocked in London constituted for the British and French Governments a guarantee that the compensation due to the Universal Company would be made effective in a satisfactory manner."

This clearly raises a very important issue in relation to our control over Egypt's sterling balances and in relation to sterling

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generally. While it is understood that M. Pincus does not expect an immediate reply to his letter, it seems important that it should not go unanswered, particularly as it is couched in the form of recording a conversation and since M. Pincus seems to have read much more into the Foreign Secretary's remarks than our record suggests he intended.

The present position is as follows:-

- (a) the greater part of the Egyptian sterling balances consist of those in the No.2 Account of the National Bank of Egypt which were already blocked before 26th July 1956 and were subject to release over a period of years under the provisions of the Sterling Release Agreement 1955. The most important provision of this Agreement is for the release of £20 million on the 1st January each year until the balance in the Account is exhausted;
- (b) the remaining Egyptian balances, i.e. those of the National Bank of Egypt on their No.1 Account and all other Egyptian accounts were blocked in the sense of being made subject to Exchange Control permission, by the action taken on 28th July 1956.

It is important to be clear that, while our Exchange Control powers enable us to prohibit the transfer of funds from these accounts - i.e. to prevent their being used by the Egyptians who own them - they do not permit us to make transfers from them ourselves or to direct the Egyptians to make transfers to any particular person. If we were at war with Egypt a different situation would arise and we should presumably take powers to confiscate these funds as enemy property and to dispose of them at the end of hostilities in whatever way we thought fit. But short of war, it is inconceivable that we would take action that would amount to confiscation; the damage to sterling generally and to our reputation as a banker would obviously be enormous.

If therefore by a "guarantee" the French mean in the event of Egypt failing to pay the agreed compensation to the Suez Canal

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Company, we would make the payment out of Egyptian Government funds held in this country, the answer must be that in all circumstances short of war we would not.

It may be, however, that the French have something different in mind. It would be possible to argue that since the compensation payable by Egypt to the Suez Canal Company will be embodied in an international agreement, violation of that agreement by Egypt's defaulting on her payments to the Suez Canal Company would justify us in denouncing the Sterling Releases Agreement and refusing to make any further release from the No.2 Account of the National Bank of Egypt. This would not result in a payment being made to the Company, but the danger that we might take this action might be regarded as sufficient guarantee that Egypt would not default on her payments to the Suez Canal. It must be pointed out, however, that such a "guarantee" would only exist so long as there were balances in the No.2 Account at least as large as the payments still to be made by Egypt to the Suez Canal Company; if those payments were spread over a long period of years and Egypt duly paid up in the early years, the time would come when all the funds in the No.2 Account would have been released and Egypt could then default without incurring this particular risk.

It should be noted that the above applies only to the No.2 Account of the National Bank of Egypt - i.e. the balances which were blocked before 26th July. If a settlement is reached with Egypt, the other balances - i.e. those which were free before the measures of 26th July - will again be free and there could not be any question of our reimposing restrictions on these as a measure of retaliation against default by the Government of Egypt in its payments to the Suez Canal Company.

We ourselves are, of course, just as anxious as are the French that proper compensation should be paid by Egypt to the Suez Canal Company and that the arrangements should be such that the payment is effectively guaranteed. We have so far been thinking of securing this guarantee by arranging that the payments to the Suez Canal are in practice made by the proposed new Board out of

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the money which would otherwise have gone to Egypt, i.e. that when the Egyptian return from the operation of the Canal is determined, it should be diminished for a period of years by an amount necessary to meet whatever compensation to the Suez Canal has been agreed. This ought in practice to be an effective guarantee for the Company.

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Tel. No.: Whitehall 1234. Ext.....
Your Reference.....
Treasury Reference.....



TREASURY CHAMBERS
GREAT GEORGE STREET
LONDON, S.W.1

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JE 14211/1048(B)

31st August, 1956.

Dear Beeley,

You will remember that on 22nd August M. Pineau wrote to your Secretary of State raising a number of questions concerning the compensation to be paid to the Suez Canal Company. At the Delegation meeting on 23rd August we were asked to make suggestions for a reply. We produced the first draft of a reply at the Delegation meeting on 24th August, but it was agreed that the matter required further consideration, which we have now been giving to it.

On 27th August I sent you a copy of a letter I had written to Hamilton, Bank of England, with which I enclosed a note on one of the questions raised by M. Pineau - the possibility that the Egyptian Government's sterling balances in London "constituted a guarantee for the British and French Governments that the compensation to the Suez Canal Company would be paid in a satisfactory manner". I have now heard from Hamilton that the Bank of England agree with my note.

I enclose the draft of a reply to M. Pineau which I should be glad if you would regard as superseding the first draft which we handed over on 24th August. The latter part of this draft dealing with the sterling balances will, I think, be self-explanatory to you in the light of the earlier correspondence; I should like, however, to give you our views on the other points raised by M. Pineau which are dealt with in the first three paragraphs of the draft reply. In the first instance, as you are aware, we are all agreed that the most satisfactory way of providing for the compensation will be for it actually to be paid over in annual instalments by the new international Board, being drawn from the revenue which the Board will obtain from the Canal, and there being a corresponding reduction in the annual payments made by the Board to the Egyptian Government. This is the method set out in the second paragraph of the draft reply. We have, however, I suggest, to keep in mind the possibility that this method may be objected to by the Egyptian Government in negotiation and that we may have to devise another.

More important is the point made in the second paragraph of M. Pineau's letter, which is dealt with in the third paragraph of the draft reply. We know it to be the French view that we should not merely refuse to recognise that the Egyptian claim to ownership over the assets of the Suez Canal Company outside Egypt, but we should agree that these assets should remain in the ownership of the Suez Canal Company. While this view is not expressly stated in the second paragraph of M. Pineau's letter, it is strongly implied by the last phrase of it; and in any event we may expect the French to press this view strongly in subsequent discussion.

So far as I am aware, no firm U.K. view has been reached on this point. So far as the Treasury is concerned, however, we are anxious that we should not do anything at this stage that would suggest that we are in agreement with the French that the Suez Canal Company should, after the eventual settlement, retain the whole of its assets outside Egypt. In our view such an arrangement would have two serious disadvantages:-

- (1) it would mean in effect that the Suez Canal Company would be transformed into a French investment trust, of which H.M.G. with its 44% holding would be the largest single

H. Beeley, Esq.,
Foreign Office.

/shareholder

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shareholder. This could be politically and financially highly embarrassing and before we accepted it we should have explored means of extracting ourselves from it;

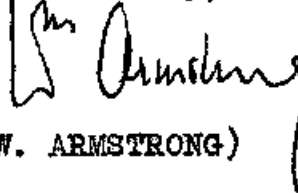
- (ii) the French view is based on the idea that the reserves of the Company have been accumulated for the benefit of the shareholders. We, on the other hand, always maintained that they have been accumulated for the benefit of the Canal itself. Whatever may be the legal merits of that argument, we should surely be giving away a very important propaganda point to Middle East nationalists if it could be said that as a result of the settlement the Suez Canal Company had "got away with" very large sums of money as a result of their exploitation of the Canal. From this point of view we think that serious consideration ought to be given to finding some means of placing these funds at the disposal of the new Board for the future development of the Canal. This could be done, for example, by the new Board taking them over from the Company in exchange for stock issued to the Company's shareholders.

For these reasons we think it would be dangerous to let M. Pineau's second paragraph pass without comment, and we have dealt with it accordingly in the draft reply. I should like to leave it to you to judge whether we should go as far as the draft does in disclosing to the French the possibilities we have in mind. If you think it would be better to hold these back until we have discussed them further, we should be quite content so long as the reply makes it clear that we have not accepted the French view that the Suez Canal Company's assets outside Egypt should remain with the Company after the final settlement.

Finally, you should be aware that M. Leroy Beaulieu asked us the day before yesterday when the Secretary of State would be replying, and expressed the hope that it would be before the end of this week. While in the circumstances this may not be possible, we feel strongly that the letter should be answered as soon as possible, particularly in order to correct any misapprehensions the French may have on the point about the sterling balances.

I am copying this letter to Hamilton, Bank of England.

Yours sincerely,



(W. ARMSTRONG)

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JE14211/1048

September 4, 1956

You wrote to me on 22nd August about the compensation to be paid to the Suez Canal Company.

In the first place I should like to confirm that it is our view that a suitable method of paying the compensation would be for the proposed international Board to set aside from its annual reserves from the Canal an agreed amount for the payment of compensation, the amount payable to Egypt being correspondingly reduced.

In the second paragraph of your letter you suggested that we should all agree that the Egyptian claim to the ownership of the Company's assets outside Egypt should in no circumstances be recognised. I agree that the furthest we could possibly go, as part of an eventual settlement, would be to recognise Egyptian ownership of the Canal itself and the assets of the Company in Egypt, the use of these assets being of course transferred in perpetuity to the international Board. At the same time I think we should leave open the possibility, for further discussion between us, that it might be politically advantageous for the new international Board to acquire, by negotiation with the Suez Canal Company, some or all of the Company's assets outside Egypt. This negotiation, and the price to be

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Monsieur Christian Pineau

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paid to the Company by the Board, would of course be an entirely separate matter from the question of the compensation due from the Government of Egypt to the Suez Canal Company

In the fourth paragraph of your letter you refer to the sterling balances of the Egyptian Government which are now blocked. As the position here is somewhat complicated I should like to set it out fairly fully.

First, the sterling balances of the Egyptian Government fall into two parts:

- (i) by far the larger part are in the No.2 Account of the National Bank of Egypt. These were blocked before the 28th July, subject to being released gradually under the Sterling Releases Agreement of 1955, the main provision of which was for the release of the whole amount by annual instalments of £20 million on the 1st January of each year.
- (ii) the remainder (in the No.1 Account of the National Bank of Egypt) were blocked by the action we took on 28th July and remain blocked until further notice, subject to small exceptions.

Our intention is that when an eventual settlement is reached the funds on the No. 1 Account should be released, while those on the No. 2 Account would remain subject to the Sterling Releases Agreement.

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Secondly, our exchange control powers, under which we have acted, enable us to prevent the owners of these accounts from transferring funds out of them without our permission, but they do not enable us to direct that payments from them should be made.

It follows from this that in the event of a default by the Egyptian Government in its payments to the Suez Canal Company, it would not be open to us to direct the the compensation payments should be made to the Company from the Egyptian Government's sterling balances.

Indeed, the only sense in which the existence of these balances can be regarded as a safeguard against a Egyptian default is that while they exist the Egyptian Government might fear that, if they defaulted, we should reimpose our block, and denounce the Sterling Releases Agreement. In the nature of things, however, such a safeguard could last only as long as there were substantial balances remaining in London; and if the Sterling Releases Agreement runs its course, the whole of the balances affected by it will have been released by 1961.

For these reasons it is our view that we must look for some other means of guaranteeing that the compensation due from the Government of Egypt to the Suez Canal Company will be satisfactorily paid. One such means would be that set out in the second paragraph of this letter.

(S) [Signature]