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CONFIDENTIAL



BRITISH EMBASSY
BUENOS AIRES

Despatch No. 210. ✓
1072/56.

CONFIDENTIAL
BY AIR BAG

August 21, 1956.

BY AIR MAIL.

JE 14211/1236

Sir,

I have the honour to inform you that Doctor Castiñeiras, the Under-Secretary for Foreign Affairs, asked me to call today and enquired whether I had heard anything of an alleged proposal that certain countries should be invited to mediate in the Suez Canal dispute. I replied that I had heard nothing of the kind and, in my turn, enquired what grounds he had for supposing that any such proposal was afoot. Doctor Castiñeiras' answer was far from precise and I got the impression that, at best, he had been paying undue attention to a second-hand rumour.

2. Whether the Under-Secretary was really sincere in his enquiry, or whether he was simply launching a ballon d'essai, I think there is no doubt that the Argentine Government would be delighted if it could play some part in settling the Suez dispute. When I saw Doctor Castiñeiras some days ago (in order, among other things, to hand him a translation of the Prime Minister's speech of the 2nd of August) he remarked that Colonel Nasser was showing all the characteristics of a dictator, and that possibly the United Kingdom had made a mistake in not using force immediately. He went on to say that he had been wondering if there was any way in which Argentina could help; but her interests were so little affected directly that probably only intervention by Latin-America as a whole would carry

The Right Honourable,
Selwyn Lloyd, C.B.E., M.P.,
Etc., etc., etc.,
Foreign Office,
London.

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any weight. Nevertheless he appears to have continued thinking along these lines and the message of good wishes for the Conference, which the Argentine Ambassador in London was instructed to hand to you, Sir, was presumably one result. In his conversation with me to-day Doctor Castifielras said that he thought that this message had had a good effect and that in any case Argentina "could not remain entirely on the sidelines".

3. The attitude of the Argentine Government in this particular instance may have some significance in a wider context. My United States colleague recently remarked to me, somewhat petulantly, that the Argentines were aspiring to a position of leadership, not only in Latin-America, (e.g. the proposed South Atlantic Defence Pact) but also in world affairs. This is certainly an exaggeration but it would not be surprising if, after ten years of Perón's policy of the "third position" and ten months of preoccupation with domestic problems, the new Government should now seek means to demonstrate that Argentina is a respectable member both of the Organisation of American States and of the Western bloc generally. We are therefore likely in the near future to see more attempts by Argentina to intervene in international questions, even when they are of no direct concern to her. These intrusions may at times be clumsy and not to the liking of the United States, but they will at least be coloured by a strong antipathy to communism.

4. It has indeed been largely because Russia appears to be supporting Egypt (together with the realisation of the effect which any disruption of traffic through the Suez Canal would have on Argentina's oil supplies) that Argentine official

.... /opinion

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- 3 -

opinion has been on the side of the Western Powers in the present dispute. But public opinion has not been unanimously favourable. Anti-colonialism is still strong here and there has inevitably been a tendency, especially in left-wing newspapers, to depict Egypt as a small country struggling to free itself from the last vestiges of imperialist domination. There has also been the usual Latin-American inclination to see things from a strictly legalistic point of view and hence to concentrate on the right of nationalisation per se. However, by and large our case has not had a bad press, particularly since it became apparent that we were anxious to achieve a settlement by negotiation rather than by force.

I am sending copies of this despatch to Her Majesty's Representatives at Washington, Rio de Janeiro and Montevideo.

I have the honour to be,
with the highest respect,

Sir,

Your obedient Servant.

A. S. Jordan

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ECONFIDENTIALFROM CAIRO TO FOREIGN OFFICE

Cypher/OTP

FOREIGN OFFICE AND
WHITEHALL DISTRIBUTIONSir H. Trevelyan
No. 1814
August 31, 1956D. 4.50 p.m. August 31, 1956
R. 6.24 p.m. August 31, 1956PRIORITY
CONFIDENTIALAddressed to Foreign Office telegram No. 1814 of August 31.
Repeated for information to: Washington Paris
P.O.M.E.F.

Suez Canal.

I saw Menon today. He was giving nothing away.

2. Nasser called Byroade yesterday to tell him about his public statement protesting against President Eisenhower's statement about the international character of the Canal. Byroade thought it better to take no initiative on the main question, but the following remarks by Nasser in the conversation are of interest:-

(a) he presumed the Menzies mission might take two days to give him their views. It would only take him one hour to give his. He would give them a dinner, including the Cairo representatives of the countries concerned;

(b) when a man fell in love with somebody else's wife a compromise was difficult without a divorce. He had no intention of arranging to divorce the Canal from Egypt;

(c) he thought he could get enough pilots to run the Canal. He knew what would be said if he get the Russians, but if he were forced to he would. He knew he could get them.

Foreign Office pass Washington and Paris as my telegrams
Nos. 275 and 139.

[Repeated to Washington and Paris].

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<p>(113) 1050</p>	<p>AFRICAN EGYPT</p>	<p>JE14211 / 1244 / G</p>
<p>FROM F.O. Minute (Mr. Watson) SECRET</p> <p>No. Dated August 13 Received in Registry— Sept. 3rd</p>	<p><u>Suggestions by MR. LEWIS DOUGLAS for publicity for the Suez Canal dispute.</u></p> <p>Mr. Lewis Douglas gave his views on the line H.M.G. should take in informing world opinion:</p>	
<p>References to former relevant papers</p> <p>VIII/8.</p>	<p>MINUTES</p> <p>Most of these points accord with our present thinking and have in fact been used in publicity.</p>	
<p>(Print)</p>	<p>Para 7. Once war is declared, a country is entitled to take enemy vessels as prizes, and the reason the Germans did not try to put ships through the Suez Canal (or the English Channel for that matter) was that they would have been captured.</p>	
<p>(How disposed of)</p>	<p>I.R. Dept 13/9 Eader Dept (para 10) ER Dept. 5/20 09</p> <p>7/9</p>	
<p>(Action completed) 16/10/50</p>	<p>(Index) my</p>	
<p>References to later relevant papers</p>	<p>(in a draft)</p> <p>M3822 49432-1</p>	

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in a draft paper which the Treasury have prepared about the investment of Kuwait surplus revenue they were unable to suggest any way by which a substantial amount of Kuwait ~~revenue~~ revenue could be used to assist development in the Middle East. In commenting on that paper which we have now been asked to do, I think we should mention Mr Douglas's suggestion in para 10.

When the dust of the Suez dispute has settled an imaginative gesture of this kind might do much to restore our reputation in the Middle East.

I think the idea could be sold to the Ruler of Kuwait; provided that other oil states could be persuaded to join in.

J. C. Moberly
15.4.62

Mr Crawford of M.E. Development Division explored this idea some years ago. It is not easy to get the oil-owning states to part with any of their revenues from oil. There are too many inter-State frictions to make the plan

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NOTHING TO BE WRITTEN IN THIS MARGIN

Minutes

plan a success.
If a new ^{inquiry} approach is to be made I would suggest that Mr. Crawford be approached first.

Professor Badre of the American University at Beirut has also put forward a proposal for an Arab Development Bank with capital largely derived from oil royalties. This is at present under consideration by the Treasury (see v 1111/8) attached.

Robbards 20
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No-one has ever underestimated the difficulties of persuading the oil-owners to this course (the Sheikh of Kuwait could hardly be persuaded to trust the Bank of England with his money); the question now posed is whether we shall be able to avoid some such steps. I am inclined to think we shall be obliged to try.

As far as ~~the~~ ^{Prof.} Badre's proposal is concerned, the T.B.R.D. pretty well fits!

Minutes

fits his bill. The difficulty about not confining activities to the M.E. day is that the M.E. states would not consider this met their claim for the investment of these M.E. funds in the M.E. Similarly, M.E. countries are not going to accept detached international appraisals of economic viability as final criteria. Nor has Nasser's nationalization of the Suez Canal Coy. improved the market. Nevertheless I think this idea must not be allowed to die without another effort to make something of it.

I think McFalle would like to see these papers again.

APL 25/9.
DPS: 6/10

ER: 11/10

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Mr. Sheehan
Mr. Wiltan
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SUEZ
JEM 211/1244

SECRET AND GUARD

Mr. Lewis Douglas asked me to see him on Saturday afternoon, August 11, in order to put forward one or two suggestions for the handling in public of the Suez Canal dispute. Mr. Dodds-Parker had wished to ask his views, but it had not proved possible to arrange a meeting. He hoped that these views could be communicated unofficially to the Secretary of State, since as a former U.S. Ambassador he did not wish to trespass on his successor's ground.

2. Mr. Douglas considers that it is essential to secure an international system for the Canal, and not allow Nasser's seizure of the Canal to succeed and set a precedent.

3. But if we are to carry world public opinion, we must ^{b.k} show ~~show~~ that we have right on our side; and also do everything we can to succeed without an actual military intervention. Public opinion in the United States and Canada (and doubtless in other maritime countries like Norway and Holland) did not like the use of force, especially if it seemed to be in a national quarrel.

4. For this reason it would pay us to introduce the idea of the United Nations at some stage, even though we kept the U.N. machinery out of the actual arrangements.

5. The settlement offered to Egypt ought to be something which a successor government to Nasser could accept. It should therefore not mortally wound Egyptian national pride. Could it perhaps (as in the case of Iran) recognize Egyptian national sovereignty and treat Egypt as the ground landlord, receiving a share of the dues as rent? On the other hand, the settlement offered to Egypt should not be so favourable as to reward crime and encourage others to take similar measures.

6. For all these reasons - and with American opinion particularly in mind - Mr. Douglas hopes H.M. Government will stress the issue of the rule of law. The party that commits aggression is the party that arbitrarily violates an international agreement; not the party that takes counter-action to secure the international rights so violated. Nasser is the aggressor in the same way as the Communists were the aggressors in North Korea. This point needs constant repetition.

7. We should also examine carefully the question of whether we nominally kept the Canal open to all shipping during the two World Wars; so that Nasser's interference with shipping bound for Israel is a violation of which we were not guilty. Could we argue that in World War II the Germans were free to use the Canal but did not do so because we controlled the Red Sea?

8. A sanction which we should study, short of war, would be for the maritime nations to re-route shipping round the Cape, thus refusing to use Nasser's canal until international system was instituted. This might be cheaper than force, as well as having wider appeal.

9. At the time of the Palestine difficulties some years ago, an Anglo-U.S. Consultative Committee was set up, with representatives from the Chiefs of Staffs, to exchange information. We might find it advisable to suggest to the President similar arrangements during the coming emergency.

10. Increasing play would be made in the Arab world and elsewhere with the complaint that Western oil companies paid

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huge oil royalties to Middle Eastern Kings and Sheikhs who (save for Iraq) did little for the Arab world as a whole. Would it be possible for ourselves and the Americans to get the Arab rulers concerned to contribute say 10% of their oil royalties (already amounting in all to about \$1 billion a year) to an Arab development fund, which other countries interested in the Middle East would match? He believed that the United States would be ready for such a scheme, which might do much to capture Arab popular imagination and show it the advantages of collaboration with the West.

J.H.A. Watson

(J.H.A. Watson)
August 13, 1956

Private Secretary.
(Copy to Mr Dods Parker)

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INDEXED

SUEZ CANAL COMPANY STAFF

Mr. Isaacson telephoned from Paris yesterday evening to say that the Canal Company were pressing him for the names of British employees of the Company in Egypt who had registered with Consuls in accordance with the Company's instructions.

2. The history of this matter is as follows:-

Flag A - ~~Paris~~ Paris tel. 207

(a) Under pressure from Her Majesty's Government and the French Government, the Company refrained from instructing its non-Egyptian employees in Egypt to leave the country immediately after the announcement of nationalisation, and confined itself to instructing them to deposit with their diplomatic or Consular representatives declarations of their loyalty to the Company and their desire for eventual repatriation.

Flag B - 491

(b) The Company followed this up with a request to H.M. Ambassador in Paris to communicate the names of the British employees of the Company so registering as soon as possible after the closing date for registration, August 15.

Flag C - 272

(c) We instructed Cairo to arrange for registrations to be accepted by H.M. Consuls, but gave no instructions on what was to be done with the declarations deposited.

Flag D - Cairo tel 1588

(d) Sir H. Trevelyan has reported that all the 48 British pilots now in Egypt have registered and that 67 other British employees have done so, mainly Maltese or Cypriots. We do not know the names of those who have registered except in the case of 13 pilots and ~~three~~ 6 others who registered in Ismailia.

Flag E - Ismailia tel. 34

3. It is now for decision whether Mr. Isaacson should be authorised to pass to the Company the numbers of British employees who have registered, and whether we should obtain from Cairo a nominal roll of those registering for communication to the Company.

4. I see no objection to passing this information to the Company. The object of the Company's instructions to its employees to register was to safeguard the rights, including financial rights, of those who did so. Had the response been half-hearted, there might have been a case for withholding the information from the Company so as not to prejudice the position of those British subjects who failed to register. But all pilots have registered, and apparently most, if not all, of the other British employees.

/ Recommendation:

IN R.O.
27 AUG 1956

Recommendation:

It is recommended that Mr. Isaacson be authorised to pass to the Canal Company the information contained in Cairo telegram No. 1598 (Flag F), and that a nominal roll of British subjects who have registered should be obtained for communication to the Company in due course.

JE14211/849

T. F. Brenchley
(T. F. Brenchley)
August 18, 1956

Mr Ross agrees. Please ask Cairo ^{by tel.} for names & texts of declarations by airmail.

18/8

Tels despatched accordingly to Paris and Cairo.

TFB
18/8

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Extract from China News dated Taipei August 19, 1956.

THE REAL ISSUES AT SUEZ

The conference which is now going on in London, as well as the events leading up to it, has presented, for the layman at least, a veritable maze of complicated and confusing issues. Charge and counter-charge, proposal and counter-proposal, together with the backstage rumblings of mobilization, threats, appeals and diplomatic maneuvering, have all combined with a steady stream of propaganda from more than half a dozen major world capitals to produce a plethora of attitudes and considerations, all of which have their own inherent contradictions. For instance, if one attempts to justify a nation's legitimate aspirations for nationalism, he finds himself supporting the arbitrary and fascistic seizure of an enterprise which has long been a hallmark of impartiality and a facility for natural intercourse among nations; if, on the other hand, one believes in the correctness of international law, he is led to the point where the use of violence in dealing with international gansterism is almost justifiable.

Despite this complexity and its resultant confusion for the average reader, this newspaper believes that certain facts concerning the current Suez crisis stand out with remarkable clarity. These facts have not been played to any great extent in the world press, but of a certainty they will have a tremendous influence on whatever decisions emerge from the London talks. For what is at stake there is not merely the future of a waterway upon which we are all dependent, but the actual success or failure of the struggle in which Free nations have been engaged with the international conspiracy directed from Moscow.

First and foremost, is the manner in which the Soviet Union has thrown itself into the Suez controversy. The maximum participation of the USSR through the constant dissemination of propaganda, plus her behind the scenes manipulation of Genal Abdel Nasser, has contrasted sharply with the obviously minor stake Moscow has had in Suez, in terms of maritime traffic through the canal.

Just as important, but less apparent on the surface perhaps, is Nasser's own indebtedness to the Soviet Union. By first urging Nasser into the illegal seizure of the canal, and then by loudly supporting the action, Moscow has placed Egypt's president under obligation to accept further instructions for practices designed to frustrate the West. Indeed, as we have so often seen in the past, full payment of Nasser's debt to the practical-minded Russians can only be made at the sacrifice of his country's sovereignty.

It is apparent that the Soviets consider Nasser their footstool for power in Egypt; and by supporting his drive for a single "Arab nation", they have found a convenient vehicle for penetration of the entire Middle East as well as Africa. How else can one explain the complete reversal of the official Soviet position on the issue of internationalisation? In 1945 and 1946, during their discussion on the Turkish Straits, the Russians continually called for increased international control of Suez. Now that their power game is profited more by squeezing the West through Nasser than by squeezing Turkey, the Soviets are all for giving one country absolute control.

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JE14211/1230A

Page A -
JE14211/470

It is suggested in paragraph 4 of Mr. Reilly's letter of August 3 that the associations representing the Suez Canal Company's shareholders and pensioners should take legal action in France, the United Kingdom, the United States, and perhaps in other countries (particularly Switzerland), to have the Egyptian Government's assets placed under sequester.

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2. There are legal and political considerations:
A. Legal. The Legal Adviser points out that there is an element of risk in taking legal action on the lines proposed. It is very difficult to predict what view the Courts here would take as to the effect of the Egyptian decree on the English assets, as a matter of English municipal law. If that view were unfavourable to the Company's shareholders and pensioners, their and our position would be worse than before.

B. Political. There are some political advantages. Mr. Reilly has pointed out that the action proposed might provide a useful argument on which governments could fall back, (as an extension of this, Sir Gerald Fitzmaurice has suggested that the time might come when we should have to consider additional safeguards apart from the blocking orders); and as a propaganda point it would underline the fact that Nasser's action hits thousands of ordinary people.

3. On the other hand I think such action by the Company would at present be untimely. We are seeking to achieve a settlement which will (i) take into account ^{fair} ~~the~~ compensation for the Company, and (ii) at the same time be acceptable to other nations. Company intervention will not further (i) (whose achievement will in any case make the legal action proposed unnecessary), and might positively hinder (ii). There can be no harm in Monsieur Georges-Picot consulting international lawyers about what to do should the need arise; but I am sure that the Company should in all our interests do nothing more

/positive

positive now. The propaganda point about the effect of Nasser's action on ordinary people ~~could be~~ ^{is being} made in other ways, and indeed ~~should be made~~ sooner than would be the case if a law suit were started.

4. I submit a draft.

J.F.S. Phillips

(J.F.S. Phillips)
August 18, 1956

I agree with the political arguments
above

1. Sir G. Fitzmaurice
2. Mr. Ross

A. DeLeon
18/8

I agree. As a matter of interest, there are four ideas - apart from recourse to the Int. Court of Justice - which are going around & which Sir G. Fitzmaurice will no doubt discuss with the Company & the Delegations' lawyers:

- (a) This one - application for a sequestration order
- (b) Legal action against the Westminster Bank
- (c) Pressure on shipowners to pay dues into a French bank
- (d) Legal action against any shipowners paying dues to the Egyptian authority.

May the draft be re-issued?

Sir H. Lacey

Adams

18/8

Would it not be a good thing for Sir G. Fitzmaurice to have a preliminary and with Mr. John Foster, who has been engaged to represent the Company, before sending off this letter, with which I would not, in principle, dissent. Mr. Foster is about to see the Chancellor on (F) & may well have individual views about (a).

The Boss.

Sir G. Fitzmaurice.

(This reached me to-day /
H. Bealey 27/8

I saw the Company's lawyers, including Mr. Foster, and their French and American lawyers, together with Professor Gros of the French Delegation and Mr. Metzger of the American Delegation, the other day. Nothing very definite transpired, however, and the discussion centred mainly round the status of the Company and how far it would be possible to establish that it was not for present purposes to be regarded as an Egyptian Company.

With regard to the question of litigation, the Company's lawyers are, of course, fully aware of all the possibilities, but they were clearly reluctant at the present moment to do anything that might embarrass the Governments. On the other hand, they were very much concerned at the Company's liability position, and it was suggested that they should get out a comprehensive statement of that position for the information of the Governments. Quite apart from existing contracts, e.g. plant and equipment, tugs, etc., being constructed to the orders of the Company, and which were under construction at the date of the nationalization,

/ they

they had very big liabilities on pension account to their employees. It is particularly from this point of view that they are anxious to safeguard their funds, and they may feel it necessary to take some legal action for that purpose, if for no other.

(from recent discussions with the Suez Canal Company's lawyers)

One point that emerged which may be of interest to (the) you Treasury, although I do not know quite how much there is in it, was the following. The Company are well aware that the Treasury may fear that if the Company was able to deal with its funds in this country as it pleases (that is to say, if the Westminster Bank and, I gather, one other bank were not imposing this embargo), the Company might, for greater safety, withdraw the whole of the very large balances which they have in this country, amounting to over £20,000,000, and take them to France. Whether it would in fact be possible to do this under our financial legislation, even if the Westminster Bank did not impose the embargo, I do not know, but certainly the implication in what Mr. Foster said [to me] was that it would be possible to do so but for the attitude of the Westminster Bank. If this is correct, I think the resulting position is that the Company suspect that the Treasury is being unforthcoming in trying to get the Westminster Bank to alter its attitude, because the Treasury fears that the result might be a flight of the funds in question.

The Company's lawyers believe that by appropriate action [(I will not go into details)] they could force the hand of the Westminster Bank, and that there would be a very good chance of their obtaining a favourable decision from the courts here in quite a short period of time, perhaps as little as two or three weeks. On the other hand, they are not particularly anxious to do this if some other way of releasing their balances from the embargo can be found. The upshot was that while nothing definite was said, I got the impression that the Company would be willing to give a firm undertaking not to effect any big withdrawals from this country if the Treasury could find some means of persuading the Westminster Bank to honour the Company's cheques in the ordinary way (at present the Westminster Bank will not go further than to honour cheques limited to necessary current transactions, e.g. the payment of salaries, the payment of rent of premises, etc.).

As far as the proposed letter to Paris goes, I see no reason why it should not be sent off as it is.

G. G. Fitzmaurice

(G.G. Fitzmaurice)
August 28, 1956.

X The Treasury should be informed of this.

African Dept.

*Off. to Mr Johnston as H.B. 29/8
at X above.*

J. 319.