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JE 1421/1264  
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THE GERMAN AMBASSADOR told me that he had been lunching to-day with the Turkish Ambassador and the Pakistani High Commissioner. Both of them expressed a qualified optimism and a belief that it was quite on the cards that Nasser would give us satisfaction. I asked the Ambassador whether the Turk and the Pakistani thought that we were bluffing. He replied that they were both convinced of the contrary. In particular, the Pakistani had emphasised that we should not be going to the great expense of this deployment unless we meant business.

2. The Ambassador then told me that an Under-Secretary in the German Ministry of Transport, who is concerned with shipping, had arrived in this country.

3. He had recently passed through the Suez Canal and had gained the impression that the Egyptians were thoroughly anti-white man, but that they were incapable of running the Canal satisfactorily without the aid of the white man. He had also observed that our base installations which the Egyptians had taken over seemed to be deteriorating.

4. Finally the German Ambassador told me that his shipping Under-Secretary had told him that there was no prospect of the Germans supplying pilots for the Suez Canal. The Pilots' Union was continuing to give advice in a contrary sense. Moreover, the Kiel pilots were obliged by their contract to give three months' notice of termination. They therefore thought it prudent to see exactly how things were going in Suez before they terminated their contract, since once they had done this they were not eligible for readmission into the Union.

Jk.

August 30, 1956.

Distribution

African Department (to enter)

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Western Department

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JEL 21/1265

The Sudanese Ambassador called upon me this morning. He is about to return to Khartoum in order to collect his wife and family and bring them back here.

2. His Excellency said that he had been reading a number of Sudanese Arabic papers in almost all of which it was stated that the Mahdi had gone to Cairo with the purpose of mediating between the United Kingdom and the Egyptian Government. He had heard nothing to this effect from his own Government and was anxious to know whether they had failed to keep him informed or whether in fact there was no substance in the report.

3. I said that I had seen from the telegrams that rumours of the kind to which he referred were in circulation but my impression was that they had been denied by members of the Mahdi's suite. In any case there was no truth in them and His Excellency would realise that for anyone else to take a hand in negotiations on the eve of the departure of Mr. Menzies and his colleagues would only complicate an already sufficiently delicate situation.

4. His Excellency said that he quite understood this and had indeed had it in mind, and was grateful for being informed of the true position. He added that the situation must now be approaching its most critical point and expressed the hope that Mr. Menzies' mission would be successful.

5. I replied that it was also our great hope for it was no exaggeration to say, as the Prime Minister had stated, that this was a matter of life and death for the United Kingdom and I could only trust that Colonel Nasser would see reason. I added that His Excellency would realise that it was also a matter of vital importance to the Sudan.

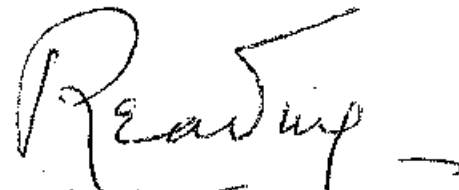
6. His Excellency expressed his gratitude for all the help that he had been given in the short time that he had been here and I replied that we were all at his disposal if at any time we could be of any assistance to him. As he must already have discovered, there was a great fund of goodwill in this country towards the Sudan, and although obviously she had a difficult task in building herself up, it was one which a number of

/other

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other countries had faced since the war with greater or less success. His Excellency could rest assured that it was the genuine hope of everyone in this country that the Sudan would be amongst those who achieved great success.



August 30, 1956.

African Department - to enter

Copied to: Private Secretary  
Sir I. Kirkpatrick  
Lord John Hope  
Sir H. Caccia  
Mr. Ross  
Mr. Beeley

EXHIBIT  
JE14211/1267 J

FROM WASHINGTON TO FOREIGN OFFICE

En clair

FOREIGN OFFICE AND  
WHITEHALL DISTRIBUTION

Sir R. Makins  
No. 1781  
August 31, 1956

D: 12.24 a.m. September 1, 1956  
R: 2.16 a.m. September 1, 1956

IMMEDIATE

Addressed to Foreign Office telegram No. 1781 of  
August 31.



Repeated for information Saving to Cairo P.O.M.E.F.  
UKDel New York  
Paris

JE14211/1171

My telegram No. 1756: Suez Canal.

Egyptian Ambassador called yesterday on Mr. Dulles and, according to Press, said afterwards that his purpose had been "to express the view that all historical facts and documents prove that the Suez Canal was never internationalized".

2. At his Press conference this morning Mr. Eisenhower, after saying that "an apparent misunderstanding had arisen about my use of the word "internationalize" with respect to the Suez Canal", made the following statement:

"We are, I think, talking at cross-purposes. I referred to the Suez Canal as a waterway internationalized by the Treaty of 1888. That Treaty gives many nations rights in and to the Canal in perpetuity.

"Now, of course, that does not mean that these nations own the Canal. It does mean that under the Treaty Egypt cannot now or in the future jeopardize those rights of other nations. Therefore in the sense of the usage of the Canal, it is internationalized.

"Now in the formal statement of two days ago I expressed the hope that the Eighteen-Nation proposal would prove acceptable to all concerned and in that statement I noted specifically that the proposal fully respected the sovereignty of Egypt".

3. Following are questions and answers about Suez Canal:

Q. "You have expressed the hope that the Suez

/ settlement

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Washington telegram No. 1781 to Foreign Office

- 2 -

settlement could be made in an atmosphere of calm deliberation. Do you regard the French movement of ships and troops into Cyprus as consistent with that aim?"

A. "I am not going to comment on the actions of any other government.

For ourselves, we are determined to exhaust every possible, every feasible method of peaceful settlement and we believe it can be done and I am not going to comment on what other people are doing. I am very hopeful that this particular proposal will be accepted but in any event, not to give up, even if we do run into other obstacles".

Q. "In that connexion can you tell us whether, since the Egyptian nationalization of the Canal, you have given any orders to our own military forces in the area in connexion with this act?"

A. "I can tell you this: I have done nothing that isn't absolutely consistent with what I have just said. We are committed to a peaceful settlement of this dispute, nothing else."

Foreign Office please pass Saving to Cairo, P.O.M.E.F. and Paris as my telegrams Nos. 114, 114 and 311 respectively.

[Repeated Saving to Cairo, P.O.M.E.F. and Paris].

ADVANCE COPIES

Private Secretary  
Mr. Reilly  
Mr. Beeley  
Head of African Department  
Head of News Department

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The French Ambassador called on me today to reiterate his anxiety that the Committee of Five appeared to be considering the form and details of the international body which might be set up to run the Suez Canal, and reaching conclusions on their own without consultation with us and other Governments who were so much involved. I told M. Chauvel that the Prime Minister would be seeing Mr. Menzies again today: it was my impression that Mr. Menzies was quite clear in his own mind on the function of the Committee of Five. His intention was to be back in this country by about the middle of next week so that there would not be much time for negotiation. Mr. Henderson had told me that his purpose in examining these questions was not so as to negotiate but rather so as to be in a position to return some sort of answer when questioned by the Egyptian Government. I agreed however that there would be danger in the Committee becoming involved in detailed discussions without our knowledge, and more particularly if they were to return recommending some unacceptable scheme. M. Chauvel said that he would be seeing Mr. Henderson and was in touch with M. Hagglobf, and would bear these points in mind.

2. I then told the French Ambassador that we had been wondering whether there would not be advantage in a meeting of W.E.U. followed perhaps in the middle of next week by a meeting of N.A.T.O. I myself would welcome an opportunity for a further talk with M. Pineau, but a visit by either one of us to the other's capital

/would

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would give rise to speculation unless there were some pretext. A N.A.T.O. meeting would provide this. I had heard that both the French and United States Governments would agree to such a meeting, and I wondered whether Wednesday, September 5, would not be a good day. Mr. Pearson, would be in Paris and it might be possible to arrange for M. Spaak to be there also. M. Chauvel said that he would put this to M. Pineau.



August 29, 1956

African Dept.

Copies to: Sir I. Kirkpatrick

Mr. Ross

Mr. Beeley

Western Organisations Dept.

JE 14/11/276

Minutes

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INDEXED

SUEZ CANAL

Miss Gleeson-White of Australia House came around to see me this afternoon. She explained that the Australians as Chairmen of the Five Power Group were uncertain as to the meaning of the "sanctions" provisions of the 18 Power Declaration. The text of this was:

" (c) Effective sanctions for any violation of the Convention by any party to it, or any other nation, including provisions for treating any use or threat of force to interfere with the use or operation of the Canal as a threat to the peace and a violation of the purposes and principles of the United Nations Charter. "

2. She pointed out that when these sanctions provisions were put to Colonel Nasser he would have to be told whether they were to be enforced in accordance with the provisions of the Charter or outside those provisions as part of the instrument to which we were seeking his agreement. He would probably also suggest that the United Kingdom and France had already applied certain sanctions. To this Miss Gleeson-White presumed that we would say that what the United Kingdom and France had already done were interim measures for their own protection without prejudice to any future arrangements which might be agreed upon.

3. Miss Gleeson-White also asked if we now proposed to take the matter to the Security Council ourselves. Australia House had understood from the Commonwealth Relations Office that this was in the wind. I said that I could not say what decisions on the subject might have been taken though we had of course given thought to the ways in which the Suez question might arise in the Council.

4. The question of sanctions is dealt with by Mr. Pink in his minute of August 21 at Flag A. We are agreed that this point will need careful watching when we come to word the eventual treaty but it is clear that before then we are going to have to decide what we mean by the sanctions provisions of the 18 Power Declaration if the 5 Power Group is to be able to discuss them with Colonel Nasser.

5. On the sanctions point, I think we shall have to leave the interpretation of the sanctions provisions of the 18 Power Declaration to be worked out with the Egyptian Government on the understanding however, that the introduction of sanctions would not depend on a Security Council decision to apply such sanctions. We would have to make it very clear that we were not prepared to agree to a state of affairs

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Minutes

where any application of sanctions could be vetoed. To this extent what we propose was outside the provisions of the United Nations Charter. Provided this was accepted, the arrangement for sanctions was to be a matter for negotiation with the Egyptian Government. We might authorise the Australians to pass this information on to the other members of the 5 Power Group

6. As regards the United Kingdom reference to the Security Council, this is a highly delicate matter and it is perhaps a pity that the Australians have learned that it is in the wind. We might however tell the Australians that we are considering the possibility of taking the matter to the Security Council ourselves if circumstances made it desirable. We could suggest that by circumstances we are thinking in particular of possible developments in Egypt itself such as any aggressive action by Colonel Nasser, but we should make it clear that the Australians in their capacity as members of the Commonwealth and ask them not to pass this on to the 5 Power Group. If they should then ask whether we would take the matter to the Security Council in advance of the completion of the 5 Power Group's task we might say that this is a very hypothetical question but on the face of it it would seem very unlikely ~~that~~ so long as the 5 Power Group were holding discussions with Nasser the necessity would be ~~most unlikely to arise.~~

7. Miss Gleeson-White has now telephoned to say that the Australian delegation are anxious to have our views on the Sanctions point this evening for tomorrow's 5 Power meeting.

R. S. Scrivener  
 (R. S. Scrivener)  
 August 29, 1956.

Mr. Pink and I discussed this with Sir G. Fitzmaurice yesterday evening and I asked Miss Gleeson-White to come round afterwards. I gave her a piece of paper based on points made to us by Sir G. Fitzmaurice in the following terms:

Sanctions passage of Declaration.

1. The passage is declaratory of a general principle only. Egypt would have her full say in drawing up the relevant passage of the Convention.
2. What the sanctions would in fact amount to would be for negotiation when drawing up the Convention.
3. There would no doubt be some tie-up with the Charter; that equally would/.....

*The most we could say, I think, is that this is one of the possible courses of action which we should have to consider. I think it is too risky to speculate on the circumstances we are informing*

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- would be a matter for negotiation.
4. The Convention would however provide for its own automatic sanctions.
- (5. The passage in question is in no way aimed specifically at Egypt - but is world wide and the same for all.)
2. Miss Gleeson-White asked me what we thought the sanctions might consist of; did we think that they should be those laid down in the United Nations Charter? I said that we had no views as to what sanctions should be written into the Convention; this would be a matter which would have to be settled by negotiation. The nature of them would be for negotiation when drawing up the Convention. Speaking personally I thought that it might well be useful to take the sanctions specified in the Charter as a possible guide, at any rate as a point of departure.
3. Miss Gleeson-White then asked if Her Majesty's Government themselves has any ideas which they wanted the Australian Delegation to put over at to-day's 5 Power meeting. I said that as far as I knew we had none.
4. Miss Gleeson-White then said that presumably H.M.G. were hoping that Colonel Nasser would, in any case, reject the proposals that the 5 Powers might put to him. I denied this.
5. In conclusion I referred to her earlier enquiry regarding a possible U.K. intention of referring the Suez problem to the Security Council and said that we could go no further than to say that this was one of the possible courses of action which we might have to consider. I emphasised that this was however for the information of the Australian Delegation in their capacity as members of the Commonwealth and not as Chairman of the 5 Power Group. Miss Gleeson-White said she entirely understood this. The Australians were interested not in their capacity as members of the 5 Power Group but as members of the Security Council.

*R.S. Scrivener*  
( R.S. Scrivener )  
August 30.

(I have sent a copy of the minutes to  
African Secy.)

*R.S. Scrivener*  
30/8.

*30/8*

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 - submit please

QUESTIONS TO BE EXPECTED FROM THE EGYPTIAN GOVERNMENT  
 (Working paper by Australian officials)

H.B.  
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1. QUESTION

Why is there need for a new convention? Why should not the 1888 convention be revised as Egypt proposes?

ANSWER

Revision of the 1888 convention would be adequate if, among other things, the convention established a system of operation of the Canal, replacing the Suez Canal Company, and which conformed to the principles of the 18 Power statement. In practice it would probably be found preferable to draft a new international instrument supplementing rather than revising the 1888 convention.

2. QUESTION

Since the Canal Company has never had an international character (but was an Egyptian company subject to Egyptian laws and customs - article 6 of the 1866 concession) what is the justification for seeking to impose an international administration in place of a nationalised Egyptian company?

ANSWER

The concession, building and finance were international. Relations of the company with Egypt were regulated by conventions. The decree of 1866 was incorporated into, and made part of, the "definite system" which was an objective of the 1888 treaty. Self-governing Egypt has accepted this treaty as binding. There is more involved than legal precedent. The use of the Canal is international. The countries entitled to enjoy the rights of the treaty regarded the Suez Canal Company as an instrument for effecting these rights. All of the 22 Powers in London asked for guaranteed freedom of passage. 21 Powers made clear that they do not accept the Egyptian position - unqualified Egyptian control - as an adequate assurance that rights will or can in practice be

/afforded

*Has offer in Paris to follow to govern the Suez Canal  
 is actually in the Treaty*

afforded. Eighteen (representing more than 90% of the tonnage using the Canal) support the 5-Power statement.

3. QUESTION

Egypt possesses sovereign rights which she would have to surrender if she agrees to the 5-Power proposals. Why should she do this?

ANSWER

A country expresses its sovereignty when it voluntarily recognises that it must accept obligations towards the international community and qualify its freedom of action in order to serve the legitimate interests of others. Many examples can be given: [the submission of dependent territories to the U.N. Trusteeship System] other aspects of the U.N. Charter; international commercial agreements; The European Coal and Steel Community; NATO; the 1888 Suez Canal Convention itself; arrangements governing other waterways.

It is entirely consistent with Egypt's sovereignty, and with her material and political interests, for her to accept a definite system guaranteeing the practical benefit of the legal rights in the 1888 convention to those user countries for whom the 1888 convention was specifically designed to provide these benefits.

4. QUESTION

Do you accept that Egypt was within her rights in nationalising the Suez Canal Company?

ANSWER

The 18 Powers accepted that, as part of a final settlement, Egyptian ownership of the physical assets of the Suez Canal Company in Egypt would be recognised. But we see no advantage in becoming involved at this stage in a juridical argument concerning the legality of nationalisation. The 18 Powers have drafted a set of proposals which assume the payment of just and fair compensation to the Suez Canal Company.

3. QUESTION

Will Egypt still have the rights under the 1888 convention relating to the defence of Egypt and the maintenance of public order?

ANSWER

The mandate of the Committee does not deal specifically with Egypt's rights in relation to the defence of Egypt and the maintenance of public order. But the stated principles specify that an adequate solution "respect the sovereign rights of Egypt", that the system should be established with "due regard to the sovereign rights of Egypt" (paragraph 2); and provides that there should be "effective sanctions for any violation of the convention" by any nation.

Egyptian rights in respect of the defence of Egypt would be established under these principles.

QUESTION

6. With whom would Egypt negotiate the new convention?

ANSWER

It is not within the Committee's mandate to propose the precise method of negotiation. [Informally it might be suggested that, in principle, the negotiations should be with nations having a significant interest in the use of the Canal whether for trade or shipping - e.g. the 18 Powers, or the 23 Powers participating in London, or a smaller group (which Egypt might prefer) drawn from these powers.]

*Additional  
willing  
basis*

7. QUESTION

By what standard would a fair and equitable return to Egypt be measured and what amounts are in mind?

ANSWER

It is clear from the text of the London proposals that no profit from the operation of the Canal will accrue to anyone other than the Egyptian Government. It follows

/that

that, assuming that Canal traffic and dues continue at their present levels, and putting aside the question of compensation to the Canal Company, Egypt would receive approximately the sums she now gets together with those distributed to the shareholders of the Suez Canal Company. As traffic through the Canal increases - and present trends foreshadow a very rapid increase - the benefit to Egypt will increase, affected however by the terms upon which developmental capital is raised.

(Comment -

- (a) On the above basis, the Egyptian Government would receive the net, but not the gross, payments at present made to Suez Canal Company shareholders, since the gross payments include Egyptian taxation on the Company's distributed profits.
- (b) Arrangements would be made whereby the revenue accruing to the Egyptian Government would be increased as traffic passing through the Canal increased in volume.
- (c) Whether or not Canal dues should be adjusted - either up or down - would be a matter for decision by the International Board. No doubt guidance on the policy to be pursued in this regard would be laid down in the convention under which it was set up, and this would be a matter for negotiation with the Egyptian Government).

8. QUESTION

What assumptions are the 18 Powers making about compensation?

/ANSWER

ANSWER

See foregoing. The Committee is not called upon to seek to negotiate upon this matter. It would contemplate that, by separate arrangement, negotiation would take place between Egypt and the interested parties, and provision would be made for arbitration.

9. QUESTION

How would the proposed International Board operate? What would be its functions and powers?

ANSWER

Section 3(e) of the Five Power proposals envisages the setting up of a Suez Canal Board which would be responsible for the operation, maintenance and development of the Canal. Egypt would grant this Board all rights and facilities appropriate to its functioning. This means that the Board would be responsible for:

- [(i) the day-to-day running of the Canal;]
- (ii) the fixing of Canal dues, taking into account points 1 (c) and 1(d) of the proposals;
- (iii) recruitment of personnel, following where possible the old Company's policy of Egyptianisation;
- (iv) ploughing back of profits where necessary for developmental purposes;
- (v) raising capital on the world market where the Company's own existing resources are not sufficient. This would be done to obtain capital for special developmental projects.

10. QUESTION

Why is it necessary to have an executive Board involving Egypt in co-operation with other so-called interested nations in the operation, maintenance and development of the Canal?

ANSWER

The Canal plays a vital part in the economy of many nations. The proceedings of the Conference show that there is almost

a unanimous feeling in the countries most concerned that there should be international participation in the management of the Canal, in order to safeguard their interests in the Canal. This is what is meant by "a definite system destined to guarantee" the free use of the Canal. Further justification for this view is provided in the text of the London proposals themselves and, in particular, paragraph 2(b).

Large amounts of capital will, moreover, be required for the future development of the Canal. Revenue from tolls at reasonable rates will not be adequate. It is not believed that the Egyptian Government alone would be able to raise the necessary loans.

11. QUESTION

Will an International Board mean that the process of introducing Egyptians into the running of the Canal will be halted?

ANSWER

Egyptianisation will be a matter for ~~negotiation~~ decision by the Board.

12. QUESTION

How will the Board be constituted and in particular what will be the system of voting?

ANSWER

The Board must have a constitution which enables it to take decisions, and decisions which will reflect a consensus of opinion and not the interests of any one of its members.

13. QUESTION

For what reasons is it supposed that the Egyptian authority now established is incapable of running the Canal effectively?

ANSWER



QUESTION

What are the sanctions contemplated in Section 3(c) of the Five Power proposals and what provisions are to be made in regard to them?

ANSWER

The sanctions contemplated could be the same as those set out in Articles 41 and 42 of the UN Charter which outline action that may be taken by the Security Council, with respect to threats to the peace, breaches of the peace and acts of aggression. It is for consideration whether provision may be made in the proposed Convention for any act of this sort which may take place with regard to the Canal to be referred to the Security Council for consideration under Article 39 and action under Articles 41 and 42.

15. QUESTION

Are not the French and British already violating the spirit of this part of the London statement?

ANSWER16. QUESTION

*Charter does not provide for this.*

*Yes.*

Why is anything further required other than the United Nations Charter? And for the possibility of reference to the International Court of any disputed questions under a revised 1888 Convention?

ANSWER

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S E C R E T

MR. H. BEELEY

JE 12011/1277 (A)

Copies to: Mr. W. Armstrong  
Mr. T.F. Bird

Questions which Nasser may ask  
on the London Statement

I attach copies of a draft paper on this  
as agreed at this afternoon's meeting of your  
small group.

M. W. Camp

23rd August, 1956.

SECRET

SUEZ CANAL

Questions which the Negotiating Committee  
may be asked on the Proposals of the  
London Conference by the  
Egyptian Government

1. Officials have considered:-
  - (a) whether the Negotiating Committee set up by the London Conference to present the proposals of the Conference to the Egyptian Government should be ready to answer questions put to them by the Egyptian Government on the detailed implications of those proposals; and, if so
  - (b) what are the questions which the Egyptian Government are likely to ask and what answers should be given to them.
2. It is strongly recommended that the Negotiating Committee should be authorised to answer, at least in general terms, some of the more obvious questions which the Egyptian Government would be likely to raise.
3. The following are the questions which seem most likely to be raised by the Egyptian Government, and the line of the suggested replies:-

A. Sovereign rights

Question (1)

"How do you reconcile the London Conference proposals with Egyptian sovereign rights?"

Answer

"The answer to this question is contained in the verbatim record of the London Conference, and in particular in the speeches of Mr. Dulles at the Second Plenary Session on 16th August, of Mr. Selwyn Lloyd at the Fourth Plenary Session on 18th August and of Dr. Cunha at the Sixth Plenary Session on 21st August. In brief, it is

not proposed to depart from the long standing recognition that the Canal itself forms an integral part of Egypt; and, on the main issue, the doctrine of absolute sovereignty is out of date in the modern world, when it is necessary to reconcile national sovereign rights with the unavoidable inter-dependence of individual countries."

Question (2)

Do you accept that Egypt was within her rights in nationalising the Suez Canal Company?"

Answer

"We accept that, as part of a final settlement, Egyptian ownership of the physical assets of the Suez Canal Company in Egypt would be recognised. But we see no advantage in becoming involved in a juridical argument concerning the legality of nationalisation at this stage."

[Comment - For the information of the Negotiating Committee, our position is that we do not accept the legality of Egyptian nationalisation, but will be willing to accept it de facto so far as concerns the physical assets in Egypt as part of a general settlement.]

Question (3)

"Will Egypt still have the rights under the 1888 Convention relating to the defence of Egypt and the maintenance of public order?"

Answer

"Amendment of the 1888 Convention is not part of the present proposals."

[Comment - Amendment of the 1888 Convention, or indeed its supersession, is not excluded. But the real question which arises in this context is whether the provision in the London proposals for "effective sanctions" does not by implication mean the supersession of the 1888 Convention.]

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B. A fair and equitable return to Egypt

Question (4)

"By what standard will this be measured and what amounts are in mind?"

Answer

"It is clear from the text of the London proposals that no profit from the operation of the Canal will accrue to anyone other than the Egyptian Government. It follows that, assuming that Canal traffic and dues continue at their present levels, Egypt would receive approximately the sums she now gets together with those distributed to the shareholders of the Suez Canal Company. But until payment of compensation to the Suez Canal Company had been made in full, the sums accruing to Egypt would be reduced on account of this factor."

Comment -

- (a) On the above basis, the Egyptian Government would receive the net, but not the gross, payments at present made to Suez Canal Company shareholders, since the gross payments include Egyptian taxation on the Company's distributed profits.
- (b) Arrangements would be made whereby the revenue accruing to the Egyptian Government would be increased as traffic passing through the Canal increased in volume.
- (c) Whether or not Canal dues should be adjusted - either up or down - would be a matter for decision by the International Board. No doubt guidance on the policy to be pursued in this regard would be laid down in the Convention under which it was set up, and this would be a matter for negotiation with the Egyptian Government.<sup>7</sup>

C. Just and fair compensation to the Suez Canal Company

Question (5)

"For what is this compensation payable and who is to pay it?"

Answer

"Compensation will be payable in respect of the Company's physical assets in Egypt and the premature ending of the Company's concession. Egypt will be regarded as liable for this compensation."

Question (6)

"Do you accept the Egyptian proposals for compensation?"

Answer

"It will be seen from the answer to question (5) above that the basis proposed is different from that originally proposed by the Egyptian Government."

D. The Convention to be negotiated with Egypt

Question (7)

"How will this be done? Will it be by the conference already suggested by Egypt?"

Answer

[This question requires further consideration. It is however assumed that a conference of the kind proposed by Egypt would not be acceptable to Her Majesty's Government. The alternatives would presumably be either a conference of Egypt with the eighteen supporters of the London proposals, or a smaller conference including countries drawn from within the eighteen but more equitably balanced from the Egyptian point of view.]

E. Status of the International Board

Question (8)

"Why is an executive Board necessary for the purposes described?"

Answer

"The Canal plays a vital part in the economy of many nations. The proceedings of the Conference show that there is almost a unanimous feeling in the countries most concerned that there should be international participation in the management of the Canal. Further justification for this view is provided in the text of the London proposals themselves and in particular paragraph 2(b).

Large amounts of capital will, moreover, be required for the future development of the Canal. It is not believed that the Egyptian Government alone would be able to raise the necessary loans".

Question (9)

"Will an International Board mean that the process of introducing Egyptians into the running of the Canal will be halted?"

Answer

Egyptianisation will be a matter for [negotiation] [decision by the Board] .

Question (10)

"How will the Board be constituted and in particular what will be the system of voting?"

Answer

"The Board must have a constitution which enables it to take decisions, and decisions which will reflect a consensus of opinion and not the interests of any one of its members."

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F. Effective sanctions

Question (11)

"What are the sanctions and who will be responsible for calling them into play?"

Question (12)

"Are not the French and British already violating the spirit of this part of the London statement?"

Question (13)

"Why is anything further required other than the United Nations Charter?"

[The answer to these questions require further consideration.]



CONFIDENTIAL

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JE14211/1279

RECOGNITION OF THE NATIONALISATION OF THE SUEZ CANAL

Further to my minute of August 20 when I recorded conversations with Messrs. Berkin and Searight of Shell, I attach a copy of a memorandum handed to me to-day by Mr. Searight. I understand that Mr. John Loudon will shortly be sending a copy to Sir H. Caccia.

2. Mr. Searight re-emphasised the great importance attached by Shell to Nasser's action not resulting in the recognition of the nationalisation of the Canal. He thought that the Shell plan as outlined in the attached memorandum provided such a big carrot in the shape of the payment to Egypt of something like £150 - £175 million that Nasser would be tempted to accept the plan and not insist on nationalisation. I expressed some doubt of this. Mr. Searight seemed to think that, although we had recognised the nationalisation of our oil interests in Persia, we should be able to avoid it in the case of the Suez Canal.

3. Mr. Searight indicated that the American oil companies (in particular Mr. Howard Page of New Jersey) were not so worried on this issue as Shell and that they might be prepared to see a compromise solution reached with Nasser.

4. I imagine that you will want this memorandum to be circulated to the Suez Committee Working Party.

*Jaw*  
August 23, 1956.

Mr. Bealey

Action taken as in para. 4.

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23rd August, 1956.

MEMORANDUM:

Suez Canal

Whatever may result in broad principles from the London Conference, the next and possibly equally critical stage will presumably be how this can be negotiated so that it can be implemented in practice. One approach to this problem, on the assumption that in some manner or another nationalisation of the Suez Canal should not be recognised but on the other hand the necessity of some financial incentive to Egypt would be essential, is to view the matter from the point of view of what might have been a reasonable approach if Egypt had not nationalised the Canal. It is recognised that this approach in a number of aspects is or may be unrealistic, but nevertheless it provides a starting point. The following paragraphs suggest such an approach in outline only, greater detail would need further research and the assistance of experts in various fields.

2. We assume in this approach that it is desirable for there to be a new International Entity (referred to hereunder as the Entity) other than the Suez Canal Co. This Entity would own the physical assets and have by contract, backed by an international treaty, the rights necessary to operate the Canal. The Entity could be created in a number of ways, but it can be assumed that it would require to be financed at least partly, directly or indirectly (through the International Bank, for instance), by Governments through debentures or loans or both. The Entity would need to acquire by free negotiation from the Suez Canal Company the latter's existing assets and rights in return for a consideration sufficient at least to enable the Suez Canal Company to meet its obligations to its existing shareholders. (It is for consideration, but unimportant in the present context, whether the Suez Canal Company would then be liquidated or retained as a corporate body with its staff as managers or operators of the Canal under an agreement with the Entity and for a fee.)

3. Such an arrangement would require the consent of the Egyptian Government and would be of little value unless the Entity could acquire

from the Egyptian Government a continuation of the right in perpetuity to own the assets and to operate the Canal after the expiry of the existing concession in 1968. For the Entity to recognise the necessity for a substantial consideration to Egypt for the foregoing would be a reasonable and legitimate basis on which to negotiate with the Egyptian Government without requiring any recognition, and in fact avoiding the issue, of nationalisation. Such an approach could also provide a reasonable incentive to the Egyptian Government (and could be so presented by the Egyptian Government in justification to the Egyptian people) to accept an international treaty overriding or forgoing any assumed future rights to nationalise.

4. The consideration payable to the Egyptian Government as contemplated in paragraph 3, would need to take into account amongst others the following factors :

- a) The revenue which the Egyptian would obtain annually under the existing agreement until its expiry in 1968;
- b) The substantially increased post-1968 annual net revenue, (i.e. income from dues less costs), the Egyptian Government would otherwise obtain from the existing assets and rights which are due to revert wholly to them in 1969.  
(“Existing” since it is assumed that any capital for expansion or duplication of the Canal for increased capacity would be provided entirely by the Entity and not by Egypt.)
- c) Rental for the land area occupied by the existing Canal and its facilities and perhaps for a substantial area on either side of the Canal to provide for further expansion.
- d) A sum for the present assets of the Canal Company at the value they would have in 1969 when they would otherwise become the property of the Egyptian Government.

5. The manner in which this consideration could be paid could take many forms, but basically would presumably have the greatest appeal as an incentive to the Egyptians if it provided for a substantial lump sum and, as well, an annual payment greater than the present annual revenue received by the Egyptian Government. (Direct participation by the

Egyptian Government in the Entity is not excluded). It is believed that these objectives could be achieved from a reasonable commercial evaluation of the factors outlined in paragraph 4. For instance, the present day discounted value of item 4 b), even on the assumption that the annual net revenue post-1968 would be at no greater a rate than that of 1955, could alone amount to some £150/175 million. Such an amount would presumably be more than could be contemplated as a lump sum payment, the balance would therefore be available for deferred payment by annual instalments, thus increasing the annual revenues payable in respect of the other factors. It would be desirable for some part of the annual revenue of the Egyptian Government to be related to the use of the Canal so that they would gain from increased use or capacity. It would not be difficult to devise formulae by which this could be achieved, and perhaps it would not be unreasonable to accept that there should be a fixed rate per ton or a fixed percentage of the dues to be guaranteed to the Egyptian Government for this purpose.

6. The foregoing approach with the possibilities of an attractive financial incentive to Egypt avoids the issue of nationalisation. On the other hand certain references in the Suez Conference to possible solutions, which include proposals such as the rental by an International Organisation of the Suez Canal assets from the Egyptians, implicitly acknowledge the effectiveness of the nationalisation and would set a very dangerous precedent in potentially similar problems in the Middle East. The inherent difficulties in the negotiation stage on the nationalisation issue are recognized, but unless some approach on the lines of the first part of this memorandum is the starting point, the chances are negligible of achieving a satisfactory solution which does not at the same time create potentially dangerous precedents in the Middle East or elsewhere.

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SECRET

FROM TEHRAN TO FOREIGN OFFICE

Cypher/OTP

FOREIGN OFFICE AND WHITEHALL  
DISTRIBUTION

Sir R. Stevens

No. 705  
September 3, 1956

D. 10. 5 a.m. September 3, 1956  
R. 11.37 a.m. September 3, 1956

IMMEDIATE  
SECRET

JELU 21/1282

Addressed to Foreign Office telegram No. 705 of  
September 3.

Repeated for information to Cairo  
Jedda  
Washington



I saw the Shah at the Caspian resort, Mowchaht, on September 1. I told him that we had accumulative evidence of Saud's concern over Nasser's behaviour. In the light of this His Imperial Majesty might think that the moment was appropriate for using his influence with Saud to work on Nasser. If all this could be done in time, it might affect the outcome of the meeting with the Five-Power Committee.

2. The Shah readily agreed to the idea of taking some action. He said that he had intended to say his piece about Nasser when he paid his projected visit to Riyadh in the winter (not September, see Jedda telegram No. 253 of August 20) but he realized that Suez had accelerated the time table. He debated the merits of a message or a special emissary, but in the end, with my encouragement, came down in favour of the former on the ground that there was no time to be lost.

3. I think the message will be on the right lines. He rehearsed some of your telegram No. 827 without any prompting from me and I filled in most of the gaps. I suggested sounding the note of two major Moslem Powers equally threatened by Nasser's reckless ambitions; Iran was doing her best through the Five-Power Committee; what could Saudi Arabia do? He certainly will not encourage the idea of Saudi mediation. He might even go so far as to suggest that the time had arrived when Saud should come off the fence, stop putting his hand in his pocket (he was very scathing about the 10 million dollars, though inclined to agree with the interpretation in

/Jedda

SECRET

Tehran telegram No.705 to Foreign Office

-2-

Jedda telegram No.261) and really talk sternly and outspokenly to Nasser. He is, of course, just as anxious as Saud that Nasser should deflate himself by accepting international control.

4. For personal, not (repeat not) policy reasons, I sensed that the Shah was not best pleased at my visitation. He has agreed to act and speedily. In these circumstances, and view of the instructions described in Washington telegram No.1783, a similar démarche by the United States Ambassador might only irritate or confuse. The United States Embassy could, however, show their solidarity by enquiring of the [grp. undec. ? Government] in Tehran about the despatch and terms of the message. I am conveying a suggestion to them in this sense.

Foreign Office please pass Priority to Cairo, Jedda and Washington as my telegrams Nos. 42, 12 and 39 respectively.

[Repeated to Cairo, Jedda and Washington]

ADVANCE COPIES

Sir I. Kirkpatrick  
Private Secretary  
Mr. Beeley  
Head of Eastern Department  
Head of African Department

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FROM CAIRO TO FOREIGN OFFICE

En Clair

FOREIGN OFFICE AND  
WHITEHALL DISTRIBUTION

Sir H. Trevelyan  
No: 1869  
September 3, 1956.



D: 12.52 a.m. September 4, 1956.  
R: 2.38 a.m. September 4, 1956.

PRIORITY

Addressed to Foreign Office telegram No: 1869 of  
September 3

Repeated for information to: Washington. Paris.  
POMEF. R.I.O. Beirut.

Paragraph 1 (C) of my telegram No: 1863. NYR

Following is full text of Gomhouria version of Nasser's comments on Eisenhower's statement.

"What President Eisenhower said two days ago overcame our earlier disappointment and in general, Eisenhower's statement is considered as similar to Egypt's point of view, for he said that Egypt was the owner of the Canal and this is our viewpoint. The United States is concerned with guaranteeing the freedom of navigation and this is what we are trying to do. Eisenhower said that America was concerned to reach a peaceful settlement and this is what we are also trying to do".

2. Akhbar version corresponded substantially with the above, but it reported Nasser as commenting, "It seems that President Eisenhower was demanding exactly what we previously offered". Akhbar added that when the correspondents referred to the hopes which Eisenhower expressed for the possibility of President Nasser's acceptance of the Western plan, Nasser answered that there was some difference between himself and President Eisenhower as regards the realization of the viewpoints of them both.

Foreign Office pass Washington, Paris and Beirut as my telegrams Nos: 282, 145 and 249.

[Repeated to Washington, Paris and Beirut]

JJJJJ

CONFIDENTIAL

FROM FOREIGN OFFICE TO JEDDA

Cypher/OTP

DEPARTMENTAL  
DISTRIBUTION

No. 556

August 18, 1956

D. 3.37 p.m. August 18, 1956

IMMEDIATE

CONFIDENTIAL

Addressed to Jedda telegram No. 556 of August 18.

Repeated for information to: Cairo

Washington

The Saudi Charge d'Affaires was invited to call on Head of Eastern Department this morning and given an outline of the proceedings of the Suez Canal Conference. He was told that the Conference quickly got down to business without wranglings on procedure and that Mr. Dulles's exposition of the problem proposing the establishment of an international authority was well received and had become the focal point of the conference. Even the Russian delegate in his speech on August 17 although inevitably concerned to make a number of propaganda points did not deny the necessity for arrangements for complete freedom of passage through the Canal. He proposed that further proposals should be worked out by the Four Great Powers together with India and Egypt.

2. Mr. Riches went on to emphasise the interest of all users of the Canal including Saudi Arabia in a solution which would divorce its operation from all national politics. It was not proposed to establish an authority dominated by Britain or by the Western Powers or by anyone else but after Nasser's act of force it was vital to agree on arrangements which would afford real international guarantees against any similar future action and to re-establish confidence. Otherwise the prospects of further investment to develop the Canal (or any other project in undeveloped countries) would be seriously affected. It seemed to be already agreed by the Conference that the legitimate interests of Egypt in securing an adequate share of the income from the Canal must be met. M. Pineau in his speech had emphasised this aspect of the matter. If Egypt secured revenue in this way she might be less covetous of other Middle East countries and their oil.

3. Finally, Mr. Riches said that it seemed that Nasser, having brought this storm upon himself, was now more ready to

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ECONFIDENTIALForeign Office telegram No. 556 to Jeddah

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seek a solution. This might be because he realised that he could not entirely rely on Russia. It was well known that he had asked for Iraqi mediation. Saudi Arabia had a vested interest in the freedom of the Canal and in separating its operation from politics just like any other trading nation. The best counsel they could give Nasser was to accept a solution on the lines adumbrated by Mr. Dulles.

4. If you think it would be helpful you should speak in similar terms to Faisal or other Saudi authorities in Jeddah.

5. Saudi Charge d'Affaires was inclined to argue that we could not say that Nasser's assurances in regard to freedom of navigation were not sufficient until they had been put to the test. He also deprecated any suggestion of the use of force since there was already "enough trouble in the Middle East as it is".

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LLL

27th August 1956

SUEZ CANAL

ALTERNATIVE PLAN

- (1) Egypt buys Suez Canal Company's physical assets located in Egypt for a negotiated price - in so far as these revert to Egypt anyway in twelve years time the basis of price will presumably be less of profits; in addition there would be a payment for any moveables which do not so revert.
- (2) <sup>contract</sup> Egypt grants International Entity a perpetual agency concession on a non-profit basis.
- (3) All revenues accruing to the Entity (but probably, on basis of a stated tariff) belong to Egypt, but during next twelve years payments will be made to Company in amortisation of amounts due as a result of (1).
- (4) Effect in initial years will be that Egypt's net revenue will not increase very much more than it is in any case likely to do as a result of the increase in traffic that is expected to result from the completion of Programme B; but, having granted perpetual agency concession to the International Entity, Egypt should be able to borrow, thereby generating cash for the Aswan Dam.
- (5) Under this scheme "nationalisation" of the Company would not have been accepted and the purchase of the Egyptian assets could be represented as a commercial transaction.
- (6) The only way in which Egypt could be said to be doing better than at present is that as a result of the granting of a perpetual agency concession to the International Entity she would be able to borrow now against her revenue in 1969 and after. She certainly could not do so without granting such an agency concession.

2

SUEZ

PRINCIPAL PROBLEMS AT START

Board of Suez Canal Authority

To be non-political and selected from among users of Canal and by patterns of trade and from Egypt. Board to send reports to the U.N. Must work for good of Canal and all users.

1. Type of individuals on Board?
2. Part or full time? - Should they be shareholders in shipping companies for example? Government employees?
3. Number on Board - 11? 15? 30?
4. Alternates? - If so, specific for each member or a pool?
5. Who selects them to start with - Egypt and the 5 conference representatives? If so, who supplies panel for selection?

Arbitral Board

Who selects it? U.N.? 22 or 45 nations?

Where does it sit - in Egypt?

What does it handle - labour disputes as well as toll rates, arguments on meaning of agreement etc.?

Control

Egypt to delegate certain controls. What about tolls, capital expenditures, bond issues? Would Egypt have a veto?

27th August, 1956

SUEZ CANAL  
PLAN FOR SETTLEMENT

- (1) An International Entity would buy the Suez Canal Company's rights (up to 1968) in the physical assets located in Egypt.
- (2) The International Entity would buy from the Egyptian Government the right in perpetuity to own the assets and to operate the Canal.
- (3) The consideration payable to the Egyptian Government would need to take into account the following:-
  - (a) The revenue which the Egyptians would obtain under the existing agreement until its expiry in 1968.
  - (b) The substantially increased post-1968 annual revenue which the Egyptian Government would have obtained from the existing assets.
  - (c) Rental for the land area occupied by the existing Canal and its facilities.
  - (d) The Egyptian Government's reversionary interest in the assets of the Canal Company which will become theirs in 1968.
- (4) The manner in which the consideration could be paid could take many forms, but would presumably have the greatest appeal if it provided for a substantial lump sum payment as well as annual payments. As far as the annual payments are concerned, these should be, at any rate in part, related to the use of the Canal so that the Egyptian Government would gain from increased use of capacity - perhaps a continuing fixed rate per ton, or fixed percentage of the dues.
- (5) Separate arrangements would have to be made as regards new capital development.
- (6) As the International Entity will presumably be non-profit making the disposal of any surplus after making the agreed payments to the Egyptian Government will require

consideration.

(7) A plan on the lines of the above would avoid the issue of "nationalisation" and if the money for buying the Suez Canal Company's Egyptian assets and for any lump sum payment to Egypt were provided by the principal user Governments it would broaden the basis of international support in the event of difficulties.

27th August, 1956

Essential differences between "our" plan and that explained by H.P. are:-

1. (A) Under our plan the Entity buys out the Canal concession (a) from the Canal Company (until 1968) and (b) from Egypt (post-1968), paying respectively the Canal Company and the Egyptian Government (by a variety of ways).

This calls for a particularly <sup>(large lump sum</sup> difficult calculation <sup>)</sup> in respect of (b) - "mess of ~~payments~~<sup>payments</sup>"; and the cancellation of the "nationalisation" law.

- (B) Under the H.P. plan the Egyptian Government buys out the Canal Company pre-1968 rights; and appoints the "Entity" as a permanent concessionary but non-profit-making agency.

One difficulty here is that the "price" paid to the Canal Company has to appear as a commercial deal; and not as "compensation for nationalisation".

2. (A) Under our plan the whole revenues would go to the Entity from now and for perpetuity: Egypt receiving certain "royalties" (which would increase with the traffic). This calls for consideration of what the Entity (which is supposed to be non-profit-making) would do with the surplus.

- (B) Under the H.P. plan Egypt would at once and for all time receive the total nett revenues from tolls - out of which, for some years to come, presumably, she would have to pay off the purchase price (compensation) to the Canal Company.

Under this plan Egypt would receive no lump sum - her nett revenues would be only moderately and gradually over what she has heretofore been getting (taking into account the sums due to the Canal Company for "selling

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out" in anticipation of 1968). But she could borrow substantially on the strength of post-1968 earnings, which will be enormous.

N.B. What would be the position of "new assets", i.e. expansion, under this plan? Under our plan Egypt would presumably get a free ride to the extent that she would not be expected to put up any capital but would benefit by the increasing royalties from the much bigger traffic thereby made possible.

As far as "Nasser getting away with it" is concerned, 1(B) and 2(B) are pretty close to nationalisation, and reaping the fruits thereof straight away. He would be "borrowing" instead of being "bought out". The method of "buying out" need not be so very different except that one would have thought that in the former case a larger lump sum would be needed than in the latter - and could indicate thereby a greater degree of immediate "triumph". But in either case the fruits would be not inconsiderable; though less spectacular in the short-term but greater in the long-term under the "H.P." plan.