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**CONFIDENTIAL**

**FROM NEW YORK TO FOREIGN OFFICE**

(United Kingdom Delegation to the United Nations)

Gyphar/OTF

**MINIMUM HAST (SECRET)**  
**DISTILLATION**

Sir P. Dixon  
 No. 30  
 January 3, 1957

D:1.17 a.m. January 3, 1957  
 R:2.07 a.m. January 4, 1957

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| RECEIVED IN C.B. |
| - 4 JAN 1957     |
| SENT TO DEPT.    |
| 4/1              |

**PRIORITY**  
**CONFIDENTIAL**

JE 1421/2 ✓

Addressed to Foreign Office telegram No. 30 of January 3

Repeated for information to: Washington  
 Paris

Your telegram No. 14: Canal Settlement.

After discussion on Moorhouse (my telegram No. 19) I raised the question of Canal settlement which prompted the Secretary General to tell me the outcome of his recent contacts with Fawzi and the Cordier mission's contacts in Cairo.

2. Mr. Hammarckjoeld said that he felt easier than he had felt for some time about the general Egyptian attitude. Cordier had brought him a message from Nasser that he had been right and Nasser wrong over the sending of UNF and Hammarckjoeld felt that prospects of progress on future problems were favourable.

3. He gathered from Nasser and Fawzi that though a suggestion for direct contact between Egyptian, French and British leaders would still be likely to meet with a rebuff, Nasser had no objection to a series of bilateral talks (presumably with Hammarckjoeld) and Fawzi had told Hammarckjoeld yesterday that the door was open and that he could choose his time. The Egyptians were always reluctant to show their hand in advance of others but might be prepared to do so simultaneously. Thus Fawzi would not commit himself finally to the Secretary General's letter of October 24, 1956 (S/5726) because M. Pincus in referring to it had spoken about progress previously made and you in the House had similarly made what amounted to a reservation.

JE 14214/385(56) 1/2

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REEL. New York telegram No. 30 to Foreign Office

- 2 -

7E1474/234(B)

UE 1421/1

4. Here I made the points in your telegram No. 11 referring back to his own opinion expressed on December 21 that we should "get something in the basket" as soon as possible (my telegram No. 1628). Hammarskjöld replied that he was now thinking in terms of the phrase "bringing it into focus" - in fact an expansion of the first stage into clarification without commitment on five points that had been formulated in talks with Fawzi. There were procedure, contents, participants, timing and atmosphere. He considered that by covering these points in the first stage it would be possible to reduce the second stage in a way which he believed you favour.

5. His idea for working this out was he said to seek in New York an impression without commitment of what both sides felt in regard to the five points and then to go for discussions, similarly without commitment, in Cairo with Nasser. He would begin by seeking the views of Fawzi and afterwards those of the French and ourselves. He would then go to Cairo and try to get Nasser's approval as ground work for the substantive discussion at the second stage (i.e. discussion between Egypt, France and United Kingdom at ministerial level under the Secretary General's aegis).

6. When I reverted to the view that the first step of all ought to be agreement between Egypt, France and ourselves on procedure Hammarskjöld did not at all demur. On the contrary his view was that ideally you yourself, H. Pinson and Fawzi should meet in his room to take up from where you left off and decide on next step. He did not absolutely include the possibility of this but as things stood the Egyptians were not yet ready for resumption of direct talks even under the Secretary General's aegis. He was sympathetic that his suggested contact with Nasser had no purpose other than bringing the problem "into focus" and incidentally exerting pressure on Nasser. I think that he is also genuinely anxious to get as much of the spadework done in order to facilitate a meeting of the three Ministers.

7. As I understand it we may soon expect to hear from Hammarskjöld his impression of Fawzi's ideas on the five points mentioned in paragraph 4. We and the French would then be expected to give Hammarskjöld our reaction. Armed with these "impressions"

**CONFIDENTIAL**

**MEMO. New York telegram No. 79 to Foreign Office**

- 3 -

"impressions" from both sides Hammarskjöld would then try to firm the position up with Nassar with a view to a start on direct talks at ministerial level.

8. All this is pretty tortuous and it would obviously be preferable to adopt the more straightforward procedure suggested in paragraph 6 above if we could.

Please repeat to Paris as my telegram No. 1.

[Repeated to Paris]

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**Outward Telegram from Commonwealth Relations Office**

J E 1421/3.(H)

- TO: U.K. HIGH COMMISSIONER IN CANADA (BY AIR MAIL)  
U.K. HIGH COMMISSIONER IN AUSTRALIA  
U.K. HIGH COMMISSIONER IN NEW ZEALAND  
U.K. HIGH COMMISSIONER IN SOUTH AFRICA (BY AIR MAIL)  
U.K. HIGH COMMISSIONER IN INDIA  
U.K. HIGH COMMISSIONER IN PAKISTAN  
U.K. HIGH COMMISSIONER IN CEYLON  
U.K. HIGH COMMISSIONER IN THE FEDERATION OF RHODESIA & NYASALAND } BY AIR MAIL

(SENT: 23.40 hours, 29th January, 1957)

CYPHER

PRIORITY

W. No. 148 SECRET

Air Mail to U.K. High Commissioners in Ottawa, Cape Town, Colombo and Salisbury.

My telegram W. No. 139.

NEGOTIATIONS FOR CANAL SETTLEMENT

In discussion with Minister of Defence in Washington Dulles said he proposed sending letter to Hammarskjold urging importance of reaching some arrangement before Canal re-opens.

2. Dulles agreed matter was urgent. In his view two things were important:-

- (a) Essential that arrangement should be made before Canal re-opens for payment of dues by all users to somebody other than Egyptian authority, e.g. I.F.R.D. or some machinery set up by S.C.U.A. Admittedly, Egyptians were unlikely to agree to any arrangement which did not provide for proportion in which dues would be paid to Egyptians for running expenses, to lenders for repayment of loans, and to fund for improvements, etc., but this aspect was secondary to need for initial payment of dues to an agreed non-Egyptian authority.
- (b) In first instance Hammarskjold should try to get United Kingdom and France only designated to represent users' interests. Other users could be brought in later. Negotiations at this stage over designation of other user representation would involve unacceptable delay in reaching final agreement.

3. Minister of Defence hoped Dulles would keep up pressure on Hammarskjold.

4. Dulles has now sent letter to Hammarskjold which broadly incorporates above points whilst not explicitly stating that dues must be paid to somebody other than Egyptian authorities. Letter refers to Hammarskjold's negotiations last October with representatives of Egypt, France and United Kingdom and suggests that those discussions should be resumed at earliest moment and follow pattern set then, i.e. consultation with United Kingdom and France representing users' /interests

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interests Thereafter consultations could be broadened to include  
or representation..

Copy to:-

D. II

SUEZ CANAL DISTRIBUTION

- |                                     |                        |
|-------------------------------------|------------------------|
| U.K. Embassy Washington             | Mr. J.R.A. Bottomley   |
| U.K. Delegation to the              |                        |
| U.N., New York                      | Mr. T.W. Keeble        |
| Accra Governor's Office             | Mr. F.E. Cumming-Bruce |
| c/o High Commissioner               |                        |
| for the Federation,                 |                        |
| Kuala Lumpur,                       |                        |
| Malaya                              | Mr. R.C.C. Hunt        |
| U.K. High Commissioner in Ottawa    | (6)                    |
| U.K. High Commissioner in Cape Town | (4)                    |
| U.K. High Commissioner in Colombo   | (4)                    |
| U.K. High Commissioner in Salisbury | (4)                    |

SOUTH ASIA & MIDDLE EAST DEPT.  
SA.190/28

CONFIDENTIAL

CONFIDENTIAL  
**Outward Telegram from Commonwealth Relations Office**

JE 1421/3 (J)

- TO: U.K. HIGH COMMISSIONER IN CANADA  
U.K. HIGH COMMISSIONER IN AUSTRALIA  
U.K. HIGH COMMISSIONER IN NEW ZEALAND  
U.K. HIGH COMMISSIONER IN SOUTH AFRICA (AIR MAIL)  
U.K. HIGH COMMISSIONER IN INDIA  
U.K. HIGH COMMISSIONER IN PAKISTAN  
U.K. HIGH COMMISSIONER IN CEYLON  
U.K. HIGH COMMISSIONER IN THE FEDERATION OF RHODESIA AND NYASALAND (AIR MAIL)

(Sent 18.25 hours 8th February 1957)

CYPHER  
PRIORITY

W. No. 191 CONFIDENTIAL

Air Mail to U.K. High Commissioners in Cape Town, Colombo, and Salisbury.

My telegram W. No. 173.

SUEZ CANAL

On 7th February, Mr. Dulles instructed United States delegation in New York to explain to Mr. Hammarskjold the kind of interim agreement which United States thought should be negotiated between users and Egypt prior to opening of Canal. This explanation covers following points:-

- (i) that immediately Canal is opened, all dues should be paid in first instance into an account held by an agreed neutral agency, e.g. International Bank;
- (ii) that half the receipts would be transferred immediately from this account to the Egyptian authority;
- (iii) that remaining 50% would remain impounded to be disbursed in proportions and on conditions to be agreed on as part of final settlement and in accordance with six principles established by Security Council.

2. State Department view is that if 50% of dues are tied up indefinitely in this way it will give us substantial lever over Nasser, while 50% is nevertheless a realistic proportion from Nasser's point of view since it will in fact give him slight increase over his actual takings between nationalisation and the blockage.

3. American view now is that it would be better not to force issue of repayments of advances for clearance in any interim arrangements made with Nasser. To do so would raise contentious arguments and so prejudice any chance of reaching agreement satisfactory to users before 1st March. They are therefore opposed to the idea of a surcharge at this stage and prefer simply to go for a 50-50 division without specifying what disbursement the 50% held in Bank would be expected to cover.

4. Instructions in paragraph 1 above are variation of our own proposal and one which would meet our essential requirements. We are, therefore, prepared to support them. We are also prepared, if necessary, to accept arguments in paragraph 3.

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Mr P. Dixon has again discussed interim arrangements with Secretary General on one occasion together with his French colleague. He has given Hammarskjold aide-memoire setting out our views as given in paragraphs 1 and 2 of my telegram W. No. 173. Aide-memoire has general support of French representative who emphasised that Paris would insist on payment of dues being made to a neutral custodian.

6. Secretary General continues to reiterate his argument that interim payments should be made to an account held in the name of Egypt (see paragraph 3 of my W. No. 173). He has been told we do not accept this thesis. Secretary-General is ready to discuss problem further with French, Americans and ourselves.

Copy to:- D.II

- C.R.O. Mr. Lamarque
- Foreign Office Mr. A.D.M. Ross  
Mr. H. Beeley  
Mr. J.H.A. Watson  
Mr. Brenchley  
Mr. R. Arculus  
Mr. J. Wilton
- H.M. Ambassador for U.K. in Dublin
- U.K. Embassy Washington Mr. J.R.A. Bottomley
- U.K. Delegation to U.N. New York Mr. T.W. Keeble
- Accra Governor's Office Mr. F.E. Cumming-Bruce
- c/o High Commissioner for the Federation, Kuala Lumpur, Malaya Mr. R.C.C. Hunt
- U.K. High Commissioner in Cape Town (4)
- U.K. High Commissioner in Colombo (4)
- U.K. High Commissioner in Salisbury (4)

SOUTH ASIA AND MIDDLE EAST DEPT.  
SA. 190/28

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S E C R E T

Inward Telegram to Commonwealth Relations Office

JE1421/3 (K)

FROM: U.K. HIGH COMMISSIONER IN PAKISTAN

D: Karachi 22.10 hours 12th February, 1957  
R: 18.42 hours 12th February, 1957

CYPHER  
IMMEDIATE

No. 197 SECRET

S U E Z

Prime Minister told me this morning that during the debate on Foreign Affairs which is due to take place in the National Assembly next week, he has it in mind to state the United Kingdom case in relation to Suez. As I understood him, he intends to deal not only with the Anglo/French intervention but also with the events of last summer and Nasser's nationalisation of the Canal.

2. He has asked me for information on a number of points. I am endeavoring to prepare answers to these from papers available in this office and will telegraph tomorrow if any further factual material is required. In the meantime I should be grateful if you would consider urgently whether there is any guidance as regards his general approach to this question which you would wish me to give to the Prime Minister.

Copy to:-

D.II

SUEZ CANAL DISTRIBUTION

ALLOTTED TO SOUTH ASIA AND MIDDLE EAST DEPT.



S E C R E T

**Inward Telegram to Commonwealth Relations Office**

FROM: U.K. HIGH COMMISSIONER IN PAKISTAN

D: Karachi 19.10 hours 13th February 1957  
R: 15.47 hours 13th February 1957

CYPHER  
IMMEDIATE

No. 203 SECRET

JE1421/3(1)

My telegram No. 197. - 3(K)

S U E Z

Points on which Prime Minister asked me for information are:-

- (a) Details of Convention of 1888 and extent to which that Convention or subsequent agreements affect the position of Egyptian Government and its ability to interfere with the administration of the Canal. Best material available here on history of Canal regime appears to be contained in your telegram W. No. 202 Saving of 27th July, 1956. May I have authority to give this to Prime Minister supplementing as necessary from Ford paper of 3rd August, 1956 (reference M180/56 JE1421/210 and COI reference paper. 'The Suez Canal - a background role'? I would also give him a copy of the 1888 Convention.
- (b) When we left Suez what did we say about the future of the Canal and what effect did our agreements at that time have on the administration of the Canal? Is there anything on this beyond Article 8 of Agreement of 19th October, 1954?
- (c) How has the Canal been administered in the past and what was Egypt's part in that administration. Here W. No.202 Saving seems to fill the bill.
- (d) Details of Nasser's agreement with Canal Company of June, 1956. I can trace nothing on this and shall be grateful for material.
- (e) Why did we withdraw our offer of assistance for Aswan Dam? I would not propose to give Prime Minister full story as in enclosure E to your telegram W. No. 198 Saving of 26th July, 1956. On the other hand more is needed than a mere reference to 'economic circumstances' in Egypt. Is it possible to provide details of these 'economic circumstances' of a type that the Prime Minister could use and which would carry conviction with his audience?
- (f) The Prime Minister also said that he had it in mind to give the United Kingdom case for the intervention in Egypt and details of the Sinai and Port Said campaigns to demonstrate the poorness of the Egyptian performance. We have of course material in the speeches made by United Kingdom Ministers and a certain amount of information about the campaigns. I should be grateful

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*CRO an acting, on our advice.*  
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however for guidance as to how at this stage you would like this material presented. I should also like to know how far I am at liberty to give the Prime Minister for use in Parliament information about the campaigns and especially about the Egyptian performance.

Grateful for reply together with any other material you consider I should give Prime Minister, by Friday morning local time.

Copy to:-

D.II

SUEZ CANAL DISTRIBUTION

ALLOTTED TO SOUTH ASIA AND MIDDLE EAST DEPT.

ENCLOSURE

PW

**UNITED KINGDOM AND CONVENTIONS IN EGYPT'S**

**CONFIDENTIAL**

**SUMMARY**

(a) Background material is available to the High Commissioner. The 1868 Convention is the key to the situation and Egypt has repeatedly affirmed her intention to abide by it. No other agreement derogates from it. The pressure of world opinion is necessary to keep Egypt to the terms of the Convention. In particular, Egypt might, to please Russia or India, hold up arms deliveries to Pakistan and other members of Baghdad Pact and S.E.A.F.O.

(b) The Agreement of 1954 regarding the Suez Canal Base (attached) is quite separate from the question of the Canal, though our interest in the latter was safeguarded by Article 8. The Egyptians evidently regarded the British withdrawal from the Base as a step towards the seizure of the Canal. The Agreement had no practical effect on the administration of the Canal.

(c) The High Commissioner has material on this.

(d) In the face of Egyptian financial laws of 1947 and 1952 affecting foreign enterprises in Egypt, an agreement was reached in 1954 between the Company and the Egyptian Government. By an exchange of letters on May 30, 1956 it was agreed that the Company should be exempted from those laws but should invest in Egypt \$4 million to be raised by increments to \$15 million by 1958, with further payments up to 1963. The money was to remain invested at the choice of the Company until the expiry of the Convention, and was to be separate from the investment in the Canal itself. The terms of the Egyptian Minister of Finance's reply to the Company implied throughout that Egypt accepted the Company's continuance until 1968. But nationalisation followed within a few weeks.

(e) The best point for public use is that Egypt had mortgaged her main crop for three years ahead to obtain arms from Russia and was clearly prepared to sacrifice curiously-needed schemes for the economic improvement of the country to her ambition for Russian arms. Her defence expenditure for 1956-57 showed a large increase of \$200 million over previous years. It was therefore doubtful whether Egypt could any longer hope to finance even the local currency costs involved in the High Dam project and virtually certain that she could not survive any international loan given her for the external costs. She had also failed to reach agreement with the Russians. The American and British withdrawal of offers of aid did not mean a loss of interest in the future of the Nile Waters (S.F. P.O. 45, Mr. Brooking of February 11). Background material is in Foreign Office Paper 121 (attached) and in S.E.O. telegrams Nos. 286 and 294 (JE 1422/261).

(f) [note by Mr. Winchester given - original to CRO]

given to Mr. Lamourie of CRO

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ADVANCE COPY  
OF TELEGRAM

SECRET

FROM: U.K. HIGH COMMISSIONER IN PAKISTAN  
D: Karachi 19.10 hours 13th February 1957  
R: 14.47 hours 13th February 1957

CYPHER  
IMMEDIATE

No. 203      SECRET

My telegram No. 197.

S U E Z

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DW

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DW

(b) When we left Suez what did we say about the future of the Canal and what effect did our agreements at that time have on the administration of the Canal? Is there anything on this beyond Article 8 of Agreement of 19th October, 1954?

DW

(c) How has the Canal been administered in the past and what was Egypt's part in that administration. Here W. No. 202 Saving seems to fill the bill.

DW

(d) Details of Nasser's agreement with Canal Company of June, 1956. I can trace nothing on this and shall be grateful for material.

DW

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(f) The Prime Minister also said that he had it in mind to give the United Kingdom case for the intervention in Egypt and details of the Sinai and Port Said campaigns to demonstrate the peerness of the Egyptian performance. We have of course material in the speeches made by United Kingdom Ministers and a certain amount of information about the campaigns. I should be grateful

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however for guidance as to how at this stage you would like this material presented. I should also like to know how far I am at liberty to give the Prime Minister for use in Parliament information about the campaigns and especially about the Egyptian performance.

Grateful for reply together with any other material you consider I should give Prime Minister, by Friday morning local time.

Copy to:-

D.II

SUEZ CANAL DISTRIBUTION

ALLOTTED TO SOUTH ASIA AND MIDDLE EAST DEPT.

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C O N F I D E N T I A L

Outward Telegram from Commonwealth Relations Office

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- TO: U.K. HIGH COMMISSIONER IN CANADA  
U.K. HIGH COMMISSIONER IN AUSTRALIA  
U.K. HIGH COMMISSIONER IN NEW ZEALAND  
U.K. HIGH COMMISSIONER IN SOUTH AFRICA (BY AIR MAIL)  
U.K. HIGH COMMISSIONER IN INDIA  
U.K. HIGH COMMISSIONER IN PAKISTAN  
U.K. HIGH COMMISSIONER IN CEYLON  
U.K. HIGH COMMISSIONER IN THE FEDERATION } (BY AIR MAIL)  
OF RHODESIA AND NYASALAND

(Sent 09.05 hours 14th February 1957)

CYPHER

W. No. 209 CONFIDENTIAL

Air Mail to U.K. High Commissioners in Cape Town, Colombo and Salisbury.

My telegram W. No. 191. / 1421/3

SUEZ CANAL

State Department proposals for interim settlement are still as set out in paragraph 1 of my telegram W. No. 191, but with additional stipulation that the "neutral agency" which would be "chosen" by agreement between Egypt and the users, would actually be "appointed" by Egypt. Account would, however, not be held "in the name of Egypt" but under some neutral designation such as "Suez Canal Account".

2. Reason for this additional stipulation is that State Department are convinced that it is the minimum gesture towards meeting Nasser's demands for "legal payment to Egypt" which will be necessary in order to bring him to the point of negotiation at all. As a counter-weight to this concession, State Department believe their plan makes the maximum use of Nasser's statement that he would be willing to "accept conditions" on the disposal of the dues. The Americans have already put their proposal in this form to the Secretary General.

3. State Department agree that there is a theoretical risk that by allowing Egypt to appoint (though not choose) the neutral custodian, we might be deemed to have prejudged the question of Canal ownership. They argue, however, that in reality question is already prejudged in practice; Egypt has got the Canal and is certainly not going to give it up. While, therefore, we ought not to sacrifice the theoretical position except in exchange for some concrete advantage, they think that an agreement which gave the users 50% of dues as a lever on Nasser, pending a final settlement, would be so substantial a gain as to be well worth the risk.

/Copy to:-

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SECRET

**Outward Telegram from Commonwealth Relations Office**

JE (42) / 3 (1)

TO: U.K. HIGH COMMISSIONER IN PAKISTAN

RPTD: U.K. HIGH COMMISSIONER IN CANADA  
 U.K. HIGH COMMISSIONER IN AUSTRALIA  
 U.K. HIGH COMMISSIONER IN NEW ZEALAND  
 U.K. HIGH COMMISSIONER IN SOUTH AFRICA  
 U.K. HIGH COMMISSIONER IN INDIA  
 U.K. HIGH COMMISSIONER IN CEYLON  
 U.K. HIGH COMMISSIONER IN THE  
 FEDERATION OF RHODESIA AND NYASALAND

} BY  
 } AIR  
 } MAIL

(Sent 19.50 hours 14th February, 1957)

CYPHER  
PRIORITY

W. No. 222 SECRET

Repeated Air Mail to U.K. High Commissioners in Ottawa, Canberra, Wellington, Capetown, Delhi, Colombo, and Salisbury.

Your telegram No. 197.

S U E Z

We welcome this opportunity. Following are lines on which we should like you to speak to Mr. Suhrawardy as regards his general approach:

2. It would be most useful for a prominent Asian Statesman to state in public reasons against leaving Canal in exclusive Egyptian control. Interest of users of Canal, both East and West, is so considerable that it is impossible to plan economic future of many countries, their ordered development, or raising of standards of living of their peoples without a system of adequate guarantees which ensures that flow of goods through the Canal will not be capriciously interrupted. Europe needs Canal essentially for oil and present experience shows that European economy can at a pinch get enough oil round Cape and from Americans to keep going. But Eastern countries depend upon Canal not only for effective delivery to their principal markets of their principal exports, but also for prompt and cheap transport of essential capital goods without which their whole future is jeopardised.

3. Mr. Suhrawardy might go on to say that no Asian country, and certainly not a Muslim power like Pakistan, would countenance any system humiliating to Egypt, or derogating from her sovereignty over the canal. But a system of adequate guarantees is perfectly reconcilable with this. Indeed, U.N. Secretary General exchanged with Egyptian Foreign Minister an outline of such a system in October. Interest of Pakistan, as of many other nations both in Asia and in Europe, is to see such a system worked out to the satisfaction of both Egypt and the users and put into practice.

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4. reply to your telegram No. 203 follows shortly.

Copy to:

D. II

SUEZ CANAL DISTRIBUTION

- H.M. Embassy, Washington
- U.K. Delegation to U.N., New York
- Accra, Governor's Office
- C/o. High Commissioner in the Federation of Malaya
- Kuala Lumpur, Malaya
- U.K. High Commissioner in Ottawa (6)
- U.K. High Commissioner in Canberra (5)
- U.K. High Commissioner in Wellington (4)
- U.K. High Commissioner in Capetown (4)
- U.K. High Commissioner in India (11)
- U.K. High Commissioner in Colombo (4)
- U.K. High Commissioner in Salisbury (4)

- Mr. J.R.A. Bottomley
- Mr. T.W. Keeble
- Mr. Cumming-Bruce

Mr. R.C.C. Hunt

SOUTH ASIA & MIDDLE EAST DEPT.



S E C R E T

**C Outward Telegram from Commonwealth Relations Office**

TO: U.K. HIGH COMMISSIONER IN PAKISTAN  
(Sent 17.00 hours 15th February 1957)

JEK 21/3(0)

CYPHER  
PRIORITY

No. 401      SECRET

1421/3

Your telegram No. 203.

S U E Z

Following are answers to points raised in your telegram:-

- (a) In regard both to this item and to other items, you have full discretion to use available material as you think fit. You may wish to impress on Pakistan Prime Minister that 1888 Convention is the key to the situation and Egypt has repeatedly affirmed her intention to abide by it. No other agreement derogates from it. The pressure of world opinion is necessary to keep Egypt to the terms of the Convention. For example, Egypt might, to please Russia or India, hold up arms deliveries to Pakistan and other members of Baghdad Pact and S.E.A.T.O.
- (b) The agreement of 1954 regarding the Suez Canal base is quite separate from the question of the Canal, though our interest in the latter was safeguarded by Article 8. The Egyptians evidently regarded British withdrawal from the base as a step towards the seizure of the Canal. The agreement had no practical effect on the administration of the Canal.
- (c) You have adequate material on this.
- (d) In the face of Egyptian Financial laws of 1947 and 1952 affecting foreign enterprises in Egypt, an agreement was reached in 1956 between the Company and the Egyptian Government. By an exchange of letters on 30th May, 1956, it was agreed that the Company should be exempted from these laws but should invest in Egypt £8 million to be raised by increments to £15 million by 1958, with further payments up to 1963. The money was to remain invested at the choice of the Company until the expiry of the concession, and was to be separate from the investment in the Canal itself. The terms of the Egyptian Minister of Finance's reply to the Company implied throughout that Egypt accepted the Company's continuance until 1968. But nationalisation followed within a few weeks.
- (e) The best point for public use is that Egypt had mortgaged her main crop for three years ahead to obtain arms from Russia and was clearly prepared to sacrifice sorely needed schemes for the economic improvement of the country to her ambition for Russian arms. Her defence expenditure for 1956-57 showed an increase of £E20 million over previous years. It was, therefore,

/doubtful

14/18/2

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18 FEB 1957  
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doubtful whether Egypt could any longer hope to finance even the local currency costs involved in the High Dam project and virutally certain that she could not service any international loan given her for the external costs. She had also failed to reach agreement with the Sudanese over the Nile Waters. There is also background material in Foreign Office intel No. 151 and in my telegrams W. Nos. 286 and 294. American and British withdrawal of offers of aid does not mean loss of interest in the future of the Nile Waters. In answer to a Question, (P.Q.46) on 11th February, Foreign Office Parliamentary Under-Secretary said "It is certainly desirable that the interested Governments should co-operate to ensure the best and most equitable use of the Nile Waters. Many questions of a technical nature are involved, as well as policy, and Her Majesty's Government would be in favour of holding a conference at the appropriate time. For obvious political reasons it is not practicable to hold one at present."

(f) (i) UNITED KINGDOM CASE FOR INTERVENTION IN EGYPT

Our case is set forth in speeches made by Sir Anthony Eden and the Foreign Secretary in the House of Commons in days immediately following 30th October. Guidance telegrams Nos. 112 and 114 of 1st and 2nd November respectively are also relevant. United Kingdom Government's warm welcome for the idea of an international force is set out in guidance telegrams Nos. 120 and 132. Telegram No. 127 guidance shows how the limited objectives of our intervention were successfully achieved.

(ii) THE SINAI CAMPAIGN

Egyptian resistance to the Israeli attack was apparently slight and the Egyptian forces suffered great losses of men and material. Some 5,800 Egyptian officers and men were taken prisoner. The Egyptians took three Israeli prisoners. No factual statement about the size and nature of Egyptian losses in the Sinai campaign should, however, be attributed to the United Kingdom Government. It is important that the Sinai campaign and the action in Port Said should be clearly distinguished.

(iii) PORT SAID ACTION

Guidance telegrams Nos. 133, 135 and 140 are relevant. Despite Egypt's huge masses of equipment, the British and French forces suffered negligible losses. The Egyptians seem to have been unable to use efficiently the weapons they had mortgaged the future of their country to buy. Nevertheless, when fighting was resumed after the first, abortive, cease-fire, Egyptian resistance was stouter and their performance should not be decried. While it is true that many Egyptian troops donned civilian wear, they did not take to their heels.

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JEN 21/4 (A)

SUEZ CANAL: DEVELOPMENTS SINCE DECEMBER 20

CLEARANCE

After the Foreign Secretary's statement in the House on December 17, Mr. Hammarskjöld told Sir P. Dixon, on December 19, that "the Egyptian Government was willing to accept the use of some British crews on the six ships (for use South of El Cap) for the time found necessary by the United Nations Organisation." However he withdrew this statement on December 20, saying that he had misunderstood the Egyptian Foreign Minister. After the withdrawal of British forces from Port Said, General Wheeler ran into difficulties with the Egyptian authorities. Mr. Hammarskjöld accordingly sent out two members of the United Nations Secretariat, Messrs. Cordier and Katzin, to settle any difficulties that they could, and report. These two arrived in Egypt on December 27, and reported to Mr. Hammarskjöld on December 31. Their recommendations, which he was disposed to accept, were:-

- (a) that there was no longer any need for the use of the six British ships South of El Cap;
- (b) all Allied salvage fleet to resume work at Port Said on December 31;

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(c) one British support ship (H.M.S. Striker) to remain at Port Said, but without being relieved, until end of January, by when it was expected that all Allied ships would have completed their tasks and would leave;

(d) protection and immunities for Allied vessels and crews on lines previously agreed by Sir P. Dixon with the Secretary-General.

2. Since General Wheeler's final plan did not require the six ships for use south of El Cap, we had at this stage little option but to acquiesce in Mr. Hammarskjöld's decision. There is need for caution about the difference this will make in practice to the time required to clear the Canal. Technical experts at the Admiralty recently estimated that, if the four German ships originally under charter to us were used by the United Nations fleet, the effect of excluding British and French ships would be negligible; and certainly the first figures of seven weeks and fourteen weeks reckoned

/The four

GENERAL

the four German ships as part of our own fleet.

The Admiralty have since revised their opinion

and I understand that the First Lord will propose

that we should make clear to Mr. Hammarskjöld our

disagreement with General Wheeler's assessment.

Though there is room for disagreement, and though

the advice given to General Wheeler by his Dutch

and Danish salvage contractors may be influenced

by their own commercial advantage, it seems clear

that General Wheeler's case is at least arguable

technically, and that we would have difficulty in

proving him wrong beyond reasonable doubt,

especially as he is on the spot and we are not.

3. General Wheeler has announced that effective

salvage operations south of El Cap began on

December 31.

4. On Sir P. Dixon's recommendation we are at

present concentrating on securing permission to

replace the present British support ship by a more

suitable one (point (c) above).

CANAL

5. On the Canal Settlement the Secretary-General

SETTLEMENT

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is considering the Secretary of State's ideas put to him before Christmas for Britain and France to take a less prominent part in the negotiations. The Secretary-General's first reaction was that the immediate problem is to get as soon as possible some kind of mutual commitment between the United Kingdom, France and Egypt; and to conserve the common ground established in his letter of October 24 by resuming discussions where they were left off. We have agreed. The Secretary-General hopes to get down to serious discussions with Dr. Fawzi in the very near future, and then to follow Dr. Fawzi to Cairo for talks with Nasser.

6. There is also evidence that Mr. McGloy is at work on a plan to ensure a measure of international supervision of the Canal through the International Bank, which would collect the tolls and disburse them on an agreed plan including compensation for the Suez Canal Company. This would put the Bank in a position similar to, but perhaps more effective than, what could be obtained through a watered-down S.C.U.A. Negotiations at ministerial level on a

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Canal settlement now seem unlikely before February.

J H A Walton

January 2, 1957.

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FROM NEW YORK TO FOREIGN OFFICE

(United Kingdom Delegation to the United Nations)

Cypher/OEP

Sir P. Dixon

No. 31  
January 3, 1957.

D. 1.37 a.m. January 4, 1957.  
R. 2.32 a.m. January 4, 1957.

PRIORITY  
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J E 1421/5 ✓

Addressed to Foreign Office telegram No. 31 of January 3.  
Repeated for information to Washington (personal for Ambassador).

My telegram No. 30; Canal Settlement.

Personal for Secretary of State.

Although Hammarskjöld no doubt believes that a visit by himself to Cairo is the best way of launching negotiations for a settlement, I am doubtful whether it is in our interest for him to go, for the following reasons:

- (a) Hammarskjöld, as you know, tends to the view that the position of Egypt as the injured party deserves particular attention. He has already had numerous discussions with Fawzi on the question of a settlement and a visit to Cairo would inevitably result in publicity for Egyptian prior conditions, with which the Secretary-General would appear to be associated.
- (b) By retaining Hammarskjöld as the intermediary between ourselves and the Egyptians we run the risk of the General Assembly insisting on having a say in the negotiations.
- (c) The sooner we can establish some form of direct contact between ourselves and the Egyptians the better, in order to prepare the way for resumption of relations over the whole field and thus extricate ourselves from the grip of the United Nations and its Secretary General on our Middle Eastern policies.

2. I understand that Hammarskjöld intends to fly to Cairo shortly after Fawzi leaves New York in a week or so. One way to stop this might be for ourselves and the French to offer to meet together with Fawzi in New York, under Hammarskjöld's auspices, in order to discuss procedure for resumption of negotiations. My French colleague thinks that M. Pineau will probably come here next week

Please make (paragraph 4)  
Departmental  
But urgently refer to Mr Barclay  
(keep spare here)  
Dr Ross  
Cypher/OEP  
African Dept  
Secret Dept



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New York (UKDel) telegram No. 31 to Foreign Office

- 2 -

(paragraph 4 of Paris telegram No. 2 to you); and it occurs to me that, if you could join him for a few days, we might be able to start these talks going, despite any initial reluctance on Fawzi's part. We know that Hammarskjöld would welcome this.

3. My French colleague is in general agreement with these views. If you and M. Pineau were in favour of this move I believe that Hammarskjöld would use all his influence with Fawzi to secure Egyptian agreement.

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**FROM WASHINGTON TO FOREIGN OFFICE**

Cypher/OTP

JE1421/5(A)

**MIDDLE EAST (SECRET)  
DISTRIBUTION**

Sir H. Gaccia  
No. 11  
January 8, 1957.

D.1. 3 a.m. January 9, 1957.  
R.6.19 a.m. January 9, 1957.

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Addressed to Foreign Office telegram No. 11 of January 8.  
Repeated for information to U.K. Del. New York  
Paris  
Oslo  
Rome  
U.K.H.C.  
Colombo

Your telegram No. 91: Canal Settlement.

1. I asked Mr. Dulles today whether he had any new thoughts on this problem which was vital and urgent from our point of view. He said that he fully recognized that speed was of the essence. But owing to the pressure of dealing with Congress over the President's proposals, he had not recently followed the problem himself.
2. He assured me that he would want to do anything that he properly could to help. Meanwhile he arranged for me to see Mr. Phleger, whose particular responsibility this was.
3. Mr. Phleger said that the United States Government had no new suggestions in mind. They thought that they should keep out of the forefront of the negotiations, since if they did otherwise this was likely to invite intervention by the Russians. But without becoming a principal party to the negotiations, the United States Government would do everything they could to encourage Hammarskjöld to speed up negotiations and to strengthen his hand.
4. He certainly saw no objection to the procedure outlined in your telegram No. 117 to United Kingdom Delegation New York, but he said that the United States Government would be interested to know what Hammarskjöld's reaction would be. This does not mean that they would necessarily accept it as final. They would regard it as worth careful consideration.
5. He assured

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Washington telegram No. 14 to Foreign Office

- 2 -

5. He assumed that we would keep in close touch with Mr. Lodge in New York.

Foreign Office please pass to Paris, Oslo, Rome and U.K.H.C. Colombo as my telegrams Nos. 3, 1, 1 and 1 respectively.

[Repeated to Paris, Oslo and Rome and copy sent to G.R.O. for repetition to U.K.H.C. Colombo].

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**CONFIDENTIAL**

**FROM FOREIGN OFFICE TO NEW YORK**  
(United Kingdom Delegation to the United Nations)

Cypher/OTP

**MIDDLE EAST (SECRET)**  
**DISTRIBUTION**

No. 117  
January 8, 1957.

D. 3. 8 p. m. January 8, 1957.

**IMMEDIATE**  
**CONFIDENTIAL**

Addressed to New York (UN) telegram No. 117 of January 8.  
Repeated for information to Paris Washington  
Cairo Rome  
Colombo.

Your telegrams Nos. 30 and 31 [of January 8]. [Canal Settlement].

Following for Minister of State.

The French Ambassador called on me yesterday, on instructions from Paris, to discuss the next steps to be taken in preparing for negotiations about the future Suez Canal régime. We agreed that you and M. Pinesse should be asked to do your utmost to reach an agreement on procedure before either Dr. Fawzi or the Secretary-General leaves for Cairo, and that this should be done through the Secretary-General without any attempt on our part to seek direct contact with Dr. Fawzi.

3. The first move should be to ask Mr. Hammarskjöld to ascertain whether the Egyptian Government is still prepared to participate in negotiations with France and Britain together with three smaller countries, and if so to suggest that these should be Ceylon, Italy and Norway. It is tactically most important that this should not be presented as an Anglo-French proposal. Indeed the facts appear to be that the idea was first suggested by Dr. Fawzi himself (your telegram No. 1507), and that it was revived in a slightly different form by Mr. Hammarskjöld a few days later (your telegram No. 1581). The only Anglo-French contribution to the proposal is thus the suggestion that Italy should be substituted for Sweden in the list suggested by the Secretary-General. We hope that he will agree to father the idea in this form and to seek early Egyptian agreement that invitations should be issued to the three Governments concerned.

3. M. Pinesse will have received an account of my conversation with the French Ambassador here, and I hope also confirmation from Paris that his Government endorse our agreement. Please impress upon M. Pinesse the urgency of this matter, and invite him to join you in approaching Mr. Hammarskjöld today.

4. Since the channel through which the matter will be cleared before we can hope to have concluded the negotiations for a final settlement, the negotiating committee will have to consider interim arrangements in the first place. I will telegraph further about this shortly.

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India - See copy.

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SE 1421/OG Copy No. 13

RECORD OF A CONVERSATION BETWEEN THE SECRETARY OF STATE AND THE FRENCH AMBASSADOR ON JANUARY 7, 1957

The French Ambassador called on the Secretary of State on January 7.

Kashmir

2. The Secretary of State said he had just left a meeting with the Foreign Minister of Pakistan, at which he had undertaken to ask the French Government to support the Pakistani point of view in the forthcoming debate on Kashmir in the Security Council. He said that what the Pakistanis intended to ask for seemed reasonable. This was:—

- (i) That India should not incorporate Kashmir on January 26.
- (ii) That effect should be given to the previous United Nations Resolutions accepted by both parties.
- (iii) That Pakistan was prepared to remove all her troops and have them replaced by a United Nations force, if the Indians would do the same afterwards.
- (iv) That a plebiscite administrator should be appointed and permitted to begin his work, which the Pakistani Government thought would take about two years to complete.

3. Her Majesty's Government had not pledged themselves on every one of these points, but were favourably disposed to Pakistan's proposals as a whole.

Suez

4. There was discussion on the procedure for resuming negotiations for a Suez Canal settlement, and agreement was reached on the following points:—

- (i) That no attempt should be made at present to establish direct contact with Dr. Fawzi.
- (ii) That the form of negotiations should therefore be discussed through Mr. Hammarskjold.
- (iii) That as a first move M. Pineau and Commander Noble should ask Mr. Hammarskjold to seek Egyptian agreement to his own previous proposal for a negotiating committee of six—Egypt, France, the United Kingdom, Ceylon, Italy and Norway.
- (iv) That the other members of S.C.U.A. should be kept informed of the progress of negotiations.
- (v) That, since a final settlement was impossible before the beginning of March, an interim regime for the Canal should be negotiated first, and that the best arrangement at this stage would probably be for dues to be collected by the International Bank. It was however important that this should not be represented as a British or French idea, and careful soundings should be made in Washington, both with the Bank itself and with the United States Government.

5. In the course of discussion on point (iii) above, The Secretary of State said that, if it proved impossible for France and Britain to be associated directly with the negotiations, he would wish to see an equally reliable participant added to the committee. He had in mind Australia. Mr. Chamberlain said he had had the personal idea that, if direct contact with Egypt was not possible, a committee of users might be formed to negotiate through Mr. Hammarskjold.

6. It was agreed that, while S.C.U.A. should be kept informed of the progress of discussions, the idea that S.C.U.A. should be an element in the final Canal settlement should not be injected into the negotiations too soon.

7. The Secretary of State said that the Pakistani Foreign Minister had referred to S.C.U.A. and had expressed the hope that a seat would be kept for his Government. They wanted to come in as soon as S.C.U.A. had gained sufficient recognition, e.g., from the United Nations.

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JE1421/10<sup>b</sup>

1. Mr. Brown  
2. L. E. ...

SECRETARY OF STATE

Canal Settlement

It appears from New York telegram No. 30 that Mr. Hammerskjold is probably already obtaining Dr. Fawzi's views on five aspects of the negotiations for a Canal settlement. The Secretary-General describes these as "procedure, contents, participants, timing and atmosphere". The last would appear to depend on the other four, on which my comments are as follows.

2. We have instructed Sir P. Dixon to tell the Secretary-General that we think it most important that the procedure for negotiations should be determined by agreement between Egypt, France and the United Kingdom. This, if it were done quickly enough, would avoid the risk of action in the General Assembly. We have also told the Secretary-General that we have an open mind on the question of who should participate in the eventual negotiations. We do not insist on conducting them alone with the French, and we do not even exclude the possibility that we should not take any part at all. Our requirements really reduce themselves to two:

- (a) That the negotiators should be agreed upon by Egypt, France and the United Kingdom, and
- (b) That they should be confined to Governments with a serious interest in the future of the Suez Canal.

3. We are prepared to regard Mr. Hammerskjold's letter of October 24 to Dr. Fawzi as the proper starting point for fresh negotiations, and this to a large extent defines their content. At the same time we are continuing to aim at a system offering the users equivalent guarantees to /those

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9 JAN 1957  
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those they would have obtained under the 18-Power proposals. If we take part in the negotiations we shall therefore wish to amend and fill out the terms of Mr. Hemmerskjold's letter with this aim in view.

4. General Wheeler has said that he can clear a channel through the Canal soon after the beginning of March. The opening of this channel will at once raise difficult problems for us, including the question of how British shipowners are to pay their dues. The negotiations with Egypt are therefore a matter of some urgency. It is most unlikely that a final settlement can be reached in the next few weeks. But a determined effort should be made to arrive at some kind of provisional arrangement designed to avoid disputes over the payment of dues and similar questions pending the completion of negotiations for a final settlement. (The two alternatives which have been under consideration in the committee of officials working on this question are: (a) that we should try to get an agreement with Egypt under which SCUA would provisionally receive the dues or (b) that we should try to persuade the International Bank to receive the dues pending the conclusion of the final agreement).

5. In his telegram No.31 Sir P.Dixon suggests that you should join Monsieur Pineau in New York for a few days in order to settle the procedural points and prepare for the launching of the talks. He believes that the Secretary-General would use all his influence with Dr. Fawzi to secure Egyptian agreement to this procedure. I understand it to be your view, however, that if talks of this kind are to

/take

ENCLOSURE

take place in the next ten days they should be conducted by the Minister of State.

*H. Bealey*  
(H. Bealey)  
January 4, 1957.

*Seen by E. G.S.  
Now see record of his conversation  
with the French Ambassador.  
1/14/21/99  
#23. 87,*



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After my interview with Mr. Krishna Menon on January 1, I was told by News Department that the Times Diplomatic Correspondent had been asked by Mr. Menon to go to Claridges to see him. Mr. Menon gave him what purported to be an account of his conversation with me and indicated that he had had many interesting ideas to discuss with me but I had not appeared to want to do this. He felt that he had been given a "brush-off" by me.

I saw Mrs. Pandit on January 4, took her through the record of my conversation with Mr. Menon and told her about what the Times Diplomatic Correspondent said. I said that I wanted her to understand that I would be very ready to listen to any new ideas which Mr. Menon in fact wanted to put forward and that I was only too willing at any time to hear the thinking of the Indian Government on current problems and to examine carefully their suggestions. I said that Mr. Menon might well have reported to Delhi in the same sense that he had spoken to the Times correspondent. Therefore I did not want there to be any misunderstanding.

S.L.

January 4, 1957African Department

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FROM NEW YORK TO FOREIGN OFFICE

(United Kingdom Delegation to the United Nations)

Cypher/OTP

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JE 1421/12

Sir P. Dixon  
No. 84  
January 9, 1957.

D. 12.15 a.m. January 10, 1957  
R. 1.28 a.m. January 10, 1957.

IMMEDIATE  
CONFIDENTIAL 10/1

Addressed to Foreign Office telegram No. 84 of January 9,  
Repeated for information to: Paris Rome  
Washington U.K.H.C. Colombo  
Oslo *Pineau*

Your telegram No. 117 and my telegram No. 74 (not to all)  
Canal settlement.

Following from Minister of State for Foreign Affairs.

Pineau did not receive the telegram from Chauvel till last night and we saw the Secretary General together this morning. Hammarskjold expressed interest in the idea of bringing in Norway, Italy and Ceylon "or countries of that kind". His opinion was that Fawzi would say that it was too early "for protocol reasons" to set up the suggested committee formally but might well have no objections to bringing the other countries in informally. I said that even an informal beginning might pave the way, but was unable to get a definite assurance from the Secretary General that he would put the idea to Fawzi as his own before he had gone over the ground already covered with him to give greater precision to the progress so far achieved.

2. Hammarskjold led off with this latter idea and Pineau, who had just seen McCloy, took it up actively and rather at the expense of the idea of bringing in Italy, Norway and Ceylon at this stage. Pineau said that he had found McCloy interested in the idea of a tripartite organization with Egyptian management, S.C.U.A. and the Bank. McCloy had given his view that the Egyptians were more likely to accept such a set-up on a provisional basis to cover the period of clearance, dredging and development /leaving



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UKDEL New York telegram No. 84 to Foreign Office

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leaving a final settlement to a future time which Pineau said would not be bad and Hammarskjold said was more likely to be acceptable to the Egyptians. McCloy had made the point that whereas the re-opening of the Canal to oil tankers was a prime interest to Europe other shipping through the Canal was of more interest to Asia.

3. Hammarskjold seemed happy about the idea that the Bank would through financial questions have a part to play in the settlement question and expressed his opinion that Fawzi was likely to take a positive view on this. He proposed that we should meet again the the next few days at a time mutually convenient to go over and recapitulate our ideas on the settlement question with particular reference to the six points, the Secretary General's letter of October 24 and the outcome of subsequent discussions while Fawzi did the same for his side in order to get a firmer idea of what were the points of departure for future negotiations and the degree of urgency involved.

Please repeat to Paris, Oslo, Rome and Colombo as my telegrams Nos. 12, 1, 5 and 1 respectively.

[Repeated to Paris, Oslo, Rome and copy sent Telegraph Section, C.R.O. for repetition to Colombo]

ADVANCE COPIES:-

Private Secretary  
Sir I. Kirkpatrick  
Mr. Ress  
Mr. Wright  
Head of African Department  
Head of United Nations Department

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FROM NEW YORK TO FOREIGN OFFICE

(United Kingdom Delegation to the United Nations)

Cypher/OTP

MIDDLE EAST (SECRET)

JE 1421/16

DISTRIBUTION

Sir P. Dixon

D. 1.30 a.m. January 11, 1957

No. 104

R. 2.14 a.m. January 11, 1957

January 10, 1957

IMMEDIATE

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CONFIDENTIAL

Addressed to Foreign Office telegram No. 104 of January 10.  
Repeated for information to Washington and Paris.

My immediately preceding telegram: Canal Settlement.

This new evidence of Fawzi's prevarication goes to confirm growing impression that, using the Secretary General perhaps as an unconscious instrument, the Egyptians are hoping to string us along with inconclusive discussions on procedure, in the hope that meanwhile the Canal will have been cleared and shipping passing through under the control of the purely Egyptian Suez Canal authority. This impression is supported to some extent by that of UKSU reported in paragraphs 9 and 10 of his telegram No. 081230. M. Pineau tells me that he thinks this may well be the Egyptian idea.

2. If I am right in this I suggest that the time has come when we should make urgent use of the influence which we can exercise through the need for money to complete Canal clearance and pave the way for Canal development. This is of course consistent with your telegram No. 135. I feel however that it carries implications in regard to our method of approach, since, whereas the means of access for the negotiation of a political settlement must be the Secretary General, we can best "make money speak" by our influence over the various Governments which have already been asked to provide emergency finance for Canal clearance and which will be involved as guarantors of any subsequent international bank loan. It seems to me that the price which these Governments can demand for their assistance, together with the urgent need for finance, are our best levers in persuading the Secretary General and, through him, the Egyptians, that a functional internationalization of the Canal must be set up before the Canal is reopened.

3. If you agree with the above I should like to be able to put the financial aspect of the question, in the sense of your telegram No. 135, to the Secretary General as soon as possible. I also suggest that,

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UKDEL New York telegram No. 104 to Foreign Office

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in parallel with this, urgent steps should be taken to mobilize the other Governments financially involved so that a satisfactory price, from our point of view, can be put on any further financing, and that pressure similar to our own can be put by these Governments on the Secretary General for transmission to the Egyptians. Otherwise we may find that the Secretary General will make a further appeal for unconditional advances and our means of pressure will thereby be proportionately decreased.

4. Meanwhile I should like to be able to make the point to the Secretary General that, whatever use the discussions we have had on procedure may be in the long-run we really cannot make progress on this plane, so long as the Egyptians keep introducing new conditions for starting on substantive discussion.

Please repeat to Paris as my telegram No. 16.

[Repeated to Paris].

ADVANCE COPIES

Private Secretary  
Sir I. Kirkpatrick  
Mr. Dean  
Mr. Ross  
Mr. Beeley  
Head of African Department  
Head of News Department

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Suez Canal Settlement

Monsieur Chauvel is calling on the Secretary of State at 5.30 p.m. to discuss this.

2. Two officials of the French Embassy called on me at 3.0 o'clock this afternoon, to prepare the ground for Monsieur Chauvel's visit. The views of the French Government, in brief, are as follows:

- (a) We should not at present seek direct contact with Dr. Fawzi, since to do so would court a rebuff, and if on the other hand Dr. Fawzi agreed to a meeting he might then insist on discussing the Israeli withdrawal from Gaza in advance of all other topics.
- (b) The form of negotiations on the future of the Suez Canal should therefore be discussed through Mr. Hammarskjold.
- (c) In the negotiations themselves France and the United Kingdom should take part, but they should agree with Egypt on additional participants. They <sup>French</sup> would like these to be Italy, Norway and Ceylon.
- (d) Those Governments participating in the negotiations with Egypt who are also members of SCUA should maintain contact with SCUA during the negotiations.
- (e) Since a final settlement is probably impossible before the beginning of March, an interim regime for the Canal should be negotiated first.

3. In practice, and if we agree, this means that Monsieur Pineau and Commander Noble should be instructed to

/approach

*In the meeting with B...*

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10 JAN 1957  
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approach Mr. Hammarskjöld in the next day or two to ask him to approach Dr. Fawzi with the suggestion of 6-Power discussions (Egypt, France, the U.K., Ceylon, Italy and Norway). The representatives of the French Embassy hoped that <sup>the Secretary of State</sup> ~~you~~ would impress on Monsieur Chauvel the urgency of this move.

*H. Beeley*  
(H. Beeley)  
January 7, 1957.

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*Confidential*

*Entered*  
JE1421/24

A CONVERSATION ON DECEMBER 31 BETWEEN THE ITALIAN AMBASSADOR AT CAIRO AND THE PERMANENT SECRETARY OF THE EGYPTIAN MINISTRY OF FOREIGN AFFAIRS

Suez Canal Settlement

Count Pignatti, on instructions from the Italian Minister, read out to me on January 10 a number of points from an Italian telegram reporting a conversation on December 31 between the Italian Ambassador at Cairo and the Permanent Secretary of the Egyptian Ministry of Foreign Affairs. The Ambassador had raised two questions: the future of the Suez Canal, and the renewal of contact with the British and French Governments.

2. On the first question the Permanent Secretary had said that the future of the Canal need not be linked with the question of compensation for war damage, which could be dealt with through other channels. However negotiations could not start until the General Assembly's Resolution of November 2 had been fully complied with: this entailed the withdrawal of Israeli forces to the armistice line and consequently the evacuation by Israel of Gaza and of the islands at the mouth of the Gulf of Aqaba. According to General Burns however the Israelis should have completed this evacuation by January 15.

3. As regards the second question, the Egyptian Government were not prepared to take up direct contact with the British and French Governments. There were therefore two alternative possibilities for the resumption of negotiations. On the one hand the Secretary-General of the United Nations could talk in turn to either side, and act as a go-between. On the other hand a negotiating committee including the Egyptians, French and British, and other nations as well could be set up. Either alternative would be acceptable to the Egyptian Government. (I am not sure that this correctly represents the Egyptian attitude. In the light of Dr. Fawzi's conversations with Mr. Hammarskjold, it seems more probable that these are not alternative procedures but are rather complementary to each other, the committee stage succeeding the go-between stage.)

*D. D. Brown*

D. D. Brown.

January 10, 1957.

*We might inform Sir P. Dixon, if you agree.*

*APL* 12/1

*Please submit on Monday to Mr. Bealey with a draft etc.*

*2/12/1*



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FROM NEW YORK TO FOREIGN OFFICE

(United Kingdom Delegation to the United Nations)

Cypher/OTP

MIDDLE EAST SECRET  
DISTRIBUTION

Sir P. Dixon  
No. 160  
January 15, 1957

D. 4.05 a.m. January 16, 1957  
R. 5.10 a.m. January 16, 1957

PRIORITY  
CONFIDENTIAL

Addressed to Foreign Office telegram No. 160 of January 15.  
Repeated for information to: Paris Washington  
UKHC Ottawa

My telegram No. 158: Suez Canal Settlement.

Following from Minister of State for Foreign Affairs.

We explained to Pearson that, as seen from here, Fawzi seemed to be trying to string us all along until the Canal is cleared and the Egyptians can say that "this is our canal" and assert their claim to have all dues paid to them. We showed him my telegrams Nos. 103 - 105 and your telegram No. 169. We also left him a further copy of your telegram No. 135 with a request to ignore paragraph 7.

2. We explained that we were in favour of going for some interim arrangement as we were now unlikely to be embarking on negotiations for a permanent settlement before the Canal was cleared. We also explained McCloy's idea of tackling the financial problem in three stages with the International Bank playing a role in the latter stages, (my telegram No. 43).

3. Pearson thought the idea of an interim arrangement was the right approach. He was somewhat doubtful, however, whether the Bank would be prepared to engage itself as deeply as we had in mind. He did not, for instance, think the Bank would wish to supply the capital equipment for the Canal unless it could somehow get a firm guarantee that the Egyptians would not eventually expropriate the equipment. In any case, he did not think the Bank would put up its own capital but would have to raise the money from contributors and finance it out of a supercharge on /the

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FROM NEW YORK TO FOREIGN OFFICE

(United Kingdom Delegation to the United Nations)

Cypher/OTP

MIDDLE EAST SECRET  
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Sir P. Dixon  
No. 179  
January 16, 1957

D. 4.30 a.m. January 17, 1957  
R. 5.17 a.m. January 17, 1957

PRIORITY  
CONFIDENTIAL

Addressed to Foreign Office telegram No. 179 of January 16.  
Repeated for information to: Paris

Washington

My telegram No. 103: Canal Settlement.

Hammarskjöld raised this question during our long talk today. He did not think there had been any real change of position on the Egyptian side, though the atmosphere had not been improved by the reports of M. Pineau's efforts in Washington. Moreover, Fawzi was finding it difficult to get Nasser's attention on the problem while he was preoccupied with the question of Israel withdrawals in Sinai and Gaza.

2. In order to break through and get something going, Hammarskjöld had given Fawzi a draft letter designed to crystallize the vague exchanges that had taken place by seeking formal authority for Fawzi to start talks and asking for the Egyptian Government's views on what other user interests might be brought in. Fawzi had indicated that something might be done on this very soon, and Hammarskjöld was aiming to pin him down to a serious discussion on the details of the suggestions in his letter of October 24, possibly at the end of this week.

/3.

17 JAN 1957  
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UKDEL New York telegram No. 179 to Foreign Office

-2-

3. Hammarskjöld was, on the whole, surprisingly optimistic, though he emphasized that much would depend on how things developed in respect of the Israel withdrawal. I did not make the obvious point that this was a piece of Egyptian blackmail since I think it best that Hammarskjöld should be left to discover for himself what the Egyptians are really up to.

Please repeat to Paris as my telegram No. 29.

[Repeated to Paris].

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FROM WASHINGTON TO FOREIGN OFFICE

Cypher/OTP

MIDDLE EAST (SECRET)

DISTRIBUTION

Sir H. Caocia

No. 82

January 16, 1957

D: 2.20 a.m. January 17, 1957

R: 3.28 a.m. January 17, 1957

CONFIDENTIAL

Addressed to Foreign Office telegram No. 82 of January 16

Repeated for information to: UKDEL. New York

Paris.

My telegram No. 44: Canal Settlement.

J E 1421/27

I have now had a further talk with Mr. Phleger. He said that it was important to reach some settlement, even if only of an interim character, before the Canal was opened to traffic. The only person in a position to do this was Hammarskjold and the State Department meant to use all their influence to get him to get a move on. The main instruments with which Hammarskjold could be prodded were, (A) his need for expert knowledge about the operation of the Canal, and (B) finance.

2. As regards (A), this was where S.C.U.A. came in. If the Association could build itself up at once by means of technical studies into the one really technical body on all questions connected with the Canal, Mr. Hammarskjold would be bound to turn to it for help in the task allotted to him by the General Assembly. Full instructions had been sent to the United States Embassy in London on this aspect and you will no doubt have been informed.

3. As regards (B), when the United States had agreed to advance \$5 million, towards the initial expenses of Canal clearance, they exchanged confidential notes with Mr. Hammarskjold setting out the basis on which the advance was being made. The State Department yesterday gave a member of my staff copies of drafts of these letters but explained that some minor alterations had been made in the final texts which they would give us later. On being asked for these today the State Department said it had now been decided that they could not be given to us without Mr. Hammarskjold's agreement. The draft texts in my two immediately following telegrams should therefore be treated with some reserve and in the strictest confidence.

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*Mr. Butler*  
*14/12/58*  
*14/12/58*  
*14/12/58*  
 JE 1421/28

SECRETARY OF STATE

*All ships  
 according to Malik  
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From what Dr. Malik says and from all our other information it seems to me clear that Nasser is determined to use the Suez Canal as a form of pressure on the countries which use it. French and British ships will not be allowed through until Gaza is evacuated by the Jews. And we must expect access to the Canal to be closed to us later because of what is happening in Aden; and closed to the French because of Algeria; and possibly to the Portuguese because of Goa, etc., etc. In a word, Nasser has not the slightest intention of abiding by the 1888 Convention or adhering to his promise to divorce the Canal from politics.

2. We must consider what we should do in this situation. It seems rather ironical to be spending a lot of Western money in order to place this weapon in his hands. But we cannot afford not to repair the Canal. I am inclined to think that the most useful course might be to alert the Americans and SCUA and possibly even the Secretary-General.

3. I asked Dr. Malik last night how Nasser proposed to pay for the damage he had done to the Canal Company's property, (sunk dredgers, wrecked buildings and equipment). Dr. Malik said that Nasser had explained that he would pay for this out of the dollars which he was asking the Americans to unfreeze. Dr. Malik then enquired what he would do if the Americans declined to unfreeze the dollars. The reply was not very clear, but Dr. Malik got the impression that it was Nasser's intention in that eventuality to get the necessary money from the Russians. When I told Dr. Malik

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that I believed that Nasser was tied to the Russians  
hand and foot he did not demur.

*J. Quipman*

January 14, 1957

SOUEI CANAL SETTLEMENT

Outline of Organisation

It is assumed that the rights and obligations of Egypt on the one hand and the users of the Canal on the other would be set out in a Treaty (either the 1888 Convention revised or a separate Treaty), and that this would in particular provide that Egypt should be responsible for the efficient operation and maintenance of the Canal and for observing complete non-discrimination in its use.

The Egyptian Authority

2 This would be the body appointed by the Government of Egypt responsible for the operation and maintenance of the Canal and for its further development.

3 The question arises whether anything should be included in the settlement on the composition of this body. Possibilities are -

(i) that it should include high level experts appointed through the United Nations;

(ii) that there should be places in it for nominees of the users.]

Representation of Users

4 A body should be established representing the users of the Canal. The object of this body should be to co-operate with the Egyptian Authority and to provide equilibrium between the interests of the users on the one hand and Egypt on the other.

5 Arrangements will be made for joint meetings between the Egyptian Authority and the Users Representation, as a means of consultation with the Users on all matters affecting their interests, including operational matters.

6 In particular the Users Representation would have the following rights:-

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(i) to be consulted on any proposal regarding the (level) of Canal tolls. In the event of a difference of opinion on this matter between the Users and the Authority, provision would be made for reference to arbitration by a tribunal on tolls;

(ii) to inspect or verify the actual state of affairs in the day-to-day running of the Canal so as to ensure that there was no overt or covert discrimination or other failure on the part of Egypt to fulfil her obligations under the Treaty. In case of complaint arising under this head, there will be provision for reference to a tribunal (on this see A.A.(3) (A.C.) (5717);

(iii) to be consulted on the plans of the Egyptian Authority for the development or expansion of the Canal. (It may be worth suggesting that in addition the Egyptians would find it useful to have a panel of internationally recognised experts on the engineering and other technical aspects of development to take the place of the old Comité Internationale des Travaux.)

7. As part of the system provision should be made for the Canal tolls to be paid not direct to the Egyptian Authority but to some other body which could be either the Users Representation or possibly the International Bank.

8. The functions of this body would be to collect the tolls and to disperse them as follows:-

- (i) to the Egyptian Authority for its operating and maintenance expenses;
- (ii) to lenders of capital for the service of their loans;
- (iii) the balance to the Egyptian Government as revenue, the amounts being diminished in the early years by payments to the Suez Canal on account of compensation; these payments to be paid by the same agency.

9. Arising out of this system the Users Representation would have the additional right, where a dispute had arisen between them and the Egyptian



Egyptian Authority, to secure the withholding of all or part of the payments to be made to Egypt.

Two points arise for consideration on this -

(i) should the sums to be withheld from Egypt relate to [the payments to the Authority] for operating expenses or [payments to the Government for revenue] [or both] and should there be provision directing the withholding of different amounts in different cases?

(ii) At what point in a dispute should the right to withhold payments arise? Presumably not at the moment when a complaint has been made, but only after a complaint, having been made, was referred to the tribunal, and the tribunal having declared that the complaint was justified, there was such a refusal on the part of the Egyptian Authority, to take remedial action.]

Yes  
10 Further provision would have to be made for machinery for consultation between the Authority and the Users Representation on subsidiary technical matters, including the Suez Canal Code.

Note: (1) A further study will be required (which could conveniently be done in a separate paper) on the composition and constitution of the Users Representation, including the question whether it should be U.S.S.R. as at present constituted or modified.

(2) If the International Bank is selected as the agent for the collection and disbursement of tolls, provision will have to be made to protect the Bank from having to take political or controversial decisions - i.e. it must be clearly laid down on whose authority the Bank is to act and in what circumstances.

Yes  
(3) The question will arise of the source of funds to meet the expenses of the Users Representation. It might not seem right for these to be met out of the Canal tolls and it therefore seems likely that they will have to be met by the Governments represented.]

11th January, 1957

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SUEZ CANAL SETTLEMENT

Note on the Principles to be embodied in any new international instrument

A. Non-discrimination

1. Our aim must be to give effect to the first of the six points approved by the Security Council on 13th October, 1956, namely that "there should be free and open transit through the Canal without discrimination, overt or covert".

2. Safeguards against overt discrimination are provided in the 1888 Convention. Egypt has abused the right given under Article X to take measures for securing "the defence of Egypt and the maintenance of public order", but the question of securing some limitation of her rights in this respect depends on the United Nations' success in finding a solution of the Palestine problem and the degree to which the United Nations participate in the Suez Canal settlement.

3. A situation may well arise (not only when the Canal is re-opened in a few months' time but also later on if the growth of traffic exceeds its capacity) in which the Egyptians will seek to impose priorities on vessels seeking transit through the Canal, and to serve political ends in doing so. Our interests require that vessels should be dealt with on the principle of "first come, first served", leaving any necessary adjustments of the flow of traffic to be made before vessels reach the Canal. It would, therefore, be desirable to reinforce the safeguards against overt discrimination in the 1888 Convention by establishing the principle that no preference shall be given by the Egyptian authority to one vessel over another vessel, as regards access to and transit of the Canal, save as may be necessary for the safety of navigation and the maximum speed of passage of shipping through the Canal. (Article 17 of the 1955 edition of the Suez Canal Company's Rules of Navigation provides that "when several vessels are ready to get under way at the same time, the order of their sailing either into the Canal or out to sea will be fixed by the Company. The Company will prescribe the movements of vessels under way in order to ensure the maximum safety to navigation. Consequently, no vessel may demand immediate passage through the Canal and no claim for delay arising from the foregoing causes can be admitted".)

4. Covert discrimination cannot in practice be prevented by paper undertakings. But it is desirable at least to establish Egypt's obligation to ensure that equal treatment is given in all respects to all vessels, in such terms as

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to provide grounds for protest against actions which might not be clearly in breach of the 1888 Convention. In addition to safeguards against discrimination in regard to Canal dues and charges (see Section B below), a general undertaking by Egypt might be sought - on the lines of the old Company's obligation under Article 15 of the Second Act of Concession - to the effect that in no circumstances will any benefits or preferences be given to any vessel, company or individual which are not given in the same conditions to all other vessels, companies or individuals.

5. It is also important to provide against the possibility that covert discrimination at the ports of access, e.g. in the levying of port and customs charges, may be exercised by the Egyptian Government (as distinct from the Egyptian Canal Authority). Article 9 of the 1921 Barcelona Convention on Navigable Waterways provides a precedent.

B. Canal dues and charges

6. The final settlement must give effect to the fourth of the Security Council's "six points" that "the manner of fixing tolls and charges should be decided by agreement between Egypt and the users". In order that the arrangements to be established for consultation with users, and for settling disputes, may work effectively, it is desirable to lay down in the final settlement the general principles that should govern the fixing of dues and charges, so as both to limit the scope for disputes and to give guidance to such tribunal as may be appointed to settle disputes. Without some agreed limits to its discretion in settling disputes, the tribunal will be subject to constant pressure from the Egyptians to fix rates that swell Egypt's profit at the expense of the users and of the efficient operation and development of the Canal, and the tribunal may not be able to resist such pressure.

7. One principle must be that there should be no discrimination between vessels in regard to dues and charges. This principle was laid down in Article 6 of the Suez Canal Company's First Act of Concession ("the tariffs of dues shall be always equal for all nations; no particular advantage can ever be stipulated for the exclusive benefit of any one country"); it was reiterated in Article 17 of the Second Act of Concession.

8. It will be desirable to set out in the final settlement the purposes for which dues may be levied, namely

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- (a) administrative and maintenance expenses,
- (b) development of the Canal,
- (c) profit to Egypt,
- (d) such other expenditure as it may be agreed in the final settlement should be met from dues.

It would be difficult to lay down principles about (a), although there is an obvious danger of Egyptian extravagance. As regards (b), the fifth of the Security Council's "six points" provides that "a fair proportion of the dues should be allotted to development"; the question of what a "fair proportion" should be is considered below. As regards (c), the declaration which emerged from the first London Conference (August, 1956) stated that there should be "a return to Egypt for the use of the Suez Canal which will be fair and equitable and increasing with enlargements of its capacity and greater use"; the question of applying this principle is considered below. The scope of (d) cannot be finalised until the ultimate liability has been settled for the cost of clearing the Canal and of replacing destroyed equipment and installations, but it is assumed here that, without prejudice to ultimate liability, the financing of loans raised for these purposes will be met from dues. If the Egyptian liability for compensation to the Suez Canal Company is to be met from dues, any amount expended for this purpose from dues should be at the expense of Egypt's profit from the Canal.

9. Egypt will be chiefly interested in the size of the profit she will obtain from the Canal. Therefore, the most important question of principle to establish will be the basis on which Egypt's profit is to be determined - and, above all, whether it is to be a guaranteed profit which can increase but not diminish, or only a residual sum after other charges have been met. The latter basis may not be acceptable to Egypt. Moreover, on this basis, it seems certain that Egypt would insist on raising the dues in order to increase her profit, and there would be a continuing conflict between her interests and those of the users. If, on the other hand, Egypt was guaranteed a minimum profit at a reasonable level, as a fixed charge on the revenues of the Canal, there is a better chance that she will be content to look for further profits by way of increasing the traffic through the Canal. It should be easier, on this basis, for a "fair proportion" of the dues to be allotted for development, as this will

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not then reduce Egypt's profit although it may postpone the growth of that profit. There is, therefore, much to be said for trying to agree in the final settlement upon a guaranteed profit for Egypt, in addition to which further profit could accrue to Egypt in future years according to the increase in traffic. The whole of the revenue from increased traffic should not go as profit to Egypt, however; a formula will have to be devised by which the benefit goes partly to the users in the form of reductions in dues.

10. The following principles are, therefore, suggested:

- (a) the sole criterion for determining expenditure on development should be the technical needs for development of the Canal as established by consultation between the Egyptian Authority and the users, and the servicing of loans for this purpose should be met from the dues;
- (b) if there are charges under heading (d) of paragraph 8 to be met from dues, this should be without prejudice to ultimate liability, and any charge on account of compensation to the Suez Canal Company should be at the expense of Egypt's profit;
- (c) Egypt should be guaranteed a minimum profit (subject to adjustment if compensation to the Suez Canal Company is paid from dues), and should receive an agreed percentage of revenues accruing from increases in traffic, the balance going towards periodical reductions in the level of dues;
- (d) there should be no increases in dues solely for the purpose of increasing Egypt's profit above the guaranteed minimum; subject to that, dues should be fixed so as to cover the charges at (a), (b) and (c).

The final settlement will have to provide for the manner of collection of dues and for the conditions on which, if dues are not collected by Egypt, all or part of them may be withheld from her. This question is not considered in this note.

C. Efficiency of the Canal

11. Article 7 of the Suez Canal Company's Second Act of Concession provided that the Canal and its dependent parts should be constantly maintained in good condition. It will be desirable to establish a similar obligation on the part of Egypt, so as to give grounds for representations should Egypt fail to run the Canal efficiently.

12. Among the functions to be given to the Users' representation,

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provision should be made for consultation with Egypt about revision of the Suez Canal Company's Rules of Navigation, and any future revision of the Rules.

13. Provision should be made for the Egyptian Canal Authority to consult a technical body equivalent to the present International Advisory Commission for Suez Canal Works (see M.E.(O)(S.C.)(57)5), in order to ensure that the Canal is kept in good condition and that the best advice is available in regard to new works.

14. It should be provided that all necessary facilities should be made available in Egypt for the Users' representation, the tribunals, and the Works Commission, to perform their functions.

Ministry of Transport and Civil Aviation

16th January, 1957.