

# An International Company in Egypt: Suez, 1856-1956

## Introduction:

The Suez Canal Company (*Compagnie Universelle du Canal Maritime de Suez*) provides a good case study of a XIXth century globalized company. It resulted from the creation of the maritime route that opened up the trade lock between the Mediterranean and the Red Sea. Created in 1858, this company was to excavate and manage the Suez Canal. It was Franco-Egyptian as to its financial status: 56% of the shares were held by French shareholders and 44% by the viceroy of Egypt. In 1879, the company turned Franco-British, when the British government bought the viceroy of Egypt's shares. Even though the company was Egyptian by nationality according to its status, it declared itself "Universal" because of its international status defined by the Convention of Constantinople in 1888. The Suez Company thus combined multiple identities, associating an Egyptian nationality with a Universal mission in world navigation and a head office located in France. Its workforce was made up of workers from the entire Mediterranean basin and its main shareholder was the British State.

Before 1945, Suez was a model of a colonial company with Parisian headquarters and operating services in Egypt. The company was based on a sole activity: the operation of the canal. But after the Second World War it evolved into a multinational organization with a head office in Paris, offices in London and New-York and services in Egypt.<sup>1</sup>

One of the questions that may come to mind is: How did this colonial-type company become a modern multinational? To answer this question, this company's evolution must be placed into the international context at the time. Between the end of the XIXth century and the mid XXth century, imperial European domination gave way to US and USSR domination. This change went along with the statement of independence of Southern countries in the 1950's. The reasons given in the XIXth century for the Company's independence – that is to say maritime security for the Powers and international service – go against the building of Egypt as a nation-state; this modifies the Company's strategy and promotes its transformation into a multinational company with a diversified portfolio of activities.

To understand the changes that Suez went through over a century, this article shall first present the organisation of the company and then look at the structural and strategic changes it went through so as to adapt to Egyptian and International political evolution.

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<sup>1</sup> A multinational company is defined as an organisation that has direct or indirect control over the assets owned by one or several other companies in other countries than that of its headquarters. F. Mazerolle, *Les firmes multinationales*, *op.cit.*, p. 3. The author states the definition of the United Nations Conference on Trade and Development that presents an annual ranking of companies based on three criteria: the shares owned overseas, the sales made overseas and the number of employees working overseas. Another definition uses as a criterion the possession of an overseas production unit. L. Mucchielli, *Multinationales et mondialisation*, Seuil, Paris, p. 18.

## **I- The structure of an overseas company**

### ***a- Management structure :***

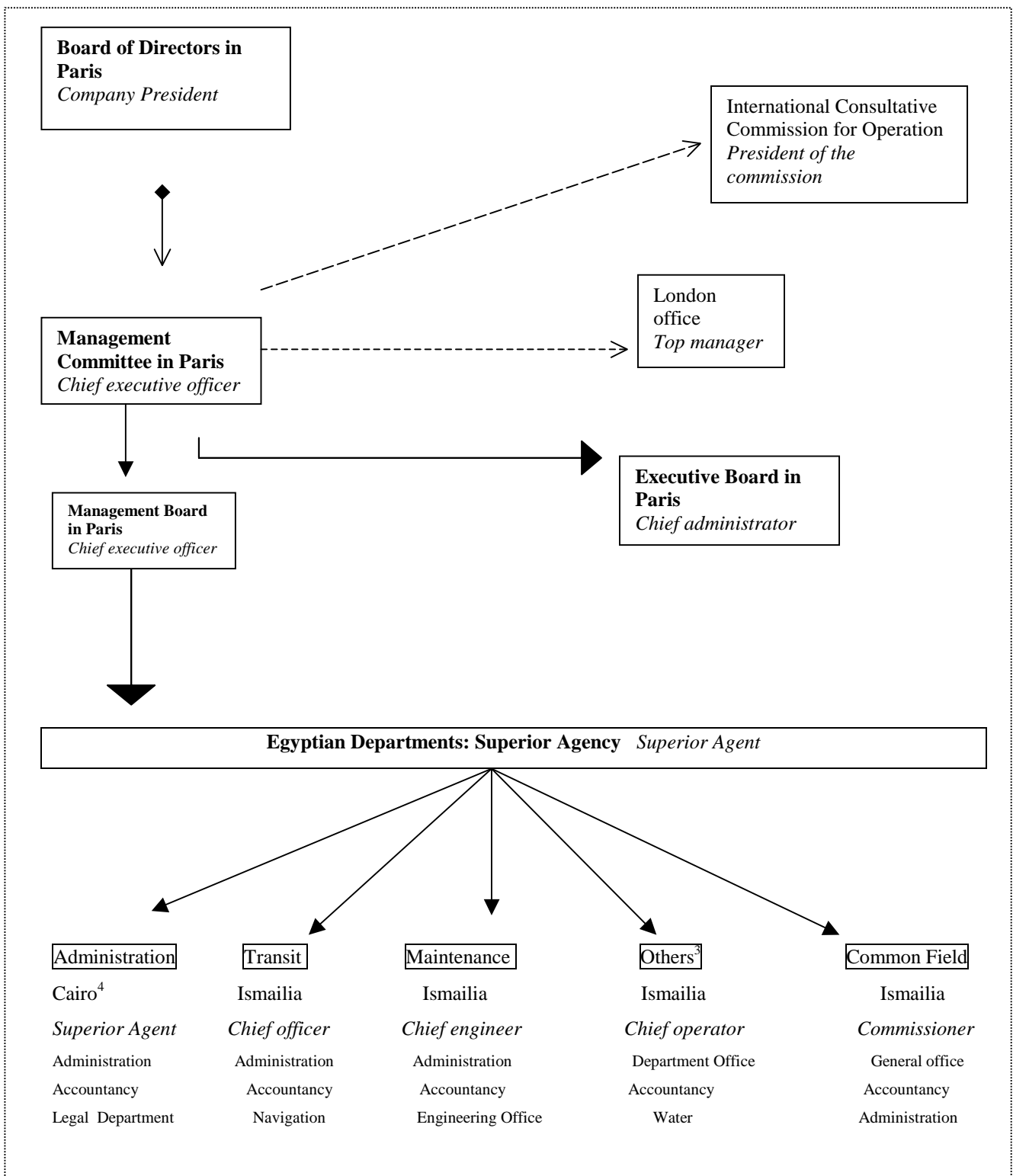
The Suez Canal Company was defined as having its headquarters in metropolitan France and its entire activity overseas. The company's statutes define Paris as the administration headquarters of the Company and Egypt as the host country of the company's headquarters.<sup>2</sup> In fact, the real headquarters remained in Paris during the entire time the Suez Canal Company operated the canal whilst the Egyptian departments merely implemented decisions made in Paris.

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<sup>2</sup>Statutes, article 3, CUCMS, *Notices et renseignements généraux*, p.17.

Figure 1: Organisational Chart of the Suez Canal Company from 1890 to 1948: **Direct control** ———>

Consultation - - - - -> Election <----->



<sup>3</sup> This department disappeared in 1919 when it merged with the maintenance department.

<sup>4</sup> In Alexandria until 1879.

The Parisian headquarters held the decision making power which was dispatched between the Board of Directors, its president and the Management Committee. According to its statutes, the Management Board had to represent the countries that used the canal; this was not the case in practice, because in 1889, on a total of 32 members, there were 20 Frenchmen, 10 Brits, a Belgian and a German.<sup>5</sup> On the eve of the first world conflict, few changes had been made: there were 19 Frenchmen, 10 Brits, a German and a Dutchman. The Board of Directors board was represented by the company's president. From 1858 to 1893, the founder, Ferdinand de Lesseps was both Head of the Management Committee and of the Board of Directors. The Panama scandal led to the withdrawal of Lesseps, this enabled the company to change its organisation and separate the managing and presidential functions, allowing the company to follow more of a classic scheme for a French firm.

During the digging of the canal (1859-1869), the Company had several small offices in London, Beyrouth, Turin and Marseille. They were dismantled in 1860 and the activities were re-centred along the Paris-Ismaïlia axis. Egypt hosted the operational departments of the company. Their number varied in time, but three of them were essential all along this period: the Superior Agency which ensured administration services, the maintenance department which was in charge of the improvement of the canal and the Transit Department which was in charge of navigation. The departments were organised in such a way that they formed independent entities headed by chief officers; the latter were managed by a Superior Agent from 1867 onwards. The company thus presented a structure divided into functional autonomous units based on their activities and headed by intermediate managers under the central administration authority.<sup>6</sup>

In the Suez Canal Company, the workload was divided into distinct departments, in which engineers had played an important role. Very early in the organisational process, the structure of the departments proved to be necessary to the success of the construction process. The hierarchy of the Construction Department was an exact copy of the *Ponts et Chaussées* (French National Civil Engineering Firm) administration at that time.<sup>7</sup> The Suez Canal Company recruited its engineers in France's best engineering schools such as *Polytechnique*, *Centrale* and the *Arts et Metiers*. The Suez Canal Company thus had the same management culture than that of the French civil engineering administration. The engineers played a very big part in developing and maintaining a rationalised structure. Furthermore, rationalising the departments is what most classic colonial administrations underwent. Having a centralized and hierarchical structure was quite understandable, the Company being overseas and the workforce being as diversified as it was,

### ***b- Organizing work, staff and social policy***

The Suez Canal Company's activity was divided into four big departments: the navigation department, the maintenance department, the other building issues department and

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<sup>5</sup>In 1858, 26 of the 32 members were French whilst only 6 were foreigners; in 1871, the number of managers was reduced to 21 members, after the difficulties that arose between the Board of Directors and Lesseps, with 17 Frenchman and 4 foreigners. In 1876, there were 24 members of which 21 Frenchmen and three Brits. In 1884, after the London agreements, the Board of Directors went back to 32 members with 20 Frenchmen, ten Brits, one Dutchman and one Belgian. J.E.Goby, *Administrateurs français de la Compagnie du canal de Suez (1858-1956)*, private archives.

<sup>6</sup> This organizational structure in distinct operational units headed by a hierarchy of skilled executives was one of the main characteristics that distinguished traditional firms from modern firms. A.D.Chandler, *La main invisible des managers, une analyse historique*, Economica, Paris, 1988, p.3.

<sup>7</sup> N. Montel, *Le chantier du canal de Suez, op.cit.* pages 26-29 and 78-93.

the administration department. The navigation department was an elite service, composed of highly skilled pilots from all countries. On the other hand, departments such as those in charge of the road, rail and waterway networks, those in charge of the building sites for buildings and infrastructures and those in charge of the limestone mine exploitation required much less qualified workers. The company also had an industrial site. The general workshops there not only enabled them to repair ships and machines, but also enabled them to build their own equipment. Many highly skilled workers were on this site, they were needed to handle the gas and electricity machines for the plants.

The Company thus presented a very heterogeneous panel of worksites and workers. We can nonetheless say that there were two dominant organisations: the first one was quite basic and was what happened on the building sites, and the other one was more rationalised and modern and was how things worked in the workshops. This clearly distinguished the under qualified workforce, mostly Egyptian, from the qualified European workforce. The company thus presented the characteristics of both an activity where work costs can be adjusted by mechanisation and those of a sector that employed a great number of unqualified workers, where mechanisation was rare, probably because it cost more than employing *fellahs* (Egyptian peasants).

As soon as the worksite opened, the Company was faced with a lack of workforce in the region; employing *fellahs* was a first solution, but the problem was not solved, because in 1864, when drudgery was abolished, the problem resurfaced. Mechanising the worksite was a response to the lack of workforce. It nevertheless, changed the problem and there was a need for qualified workers instead of unqualified ones. Skilled workers needed to be recruited at a larger scale, in the Mediterranean basin, where workers possessed a set of skills and know-how. The work organisation at Suez led to an original situation, where a great number of populations worked together: French engineers, pilots from all over Europe, unqualified Egyptian workers and qualified workers from the Mediterranean, mostly Greeks, Italians and Dalmatians.

**Table 1: Composition of the workforce by nationality.**

Years	1899	1932	1940	1955
Greeks	33%	19%		19.3%
Italians	15%	15.4 %	12.4%	0.6 %
AustroHungarians/ Yugoslavians	11%	1.2%		0.5%
French	5%	2.6%	3.3 %	1%
Under British protection		2.8%		2%
Others	5%	16%	84.3 %	1.1%
Égyptians	31%	43%		75.6%
Total	100%	100%	100%	100%

Source: For 1899, J. Charles-Roux, *L'isthme de Suez, op.cit*, p. 235; for 1932, ACUCMS, 1455, Company statistics; for the year 1940, ACUCMS, 1325; for 1955, ACUCMS, 0863, Notes for the New-York office, 7 April 1955.

**Table 2: Nationality of the agents and pilots in Egypt in 1932.**

	Agents	Pilots	Total
French	325	33	358
British	0	41	41
Italian	79	15	94
Greek	40	12	52
Yugoslavian	11	3	14
Dutch	0	8	8
Swiss	4	0	4
Belgian	2	0	2
Egyptian	16	0	16
Maltese	11	0	11
Syrian	3	0	3
Other	14	2	16
Total	505	114	619

Source: ACUCMS, 1455, Statistics of the Company. (Agents include: employees, foremen and sail staff)

The settlement of such heterogeneous populations brought the Company to establish an original social policy. Suez was not the only company at the end of the XIXth century to give benefits to its employees; in France like in Egypt, benefits such as healthcare, housing and food were already quite common. Nevertheless, Suez's social policy went further; the goal was to help its employees and workers settle in a barren land. To attract and keep its workers, the Company proposed the highest salaries in Egypt for European workers as well as food cooperatives filled with local and imported goods.

The most exceptional measure was without doubt, the establishment, at the end of the XIXth century of paid holidays with travel expenses reimbursed.<sup>8</sup> A certain number of companies in France, already had established a paid holiday system, some time before the *Front Populaire* government measures. But Suez went even further by proposing, in 1893, to pay for the expenses of its foreign employees on their temporary stay back home. This social benefit was created so as to keep qualified workers in the company at a time where there were many work opportunities for them in the Mediterranean in this end of the XIXth century. With these regular holidays, together with a high salary policy, the Company reduced the mobility that characterised this workforce and ensured its loyalty. But, the Company's social policy was based on a clear distinction between advantageous statuses for employees and foreign workers and precarious statuses for the indigenous low-qualified workers, employed by intermediary companies and who did not benefit from those social policies.

The Suez Canal Company's social model was built in complete independence from Cairo. Up until the 1920's, Suez was a sovereign company in its field, protected by two

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<sup>8</sup> *Le canal maritime de Suez. Notes, tableaux et planches.* Franco-British exposition in London in 1908, CUCMS, Paris, 1908.

guardians: the international law and the British. The company was globalized, but lived in an extraterritorial situation, totally independent from the Egyptian society. The latter accused the company of forming a citadel, a State within the State. At the end of the 1920's, the problem came from the proclaimed Egyptian Nation-State; this caused a conflict in sovereignty on the concession management. The company was thus forced to redefine its strategy.

## **II- Company changes facing the formation of a Nation-State**

### ***a- Company evolutions under State pressure***

In the 1930's, Egypt underwent important changes with the arrival of nationalism, foreign capital were questioned and the economy was "Egyptianised". In 1936, the negotiations between the Egyptian government and the British led to an independence treaty. This climate was favourable to the growth of Egyptian control; new social preoccupations went together with the reinforcement of the State's role. This led to the implementation of a tax legislation, a company tax system as well as the creation of a central Egyptian bank.<sup>9</sup> The state was clearly interventionist in the 1920's. Suez was the country's biggest company, but was also the most foreign company as to its management and its workforce. The State decided to transform this public concession in a company that was more focused on general interest, and it forced the company to employ and train Egyptians at high positions. In 1936 the Suez Canal Company signed an agreement with the Egyptian State that fixed quotas and arranged for the appointment of two Egyptians in the Board of Directors, and for the appointment of a total of five Egyptians in 1949.

This State pressure enabled Egyptians to gain weight in the workforce and the trade unions became stronger and stronger. After the Second World War, the Egyptian population were greater in number than the European population amongst workers: the relationship between management and workers was greatly affected. The Suez Canal Company was confronted with huge strikes during which social demands go together with political and national demands, the Suez Canal Company was denounced as a colonial company.

During the 1948 strikes in the region, the Suez Canal Company's British administrators noticed the management's extremely conservative social policy, while at that same time their neighbour Shell, based in the city of Suez, used more modern and effective methods in their relationship with their employees.<sup>10</sup> After the war, The Company's policy was actually quite behind as to its management methods. The English administrators encouraged the direction to modernise its human resources methods; the model proposed was that of American companies, which was already used by Shell in Egypt and by British concessions in Iran.<sup>11</sup>

The introduction of American methods in French companies was part of a movement started in the 1920's. During the inter-war period the company concentrated all its efforts concentrated on the question of work organisation. But, after 1945, American financial and

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<sup>9</sup>R.Tignor, *State, Private enterprise and Economic Change in Egypt, 1918-1952*, *op.cit*, p.149- 153.

<sup>10</sup> FO 371/73622, letters from F. Wylie to Steward, 31 March 1949, and 9 June 1949.

<sup>11</sup>FO 371/73622, minutes of M. Audsley, 29, June 1949.

human resources management methods are sought for.<sup>12</sup> The industrialist Ernest Mercier was one of the men who introduced these new methods in France. When he entered the Board of Directors of the Suez Canal Company in 1946, he was the Head of the *Rassemblement français*, a movement that spread methods of modernisation and rationalisation in industry.<sup>13</sup> Furthermore, the Suez Canal Company supported the teaching of these methods and the training of its employees so as to teach them both how to organize their work and, what's more of a novelty, how to study human relationships.<sup>14</sup>

This last point was of particular interest to the Management, so as to develop a good atmosphere within the staff and the Egyptian population.<sup>15</sup> A public relations office was actually created for that purpose in 1952. By this mean, the company tried to encourage the contact between different categories of personnel; they were inspired by what was being done in France, in big companies, to improve staff structures. This was in line with the human relationship movement initiated in the 1930's by Elton Mayo and developed in France after the Second World War.<sup>16</sup> The company's management board proposed to apply these new theories through a bilingual company magazine published both in Arabic and French, a concept that was very close to what was done for the shareholders' bulletin. Creating a bilingual company magazine, called *Le Canal*, in both Arabic and French, was supposed to show the Egyptians how much the company contributed to the country's development and that the company had to be seen as a benefactor and not as an agent of colonisation.<sup>17</sup> The magazine's task was to fight against ignorance and misunderstanding, according to the Board of Directors.<sup>18</sup>

The management board is inspired by the US company press, and by « *Ford Time* » and « *General Motor's friends* » in particular.<sup>19</sup> In Egypt, only Shell preceded the Suez Canal Company, and published a bilingual journal in 1949 but the journal's presentation clearly separated both languages<sup>20</sup>. On the contrary, *Le Canal* mixed the Arabic and the French version in the same article so as to jointly comment the pictures. At its creation in August 1952, the magazine was for the Egyptian staff only. One year later, it was also read by the Paris and London staff and published at 5700 issues<sup>21</sup>. Other than its staff, the magazine was written for influential Egyptian groups, for the Egyptian government, the press and the Economy specialists.<sup>22</sup>

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<sup>12</sup> D. Barjot and C. Reveillard, dirs., *L'américanisation de l'Europe occidentale au XX<sup>e</sup> siècle, Mythe et réalité*, Paris-Sorbonne University Press, 2002.

<sup>13</sup> R. F. Kuisel, *Ernest Mercier, French technocrat*, University of California Press, Los Angeles, 1967.

<sup>14</sup> *Le canal*, n°24, June 1956.

<sup>15</sup> ACUCMS, 0834, letter, 7 July 1952, instructions from the Administration Chief Officer to the Superior Agent. Elton Mayo included the concept of culture in company management, taking into account the worker as a factor of work and as an individual. What was new was the fact that it looked at a company's psychological dimension when having to deal with management issues. Mayo, *Some notes on the psychology of Pierre Janet*, Harvard University press Cambridge, Mass, 1948; R.C.S. Trahair, *Elton Mayo: The Humanist Temper*, Transaction Publishers, U.S., 2005.

<sup>16</sup> E. Mayo, *Some notes on the psychology of Pierre Janet*, Harvard University Press Cambridge, Mass, 1948; R. C.S. Trahair, *Elton Mayo: The Humanist Temper*, Transaction Publishers, U. S, 2005.

<sup>17</sup> The president insisted in presenting the positive aspects of the company. ACUCMS, 0834, Note from F. Charles-Roux, 27 May 1952. Several articles clearly followed this objective, such as that of R. Schmitt, « Contribution du canal dans la vie économique de l'Égypte », *Le Canal*, n° 12, June 1954. p 23.

<sup>18</sup> ACUCMS, 0834, letter 7 July 1952, instructions from the Administration Chief Officer to the Superior Agent.

<sup>19</sup> *Ibidem*.

<sup>20</sup> The Shell magazine was called « The Shell », cited in *Le canal*, « Votre revue » n°6, June 1953, pages 2-5.

<sup>21</sup> «Votre revue », *Le canal*, n°6, June 1953, pages 2-5. According to this article, the Suez magazine was cited and appreciated by the French Company Journal Union.

<sup>22</sup> ACUCMS, 0834, Superior Agent notes, 13 July 1951.



The 1930's consequently represented a period of change from the paternalism inherited from the XIXth century and the more modern human resource management aiming to develop a « company culture<sup>23</sup> », by following the management methods borrowed directly from American companies. But, in spite of these measures, the local authorities accused the company of following a social model that was to the detriment of Egyptians. The authorities' continuous attacks and the surging post-war context tarnished the Suez Canal Company's image; there were more and more strikes and even the company's employees said the company was serving British imperialism. The management board's answer to these attacks and to the ever increasing role of the State was to follow a new financial strategy.

### ***b- Towards a multinational strategy: structural reform and financial diversification***

The first ten years of the company in Egypt were marked by a new management board, who is more into financial management culture. The president, François Charles –Roux elected in 1948 spent the whole of his career as a diplomat. His experience and diplomatic skills were plebiscited by the management board when the Company was looking for external support to plead in favour of its international status. Jacques Georges-Picot, had a very different personality; he only started getting involved in the management board in 1953 but, in 1945, he already plays a key role as associate director. J. Georges- Picot impelled the company to reorient itself towards the Anglo-Saxons, thus giving it more of an international dimension. J. Georges -Picot also supported the recruitment of young business school recruits as well as the traditionally recruited engineers.

On the other hand, the evolution of the company's traditional politics was perceptible within the Board of Directors. The latter showed more of an eclectic configuration: in 1948, Pinkey Tuck, the first American man to enter the Board of Directors, was appointed. The president wanted him to help protect the Company from Egypt<sup>24</sup>. The 1949 agreement stated that there should be three more Egyptian administrators than the first two that were appointed after the 1937 agreement. On the eve of its nationalisation, the Board of Directors was made up of five Egyptians, nine Brits, one American and one Dutchman; the French are still dominant but their number has been reduced to 16 members.

It is important to underline the strength of the maritime transport representatives and the oil industry representatives, at a time when the traffic in the Canal was mainly of gross petrol and its derived products.<sup>25</sup> Victor de Metz, CEO of the *Compagnie française des pétroles* (French Petrol Company) and president of one of its affiliates, the *Compagnie navale des pétroles* (Naval Petrol Company), was appointed at the Board of Directors in 1955; he replaced Ernest Mercier, the representative of Electric and Petrol Industries, ex-president of the *Compagnie navale des pétroles*. He was joined that same year by Yves Desprez, President of the *Comité central des armateurs français* (The Central Committee of French Ship-owners) and of the *Compagnie auxiliaire de navigation* (Auxiliary Company of Navigation) and the *Compagnie africaine d'armement* (African Armament Company). The latter was a representative of both the armament and the maritime transport circles, together with Georges Phillipar, President of the *Messageries Maritimes*. The power of these men was reinforced by their acquaintance

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<sup>23</sup> A. Lémoré « Du paternalisme à la culture d'entreprise », *Le travail à l'époque contemporaine*, CTHS, Paris 173-186.

<sup>24</sup> FO 371/ 69 180, note of the Secretary of State, 1June 1948.

<sup>25</sup> ACUCMS, 025, Shareholders' General Assembly, June 1956.

with the seven administrators of the British ship owners and the Dutch administrator. The Board of Directors then had the vocation of a commercial company resolutely turned towards new economic stakes.

The Suez Company Canal's new orientation was also reflected by its organisation, the management and the Egyptian Departments underwent important changes in 1946.<sup>26</sup> In Paris, the power was concentrated in a sole body with the merger of the management and executive boards. This created a sole direction body, more rationalised and still in the hands of the French; a representative of the British government is nevertheless authorised to attend the Management Committee sessions.<sup>27</sup> This concentration of the powers of management also took place in Egypt: the Superior Agency lost its management role in operation, and was left with intermediary missions with local authorities. From then on, the four services, the superior agency, administration, transit, operations, were on the same hierarchical level and all depended directly on the Management Committee. The Company maintained, against Cairo's will, its burst organisation and slowly reinforced the management's power on the Egyptian departments. Thus, the more the Egyptian State pressured the Company, the more the Management Board intensified its vocation as a European company. This corresponded to a movement initiated by Henri Mintzberg according to which a climate of hostility favoured the reorganisation of the company around a strong power.<sup>28</sup> But, this management choice was above all the result of the conviction that the Suez Canal Company's vocation was to be more of a Universal company than an Egyptian company. Thus, keeping the Board in Paris was, above all, to confirm its worldwide vocation. The company then began to be more of a European Commercial company than an Egyptian concession.

Additionally, the Suez Canal Company, so as to protect itself from Egyptian control, was more and more turned towards the United States. The latter being the most influential power in the area, since the Abadan crisis in 1951.<sup>29</sup> It was thus not surprising that the Management Board focused all its efforts on political and economical circles. During his first visit to the United States in 1948, J. Georges-Picot measured the extent of the misunderstandings of the canal issues, called the «Swiss canal» by the press.<sup>30</sup> He thus decided to engage in a vast communication campaign. An office was opened in New-York in June 1952 and the Board of Directors appointed two public relations advisors.<sup>31</sup> The management also appointed the Davis Polk company and a legal advisor in the US: Charles Spofford. An American engineer, General Edgerton, the ex governor of Panama, was also appointed in the Suez Canal Construction Commission.<sup>32</sup> The New-York office's actions were of different types: the simplest was publishing advertisements to defend the Canal in American magazines such as The Herald Tribune, The New York Times, Reader's digest and Newsweek<sup>33</sup>.

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<sup>26</sup> ACUCMS, 0633, Board of Directors, list of public decisions, chapter «administration organization of the Company».

<sup>27</sup> Lord Harvey until 1947 then Francis Wylie up until the nationalisation of the Canal.

<sup>28</sup> H. Mintzberg, *Structure et organisation des organisations*, *op.cit.*, hypothesis 12.

<sup>29</sup> Z. Freiburger, *Dawn over Suez: the rise of American power in the Middle East*, Chicago, (II), Ivan R. Dee, 1992. pages 24-25.

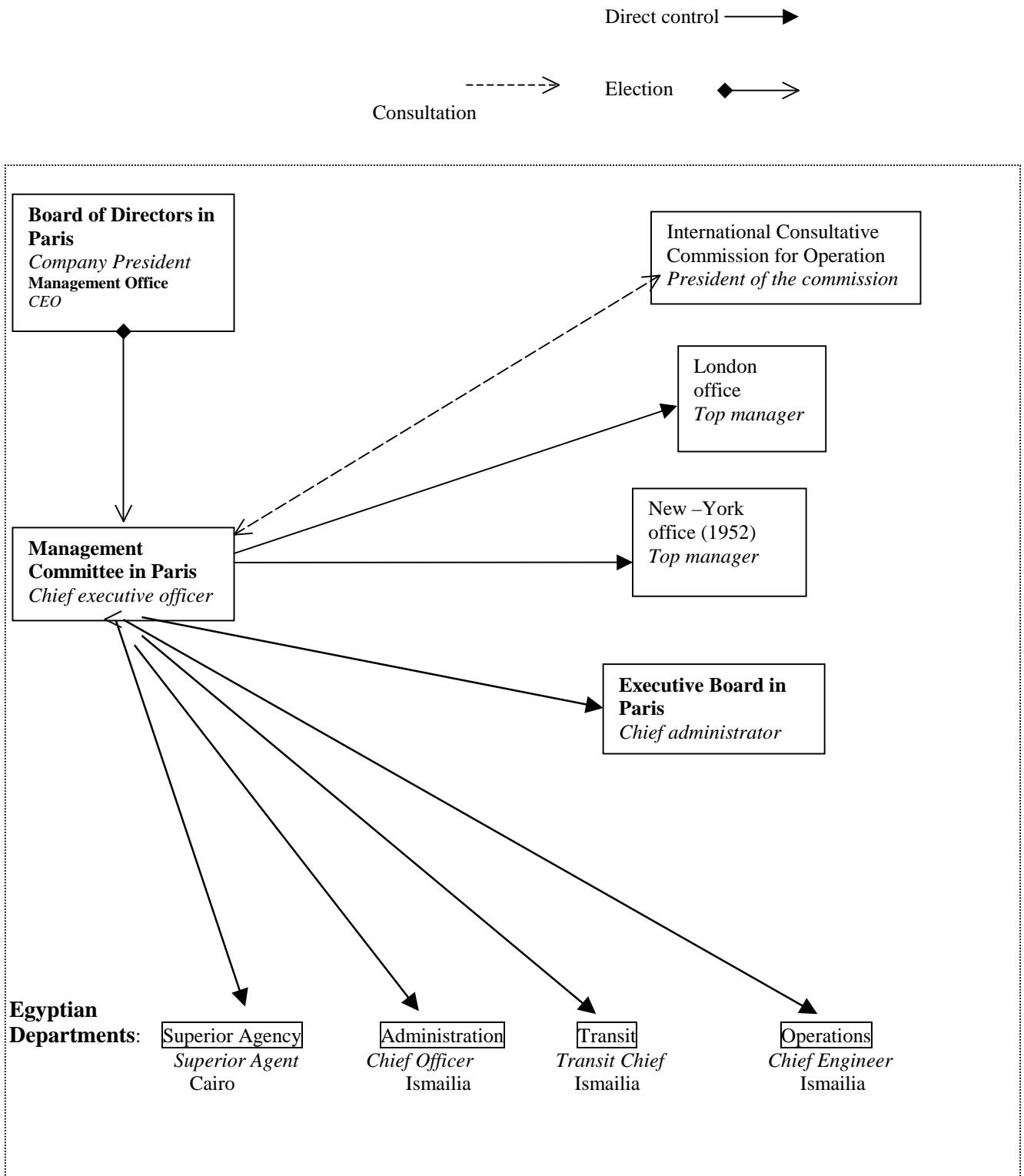
<sup>30</sup> J. Georges-Picot, *La véritable crise de Suez*, *op.cit.* p.72. This was due to the phonetic reform of the Arabic language « Souis » (Suez).

<sup>31</sup> ACUCMS, 0866, New-York office folder.

<sup>32</sup> J. Georges-Picot, *La véritable crise de Suez*, *op.cit.* p.82.

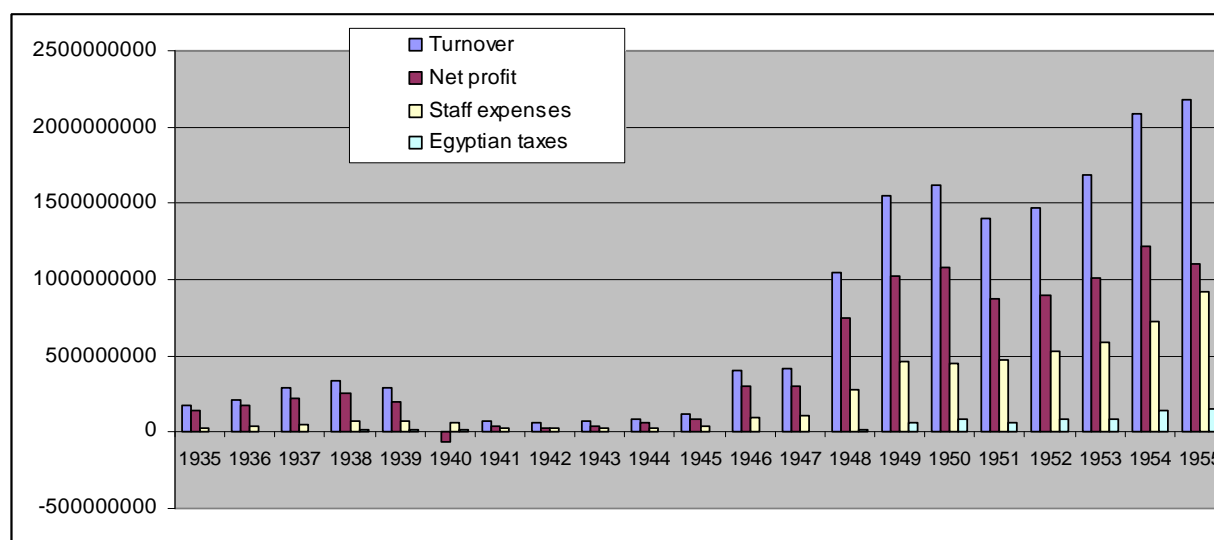
<sup>33</sup> *Ibidem*, p.77.

**Figure 1: The Suez Canal Company's organisational chart from 1946 to 1956:**



Finally, the international positioning of the Suez Canal Company in reaction to Egyptian claims was visible through its new financial strategy. The Second World War, by underlining the necessity to protect the company's reserves, favoured the impulse of an investment strategy. This movement increased in strength after 1945, because of the pressure exerted by the Egyptian authorities. The last years of operation were exceptional because of the increase of petrol transport traffic.<sup>34</sup> The Company wanted to make the best of its good results and organized a more active reconversion strategy, whilst the renewal of the concession seemed quite unlikely in 1968.

**Figure 2: Operating statement of the Company, from 1935 to 1955, in French Francs constant to Egyptian prices.**



Sources: Countable Assessment of the Suez Canal Company, General Assembly Reports, 1935-1955, ACUCMS, 0024-0025.

The traditional politics of Suez, considered much too conservative by the British, took a new turn with Jacques Georges-Picot.<sup>35</sup> The Board of Directors appointed investment advisors for its investments.<sup>36</sup> The company also worked with a financial management company for its investments in France and overseas.<sup>37</sup> In the late 1940's, the Company had already invested in a number of French companies: *Air Liquide*, the *sucrieries coloniales* (colonial sugar refineries), the *société africaine forestière et agricole* (African forest and agriculture Society), the *Lyonnaise de Madagascar*, the *English Electric Company*, *Air France*, and industrial French companies such as coal mine companies, railway companies and electricity companies such as *Rhône Poulenc* and *Saint-Gobain*.<sup>38</sup>

With the Korean war, international tensions reinforced its concerns and, in March 1951, the Board of Directors started to organize fallback by renting a building belonging to the *Hôtel thermal* of Boulon-les-Bains and buying a house in Ludlow and in Shropshire. The Board of Directors also invested in real estate overseas, particularly in Morocco, in Belgian

<sup>34</sup>The sales turnover reached 33.15 billion Francs in 1955. ACUCMS, 025, General Assembly Report, June 1956.

<sup>35</sup> FO 371/ 73606, Management Committee Report, F. Wylie to Steward, 28 April 1949.

<sup>36</sup> H. Bonin, *Suez, du canal à la finance*, op.cit, p. 182.

<sup>37</sup> La Pan holding was in charge of overseas investments. FO 371/ 73606, Management Committee Report, F. Wylie to Steward, 28 April 1949.

<sup>38</sup> FO 371/ / 73606, 73607, 73608, Management Committee Reports, F. Wylie to Steward, 28 April 1949, 1<sup>st</sup> June 1949, 4 August 1949, 13 December 1949.

Congo and in the South African Union.<sup>39</sup> The same year as the abrogation of the Anglo-Egyptian treaty, the Company increased its investment policy. It forsaken its French *bons du trésor* and its Treasury bills to concentrate on its quoted values.<sup>40</sup> The company invested more in Belgian Congo 1952; it invested 60 million Belgian Francs,<sup>41</sup> and then turned its investments towards Canadian companies such as the *confédération au développement* and the Telma company<sup>42</sup>.

Following Jacques Georges-Picot recommendations, the company from then started favouring long term investments over temporary investments.<sup>43</sup> Moreover, classic pension funds were replaced by an investment system that was to constitute the funds needed to pay the employees' retirement pensions after 1968.<sup>44</sup> The money was registered in 1952 in Tanger where laws were more flexible than in France. These savings were above all a skilful way to justify the investments to the Egyptian authorities; the real reason of this transfer, of 8 million Egyptian pounds, was to protect the company from possible Egyptian nationalisation.<sup>45</sup>

Egyptian menace was a true threat to the company's treasury: in June 1952, the Egyptian exchange control authorities required that all the company's income, after shareholders were paid, had to be invested in Egypt.<sup>46</sup> Up to then, thanks to a law exemption, the Suez Canal Company could cash in its income in London and in Paris and ensure their exchange in those two cities whereas the other Egyptian companies had to systematically give their income to the exchange control in foreign currencies.<sup>47</sup> Suez being an Egyptian company, the government acted within the framework of the law. Placed in a weakened position, the Board of Directors accepted to negotiate: it kept its rate regime, but in exchange it had to keep all its cash flow available at the National Bank of Egypt.<sup>48</sup>

At the same time, the Board of Directors was careful to preserve its savings. The Suez Canal Company had at that time four types of savings: a statutory reserve of 430 million French Francs, a special reserve of 7 billion, an insurance and contingency fund of 1, 72 billion Francs, and finally a pension fund of 7, 81 billion Francs. The second and the third reserves were intended to cover the canal expenses and to ensure the stability of the dividend; the two others were part of the greater financial strategy that consisted in anticipating a possible nationalisation. The new investments were to be of French nationality which was the best way to protect them from the Egyptian authorities and to facilitate the clearance of the reserves at the end of the concession.<sup>49</sup>

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<sup>39</sup> ACUCMS, 0633, Board of Directors, list of decisions, chapter on « organisation of the Company ».

<sup>40</sup> Bonin, *Suez, du canal à la finance*, *op. cit.* p.182. FO 371/ 73606, Management Committee Report, F.Wylie to Steward, 28 April 1949. Suez owned British government Treasury Bills in London, in Paris its treasury was more modest. The New York treasury appeared in 1939 with investments made at the Morgan bank. ACUCMS, 025, Shareholders' General Assembly Report, June 1952.

<sup>41</sup> FO 371/97011, Management Committee Report, F.Wylie to R. Allen, 23 July 1952.

<sup>42</sup> Fo 371/ 102 906, Management Committee Report, F. Wylie to Boothby, 3 December 1952.

<sup>43</sup> ACUCMS, 025, General Assembly Report, June 1952.

<sup>44</sup> J. Georges-Picot, *Souvenir d'une longue carrière*, *op.cit.*, p. 224-225.

<sup>45</sup> FO 371/97007, F. Wylie to R. Allen, 2 April 1952.

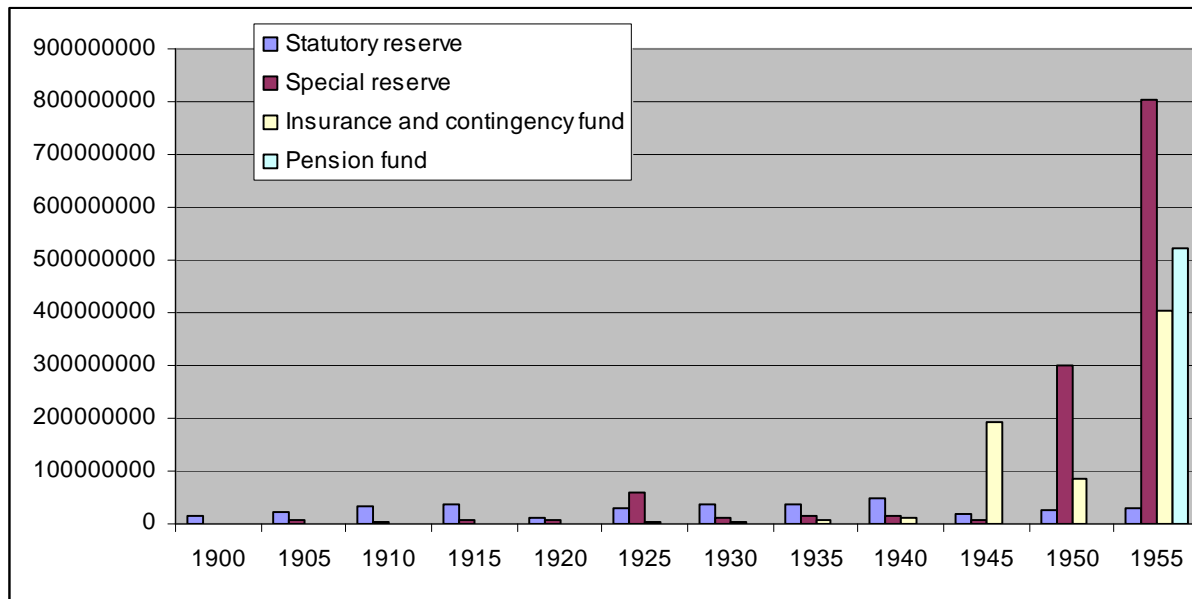
<sup>46</sup> FO 371/102888, Note on the payment of the rates, 1953.

<sup>47</sup> ACUCMS, 0633, List of Decisions, chapter « Egypt ».

<sup>48</sup> FO 371/97010, Telegramm received by the French Ministry of Foreign Affairs, July 1st 1952.

<sup>49</sup> FO 371/97016, F. Wylie to R. Allen, 17 December 1952.

**Figure 3: Company reserves from the beginning of the century to 1955, in French Francs constant with Egyptian prices.**



Sources: Annual Financial Status of the Suez Canal Company, General Assembly Reports, 1900-1955, ACUCMS, 0024-0025.

After 1954, a new step was taken, with the signature of the Anglo-Egyptian treaty. The Egyptian authorities wanted to change Suez back into a national public utility company; the Suez Canal Company reacted to this by seriously considering its transformation into a financial holding. The company was more and more pressured into bringing back the whole of its treasury in Egypt: the authorities demanded a transfer of the cash assets deposited in Paris and London and of its long term investments as well as its entire pension funds. From then on, the major concern of the Board of Directors was to keep some part of the reserves away from the Egyptian covetousness. The company created the *Société d'Investissements Mobiliers* (Society of Mobile Investment) in August 1955 to serve this purpose. The SIM was a French company and was created with a capital of 7 billion French Francs; it was entirely in the hands of the Suez Canal Company. This company's assets were separated from those of the Suez Canal Company even though it profited from the contribution of the French and American quoted values portfolio of its mother company.<sup>50</sup>

The last agreement between the Suez Canal Company and the Egyptian authorities was finally signed the 6 June 1956. Under the terms of this agreement, 15 million pounds had to be brought back and kept in Egypt until 1958 and 3 million more should be brought back in 1962; in exchange the Suez Canal Company would be able to use its cash assets as it wished and could freely manage its provisions.<sup>51</sup> The company thus acquired financial freedom for the last two years of the concession, which left it with the opportunity to pursue its financial reconversion. But, in spite of this financial agreement, it seemed more and more difficult to continue operating the canal and it seemed quite clear that the concession would not be reconducted in 1968.<sup>52</sup> J. Georges-Picot then considered dividing the company into two

<sup>50</sup>J. Georges-Picot, *Souvenirs d'une longue carrière, op. cit.*, p.252.

<sup>51</sup>FO 371/119072, Notes on the financial agreement, June 1956.

<sup>52</sup>The agreement did not entirely satisfy the government who had been refused both the appointment of an administrator in the Board of Directors and the project of building a tunnel under the canal, for army use.

different organisations in 1963.<sup>53</sup> One of these companies would be a joint-stock company with its headquarters in Paris and would receive 40% of the net profits made from the canal. An international company would be created in Egypt and it would be in charge of operating the canal; the Parisian company would be represented in this company. These changes would go together with a possible lengthening of the concession until 1973 so as to enable the Egyptians to have a period of transitions while sparing the interests of the company. Thus, less than several weeks before the much awaited nationalisation of the Suez Canal Company, the Board of Directors considered creating a holding where the canal would only become a secondary activity, anticipating without knowing it, its forced reconversion in 1957.

The nationalisation of the Suez Canal Company by Nasser in July 1956 accelerated the take-off of the European commercial company. As a matter of fact, the Suez Canal Company was able to undergo its reconversion into a financial company thanks to its overseas funds to which it added the allowances paid by Egypt following the breach of the concession contract.

## **Conclusion :**

From the XIXth century to the 1920's, the Suez Canal Company formed a very cosmopolitan company with a Board of Directors that represented the interests of the main maritime powers, and employees that came from all around the Mediterranean Sea. It was nevertheless quite colonial as to its operation: it had a poor relationship with the Egyptian State which, however, remained the authority from which it obtained the concession, and maintained discriminatory practices with its Egyptian personnel in terms of its social and wage policy. During the inter-war period, the company started to employ more and more Egyptians; at the same time the emergence of the Nation-State as a control authority set the Board of Directors in favour of an international strategy and led them to diversify the company's activities and to start redeploying the company geographically in Europe and in the United States.

During the 1960's, the Suez Canal Company, then named the *Compagnie Financière de Suez* (Financial Suez Company) differentiated itself from other banks by working with a financial advisors, at a time when financial analysts were quite rare in French banks. It also had a financial reserve of current treasury, the investment portfolio. However, the company's 1960's specificities were set up during its Egyptian period. The fact that Suez was overseas and that it had to deal with decolonisation helped it acquire the international vocation it has today.

The changes that Suez had to go through so as to become a modern multinational company are mainly due to the fact that it wanted to escape from the Egyptian State's control. Suez's history can, in that aspect, be compared with today's multinational companies. The latter are powerful economic actors in a world in which State's cannot control them much regulatory-wise anymore. This leads to a great number of conflicts between multinational companies and emerging countries. An example of this is Suez in Argentina whose concession contract for urban water signed in 1993 has raised many difficulties with both the local population and the State. Suez then preferred to move in 2005 than to undergo the Argentinean State's control. This conflict between political authorities and economic power also poses the question as to

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Moreover, press campaigns against the company were continued both in the press and the radio. ACUCMS, 0637, Note from F. Charles –Roux, 10 July 1956.

<sup>53</sup>FO 371/119072, F. Wylie to Watson, 5 July 1956.

how much breathing space a State has to regulate its investments and its economy when dealing with multinational firms.