

The French Investors in Portuguese Railways from 1855 to 1884: Three Cases

Magda Pinheiro (Instituto superior de Ciências do Trabalho e da Empresa,
Portugal)

As my master, professor Jean Bouvier wrote in 1976, international investment is mainly pushed by the general expectation of higher profits than those obtained in national stock market (Bouvier, 1989). This was, as I see it, the principal problem with foreign investment in Portuguese railways nevertheless other factors were also relevant. I will try to show it in three cases with different results.

In the middle of the nineteenth century Portugal was a backward country with a cultivated political elite. Backwardness meant that inland transportation was scarce and so were the expected returns of any railway investments. At that time the country had almost no new roads or canals.

Civil war and subsequent financial crises had postponed the evolution on inland transport system. The state with a structural financial deficit was paying high interest rates on Public Debt. With the political stability, in the beginning of the fifties, the desire to find a way to achieve economic development placed railway construction in the centre of the political scene even though the country did not have a banking system able to mobilize the needed capitals.

In order to reach a stable financial structure, Fontes Pereira de Melo, a young engineer, who was finance and public works minister, reduced the expenses, namely cutting the interest rate on public debt the 18th December 1852. This measure affected many English bondholders and created a difficult context for foreign investments when the stock exchange opposed the quotation of new Portuguese titles (Pinheiro, 1979).

At that time a contract with an English speculator, Hardy Hislop, in order to build a railway from Lisbon to the Spanish frontier (first step to Santarém) was already signed. Hislop could not find a stable financial basis for his joint stock company even though he had made a contract with a railway constructor firm named Shaw & Waring. Although the state bought part of the company shares the works had to stop in September 1855.

In those years the Crimea war and the political situation in central Europe and in Spain were also not very favourable to the Portuguese plans (MNE Lisboanne, Portuguese legacy in London). Portuguese government was apprehensive and sometimes even alarmed because of Napoleon's interest in Portuguese and Spanish affairs (Simth, 1970). In Portuguese plans international connexions were highly desirable nevertheless it's financing by French bankers well established in Spain, like the Pereire Brothers, seemed rather disturbing⁷⁴.

In Portugal some politicians dreamed of the English model of railway construction. They seemed unable to understand that railways could not be profitable without the help of the State. Their fears were partly the result of a pattern followed by speculators, "to make a contract that was not fulfil and then claim for damages".

So, when after obtaining in the middle of December 1855, an agreement with the Portuguese bondholders in London, Fontes Pereira de Melo went to Paris in order to deal with the *Crédit Mobilier*, the Portuguese King was very uncomfortable. Émile and Isaac Pereire were members of a Jewish family of Portuguese origin, established in Bordeaux since the eighteenth century. Their grandfather, Jacob Rodrigues, had been the representative of Portuguese Jews in France. As Emile was the editor of the journal *Le National* from 1832 to 1835, he could have met the Prime Minister, the Earl of Saldanha, who in the beginning of the thirties, had been exiled in Paris and published some articles in *Le National*. Nevertheless in his letters to Prince Albert, the King did not

mention the Portuguese origins of the Pereire family, emphasizing only the brothers religious links.

Fontes Pereira de Melo did not go to Paris without previous contacts. A local speculator had previously made a contract for the construction of a railway. The Earl of Claranges Lucotte contracted the Lisbon / Sintra Railway. In the forties he had already been the constructor of some roads in the province of Minho but the affair had turned wrong. He had French origins and he was in Portugal since the civil war of 1832/34. Having no capital he looked for the support of French bankers. The French embassy's correspondence describes these bankers as the Saint Germain faubourg group (MAE, Paris, Political correspondence, From Lisbon, 1855).

After these first contacts some French engineers went to Portugal to study the affair, and the names of the *Crédit Mobilier*, and of the *Grand Central* appeared associated with those interested in the construction of Portuguese railways.

In Paris, Fontes secured a loan and a contract for the study of Portuguese railway network with the *Crédit Mobilier*. He returned satisfied with what he had obtained in the first affairs voyage ever made by a Portuguese finance minister. He was also quite enthusiastic about the benefits of railway construction to the economy. Even the ambassador of Portugal in England wrote that those were good contracts.

The young King could not stand the ministers inherited from his father. The opposition was just hopping to find a good theme of debate. In order to the service of the loan the minister had to propose the reorganization of the internal taxation system. The popular resistance came in the help of the King and of the opposition.

The loan was needed to buy the joint stock company, that had not enough capital to build the railway to Santarém, but with enough power in the committee

⁷⁴ - Smith, cotes a letter dated o February 1856 from Emile Pereire to Napoleon emphasizing

of the Portuguese bondholders of the London stock exchange to make new investments in Portugal, impossible without their agreement.

So, on the 28th of February, the minister asked the parliament the approval of the contracts, including those with the contractors of the railway Shaw & Waring, those with the Bondholders and those with the Crédit Mobilier, and of the reorganisation of the taxation system while subsistence's prices were rising. The discussion was long and the issue was not clear. The chamber of the Lords seemed inclined to refuse his approval. The contracts were not known in all their extension. The King wrote immediately to the Finance Minister that he would not tolerate the idea of a nomination of new peers.

Nevertheless, the ultimate reason for the failure of the Crédit Mobilier contract was the arrival to Lisbon of another French capitalist, M. Prost. Prost, presented his proposals in the press, on the 18th of May. Watier, the engineer of the Crédit Mobilier, was for sometime in Lisbon studying the Portuguese railway network. In a quite unable way, he let some very pessimistic ideas about the conditions of a future contract leak in the small Portuguese political elite *milieu*. Ultimately the fight between the *Crédit Mobilier* and Prost Credit Society brought the end of these contracts and also procured the fall of the government. Prost him-self tried without any results to make the Sintra railway the departure of the Lisbon Oporto railway. He could only briefly obtain the possibility of creating a *Crédit Mobilier* in Lisbon, but the bank could never operate and the government soon suppressed the concession.

We may conclude that the difficulties were multiple. Some of course came from political situation. The doubts that the railways could produce a ratio of net receipts sufficient to pay up capital played an important role. That meant that the state had either to pay a subvention or to guarantee higher returns than those he was paying on public debt. A part of the Portuguese politicians, including the King, was not aware of the circumstances of the country and could

the strategic interest of this investmens.

not accept that fact. Nevertheless we also must point out that the French banking system was by then adapting to modernity and the new kind of bank, symbolized in *Crédit Mobilier* faced hostility from the *Haute Banque*.

The success of a new contract, signed in 1859, meant that the entrepreneur the Marquis de Salamanca and some foreign banks were able to raise enough money outside the Portuguese market to make a direct investment. This also meant that the Portuguese State was now able to pay the subventions to the railway contractor with bonds that could find market outside Portugal.

The group had experience as they were also behind other affairs like the Madrid- Zaragoza-Alicante and the Ciudad Real-Badajoz railways (Broder, 1981). All the process was directed from Paris by the company committee, in strict coordination with the members of the Board in Lisbon. Some of the members of the Board of Directors of the Portuguese Royal Railway Company were also in the direction boards of banks such as the CIC that was the CRCFP banker. Some were also magistrates and high civil officers in France or in Portugal.

If we take as an example Gustave Delahante, one of the members of the Paris committee (that came from a family linked to the *fermiérs généraux*), he was in the board of the La Loire Mines and in 1869 was one of the founders of the *Banque de Paris* that in 1872 joined the *Paris et Paribas* bank. Another director, the *vicomte* de Daru, was a member of the imperial aristocracy. He as been one of the directors of the *Société de Dépôts et Comptes Courants*. Lichtlin, another director was for sometime chairman of the *CIC*. As for E. Blount, the Englishman in the group, he was also in the board of the *CIC*.

For this group of persons it was not necessary to wait for the railroad to be finished to receive profits. The administration in Paris, Spain and Lisbon received compensations taken from the capital. 200 000 Fr. Francs were divided between the founders, appointed by Salamanca and the other directors. (AHCP, Proccés-verbaux du comité de Paris book I, and Repport of the Inquiry commission, 1867, Dinis, 1916).

The capitals invested in shares received 8% per year, even during the construction, 2% were paid by Salamanca and the rest by the company. The company made special credits to subscribers so that the shares could be declared fully pay-for shares of stock. The preoccupation was to fit into French laws of 1857 and 58 in order to obtain the quotation at the Bourse. It was also necessary to have freed all stock to quote bonds. Napoleon finally authorized the quotation of Portuguese titles in Paris; on the 29 of January 1861, after intense correspondence and interviews.

This was a complex business requiring a lot of knowledge. Presenting the business in very optimistic way was indispensable to raise the capitals. So the first report to the share subscribers, on the 11th of May 1860 evaluated the expected kilometre product up to 30 000 Fr.

Personal links to ministers in Paris and in Portugal were also important. The marquis de Saldanha was for some time chairman and the Portuguese ambassadeur M. Paiva remained for as long as he stayed in Paris one of the members of the Paris committee. Salamanca, in Madrid was an experienced man. For this construction to be possible, he and the Portuguese diplomats had previously obtain a subvention for the Ciudad- Real / Badajoz railway. He had a group of engineers trained in directing constructions; and he pushed the constructions very quickly using a great number of sub-contractors and of workers. His relations with the Paris committee, and its members, were close. He often travelled to France to participate in its meetings. The Paris committee provided him the capitals to achieve the railway from Ponte de Asseca to Badajoz and from Entroncamento to Vila Nova de Gaia. Only the last section corresponding to the Douro's bridge at Oporto was not undertaken until 1876. It was the most expensive part of the railway.

At the end of 1864, the 70 000 shares had produced 34 961 900 French Francs, but had received 10 290 000 Fr as returns during the construction, while the bonds had produced 54 848 161, 37 Fr and received 9 155387,50 Fr. Approximately a quarter of the capital had come from shareholders. Even in its beginnings the subscription of bonds was not very successful. The French

market absorbed most of it but with high interest rates burdened with commissions to the CIC. Since 1862 the Paris committee had to make a special treaty with the *Société Générale de Crédit Industriel et Commercial* in order to obtain the subscription of enough bonds to pay the construction (AHCP.Actas do comité de Paris).

By the middle of 1864, Salamanca had already told the French diplomats in Lisbon that he was ruined by this affair. The construction had, in his words, been very expensive forcing him to lose 25 millions of francs. He blamed his representative in Portugal for that fact (MAE, Paris, Correspondance Commerciale Légation Française from Lisbon, 1864).

Since 1865 the company asked for short time loans to pay the interests of shares and bonds. It was only after the spring crisis in 1866 that the administration suspended the payment of the interests. The Paris committee tried to avoid this decision asking the government to guarantee the profit of bonds and share stock arguing that the absence of roads leading to the stations was the main reason for the low receipts.

Naturally the government reacted asking for an inquiry on the situation of the company. Even though Portuguese engineers made a point in being very difficult in the acceptance of the railway sections, the payment of the state subvention had been regularly done. In Portugal there was not much enthusiasm about the new facility and there were more complaints than thankfulness. In the wake of the 1866 crisis the company grew unpopular. The report of the Inquiry commission was not in favour of the company and pointed a defective constitution of capital as the main reason for the crisis. It rejected all state contribution to the problems of the company. The railway receipts were at that time 11000 French Fr and it had to grow until the double to allow the company to pay regularly its charges (Dinis, Vol. IV, 1916).

The share and bondholders petitions show how spread was the capacity of the CIC to place those bonds. Bondholders came from all over France since Marseilles or Lyon to Compièges, Nantes and Sedan.

Somehow the situation was less dramatic than it could seem. Although the chairman of the Company could not obtain from the successive governments the guarantees he asked for, the bondholders could not either obtain the bankruptcy of the company. It was after all a matter of some years to make the net receipts of the railway enough to build the last section and pay all debts.

By the middle of the seventies the equilibrium was finally reached after the normal charges of bonds began to be paid in 1872. The payments of the delayed interests were made after 1875 as the result of an agreement passed with the *CiC* with 48 000 bonds as guarantee. If we look at the shares deposited for the 1876 Assembly we could see that the primitive directors were not the biggest shareholders. Camondo & C with 2000 shares, Paris & Pays Bas with 1500, Le François, Stern & c., Laisne Vergne with about 1000 actions were now the biggest share holders even though this was not immediately recognizable in the directors board. Like Pereire, the Earl of Camondo had peninsular Jewish origin but his family had move from Trieste to Constantinople. He was the chairman of his own bank and has also been director of the *Crédit Foncier Canadien*, of the *Compagnie des Eaux de Constantinople*, of the *Banca Commerciale Italiana* and of the French Gaz Company.

During this very difficult period the Portuguese Government dealt with a railway company that could impeach the opening of the Paris stock market to Portuguese public loans but was unable to help its opening as part of a contract between the two entities. At the end the Portuguese Government only had to give up the tax on railway transportation producing a general raise of 5% in tariff rates. There was now a growing opinion in favour of railway nationalization, and even if the company had always an important politician among its directors the conflicts with the government were common culminating in 1871 with a fight between the director and the chief of the state engineers.

The company's way of defending its receipts did not coordinate with the desire of enlarging the network that inspired the Portuguese engineers. So the national network law of 1879 and the ideas of the company about the growth of its own network were quite different. After showing, in 1873, interest in the construction

of the Beira Alta railway, in 1877 the Company decided to ask for the possibility of a new branch railway. That branch was later transformed in a railway to Madrid via Cáceres. The state authorized this new branch railway without subvention or guarantee. An agreement with the Cáceres phosphates Company, directed by Moret y Prendergast was the first step to achieve the Madrid /Cáceres /Portugal. The links among the three companies, and their boards of directors, were very close. This was highly criticized and some years later became the explicit reason for the minority to come into power.

The Portuguese Railways of Beira Alta Company is born as different firm. The Société Financière de Paris was its constructor and the bank behind the scène was The Société de Dépôts et Comptes Courants. The initial group of CIC had split apart. Armand Donon became the chairman of the Société de Dépôts et Comptes Courants he also was in the Board of the Beira Alta Company. Somehow the scheme behind the Beira Alta was similar to the one behind Royal Portuguese Railway Company but the risks were even bigger and the results less successful. The subscription of the company bonds took place in a very hostile atmosphere and it was very difficult to obtain the authorization for quotation in the Paris stock market. Demanded on the 25 of March 1879 it was only obtained on the 27 February 1880. In order to do the construction of the railway from Pampilhosa to the border, the PRBA issued 86 117 bonds, selling it at 250 FR per unit which produced 21 529 250 FR. To achieve the railway from Pampilhosa to the port of Figueira da Foz 35 000 bonds were issued producing 8750 000 (Ulrich, 1937). This second issue was announced in Paris the 14 of August 1880(AEF ParisB31245).

The shares should have produced 10 000 000 Fr. Since the 27th of April, a letter from Durangel to the French Finance Minister, describes them as fully pay for shares. The total investment was of 63 711061 Fr, including interests paid during the construction. The Portuguese State subsidized the railway with 25 488 690 Fr. From 1879 to 1882 shares and bonds received 5% but in 1883 the company had to ask the *Société Financière* for a loan and could only pay a part of the year interests.

The line opened to the traffic in 1882. The hopes for a better future relied on the fact that this line was the shortest railway connection between Salamanca and the ocean as well as between Lisbon and France. The construction of the railway between the board at Vilar Formoso and Salamanca, in Spanish territory was subsidized by the Portuguese state. It was open in 1886 but at that time 4 342 468 Fr of interests were already in debt and the company could never assume the charges of the investments. Those were the years of better receipts even if the Sud-Express began its voyages in 1895 (Ulrich, 1937).

As a conclusion we can say that those who subscribed the Portuguese railway companies' bonds in France lost money, even if the prices of subscription were low meaning that there were risks to expect. For the banks like *CIC* and *Société de Dépôts et Comptes Courants* there were big commissions from services and interests from short time loans. Those banks had the capacity of placing the stocks and the railway company bonds in a large public. Founders and Directors were also spared by disasters as they received parts of profits during the construction and were very well reward for their work. The boards of directors had important and trained persons and we cannot argue they were unable, or unknown speculators.

Banking System and alliances were very important in the initial phase of a Company although international and national politics had also a certain role. Small countries like Portugal used to impeach solutions that they did not want by creating bureaucratic obstacles or delays.

Even if the railways in Portugal could not reward the capital that was invested in those constructions there is no doubt that they were a source of economic growth.

Appendix

year	Number of bonds per year	Nominal FR	Unity	Effective FR
1861	15 562	7 831 000	232,60	3 619 727
1862	87 068	43 534 000	226,08	19 684 464
1863	70 908	3 5454 000	254,97	18 079 735
1864	23 312	5 095 606	218,58	5 095 606
1865	69 814	34 907 000	184,98	12 914 823
1867	11 350	5 675 000	83,41	946 699
1868	5 049	2 524 500	81,01	410 518
Total	283 063	341 581 500	214,60	60 751 570

Bond 3 % Royal Portuguese Railway Company- 1868

1875	-	-		-
1876	45622	27 311 000		
1877	23 895	11 947 500		
1878	19638	98 190 000		
1879	23366	11 683 000		9 131 560
1880	27459	13 729 500		9 075 936
1881	17339	8 669 500		4 161 848

1882	4 442	2 221 000		1 417 950
Total	444 824			

6-Bonds % Royal Portuguese Railway Company 1874 /1882