PERSIA

PRELIMINARY DISCUSSIONS RESPECTING A TRADE AGREEMENT BETWEEN THE UNITED STATES AND PERSIA

611.9151/39a : Telegram

The Acting Secretary of State to the Minister in Persia (Hornibrook)

WASHINGTON, November 8, 1934—6 p.m.

35. Your despatches Nos. 186 August 22 and 228 October 1. Department is prepared to enter into early negotiations with Persia envisaging the exchange of reciprocal concessions on rugs and automotive products if reasonably assured of prospects of a rapid and satisfactory conclusion. The prospect of establishment of an automobile monopoly in Persia unfortunately complicates the situation.

This Government would be prepared to offer a reduction in the United States import duty on oriental rugs under paragraph 1116 (5) of the Tariff Act of 19302 in exchange for abatement of the various restrictions imposed on the importation into Persia of automobiles, parts, accessories, tires and tubes since 1930; this would involve suitable undertakings with respect to export certificates and import licenses, the sale of dollar exchange, customs appraisal, the limit of valuation for duty-free importation, import quotas and invoicing as well as adequate assurances with respect to the possible establishment of an automobile trade monopoly in Persia.

While the Department is reluctant to insist upon assurances against any monopolization of the Persian automobile trade as a part of such an agreement, it has strong doubts of the practicability of negotiating an agreement without such assurances because of the practical impossibility of reconciling any form of monopolization of the automobile trade with the necessary assurance that the entire American automotive industry will enjoy a full and free opportunity to share in the benefits of the trade agreement, which is a sine qua non of its negotiation.

The Department desires you to discuss the foregoing in strict confidence with the appropriate Persian authorities making clear to them that a reduction in the United States import duty on rugs can be made under the authority of the Trade Agreements Act only in

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1 Neither printed.
3 Approved June 12, 1934; 48 Stat. 943.

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return for reciprocal concessions calculated to benefit American exports, and to inquire as to the specific nature of the concessions, along the lines indicated in the foregoing, which the Persians would be prepared to offer in exchange, so that in the event the latter are found satisfactory this Government may proceed to make public announce-
ment of its intention to negotiate with Persia, as required under the Trade Agreements Act, whereupon it will be prepared to proceed to the detailed negotiations, which in the Department’s opinion should take place at Teheran.

For your confidential information Department considers an ap-
propriate reduction in the United States import duty on oriental rugs within the limitations of the Trade Agreements Act would be a decrease in the specific component of the rate to such figure, but not below 25 cents, as would make the ad valorem rate effective on the bulk of the imports of Persian rugs into the United States at current prices, with possibly some moderate reduction in the ad valorem rate itself.

Report by telegram.

PHILLIPS

611.0231/40

The Persian Minister (Djalal) to the Assistant Secretary of State
(Sayre)

WASHINGTON, November 20, 1934.

MY DEAR MR. SAYRE: In a memorandum which I have received from
the Department of Commerce, stress is laid on the fact that Persian
carpets and American automobiles form an important part of the
commerce between the two countries. These two commodities should
have a leading part in establishing the reciprocity in trade between
the two countries.

The Department of Commerce is desirous of drawing the attention
of the United States Department of Commerce to the facilities made
in favor of the importation of American automobiles, trucks, tires,
and spare parts. In the first place, these articles are exempt from
customs duties, except in the case of private automobiles which are
subject to only ten percent duty when their price exceeds 30,000 Rials.
Secondly, they are exempt from the Trade Monopoly Law, which
would subject them to wholesale valuation on their entry into the
country, as well as to buying a certificate of issue of Persian commod-
ity equivalent to their value. On the contrary, however, a special
regulation has been passed in favor of American automobiles, trucks,
and their spare parts, by which all of these automobiles, and trucks
have to be valued at the cost of their reaching the frontier, without
adding to their value wholesale customs duties and other expenses after their entry into the country, and, at the rate of that valuation, a certificate of issue of interior goods is bought. By this means a forty percent reduction is made in the valuation of the American automobile, truck, etc. Consequently the importer has to pay forty percent less in buying Persian goods in return for his importation, and has to pay less for the certificate of issue.

The memorandum goes on to say that, in spite of all the facilities and the consideration shown by the Persian Government to the United States' principal article of commerce to Persia, the United States Government keeps the important item of Persia's commerce to America, that is to say, the carpets and rugs, under a very heavy customs duty of forty-five percent ad valorem, provided that the duty on each square foot should not be less than fifty percent [cents]; and no consideration is shown to the trade of Persian carpets in the spirit of reciprocity. Such treatment naturally makes the development of trade between the countries almost impossible, and besides, such a prohibitive duty gives an opportunity to certain carpet establishments in America to make their own carpets by machine after the style and design of Persian carpets, and to sell them under the name of Persian carpets at a very low price. This makes the export of Persian carpets almost impossible; and, as yet, no steps have been taken, as is usual, to stop the manufacture of these imitation Persian carpets.

Although the Persian Government made all these facilities in the interest of commerce without making it conditional on a reciprocal basis, they expect the United States Government, well-known for its fair play and determination to break down all the tariff barriers raised in every country, by making fair commercial treaties on reciprocal bases, to show the same consideration to the Persian carpet trade, which is almost breaking down under the heavy, prohibitive customs duties as shown above.

In return for what Persia has done to facilitate American trade in Persia, though Persia rendered all these facilities before asking for similar treatment, it makes it doubly incumbent on the generous commercial policy of the United States to lighten this heavy burden of customs duties on Persian carpets, thus increasing and facilitating the trade between the two countries.

The Persian Government thinks that a thirty percent ad valorem duty is the maximum that the United States Government can put on Persian carpets.

I shall be greatly obliged if you take under favorable consideration the explanation and view of the Persian Department, and let me have your view and proposition on the subject of developing progressive trade between the two countries on a reciprocal basis.

Yours sincerely,

G. Djalal
The Minister in Persia (Hornibrook) to the Secretary of State

No. 274

Teheran, November 28, 1934.
[Received December 26.]

Sir: I have the honor to refer to the Department's telegraphic instruction No. 35, under date of November 8, 6 p.m., and to report as follows:

On November 27th I met Mr. A. H. Massoud-Ansari, Chief of the Division of Economics of the Persian Foreign Office at a diplomatic function and he volunteered the information that the proposal which I had recently submitted for a reciprocal trade agreement was receiving the most careful consideration by the Imperial Persian Government and that a reply to the proposal may be expected in the very near future. He added that in his opinion there is an excellent chance of working out a treaty which will be mutually satisfactory and helpful to both nations.

Respectfully yours,

WM. H. HORNIBROOK

The Assistant Secretary of State (Sayre) to the Persian Minister (Djalal)

Washington, December 5, 1934.

My Dear Mr. Djalal: Your letter of November 20, 1934, regarding a memorandum you have received from the Persian Department of Commerce concerning the trade between Persia and the United States, has been received and carefully noted. Some time prior to the receipt of your letter the American Minister at Teheran had been instructed by telegraph to outline to the appropriate authorities of your Government the views of this Government with respect to the possibility of a reciprocal trade agreement. Accordingly it would appear to be unnecessary for us to enter into any detailed discussion of the matter at this time.

I may say, however, that the Department of State concurs in the opinion expressed by the Persian Department of Commerce that the export of carpets from Persia to the United States and the shipment of American automobiles, parts, et cetera, to Persia, taken together, form such a preponderant part of the trade between the two countries as to justify the two Governments in endeavoring to negotiate a reciprocal trade agreement. I must be frank in stating, however, that our information regarding the present treatment of this trade differs very materially from that expressed in your letter under acknowledgment.

In this connection your Government must of course be aware of the requirement that importers of automobiles into Persia, in order
to receive the import permit necessary under the Trade Monopoly Act, must purchase export certificates at a price of 13.5 per cent of their nominal amount, which amount moreover must be 117.7 per cent of the nominal value of the import permit (since the latter is issued against only 85 per cent of the export certificate), and of the further requirement that 20 per cent of the exchange needed to pay for importation of automobiles must be purchased from the National Bank at a rate which has varied from over 50 per cent to almost 100 per cent higher than the market rate. In addition, our attention has been called to the system employed by the Persian customs authorities in appraising imports of certain automotive products. Without going into details, it will suffice to mention that the method of appraisal appears to create unnecessary difficulties in the importation of such products into Persia. These facts hardly bear out the statements in your letter regarding the “facilities made in favor of American automobiles,” et cetera.

While I should also have to qualify certain statements in your letter with reference to the importation of Persian rugs into the United States, I am of the opinion that this Government will find it possible to make a concession respecting Persian rugs calculated to be of real value, especially when the market for such rugs revives following an improvement in building activity in this country. In return it would be necessary for Persia to make suitable concessions respecting the importation of the products of the American automotive and tire industries, since, as you doubtless are aware, concessions to the trade of other countries under the Trade Agreements Act of June 1934 can be made by the United States only in exchange for reciprocal concessions.

I am hopeful that the reply which we are awaiting from your Government through our Legation at Teheran will be of such a nature as to permit the negotiation of an agreement designed to restore and further develop the trade between our two countries to their mutual advantage.

Sincerely yours,

FRANCIS B. SAYRE

611.9131/42

The Persian Minister (Djalal) to the Assistant Secretary of State (Sayre)

WASHINGTON, December 14, 1934.

MY DEAR MR. SAYRE: I am in receipt of your letter of December 5 concerning the trade between Persia and the United States. I am very glad to learn that the Department of State, as you mentioned in your letter, concurs in the opinion expressed by the Persian Department of Commerce, that the export of carpets to the United States
and the shipment of American automobiles, etc., to Persia, taken
together form such a preponderant part of the trade between the two
countries as to justify the two Governments in endeavoring to nego-
tiate a reciprocal trade agreement.

But, with reference to your statement that your information regard-
ing the present treatment of this trade differs very materially from
that expressed in my letter of November 20, and later on in support
of that you mention buying a certificate of issue in order to obtain an
import permit together with banking exchange transactions at rates
which vary from 50% to 100% higher than the market value, permit
me to state that these things which you mention hardly stand in
contradiction of what I said, because most of these charges and
expenses are the result of banking and commercial transactions which
more or less exist in every country, and have hardly anything to do
with the Government, perhaps with the exception of the exchange
question.

All the importers from foreign countries not only incur all these
charges and expenses, but, in addition, they have to pay heavy customs
duties, which the Persian Government has exempted in favor of
the importation of automobiles, etc., from the United States. While
it is open to the Persian Government to import automobiles, etc.,
from other countries, they particularly do their best to encourage
importation of these goods from America in order to strengthen
commercial relations with your country. Besides, if importers of
automobiles, etc., undertake to export Persian productions in return
for what they import, they can dispense with the charge of a certifi-
cate of issue, etc.

However, I am sending your letter to the Department of Commerce
with all necessary recommendations in favor of coming to a speedy
agreement in the conclusion of a commercial treaty on a reciprocal
basis; and I hope that the concession that you promise to make respecting
Persian rugs will be of such a nature as to make it possible for the
improvement of the export of rugs to this country, particularly in
the case of the minimum charge of 50% [50 cents] per square foot on
cheap carpets.

Sincerely yours,

G. DJALAL

691.456 Auto/62 : Telegram

The Secretary of State to the Minister in Persia (Hornibrook)

WASHINGTON, December 20, 1934—5 p. m.

46. Your 63, December 18, 2 p. m., and 64, December 19, 2 p. m.* The
Department assumes that the Persian Government realizes that, as set

* Neither printed.
forth in the Department's telegram No. 35 of November 8, 6 p. m., any monopoly which discriminates between American automotive interests would probably render impracticable the proposed negotiations for a reciprocal trade agreement. If you have any reason to believe that the Persian authorities are not fully aware of this fact, you are authorized in your discretion again to bring it to their attention.

Hull

691.116 Auto/64 : Telegram

The Minister in Persia (Hornibrook) to the Secretary of State

Teheran, December 31, 1934—noon.

[Received 6:30 p.m.]

70. My 69, December 29, 4 p.m. In answer to additional oral representations made on December 23rd regarding automobile monopoly the Foreign Office communicated yesterday the following oral reply:

1. That the “tendencies” of the Government towards the organization of automobile and carpet monopolies proceeded from the difficulties encountered in the exportation of Persian carpets to the United States and consequently,

2. The Persian Government desired to be informed regarding the precise facilities which the American Government was prepared to offer Persian carpets and whether the Persian Government might be assured that it could count on the granting of such facilities.

The Foreign Office was informed that the answers to the inquiries were to be found in the memorandum left by me on November 13th. It was added that, moreover, the questions raised were in the nature of an anticipation of the formal negotiations for the conclusion of a reciprocal trade agreement and that the question at issue at present appeared to be whether the Persian Government was prepared to enter into the proposed negotiations.

Hornibrook

Persian Claims to Sovereignty in Bahrein*

846B.6363/38 : Telegram

The Minister in Persia (Hornibrook) to the Secretary of State

Teheran, May 23, 1934—10 a.m.

[Received 6:30 p.m.]

18. The following note was handed me yesterday with the request that the same be cabled to the Department. It apparently draws its

*Not printed.

*For previous correspondence regarding oil concessions in Bahrein, see Foreign Relations, 1923, vol. iii, pp. 80 ff.
inspiration from a Cairo despatch printed in the *London Observer* under date of April 15th. The article hinted that the Standard Oil Company concession in Bahrein would shortly be taken over by British interests and the same was promptly made the subject of vitriolic comment by the Persian press. It was vigorously maintained therein that the unquestioned sovereignty of Persia over the islands precluded both British and American interests from obtaining a valid oil concession from any authority other than the Persian Government. . . .

“Mr. Minister: Nearly four years ago it was first brought to the notice of my Government through some foreign newspapers that a British syndicate had acquired a concession in Bahrein for the exploitation of the oil resources in those islands and that it had started work in the concession area. Owing to the fact that Bahrein is an inseparable part of Persia and the sovereign rights of the Imperial Persian Government over the said islands are undeniable, the Persian Government upon hearing of the illegal actions of said British syndicate in acquiring a concession in Bahrein for the purpose of exploiting the oil resources of that region which action was a transgression of the sovereign rights of Persia, hastened to lodge its strong protests through His Britannic Majesty’s Legation at Teheran. A copy of the said protestation was also forwarded to the Chief of the Secretariat of the League of Nations with a view of its being brought to the notice of all members of the League and the above request has been complied with.

According to the recent informations which have been received by the Imperial Government the Standard Oil Company of California has acquired the said concession and furthermore has started its operations and has extracted large quantities of oil.

I have the honor to draw Your Excellency’s particular attention to the above-mentioned information and to state that the above-mentioned concession or any other concession which might have been acquired by the Standard Oil Company or any other company whatever not having been obtained from the Persian Government who have sovereign rights over the Bahrein Islands but from quarters legally incompetent and not having rights to grant such concessions are considered as legally void and my Government while protesting emphatically against such actions reserves all her rights to the profits derived from the oil of such concessions and the damages resulting therefrom.

My Government is desirous that through the customary courtesy of Your Excellency the contents of the present note will be forwarded to the Government of the United States with a request that the Standard Oil Company of California be informed of the same.”

HORNIBROOK

846B.6363/38

*The Secretary of State to the Minister in Persia (Hornibrook)*

No. 20 Washington, June 15, 1934.

Sir: The Department acknowledges the receipt of your telegram No. 18 of May 23, 10 a. m., transmitting, at the request of the Persian
Government, the text of a note relating to the Bahrein oil concession of the Standard Oil Company of California. In accordance with the further request of the Persian Government, a copy of this note has been forwarded to the Company in question.

Careful consideration has been given to the contents of the note under reference, wherein it is alleged that the Island of Bahrein is an inseparable part of Persia, that the concession is regarded by the Persian Government as having been obtained illegally, and that the Persian Government "reserves . . . all rights" to the profits of the concession and in respect to damages in connection therewith. As a result of the Department's study of the conditions under which the concession was obtained and of the political status of the Shaikhdom of Bahrein, it has been decided to make no reply to the note of the Persian Government but to communicate the text thereof to the British Government for its information and such consideration as it may care to give to the matter.

On your part, you should refrain from discussing this subject with any Persian official and, in the event you are approached on the subject, you should state merely that you have forwarded the Persian Government's communication to Washington and that you have received no instructions to make a reply.

For the confidential information of the Legation there is transmitted herewith a copy of a memorandum prepared in the Division of Near Eastern Affairs respecting the Persian claim to sovereignty over the Bahrein Islands. There is also enclosed a copy of a memorandum of a conversation had by a member of the Division with the Persian Minister prior to the receipt of your telegram of May 23.

Very truly yours,

For the Secretary of State:

R. WALTON MOORE

8486.63/38

The Secretary of State to the Ambassador in Great Britain (Bingham)

No. 436

WASHINGTON, June 15, 1934.

SIR: The Department has received from the Legation at Teheran a telegram dated May 23, 1934, transmitting, at the request of the Persian Government, the text of a note relating to the Bahrein oil concession of the Standard Oil Company of California. A copy of this telegram is enclosed herewith.¹

¹Not printed.
²Ante, p. 880.
At a suitable opportunity you should call at the Foreign Office and deliver a copy of the Persian note in question for the information of the British Government and for such consideration as it may care to give to the matter. You may discuss informally with the appropriate officials the contents of the note, reporting to the Department by mail any comments which may be made by them with respect thereto. The Department has been informed in this connection that the substance of the note was made public by the Persian Foreign Minister in the Persian Parliament on May 24, 1934, and that the League of Nations had been requested to circulate its contents to member states.

For your information, the Department has decided, as a result of its study of the conditions under which the concession was obtained and of the political status of the Shaikhdom of Bahrein, to make no reply to the protest of the Persian Government, and it has instructed the American Minister at Teheran to refrain from discussing the subject with any Persian official. No objection is perceived to your mentioning these facts should inquiry be made of you in any conversation which you may have with the British authorities in this matter.

For the Embassy's further information there is enclosed a copy of a memorandum* prepared in the Division of Near Eastern Affairs respecting the Persian claim to sovereignty over the Bahrein Islands.

Very truly yours,

For the Secretary of State:

R. WALTON MOORE

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* Not printed.