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## 'Memorandum respecting Financial Assistance to Persia (continued up to February 5 1903)'

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### About this record

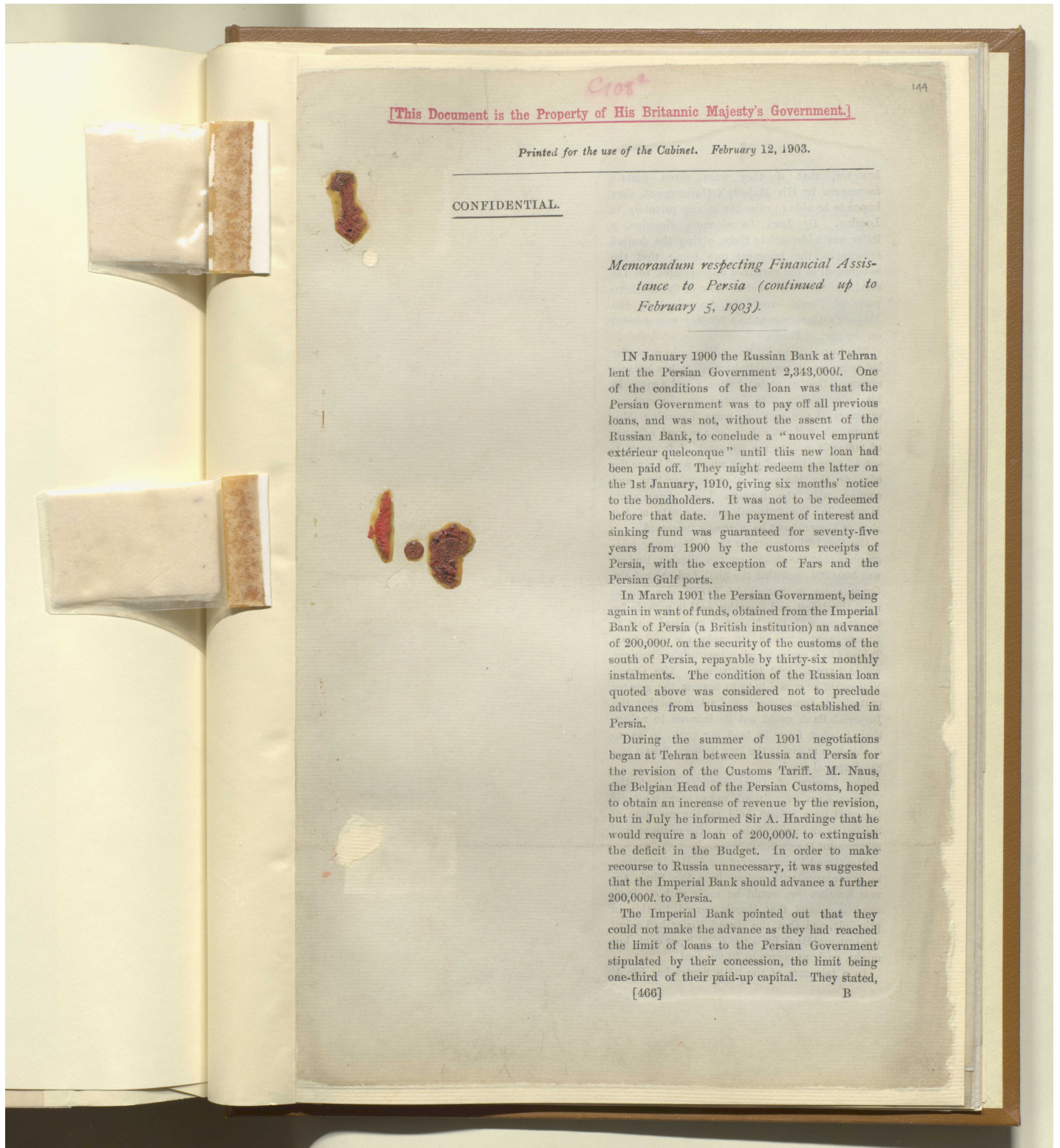
The file consists of a memorandum concerning financial assistance to Persia from Russia and the British Government from January 1900 to 5 February 1903, written by the Foreign Office.

It covers:

- a loan to the Persian Government from the Russian Bank at Tehran, and the financial dependence of Persia on Russia;
- an advance on the security of the customs of South Persia from the Imperial Bank of Persia (a British institution);
- an advance by the Government of India to the Imperial Bank, which the Bank would then lend to Persia.

Two broken seals are attached to the first folio.

'Memorandum respecting Financial Assistance to Persia (continued up to February 5 1903)' [144r] (1/12)



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Printed for the use of the Cabinet. February 12, 1903.

CONFIDENTIAL.

*Memorandum respecting Financial Assistance to Persia (continued up to February 5, 1903).*

IN January 1900 the Russian Bank at Tehran lent the Persian Government 2,343,000*l.* One of the conditions of the loan was that the Persian Government was to pay off all previous loans, and was not, without the assent of the Russian Bank, to conclude a "nouvel emprunt extérieur quelconque" until this new loan had been paid off. They might redeem the latter on the 1st January, 1910, giving six months' notice to the bondholders. It was not to be redeemed before that date. The payment of interest and sinking fund was guaranteed for seventy-five years from 1900 by the customs receipts of Persia, with the exception of Fars and the Persian Gulf ports.

In March 1901 the Persian Government, being again in want of funds, obtained from the Imperial Bank of Persia (a British institution) an advance of 200,000*l.* on the security of the customs of the south of Persia, repayable by thirty-six monthly instalments. The condition of the Russian loan quoted above was considered not to preclude advances from business houses established in Persia.

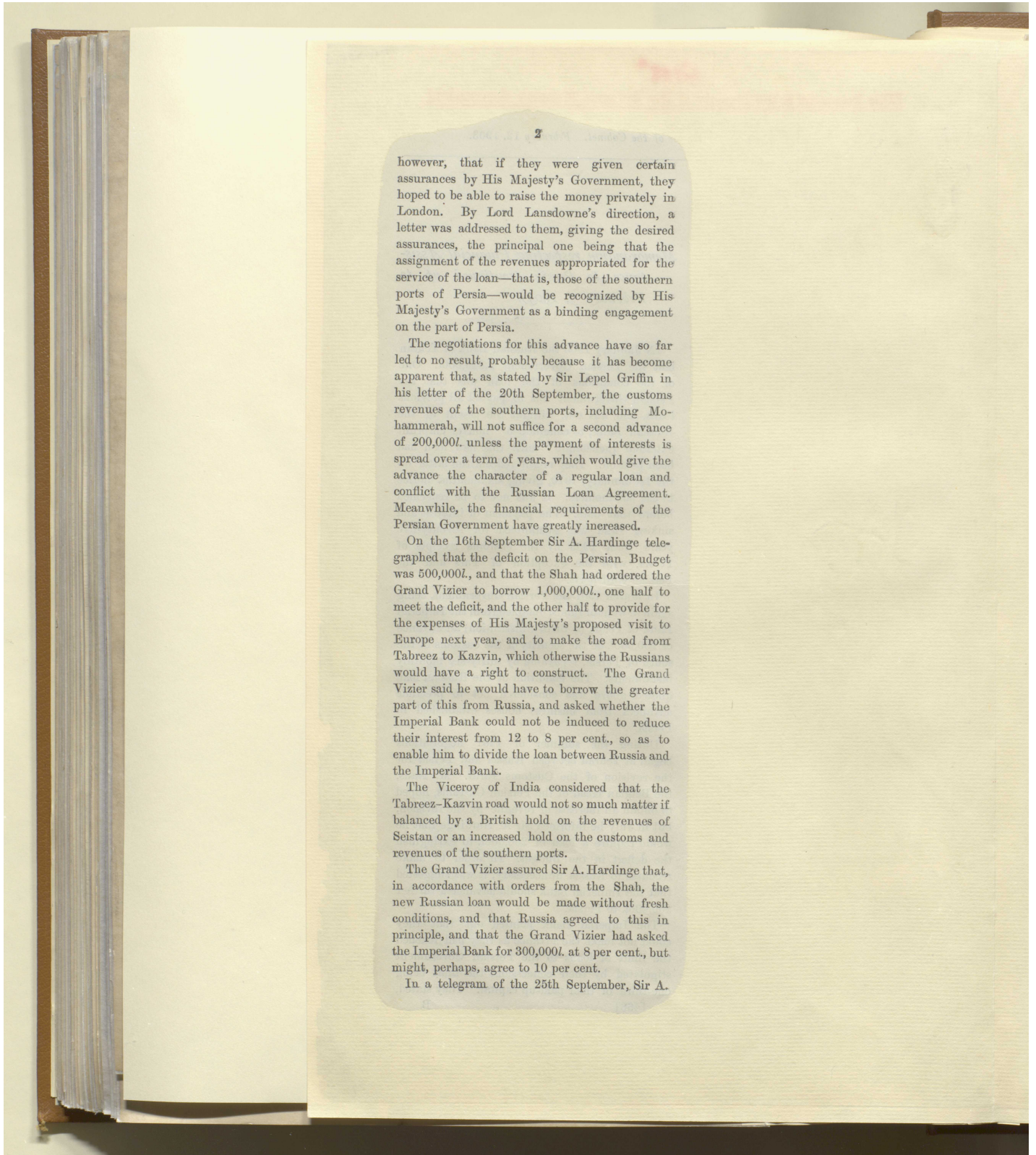
During the summer of 1901 negotiations began at Tehran between Russia and Persia for the revision of the Customs Tariff. M. Naus, the Belgian Head of the Persian Customs, hoped to obtain an increase of revenue by the revision, but in July he informed Sir A. Hardinge that he would require a loan of 200,000*l.* to extinguish the deficit in the Budget. In order to make recourse to Russia unnecessary, it was suggested that the Imperial Bank should advance a further 200,000*l.* to Persia.

The Imperial Bank pointed out that they could not make the advance as they had reached the limit of loans to the Persian Government stipulated by their concession, the limit being one-third of their paid-up capital. They stated,

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however, that if they were given certain assurances by His Majesty's Government, they hoped to be able to raise the money privately in London. By Lord Lansdowne's direction, a letter was addressed to them, giving the desired assurances, the principal one being that the assignment of the revenues appropriated for the service of the loan—that is, those of the southern ports of Persia—would be recognized by His Majesty's Government as a binding engagement on the part of Persia.

The negotiations for this advance have so far led to no result, probably because it has become apparent that, as stated by Sir Lepel Griffin in his letter of the 20th September, the customs revenues of the southern ports, including Mohammerah, will not suffice for a second advance of 200,000*l.* unless the payment of interests is spread over a term of years, which would give the advance the character of a regular loan and conflict with the Russian Loan Agreement. Meanwhile, the financial requirements of the Persian Government have greatly increased.

On the 16th September Sir A. Hardinge telegraphed that the deficit on the Persian Budget was 500,000*l.*, and that the Shah had ordered the Grand Vizier to borrow 1,000,000*l.*, one half to meet the deficit, and the other half to provide for the expenses of His Majesty's proposed visit to Europe next year, and to make the road from Tabreez to Kazvin, which otherwise the Russians would have a right to construct. The Grand Vizier said he would have to borrow the greater part of this from Russia, and asked whether the Imperial Bank could not be induced to reduce their interest from 12 to 8 per cent., so as to enable him to divide the loan between Russia and the Imperial Bank.

The Viceroy of India considered that the Tabreez-Kazvin road would not so much matter if balanced by a British hold on the revenues of Seistan or an increased hold on the customs and revenues of the southern ports.

The Grand Vizier assured Sir A. Hardinge that, in accordance with orders from the Shah, the new Russian loan would be made without fresh conditions, and that Russia agreed to this in principle, and that the Grand Vizier had asked the Imperial Bank for 300,000*l.* at 8 per cent., but might, perhaps, agree to 10 per cent.

In a telegram of the 25th September, Sir A.

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Hardinge expressed the opinion that if, as a consequence of a fresh Russian loan, Persia had to pay off all her debt to the Imperial Bank, not only would the future of the Bank be seriously jeopardized, but that Russia, which would become the sole creditor of Persia, could not fail to acquire a complete and dangerous ascendancy over that country.

On the 20th September Sir Lepel Griffin, of the Imperial Bank, in a long letter reviewing the situation, suggested that the Government of India might advance 500,000*l.* to the Imperial Bank, which the Bank would lend to Persia on the security of the southern customs.

Lord G. Hamilton consulted the Viceroy, who on the 2nd October telegraphed that the Government of India would provide 500,000*l.*, or a far larger sum, on three conditions:—

1. Loan to be secured on customs of Gulf ports and on revenue or customs of Seistan, the inclusion of Seistan being essential.

2. Contemplated change in Persian Tariff to be submitted to, and to receive assent of, Government of India.

3. Persian Government to be informed that His Majesty's Government cannot admit of creation of any rival interests in South Persia and Seistan, and to undertake not to grant concessions of any kind to any foreign Power in area referred to without consent of His Majesty's Government.

Sir A. Hardinge, telegraphing his observations on these conditions, expressed the opinion that Persia would certainly object to Condition 3, as aiming at a Protectorate over Southern Persia. He represented that if the Government of India would lend the Bank of Persia 500,000*l.*, or even 300,000*l.*, this might block the Russian loan and enable Persia to negotiate the Tariff more independently.

Lord Lansdowne, in reply, telegraphed his views on the Viceroy's conditions, which he considered too onerous. So far as His Majesty's Government were concerned, Condition 1 might be accepted. As to 2, the Persian Government might be required to negotiate with His Majesty's Government as well as with Russia. As to 3, His Majesty's Government might remind Persia of their previous intimations with regard to the Gulf ports, Southern Persia, and Seistan, and insist on being given in those parts like advan-

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tages to any conceded to Russia in other parts of Persia.

On the 5th October, Sir A. Hardinge telegraphed urging the importance of an advance of 300,000*l.*, which might later be increased by 200,000*l.* He pointed out that if His Majesty's Government refused to assist Persia, or coupled assistance with political conditions, Persia would be forced to accept the new Tariff without reference to her own interests or to those of Great Britain, and to pay off the Imperial Bank and perhaps drive it into liquidation, and the financial dependence of Persia on Russia would be prolonged, and perhaps a *de facto* Russian Protectorate be brought about. A secret special Declaration which Russia proposed to attach to the Tariff was full of danger. Sir A. Hardinge had not seen this Declaration, but had reason to believe that it provided among other things for the appointment of a Russian Assistant Director-General of Customs at Tehran, and of Russian Customs officials in some of the more important provincial custom-houses.

If Great Britain could increase her financial hold on Persia by gradual advances, she would probably try to go on borrowing from both Banks on account until she regained her financial independence in eight years' time, being ten years from the date of the signature of the Russian Loan Agreement. Political conditions should, in Sir A. Hardinge's opinion, be as few as possible for the present. As regards the Viceroy's conditions, Sir A. Hardinge advised that in (1) the passage about insisting as to Seistan be omitted. As to (2), he said that the Commercial Treaty seemed likely to fall through unless the refusal of His Majesty's Government to assist compelled Persia to surrender. As to (3), the Persian Government would probably give the assurance suggested by Lord Lansdowne. But the advance should be kept separate from Conditions (2) and (3), or, at any rate, they should not be inscribed in the Agreement.

On the 9th October Sir A. Hardinge telegraphed that the Governor-General of Khorassan had intimated that the revenues of Seistan were likely to be pledged to the new Russian loan.

On the same day Lord G. Hamilton telegraphed to the Viceroy that the Political Committee of the Indian Council had on the previous day decided to decline to make the advance. They

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admitted that pecuniary help was well worth consideration, if permanent and important political advantages could be secured. But they thought it incompatible to attempt to secure for the Government of India political and territorial advantages of the kind indicated in the Viceroy's conditions through the agency of a purely financial institution. Such an attempt was not likely to succeed and would form a mischievous precedent, which would hereafter be effectively used against His Majesty's Government.

The Viceroy replied regretting the decision arrived at, and suggesting that the matter should be submitted to the Cabinet. He also suggested that His Majesty's Government should absolutely veto the pledging of Scistan to Russia, and should warn the Shah that a Russian loan accompanied by fresh conditions would strike at British interests and Persian independence, and might oblige His Majesty's Government to reconsider their whole policy towards Persia.

Sir A. Hardinge telegraphed on the 12th October the following summary of the situation for the consideration of His Majesty's Government:—

"Persian loan.

"Persian Government's need of money, and inability to procure it under late loan contract outside of Russia, compels it to submit to any conditions dictated by Russian Government in return for financial aid, and thus renders it Russia's vassal.

"I can only see four remedies:—

"1. Assistance from His Majesty's Government through Imperial Bank of Persia.

"2. A subsidy sufficient to enable Persia to avoid fresh Russian loan till 1910.

"3. An internal Persian loan, secured on southern customs and certain provincial revenues under English, or, if Russia were willing, Anglo-Russian guarantee.

"4. Some friendly arrangement with Russia about Persia.

"All these involve great difficulties, but alternative is to drift, and let Persia become in fact, if not in name, Russian dependency.

"National discontent might, no doubt, produce trouble, obliging Russia to intervene in north and England in south, thus forcing Russia to discuss matters and come to a settlement with us; but we cannot reckon on this.

"I entreat His Majesty's Government to take this question into early consideration.

"It dominates entire Persian situation. Unless

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Persia can somehow be freed from exclusive financial dependence on Russia, continued effective defence by diplomatic methods of British interests in Seistan and Gulf appears almost impossible.

"In a few months, or even weeks, matters may have gone dangerously far. Russian Government has already suggested, in connection with Treaty revision, secret Articles tantamount to Protectorate. These Shah has so far refused.

"I have urged compliance with Persian request for advance on safe security, through Imperial Bank of Persia, so as to relieve her from immediate Russian pressure, and give His Majesty's Government time for consideration of wider question."

In a telegram of the 14th October Sir A. Hardinge reported that the Persian Government had dismissed a British subject, Mr. Maclean, from his post as Master of the Mint, and appointed a Belgian in his place. This was said to be due to Russian pressure in connection with the loan negotiations, the Russian Legation having objected to his British nationality. Sir A. Hardinge asked for explanations. The Russian Government also forced the Persian Government to agree to the monopoly of supplying silver to the Mint being given to the Russian Bank. This will do some damage to the Imperial Bank of Persia. The Russian Minister at Tehran denied all knowledge of these arrangements, but Sir A. Hardinge believed that they were probably made by M. de Witte through the Manager of the Russian Bank at Tehran.

On the 19th October Sir A. Hardinge telegraphed that 10,000,000 silver roubles had just arrived at Tehran for the Russian Bank. The Grand Vizier had asked for the reply of His Majesty's Government to his request for a loan of 300,000*l*. Sir A. Hardinge replied that the difficulties in the way of arranging this advance were very great in view of the Russian Loan Agreement, but that he hoped to hear shortly from Lord Lansdowne.

After consideration by the Cabinet, it was decided to approach the Russian Government on the subject, and His Majesty's Chargé d'Affaires at St. Petersburg was accordingly instructed, on the 28th October, to invite a frank discussion with the Russian Government, and to suggest the possibility of an arrangement by which both Powers might make advances to Persia, secured on the revenues of those portions of the country in which their respective interests predominated.

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Mr. Hardinge spoke to Count Lamsdorff on the 30th October, and left with him a Memorandum of his communication.

Count Lamsdorff on this occasion stated, as he had done at a previous interview on the 27th September, that he knew of no negotiations in progress for a new Persian loan, but said that he would make inquiries of M. Witte on the return of that Minister to St. Petersburg.

On the 3rd November Count Lamsdorff informed Mr. Hardinge that he had ascertained from M. Witte that the latter had received an application from the Persian Government for a loan, had allowed the Russian "Banque des Prêts" to enter into negotiations on the subject, and had even authorized a small advance on account. Count Lamsdorff added that he had communicated to M. Witte the proposal of His Majesty's Government, as embodied in the Memorandum given him by Mr. Hardinge, but that, in view of the actual state of the negotiations, it could be of no practical utility to discuss it.

During a visit which Mr. Hardinge made to M. Witte on the 7th November he alluded to this proposal, and, as his Excellency stated that he had no knowledge of it, handed him a copy of the Memorandum which he had brought with him. M. Witte, after reading it carefully, objected to the proposal contained in it as vague and unpractical, but asked, if His Majesty's Government wished to advance money to the Persian Government, why the English Bank in Tehran did not do so, adding that for his part he would make no objection.

The general result of Mr. Hardinge's discussions, as Lord Lansdowne observed in a subsequent despatch, was to indicate that the Russian Government shared our desire for a complete and frank understanding in regard to Persian matters; that they wished to maintain the agreement existing between the two Powers for the maintenance of the independence and integrity of Persia; that for practical reasons they preferred to abstain from any joint negotiations for simultaneous advances of money to the Persian Government, but that, while they wished to keep separate the negotiations for a loan from Russian sources, they in no way objected to similar assistance being afforded from British sources.



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After some consideration as to the manner in which such assistance could most conveniently be afforded, and the terms most advantageous to the Persian Government be secured, His Majesty's Minister at Tehran was instructed to offer an advance not exceeding 500,000*l.* from the Indian Exchequer, repayable in ten years, or earlier by agreement, secured on the customs of Fars and the Persian Gulf, and bearing interest at 4 per cent., with a sinking fund to be settled later. Sir A. Hardinge was further informed that if the Persian Government desired it, His Majesty's Government would not object to making the advance through the Imperial Bank of Persia as their Agent in the matter.

On the 5th December the Persian Grand Vizier informed Sir A. Hardinge that the Persian Government appreciated the offer, but that they were unable to accept it. The reason given was that, under the Contract made in 1900 with the Russian "Banque des Prêts," the Persian Government was precluded for a period of ten years from raising any foreign loan without the consent of Russia, and that the Russian Government, having been approached on the subject of the advance offered by His Majesty's Government, had refused their consent.

This statement appeared to Lord Lansdowne incompatible with Count Lamsdorff's assurances of his desire to respect the perfect freedom of Persia, and Sir C. Scott was instructed, on the 8th February, 1902, to inquire whether the Grand Vizier had correctly apprehended the decision of the Russian Government, and, if so, on what grounds their objection to the arrangement was based.

The answer of the Russian Government (14th February) was that the exchange of views, to which reference had been made, could only concern proposals for joint financial assistance to Persia from the two Governments, and not the question of a loan from a private Banking establishment. The principle of "freedom of action" being conceded to Persia, it was for her to judge what obligations she should assume in concluding the Treaty with the "Banque des Prêts." The conditions of the 1900 Loan were public. Accordingly, as far as could be judged at present, the revenues serving as security for the 1900 Loan did not seem to be so firmly established that the "Banque des Prêts" could consider indifferent, for

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its own interests, the assignment of other unalienated revenues of the country as security for any new foreign loan.

Lord Lansdowne telegraphed to Sir C. Scott on the 7th March that the reply of the Russian Government did not meet the question which had been put to them. If their answer was to be understood as a statement that they had refused their assent to the Grand Vizier's wish to accept the 500,000*l.* offered by His Majesty's Government because the "Banque des Prêts" had represented to them that the security assigned for the Loan of 1900 was insufficient, then it was necessary to inquire how that statement could be reconciled with the fact that the Bank was at the same moment negotiating for a further considerable loan to the Persian Government. Lord Lansdowne recalled the recent recognition by Russia of the existing Agreements between the two Governments for the maintenance of the independence and integrity of Persia, and pointed out that the limitations placed on the action of that country were incompatible with Russia's own construction of the understanding.

Sir C. Scott embodied these observations in a Memorandum which he communicated to Count Lamsdorff, inviting a frank exchange of views, an invitation to which Count Lamsdorff has never responded.

On the 9th April, the conclusion of the loan was announced in the "Official Messenger." It was described as a 5 per cent. Gold Loan of 10,000,000 roubles (1,000,000*l.*), on the same conditions and security as that of 1900.

From the copy of the loan contract communicated to Sir A. Hardinge by the Grand Vizier in November last, it appears that the loan is, as before, repayable in 75 years, Russia having the right to assume control of future as well as of existing custom-houses on certain conditions if the interest and sinking fund are not regularly paid. The loan may not be paid off before January 1912, during which period Persia is not at liberty to contract any "emprunt extérieur," or to reduce the customs duties, which serve as the security for the present loan, without consulting the Russian Government.

The concession to Russia of the right to construct a road from Tabreez to Tehran has also been granted, but it is stated by the Persian

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Government to have been concluded independently of the loan.

From statements made by the Grand Vizier, it is clear that the loan was absorbed almost at once by the cost of the Shah's journey, the payment of the army and general current expenditure. In November Sir A. Hardinge reported a prevalent belief that scarcely any of it remained, and that the Shah had been compelled to borrow money from a private trader at Baku in order to complete his return journey to Tehran.

Persistent rumours circulated at this time that a new loan was about to be obtained from Russia. The Zil-es-Sultan believed that it was to be for 3,000,000L., and would involve a railway Concession. The Grand Vizier, however, informed Mr. Erskine that nothing but some extraordinary circumstance, such as a third visit of the Shah to Europe, would induce him to resort to further borrowing. At the same time, his Highness admitted that he saw little prospect of paying off previous loans.

A telegram, marked "Private," was received from Sir A. Hardinge on the 13th January, of which the following is the material portion:—

"Naus intimated yesterday, in guarded terms, that Persian Government would be glad if we could assist Imperial Bank of Persia to make advance to them. They must have 300,000L. to 400,000L. by 21st March. I believe that they have tried Russians, who are said to require as a condition Russian, in place of Belgium, employés in the Customs.

"If, however, a loan through the Imperial Bank is still objected to, would you entertain the idea of advance of 400,000L. by Indo-European (Telegraph) Department on royalties and receipts due by it to Persia under Telegraph Convention of August 1901, and secured on general revenues of the line, or, failing and pending these, mail receipts on southern customs? In fact, [on] much the same lines as the advance offered by D'Arcy last spring. Interest 5 per cent., but with condition that should loan be repaid before five or ten years, it should be computed at, say, 15, or perhaps 20, per cent. per year.

"I do not know whether Grand Vizier would dare to accept assistance on these lines, and I have said nothing to him on financial question beyond that I felt sure that we would do what we could to help him; but I think that we should have a proposal ready.

"Customs would bear another loan of nearly 1,000,000L. or 2,000,000L. if those of Gulf ports are pledged to Russia. Of course, the larger sum we could

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invest the better, as making repayment and fresh Russian loans more difficult."

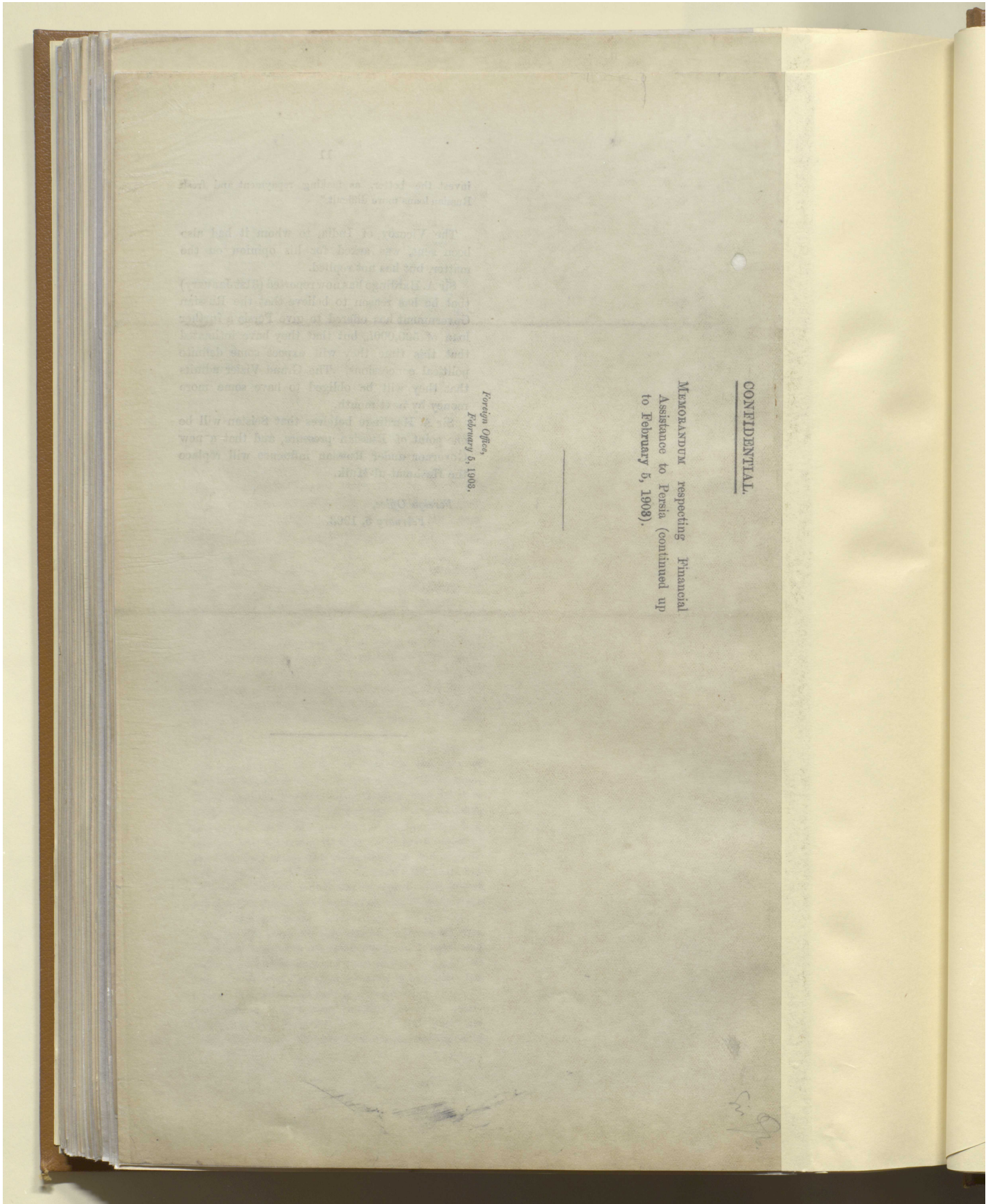
The Viceroy of India, to whom it had also been sent, was asked for his opinion on the matter, but has not replied.

Sir A. Hardinge has now reported (31st January) that he has reason to believe that the Russian Government has offered to give Persia a further loan of 500,000*l.*, but that they have intimated that this time they will expect some definite political concessions. The Grand Vizier admits that they will be obliged to have some more money by next month.

Sir A. Hardinge believes that Seistan will be one point of Russian pressure, and that a new Governor under Russian influence will replace the Hashmat-ul-Mulk.

*Foreign Office,*  
February 5, 1903.

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Assistance to Persia (continued up  
to February 5, 1903).

Foreign Office,  
February 5, 1903.