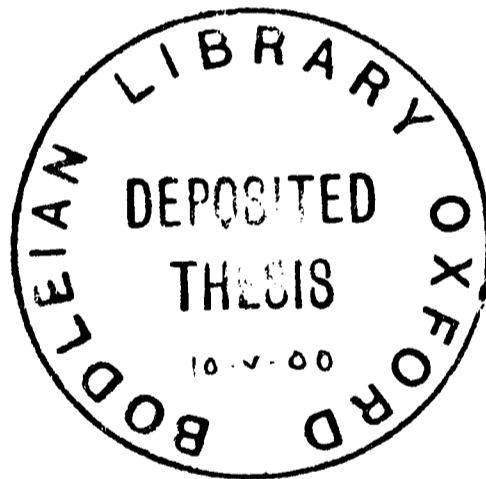


D. Phil. Thesis

**GERMAN FOREIGN POLICY TOWARDS IRAN:
THE CASE OF THE NATIONAL BANK OF PERSIA**



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ABSTRACT

GERMAN FOREIGN POLICY TOWARDS IRAN: THE CASE OF THE NATIONAL BANK OF PERSIA

The objective of this thesis is to show that after World War I, the National Bank of Persia emerged as an ideal accessory to Germany's desire to establish a foothold in Iran. It argues that the main motive behind Germany's involvement in the National Bank was to utilise the bank as a vehicle for extending German national interest into Iran. However, although Germany's main interest was to thereby gain economic influence in Iran, the National Bank provided Germany with a tool that furthered its desire for political participation and the establishing of authority within the spheres of interest of Britain and Russia.

The objective of this thesis is not to establish a comprehensive and complete overview of German foreign policy toward Iran and its interactions with the National Bank of Persia. It aims rather at highlighting a number of events that are significant for an examination of Germany's policy toward Iran and its evolution up until the outset of World War II. In pursuit of this task, emphasis is given to the opinion expressed at the time, as reflected in German sources, rather than the historical reality behind those sources.

German foreign policy towards Iran in the first half of the twentieth century can be divided into three distinct phases. The first phase, which was initiated before World War I, collapsed as a consequence of the war and the Versailles Treaty, achieving little success. The second, more significant, phase began around 1924, and was marked by the creation of the National Bank of Persia in 1927, the appointment of the German national Lindenblatt as its director, the appointment of his compatriot Schniewind as financial advisor to the Persian government, the contracts granted to German companies and consortiums for the construction of the Trans Iranian Railway, the reestablishment of trade relations between Germany and Iran, and the wide-ranging flight concessions granted by the Iranian government to the German company Junkers. The third phase of Germany's involvement with Iran came about with the achievements that resulted from the trade agreements of 1935. From a German perspective after 1933 diplomacy started to replace the role of the National Bank, as the prime agent of Germany's relations with Iran. This phase lasted until the British-Russian invasion of Iran in 1941, and saw Germany lose almost its entire influence over the National Bank, while its influence over trade with Iran had progressively increased.

Germany's foreign political success during the inter-war period resulted in an expansion of its commercial relations, which elevated Germany from a country with almost no trade relations with Iran to its largest trading partner.

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Rashid A. Khatib-Shahidi
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To my parents, with gratitude
In memory of my grandmother Anna Doll

*HOWEVER MUCH SCIENCE THOU MAY ACQUIRE
THOU ART IGNORANT WHEN THERE IS NO PRACTICE IN THEE*

THE GULISTAN (ROSE GARDEN) OF SA'DI
CHAPTER 8, ON RULES FOR CONDUCT OF LIFE, MAXIM 2
TRANSLATED BY EDWARD REHATSEK

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1. Introduction

It is hard to open a newspaper nowadays without being confronted with some new issue relating to developments in the Middle East and more particularly Iran. It is easy enough to make broad generalisations about the reasons for the conflicts we have been experiencing during the past number of decades in the region, but in reality the issue is a complex one. Iran was as much the object of great power interest in the recent past as it is today. Germany appears to be one of few countries that have managed to maintain fairly stable relations with Iran. What we are mainly concerned with here is to learn from history, by going back and analysing the development of events cited in German primary sources that have, partly because of their classification and partly owing to the reunification of Germany, just become available in recent years. This should provide us with a clearer insight into the background of German policy towards Iran.

The objective of this thesis is to show that after World War I, the National Bank of Persia emerged as an ideal accessory to Germany's desire to establish a foothold in Iran. It shall be argued that the main motive behind Germany's involvement in the National Bank was to utilise the bank as a vehicle for extending German national interest into Iran. It will become clear that Germany's main interest was to gain economic influence in Iran in order to generate material gain. However, it will also emerge that the National Bank of Persia provided Germany with a tool that furthered its desire for political participation and the establishing of authority within the spheres of interest of the dominant powers of the region.

Even the most superficial look at these issues raises fundamental questions about German relations with Iran. These include the character of German involvement, its policies toward Iran, and their consequences. The scope of the thesis is confined to the inter-war period, and carries out a critical analysis of the evolution of German policy towards Iran with reference to developments relating to the National Bank of Persia.

a. The scope of the thesis

Before World War I Germany did not maintain significant relations with Iran. The desire to import raw materials from Iran in exchange for German manufactured goods appeared after the war to be the prime attraction for Germany to develop its trade and transport facilities with Iran.

Since German companies had been strongly involved in the construction of the Trans Iranian Railway (1927-1938), this project (monumental for its time) would have rendered itself appropriate for the purpose of looking at German relations with Iran.

However, during the preliminary investigation of the topic it transpired that the National Bank of Persia (1927 to date), and the German involvement in it, was a far more exciting and untouched topic, rendering itself more relevant for the purposes of analysing the development of German relations towards Iran. One main reason for choosing the National Bank of Persia as the vehicle of our investigation was that German nationals were key to its initial development. The first two directors of the bank were German nationals, so were its first vice director and the managers of the majority of the bank's branches. The National Bank established in 1927 contributed significantly to Germany's cause in Iran.

During the period under investigation not only did the bank undergo notable developments contributing to its maturity, but these developments also reflected the stages of the evolution of Germany's relations towards Iran. The National Bank of Persia, which is today known by the name Bank Melli, continues to play a major role for Iran as a financial institution.

With regard to available primary sources, and the above mentioned significance of the National Bank, the thesis will confine itself to the period between the two World Wars. However, emphasis will be given to key events that mostly occurred during the years of the late 1920s and early 1930s.

This thesis aims almost exclusively at highlighting the German government agencies' approach towards Iran. Therefore, it strongly relies on sources originating from the files of a number of key government agencies, including the German foreign office in Berlin and the German ministry of trade and industry. In order also to be able to analyse the effects of decisions made and actions taken by these agencies towards Iran, we shall rely on the diplomatic feedback provided by the communications of the successive German ambassadors to Iran with different government agencies in Germany.

The objective of this thesis is not to establish a comprehensive and complete overview of German foreign policy toward Iran and its interactions with the National Bank of Persia, nor does its scope permit taking into account the undoubtedly crucial role of British and Russian policy. It aims rather at highlighting a number of events that are significant for an examination of Germany's policy toward Iran and its evolution up until the outset of World War II, by the method of analysing a string of developments associated with Germany and the National Bank of Persia. In pursuit of this task, emphasis is given to the opinion expressed at the time, as reflected in German sources, rather than the

historical reality behind those sources. Therefore, the picture given is, from a German point of view, relying on the opinion and perception of leading figures of the time with regard to banking in Iran. This approach will ensure a crucial insight into Germany's handling of Iran that in turn is essential for the study of developments in Iran during the inter-war period, and topics relevant to the period of Reza Shah.

b. Literature survey

What should be established at the very outset is that little scholarly investigation, beyond biographies and descriptive works, has been conducted in this particular field. Hence, it is justified to state that this multidisciplinary thesis is the first of its kind aiming at closing this gap. That is also why the thesis is in essence based upon information provided through the study of primary sources.

The literature reviewed on the broad topic of German-Iranian relations revealed that often only brief attempts had been made to highlight the existence of German influence in Iran. This topic is often referred to within different contexts or just dealt with on the periphery. However, it has never been the sole focus of a study before, with the exception of a small number of publications, including:

I. A 160 page pamphlet in Russian by S. L. Agaev, published in 1969 in Moscow with the title of: "German Imperialism and Iran-Weimar Republic and the Third Reich".

II. A thesis in German by Ahmad Mahrad, published in 1974 in Frankfurt with the title: "*Die deutsch-persischen Beziehungen von 1918-1933*".

III. A further thesis in German by Yair P. Hirschfeld, published in 1980 in Tel Aviv with the title: "*Deutschland und Iran im Spielfeld der Mächte*".

Agaev's work revolved around the demands dictated by Soviet propaganda requirements and does not utilise any German primary sources when looking at German imperialism towards Iran.¹ Mahrads on the other hand utilises an overwhelming number of German primary sources in his dissertation. However, Mahrads's work focuses on the period of the Weimar Republic, and aims at mapping out the advent of German imperialism into non-European markets, by means of a case study of Iran. He discusses, for example, the contradictions arising from controversial German policies and the pursuit of its national interest toward Iran.

Hirschfeld's dissertation presents the most comprehensive study of German-Iranian relations reviewed to date. Hirschfeld focuses his investigation on the period from the Weimar Republic to the British-Russian invasion of Iran on 25 August 1941. Hirschfeld's study highlights the goals pursued by Iran and Germany in their bilateral relations, while at the same time trying to distinguish possible changes in relations during different time periods. Additionally, he explains the role of Britain and Russia within German-Iranian relations.

The remaining literature cited in the bibliography of this thesis, covers sources published during the period between 1886 and 1998. One thing that emerges from the survey of this literature is that the topic of German relations towards Iran has hardly been dealt with, particularly in English literature. Moreover, none of the publications have devoted themselves solely to the exclusive research of this topic.

¹ Hirschfeld, Yair P. *Deutschland und Iran im Spielfeld der Mächte: Internationale Beziehungen unter Reza Schah 1921-1941* (Düsseldorf: Droste, 1980), p. 10.

c. Transliteration conventions

At this stage an explanation of the method of transliteration used within the thesis is necessary. It is not free of compromise and discrepancies although the author has tried to keep these to a minimum. The selection of an appropriate method of transliterating Persian words and names is adopted in two guidelines: firstly to observe established usage in English for a number of familiar, commonly used words; secondly, names and places in Iran are used in the locally common way of spelling. Additionally, whereas the words 'Persia' and 'Iran' are interchangeable, the word Iran has been used to reflect the period commencing with the official change of the country's name in 1935. Moreover, terms and phrases that are not translated into English have been italicised, with the exception of city and company names, and currencies.

2. Persia, the international environment, and Germany's commercial approach

Prior to 1921, two factors operated to encourage German involvement in Persia. The first was Germany's desire to become a major player on the world stage (partly to distract attention from domestic difficulties). The second was Persia's sense of being squeezed between the rival interests of Britain and Russia. Russia wished to extend its influence in Persia, foremost, in order to gain access to the Persian Gulf and Indian resources²; Britain, on the other hand, was anxious to forestall what it saw as a potential Russian threat to India.

As a result, both powers became heavily involved in the region to the detriment of Persia's autonomy. Persia therefore looked to a third power to counterbalance these two. Ideally, it needed a major power that had no direct interests in the region and would therefore pose no threat to Persia's desire for independence, while contributing to its economic development. To Persian eyes, Germany appeared to fit the bill perfectly, although Germany's defeat in 1918 temporarily restricted its ability to project its influence into the Middle East.

In the formation of Germany's relations with late Qajar Persia, German foreign policy was motivated by economic objectives. This section will set the political framework for German foreign policy towards Persia and concludes by mapping out Reza Khan's motives for involving Germany.

² See Sykes, Percy. *A History of Persia* (London: Macmillan, 1951), volume 2, pp. 244-246. The will of Tsar Peter the Great provides a degree of insight into Russian foreign political motives towards the Middle East.

a. British-Russian national interests in Qajar Persia

How Persia came to find its sovereignty surrendered to foreign powers becomes evident when looking at one example of a strategy that enabled Britain and Russia to pursue their national interests in Persia. This strategy is one of 'economic dependency'. With respective diplomatic support, British and Russian entrepreneurs, aware of Persia's economic plight, sought mining concessions and other privileges from its government. By the turn of the century Britain and Russia were exploiting Persia's major resources. In addition Russia tried to increase its influence in Persia by intensifying trade, while Britain tried to counterbalance Russian efforts by taking an interest in the development of communications and the oil industry. To this end the British who had initiated the 'Indo-European Telegraph Department' started developing ambitious railway construction plans which, for strategic reasons, included Persia.

All this points to the fact that Russia and Britain were interested in the economic exploitation (trade and commerce) of Persia. However, there is a further factor that should not be ignored: both also had a political agenda that brought them into conflict. It is clear that, with respect to Persia, Britain and Russia were competing with each other in a race for a superior position or at least a balance of power. With Nasir ad-Din Shah's (1848-1896) visits to St. Petersburg in 1873, 1878 and 1889 the Russians were given an opportunity to step ahead in the race for influence. Russia's hidden agenda becomes clearer through their financial support for the Shah's third trip to Europe.³

³ Nayeri, Mostafa. *Das Bankwesen im Iran und seine Entwicklung* (Köln: Dissertation, 1964), p. 11. Jones, Geoffrey. *Banking and Empire in Iran* (Cambridge: Cambridge University Press, 1986), volume 1, p. 87.

Stronger evidence for Russian intentions is found in its 22.5 million Ruble loan to Persia. During the late 1890s the Persian government was in financial crisis. It needed capital to service its debt and maintain its daily expenditure. Britain and the Imperial Bank of Persia were reluctant to raise financial resources for the Persian government, but by 1898 the British were contemplating a conditional loan of more than £1.25 million. Simultaneously they were blocking foreign loan offers to Persia especially if they represented a threat to British interests.⁴ With the return of Amin al-Soltan to power in 1898 the success of Russian endeavours towards political influence in Persia by means of government loans became evident.

In December 1899, the Russian Foreign Minister Count Mikhail Nikolaevich Murav'ev proposed the final conditions for a 22.5 million Ruble loan to Persia -- a negotiation that took place without British consent.⁵ The terms of this loan called for repayment over the next seventy-five years. By accepting this loan Persia played into Russian hands. On the one hand, one of Russia's conditions was that Persia should not accept any other foreign loans without its approval. On the other, Russia intended to secure its repayment by means of revenues from Persian custom duties except those of Fars and the Persian Gulf ports. If this did not prove sufficient to repay the loan Russia would take over the direct administration of Persian customs.⁶ It thus appears that Russia was trying to control Persia's domestic as well as its foreign policy. This loan was agreed to by the Persian government, represented through General Mirza Reza Khan Arfa od-Dowleh, and

⁴ Jones. *Banking and Empire in Iran*, volume 1, pp. 83-85.

⁵ Kazemzadeh, Firuz. *Russia and Britain in Persia 1864-1914* (New Haven, London: Yale University Press, 1968), p. 324.

⁶ Kazemzadeh. *Russia and Britain*, p. 325.

the Russian Discount and Loan Bank to Tehran in January 1900 in St. Petersburg.⁷ Moreover, a further loan of 10 million Rubles was granted in 1902.⁸

The Russian loan of 1900 took the British by complete surprise. British "Ambassador Sir Charles Scott expressed his government's 'profound astonishment' that the loan had been negotiated without the exchange of views with England".⁹ It was clear that the loan threatened British interests by allowing the possibility of Russian control over Persian finances. Russia now had an assured position as the sole lending source to Persia at least until 1910. Britain could not allow such moves to go unchallenged. The then British Minister in Tehran, Sir Arthur Hardinge, was convinced that the more the Persian government fell into debt to Britain the more would British political influence in Persia increase and Russian influence decrease.

In 1901 the British, encouraged by Lord Curzon, therefore started to negotiate a substantial loan to the Persian government, in return for, among other things, all revenue generated by the Persian telegraph lines and the custom duties collected in the region of the Persian Gulf and of Seistan province.¹⁰ Such a loan would strengthen British influence over areas of strategic importance to India. However, the British proposal did not materialise as it failed to comply with the terms and conditions set by the preceding Russian loan. In October 1901 the Political Committee of the Indian Council rejected the use of Indian funds for loans to

⁷ Kazemzadeh. *Russia and Britain*, p. 325.

⁸ Nayeri. *Das Bankwesen im Iran*, pp. 12-13. Kazemzadeh. *Russia and Britain*, p. 384.

⁹ Kazemzadeh. *Russia and Britain*, p. 326.

¹⁰ Nayeri. *Das Bankwesen im Iran*, pp. 12-13. Kazemzadeh. *Russia and Britain*, pp. 365-378.

Persia.¹¹ Nevertheless, in 1903 and 1904, British loans were successfully negotiated with the Persian government.¹²

After this breakthrough the Persian government was on better financial footing, although not to an extent that would have covered all monetary requirements envisaged by the government. On the negative side it had sourced out much of its control, particularly over finances, to Russia and Britain. It is relevant to examine how Persia dealt with this 'economic dependency'.

b. Persia's protective reaction. The case of a banking concession to Germany

The loss of financial independence led Persia to believe in the usefulness of approaching a third power that ideally could rescue it from its financial dilemma. One attempt of the Persian Government to address its problem was to offer a bank concession to Germany in July 1906.¹³ From a Persian perspective Germany had many positive attributes which made it a natural choice for commercial partnership.

But the Persian banking concession to Germany was not a strategically wise move, since it compromised British and Russian interests. The question arises to what extent Britain and Russia would tolerate actions undertaken by the Persian government that ultimately affected their national interests within Persia.

Both Britain and Russia were aware of the financial potential behind German projects in the Middle East. From a German point of view a bank in Persia would

¹¹ Jones. *Banking and Empire in Iran*, volume 1, p. 89.

¹² Jones. *Banking and Empire in Iran*, volume 1, pp. 89-91.

¹³ Martin, Bradford. *German-Persian Relations 1873-1912* (Haag: Mouton & Co. s'Gravenhage, 1959), pp. 107-120.

represent an essential tool in ensuring German success in trade and commerce.¹⁴ However, what Britain and Russia probably did not expect from a comparatively weak third power was its audacity in entering their historically claimed areas of interest. This move could be interpreted as German disrespect for the already established balance of power in the region. Alternatively such a move signalled the rise of a bold contender determined to achieve its objectives.

In both cases the intensity of the British-Russian reaction was in accordance with the threat to their individual interests arising from the negative implications of a German bank in Persia. Britain feared the loss of power for the Imperial Bank of Persia due to German competition. The same factors worried the Russian-controlled *Banque d'escompte et de prêts de Perse*. In the case of a third power penetrating their spheres of interest, it is reasonable to expect initial discontent and disapproval reflected by general hostility towards any German enterprises, regardless of their value for Persia.

Fortunately for Britain and Russia neither the *Orientbank*, established in 1906, nor the *Deutsche Bank* showed any serious interest in expanding their business into Persia.¹⁵ At this stage the decision over a German bank was largely based on the notion of commercial profitability, overriding any political motives. From the German bank's point of view investments in Persia were considered too risky owing to Persia's political fragility and unpredictability and to the lack of commercial securities for the repayment of loans.

This situation gave both Britain and Russia time to take some preventive steps, first, against German attempts to establish itself in Persia, and second, in

¹⁴ From a British-Russian perspective a German bank implied the loss of power to British and Russian banks.

¹⁵ Schöllgen, Gregor. *Imperialismus und Gleichgewicht* (München: R. Oldenbourg Verlag, 1984), p. 227.

preventing Persia from transferring any control to Germany. It is patent that both powers began to recognise the first signs of the new German Middle East policy. As a consequence the need to secure their power and authority, and to protect commercial investments in Persia became evident to Britain and Russia.

Fortunately for Britain and Russia the project was abandoned, owing to the low commercial value of a German bank in Persia for the investing banks and its hostile reception. However, this was a narrow encounter since the success of a German bank in Persia might have had serious implications for Britain and Russia. This at the least triggered Britain and Russia into recognising Germany as a contender.

In the event of commercial profitability, this project was an ideal opportunity for Germany to establish itself in Persia. This translates to a simple formula which was representative for Germany's Middle East policy during the early periods of this century. Where there were commercial opportunities, there was German interest; where Germany could not gain financial benefit there may have been a will but little incentive to justify investment.¹⁶ Perhaps this formula resulted in part from German experience in Africa.

It is of interest to trace what preventive measures by Britain and Russia could have resulted from the German impact on Persia at this early stage. Both countries must have acknowledged that Persia was using Germany to drive a wedge between their established power in Persia. As both started to address their Persian problem more intensively, the awareness of a third, rather small but threatening contender contributed to closer bilateral consultation. The German threat called

¹⁶ The German school in Tehran, established in 1907, is an example of this. One aspect leading to its founding, from a political point of view, was that of a German 'good-will investment' with regard to further relations with Persia, particularly after the rejection of the banking concession by Germany.

for closer co-operation and provided a motive for the division of Persia into spheres of interest, discouraging other powers from establishing themselves.

A further effect of possible German penetration attempts resulted in a slight shift in the British and Russian 'Persia-policy' which now aimed at developing Persian finance and industries. The theory behind such a shift was that the sympathies of the Persians could be won through the generation of relative wealth. In a more substantial sense this move would provide Persia with a more solid economic base and provide income for the government. Thus, the need for loans would be less, which also meant less demand for a third power granting loans in exchange for concessions.

c. Germany's expansion into the Middle East

Historically, the visit of Kaiser Wilhelm II to the Middle East and his declaration of support, friendship and protection for the Islamic world marked a significant change from the non-confrontational, non-involvement foreign policy of *Reichskanzler* Otto von Bismarck.¹⁷ This shift, became known as *Weltpolitik* or *Neuer Kurs*, and was intended to ensure Germany '*ein Platz an der Sonne*'.¹⁸

The main objective of *Weltpolitik* was to seek colonies and turn Germany into a world power by looking for new sources of raw material, opening new markets for the sale of manufactured products and creating new opportunities for capital investment. The upholders of this colonial policy were the Kaiser and the permanent secretary of his navy von Tirpitz together with the organisation known

¹⁷ See Martin. *German-Persian Relations*, Chapter III and IV. For further reading on the Weimarer Republik see Fischer, Fritz. *Griff nach der Weltmacht* (Düsseldorf: Droste Verlag, 1961), pp. 136-137.

as *Alldeutscher Verband*. This organisation was created in 1891 as a reaction to the German-British barter agreement of 1 July 1890, whereby Germany exchanged its East African colony Zanzibar for the North Sea island of Helgoland. The main goal of the *Alldeutscher Verband* was to increase German national power, reduce the gap between national identity and imperialism, promote Germany as a world power and pursue a more aggressive colonial policy. But it did not take long for the German Empire to realise the marginal economic success it was having with its colonial policy.

However, at the turn of the century Germany's expansion policy faced major obstacles. This was partly because by this time the majority of the world was already divided between world powers and partly because Germany's expansion policy, used as a political tool, had created hopes that did not materialise. The German experiences with colonisation and implementation of influence abroad were discouraging. Frustration in this area intensified the desire for success and resulted in more extreme policies.¹⁹

Moreover, Germany's industrial success made the supply of raw materials increasingly important. As the demand for raw materials increased, prices rose and Germany became more and more dependent on expensive imports of raw materials. In a quest for survival, German industry needed to look for primary resources in order to secure future supplies for the needs of a growing population and export market. In addition, the more German industry was able to produce, the more difficult it became to find export markets for its products. This led to fears of competition from countries that had access to cheap natural resources.

¹⁸ Fischer. *Griff nach der Weltmacht*, p. 17.

¹⁹ Schöllgen. *Imperialismus und Gleichgewicht*, p. 435.

Hence, countries that had the potential for supplying Germany with cost-effective natural resources had to be approached.²⁰

The Middle East was an obvious choice, and one for which Germany was prepared to pay a high political and economic price. The most important power for Germany was the Ottoman Empire. German interest lay largely in the heartland of Turkey, since it alone offered what it needed. The reasons for the German attraction to the Ottoman Empire were that it was hardly explored, it was rich in natural resources and provided an ideal export market for German goods. Furthermore, its geographic and strategic location contributed favourably to the German cause. These benefits were followed by more pragmatic considerations, such as, for example, the practicalities in logistics and the opportunities for investment in areas such as commercial and strategic transportation. Organisations like the *Alldeutscher Verband* even had plans for the migration of German citizens to the region.

The plan for a Baghdad Railway²¹ in 1898, linking Turkey with the Persian Gulf, was the first major German project resulting from Germany's expansion policy in the Middle East.²² This unprofitable commercial enterprise of the *Deutsche Bank* and its associates was to achieve political significance particularly in the light of *Weltpolitik* and the visit of Kaiser Wilhelm II to Constantinople. In the same year, the *Deutsche Bank* hoped to connect Tehran and Baghdad through an additional railroad track.²³ This plan was followed up by the first Baghdad Railway concession on 23 December 1899.

²⁰ Schöllgen. *Imperialismus und Gleichgewicht*, p. 453.

²¹ Barth. *Die Deutsche Hochfinanz*, p. 121. Footnote one provides an extensive literature list on the Baghdad Railway Project.

²² Schaefer, C. A. *Die Entwicklung der Bagdadbahnpolitik* (Weimar 1916), p. 17.

²³ Barth. *Die Deutsche Hochfinanz*, p. 123.

A bank represents a key tool for the promotion of trade between Germany and the Middle East. Based on this notion, four years earlier than the Baghdad Railway concession, in 1896, the *Deutsche Palästina und Orient Gesellschaft GmbH* was founded in Berlin. The mission statement of this enterprise was to promote German economic interest in Palestine and the Middle East as well as actively taking part in ventures serving German objectives. Accordingly, on 1 May 1897, the first branch of the *Deutsche Palästina Bank* was established in Jerusalem.²⁴ In the high spirit of the German Middle East policy, this bank was to meet the commercial demand for a European merchant bank. In line with the growing business opportunities, the monetary power of the *Deutsche Palästina Bank* grew steadily throughout its short history.²⁵ Branches opened in key locations and as one of only four significant banks in the region, it became an integral part of German economic activity and developed a growing interest in investments, commercial penetration and political schemes.²⁶

In 1911 Kaiser Wilhelm managed to take Germany's move towards the Middle East a step further. At the Potsdam conference, he succeeded in obtaining Russia's recognition of Germany's commercial interests in Persia. This signifies a change from 1910: Russia now not only tolerated the Baghdad railway project but it acknowledged Germany's commercial interest in its own Persian sphere of interest.

The 1903 establishment of the Baghdad Railway Company, the establishment of the *Deutsche Palästina Bank* and Russian sympathies for German projects in

²⁴ Gross, Nachum T. 'Die Deutsche Palästina-Bank 1897-1914', *Zeitschrift für Unternehmensgeschichte*, 33. Jahrgang (Heft 3/ 1988), p. 150.

²⁵ Gross. *Die Deutsche Palästina-Bank 1897-1914*, p. 155.

²⁶ Gross. *Die Deutsche Palästina-Bank 1897-1914*, p. 174.

Persia after 1911 were all elements of a German Middle East policy which foreshadowed the extent of German intent towards Britain.²⁷

All in all we can say that the shift in German national policy also led to a change of German interests towards the Middle East. As will be made clear, these changes opened Germany's way to Persia.

d. The British-Russian conflict

In the early 1920s Britain held a dominant position in Persia, despite the Persian government's resistance. Britain aimed at securing its influence in Persia by systematically managing to outmanoeuvre rival powers and undermining Persia's sovereignty.

The following sequence of events served British interests in Persia. The period until 1907 was marked by Anglo-Russian rivalry and the emergence of Germany as a new player. In 1907 an Anglo-Russian agreement was reached which aimed at the co-operation of Britain and Russia in pursuit of their respective economic and political goals in Persia. At the St. Petersburg Convention of 1907, Russia and Britain decided to resolve their differences by clarifying their positions. In order to prevent future conflict they decided to divide Persia into spheres of influence.

The division of Persia brought about questionable results for the British and Russians, Germany's situation, and the Persian government. There are good reasons for arguing that Persia's division into spheres of influence did not solve many problems in the medium term but, on the contrary, led to frustration, hostility and devastation.

²⁷ Kazemzadeh. *Russia and Britain*, pp. 596-598.

World War I (1914-1918) and Germany's consequent defeat changed the course of international foreign policies. Britain saw the ground prepared for its hegemony in Persia. Due to the February and October revolutions of 1917, the Russians were temporarily forced to give up their Persian interests, since they were financially and politically weak and also too preoccupied with internal affairs to maintain a strong position in Persia. They nevertheless tried to sustain a degree of economic and diplomatic relations with a weak and defeated Germany. But by the end of World War I, despite some economic activity by German entrepreneurs such as Thomas Brown, Germany's diplomatic relations with Persia had also declined.

Ultimately, the decline of *Weltpolitik*, the economic weakness of post-war Germany, the political weakness of post-revolution Russia, and the economic and political weakness of an unstable and incompetent Persian government allowed Britain to dominate Persia. This resulted in the ratification of the controversial British-Persian treaty of 1919.

e. Persia's division into spheres of influence and the role of oil

We noted earlier that by 1907 Britain aimed at ending its conflict with Russia. It wanted to keep Persia as a buffer zone protecting its interests in India.²⁸ Both Britain and Russia had strong reasons for maintaining their influence in Persian politics. In this, Britain could not afford to have Russia in opposition. Neither could it tolerate a German-Russian alliance. This led to the 1907 agreement, by

²⁸ Kazemzadeh. *Russia and Britain*. See for a detailed account of Persia, imperialism and foreign powers from 1864 to 1914.

which both Britain and Russia aimed at taking control and avoiding a possible clash over their positions in Persia.

After the division, the Russian zone stretched across the north and the British zone across the south-east of Persia, leaving a central neutral zone for the activities of both powers. Wilhelm E. Griffith comments: "The Russian sphere, which included Tehran, was greater than the British, and Russian interference in Iranian politics was more direct and brutal. Thus, Iran became the victim of *détente* between its two principal foreign enemies, and its nationalism became all the stronger because it was more frustrated."²⁹

At the outset of the 1907 division, Britain and Russia seemed to pursue a policy conducive to the 'peaceful penetration' of Persia. This seems clear from the following objectives of the British and Russian governments. Russia, with its northern zone, saw a chance of peacefully achieving access to the Persian Gulf and the Indian markets. On the other hand, the existence of Britain's southern zone prevented Russia from achieving this very goal. Britain's objective was to protect British India and to preserve its dominance in the region through a double containment policy.

The 1907 agreement was successful in avoiding direct conflict between Britain and Russia; however, it did not stop Russia's expansionist policy in Persia.³⁰

Although the 1907 agreement was largely a political instrument it also affected commercial matters. We can say that a further objective behind the division of Persia into spheres of interest was the concern for the development of trade and commerce in each zone. Such development ensured financial rewards, at the same

²⁹ Griffith, William E. 'Iran's Foreign Policy in the Pahlavi Era', in George Lenczowski, ed., *Iran under the Pahlavis* (Stanford: The Hoover Institution Press, 1978), p. 367.

time it helped Britain and Russia to establish themselves in trade and commerce to an extent that would inhibit the participation of countries like Germany.³¹

However, Russia like Britain largely neglected the economic development of Persia. Russia's economic position did not allow any grand-scale foreign development, and since Britain had a large array of promising colonies and spheres of interest, the political instability of Persia did not encourage greater British investment either, with the sole exception of the oil industry.³²

Eight years after Wilhelm Knox D'Arcy's oil concession of 1901³³, the British launched the Anglo-Persian Oil Company, known today as British Petroleum, to secure their economic and political influence in the area.³⁴ Through the efforts of Winston Churchill in 1914, the British government bought a majority of the company's shares. At this time Churchill was First Lord of the Admiralty, and his main goal was to ensure that the Royal Navy had a sufficient supply of oil.³⁵ Naturally, this added an economic factor to the strategic and political significance of Persia, and made the British even more dependent on and interested in strengthening their position in Persia. In 1907 the British in particular thus had legitimate reasons for thinking that they could gain control over Persia through its division into clearly defined spheres of interest. Yet however promising the British plans were, the weak Persian government reacted against British control over the

³⁰ Platt, D. C. M. *Finance, Trade, and politics in British Foreign Policy 1815-1914* (Oxford: Clarendon Press, 1968), p. 236.

³¹ Platt. *Finance, Trade, and politics in British Foreign Policy*, p. 238.

³² Report titled *Die Aufschließung Persien*. August 1921, nine page report, PAAA, Department III-Economy, R92527, pp. 1-2.

³³ William Knox D'Arcy had obtained an oil concession for £ 200,000 from Muzaffar ad-Din Shah (1896-1907) in 1901.

³⁴ Platt. *Finance, Trade, and Politics in British Foreign Policy*, pp. 239-242.

³⁵ Strobaugh, Robert B. 'The evolution of Iranian Oil Policy, 1925-1975', George Lenczowski, ed., *Iran under the Pahlavis* (Stanford: The Hoover Institution Press, 1978), p. 201.

oil industry and Russian influence in the north through an outbreak of nationalist feelings that sought liberation.

The division of Persia into spheres of interest did not leave much space for the involvement of other countries, and accordingly resulted in a setback for German political influence in Persia. During this period, also as a result of the Potsdam agreement, Germany was carefully avoiding political confrontation with Britain and Russia, and for this reason made no real attempt even to participate in the financially attractive Persian oil business.³⁶ A note to the Persian government on 7 April 1910 had also warned them that Britain and Russia would not tolerate any concessions to a third party, as this would infringe on their national interests.³⁷ In this, both Persia and Germany were in a similar situation, since both had to give way to British and Russian influence.

It appears then, that the supreme hegemony of Britain and Russia resulted in some Persian nationalists and democrats developing a resistance born out of nationalism. At the same time, these people started turning to Germany for support.³⁸ During World War I a number of Persian members of parliament were already pro-German, and when the Russians marched towards Tehran in 1915, some of these nationalist pro-German parliament deputies left Tehran to set up a defence committee against the Russians.³⁹ This resulted in the Russians moving

³⁶ Hirschfeld, *Deutschland und Iran im Spielfeld der Mächte*, p. 31.

³⁷ Report titled *Die Aufschließung Persiens*. August 1921, nine page report. PAAA, Department III-Economy, R92527, p. 1.

³⁸ See also Olsen, W. J. *Anglo-Iranian relations during World War I* (London: Frank Cass, 1984). Gehrke, Ulrich. *Persien in der Deutschen Orientpolitik während des Ersten Weltkrieges* (Stuttgart: W. Kohlhammer GmbH, 1961). Keddie, Nikki. *Roots of Revolution: An Interpretive History of Modern Iran* (New Haven and London: Yale University Press, 1981), p. 78.

³⁹ Mehrad, Amanat and Keddie, Nikki. 'Iran under the later Qajar's, 1848-1922', Peter Avery, Gavin Hambly, and Charles Melville, ed., *The Cambridge History of Iran, From Nadir Shah to the Islamic Republic, volume VII* (Cambridge: Cambridge University Press, 1991), p. 208.

more forces to the north, causing the dissolution of the newly elected provisional third Majlis in Qom. As a consequence, the Persian government was even more paralysed by the existence of two 'governments'. The first was Ahmad Shah's regime in Tehran and the second the provisional government in Qom. Neither of them asserted much authority in a divided Persia.⁴⁰ The nationalist pro-German deputies later received financial aid from Berlin to organise tribal forces against the hostile actions of Britain and Russia, but they were too weak. Some leaders fled to Germany in order to carry on propaganda for a weakened Persian government that was in the stranglehold of Britain and Russia.

Although partially successful, especially with regard to British oil policy, the 1907 agreement did not live up to the expectations of Britain and Russia. Furthermore, German designs for Persia had to take second place to German relations with Britain and Russia. We may also conclude that the 1907 agreement provoked hostile feelings amongst Persians. These feelings were underlined by the goals of the Constitutional Revolution that aimed at Persia's political independence. This resulted in the rejuvenation of nationalist feelings, resistance against foreign dominance and a stronger desire for commercial relations with Germany. The advance in German relations with the Middle East will form the topic of the next section.

f. The dynamics of German '*Weltpolitik*'

The increasing disintegration of pre-World War I German foreign relations was to isolate Germany even more after the war. The architect of German Middle East policy was Marshall von Bieberstein. He was German ambassador in Turkey

⁴⁰ Keddie. *Roots of Revolution*, pp. 79-80.

from 1897-1912. The entry of Turkey into World War I also ended a chapter of German Middle East policy, which not long before had been perceived as the only way to ensure Germany's peaceful political and commercial overseas co-operation with Britain and Russia.

As mentioned, the creation of the Anatolian Railway Company in 1889 was the first successful German venture towards a *Weltpolitik*. This railway project also showed that Germany began its involvement in the Middle East through a commercially oriented approach rather than with political considerations.

The consequences of Germany's shift from Bismarck's non-involvement policy to a policy revolving around its involvement in the Middle East was not well received by Britain. From a British point of view Germany presented a threat not only because of its movement into regions that were traditionally British or Russian domains, but also because of the uncertainty and unpredictability of future German moves and objectives. This situation brought tension into Germany's relations with Britain in Europe.

It is of interest to see how Britain reacted to Germany's *Weltpolitik*. From a pragmatic point of view Britain had to deal with the difficulties resulting from the Boer conflict in South Africa, differences with France regarding Central Africa, and ongoing rivalry with Russia. Consequently Germany was not high on its agenda. Thus, Britain's pre-occupation with other matters provided Germany with a window of opportunity to pursue its expansion policy in the Middle East with less resistance from Britain.

But the German approach clearly indicated its determination to enter the scene on its own and create the image of a serious world power. The naval arms race with Britain and independent diplomatic negotiations with Russia underline this factor. It can be argued that the occurrences surrounding the Baghdad Railway

concession represented a further indication of the determination and extent of German involvement in the Middle East.

The Baghdad Railway Project incorporates elements that illustrate the wide political and commercial implications of foreign involvement in the region and the conflicts of interest arising between the major powers involved. The antipathy of the British public in 1903 towards this project may also have translated into British disapproval of German involvement in the Middle East. From a German point of view the initial success of the German initiative in the Baghdad Railway Project was also viewed as a German success in expanding its influence in the region.

However, new and unpredictable challenges awaited Germany's *Weltpolitik*. First came the fall of Sultan Abdul Hamid in 1909 following the Turkish revolution of 1908. Turkey had been the centrepiece of German Middle East policy. This was followed by Germany's predicament, in the same year, arising from Bulgaria's declaration of independence, which resulted in Austria-Hungary's annexation of Bosnia-Herzegovina. Germany as a member of the Triple Alliance found itself faced with a potentially hostile Russia. Furthermore, since in 1911 Italy invaded Tripoli and Cyrenaika, Germany saw itself in opposition to Britain and France. Its involvement in the Morocco crisis of 1911 spurred British and French opposition to *Weltpolitik*. At this point it became obvious that Britain had distanced itself from Germany, but what could result from this significant British move?

Germany started to look at three principal avenues of approach. It could pursue its *Weltpolitik* with determination and without involving Britain and Russia in its plans. As its relations with Britain had reached a deadlock, it could pursue plans to improve its relations with Russia. Germany could consider its relations with Britain so important that it could shift its foreign political priorities to a

degree that would assist to reduce the threatening tension which had built up between the two countries.

With the example of the Baghdad Railway Project it is quite certain that Germany was determined to pursue its national, commercial interests and to keep a 'foot in the door' with regard to its expansion plans for the Middle East. Germany had already developed plans for further commercial enterprises in Persia. But Persia in particular was under the strong influence of Russia and Britain, particularly after Persia's division into spheres of interest, which minimised German opportunities for involvement.

It is evident that Germany could not afford to maintain an independent position for long. At this time Germany was facing stronger political opposition from Britain than from Russia. At the Potsdam Conference of 1911 Germany reached an agreement with Russia by which Germany was not to seek enterprises in the Russian sphere of interest in exchange for Russian sympathy towards the Baghdad Railway Project. This move of Germany towards Russia as well as Russia's support for the Baghdad Railway Project naturally increased the tension between Britain and Germany. Germany had not managed to solve its problems with Russia, nor had it managed to negotiate a way out of its political dilemma with Britain.

Neither Germany's determination to pursue *Weltpolitik* in the Middle East or its bonds with Russia sufficed to secure its future national and commercial interests. Germany's foreign policy gradually started to target improving its relations with Britain. It was not until May 1914 that German-British negotiations led to the ratification of several contracts. These contracts regulated shipping on the Euphrates and Tigris rivers, co-operation on the Baghdad Railway Project, the

extension of the British Smyrna-Aidin-Railway and an oil concession in Mesopotamia.⁴¹

In summary one could conclude that in the period from the turn of the century until 1914 Germany neither had the political power or the financial resources to pursue its *Weltpolitik* without support from Britain and Russia. However, Germany had ambitious plans and was determined to succeed and not to withdraw under external pressure. Germany's initial success with the Baghdad Railway Project, its good ties with Turkey and its enterprising plans for Qajar Persia looked promising. German determination and in consideration of its tense relations with Britain, in 1911, made it turn to Russia. But, Germany's turn towards Russia was largely based on the desire to have a free hand in the Baghdad Railway Project rather than to seek any long-term understanding or even co-operation with Russia. In contrast to this, it appeared to give priority to its relations with Britain.

Germany seemed to have learned a lesson from recent experiences with Britain and Russia in the Middle East and its less successful enterprises, particularly in Africa. As a result Germany was now prepared to shift its policy of confrontation to one of co-operation. There are two main explanations for this German shift. One is that Germany saw a policy of co-operation with Britain as far more beneficial to its expansionist plans and the goals of *Weltpolitik*. The other is that a venture like the Baghdad Railway Project involved such high levels of investment, experience and competence that Germany needed support if the project was to be completed

⁴¹ Schöllgen. *Imperialismus und Gleichgewicht*, p. 429.

successfully. From its long involvement in the Middle East, Britain had the expertise and financial potential Germany was looking for.⁴²

What confronted Germany did not allow for an easy solution, but it called for some type of action. We have shown that Germany broke out of its isolation by pursuing commercial growth in Turkey. The Baghdad railway was a respectable tool in reaching this objective if only it had not threatened Britain and Russia. Germany saw itself confronted with such adversaries that it contemplated leaving its individualistic approach in favour of better results through co-operation.

g. German activities in Persia during World War I

At the outset of World War I the ambitious German plans sought influence in the Islamic world from Lahore to Casablanca. Looking back to these plans and the results they achieved it is not difficult to conclude that they were not successful. This may have been because Germany underestimated its own and its allies capabilities and military strength as well as the resolve and resistance of its declared enemies.⁴³ Investigating the background of these results draws our attention to the institutions and personalities responsible for Germany's Persia policy.

A major influence behind the separation of Germany's Turkey and Persia policy was *Hauptman der Reserve* Nadolny. He had promoted the idea that if the Turks refused to co-operate, Germany should not hesitate to pursue its objectives unilaterally in Persia. The German Foreign Office supported Nadolny's plan and soon German and Turkish efforts were at odds. The open rivalry made an effective

⁴² Schöllgen. *Imperialismus und Gleichgewicht*, p. 430.

⁴³ Fischer. *Griff nach der Weltmacht*, pp. 143-148.

partnership almost impossible. This conflict had a most significant consequence for Germany, as for the first time, it pursued an independent Persia policy.⁴⁴

In 1915 Nadolny supported the idea of establishing a Persia committee following the model of the already existing German-India committee. The idea behind this move was to create a forum for a selected group of Persians who would co-operate closely with the German Foreign Office in developing a policy program for Persia.⁴⁵

As a result, the German government recruited Sayyed Hassan Taqizade in the United States and, with support from the German embassy in Washington, he was brought to Berlin in order to recruit suitable Persian candidates from among expatriate nationalists who had left the country in the aftermath of the 1911 Russian intrusion and the dissolution of the Persian parliament. With the permission of the German Foreign Office Taqizade recruited under the code-name S. Hassan, among others, the former Persian Foreign Minister, Hussein Guli Khan Nawab.

The Persian envoy to Vienna was chosen as chairman of the committee and in March 1915 Taqizade presented the German Foreign Office with a substantial program. Nadolny commented that this program represented the ideal of what could be done and achieved. Following this program the patriotic Persian forces were to be encouraged to fight against the enemies of Germany, with the goal of liberation. In order to achieve this goal, nationalists were to be sent to cities such as Constantinople, Baghdad, Tehran and Shiraz, to prepare the ground. They were expected, among other things, to influence public opinion, ensure a pro-German Persian government and support the Persian Gendarmerie forces and the German

⁴⁴ Gehrke. *Persien in der Deutschen Orientpolitik*, p. 87.

embassy in Tehran. In exchange the committee demanded an assurance of Persia's sovereignty from Germany, its allies and the Turkish government, as well as financial support and weapons.⁴⁶

To improve the flow of information and co-ordination of German activities (which often depended on what was happening in Germany's stronghold, Turkey), Nadolny deployed liaison officers to the Turkish-Persian border. These officers had the duty of updating the German military attaché in Constantinople on the current situation in Persia. In 1915 *Rittmeister der Reserve* Sarre and his assistant *Leutnant der Reserve* Waldman were chosen.⁴⁷

The question was now if Germany could continue its Persian operations, and furthermore, whether an occupied Persia was worth fighting for.⁴⁸ It did not take the German government long to resolve this question because an independent German war policy concerning Persia was imminent. This move was influenced by Germany's control over the majority of the Swedish military instructors of the Persian gendarmerie and the break-up of the joint Turkish-German Afghanistan expedition. The emergence of an independent German war policy in Persia was largely also the origin of the German government's official '*Persienpolitik*'.

German-Persian relations at this stage show that the German government in Berlin did not have a definite and clear policy regarding Persia. Government business was conducted as a reaction to events and demands rather than following a policy plan.⁴⁹ Even after 1915, it is not apparent whether German activities in Persia followed a clear scheme. It is also difficult to judge whether the

⁴⁵ Gehrke. *Persien in der Deutschen Orientpolitik*, p. 88.

⁴⁶ Gehrke. *Persien in der Deutschen Orientpolitik*, p. 89.

⁴⁷ Gehrke. *Persien in der Deutschen Orientpolitik*, p. 86.

⁴⁸ Gehrke. *Persien in der Deutschen Orientpolitik*, p. 323.

⁴⁹ Gehrke. *Persien in der Deutschen Orientpolitik*, p. 60.

German government was aware of the results and practicability of its *Persienpolitik*. It is of interest to establish what place Persia had within German plans and where the limits for its commitment, goals and investments were.⁵⁰

According to Ulrich Gehrke, the records of the German Foreign Office and *Großer Generalstab* did not reveal a detailed or definite German military strategy for Persia. German decisions regarding military operations were based only on bits and pieces of collected information. The lack of clarity and cohesion contributed to a faulty analysis of the Persian situation.⁵¹

The responsibility over Germany's Persia policy was split between two government institutions, the Foreign Office (*Auswärtiges Amt*) and the *Großer Generalstab*. At the Foreign Office matters concerning Persia were processed through the political department in the person of Baron Langwerth von Simmern and his assistant counsellor of legation von Wesendonk. Neither were very familiar with Persia. The department at the *Großer Generalstab* dealing with Persia was *Sektion III b Politik*, chaired by the aforementioned *Hauptman der Reserve Nadolny*, who before the war held the position of counsellor of legation (*Legationsrat*) at the Foreign Office. During the early stages of World War I Germany was represented in Tehran through a rather inexperienced young *chargé d'Affaires Legationssekretär* von Kardorff instead of the German envoy, Prince Heinrich XXXI Reuß. On leave in Germany, the prince was not able to return to Persia after the outbreak of the war until 1915. Kardorff was joined in February 1915 by the German military attaché, *Major der Reserve* and counsellor of legation, Graf Kanitz. Thus, Germany was left with a weak link in Persia and an inexperienced leadership in Germany.

⁵⁰ Gehrke. *Persien in der Deutschen Orientpolitik*, p. 61.

Returning to the wider implications of Germany's Persia policy we have to acknowledge that during World War I Persia moved increasingly into the centre of German Middle East war strategy.⁵² This brings us to the obstacles Germany faced in assessing the Persian situation. First, Germany underestimated the transportation and communication problem which resulted not only from Persia's poor roads and rail system but also from the lack of mail and telegraph facilities and from logistical difficulties caused by political developments in regions on the transit routes between Germany and Persia. The route most used to reach Persia went via Baku to the Persian port of Anzali. In the event of Persia's entry into war this route would not have been available, nor were the other alternative routes much more accessible. For example, the railway connection on the alternative route from Constantinople via Baghdad to the Persian Gulf (Baghdad Railway Project) was still under construction. Furthermore, the sections completed could hardly supply the freight capacity the Turks required, and the alternative water and road connections between these sections were time consuming and less effective. This posed a serious problem, for if Persia entered the war on the side of Germany, it would be dependent on German shipments of arms and financial support.⁵³

German officials were not fully aware of the extent of these problems. Realistically, it could take months for shipments to reach Persia from Germany. On the other hand, the British and Russians could gain access to Persia effectively and quickly.

⁵¹ Gehrke. *Persien in der Deutschen Orientpolitik*, pp. 318-319.

⁵² Gehrke. *Persien in der Deutschen Orientpolitik*, p. 319.

⁵³ Gehrke. *Persien in der Deutschen Orientpolitik*, p. 64.

This takes us to the second obstacle Germany faced in Persia. Through decades of dominance Britain and Russia had devised several measures to secure their interest, including military presence, control over telecommunication, finance and banking as well as influence upon Persian politics.⁵⁴

This leads us to Germany's third major obstacle. Britain and Russia had access to a large quantity of high quality intelligence accumulated in Persia over the years. German government agencies had comparatively little access to relevant intelligence nor had any significant groundwork been laid in preparation for it.

German operation plans testify that its government agencies suffered from insufficient intelligence on Persia that inevitably led to misjudgement of the Persian situation. Sizeable German military activities in Persia were almost impossible nor was there any preparation made for military or political actions. Based on these findings it is not difficult to foresee only modest results.⁵⁵

In a first move, *Feldmarschall* von der Goltz was assigned to co-ordinate German-Turkish efforts towards Persia. But Germany could not meet its financial-aid promises to Persia and to German agents in Persia. The combat readiness of tribal forces recruited by German agents was overestimated. The lack of German aid led to the destruction of Graf Kanitz's West Persian defence system. German influence on Persian military troops was deteriorating and German operations in Persia stagnated when von Goltz died in battle in 1915.⁵⁶

Wilhelm Wassmuss was one of the most well remembered German individuals active as an agent in Persia during the war. His persistent protests

⁵⁴ Gehrke. *Persien in der Deutschen Orientpolitik*, p. 65.

⁵⁵ Gehrke. *Persien in der Deutschen Orientpolitik*, p. 66.

⁵⁶ Gehrke. *Persien in der Deutschen Orientpolitik*, p. 321.

against British methods of rule⁵⁷ in Persia won him the sympathy of some Persian tribes who were disturbed by British disregard for Persia's neutrality.⁵⁸

What can be said is that Wassmuss and the nearly 100 German agents in Persia managed to keep Britain and Russia busy throughout the war. They caused disruptions and troop movements that weakened British and Russian activities elsewhere. These operations may have cost the German government an estimated fifty million Marks. However, the ultimate results achieved in the context of German war effort were minimal.⁵⁹

One reason for the failure of Germany's Persian operations was the Ottoman Empire. As most German initiatives in Persia went through its links with the Ottoman Empire, the Ottomans opposition to Germany's attention to Persia proved harmful. Plus, the Ottomans regarded Persia as their 'turf', since it was part of the Islamic world. Consequently they hampered any German plans towards Persia.⁶⁰

Further reasons were: the lack of direct or straightforward access of German troops to Persia; the strength, capability and loyalty of the Turkish troops entrusted with German military operations was misjudged; the lack of Persian experts in key positions in German government agencies or on location; a shortcoming in co-ordination between the objectives followed by German

⁵⁷ Among the many things Wassmuss protested against the arrest of German individuals by the British, such as Dr. Landers, and the confiscation of his own expedition property, on transit through southern Persia to India.

⁵⁸ Gehrke. *Persien in der Deutschen Orientpolitik*, p. 81.

⁵⁹ Gehrke. *Persien in der Deutschen Orientpolitik*, p. 325.

⁶⁰ The Germans could not go along with this justification particularly as the Ottomans were a Sunni and the Persians Shiite state.

diplomacy in contrast to German military operations, and insufficient preparation in the fields of Persian politics, military and society⁶¹

In his book *Persien in der Deutschen Orientpolitik* Ulrich Gehrke argues that Germany hardly had what one could describe as a cohesive and particular plan with regard to Persia, let alone any detailed German preparation in respect of involving Persia in the war.

This argument stands in contrast to the British perception of German operations. In fact, Gehrke quotes a telling statement made by the director of the Imperial Bank of Persia, Sir Hugh Barnes, following a talk by Sir Percy Sykes in 1920: "So immediate, so universal, and so well concerted were the (German) measures taken, that it is difficult to resist the conclusion that everything had been very carefully prepared before the war."

Gehrke attributes this impression to the determination and personal qualities of the same group of individuals who were later doomed to fail because of lack of a common vision, leadership, co-ordination and support from Germany.⁶²

After a series of shortfalls in German co-operation with the Turkish forces and the collapse of the provisional Persian government of Nizam al Saltane, and in light of the success of British and Russian war operations, the German Foreign Office decided to close its embassy in Tehran in mid-1917. Because of the continuing German-Turkish tensions Germany withdrew in July 1917 from its last stronghold of operations in Persia, the Gendarmerie.⁶³

As a result of the Russian revolution and the German-Russian armistice agreement of 15 December 1917, Russia promised to withdraw its troops from

⁶¹ Gehrke. *Persien in der Deutschen Orientpolitik*, p. 326.

⁶² Gehrke. *Persien in der Deutschen Orientpolitik*, p. 327.

⁶³ Gehrke. *Persien in der Deutschen Orientpolitik*, pp. 309-310.

Persia. This agreement also included terms that led to the removal of Turkish troops from Persian territory. On 27 January 1918 Trotsky annulled the 1907 British-Russian agreement on the grounds that it violated the freedom and independence of the Persian people. Furthermore, on 3 March 1918, at the Peace conference of Brest-Litovsk, Germany negotiated terms for Persia that demanded its political and economic sovereignty. These developments not only won Persia's sympathies for Germany, but they also benefited its quest for autonomy.⁶⁴

Britain was left as the major foreign force in Persia, and Lord Curzon's words and actions did not signal withdrawal. The British even planned to use this opportunity and expand their influence into the northern region, but not without encountering resistance. For example, a motorised British expedition led by Major-General Dunsterville on its way to Tiflis was held up at the port of Anzali by Bolshevik troops organised under Mirza Kuchik Khan and his Jangali movement.

Mirza Kuchik Khan's troops, supported by German and Austrian soldiers, were resistance fighters in the northern provinces of Persia.⁶⁵ After the Turkish occupation of Tabriz in June 1918, Mirza Kuchik Khan distanced himself from the Turks and looked to the British. This led to the expulsion of German and Austrian military instructors from his troops.

Mirza Kuchik Khan's radical action did not contribute to Germany's cause. The German government resumed negotiations with the Turks, asking them to comply with Brest Litovsk. In October 1918 the Germans succeeded in obtaining a Turkish promise ensuring its withdrawal from Persia and Azerbaijan in particular.⁶⁶

⁶⁴ Gehrke. *Persien in der Deutschen Orientpolitik*, p. 312.

⁶⁵ Gehrke. *Persien in der Deutschen Orientpolitik*, p. 313.

⁶⁶ Gehrke. *Persien in der Deutschen Orientpolitik*, p. 315.

In response to the British request, the Persian government in November 1918, provided a black list with the names of 73 Germans, 10 Austrians, 13 Swedes, 5 Swiss and one Turkish citizen who were allegedly active during the war in Persia. Britain managed to negotiate the 1919 agreement securing its dominance over Persia. Russian and German initiatives in Persia had been effectively combated. However, the real loser of the conflict was Persia, which was now, as at the outset of the war, occupied by British troops.⁶⁷

From the very beginning, Germany's approach to Persia was based on a shaky foundation. Germany's approach showed improvisation, limited vision, and little government commitment. It is clear that Germany's separate Persia policy failed to achieve its objectives as a consequence of organisational and structural deficiencies. If these had not been prevalent Germany could have achieved better results. But perhaps it was only that Persia did not play an important part in German foreign policy. The lack of attention and financial support by the German government and the rather small contingent of individuals involved in Germany's Persia operations are a clear indication of this.

Even in the lead-up to the war, German records provide us with enough evidence to verify that Germany was more determined and willing to make sacrifices in other countries than it did in Persia.

However, even with the difficulties of war, finance, and the hostility encountered, Germany genuinely pursued relations with Persia. But, the degree and level of these relations should not be exaggerated. Germany maintained some level of support for the Persian government immediately after the war. In the following section, we shall see the benevolence and hostilities Germany encountered in its fragile but persistent course towards Persia.

⁶⁷ Gehrke. *Persien in der Deutschen Orientpolitik*, p. 316.

h. Consequences of World War I and the international scene

The aftermath of World War I brought significant change to the development of German relations with Persia. Four years after Germany's declaration of war on Russia in 1914, the allied efforts resulted in the defeat of an exhausted Germany and the uprising of the German people against their leadership. The Social Democrats took over government and proclaimed a republic. This resulted in the destruction of Germany's domestic strength and its international influence. The new *Weimarer Republik* was established. In the same year Germany was forced to sign the Treaty of Versailles, which deprived it of land and natural resources. In addition, Germany was forced to pay high war damage reparations. The treaty of Versailles essentially dashed hopes for a fast economic recovery. However, Germany was determined to recover from this setback with a careful political approach, one that allowed it to maintain good relations with major powers, while re-establishing itself within its new international political environment.

It is important to examine whether, in the aftermath of the war, Russia tolerated Germany's commercially motivated Middle East policy. By this time, the Bolshevik government had cancelled the British-Russian 1907 treaty and, in order to compensate Persia for the war damages, it relinquished all its concessions and monopoly rights. It also declared that the Russian Discount Bank, the Russian railroad and harbour equipment as well as other technical installations were to become the property of the Persian government.⁶⁸ These moves show the strong Soviet wish to come to terms with the Persian government, but they also signalled

⁶⁸ Miron, Rezun. *The Soviet Union and Iran* (Geneva: Institut Universitaire de Etudes Internationales, 1981), pp. 12-14.

Russia's withdrawal from Persian trade and commerce. This in turn created the opportunity for other foreign powers to become economically involved. Although Britain continued to maintain and protect its concessions and privileges, it did not use its political power indiscriminately to secure further economic benefits until 1920-21.

This situation provided Germany with an immediate opportunity to secure a share of the more profitable projects in northern Persia. Of interest to Germany was the former Russian petroleum and coal-mining concession granted in conjunction with the railway concession of Julfa-Tabriz-Tehran. Mining concessions in general were very promising as the geological conditions of Persia offered widespread opportunities, not only for oil and coal but also for silver, copper, zinc, iron, lead and cobalt.⁶⁹

From an economic point of view, the precondition for such promising German enterprises was a functional transportation system. Hence, profitable railway, motor vehicle and air transport concessions were sought. However, from a political point of view, Germany faced one major barrier. Ideologically, the Russians would not tolerate the idea of its concessions being surrendered to exploitation by capitalist powers. But this objection was directed more specifically towards Britain. The Russians clearly indicated that they preferred concessions to be granted to Persian entrepreneurs or neutral states. In Russian eyes, Germany was later to qualify as a neutral state. This political shift resulted in less Russian and British hostility in connection with a growing Persian will for granting Germany North Persian concessions.

⁶⁹ Report titled *Die Aufschließung Persiens*. August 1921, nine page report. PAAA, Department III-Economy, R92527, p. 7.

This situation gave Germany an opportunity to enter negotiations with Russia on a problem that had to be resolved before it could consider investing in Persian enterprises. Profitable German exports and imports to and from northern Persia relied heavily on their transit through Russia. It was thus crucial for German trade to ensure profitable Russian transit arrangements.⁷⁰

Russia was prepared to tolerate German economic involvement in northern Persia and it even started to support German activities by way of co-operation. Accordingly, Russian Foreign Minister Tschitscherin asked the German representative in Tehran, Sommer, to investigate areas of possible German-Russian co-operation.⁷¹ Based on the assumption that British influence in the North was weak ("... her wallet could not reach the northern regions of Persia"), the first post-war co-operation plan between Germany and Russia was to have been a northern railway development project between Tehran and Tabriz. This project brought both countries together in pursuit of a common goal.

The problem was that each country was pursuing a different agenda. Co-operation with Germany in northern Persia would have been in compliance with Russian political ideology and, from a pragmatic point of view, it would have provided a level of Russian presence and influence that would have protected Northern Persia from British infiltration. This is something Russia could not financially afford to do on its own. By keeping Britain at a distance Russia also ensured a buffer zone, protecting its borders with Persia from immediate exposure to British influence. Germany, on the other hand, would benefit from such a project through economic influence and the hope of securing future projects. From

⁷⁰ Report titled *Die Aufschließung Persien*. August 1921, nine page report. PAAA, Department III-Economy, R92527, pp. 7-8.

⁷¹ From German embassy in Tehran to Russian Foreign Minister Tschitscherin in Moscow. 20 October 1921, letter. PAAA, Department III-Economy, R92527.

a political point of view Russia's support and co-operation seemed to supply the key for Germany's entrance into Persia. This created a German bias towards Russia that was reflected in improved relations. German enterprises could not expect British support, because of the British fear for loss of influence in northern Persia.⁷²

Britain's post-war hegemony dazzled it into believing that it could ensure control over Persian politics and its oil-based economy. Therefore, it could not welcome the emergence of Germany as a third power in Persia, particularly when supported by Russia.

The British, disappointed at such close co-operation between the two countries, vented their resentment against what they perceived as German anti-British activities to the German Minister for Foreign Affairs, Dr. Wirth: Previously "... Dr. Rosen assured Lord D'Abernon that the primary and essential object of German policy was to establish relations of confidence with Great Britain and that the most stringent instructions had been issued to the German representatives abroad to refrain from any action whatsoever which might run counter to this most dominant objective of German policy".⁷³ The German delegation in Tehran was accused of neglecting these instructions by displaying continued hostility to British interests and by supporting anti-British intrigues and agitation. According to one document, "... the German Charge d'Affaires appears at the present moment to be actively engaged in underhand measures to encourage the Persian

⁷² From German embassy in Tehran to Russian Foreign Minister Tschitscherin in Moscow. 20 October 1921, letter. PAAA, Department III-Economy, R92527.

⁷³ From Joseph Addicon in Berlin to Minister of Foreign Affairs Dr. Wirth. 29 November 1921, letter. PAAA, Department III-Politics, R78105. Number 1369, pp. L014916-L014917.

Government in dishonest and dishonourable designs against British holders of valuable concessions".⁷⁴

The Persian government pursued its negotiations with Germany in Moscow, when Minister Ehtesham Hodayun approached the German embassy to investigate Germany's position towards economic involvement in Persia. This meeting revealed three main obstacles Germany faced with regard to its involvement in Persia.

- i. Economic decisions made by the Persian government tended not to include Germany (whereas they included Russia and Britain)
- ii. The post-war German financial crisis
- iii. The prevailing transport problems (Russian transit)

Ehtesham assured the German envoy that the Persian government would endeavour to accommodate German activities. With regard to finances, Germany would only require a comparatively small sum for its Persian investments. The Russian transit permission remained a major obstacle. In this context it was promising that Theodore von Rotstein, the Russian representative in Tehran, and Postuchow, head of the Persian desk representative of the Russian overseas department, gave verbal assurances that article 20 of the Persian-Russian Treaty of Friendship (26 January 1921) implicitly regulated the transit of German goods through Russia.⁷⁵

⁷⁴ From Joseph Addicon in Berlin to Minister of Foreign Affairs Dr. Wirth. 29 November 1921, letter. PAAA, Department III-Politics, R78105. No. 1369, pp. L014916-L014917.

⁷⁵ German embassy in Moscow to German foreign office in Berlin. 25 December 1921, report. PAAA, Department III-Economy, R92527. Number 38.

These events raise the more fundamental issue of whether Russia started to shift its foreign policy from just tolerating German presence in Persia to a policy that incorporated Germany in pursuit of its own objectives.

It is important to note that just a few years after the war Russia started to work quite closely with Germany regarding Persia. In the early twenties, in a number of cases German-Persian relations revealed a Russian link. After the war, the German embassy in Russia was approached by the Persian representative, in an attempt to initiate German-Persian co-operation. The Russian representative in Tehran, Theodore von Rotstein, played an important role in the development of German-Persian relations. Moreover, the German government decided to replace its representative to Tehran, Sommer, with the former German Minister to Moscow, Graf Schulenberg. The Russian Commissar for Foreign Affairs, Tschitscherin, was personally concerned with German-Persian matters. This underlines, at the very least, that Russia wanted some control over Germany's relations with Persia by ensuring that key political positions were occupied by officials friendly to Russia. However, there was also the possibility of Russia engineering a complex diplomatic plan for Persia in which Germany played a key role.

Domestically, the German government had to boost morale, create new jobs, and resume its contacts with the outside world to secure its status as a major European power in the eyes of the electorate. Internationally, largely to also achieve its domestic goals Germany looked for alliances and agreements with other countries to mainly facilitate its commercial goals of securing much needed low cost raw materials and export markets for its domestic production.

A major step toward formalising such an alliance was a treaty between Russia and Germany in April 1922. During an international economic conference in Genoa, next to a German delegation, for the first time also a Russian delegation

was invited. These two delegations met on the 16 April 1922 at the neighboring town of Rapallo for special talks. These talks resulted in the signing of the Rapallo Treaty by *Reichskanzler* Wirth, the German foreign minister Rathenau, and Tschitscherin.

This treaty with Russia allowed Germany to resume its diplomatic relations and renounce any claims for reparations arising from World War I. The Rapallo Treaty came as a surprise to the western powers and was heavily criticised by Britain. But for Germany and Russia this was a first step out of their diplomatic isolation. As a result Germany was now, in co-operation with Russia, also in a position to seriously develop its designs for the Middle East and, in our case, Persia.

However, in a meeting with Graf Schulenberg, Tschitscherin voiced Russia's concern for Persia. He emphasised that Britain was trying to undermine Russian influence by attempting to obtain north Persian oil concessions through co-operation with an American oil company.⁷⁶ Winston Churchill had recommended that the Anglo Persian Oil Company and the American Standard Oil Company should co-operate because such co-operation would prevent a British-American conflict in Persia and produce positive political results. A crucial result of such co-operation was an increased political stability in northern Persia.⁷⁷ The British were simultaneously contributing to Persia's financial crisis by supporting Kurdish revolts. The Kurds, under the leadership of Simko, were taking a stance against the Persian government in order to gain independence. Government troops,

⁷⁶ Report from Schulenberg in Berlin. 4 September 1922, report. PAAA, Department III-Economy, R92363.

⁷⁷ Zürcher, Werner. *Persien zwischen England und Rußland 1918-1925* (Bern: Verlag Peter Lang AG, 1978), p. 302.

mostly from the Tabriz region, were involved in heavy and costly battles with the Kurds.⁷⁸

Under these circumstances the Persian government was under such pressure that it had to consider granting oil concessions to the British-American group.⁷⁹ Russia was not in a position to support the Persian government. Tschitscherin, having recognised the potential threat to Russian influence in Persia, saw the solution to this dilemma in the economic support of Germany. Although the Russians were successful in winning German sympathy for their plans, the long-standing Russian transit problem for German goods had not yet been resolved. Realising the acuteness of this, the Russians were contemplating granting Germany a transit concession.

The problem here is that it is not clear who was in control. In particular, it has not been established whether Germany was pursuing its economic objectives in Persia with the help of Russia or whether Russia was implementing its political objectives through German economic power--alternatives that do not exclude each other. What is evident at this stage is that Persia had a preference for a co-operation with Germany but its weakness forced it to await further developments. There were still major obstacles for a German-Persian co-operation. For one thing, the republics of Azerbaijan and Georgia were so displeased with Germany's failure to include them in the Rapallo treaty that they vetoed permission for the transit of German goods through their territory.⁸⁰ Further, the Russian publication *Ekonomicheskaya Zhizn* openly criticised the fact that only German interests were

⁷⁸ Tapper, Richard. *The Conflict of Tribe and State in Iran and Afghanistan* (London & Canberra: Croom Helm, 1983), pp. 386-389.

⁷⁹ Report from Schulenberg in Berlin. 4 September 1922, report. PAAA, Department III-Economy, R92363.

⁸⁰ Report from Schulenberg in Berlin. 4 September 1922, report. PAAA, Department III-Economy, R92363.

served by a transit permission.⁸¹ At the same time Germany was weakened by domestic developments. The newly implemented parliamentary democracy was hopelessly inefficient due to the large number of political parties that had difficulties in reaching majority decisions. Smaller forces tried to overthrow the republic. Until German relations with Russia showed results, German entrepreneurs could only gain access to the Persian market by participating in foreign industrial syndicates.⁸² A further point to be taken into account is that Britain, in protection of its own interests, was not going to make post-war German involvement in Persia an easy task.

In conclusion, it is clear that the shift in Russian policy after World War I provided Germany with promising economic prospects in Persia. Through the Rapallo Treaty both countries managed to formally re-establish their diplomatic relations and re-enter the international political arena. Consequently, with regard to Persia, Russia tolerated German involvement and signalled its co-operation and support. Naturally, Russian co-operation and support for Germany was not in compliance with British designs for Persia and provoked formal protest. The British position was further challenged through the Persian government's emerging interest in Germany. The situation worsened when it became obvious that Russia aimed at using German economic and political potential in pursuit of its own interests in Persia. However, the domestic developments in Germany, and British opposition, proved destructive to Germany's involvement in Persia after World War I.

⁸¹ From Radowitz in Moscow to German foreign office in Berlin. 17 October 1922, telegram. PAAA, Department III-Economy, R92362. Number 574.

⁸² Report titled *Die Aufschließung Persiens*. August 1921, nine page report. PAAA, Department III-Economy, R92527, p. 9.

i. British policy towards Persia and the role of the United States

The British policy of co-operating with the United States in Persia created commercial opportunities for Germany but clashed politically with Russia.

We can distinguish two main explanations for a shift of British policy towards Persia. One is that in light of political developments in Persia, the British had learned that in order to maintain influence, they had to follow a policy of co-operation with Persia. A further cause of a British shift of policy resulted from demonstrations for the desire for independence throughout the British Empire.

One of the striking features of the first explanation is that in 1919 the British government had hoped to have finally formalised its control over Persia with a treaty amounting to a British protectorate.⁸³ It is significant to briefly highlight the framework of this treaty, and examine whether it genuinely aimed at encouraging closer relations with Persia.

Foreign Secretary Lord Curzon was the architect of British foreign policy in Persia. He gained power in 1918 with the formation of Eastern Committee of the War Cabinet,⁸⁴ which replaced the former Persia Committee. Field Marshal Sir Henry Wilson, the Chief of the Imperial General Staff, an advocate of military rather than diplomatic solutions, had created this committee to co-ordinate British policy and strategy in the eastern region. At the highest levels, General McDonogh, a representative of the British War Office, backed Curzon's plan for a treaty with Persia. McDonogh emphasised that Britain's objective should be to take control of Persia "both financially and otherwise".⁸⁵ When Curzon became

⁸³ Keddie, *Roots of Revolution*, p. 81.

⁸⁴ Lord Curzon was at the same time Chairman of the eastern Committee.

⁸⁵ Sabahi, Houshang. *British Policy in Persia 1918-1925* (Exeter: BPC Wheatons Ltd, 1990), p. 3.

foreign minister in 1919, one of his main goals was to settle British interests in Persia without foreign interference.

In August 1919, after Curzon successfully managed to keep Persia out of the Paris Peace Conference, and after his negotiations with the Shah, the Triumvirate and Sir Percy Cox the British Minister in Persia,⁸⁶ he brought the ratification of the Anglo-Persian treaty to a conclusion. The main points of this agreement aimed at securing British interests in the Persian army and state administration by means of a British loan as well as British civil and military advisers.⁸⁷

Werner Zürrer sees the 1919 agreement in a positive light, emphasising that Lord Curzon intended to create a firm partnership with Persia rather than pursue only colonial ambition. Zürrer argues that Curzon preferred a unified and stable Persia, and insists that the terms negotiated in the 1919 agreement did not infringe on Persia's sovereignty. He concludes that if the agreement had been implemented according to British intentions it would have helped Persia to strengthen its neutrality.⁸⁸

This is in contrast to W. J. Olsen's point of view, who maintains that as it was characteristic of British practice during World War I to rely on personalities rather than politics, Curzon failed to work out a treaty closer to Persian reality and therewith forced upon Persia impossible terms and conditions.⁸⁹ The main objective of Curzon's agreement was to prevent any rival power from gaining political or economic influence in Persia. This resulted in Russia distancing itself even more from Britain, especially since the support of independence movements

⁸⁶ Olsen. *Anglo-Iranian relations during World War I*, pp. 234-236. See for text of Persian proposal for an agreement with Britain.

⁸⁷ Katouzian, Homa. *The Political Economy of Modern Iran* (London: Macmillan Press Ltd, 1981), Chapter V.

⁸⁸ Zürrer. *Persien zwischen England und Rußland*, p. 481.

in countries such as Persia had become one of Russia's foreign policy objectives. However, in 1921, due to internal unrest and very limited resources, the Central Committee of the Bolsheviks shifted attention from overseas issues to its own domestic affairs.

The British Foreign Office was sceptical of this change in policy and feared a hidden ideological agenda. British scepticism increased when Russia continued to advocate that Persia should be kept free from foreign influence. Russian sympathy for nationalist movements (Jangali movement and separatist movements in Azerbaijan and Khorasan) in Persia posed a further threat to the British.

Owing in part to its cost, Britain had lost its determination to maintain large military forces in Persia and engage in anti-Bolshevik campaigns in Russia. The India Office decided that it would be best for Britain to offer support for the rising nationalist movement in Persia. The British perceived this policy as the best way of gaining public support. It was ultimately hoped that this move would give Britain a better negotiating position than Russia, and subsequently lead to closer co-operation with the Persian government.⁹⁰ After the fall of Vusug ad Daula in 1920 and the rise of Reza Khan in the coup d'état of 1921 the 1919 treaty lost its significance.

A further explanation for a British shift of policy towards Persia was the success of the Irish rebellions. As colonies and protectorates realised that Britain was not invincible, they began to press for independence. The crisis accompanying the independence movements in India and Egypt gave the British a strong cause for concern about the rise of nationalist movements in Persia. This was reinforced by Lord Curzon's statement that circumstances demanded a radical change of

⁹⁰ Olsen. *Anglo-Iranian relations during World War I*, pp. 247-249.

British policy because the decline of British hegemony in the Middle East had to be stopped in Persia before it reached the gates of India. Britain therefore developed a strong interest in a stable Persian leadership and an organised government.⁹¹ It can therefore be concluded that Britain was pressured into respecting and recognising the patriotic sentiments and nationalist movement in Persia. For similar reasons, Britain had to respect the economic sovereignty of Persia.

With regard to Persia's wish for industrialisation and economic growth, the British now had to accept the economic involvement of other countries in Persia. This change benefited German economic interests. But Germany was not in a position to take full advantage of the concessions that were being granted to Persian and neutral citizens or organisations.⁹² This was mainly due to the unresolved Russian problem of transit, even though relations between both countries had improved considerably.

A further contestant for Persia came to be the United States of America. Haji Mirza Hussein Khan Sepahsalar was the first Persian minister who took the initiative to establish diplomatic relations with the United States. On 21 May 1881 he had successfully approached the United States representative John W. Foster in St. Petersburg and had prevailed upon him to convince his government of the value of Persian diplomatic relations. The government approved of these on 3 August 1882 and commissioned Minister Benjamin to the court of Nasser ed-Din Shah on 11 June 1883. According to Ramazani, motives for approving (Bill H. R.

⁹⁰ Olsen. *Anglo-Iranian relations during World War I*, pp. 224-249. For further discussion of 1919 agreement.

⁹¹ Report titled *Die Aufschließung Persiens*. August 1921, nine page report. PAAA, Department III-Economy, R92527, p. 6.

⁹² Report titled *Die Aufschließung Persiens*. August 1921, nine page report. PAAA, Department III-Economy, R92527, p. 8.

No. 6743) the move were threefold. The United States sought to protect their missionaries in Persia, expand trade and "... establish diplomatic relations with '... the oldest government in the world' that was of such 'strategic importance'." ⁹³ The Shah's motives for relations also resulted from his expectation of economic aid from the United States. This aid came in the form of two financial advisers, Morgan Shuster and Arthur Millspaugh. In 1914 the Persian government approached the United States with the request for a financial advisor.⁹⁴ Morgan Shuster was commissioned to take over this task; later Arthur Millspaugh followed. However, their success was limited.

At the Paris Peace Conference in 1919 the United States failed to give Persia the support it needed to speak in front of the commission headed by President Wilson and other allies.⁹⁵ After infringements on its sovereignty by Turkey, Russia, and Britain during World War I, the Persian government had hoped for more support from the United States. Some of its more important demands were: membership and participation in the Paris Peace Conference, abolition of treaties and agreements violating its integrity, reimbursement of war damages, guarantees of economic independence, reconsideration of treaties and abolition of capitulation rights, and restoration of former boundaries.⁹⁶

In the light of the ongoing British-Persian negotiations in preparation for the 1919 agreement, Britain became aware that Persia wanted to be heard at the Paris Peace Conference. As this would have raised questions to the disadvantage of Britain, they did not support the Persian request; neither did the United States. On

⁹³ Ramazani, Rouhollah K. *The United States and Iran* (New York: Praeger Publishers, 1982), pp. 5-6.

⁹⁴ Zürrer. *Persien zwischen England und Rußland*, p. 400.

⁹⁵ Yeselson, Abraham. *United States- Persian Diplomatic Relations 1883-1921* (New Jersey: Rutgers University Press, 1956), pp. 131-155.

the assumption that the United States were aware of the British plans for Persia, one can see why they could have been backing Britain.⁹⁷ The United States declared such claims as unsubstantiated, and Lord Curzon stated that the United States "had never been kept in ignorance of the (1919 agreement) negotiations."⁹⁸ The official reason for not allowing the five Persian delegates to be heard was that participation was limited to the countries that had declared war on the Central Powers. According to the leading British foreign policy expert at Versailles, Harold Nicolson, the Supreme Council rejected the Persian request in order to avoid setting a precedent for other countries that would have liked to present their case before the conference.⁹⁹

Britain perceived the United States as a threat to its position in Persia until 1921. Although the British-American relations that developed thereafter were not crowned by success, the subsequent withdrawal of the United States from Persia made Britain lose an undesired ally, who it had, nevertheless, preferred to the Bolsheviks. It is appropriate to look briefly at the background of British-American co-operation. We shall begin in 1921, when the Foreign Office urged the Anglo Persian Oil Company to involve the American company Standard Oil in the Persian oil business.¹⁰⁰ Churchill, who feared the destabilising effects of an eventual British-American rivalry over oil in Persia, supported this plan.¹⁰¹

The British were aware of the strength of Standard Oil and its aggressive methods in pursuit of lucrative markets. They preferred to co-operate in order to

⁹⁶ Yeselson. *United States- Persian Diplomatic Relations*, p. 148.

⁹⁷ Yeselson. *United States- Persian Diplomatic Relations*, p. 149.

⁹⁸ Yeselson. *United States- Persian Diplomatic Relations*, p. 162.

⁹⁹ Yeselson. *United States- Persian Diplomatic Relations*, pp. 149-151.

¹⁰⁰ Sabahi, Houshang. *British Policy in Persia 1918-1925* (Exeter: BPC Wheatons Ltd, 1990), Chapter 6.

¹⁰¹ Zürrer. *Persien zwischen England und Rußland*, p. 302.

share influence and prevent the United States from taking over large bits of the Persian oil market. Britain also expected that the presence of the United States, especially in northern Persia, was to its advantage as it would inhibit Soviet expansion and lessen British-American rivalry for oil.¹⁰² This resulted in a co-operation agreement between the Anglo Persian Oil Company (APOC) and Standard oil.¹⁰³ Both companies had agreed to take over half the shares of the newly created Perso-American Petroleum Co.¹⁰⁴

The Persian Government did not accept the APOC-Standard Oil partnership because it was in breach of a parliamentary decision made on 23 November 1921. This decision maintained that a concession could only be granted to an independent American company. This gave Standard Oil, which had already made a payment of \$1 million to the Persian government, the option to reapply for an oil concession or withdraw.¹⁰⁵ Standard Oil decided to renew its bid, without the APOC, in competition with another American concern, the Sinclair Oil Company.¹⁰⁶

In 1924 the Persian government decided to award Sinclair a concession for the exploration of oil in five northern provinces. The signing of this contract agreed between the Persian government and Sinclair's representative, Soper, in Tehran,

¹⁰² Sabahi, *British Policy in Persia*, chapter six.

¹⁰³ From German embassy in Tehran. 30 August 1923, report. PAAA, Department III-Economy, R92478. Number 374.

¹⁰⁴ Zürer. *Persien zwischen England und Rußland*, p. 312.

¹⁰⁵ From German embassy in Tehran. 30 August 1923, report. PAAA, Department III-Economy, R92478. Number 374.

¹⁰⁶ Zürer. *Persien zwischen England und Rußland*, p. 319.

meant that although this Persian-American contract now complied with Russian plans, it simultaneously put a strain on British-Persian relations.¹⁰⁷

Nevertheless, this concession raised Persia's hopes for long-awaited loans from the United States and for its industrial entrepreneurship. The American financial adviser to Persia, Morgan Shuster, had been instructed to pursue these possibilities. The British did not accept Persia's anti-British move towards the United States nor did they allow Persia to get away with breaking up the Anglo-American plan for co-operation. The Majlis had soon to learn that the State Department and its Persia desk representative, C. van Engert preferred not to jeopardise the relations of the United States with Britain and Sir Percy Loraine in favour of better relations with Persia. Moreover, after failing to win the bids for the joint APOC-Standard Oil and the Standard versus Sinclair concessions, the State Department assured the British Foreign Office that Sinclair would not find it 'easy' to meet the contractual requirements agreed with the Persian government.¹⁰⁸

The result for Persia was that even years later Morgan Shuster was not successful in obtaining a loan from the United States. Sinclair was forced to abandon their oil exploration projects. Persian-American relations were disturbed by Britain's anti-Persian propaganda in the press, even in the United States. Primarily it was alleged that Britain had experienced difficulties with loans granted to the Persian government. Furthermore, the tragic death of Robert Imbrie, the United States vice-consul in Persia, cleared the last doubts over its involvement in Persia.¹⁰⁹ In 1925 the United States all but disappeared from the

¹⁰⁷ From Schulenburg at the German embassy in Tehran to the German foreign office in Berlin. 2 January 1924, report. PAAA, Department III-Economy, R92478. Number 1.

¹⁰⁸ Sabahi, *British Policy in Persia*, chapter six.

¹⁰⁹ Sabahi, *British Policy in Persia*, p. 151.

Persian scene. Thus at first sight, Britain had succeeded in maintaining its dominant position. The snag with this conclusion is that Persia, although it failed to win America as a partner, succeeded in keeping Britain out of northern Persia. This was simultaneously a success for the preservation of German economic interest and, more importantly, a victory for the Russians who, on 26 February 1921, signed a treaty of friendship with Iran. "This was the first big milestone in the relations between the two countries in the 20th century."¹¹⁰ It also was the first treaty of its kind ever to be agreed between a foreign government and the Russian government.

j. Persia and Reza Khan's rise

Foreign interest and rivalry, driven by political calculation or economic motivation, as well as the ambition for physical presence in the region, prepared a fertile base for the rise of Reza Khan.

Reza Khan was born on March 16th, 1878, in a northern Iranian village. He was the youngest son of Abbas Ali Khan, an army officer, known as Dadash Beg, and Nush-Afarin Khanom. At a young age, Reza Khan joined the Cossack Brigade, in which one of his uncles was an officer. He was promoted through the ranks and was assigned as an officer to the machine-gun division. He was involved in several military campaigns against northern tribes. At the age of forty, as brigadier, he was in command of the Hamadan Cossack Division, said to have been the only well trained and effective unit of the Persian army.¹¹¹ (The Cossack

¹¹⁰ Miron, *The Soviet Union and Iran*, p. 17.

¹¹¹ Elwell-Sutton, 'Reza Shah the Great: Founder of the Pahlavi Dynasty', in George Lenczowski, ed., *Iran under the Pahlavis* (Stanford: The Hoover Institution Press, 1978), p. 4.

Brigade was established in 1879, by Naser ad-Din Shah after a visit to Russia. Operating as an elite unit, originally at regiment strength, but expanded later to a brigade, and by 1920 it was a division of some eight thousand men.)

By 1921, the British were trying to install a stable government in Persia. Their favoured candidate was Sayyed Ziya al-Din Tabatabai, a pro-British nationalist journalist and editor of the newspaper 'Raad'. However, his hopes to be elected Prime Minister were frustrated. As a result, Major-General Ironside (head of the British forces in Persia) consulted the Colonel of the Cossack Brigade, Reza Khan, in order to assure him of British non-interference in the event of his taking over the government in a coup d'état.¹¹² According to Elwell-Sutton, Ironside agreed that Colonel Reza Khan (the then co-commander of the Cossack Division) was the only man capable of commanding the Cossack Division.¹¹³ Sayyed Zia was popular with the British and a friend of the well respected and influential British Consul in Tehran, Howard. Zia was to become the architect and driving force of the 1921 coup d'état. He was equally interested in Reza Khan as he wanted him to be in command of the military operations during the coup d'état. Reza had proved his capabilities and trust-worthiness, and he was not disinterested in the proposal made to him, for the following reason: Although Reza Khan shared Sayyed Zia's anti aristocratic stance, keeping in mind that he had served loyally under men like Farman-Farma and Sardar Bahadur,¹¹⁴ it seemed natural for him to oppose Zia's proposition to employ British officers to

¹¹² Amant and Keddie, 'Iran under the later Qajar's', *The Cambridge History of Iran*, pp. 174 ff.

¹¹³ Elwell-Sutton, 'Reza Shah the Great: Founder of the Pahlavi Dynasty', in George Lenczowski, ed., *Iran under the Pahlavis* (Stanford: The Hoover Institution Press, 1978), p. 13.

¹¹⁴ He was later to be known as Sardar As'ad

run the 'soul' of the country, the army.¹¹⁵ As an ambitious man with a remarkable career it appears that he must have felt excited by the idea of a coup d'état.

General Ironside had apparently failed to convince Ahmad Shah to agree to Colonel Reza Khan as future ruler of Persia. After the British military advisers and the gendarmerie assured Reza Khan of their support in the coup d'état of February 1921, his Cossack Brigade marched into Tehran under false pretences, and some sixty politicians were arrested. Donald Wilber points out that, "Once the march was underway Sayyed Ziya' al-Din went to Colonel Glerup, Swedish police organiser-general, who were friends of his, and won verbal promises that their men would not be ordered to oppose the Cossacks."¹¹⁶ The Qajar king was aware of the coup and had ordered the capital's garrison not to resist the intruders. Furthermore, after Reza Khan assured the Shah that the coup d'état was designed to save the monarchy by preventing a revolution, the Shah accepted the coup, and as a result awarded it some legitimacy.¹¹⁷ On Tuesday, 22 February 1921, Reza Khan's declaration of martial law, posted around town, foreshadowed what was to follow. This declaration opened with the words "I command" and was signed, "Head of the Cossack Division of His Highness of Holiest Divinity (?) and commander of all forces Riza."¹¹⁸ Further, he requested the appointment of Sayyed Ziya al-Din Tabatabai as Prime Minister.¹¹⁹ Reza Khan first became commander in chief of the Cossacks (Sardar Sepah), then Minister of War. Ahmad

¹¹⁵ Sabahi, *British Policy in Persia*, pp. 157-159.

¹¹⁶ Wilber, Donald. *Riza Shah Pahlavi: The Resurrection and Reconstruction of Iran* (New York and Hicksville: Exposition Press, 1975), p. 43.

¹¹⁷ Katouzian, *The Political Economy of Modern Iran*, pp. 79-80.

¹¹⁸ Avery, Peter. *Modern Iran* (London: Praeger, 1965), pp. 229-231.

¹¹⁹ Abrahamian, Evand. *Iran Between Two Revolutions* (Princeton: Princeton University Press, 1982), p. 118.

Shah strongly supported him to such an extent that he removed Sayyed Ziya when differences brook between the two coup d'état arms.

This coup d'état is described by some sources as the 'White Revolution', since it was almost bloodless. According to a number of Persian accounts it was "the by-product of British post-war diplomacy in the Middle East". Younes Benab argues that the British financial advisor in Persia, J. M. Balfour, admitted that the British gave their moral support to the protagonists of the coup d'état, and that five years later it was revealed that the British advisor to the Cossack division, Colonel Smyth, was actually involved in it. There is little doubt that the British had an authority in Persia that could hardly be ignored.¹²⁰ One of the major objectives of this coup was to create a strong nation that could prevent Soviet penetration into northern Persia, and from a British point of view, a stable, strong, centralised government would help to protect her eastern colonies.

On 28 October 1923, a few days before he left to stay in Europe, Ahmad Shah (aged seventeen) appointed Reza Khan Prime Minister, while allowing him to retain his post as Minister of War, basically transferring to him the absolute power in the country. By this time the authoritarian Reza had worked with six cabinets and had seen four Prime Ministers, Sayyed Zia, Qavam al-Saltane, Mushir al-Dowleh and Mostofi al-Mamalek, who preceded him between 1921 and 1923. Although Reza Khan was aware of this 'blank cheque' power, he continued to co-operate with parliament and work within the framework of law. Therefore, with the exception of a minority led by the cleric Sayyed Hassan Mudarres, the majority of the Majlis supported him.

¹²⁰ See Benab, Younes. *The Soviet Union and Britain in Iran, 1917-1927: A Case Study of the Domestic Impact of East-West Rivalry* (Washington D.C.: Unpublished Doctor of Philosophy thesis, The Catholic University of America, 1974), pp. 239-241.

The Foreign Office was trying its best to support Reza in his centralisation plans. The then Prime Minister, Ramsay MacDonald, believed that Reza's leadership would be the best way to secure British interests. This had resulted in a balancing act of high diplomacy, as the British had also to consider their position towards the rebellious Sheikh of Mohammera and the Bakhtiaries in southern Persia, the heart of British economic oil interests. This gave the Soviets the opportunity to point out that the British government did not really support the official Persian government and that only they were the supportive and true friends of Persia. Thus, the British found themselves caught in a dilemma. They had to decide between the Prime Minister and Sheikh Khazal. When Loraine met Reza Khan in early December 1924 at Ahwaz to discuss the above situation, he was overwhelmed by Reza Khan's statement that he wished co-operation with England and asked for support for the Persian government in securing its southern regions, in order to install stability and peace in the country. British foreign secretary, Sir Austen Chamberlain, was pleased with this outcome, knowing that a stable Persia would provide an ideal buffer zone against Soviet penetration towards British colonial interests in India. Inevitably this decision of the Foreign Office marked a shift in policy towards southern Persia and its tribal leaders. In this respect, Britain adopted a policy of "watchful inaction", allowing Reza not only to implement control over the south, but also to imprison the Sheikh for life. These events indicate British interference in Persian domestic policy and its support for Reza,¹²¹ although officially the British government maintained a neutral position in what it perceived to be an internal affair.

Meanwhile, Reza hated the idea of representing an absent Shah who could return any time and dismiss him. So he offered his resignation knowing that this

¹²¹ See also Sabahi, *British Policy in Persia*, pp. 180-193.

would not be popular with the majority of people. When he was asked to return to duty, his position in the country was stronger than ever before.

On December 12th, 1925, the constitutional assembly voted by 257 affirmative votes to 3 abstentions in favour of amending the 1907 constitution, so as to enable the Pahlavi Dynasty to succeed the Qajar Dynasty.¹²² When Reza Khan ascended the Persian throne on 15 December 1925,¹²³ he was forthwith acknowledged by many European countries, which helped to stabilise the internal political situation. The first countries to recognise him were Germany, France, Italy, Great Britain and Poland.

On 19 December 1925, Reza Shah appointed his first Prime Minister, Mohammed Ali Furughi, (at this time Ahmad Shah was resident in Paris) and on 25 April 1926, Reza Shah was crowned in Tehran.¹²⁴

¹²² See Banani, *The Modernization of Iran: 1921-1941*, p. 43.

Earlier, on October 31, 1925, the Majlis had passed the following Act:

"Majlis-e Showra-ye Melli, in the name of the welfare of the nation, declares the end of the Qajar Monarchy and bestows the provisional government, with the bounds of the Constitution and the laws of the land, to Reza Khan Pahlavi. The final form of the government shall be decided by a Constituent Assembly which shall convene for revision of Articles 36, 37, 38, and 40 of the Supplement to the Constitution."

¹²³ See Banani, *The Modernization of Iran: 1921-1941*, p. 43.

"In December 1925 the Constituent Assembly, elected under the watchful eye of the government, met in Tehran and revised article 36 of the Supplement to the Constitution to read as follows:

The Constitutional Monarchy of Iran is vested by the Constituent Assembly, on behalf of the nation, in the person of His Majesty, The Shahanshah Reza Shah Pahlavi, and shall remain in his male progeny generation after generation."

¹²⁴ See Banani, *The Modernization of Iran: 1921-1941*, p. 13.

The Shah presented a speech on this day that encompasses and foreshadows much of his ambitions for the country.

"On this occasion, as I perform the ceremonies of my coronation, I wish to bring to the attention of the whole people my views regarding the carrying out of fundamental reforms in our country. The expression of these views may serve both as a comprehensive instruction to my governments and a guide to the people. Firstly, my particular attention has been and always will be directed to the preservation of the principles and foundations of religion, for in my opinion one of the most effective means of ensuring national unity and strengthening

The nationalist movement that had supported the Shah's rise to power asked for a radical transformation of Persia towards economic autonomy and national independence. The Shah appeared to perceive Persia as a battleground of ideals, influenced by his own personality and modelled according to his admiration for symbols of western development and power, as mirrored in countries such as Germany. Since the Persian government's tax receipts were insignificant, and the value of its exports minimal, in the absence of industry, the Shah's ambitions largely depended on the oil royalties received from the British. Moreover, the British-dominated Imperial Bank of Persia was in charge of Persia's financial administration. This meant that in his quest for Persia's independence the Shah was forced to look for reforms within Persia's financial administration.

Meanwhile, he started his reforms by bringing about a bill for compulsory military service, and a bill that aimed at using tax revenues from the sale of tea and sugar for the construction of the Trans-Iranian Railway. Moreover, weights and measures were standardised, the pre-Islamic calendar was replaced by the Gregorian calendar, birth certificates were made compulsory, European-style family names were introduced, and Qajar titles of nobility were abolished.¹²⁵ The Shah had also hoped that by maintaining a neutral position in world politics he

the spirit of the community of the Iranians is the fortifying of the bases of religious faith."

"My imperial governments must therefore remember without fail that the duty of carrying out the fundamental reform of the country - the establishment of security, the spread of education, proper attention to public health, the improvement of the economic situation, the increase of national wealth, the completion of communications, the welfare of agriculture and commerce, and urgent reform of the judicial system - leave no time for contemplation and laxity. Government officials must provide an example of industry, high morality, and firmness of purpose, and strive for the health, strength, education, and wealth of the people, so that well-being and prosperity may be available to all in accordance with my expectations."

¹²⁵ Hambly, Gavin R. G., 'The Pahlavi Autocracy: Riza Shah, 1921-1941', in Peter Avery, Gavin Hambly, and Charles Melville, ed., *The Cambridge History of Iran*,

could encourage enough foreign investment to boost Persia's economic growth and international trade, and as a result create an image of a reputable partner in world affairs for Persia.

However, the Shah's ambition to establish a western style economy in Persia relied on a well functioning financial system that could provide the preconditions for Persia's economic development. Hence, the Shah must have been pleased when Graf von der Schulenberg assured the British representative in Tehran, Sir Loraine, that Germany had no interest in political involvement in Persia, but would like to pursue its economic interests without any political ambitions. One success for the Shah's commercial plans was that in 1923 the Imperial Bank of Persia declared itself prepared to facilitate German trade.¹²⁶

To sum up we may conclude that during the period of the Shah's rise to power, Persia came to view in Germany an ideal ally for its future industrial development. The Shah perceived in Germany's advanced industrialisation a model for his own reforms. German individuals were highly regarded for their 'German characteristics' (reliability, expertness, diligence, etc.) and, thus, were to be awarded high positions of responsibility in government and industry. Moreover, Germany displayed hardly any intentions of dominating or oppressing Persia. From a Persian perspective, German policy stood in strong contrast to that of other major powers sharing interests in Persia. The German relations with Persia until 1927 could be described as purely non-political and commercial, which would explain why Germans were so popular with the Persian public.

The Shah's approach to centralising power and reforming government, economy, military and society reflected a degree of political and economic

From Nadir Shah to the Islamic Republic, volume 7 (Cambridge: Cambridge University Press, 1991), pp. 223 ff.

stability, providing the outside world with evidence that Persia desired to be a modern and independent state.

To a large extent Reza Shah's concern about the economy arose from his interest in military requirements, as those represented his power base. Construction of roads and railways enabled rapid deployment of troops, while creation of monopolies for the agricultural sector simply enabled a better form of taxation, sustaining the growing military infrastructure. To achieve all these goals the Shah needed the support of a neutral industrial power.

Germany was capable of offering its great economic potential and the political will for a partnership with Persia, despite the disagreement of the dominant powers in Persia, Britain and Russia. Furthermore, Germany's domestic development necessitated the establishment of world markets for its growing industry and trade potential, which implied a more aggressive foreign policy and acknowledgement by the dominating world powers. The historical developments in this period were ultimately favourable for Germany, and it tried to establish itself by means of its economic power. Germany ideally envisaged strengthening its influence by supporting the development of the rail and road transport networks, industrial production plants and improvement of the banking system that would serve as a basis for Persia's industrialisation and provide a first experience of modern economy.

¹²⁶ Hirschfeld, *Deutschland und Iran im Spielfeld der Mächte*, p. 41.

3. German policy towards Persia

According to German sources, in the late twenties oil played an important role in the Persian objective of becoming a modern country. However, it was the discovery of rich sources of minerals that persuaded the Persian government to concentrate more on industrialisation.¹²⁷ This motivated the Shah to invite foreign capitalists to participate in the exploitation and industrialisation of his country.¹²⁸

The German foreign office also increasingly encouraged German companies to become involved in Persia, it rejected allegations that held that it continued to warn German companies against trading with Persia.¹²⁹ It admitted that, as a result of Persia's instability and its unclear financial situation in the years 1921 and 1922, it had recommended that German companies should exercise caution when trading with Persia.¹³⁰ But since then the attitude of the foreign office had changed. It now seemed convinced of the Shah's positive influence and the good effect of the Persian finances on German trade. The foreign office stated that, compared to

¹²⁷ Article on Persia's industrialisation extracted from the publication for German engineers *VDI-Nachrichten*. 1927, article. PAAA, Department III-Economy, R92430.

¹²⁸ German newspaper article titled 'The Industrialisation of Persia'. 23 January 1927, article. PAAA, Department III-Economy, R92430.

¹²⁹ From German foreign office in Berlin to the editor of the *Kölnischen Zeitung* Dr. W. Croll, with regard to article on 'Germany and Persia' in issue number 292 from 21 April 1927. 1927, letter. PAAA, Department III-Economy, R92360.

¹³⁰ Reply of German foreign office in Berlin to an inquiry by the company Bergman and Simons GmbH in Köln-Mühlheim. 11 May 1927, letter. PAAA, Department III-Economy, R92360.

1920/21, the value of German exports to Persia had increased fivefold and its imports tenfold.¹³¹

In order to promote the commercial and cultural relations between the two countries and as a result of the growing interest of German industrialists in Persia, the German-Persian association was revived.¹³² In the tradition of maintaining good relations the Shah was presented in the same year with a wireless set. He was so impressed with its performance that he was instantly inspired to ask the Germans about the technical feasibility of receiving debates broadcasted from parliament at his palace.¹³³

On 10 May 1927 the Persian government informed the German government that its trade agreement of 11 June 1873 was to be cancelled in one year, but that it was prepared to negotiate a new one. Mirza Abdul Hossain Khan Taimurtash, the Shah's Court Minister and one of his closest advisors, personally assured the German representative in Tehran, Schulenberg, that this was not an act against Germany but that all Persian trade agreements with foreign countries including capitulation rights were to be cancelled. Hence, the cancellation of the trade agreement between the two countries created an opportunity for Germany to negotiate an improved agreement.¹³⁴

Three further seemingly unrelated events proved crucial to furthering Germany's influence in Persia and its national bank. Firstly, on 23 May 1927 the

¹³¹ Reply of German foreign office in Berlin to an inquiry by the company Bergman and Simons GmbH in Köln-Mühlheim. 11 May 1927, letter. PAAA, Department III-Economy, R92360.

¹³² From German foreign office in Berlin to the chamber of commerce Halle. 27 March 1927, letter. PAAA, Department III-Economy, R92360.

¹³³ From German embassy in Tehran to German foreign office in Berlin. 7 May 1927, letter. PAAA, German legation files-Iran, PKT 74/ XB 6. Volume 1, telecom.

¹³⁴ From Schulenberg to German foreign office in Berlin. 15 May 1927, seven page letter. PAAA, Department III-Economy, R92395.

Persian cabinet stood down. Secondly, at the end of July the American financial advisor to the Persian government, Millspaugh, declared his intention not to renew his contract under its new terms. Thirdly, in July the German entrepreneur, Thomas Brown, met with Persian officials in Tehran to plan the possible involvement of German companies in the modernisation of the country.

a. Change of Persian Cabinet

On 23 May 1927 the Shah accepted the resignation of Prime Minister Mostofi. The German representative in Tehran believed that while foreign political deliberations were the main reason for the cabinet's standing down, it was domestic difficulties and impeachment of the parliament that caused Mostofi to hand in his resignation.¹³⁵ Soon after, Mehdi Gholi Khan Hedayat was instructed to form a new cabinet, which he introduced on 3 June 1927.

<i>Ministers</i>	<i>3rd Cabinet of Mostofi</i>	<i>1st Cabinet of Hedayat</i>
Foreign Affairs	Ansari	Ansari
Interior	Fatemi	Samii
Education	Taddayun	Taddayun
Finance	Prince Firuz	Prince Firuz
Justice	Dawar	Dawar
Public Interests	Ala	Hedayat
War	Forughi	Sardar Asad
Post	open	open
Court	Taimurtash	Taimurtash

¹³⁵ From Schulenberg in Tehran to German foreign office in Berlin. 18 June 1927, six page letter. PAAA, Department III-Politics, R78114.

In actuality, besides the Prime Minister who also took over the office of minister of Public Interests, only two ministers were replaced. From a German perspective the real significance of the change of cabinet lay in the personality of the new Prime Minister, its signal to Russia and its contribution to the influence of Taimurtash.¹³⁶

Hedayat was regarded as one of the most educated, decent and respected figures in Persia. He was brought up in Germany and whereas Mostofi was regarded as pro-Russian, Hedayat was considered unbiased. Germany considered Mostofi's replacement as a hint to Russia. It was believed that this change signalled the Shah's dissatisfaction with the slow and unfruitful commercial negotiations between the two countries. Germany believed that Russia had to take this hint seriously if it did not want to lose Persia.

In Russia this was seen differently. According to Hey in the German embassy in Moscow, an *Isvestia* article reported that it was unfortunate that the Mostofi cabinet resigned at a time when the negotiations between the two countries were just about to be completed. It held an incident between the Shah and the British representative Clive responsible for the change. A short time before, Clive had asked the Shah for the dismissal of Mostofi's cabinet. Clive voiced his dissatisfaction with Mostofi's refusal to accommodate British transit and development agreements. The Shah apparently broke off this conversation and left the room when Clive made a point of reminding him that he owed his throne to Britain and that there were other pretenders to the throne. Thus, this incident had to be taken into account when looking at the resignation of Mostofi. Hey reported further that *Isvestia* believed that Mostofi's resignation was aimed at satisfying the

¹³⁶ From Schulenberg in Tehran to German foreign office in Berlin. 18 June 1927, 6 page letter. PAAA, Department III-Politics, R78114.

British. But at the same time the article acknowledged that it was in the vital interest of Persia to satisfy Russian expectations as well. Hence, the article concluded that since the program of Hedayat's new cabinet dealt extensively with Persian-Russian relations and the pro-Russian Persian foreign minister had been reinstated, Russia felt contented.¹³⁷

Domestically the Persian parliament and the cabinet were in constant dispute. The main reason for this was the parliament's dislike of three cabinet ministers. Interior minister Fatemi was accused of insincerity. Finance minister Prince Firuz was disliked most of all and was also never freed of the stigma of signing the 1919 agreement with the British. Justice minister Dawar was accused of incompetence and corruption. The relations between the cabinet and parliament had reached an inefficiency deadlock that begged for a change. Nevertheless, two of the three above-mentioned ministers were re-appointed as members of the new cabinet.¹³⁸

According to Schulenberg in the German embassy in Tehran, the reason for this was the omnipotent influence of Taimurtash over the Persian government. Prince Firuz was said to be a good friend of Taimurtash, and Dawar was the person to whom he had assigned the task of cancelling all foreign capitulation rights. A further proof of Taimurtash's power was that the new cabinet did not have any strong personalities and could therefore be easily manipulated. With the exception of Prince Firuz all other cabinet members were described as weak.

According to Schulenberg, Prince Firuz and Taimurtash were both regarded in Persia as intelligent and clever. At the same time they did not enjoy any trust even from the Russians. He characterised them as ambitious, power-hungry men from

¹³⁷ An account of *Isvestia* article, from Hey in Moscow, to German foreign office in Berlin. 10 June 1927, telegram. PAAA, Department III-Politics, R78151.

¹³⁸ From Schulenberg in Tehran to German foreign office in Berlin. 18 June 1927, six page letter. PAAA, Department III-Politics, R78114.

aristocratic backgrounds, who were patriotic but did not neglect to pursue their own welfare while carrying out their duties. In the light of these circumstances and the discouraging continuation of the vendetta between the new cabinet and parliament, Hedayat confessed to Schulenberg that his term of office probably would not last for long.¹³⁹ From a German perspective this left Persia with a fragile cabinet dominated by people such as the influential but manipulative Taimurtash.

b. Financial advisor to the Persian government

In 1922 the Persian government appointed Dr. Arthur C. Millspaugh of the American state department, as Treasurer-General. Millspaugh's assignment was to centralise the treasury, reform finances, establish economic legislation and attract foreign investment and loans to Persia.¹⁴⁰ Five years later, Millspaugh's refusal to renew his contract with the Persian government had consequences for Germany that we shall now analyse.

Besides the two major powers Russia and Britain there were two alternative contenders for Persia. The prevailing school of thought accepts that Persia was subjected to a bipolar system of power rivalry. But Germany now began to view America as a contender for power in Persia. Hence, although it is indisputable that there was confrontation between the two big powers, the hitherto less important contenders were also competing against each other and at the same time with the two big powers. The difference is that Britain and Russia safeguarded their economic interest through their political power, whereas for Germany and

¹³⁹ From Schulenberg in Tehran to German foreign office in Berlin. 18 June 1927, six page letter. PAAA, Department III-Politics, R78114.

America the absence of significant political power in the region limited their competition to the economic realm.

From a German perspective, with regard to the fierce competition triggered by the modernisation of Persia, the Americans were marginally ahead in the race. This was partly explained through the fact that the financial advisor to the Persian government was American. This implies that Germany believed that Millspaugh had a degree of economic power that enabled him to create an American biased economic patronage system. The German media reported that Reza Shah, having recognised this American protectionism, personally opposed it in order to ensure equal competition for countries trying to secure an economic foothold in Persia.¹⁴¹

With regard to railway construction, Schulenberg mentioned that the prevailing feeling among the Persian authorities was that Millspaugh misused his position to draft the terms for bids in such a way that it gave only American companies an opportunity to submit competitive bids.¹⁴² Schulenberg also notes American influence in the draft of a bill concerning the employment of foreign nationals for the construction of the Trans Iranian Railway. This bill not only requires specifically American engineers to be employed for key positions but also stipulates that comparatively their wages were to be twice the wages of their European counterparts.¹⁴³ Later in the same year a German foreign office official, Dr. Ziemke, concluded that the American industry was at a clear advantage with

¹⁴⁰ Millspaugh, A. C., *The American Task in Persia* (New York and London: The Century Company, 1925).

¹⁴¹ Article on Persia's industrialisation extracted from the publication for German engineers *VDI-Nachrichten*. 1927, article. PAAA, Department III-Economy, R92430.

¹⁴² From Schulenberg in Tehran to German foreign office in Berlin. 12 May 1927, letter. PAAA, Department III-Economy, R92310. Number 129.

¹⁴³ From Schulenberg to German foreign office in Berlin. 31 July 1927, letter. PAAA, Department III-Economy, R92310. Number 239.

regard to the construction of the Trans Iranian Railway. The reason for this was again associated with the American protectionism coming from the offices held by Millspaugh and William B. Poland, the American national in charge of the construction of the Trans Iranian Railway. Ziemke recommended that Germany should compete with America in other areas since Germany had good prospects for winning contracts for the construction of factories, sugar refineries and power stations.¹⁴⁴

From a German point of view no other government would have accepted the unusual degree of power Millspaugh was given by the Persian government. Therefore, it will have come as no surprise to Schulenberg when the Persian government finally restricted his authority in a new contract. Schulenberg acknowledges the good results Millspaugh had achieved by organising the Persian finances. But he felt that, because of his harsh, arrogant, bureaucratic, impolite and stubborn character (which made him many enemies including the minister of finance Prince Firuz) Millspaugh was to be partly blamed for the curtailment of his power. Schulenberg believed that, since Prince Firuz was a good friend of the all-powerful Taimurtash, it was apparent why the Shah ultimately agreed to curtail Millspaugh's power.¹⁴⁵

According to Schulenberg, when a dissatisfied Millspaugh finally decided not to sign his new confining contract the cabinet forthwith proposed to appoint the American MacCaskey to take his place. MacCaskey was General Treasurer of the Persian government and had served under Morgan Shuster. He was prepared to

¹⁴⁴ Dr. Ziemke from German foreign office in Berlin to the German ministry of finance Berlin. 16 August 1927, letter. Bundesarchiv Potsdam, ministry of trade and industry, 31.01/ 19096. LB 953027, p. 3.

¹⁴⁵ From Schulenberg in Tehran to German foreign office in Berlin. 31 July 1927, letter. PAAA, Department III-Economy, R92320. Number 241.

accept a possible offer, but the anger of parliament against "*Finanz-Amerikanisches*" meant that it could not reach a final decision.¹⁴⁶

At this point Schulenberg reported recent rumours in Tehran that presumed that the Persian government planned to appoint a German expert as its financial advisor. Schulenberg was also informed by a Persian Member of Parliament that his government was positively looking into this plan. At the same time, on the 31 July 1927 an article appeared in one of the major Tehran newspapers, *Shafaghe Sork*, which described in an admiring way how German financial experts single-handedly managed to restore Germany's financial status after the devastating war. Although there was no mention of a German financial advisor for Persia Schulenberg believed that influential parties might have inspired the article, maybe even the palace. Hence he recommended that because of the extraordinary financial significance of the office of financial advisor Germany should be ready to take an offer seriously.¹⁴⁷

In contrast to the German optimism, on 8 September 1927 the Capital City News Association in Washington published an article with the title "Persian finances to continue under supervision of American". The article reported that William B. Poland, American Director General of the Persian Railway Administration, was most likely to succeed Millspaugh as Administrator General of Persia's finances and that his assistant C. J. Carroll was also believed to be under consideration. The article goes on to mention that Millspaugh "refused recently to renew his contract on the ground that under the terms of the proposed new arrangement his administrative powers would be greatly curtailed and his

¹⁴⁶ From Schulenberg in Tehran to German foreign office in Berlin. 31 July 1927, letter. PAAA, Department III-Economy, R92320. Number 241.

¹⁴⁷ From Schulenberg in Tehran to German foreign office in Berlin. 31 July 1927, letter. PAAA, Department III-Economy, R92320. Number 241.

work hampered." But the article also notes that Millspaugh was given in his original contract of 1922 "extraordinary powers that went so far as to make his office independent of even the Persian parliament."¹⁴⁸

On 17 September 1927 a further article revealed Millspaugh's own perception of the situation in Persia. He is quoted as having said that the terms of his new contract "would have substantially altered the conditions and greatly reduced the powers under which he had previously worked." Millspaugh also pointed out that when he arrived in 1922, Persia was "in a state of demoralisation, corruption and chaos." During his term of office "the American Mission made encouraging progress in reorganising the tax system, revenues increased from twenty million to thirty million dollars, expenditures were placed on a budgetary basis and accounting was established in all departments except the Ministry of War the budget was balanced and in the last two fiscal years a substantial surplus was created." This article claims to have "reliably understood" that Persia and the Shah were planning to replace Millspaugh by another American.¹⁴⁹

Even if we take into account the effect of Millspaugh's group of twelve American financial experts who were assisting Prime Minister Hedayat who was left in charge of the Persian finances, and the pro-American newspaper reports from Washington, several other factors left Schulenberg with the belief that there was a real opportunity for a German candidate to become the next financial advisor of the Persian government. These included Millspaugh's refusal to renew his contract as financial advisor to the Persian government, the Persian cabinet's decision to cut down the powers of its American financial advisors, the resistance

¹⁴⁸ Article in Capital City News Association, Washington DC. 8 September 1927, article. PAAA, Department III-Economy, R92320. CCNA Number 1. (Exclusive).

¹⁴⁹ Article in Capital City News Association, Washington DC. 17 September 1927, article. PAAA, Department III-Economy, R92320. CCNA Number 9.

of Reza Shah against American protectionism, and the pro-German propaganda in Persia.

c. Thomas Brown and the German deal

Thomas Brown was a German national, a partner of the Hamburg based German company Woenckhaus & Co., and an expert on Persia. His company had 35 years of experience in the import and export business with Persia. It also represented a majority of large German industrial companies with a commercial interest in Persia.

In 1927 Brown travelled to Persia with the goal of negotiating contracts for larger industrial shipments supporting the development of Persian industry, participation of German industry in the planned Persian railway project and the expansion of the Junkers operations.¹⁵⁰

Brown states in a comprehensive report to the *Reichswirtschaftsministerium* that on arrival in July in Tehran he had planned to investigate opportunities for German commercial involvement in Persia.¹⁵¹

Aware of Russia's influence on Persian economy and politics, prior to his departure Brown met with the German representative to Moscow, Graf Brockdorff-Rantzau, and the Russian vice-commissar for foreign affairs Karachan. These meetings dealt mainly with Russian proposals for the creation of a German-Russian consortium for the construction of the Trans Iranian Railway. Brown

¹⁵⁰ Dr. Ziemke from the German foreign office in Berlin to German ministry of finance in Berlin. 16 August 1927, letter. Bundesarchiv Potsdam, ministry of trade and industry, 31.01/ 19093. LB 953027, p. 3.

¹⁵¹ From Thomas Brown to German ministry of finance in Berlin. 28 September 1927, eight page letter. Bundesarchiv Potsdam, ministry of trade and industry, 31.01/ 19093, p. 21.

rejected the Russian proposal mainly because of the negative foreign political consequences of such a consortium. But at the same time he succeeded in ensuring Russian support for possible German commercial activities in northern Persia.

After arriving in Tehran Brown re-established his close links with Persian personalities and the government. He felt that as a result of Germany's defeat in the war, Persia did not perceive Germany as threat. In fact, he sensed a Persian admiration for Germany's industrial, scientific and organisational achievements. Under these circumstances it looked as if Germany had a good chance to establish itself commercially. Yet Brown's initial negotiations with the Persian government did not lead to any breakthrough.

Brown attributed this mainly to the resistance coming from the American Financial Mission in Tehran. The American Mission, for fear of German competition, appeared to want to retain Persia for the American market. Two weeks after Brown's arrival the crisis between the Persian government and the American Mission reached its height when Millspaugh finally refused to renew his contract. Brown viewed this as an opportunity for Germany.

Knowing Taimurtash's power and influence over the cabinet, Brown forthwith approached him. In his consultations with Taimurtash Brown re-emphasised German eagerness to participate in the commercial development of Persia. He also assured him that the German involvement in Persia would not take the form of exploitation but would respect the interests of both countries. In order to demonstrate the seriousness of his co-operation proposal and commitment, Brown offered the Persian government a loan on behalf of German industry. This loan,

which was to be used exclusively for the purchase of German goods and services, amounted to 40 million Goldmark.¹⁵²

We need to examine the Persian government's regular annual budget (budget year 31 March 1927- 31 March 1928) in order to put the significance of this loan offer into perspective. The government's regular budget was estimated at 25 million Toman (1 Toman \approx 1 \$; 1 \$ \approx 4 Reichsmark) equivalent to 100 million Reichsmark, excluding the budget specially created for railway construction.¹⁵³ Hence, the German loan equalled about 40% of the regular budget and was therefore quite significant.

More importantly for Germany, Brown's main condition for granting this loan was that the Persian government would not renew its contract with an American Financial Mission that included Millspough.¹⁵⁴

Considering Taimurtash's attitude towards Millspough he must have been delighted with Brown's offer. In fact he discussed Brown's proposal on the same day with Reza Shah. On the next day Brown was invited to the palace where Taimurtash told him that the Shah had accepted his offer and that further details should be negotiated directly at cabinet meetings. On the following day Brown attended the first of five cabinet meetings where his plans were examined in more detail. It was soon decided that the German loan should be utilised to finance an electricity plant for Tehran, aeroplanes, several factories for the production of cement, sugar and textiles as well as material for the construction of blast furnaces

¹⁵² From Thomas Brown to German ministry of finance in Berlin. 28 September 1927, eight page letter. Bundesarchiv Potsdam, ministry of trade and industry, 31.01/19093, p. 22.

¹⁵³ From Thomas Brown to German ministry of finance in Berlin. 12 April 1928, letter. Bundesarchiv Potsdam, ministry of trade and industry, 31.01/19093, p. 87.

¹⁵⁴ From Thomas Brown to German ministry of finance in Berlin. 28 September 1927, eight page letter. Bundesarchiv Potsdam, ministry of trade and industry, 31.01/19093, p. 23.

and railways.¹⁵⁵ It appears that Taimurtash genuinely had the power and influence attributed to him by the Germans. He managed to convince the Shah and the cabinet of the virtues of Brown's plans in minimum time.

After the positive results of the negotiations with the Persian government, Brown consulted the Russian embassy in Tehran in order to gain Russian assurance of support for his projects. In Brown's view, Russia welcomed his plans because although Bolshevik foreign policy aimed at strengthening Persia economically and politically, it could not afford to do so financially. Brown was also pleased to hear that Russia had granted Persia the right of free transit of goods through its territory in a recent trade agreement. Brown even managed to persuade the Russians to add a term to this contract that would restrict transit rights only to goods originating from countries that maintained trade with Russia. This in term gave a significant advantage to German exporters of railway construction material. As a trade-off Brown persuaded the Persian government to grant Russia a long-desired flight concession into Anzali.¹⁵⁶

At the last two cabinet meetings Brown attended, he participated in the debate on the Persian railway project. The entire project was to be financed through taxes on tea and sugar. Persia's financial situation was sound and the country had only 20 million Goldmark foreign debt. The tea and sugar tax monopoly generated \$6 million annually, and a further \$1-2 million was to be raised through the introduction of a match tax. The government had already accumulated \$16 million for its railway project. But on the recommendation of the American Finance

¹⁵⁵ From Thomas Brown to German ministry of finance in Berlin. 28 September 1927, eight page letter. Bundesarchiv Potsdam, ministry of trade and industry, 31.01/19093, p. 23.

¹⁵⁶ From Thomas Brown to German ministry of finance in Berlin. 28 September 1927, eight page letter. Bundesarchiv Potsdam, ministry of trade and industry, 31.01/19093, p. 24.

Commission, the Persian government planned to take the management of its railway project in to its own hands, and to have its construction contracted out to American engineers.

Brown criticised this plan at the cabinet meeting and explained that governments always construct more expensively than private enterprises. As a result of this statement, Brown was asked if he could recommend a better plan, taking into consideration the prevailing circumstances. Brown duly recommended that the Persian government should contract out the survey of 600 kilometres of railroad, starting 300 kilometres south of Tehran and stretching to the Caspian sea, to a German group of companies. After the survey of the first 100 kilometres was completed these German companies should start constructing the first 100 kilometres. After the satisfactory completion of this section the government should open the remaining 500 kilometres to international bids.

Brown remarks in his report to the *Reichswirtschaftsministerium* that after the completion of the first 100 kilometres other companies would find it difficult to compete with the already established German group in a public bid. This was also due to the exclusive support of Russia for Germany.¹⁵⁷

Since all Brown's negotiations with the Persian government took place in close consultation with Schulenberg and with Schulenberg's support, his progress was regularly reported to the German foreign office. In this connection, Schulenberg had reported that leading Persian figures were greatly impressed with Brown and that the Persian government was now also planning to employ German experts for

¹⁵⁷ From Thomas Brown to German ministry of finance in Berlin. 28 September 1927, eight page letter. Bundesarchiv Potsdam, ministry of trade and industry, 31.01/19093, p. 25.

the construction of its railway.¹⁵⁸ To Brown's satisfaction the Persian government accepted his proposal.¹⁵⁹ Thus, a few days later Schulenberg forwarded the requests of the Persian government for 22 German railway experts in a telegram to the German foreign office.¹⁶⁰ The foreign office informed the ministry of finance of the Persian government's request. The ministry of finance forthwith contacted the director of *Deutsche Reichsbahn-Gesellschaft* with the request to name suitable candidates for all 22 positions as soon as possible.¹⁶¹

In a further step Brown organised a number of German construction companies into a group. These companies were Philipp Holzmann Aktiengesellschaft, Siemens Bau-Union and Julius Berger Consortium. Representatives of these companies soon arrived in Tehran to negotiate details of their contracts with the Persian government.

Brown's negotiations with the Persian government resulted in more successes for Germany. First, the government agreed to replace Millspaugh by a German financial expert.¹⁶² As a result Schulenberg asked the German foreign office on behalf of Hedayat to recommend a replacement for Millspaugh. The new German financial expert was expected to control the Persian financial administration and budget, recommend and improve sources of tax revenue, take charge of loan

¹⁵⁸ From Schulenberg to German foreign office in Berlin. 31 July 1927, letter. PAAA, Department III-Politics, R92310. Number 239.

¹⁵⁹ From Thomas Brown to German ministry of finance in Berlin. 28 September 1927, eight page letter. Bundesarchiv Potsdam, ministry of trade and industry, 31.01/19093, p. 25.

¹⁶⁰ From Schulenberg to German foreign office in Berlin. 10 August 1927, telegram. PAAA, Department III-Politics, R92310.

¹⁶¹ From Ministerialrat Ruelberg from German ministry of finance Berlin to Reichsbahndirector Dr. Baumann. 19 August 1927, letter. Bundesarchiv Potsdam, ministry of trade and industry. 31.01/2669/2, p. 59.

¹⁶² From Thomas Brown to German ministry of finance in Berlin. 28 September 1927, eight page letter. Bundesarchiv Potsdam, ministry of trade and industry, 31.01/19093, p. 26.

applications and profit-generating government enterprises.¹⁶³ But because of his restricted authority (compared to his predecessor) it was expected that he would find it more difficult to secure his authority and the required influence.¹⁶⁴

Furthermore, on his return to Germany via Russia, Brown managed to gain the full support of the German embassy in Moscow and that of vice-commissar for foreign affairs Karachan for his plans. He was assured in particular of the unobstructed and inexpensive transit of German goods through Russia. The newly appointed Russian ambassador to Tehran, Daftian, also officially confirmed this assurance to the German ambassador in Moscow, Graf Brockdorff-Rantzau.

Brown's recommendations, in his own words, provided Germany with the unique opportunity of securing an economic monopoly in Persia. With relatively low risk and with little effort Germany could create conditions that would help it to advance and become a leading economic and political power in the Middle East. The accessibility of the Persian market offered Germany a great potential for economic activity. The unexplored rich mineral resources and large oil fields that covered the north of the country would have been of particular interest to Germany. Through the envisaged industrial exports and the therewith created monopoly position in the region, German companies could also hope to secure a lasting demand for their goods. Through the German loan, the construction industry alone was expected to win contracts to the value of at least 150 million Reichsmark.¹⁶⁵

¹⁶³ From Schulenberg to German foreign office in Berlin. 4 September 1927, telegram. PAAA, Department III-Economy, R92320. Nr. 93.

¹⁶⁴ German foreign office in Berlin. 24 October 1927, report. PAAA, Department III-Economy, R92320.

¹⁶⁵ From Thomas Brown to German ministry of finance Berlin. 28 September 1927, eight page letter. Bundesarchiv Potsdam, ministry of trade and industry, 31.01/19093, p. 27.

As part of the 40 million Reichsmark loan, Brown requested that the *Reichswirtschaftsministerium* should provide a guarantee against trade cancellation for those German companies planning to export goods to Persia.¹⁶⁶ By this time the foreign office was already aware of Brown's request for a trade cancellation guarantee. Brown had approached the *Reichswirtschaftsministerium* earlier with his request but did not receive a definite answer. Hence, in support of Brown the foreign office had asked the *Reichswirtschaftsministerium* to reach a definite decision with regard to the 25 million-Mark guarantee.¹⁶⁷

Brown had promised the Persian government to announce the results of his negotiations with the *Reichswirtschaftsministerium* by the end of September. However, this date could not be met since on his return to Germany Brown suffered from a bout of malaria he had contracted in Persia.¹⁶⁸

After recovering, Brown reported on the state of his negotiations with the Persian government in a meeting with representatives of government and industry at the *Reichswirtschaftsministerium*. With regard to the Persian government's proposal for the establishment of a national bank, he explained that the bank's founding capital could reach an estimated 200 million Reichsmark. Furthermore, the national bank was to become the state bank of Persia, but it was also to accommodate private commercial customers.

Brown stated that the Persian government had declared that it would follow German recommendations for the appointment of a director for its proposed

¹⁶⁶ From Thomas Brown to German ministry of finance Berlin. 28 September 1927, eight page letter. Bundesarchiv Potsdam, ministry of trade and industry, 31.01/19093, p. 26.

¹⁶⁷ Dr. Ziemke from German foreign office in Berlin to the German ministry of finance Berlin. 16 August 1927, letter. Bundesarchiv Potsdam, ministry of trade and industry, 31.01/19096. LB 953027, p. 4.

national bank and a new government financial advisor. In this connection, the director of the German *Bank für Industrieobligationen*, Dr. Bötzes, was in Persia investigating the situation.¹⁶⁹

In addition, details of the conditions the Persian government and the involved companies had to fulfil in order to qualify for the loan were discussed. In general it appears that all participants managed to agree on the terms brought forward. Brown informed the meeting of his plan to return to Persia in December in order to finalise initial contracts for German exports to Persia.

At this meeting the German officials committed themselves to providing an export guarantee covering 60% or 26 million Reichsmark of the total contracted exports (40 million Reichsmark) to Persia. The terms and content of this guarantee expected that of the remaining risk of 40% or 16 million Reichsmark, 20% was to be directly covered by the companies concerned and the remaining 20% was to be shared equally between the companies and the Reich. The repayment of the loan was to take place in instalments within a maximum of eight years. As a condition interested German companies had to submit their applications for the *Reichsgarantie* by 1 February 1928. By then companies had to provide a binding preliminary contract with the Persian government.¹⁷⁰

¹⁶⁸ From Thomas Brown to German ministry of finance Berlin. 28 September 1927, eight page letter. Bundesarchiv Potsdam, ministry of trade and industry, 31.01/19093, p. 28.

¹⁶⁹ Minutes of a meeting between *Ministerial Director* Schäffer, *Ministerial Rat* Dr. Heintze, *Ministerial Rat* Flach, Dr. Daniel, Thomas Brown and representatives of Krupp and Siemens-Bauunion at the German ministry of finance Berlin. 17 November 1927, minutes. Bundesarchiv Potsdam, ministry of trade and industry, 31.01/19093. 1B11821 27, p. 32.

¹⁷⁰ Minutes of a meeting between *Ministerial Director* Schäffer, *Ministerial Rat* Dr. Heintze, *Ministerial Rat* Flach, Dr. Daniel, Thomas Brown and representatives of Krupp and Siemens-Bauunion at the German ministry of finance Berlin. 17 November 1927, minutes. Bundesarchiv Potsdam, ministry of trade and industry, 31.01/19093. 1B11821 27, p. 32.

The results achieved at this meeting were a great success and a great source of encouragement for Brown. He not only managed to secure the German government's commitment to supporting German industrial exports to Persia but also secured a major step for Germany's participation in the development of Persia.

At this stage it is clear that the German involvement in Persia was largely economically motivated. It was initiated by the skill and ambition of Brown and carried to the highest levels of government in Persia, Germany and Russia. The sympathies of the Persian cabinet towards his ideas and the influence of Taimurtash aided his success. The Millspaugh crisis contributed in many ways to the German cause. It created an opportunity for Germany to negotiate with Persia; it gave Persia a chance to show its resentment against the American Mission; Millspaugh's replacement by a German was a victory for Germany's rivalry with America in Persia, and it gave Germany the opportunity to establish itself on a high level in a key administrative agency. As a result Persia decided to co-operate more with Germany and to employ more Germans. One of these was to be the director of its planned national bank.

d. The Persian National Bank

Brown succeeded in persuading the Persian government to appoint a German national as director general of its planned national bank. The Persian national bank was to be primarily financed through the selling of crown jewellery, valued at an estimated 80-100 million Goldmark, and the sale of crown property. The

German government was to be officially approached by Persia with regard to a suitable candidate for the position of director general.¹⁷¹

The history of the Persian state bank began in 1889 when Nasir ad-Din Shah approved a concession for its establishment. A bank was created in the same year under the name 'The Imperial Bank of Persia'. This bank maintained a head office in Tehran and twenty branches across Persia. The Imperial Bank had an international branch in London also which was its main administrative headquarters. It subsequently opened two branches in Iraq and one in Bombay. Sir Hugh Barnes and seven executive directors managed it. A commissioner appointed by the Shah supervised the Persian government's interest in the bank.

The Imperial Bank's balance sheet revealed a reserve of £520 000 on 20 March 1927. According to the terms agreed in its concession, the Persian government received 6% of the bank's annual net profit. The net profit of the bank for the year 1926/27 was £135, 367.¹⁷² In 1889 the bank had also obtained a sixty-year monopoly right for printing money. The highest amount the bank was allowed to print without the permission of the Persian government was £800, 000. However, a 33% cash reserve was to be held back. The bank's balance sheet for the 20 March 1927 displays the following figures:

Capital	650	Cash in hand	4,262
Reserves	520	Investments	1,987
Circulation	2,155	Discounted Bills	4,565
of bank notes		of exchange	
Deposits	6,483	and advances	
<i>Value in £1000.</i> ¹⁷³			

¹⁷¹ From Thomas Brown to German ministry of finance Berlin. 28 September 1927, 8 page letter. Bundesarchiv Potsdam, ministry of trade and industry, 31.01/19093, p. 26.

¹⁷² 1 Toman = 10 Gheran; £1 = 50 Gheran

¹⁷³ Statistical department of the Reichsbank in Berlin. 31 October 1927, report. PAAA, Department III-Economy, R92320, p. 1.

The Russian *Banque de Prêts de Perse*, later renamed to *Banque d'escompte*, was another bank operating in Persia. In 1921 this bank was handed over from the Soviets to the Persian government. The bank was renamed 'The Bank of Iran' and was affiliated to the Persian ministry of finance. Furthermore, the Ottoman bank maintained three branches in Persia and a new bank, created with the help of the Soviets, maintained branches in the northern provinces.

In 1927 two major banking projects were discussed by parliament which aimed at facilitating Persia's industrialisation. One was to create a government security loan bank and the other was to create a national bank.¹⁷⁴

The law about the creation of a national bank was accepted and passed by parliament on 5 May 1927. According to this law the government was obliged to create a bank under the name "National Bank of Persia". Article 1 established that the headquarters of the bank should be in Tehran and its operations were to be extended on demand through creation of branches in Persia and overseas. Articles 2, 3 and 13 determined, as mentioned before, that the initial 20 million Toman capital of the bank should be raised by the sale of crown jewellery and state property, valued at 15 million Toman. The remaining 5 million Toman were to be accumulated by advances from the government. Article 4 pointed out that government advances were not to come from the railway construction reserve. Article 5 stated that the main purpose of the bank was to support agriculture, industry and trade by granting loans. Article 6 specified that the government, its administrative agencies and the city councils should not be eligible for loans, except with the consent of parliament. Articles 7 and 8 determined that the director of the bank should be an American banking expert whose work could be

¹⁷⁴ Statistic department of the Reichsbank in Berlin. 31 October 1927, report. PAAA, Department III-Economy, R92320, pp. 2-3.

overseen by an inspector. Article 9 gave the bank the right to accept private customers and pay out interest on their deposits. Article 10 ruled that the bank's paperwork had to be kept in Persian language. Article 11 stated that both the ministry of finance and the directors of the bank should draft the standing orders of the bank. These then had to be approved by the council of ministers and the finance commission before they could become effective. Article 12 expected the Persian government to keep all its assets with the national bank. Article 14 determined that as soon as the American expert was employed, he should work out a law for a gold based Persian currency. The draft version of this law was to be presented to the government within one year. Article 15 concluded that the law creating the framework for the National Bank of Persia would come into effect on 6 November 1927.¹⁷⁵

It is of significance that this law asked for an American banking expert to take control over the bank as its director. The *Reichsbank* saw the reason for this in the fact that Millspaugh and his finance commission initially drafted this law.¹⁷⁶

But circumstances had changed since March when this law was passed. More specifically, in July Brown had succeeded in gaining Persian government consent to a German expert as the director of the national bank instead of an American. However, it appears that either Persia did not see this as a binding agreement or the German government did not give the matter its expected urgency. In December the German foreign office notes that the Persian representative had informed them of his government's plan to employ a Swiss national as director of

¹⁷⁵ From German embassy in Tehran to German foreign office in Berlin. 7 July 1927, letter. PAAA, German legation files-Iran, National Bank of Persia, PKT 73/ IX A 11a. See also official announcement of the National Bank's inauguration. PAAA, Department III-Economy, R92341.

¹⁷⁶ Statistic department of the Reichsbank in Berlin. 31 October 1927, report. PAAA, Department III-Economy, R92320, p. 4.

its national bank. Nevertheless, the Persian representative had also added that a German applicant still had a chance to occupy the post if a suitable candidate was recommended immediately.¹⁷⁷ This note indicates that if Germany did not act fast, it was about to lose the opportunity to have a German national become the director of National Bank of Persia.

It appears that faced with an ultimatum from the Persian government the German foreign office started to take the matter more seriously. Dr. Bötzes, the director of the *Bank für Deutsche Industrieobligationen*, who had already investigated the banking situation in Persia, had proposed Dr. Lindenblatt as a suitable candidate.¹⁷⁸ The foreign office accordingly tried to contact Lindenblatt via telegram in order to find out if he would be interested in the post and if he was prepared to go to Tehran for a salary of \$12, 000.¹⁷⁹

At this point a glance at Lindenblatt's previous career seems appropriate. He was born on 11 October 1885 in Freienwalde. He completed his university education in economics and law in 1912. Lindenblatt was then employed by the *Disconto-Gesellschaft*, one of four Berlin based credit banks. He also had the opportunity to gain experience at the London branch of the bank. With the outbreak of war he joined the military until 1916. His economic expertise was then put to use by the German foreign office and its consulates in Constantinople, Copenhagen and Amsterdam. In 1922 Lindenblatt returned to the *Disconto-Gesellschaft*, and after a period of preparation in Berlin, he was sent as the first German Director of the Credit Bank-Sofia to Bulgaria. During his six years at the

¹⁷⁷ Note by Dr. Grobba, head of Orient-department, at the German foreign office in Berlin. 7 December 1927, note. PAAA, Department III-Economy, R92320.

¹⁷⁸ Note by Dr. Grobba, head of Orient-department, at the German foreign office in Berlin. 7 December 1927, note. PAAA, Department III-Economy, R92320.

¹⁷⁹ Telegram from Dehaas at the German foreign office in Berlin to Sofia. 7 December 1927, telegram. PAAA, Department III-Economy, R92320. Number 91.

bank he gained an insight and experience in domestic and international banking.¹⁸⁰

Lindenblatt seemed enthusiastic about the idea of going to Persia and participating in the development and reconstruction of the Persian economy. In order to take up what he called "an important position in the Persian empire", Lindenblatt approached the *Disconto-Gesellschaft* with the request to consider relieving him from his contract in Sofia. Accommodating the special circumstances, the *Disconto-Gesellschaft* agreed to support Lindenblatt's appointment as the first director of the National Bank of Persia.¹⁸¹

One month later Lindenblatt signed his contract with the Persian government and at the end of April 1928 he left for Tehran.¹⁸² His appointment was even reported in the German press.¹⁸³ Lindenblatt's appointment added weight to a new phase in Germany's involvement in Persia, a phase which was to give Germany a significant degree of influence.

e. The role of Government

As soon as the creation of the National Bank of Persia became intertwined with German involvement in Persia, in other words when the Persian government asked Germany for its involvement in the founding of the national bank by

¹⁸⁰ Report on Dr. Kurt Lindenblatt. 1 March 1928, report. PAAA, Department III-Economy, R92321.

¹⁸¹ Report on Dr. Kurt Lindenblatt. 1 March 1928, report. PAAA, Department III-Economy, R92321.

¹⁸² Briefing notes for German foreign minister Dr. Stresemann. 12 April 1928, briefing. PAAA, Department III-Politics, R78105. L014971.

¹⁸³ Newspaper article published in *Frankfurter Zeitung*. 27 April 1928, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/ 5289. Number 315. See

providing its director, it became effectively a German project, and as such it became a lever for German influence in Persia.

However, Lindenblatt and Millspaugh were both employees of the Persian government and not official representatives of their countries. The German foreign office acknowledged that the American government did not exercise any influence through Millspaugh and that the Americans employed by the Persian government were not a "Mission" of the American government. They were viewed as independent experts recruited by the Persian government. A proof of the American position was seen in the fact that "not one American dollar had been granted to the Persian government".¹⁸⁴

The Americans also made clear that Millspaugh's appointment as financial advisor to the Persian government "was a private arrangement and was not made on the advice of the American State Department". With regard to Millspaugh's resignation, it was pointed out that the American government "was interested to see that the services of a competent American advisor were obtained by the Persian authorities, but it was explained that the State Department has no responsibility in the matter and cannot intervene in the matter of Dr. Millspaugh's contract."¹⁸⁵

Similarly, the German government also appeared to regard Lindenblatt's appointment as a private matter between him and the Persian government.

also newspaper article in *Berliner Lokal-Anzeiger*. 26 April 1928, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/5389. Number 188.

¹⁸⁴ From German embassy in Tehran to German foreign office in Berlin. 7 July 1927, letter. PAAA, German legation files-Iran, National Bank of Persia, PKT 73/ IX A 11a. Almost identical statement with reference to the German foreign office in Berlin can be found (four month later) in a report of the statistical department of the Reichsbank in Berlin. 31 October 1927, report. PAAA, Department III-Economy, R92320, p. 4.

¹⁸⁵ Article in *Capital City News Association*, Washington D.C. 8 September 1927, article. PAAA, Department III-Economy, R92320. CCNA Number 1. (Exclusive).

However, we have shown that Millspaugh, as a private individual, was protective of American interests in Persia. For example, he was inclined to approve new laws passed by the Persian government only if all experts involved were Americans.¹⁸⁶ The mode of operation of both the American and German governments was similar. Both governments maintained that the Persian government had employed one of their nationals but that these were not pursuing their government's interest. Yet Millspaugh's case shows that he could effectively operate as the instrument of American policy when dealing with Persia. Both governments seem to have learned from the past mistakes of the super powers Britain and Russia. Instead of becoming governmentally involved they got involved through the demands of the market. This hypothesis fits well with the perception of German and American activities in Persia. Instead of direct governmental interference they interfered through financial, monetary or economic interest.

When we are looking at the National Bank as a future tool for Germany's exercise of economic influence in Persia, we also have to ask if Germany faced any obstacles on its way to this exercise of influence. The German perception of Millspaugh facilitating American interest is evidence that he was regarded as an obstacle for the smooth operation of German projects in Persia. How much of an obstacle he was becomes particularly clear when we see that Brown thought it worthwhile to persuade the Persian government to replace him with a German financial expert.

This is simultaneously evidence of the contention that even though the Germans were disassociating the individual sent to the bank from the German

¹⁸⁶ From German embassy in Tehran to German foreign office in Berlin. 7 July 1927, letter. PAAA, German legation files-Iran, National Bank of Persia, PKT 73/XA11a.

government, implicitly they were thinking of Lindenblatt as an individual who would further the interest of Germany.

Assuming that it was a German aspiration that the National Bank of Persia should provide them with a degree of influence and that Lindenblatt had a hidden agenda to increase trade between Germany and Persia, it is of interest to investigate further developments in Persia with regard to German activities and the role of Lindenblatt and the National Bank of Persia.

4. Development of German relations with Persia and its National Bank

a. The German approach

Germany intended to set about ensuring its success in foreign policy towards Persia through a radically different approach from that pursued by Britain and Russia. The German government tried to find a political foothold in Persia through private enterprise. This new mechanism of involvement was also used by the United States. It relied mainly on the notion that a military approach was out of question, that the new approach to imperialism should be cost effective and not resemble colonialism. Both governments did not even attempt to direct private enterprise, since from the experiences of Britain and Russia such an approach would have most probably backfired. The British and Russian governments dominated commercial projects in Persia. Even the Anglo-Persian Oil Company was a British government venture rather than a private enterprise.

In the German case, instead of the government paving the way for private enterprise, the government's way was paved through private enterprise. It appears that the German government kept its political and economical agenda separate. However, within its economic agenda there was a further division between government-supported initiatives and independent German private enterprise initiatives in Persia. Thomas Brown and Junkers air services, mentioned in the last chapter, are examples of the latter. The National Bank of Persia could qualify as an example of the first. Hence we will first map out German commercial interest in Persia before returning to the German political agenda and the role of the National Bank.

b. German commercial interest in Persia

In a Report on German trade with Persia and its future potential Dr. Fritz Hesse explains that by 1927 the public interest in German activities in Persia increased particularly because of the involvement of the Julius Berger-Group in the Trans Persian railway project and the appointment of German experts to high government positions in Persia.¹⁸⁷

In order to trace the roots of his statement three different approaches shall be used for the analysis of German interest in Persia. First, we shall examine German trade with Persia. Second, we shall map out German enterprise in Persia. Third, we shall look at the cultural and economic promotion of Germany in Persia.

The following table of trade statistics shows the volume and development of Persia's import, export, and total trade between 1913-1929.

¹⁸⁷ Report compiled by Dr. Fritz Hesse, chairman of the German-Persian Association (Deutsch-Persische Gesellschaft), most probably for German foreign office in Berlin. Approximately 1930, report. PAAA, Department III-Economy, R92360, p. 1.

Persia's Imports and Exports

	<u>Imports</u>	<u>Exports</u>	<u>Total</u>
1913-1914	265	167	452
1919-1920	258	151	409
1920-1921	198	152	350
1921-1922	250	206	456
1922-1923	254	301	555
1923-1924	279	315	594
1924-1925	316	410	726
1925-1926	361	434	795
1926-1927	323	453	776
1927-1928	331	435	766
1928-1929	328	607	935

*Value in million Marks*¹⁸⁸

In order to put the significance of these figures into perspective we shall consider the total trade of Persia's neighbour Turkey, a country that also was important for Germany. This table reveals that already in 1927/28 Persia's overall volume of trade was 766 million Goldmark and therefore potentially higher than Turkey's total volume of trade, which amounted to 738 million Goldmark or 369 million Turkish Pounds, during the same period.¹⁸⁹

In the year 1928/29 Persia's volume of trade at 935 million Goldmark was more than 100 million Goldmark higher than Turkey's volume of trade during that period. This amounted to approximately 823 million Goldmark or 411.4 million Turkish Pounds. Moreover the total volume of trade for other countries in the region such as Syria, Palestine, Iraq and Afghanistan were far behind that of Persia.

¹⁸⁸ Figures in Goldmark are based on the official data from the Persian customs statistics for 1928/1929.

¹⁸⁹ Report compiled by Dr. Fritz Hesse, chairman of the German-Persian Association (Deutsch-Persische Gesellschaft), most probably for German foreign office in Berlin. Approximately 1930, report. PAAA, Department III-Economy, R92360, p. 2.

Therefore, although Persia's high trade figures are largely due to its oil exports (in 1928/29 oil exports totalled 415 million Goldmark) these figures show that Persia's importance for international trade had become higher than that of Turkey.

However, whereas Germany occupied the third position in the list of countries trading with Turkey, Germany occupied the seventh position in the list of countries trading with Persia.

Position of countries in Persia's foreign trade

	<u>Import</u>	<u>%</u>	<u>Export</u>	<u>%</u>	<u>Total</u>	<u>%</u>
Great Britain	63	(19.1)	156	(25.7)	219	(23.5)
Soviet Union	115	(35.5)	66	(10.9)	182	(19.6)
British India	73	(19.3)	58	(9.6)	121*	(16.0)
Egypt	0.04	(Ø)	182	(Ø)	182	(Ø)
France	16	(4.8)	32	(5.2)	48	(5.1)
United States	16	(4.8)	32	(5.2)	48	(5.1)
Germany	19	(5.7)	16	(2.7)	35	(3.8)
Belgium	12	(3.5)	14	(2.2)	26	(2.7)
Turkey	0.3	(0.1)	16	(2.6)	16	(1.7)
Italy	8	(2.4)	4	(0.7)	12	(1.3)

Value in million Mark-%: Share of market

* *Figures add up to 131, the original document notes 121.*

Germany's volume of trade with Persia was comparatively small, particularly compared with Britain, the Soviet Union and British India, which added up to over 60% of Persia's foreign trade.¹⁹⁰

¹⁹⁰ Report compiled by Dr. Fritz Hesse, chairman of the German-Persian Association (Deutsch-Persische Gesellschaft), most probably for German foreign office in Berlin. Approximately 1930, report. PAAA, Department III-Economy, R92360, p. 3. For further information on Persian trade see also document from statistical department of the Reichsbank. 20 August 1930, report. Bundesarchiv Potsdam,

Nevertheless trade between Persia and Germany had increased significantly.

German Trade with Persia

	<i>German Exports to Persia</i>	<i>%</i>	<i>German Imports from Persia</i>	<i>%</i>	<i>Total</i>	<i>%</i>
1913-1914	15 185	4.5	1 475	0.7	16 880	3
1919-1920	58	0.02	----	----	53	0.014
1920-1921	219	0.13	78	0.04	297	0.08
1921-1922	1 232	0.49	98	0.04	1 330	0.29
1922-1923	3 478	1.21	145	0.05	3 624	0.66
1923-1924	7 245	2.74	436	0.13	7 682	1.23
1924-1925	9 458	2.99	783	0.19	10 241	1.41
1925-1926	13 405	3.71	751	0.17	14 156	1.78
1926-1927	16 133	4.43	1 846	0.41	17 980	2.26
1927-1928	13 208	4.11	13 801	3.17	27 009	3.52
1928-1929	18 894	5.76	16 631	2.67	35 546	3.8

Value in Thousand Marks

This table shows that in 1927 Germany's volume of trade with Persia reached the levels it had maintained before WWI. Although in 1927/28 Germany faced major difficulties in establishing itself in Persia it still managed to improve its trade. Between the years 1920/21 and 1928/29 Germany improved its exports to Persia from 0.13% of the total market share to 5.76%. Germany's imports from Persia increased in the same period from 0.04% to 2.67% of total Persian exports.¹⁹¹

These rather small figures appear in a different light when we consider that about sixty percent of Persia's imports comprised cottons, low price textiles, sugar

Deutsche Reichsbank, 25.01, 6594/ 1. And article by Fritz Hesse. 'Deutsche Waren in Persien', *Berliner Tageblatt*, 19 September 1930, number 443.

¹⁹¹ Report compiled by Dr. Fritz Hesse, chairman of the German-Persian Association (Deutsch-Persische Gesellschaft), most probably for German foreign office in Berlin. Approximately 1930, report. PAAA, Department III-Economy, R92360, p. 4.

and tea. These were all goods that were from a practical and economic point of view not suited as German exports to Persia. Britain, India and the Soviet Union could produce cottons cheaply in a way that Germany's quality oriented textile industry could not compete with. The sugar market was anyway dominated by the Soviets, since they exported sugar at subsidised dumping prices.

The other group of goods imported by Persia, such as food, petroleum, gold and silver, were not typical German export goods. Hence, they do not figure in the analysis of German trade with Persia. A more objective picture of German trade with Persia can only be obtained when we focus on German export of manufactured goods. Only this group could realistically compete with goods supplied by other countries' manufacturers.¹⁹²

German manufactured goods made up a significant share of the total Persian imports of high end and quality manufactured goods including steel and machinery. Even though, the markets for automobile, cycle, supplies for the Persian construction industry, tools and hardware were dominated by the United States and Britain, Germany successfully maintained a strong position in the export of paints, drugs and chemicals. The German exports of electrical goods, precision machinery and optical goods was also well established and provided potential for expansion. Moreover, although the German export of power stations and machinery was hampered by the scarcity of skilled Persian operating staff, it had a good chance to become a major exporter of goods such as leather, paper, glass and glass products.

¹⁹² Report compiled by Dr. Fritz Hesse, chairman of the German-Persian Association (Deutsch-Persische Gesellschaft), most probably for German foreign office in Berlin. Approximately 1930, report. PAAA, Department III-Economy, R92360, p. 6.

Persian Exports

<u>Type of goods</u>	<u>Total Exports</u>	<u>Exports to Germany</u>	<u>German Share in %</u>
Petroleum	415 042	12 652	3
Skins	4 943	3 375	46
Wool Carpets	63 740	596	0.9
Rubber <i>Tragant</i>	6 340	397	6.3
Dried Fruits	19 845	383	1.8
Animal skins	2 298	160	6.9
Other Rubber Types	1 011	53	5.2
Lamb Skins	2 886	44	1.5

Value in 1 000 mark

The above table shows that with the exception of oil from the British dominated Olex Germany imported comparatively little from Persia.¹⁹³

In general, difficulties with transportation and the lack of financial capital in Persia can be singled out as the prime reason for the low volume of trade between Germany and Persia. Nevertheless, due to the growing importance of Persia for trade and the increase of German trade with Persia, Germany had good prospects in developing areas such as agriculture, water, power stations and mining as well as through the establishment of commercial enterprises which required medium sized capital investment.

Compared to Britain (the backbone of British economic policy in Persia were the large commercial enterprises it maintained, such as the Anglo-Persian Oil Company and the Imperial Bank of Persia), Germany maintained very few commercial enterprises in Persia, but due to increasing commercial opportunities Germany became more interested in Persia.

One such company, whose venture was also furthered by German and Persian government agencies, was the 1927 established Junkers air passenger service. Within a short period this company proved itself successful and aimed to secure further concessions, expanding its operations.¹⁹⁴ A further, larger enterprise attracted to business in Persia was the construction consortium formed by the companies Julius Berger Tiefbau A.G., Philipp Holzmann A.G. Frankfurt am Main and Siemens-Bauunion. These companies were part of a Railway Syndicate for the construction of the Trans-Persian railway. The funds reserved by the Persian government for this project, which was primarily financed through taxes on sugar and tea, had reached a commercially attractive 103 million Mark by 23 September 1929.¹⁹⁵

The involvement of the consortium in the construction of what was for its time an ambitious and expensive project meant a significant increase in commercial activity between Germany and Persia. Besides the mentioned projects, some major German companies such as Krupp, I. G. Farben, A. E. G. and Siemens-Schuckert Werke had sent permanent representatives to Persia. Other German companies, including Wönckhaus & Co., Undütsch & Co., Steffen & Heymann, Riedel & Haen A. G. and Deutsches Magazin (Tehran), maintained commercial relations with Persia.¹⁹⁶ Furthermore, the German shipping company Hansa Line and a newly formed

¹⁹³ Report compiled by Dr. Fritz Hesse, chairman of the German-Persian Association (Deutsch-Persische Gesellschaft), most probably for German foreign office in Berlin. Approximately 1930, report. PAAA, Department III-Economy, R92360, p. 9.

¹⁹⁴ Report compiled by Dr. Fritz Hesse, chairman of the German-Persian Association (Deutsch-Persische Gesellschaft), most probably for German foreign office in Berlin. Approximately 1930, report. PAAA, Department III-Economy, R92360, p. 11.

¹⁹⁵ For details on the Trans Iranian Railway project see Brown to Heintze at the ministry of trade and industry. 12 April 1928, letter. Bundesarchiv Potsdam, ministry of trade and industry, 31.01/19093.

¹⁹⁶ Report compiled by Dr. Fritz Hesse, chairman of the German-Persian Association (Deutsch-Persische Gesellschaft), most probably for German foreign office in Berlin. Approximately 1930, report. PAAA, Department III-Economy, R92360, p. 13.

German transport company Pers-Express A. G. provided regular transport services between Germany and Persia.

But general interest in German activities in Persia increased also because a very different type of German presence. Since we had mapped out the possible commercial advantages arising from the involvement of German nationals in the operations of the National Bank of Persia, we might be tempted to consider the National Bank of Persia as a factor for improved commercial relations. However, Germany's position with regard to the National Bank was different. The bank was considered a Persian enterprise and constituted the official state bank of the Persian government, which was also to take over the monopoly on printing money from the Imperial Bank of Persia. Authority over the bank lay exclusively with the Persian government. Its German director Lindenblatt and the numerous German employees working at its branches were considered Persian civil servants and were to serve the interests of the Persian government. Nevertheless, it is also certain that it reflected positively on German commerce, when German nationals working in key government offices achieved good results. Apart from the bank further key offices in the Persian government were held by the German finance inspector Scheer who was the head of the Persian finance administration, Fry, who was head of accountancy, and *Ministerialrat* Schniewind who held the office of financial adviser to the Persian government.

The loyal services rendered by these German nationals for the development of the Persian economy absolutely improved Germany's image in Persia and therewith also indirectly promoted the image of the German entrepreneur and his business interests.¹⁹⁷

¹⁹⁷ Report compiled by Dr. Fritz Hesse, chairman of the German-Persian Association (Deutsch-Persische Gesellschaft), most probably for German foreign office in

This leads us to the question of the German government's efforts in promoting itself on a cultural and commercial level in Persia. We can state that the German government did not maintain any cultural institution that could promote German ability and capability in Persia.

The director of the Tehran trade school was German, but the school was equipped and run by the Persian Government, and the popular 'German School' had been shut down in 1916. The only German organisation in Persia was the *Deutsch-Persische Gesellschaft e.V.*, which was founded by German companies and individuals resident in Persia. This organisation aimed at promoting cultural and commercial relations between the two countries. Its chairman, Fritz Hesse, believed that however desirable the promotion of German culture and commerce was, the initiative for promoting it should come not from the German government but from a larger German company based in Persia. One of the reasons for the German government's lack of interest might have been the advice of Hesse who maintained, that investments in the cultural sector, however beneficial in the long term, could not encourage German-Persian trade relations in the short term.

In short Persia's commercial value had grown steadily in the eyes of Germany, reflected in increased trade figures. Simultaneously, German enterprises became interested in the possible commercial opportunities Persia had to offer. But also other factors encouraged the German commercial interest in Persia, such as a weak improvement in the Persian currency which as a consequence effected trade; the exploitation of newly discovered oil reserves in northern Persia by the Russian company Kevir Khourian; the intention to construct industrial plants, including a blast furnace, a match factory and an electrical power plant; stable agricultural

output with an increased focus on the production of silk; significant improvement of travel times due to improved roads and increased automobile traffic; improvement of air travel and of postal service,¹⁹⁸ as well as the employment of German nationals in key government offices with economic and financial responsibilities.

c. Germany's plans for Persia

Germany's plans for Persia may become more transparent by looking at the German documents connected with the Berlin visit of the Persian foreign minister Ali Gholi Khan Ansari in March 1928, the visit of the German foreign minister Gustav Stresemann to the Persian embassy in Berlin in April 1928, and the official visits of Taimurtash in Germany in July and September 1928. This section aims at outlining the content and evolution of German intentions as presented in the documents of the German foreign office prior to diplomatic consultations with Persian officials. This should also allow us to examine the significance of certain key personalities involved in the politics of this foundational period of relations.

In the briefing prepared for the German foreign minister Stresemann for his meeting with Ansari it is noted that Ansari was before World War I for ten years the Persian representative in St. Petersburg. After the war he became Persian ambassador to Angora and thereafter for six years to Moscow. Although Ansari was on a private visit he attended official meetings throughout his stay, including meetings with Lindenblatt and Bötzkes in Berlin.¹⁹⁹

¹⁹⁸ Article titled 'Persien' published in *Industrie- und Handelszeitung*, number 89. 15 April 1928, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/ 5289.

¹⁹⁹ Briefing prepared by the foreign office for the breakfast meeting of German foreign minister with Persian foreign minister in Berlin. 29 March 1928, six page briefing. PAAA, Department III-Politics, R78166, p. 1.

The briefing prepared for Stresemann identifies five key topics of negotiation for his meeting with Ansari.

1. Negotiations of treaties between Germany and Persia
2. German financial advisor for Persia
3. Railway construction
4. German industrial exports to Persia
5. Junkers air services in Persia

Therefore it can be deduced that the German foreign office had considered these topics to be of major significance for its designs towards Persia. With reference to the first topic, Germany's objective was to ratify a number of treaties and agreements with the Persian government. Of prime importance were a treaty of friendship, a settlement agreement and a trade and shipping agreement that simultaneously would grant German exports a most-favoured-nation treatment. The briefing notes emphasise the German government's determination to secure most-favoured-nation treatment.²⁰⁰

With regard to German financial advisors, the German documents reveal that as a result of Millspaugh's resignation the Persian government had requested the German government's support in the naming of suitable candidates for the office of financial advisor to the government, a director for its proposed national bank and a finance inspector.

Since the Persian legislation for the employment of foreign financial experts did not state clearly the authority of its civil servants, on request of both the German and Persian governments, the director of *Bank für Deutsche Industrieobligationen*, Bötzes, travelled to Persia in November 1927. His mission was to investigate the situation in

Persia and clear up the status of German financial experts. When in Persia he also compiled a statute for the national bank.

Meanwhile, Lindenblatt, who was director of the *Kreditbank* of Sofia, was the main candidate for the office of director of the National Bank of Persia. Likewise the German ministry of finance had put forward *Ministerialrat* Schröder as the candidate for the office of finance inspector, mainly because of his expert knowledge in customs and tax matters.²⁰¹

The third issue in Stresemann's briefing was the question of railway construction in Persia. We establish from the foreign office briefing that for the past three years the Persian government's special tax on tea and sugar had accumulated circa 18 million Mark per annum, and was kept at the Imperial Bank of Persia. The cost for the construction of the 1600 km of railway was estimated to be around 300 million Mark. There were three main groups of companies bidding for the construction of this railway. The German group organised by Brown, and a further German, French and Belgian group were competing for contracts regarding the construction of the northern section. An American group was bidding for the construction of the southern section of the railway.

Although the Persian government had initially planned to manage the railway project without foreign assistance, it was, due to change of policy, prepared to consider having its railway project contracted out to foreign companies.²⁰² The prime

²⁰⁰ Briefing prepared by the foreign office for the breakfast meeting of German foreign minister with Persian foreign minister in Berlin. 29 March 1928, six page briefing. PAAA, Department III-Politics, R78166, pp. 2-3.

²⁰¹ Briefing prepared by the foreign office for the breakfast meeting of German foreign minister with Persian foreign minister in Berlin. 29 March 1928, six page briefing. PAAA, Department III-Politics, R78166, pp. 3-4.

²⁰² This was a direct result of Brown's negotiations with the Persian government, as shown in the previous chapters.

condition for this was that the companies involved should be responsible for the financing of the project.²⁰³

Point four of the briefing addresses the question of German industrial exports to Persia. As mentioned in the previous chapter, the German ministry of finance had declared that it would accept an export cancellation guarantee of 20 million Mark. This guarantee would cover German exports to the Persian government. Brown was in the process of negotiating details of German industrial exports to Persia, including factories and electrical power stations.

The foreign office, under point five, declares itself satisfied with the achievements and level of service provided by the Junkers air services in Persia under its monopoly agreement.²⁰⁴

The following four topics dominated a further briefing prepared for Stresemann, by the German foreign office, in conjunction with a breakfast meeting at the Persian embassy on 13 April 1928.

1. Negotiations on German-Persian treaties and agreements
2. Railway construction
3. German industrial exports to Persia
4. German financial experts for Persia

In the short period since Ansari's visit German priorities seemed to have shifted. As the matter of financial advisors was almost settled, commercial issues gained more weight. However, treaties and agreements remained the first topic on the

²⁰³ Briefing prepared by the foreign office for the breakfast meeting of German foreign minister with Persian foreign minister in Berlin. 29 March 1928, six page briefing. PAAA, Department III-Politics, R78166, pp. 4-5.

²⁰⁴ Briefing prepared by the foreign office for the breakfast meeting of German foreign minister with Persian foreign minister in Berlin. 29 March 1928, six page briefing. PAAA, Department III-Politics, R78166, pp. 5-6.

agenda. It is these agreements which would provide the legal basis for solid commercial relations between Germany and Persia.²⁰⁵

The document points out that the foreign office had sent *Gesandtschaftsrat* Kolb on 7 April 1928 to Tehran with drafts of a treaty of friendship, a settlement agreement accompanied by a protocol on the legal position of German nationals in Persia, and a trade and shipping agreement. Since Kolb's documents were all in French, it enabled Schulenberg to forthwith present them to the Persian government and start immediate negotiations. The goal was to have these agreements ratified before 10 May 1928, the date of the termination of the German-Persian friendship and trade agreement. Were this to prove not feasible, the foreign office's objective was to reach temporary agreement on its most urgent questions. These were the legal status of German nationals in Persia, and the terms for import-export of goods.²⁰⁶

With reference to the second question on Stresemann's agenda, railway construction, the state of affairs was that the German group of companies was awaiting the Persian decision over a proposal which could award them the contract for carrying out the initial groundwork for the entire Trans Iranian Railway and the construction of two trial sections of 100 km each. For the construction of part of the railway the German group had merged with the American company Ulen and a French group. Furthermore, it was believed that after completion of the two trial

²⁰⁵ Foreign office record of suggested topics of discussion for Stresemann for a Breakfast meeting on 13 April 1928 at the Persian embassy. 12 April 1928, briefing. PAAA, Department III-Politics, R78105. L014968-L014971, p. 1.

²⁰⁶ Foreign office record of suggested topics of discussion for Stresemann for a Breakfast meeting on 13 April 1928 at the Persian embassy. 12 April 1928, briefing. PAAA, Department III-Politics, R78105. L014968-L014971, p. 2.

sections Persia would contract out the 300 million Mark project completely to the German group.²⁰⁷

In connection with German industrial exports to Persia, point three on the agenda, Brown had managed to sign an agreement with the Persian Prime Minister over the delivery of German industrial goods at the value of 40 million Mark. The goods agreed on included railway carriages, factory equipment, machines and electrical merchandise.

The question of German financial experts was still on the agenda, particularly because a suitable candidate for the office of financial advisor had not been found. However, Schröder was about to sign his contract as finance inspector with the Persian government.

Lindenblatt was confirmed as director of the National Bank of Persia. He had signed his contract at the Persian embassy early in April and was about to leave for Persia by the end of the same month.²⁰⁸

The third key meeting of German and Persian statesman surrounded the visit of Taimurtash in Germany. In July 1928 the German foreign office notified Brown of Taimurtash's plan to visit Berlin on his way to Paris and London in July, and on his return in August. According to a telegram from Schulenberg, Taimurtash intended to negotiate with the Germans about an electrical plant, a sugar factory, a cement factory, the steel industry as well as the construction of a small aircraft manufacturing plant.

²⁰⁷ Foreign office record of suggested topics of discussion for Stresemann for a Breakfast meeting on 13 April 1928 at the Persian embassy. 12 April 1928, briefing. PAAA, Department III-Politics, R78105. L014968-L014971, pp. 2-3.

²⁰⁸ Foreign office record of suggested topics of discussion for Stresemann for a breakfast meeting on 13 April 1928 at the Persian embassy. 12 April 1928, briefing. PAAA, Department III-Politics, R78105. L014968-L014971, pp. 3-4.

In order to ensure the prompt purchase of German industrial goods, the foreign office intended to convince Taimurtash to engage in the main part of his negotiations on arrival in July. The official reason for this wish, as disclosed to the Persian representative in Berlin, was that two main foreign office officials intended to take leave during August. Brown also was asked to join the negotiations with Taimurtash in July.²⁰⁹

In a letter, *Ministerialdirektor* de Haas reports to *Staatssekretär* von Schubert about the two-day visit of Taimurtash in Berlin on 19th and 20th July 1928. From de Haas's point of view Taimurtash was the real person in charge of Persian government business (Taimurtash had previously visited Germany in 1926).

De Haas reports that Taimurtash was trained in Russia and was promoted to be an officer of the Russian army. On his return to Persia in 1912, he was elected as a Member of Parliament. He served as a minister under several cabinets and since 1925 he had held the office of *Hofminister* (court minister). During his European tour to Paris, London, Rome, and Bern, Taimurtash was received by heads of state and foreign ministers.²¹⁰

On his two-day visit in July, Dr. Schniewind, *Ministerialrat im Preussischen Handelsministerium*, was employed by Taimurtash as a replacement for Millspaugh. His contract as financial advisor was limited to two years. Taimurtash also engaged in initial negotiations about employing a German finance inspector and a medical advisor. Furthermore, he met with a German industrial group led by the Krupp company in order to negotiate the development of new industries and the exploitation of minerals in Persia. Taimurtash also expressed the wish to talk to the

²⁰⁹ German foreign office in Berlin to Brown. 12 July 1928, letter. PAAA, Department III-Economy, R92321.

Junkers company about the expansion of their air service in Persia. According to de Haas, the foreign office planned to utilise Taimurtash's August visit to discuss particular points arising from the negotiations surrounding German-Persian agreements.²¹¹

With respect to the overwhelming significance and status of Taimurtash, de Haas considered it as crucial that a meeting between him and *Reichspräsident* Hindenburg should be arranged. He also suggested that an official dinner²¹² to his honour should be organised by deputy foreign minister von Schubert.²¹³

A further document originating from the German foreign office states that Taimurtash was the Shah's right hand man and next to him the most influential person in Persia. His powerful status was explained by the fact that he was directly responsible to the Shah and not to parliament. This circumstance left him, in the eyes of the German foreign office officials, even autonomous of changes in the Persian cabinet.²¹⁴

The visit of such a key politician to Germany was viewed as an ideal opportunity for the foreign office as well as for German industry to enter negotiations and finalise treaties and agreements with Taimurtash. The following treaties and agreements were to be put forward or finalised.

²¹⁰ *Ministerialdirektor* de Haas to *Staatssekretär* von Schubert over reception of Taimurtash in Berlin. 27 July 1928, letter. PAAA, Department III-Politics, R78166, p. 1.

²¹¹ *Ministerialdirektor* de Haas to *Staatssekretär* von Schubert over reception of Taimurtash in Berlin. 27 July 1928, letter. PAAA, Department III-Politics, R78166, pp. 1-2.

²¹² The guest list as recommended include: Taimurtash, Farzin, Azodi, de Haas, Gaus, Ritter, von Richthofen, Martius, Köster, Eisenlohr, Terdenge, Grobba, Siemens, Bücher, Bötzkes, Schniewind, Junkers, Bamberger, Brown and von Cramon.

²¹³ *Ministerialdirektor* de Haas to *Staatssekretär* von Schubert over reception of Taimurtash in Berlin. 27 July 1928, letter. PAAA, Department III-Politics, R78166, p. 3.

1. Treaty of friendship and arbitration agreement (*Schiedsvertrag*)
2. Trade and shipping agreement
3. Settlement agreement (*Niederlassungsvertrag*)
4. Consular agreement (*Konsularvertrag*)

The negotiations on legal guarantees for German nationals in Persia had been almost completed and no major problems were expected.

In connection with the railway construction, in negotiations with Taimurtash German industry had managed to secure a major success. The international consortium for the construction of the Trans Iranian Railway was now to be led by the German companies Julius Berger, Philipp Holzmann and Siemens Bau-Union. Besides these companies an American, a British and a French company were also contracted.²¹⁵

With respect to German industrial exports, Taimurtash reached final agreement with Brown who was representing the German consortium led by Krupp. Hence, commercial contract's to the value of 40 million Mark were finalised.

As a result of Taimurtash's co-operation a further contract securing a monopoly position for Junkers Flugzeugwerke A.G. in Persia was agreed. Taimurtash had also arranged to visit the aircraft manufacturing plants of the company.

Apart from employing Schniewind, Taimurtash was now not only in the process of employing a German finance inspector but also a German geologist, a mineralogist, a director for the state owned hospital in Tehran and a medical advisor.

²¹⁴ Foreign office document titled: Topics for the visit of the Persian *Hofminister* Taimurtash. 10 September 1928, six page briefing. PAAA, Department III-Politics, R78166, p. 1.

²¹⁵ Foreign office document titled: Topics for the visit of the Persian *Hofminister* Taimurtash. 10 September 1928, six page briefing. PAAA, Department III-Politics, R78166, p. 3.

During this period Persia was accepted as a member of the League of Nations. In a coded message de Haas informs Tehran of the good progress the negotiation of agreements and commercial matters were making.²¹⁶

All this indicates the extraordinary importance of Taimurtash and the value of his presence to Germany. Hence as a gesture of respect and to emphasise the importance of Taimurtash's presence to Germany, government officials were hoping that a meeting between him and Hindenburg could be arranged.²¹⁷ Therefore, Taimurtash's second visit to Berlin (8-14 September 1928) was to prove significant for the development of German policy towards Persia.

Taimurtash initially had assumed that the German foreign office did not show sufficient interest to meet him again on his way back to Tehran. He got this impression because the German foreign minister Stresemann and *Staatssekretär* von Schubert had been absent at their first meeting. Hence Taimurtash had planned to stop over only one day in Berlin. As soon as the foreign office became aware of Taimurtash's travel arrangements he was immediately invited to stay a few days more. Taimurtash was made aware of the foreign offices intention to arrange a meeting between him and Hindenburg (who was expected back in Berlin on 14 September 1928).²¹⁸ Taimurtash agreed to stay and honour the attention he was given by German officials. On arrival he was invited to a reception in his honour at the

²¹⁶ De Haas to Tehran. 11 September 1928, diplomatic telegram. PAAA, Department III-Politics, R78166.

²¹⁷ Foreign office document titled: Topics for the visit of the Persian *Hofminister* Taimurtash. 10 September 1928, six page briefing. PAAA, Department III-Politics, R78166, pp. 4-6.

²¹⁸ De Haas from Berlin to German delegation in Geneva. 5 September 1928, telegram. PAAA, Department III-Politics, R78166.

Reichskanzlerpalais to which 80 of the most distinguished personalities from politics, public life, trade and industry were invited.²¹⁹

On Sunday of his visit Taimurtash was taken for a tour of Potsdam, visiting castles, golf clubs and taking a cruise. In the evening he was invited to see the operetta *Casanova* and to dine at the restaurant *Casanova*. On Monday he attended a reception at the Persian embassy, keeping the remainder of the week free of formal events.

On Friday Taimurtash finally was received by Hindenburg. During their meeting, which lasted 25 minutes, Hindenburg was mainly interested to learn about conditions in Persia. According to German sources Taimurtash appeared satisfied with his consultation with the *Reichspräsident*.²²⁰ This meeting underlined the German regard for Taimurtash and the importance granted to his mission as well as its implication for German-Persian relations.

During his stay Taimurtash also had a breakfast meeting with the board of directors of the *Deutsche Bank*, and a dinner engagement with Freiherr von Richthofen. He had attended tea engagements with the Persian consul general and the company AEG. During his stay he was treated as guest of the German government. He was even provided with a Pullman on departure with which he travelled to the border of Poland where a further Pullman expected him.

The German foreign office had every reason to be pleased with Taimurtash's collaboration during a series of meetings with key officials. During these meetings obstacles which might have impeded German-Persian agreements were resolved.

²¹⁹ Likely, de Haas to Schulenberg. 18 September 1928, five page letter. PAAA, Political department III, R78166. See also de Haas to Tehran. 11 September 1928, diplomatic telegram. PAAA, Department III-Politics, R78166.

²²⁰ Likely, de Haas to Schulenberg. 18 September 1928, five page letter. PAAA, Department III-Politics, R78166.

Amongst other German industrial representatives Taimurtash also had intensive talks with Brown. As a result of these Brown planned to return to Persia in October in order to finalise significant contracts.

Taimurtash also was believed to have been satisfied with his visit in Germany. He left a positive impression with the people he had met and he was described as an intelligent and able person. The only ambition left for the German officials was that the Shah also was as pleased with the reception of his *Hofminister* in Germany as Taimurtash.²²¹

This shows that the German foreign office did have a clear set of priorities with regard to its intentions in Persia. The diplomatic briefings and the official documents surrounding them highlight the content and evolution of German designs during the short period of negotiations under examination. On the one hand it would appear that on the German side the positive development of events was based on a combined effort of government agencies, officials and representatives of industry. On the other hand it has become transparent that Taimurtash was the key political figure who through his negotiations propelled the designs on the German agenda for Persia.

d. Emergence of the National Bank of Persia

Throughout the late 1920's, the National Bank of Persia established itself to a degree that it gradually, as an instrument in trade, contributed to the Persian economy. One determining factor for the rapid emergence of the National Bank must have been the growing number of German experts employed by the bank.

²²¹ Likely de Haas to Schulenberg. 18 September 1928, five page letter. PAAA, Department III-Politics, R78166.

Lindenblatt, the German director of the National Bank, was given from the beginning a free hand in the choice of his employees. Since he had difficulties in finding suitable Persian personnel he received approval from the Persian minister of finance for engaging foreign experts. Lindenblatt's endeavour was to hire German banking experts, preferably with overseas experience. One of Lindenblatt's goals was to train these carefully chosen German nationals as financial experts for the Persian market; such experts were very few and much needed.²²²

However, at the same time Lindenblatt had reservations about the long-term job security of the Germans he employed, because he feared the consequences of possible uncertainties arising in the future of Persia for his personnel. He had asked Schulenberg to investigate the possibility of reassurance for his staff, allowing them to return to employment in Germany in case they had to leave Persia. Lindenblatt felt that, with regard to the growing economic and political interest of Germany in Persia, and the small number of German nationals (6-12) involved, it should not be too difficult to get the approval of the *Reichsbank*, *Reichskreditgesellschaft* or the *Bank für Industrie-Obligationen* for this idea.²²³

However these thoughts were overshadowed by a more immediate problem involving Schniewind, the new German financial advisor to the Persian government. Schniewind had expected the Persian government to provide housing for him as part of his 25 000 Toman employment package. The Persian government's refusal to provide housing nearly resulted in a blow to German interests in Persia, since, if Schniewind would have further delayed accepting his contract, a non-German expert

²²² Lindenblatt to Schulenberg. 30 August 1928, letter. PAAA, German legation files-Iran, PKT 73/ IX A 11a.

²²³ Lindenblatt to Schulenberg. 30 August 1928, letter. PAAA, German legation files-Iran, PKT 73/ IX A 11a. See also Lindenblatt to Schulenberg. 24 November 1928, letter. PAAA, German legation files-Iran, PKT 73/ IX A 11a. And Lindenblatt to

would have been appointed in his place. In order to encourage Schniewind into to accepting his post, Taimurtash intervened and promised to provide him with a motor car, although this was not a part of his contract. Furthermore, Schulenberg secured for Schniewind the house of the American railway expert Poland for 175 Toman per month. The house featured 12 rooms and was in a prime location. Schulenberg called for the foreign office to exercise influence on Schniewind so that he accepted his contract. Lindenblatt shared Schulenberg's concern and felt that such an important issue should not fall victim to a trivial disagreement.²²⁴

In late November 1928 Lindenblatt reported that the National Bank had survived the most difficult stage of its initial development. The National Bank had secured an impressive 50 million Mark, of which a large percentage was deposited by the Persian government. The German employees of the National Bank deserved significant credit for the good results achieved through their work.

During these early stages of the bank's development Lindenblatt felt that he could not delegate any major responsibility to his Persian staff. As a result he continued to hire Germans. He employed as vice-director of the National Bank Otto Vogel, as the bank's chief inspector Otto Döcker, as supervisor of bureau Erich Klemme, and an expert who was put in charge of government pawnbroking (*Pfandleihe*).²²⁵

For the branches of the National Bank that were about to be established in Bushehr and Tehran two further German nationals were employed: Baron Richard

Schulenberg. 17 December 1929, confidential letter. PAAA, German legation files-Iran, PKT 73/ IX A 11a.

²²⁴ Schulenberg to German foreign office in Berlin. 18 November 1928, coded telegram. PAAA, Department III-Economy, R92321.

²²⁵ Lindenblatt to Schulenberg. 24 November 1928, letter. German legation files, PAAA, German legation files-Iran, PKT 73/ IX A 11a. See also Official legal document of the National Bank of Persia. 14 February 1929, document (French and Persian). German legation files, PAAA, German legation files-Iran, PKT 73/ IX A 11a.

von Bodeman, the former branch manager of *Süddeutsche Disconto-Gesellschaft*, and Heinrich Rust, a former branch manager of a Bavarian bank. Lindenblatt had great faith in these two experts and believed that they would advance German interest. Furthermore, Lindenblatt expected the arrival of Ernst Jedermann, former branch director of a German bank in Constantinople. Jedermann was Lindenblatt's prime candidate for the planned Tabriz branch of the National Bank. If this development was to continue, all major branches of the bank across the country would have been managed by German nationals who would have gained significant expert knowledge in Persian commerce. This development in conjunction with the progress of the railway syndicate and other commercial projects proved advantageous for German industry and trade.²²⁶

The National Bank expanded fast by creating its first major branches in the country. On 18 February 1929 the Bushehr branch was opened. In charge of this were next to director von Bodeman, Vice-director Dr. Franz Isphording, and Hran Frendian. The Tehran-Bazaar branch opened also on 18 February 1929. Next to its director Rust, Ali Chems and Abol-Hassan Meykadeh were put in charge. The Tabriz branch opened on 20 March 1929 under the directorship of Jedermann. The vice-director was Ferdinand Voigt and further employees were Sarkies G. Apcar and Niko Kühnreich.²²⁷

By the end of 1929 the bank had expanded dramatically. Fifteen new branches were opened and several more were planned. The number of German nationals

²²⁶ Lindenblatt to Schulenberg. 24 November 1928, letter. German legation files, PAAA, German legation files-Iran, PKT 73/ IX A 11a. See also Official legal document of the National Bank of Persia. 14 February 1929, document (French and Persian). German legation files, PAAA, German legation files-Iran, PKT 73/ IX A 11a. And Lindenblatt to Schulenberg. 17 December 1929, confidential letter. German legation files, PAAA, German legation files-Iran, PKT 73/ IX A 11a.

employed by the bank rose to over forty. Although, this fact also increased Lindenblatt's concern about the future of his German staff, he was now convinced that the National Bank of Persia was contributing indirectly to German trade and commerce.²²⁸

From the above it is clear that the National Bank did start to benefit Persian interests as an institution of trade and commerce. The bank's growth was to a large extent based on the good performance of its German staff, with its growing expertise and influence on the Persian market-place.

e. Exercise in confidence building

The assignment of a German financial advisor to the Persian Government was largely politically motivated. It is most likely that the Shah and hence the Persian government did not want any foreign national involved in decision making on a high level. However, they accepted the German national Schniewind. The Persian motives behind this appointment may have been similar to the motives of the Shah when he appointed Millspaugh. First and foremost must have been the Persian economic desire for loans from Germany. But the appointment of Schniewind also reflects from a politically Persian goodwill and respect for Germany.

From a German point of view things looked more complicated. Personally Schniewind felt that he contributed effectively less to the Persian economy as an advisor than he could have. From a German commercial perspective the presence of Schniewind in a high position within the Persian ministry of finance increased the

²²⁷ Official legal document of the National Bank of Persia. 14 February 1929, document (French and Persian). German legation files, PAAA, German legation files-Iran, PKT 73/ IX A 11a.

interest of German industry in Persia. The German foreign office was convinced of the political-economic significance arising from the presence of a German expert in such an important position within the Persian government. Furthermore, Schniewind's presence as a German expert was also decisive for the expansion of German commercial influence in Persia.²²⁹

Schniewind's presence in the ministry of finance combined with Lindenblatt office as the director of the Persian national bank and the commercially important offices held by other German nationals contributed significantly to an increased level of confidence and trust in Persia as a viable and reliable market for German companies. The German quest for commercial gain not only promised improved relations with Persia but also triggered off a host of new German investments. These were encouraged through: the positive experience of the Persian government with its German staff; the satisfaction of the Persian government with German commercial activity; Germany's growing popularity in Persia in contrast to Britain and Russia, and the respect both countries seemed to maintain for each other.

It is evident that German industrialists also hoped to gain from the power of the offices held, particularly by Lindenblatt and Schniewind. The case of the American advisors described earlier shows that Lindenblatt and Schniewind were in the position to provide inside information and give preference to German projects.

The National Bank contributed to German trade and commerce as an institution and its staff created confidence in German investors. Thus the National Bank was in more than one way a Trojan horse for Germany.

²²⁸ Lindenblatt to Schulenberg. 17 December 1929, confidential letter. German legation files, PAAA, German legation files-Iran, PKT 73/ IX A 11a.

²²⁹ De Haas from German foreign office in Berlin to the Prussian ministry of trade and industry. 13 August 1928, letter. PAAA, Department III-Economy, R92321.

By 1930 the National bank of Persia had gained a certain degree of independence, which would become particularly transparent at a time when the bank faced political and economical challenges.

f. Germany's interpretation of Persia's economic course

Although the Persian government gained more and more formal control over its finances, from a German perspective the direction developments were taking meant a serious threat to Persia's financial stability.

Persia's finances entered a particularly critical phase when the government budget for the fiscal year 21 March 1929 to 20 March 1930 was clearly over inflated. The likely government income for that year was about 25-26 million Toman compared to a budgeted 34 million Toman. The Persian finance minister Moshir ol Molk officially denied any discrepancies between the predicted government income on one side and its expenditure on the other. He tried to keep the situation under control by cutting government expenditure down to 30 million Toman and limiting the remaining deficit by tapping into the Persian government's assets at the National Bank, and in Europe at the Imperial Bank of Persia.²³⁰

Despite the serious problems experienced with the 1929/1930 budget, the Persian parliament decided to fix the budget for the following year again at 34-35 million Toman. The original recommendation to balance the budget at 30 million Toman by the ministry of finance was outvoted on the intervention of Taimurtash during the assembly. Taimurtash had argued that government income was to improve through

²³⁰ Confidential letter from Schulenberg to German foreign office in Berlin. 1 February 1930, eight page letter. PAAA, Department III-Economy, R92322.

a restructuring of the opium monopoly, as recommended by Schniewind, the introduction of a progressive income tax and the tobacco monopoly.

Schniewind and Lindenblatt, who both were consulted during the cabinet's budget session, failed to convince cabinet members to expect a government income of no more than 30 million Toman. Both believed that after the losses in previous years the restructuring of the opium monopoly could only increase tax income to its former levels. Also the effects of changes in income tax would take years to transform into income. Schniewind's warnings were disregarded when he tried to explain that tobacco monopoly, as proposed by the government, was doomed to fail in a similar way the opium monopoly had failed to achieve its objectives. Therefore both Schniewind and Lindenblatt expected a serious budget deficit for the Persian fiscal year 1930/1931.

Schulenberg believed that Taimurtash was too intelligent to make the same mistake twice and that his motive could not have had a financial reason. He believed that the true reason for pushing through an inflated budget was that Taimurtash intended to prove to the Shah the innocence of his friend Prince Firuz, the former finance minister. The Shah attributed the financial problems encountered during the previous budget year to the inability of Prince Firuz. He had been held in detention as the person responsible for the 34 million Toman inflated budget. Taimurtash's conceivable intention was to convince the Shah that the actual reason for Persia's financial problems was that Prince Firuz was jailed and therefore could not pursue his duties as minister of finance.²³¹

Schulenberg suspected that Taimurtash believed that measures similar to those in the previous year could be applied to balance the budget. The government's

²³¹ Confidential letter from Schulenberg to German foreign office in Berlin. 1 February 1930, eight page letter. PAAA, Department III-Economy, R92322.

budget deficits were successfully shielded from the public. However there was a new and growing financial problem which could prove a genuine danger to the economy of Persia. The silver based Gheran was rapidly losing its value. Although quite stable at 48 Gheran to the pound until March 1929, it had dropped to 56 Gheran to the pound in October 1929 and 70 Gheran to the pound at the end of January 1930. The Gheran's decrease in value had brought public opinion into turmoil. Actually it halted the trade of imports and had a threatening effect on areas such as the Gheran based salaries and scholarships paid out overseas.

In the search for the cause of the crisis it did not take long until the government's money issuing bank, the Imperial Bank of Persia was accused. Schulenberg was convinced that on the contrary the Imperial Bank was doing its best to control the situation. He believed that the true reason for the Gheran's drop was the fall in the price of silver at the London market. The situation was becoming progressively worse due to the inevitable decrease of hard currency movements on the Persian market.

Although the Persian government had tried to improve the situation by prohibiting the import of silver coins and bars, this measure did not have any significant effect. A further solution was to base the value of the Gheran on gold instead of silver. According to the German financial experts the main problem with this solution was the concession held by the Imperial Bank of Persia which still was valid for 20 years. To overcome this situation Schniewind had proposed that the majority of the shares of the Imperial Bank should be bought. But the government dismissed his suggestion, since such a take-over could not have been brought about with the necessary confidentiality. Then Schniewind proposed that in order to stabilise the Gheran the National Bank should be given a currency exchange monopoly. Such a monopoly would have allowed the bank to balance export and

imports financially through, for example, declining hard currency for the import of luxury goods. But this suggestion was also dismissed by the government and Taimurtash, since in their opinion it infringed upon the sovereignty of the Imperial Bank and would jeopardise Persian-British negotiations at a sensitive phase.²³²

Taimurtash had his own solution to the problem. Not aware of the consequences, he wanted to attach the Persian silver based currency to a foreign gold based currency. Hence he was determined to enter negotiations with the American government and American banks.

Schniewind believed that it was unlikely for the Americans to consider such a proposal coming from a country like Persia. If the Americans were to accept Taimurtash's proposal, they would do so only on conditions that would provide them with extensive control. At the very least the Americans would want to replace the financial advisor with their own advisor to the Persian government who would have the right of veto in all Persian overseas business, they would also demand the replacement of the director of the National bank by an American. Hence, the Persian government would have to give up part of its sovereignty and become dependent on the agreement with America in regard to the supply of its armed forces, the construction of its railway and in many other areas.

Schniewind believed that Taimurtash's plan would fail in its initial phases and that the Shah would not give his approval to a plan which would impose on his financial independence. Following the Philippine model, Schniewind had proposed that Persia should apply for a "Gold exchange fund" to the International Bank in Basel.

²³² Confidential letter from Schulenberg to German foreign office in Berlin. 1 February 1930, eight page letter. PAAA, Department III-Economy, R92322.

Schulenberg was convinced that both Taimurtash's and Schniewind's proposals would require a period of lengthy negotiations, and that Persia needed a faster solution to stabilise the Gheran. He expected that the Gheran would stabilise itself without much intervention when it arrived at the level of the current silver price in London. The outcome of this crisis was crucial for the continuation of German trade with Persia.²³³

In order to control its crisis, on 25 February 1930, the Persian government did finally decide to introduce a law that would give the National Bank control over foreign exchange. Moreover, against the recommendations of Schniewind, it was decided that Persia should introduce a gold-based Gheran in one and a half years. The control over foreign exchange meant a significant strengthening of the position of the National bank, but also a significant loss of power for the Imperial Bank. Britain reacted with protest and alleged that the decision of parliament was in conflict with the monopoly concession granted to the Imperial Bank.²³⁴

For Germany Persia's finances were based on robust foundations with a potential for development. However, through mismanagement the government had brought about a recurring budget deficit and an unstable currency. The Germans saw next to a repeatedly inflated budget, the creation of an inappropriate government reserve, misjudged monetary policy, and corruption, as further contributing factors to Persia's financial instability.²³⁵

From a German perspective the situation was as following. As described earlier, despite attempted budget corrections, a deficit of about 4 million Toman resulted

²³³ Confidential letter from Schulenberg to German foreign office in Berlin. 1 February 1930, eight page letter. PAAA, Department III-Economy, R92322.

²³⁴ Schulenberg to German foreign office in Berlin. 26 February 1930, telegram. PAAA, Department III-Economy, R92322.

from an inflated budget in the budget year 1929/1930. The government income for the budget year 1930/1931 was also likely to have been overestimated by about 5-6 million Toman. Also, since the budget for the year 1930/1931 did not acknowledge the deficit of the budget year 1929/1930, a total deficit of 9-10 million Toman was to be expected in 1930. The measures undertaken to cover up this deficit could only defer the effects of Persia's financial mismanagement by one or two years. Particularly with a view to the Persian government's plan to convert the Gheran to a gold based currency, the government's financial mismanagement, which also caused its failure to meet payment deadlines, harmed the faith of local and foreign observers in Persia's financial stability.²³⁶

For example, in a period when Persia was planning to construct a railway, which was financially an immense project, the government decided to create a government reserve. This reserve was to be financed through the royalties paid by the Anglo Persian Oil Company. Hence, these royalties ceased to contribute to the budget and were a waste of available foreign currency. It was totally unrealistic for Persia to implement simultaneously two big projects such as the railway construction and a government reserve. From a German perspective this policy also contributed to the devaluation of the Gheran.²³⁷

Also, a number of fiscal misjudgements contributed to the destabilisation of the Persian economy. Although the government decided to take control over foreign currency exchange in order to improve its financial situation, in reality it created a

²³⁵ Financial analysis of Persian situation enclosed with a report (number 194) of German embassy in Tehran for German foreign office in Berlin. 17 May 1930, 18 page report. PAAA, Department III-Economy, R92322.

²³⁶ Financial analysis of Persian situation enclosed with a report (number 194) of German embassy in Tehran for German foreign office in Berlin. 17 May 1930, 18 page report. PAAA, Department III-Economy, R92322.

burden for trade and discredited its exchange policy nationally and internationally. The main reasons for this were the lack of foreign currency holders, confidence in the government's operations and the expansion of currency control from listed imports to almost all imports.

Persia's financial and economic situation was anything but stable. During such a fragile phase the government agreed to base the Gheran on gold. It would have been more advisable for the government to try to stabilise the Gheran through other means and thereby build up public confidence, before attempting such a controversial move.²³⁸

A last reason for Persia's crisis was, from a German perspective, the amount of corruption on all levels of administration and government. In order to stabilise Persia's financial situation the German document proposed a number of solutions that mainly aimed at increased tax income.

Primarily an improvement of taxation for Persia's most significant tax contributor, the agricultural sector, was recommended. The tax rate for this sector was 3.5% of the unprocessed harvest. Statistical research revealed that the total annual value of the unprocessed harvest in Persia amounted to an estimated 200 million Toman. Hence, at a tax rate of 3.5% a tax income of 7 million Toman could be expected. Actually this sector only contributed 5 million Toman.

The introduction of a tobacco monopoly could also improve the Persian government's tax income significantly. According to the statistics farmers generated an income of 1.2 million Toman from the production of cigarette tobacco. The sale of

²³⁷ Financial analysis of Persian situation enclosed with a report (number 194) of German embassy in Tehran for German foreign office in Berlin. 17 May 1930, 18 page report. PAAA, Department III-Economy, R92322.

²³⁸ Financial analysis of Persian situation enclosed with a report (number 194) of German embassy in Tehran for German foreign office in Berlin. 17 May 1930, 18 page report. PAAA, Department III-Economy, R92322.

the end product cigarettes generated about 9 million Toman, which left a gap of 7.8 million Toman. It was conceivable that after cost a net profit of 3-4 million Toman could be achieved from the sale of cigarettes. If the government was to introduce a tobacco monopoly it could tap into this profit and without increasing the prices for the end user gain a tax income of several million Toman annually.²³⁹

The experiences with the Persian opium monopoly revealed that it must have been one of the government's most inappropriate measures. The tax income from this sector was 1 million Toman whereas the administration of the opium monopoly cost 0.5 million Toman. Therefore 50% of the total tax income was spent on administrating the monopoly. The principles on which the collection of opium tax were based proved impractical and were prone to fraud. A far simpler method of taxation in the form of a fixed tax based on the area of opium cultivation would prove far more effective. Thus, a tax of 8-10 Toman could be levied for each 1000 square meter. Statistically such a taxation method could generate over 5 million Toman in extra tax revenue.

Further measures recommended to improve tax income were to combat corruption within the civil service, to introduce a form of income tax particularly for companies, and to improve tax income from alcohol and animal slaughter.²⁴⁰

From a German perspective, it was similarly important that government expenditure was reduced. As a first step it was felt crucial that the entire Persian administration was reorganised and bureaucracy cut down. In a next step it was necessary to structure and simplify the budget by changing the budget laws,

²³⁹ Financial analysis of Persian situation enclosed with a report (number 194) of German embassy in Tehran for German foreign office in Berlin. 17 May 1930, 18 page report. PAAA, Department III-Economy, R92322.

²⁴⁰ Financial analysis of Persian situation enclosed with a report (number 194) of German embassy in Tehran for German foreign office in Berlin. 17 May 1930, 18 page report. PAAA, Department III-Economy, R92322.

reorganising accountancy and the tendering and auditing of accounts. The position of the minister of finance was to be strengthened. As a result a 25% cut in personnel requirements could be achieved which would also result in a cut in government expenditure.²⁴¹

In order to deal with its economic crisis the Persian government decided to assemble a supreme economic council to provide solutions for its economic questions. This consisted of the following members: Under-secretary in the ministry of industry and commerce Bayat, head of the economic section and former envoy of the Persian legation in Berlin Alamir, Schniewind, Lindenblatt, the legal advisor of the Persian ministry of justice and French citizen Hesse, and the head of Persian customs, the Belgian citizen Dekercheer.²⁴²

The European dominated council had no decision-making authority but was solely an advisory body. Schulenberg was sceptical of the effectiveness of the council with regard to its influence over the development affecting the Persian economy.²⁴³ Ultimately, the described situation of Persian financial affairs had not only the potential to harm German-Persian commercial relations but it also could bare consequences for German nationals associated with them.

g. Significant developments and Taimurtash

Taimurtash was instrumental in German-Persian relations. As much as it took Brown to revive the relations of both countries after the war on a commercial basis, it

²⁴¹ Financial analysis of Persian situation enclosed with a report (number 194) of German embassy in Tehran for German foreign office in Berlin. 17 May 1930, 18 page report. PAAA, Department III-Economy, R92322.

²⁴² Schulenberg to German foreign office in Berlin. 30 May 1930, letter. PAAA, Department III-Politics, R78147. Number 208.

was Taimurtash who was key to the progression of German-Persian relations on a commercial and political level thereafter. He had been part of almost every aspect of German involvement in Persia throughout the late 1920's. This might not be surprising considering his position, and as noted earlier, the Germans were aware of this fact. But just how instrumental he was may become even clearer in later sections. Here we shall look at some new developments in which Taimurtash was involved.

First and foremost Taimurtash declared in May 1930 that he officially was to withdraw from his involvement in Persia's foreign policy. Yet, Schulenberg did not quite believe Taimurtash's declaration. He felt that this move just transferred Taimurtash's influence from the front to the back of the stage where he would continue to have the same power as before. Rumours alleged that Taimurtash had to withdraw from foreign policy because in the eyes of the Shah and the Persian public he was given a degree of responsibility that actually should have been executed by the government. Schulenberg speculated that the true reason for Taimurtash's withdrawal was his intention to evade responsibility for the upcoming unpopular decision on the extension of the concession of the Anglo-Persian Oil Company.²⁴⁴

As a result the new Persian foreign minister Forughi informed all foreign representatives in writing of the change and asked them to approach in future the foreign office directly with all their enquiries. This official document implied that Taimurtash was not to be contacted any more in matters of foreign policy. According to German sources Taimurtash personally repeatedly emphasised his resignation from foreign policy. But this still did not satisfy Schulenberg who was convinced that

²⁴³ Schulenberg to German foreign office in Berlin. 30 May 1930, letter. PAAA, Department III-Politics, R78147. Number 208.

²⁴⁴ Schulenberg in Tehran to Grobba at the German foreign office in Berlin. 23 May 1930, letter. PAAA, Department III-Politics, R78107. See also Schulenberg in Tehran to German foreign office in Berlin. 30 May 1930, letter. PAAA, Department III-Politics, R78151.

Taimurtash would not only maintain his power over the cabinet but also decide about important foreign political matters.²⁴⁵

That Taimurtash's position was weakening was supported by the fact that he had just earned the highest level of appreciation from the Shah for persuading the Imperial Bank of Persia to give up its money printing rights to the National Bank.²⁴⁶ It had long been a desire of the Shah to transfer the money printing rights given to the Imperial Bank by the Qajar dynasty to the new National Bank. The Shah's wish came true when the Persian government managed to buy out the Imperial Bank's money printing rights for £200, 000 in a contract with Sir Sidney Roger, the chairman of the governing board of the Imperial Bank. Concessions made to the Imperial Bank included the suspension of payment of 60% of its profits to the Persian government, the withdrawal of the Persian government's control commissioner, and the pledge to still consider involving the Imperial Bank in government transactions. Moreover, both banks promised each other to abandon what had proved to be an unhealthy competition and instead maintain a level of co-operation. The credit for this milestone achievement, which was a major victory for the Pahlavi era and only comparable with the cancellation of the capitulation rights, was given to Taimurtash and Lindenblatt.²⁴⁷

The currency exchange monopoly, implemented in the early 1930's by Lindenblatt and Schniewind in order to stabilise the silver-based Gheran, had also proved successful. The new measures introduced kept the Gheran exchange rate at about 60 Gheran to the pound, in despite of the silver price falling by a further 25%

²⁴⁵ Schulenberg in Tehran to German foreign office in Berlin. 30 May 1930, letter. PAAA, Department III-Politics, R78151.

²⁴⁶ Schulenberg in Tehran to German foreign office in Berlin. 30 May 1930, letter. PAAA, Department III-Politics, R78151.

during the year, which would have meant that the Gheran's actual value should have been about 100 Gheran to the pound. The exchange rate stability achieved through Lindenblatt and Schniewind's efforts contributed significantly to Persia's commercial and trade activities.²⁴⁸

However, the currency exchange monopoly was only regarded as one measure amongst many aimed at securing Persia's financial stability which ultimately was to be achieved through the controversial introduction of a gold based currency. The date for the introduction of Persia's new bank notes was set for 31 March 1931. Therefore, the National Bank had taken preparatory steps to ensure a successful change of currency. The Persian parliament approved on 16 February 1931 a loan to the ministry of trade and industry to meet the expenditure involved in setting up the operations of a mint. The machinery and equipment for this new mint were ordered in Germany. Soon they were followed by two German experts arriving in February 1931 to take over the operation of the mint. The nickel-based coins were ordered and manufactured in Germany and a contract for the manufacturing of the copper-based coins was also expected to go to a German company. But the plan was to stamp the silver based coins and a limited number of gold coins at the mint in Tehran²⁴⁹

²⁴⁷ Article titled '*Aus Persiens Wirtschaftsleben*', in *Deutsche Tageszeitung*, number 433. 14 September 1930, article. Bundesarchiv Potsdam, Arbeitswissenschaftliches Institut, 62DAF3/ 35688.

²⁴⁸ Article titled '*Aus Persiens Wirtschaftsleben*', in *Deutsche Tageszeitung*, number 433. 14 September 1930, article. Bundesarchiv Potsdam, Arbeitswissenschaftliches Institut, 62DAF3/ 35688. See also article by Ernst Victor Meyer, titled '*Persiens Währungsreform*', in *Berliner Barenness-Courier*, number 481. 16 September 1930, article. Bundesarchiv Potsdam, Arbeitswissenschaftliches Institut, 62DAF3/ 35688.

²⁴⁹ Meyer from Tehran to German foreign office in Berlin. 23 February 1931, letter. Bundesarchiv Potsdam, ministry of trade and industry, 31.01/ 20225. Number 71. See also article by Ernst Victor Meyer, titled '*Persiens Währungsreform*', in *Berliner Barenness-Courier*, number 481. 16 September 1930, article. Bundesarchiv Potsdam, Arbeitswissenschaftliches Institut, 62DAF3/ 35688.

Schulenberg had the impression that although Taimurtash often disagreed and argued with Schniewind, he honoured his advice.²⁵⁰ However, Schniewind's contract that had started on 24 December 1928 was to come to an end on 24 October 1930. According to Schulenberg, the Persian government never granted Schniewind the executive power he needed to implement his ideas. Moreover, even his advice and suggestions were regularly ignored. Schulenberg was convinced that Persia's financial problems could have been avoided if the government had followed the recommendations of its financial advisor.²⁵¹

In a report Schniewind recounts his term of office and lists 44 specific accomplishments, including his appointment as vice president of the administrative body of the National Bank of Persia. He recounts agreeing at the beginning of his term of office, in an internal arrangement with finance minister Farzin, to co-sign all decrees leaving the ministry. If for any reason an agreement was not reached the matter was to be brought forward to and decided by the cabinet. Yet, according to Schniewind the cabinet generally had only one opinion and that was the opinion of Taimurtash. As a result, Taimurtash was actually running Persia's economic policy and in light of the agreement between Farzin and Schniewind he was in a position to continue to do so. Schniewind considered the economic policy advocated by Taimurtash as inappropriate in many points, and his unwillingness to consider his advice as counter productive. Nevertheless, it was Schniewind who had to carry the responsibility for Persia's economic policy in the public eye.²⁵²

²⁵⁰ Schulenberg in Tehran to Grobba at the German foreign office in Berlin. 23 May 1930, letter. PAAA, Department III-Politics, R78107.

²⁵¹ Schulenberg to German foreign office in Berlin. 5 December 1930, letter. PAAA, Department III-Economy, R92322.

²⁵² Schniewind's evaluation report on his task as financial advisor to the Persian government. 1930/ 1931, report. PAAA, Department III-Economy, R92322.

Schniewind came to the conclusion that for the time being the Persian government was not prepared to give a foreign national any genuine executive authority. To him it appeared that Persia was looking for a foreign individual who could be charged with full responsibility for government actions on a national and international level, but actually did not interfere with its business. Based on this notion he felt that more harm could result for Germany than advantage if he was to stay in office for any longer, particularly since the government decision in 1930 to disregard his warning and introduce a gold based currency had caused in 1931 the devaluation of the Gheran by 50%. Hence, in consultation with Schulenberg, he decided not to take any action with regard to an extension of his contract with the Persian government.²⁵³ Nor did Taimurtash take the initiative to champion the extension of Schniewind's contract.

In a letter Lindenblatt expressed his regret for the loss of Schniewind which left him with only Vogel, his deputy, with whom he really could discuss important matters. Lindenblatt described the position of the bank and his office as difficult. German companies such as Siemens and Brüner Maschinenfabrik had failed to win contracts with the Shah who, according to Lindenblatt, must have been one of very few people in the world with the power to control a country single-handedly. During this difficult phase the Shah had surprised the Germans by approaching them with the proposition of erecting in joint venture a new cotton factory in Mazanderan. Lindenblatt forthwith tried to employ a German expert on behalf of the National

²⁵³ Schniewind's evaluation report on his task as financial advisor to the Persian government. 1930/ 1931, report. PAAA, Department III-Economy, R92322.

Bank to survey the feasibility and requirements of the project with the necessary discretion.²⁵⁴

According to Grobba from the German foreign office this project was of vital political interest to Germany. The Shah had not only without any encouragement approached Germany with his proposal, but he also had offered to finance 40% of the total cost of the project privately. The Shah expected a German government loan to cover the remaining 60% of the cost. This was the first time ever that a commercial partnership between the Shah and German capital was attempted. Grobba believed that the success of this co-operation could lead to major future commercial developments. Therefore, on behalf of the German foreign ministry and in accordance with the proposal of the National Bank of Persia, despite its extraordinary terms of payment, he recommended that a government loan should be granted for this project.²⁵⁵

On 5 November 1930 the VIIth legislative term of the Persian parliament came to an end. During the last ceremonial meeting parliament's president Dadgar praised the legislative work of the assembly by presenting an account of its achievements. According to Schulenberg, Dadgar referred to the creation of the National Bank of Persia and an agricultural bank, the granting of loans for new military equipment, the introduction of a gold based currency, the acquisition of the money printing rights from the Imperial Bank of Persia, the introduction of a national dress code, the creation of a major wireless station, the setting up of factories, the abolishment of capitulation rights, the ratification of agreements on terms of equal rights, the

²⁵⁴ Lindenblatt to Ritscher, director of the *Reichs-Kredit-Gesellschaft* in Berlin. 6 December 1930, letter. Bundesarchiv Potsdam, Reichskreditgesellschaft, 80 Re2/2080.

²⁵⁵ Grobba at the German foreign office in Berlin to the *Deutsche Revisions-und Treuhand Aktiengesellschaft* in Berlin. 25 August 1930, letter. Bundesarchiv Potsdam, ministry of trade and industry, 31.01/19094.

construction of railways and roads and the creation of a ministry for trade and commerce.²⁵⁶

Many of Dadgar's legislative triumphs had not yet been fulfilled. This included the establishment of an agricultural bank, the introduction of a gold-based currency and the setting up of factories. However, Taimurtash, who was the leader of the majority party 'Progress' as well, which claimed 124 of the 128 parliamentarians as its members,²⁵⁷ could also claim to have been the leading figure behind the majority of the implemented projects.

Taimurtash used amongst other means also the National Bank of Persia as a vehicle to drive forward what he thought was best for Persia's progress. Since we have established that parliamentary decisions revolved around the person of Taimurtash, considering the degree of German involvement in the National Bank, he actually facilitated Germany's access and participation in what were some of the most central decisions for Persia. This becomes clearer when we consider that the National Bank played directly or indirectly a role in the majority of what parliament's president Dadgar praised as the achievements of his legislator term. Hence, Germany had access to intelligence and participated in the creation of the National Bank of Persia, the granting of loans for new military equipment, the introduction of a gold based currency, the acquisition of the money printing rights from the Imperial Bank of Persia, the creation of a major wireless station, the setting up of factories, the ratification of agreements on terms of equal rights, the construction of railways and roads, and the creation of a ministry for trade and commerce.

²⁵⁶ Schulenberg to German foreign office in Berlin. 6 December 1930, letter. PAAA, Department III-Politics, R78147.

²⁵⁷ Schulenberg to German foreign office in Berlin. 6 December 1930, letter. PAAA, Department III-Politics, R78147.

Hence, German relations with Persia had steadily improved. The German approach toward Persia had therefore succeeded and achieved results which were reflected in an increase of trade and commerce. The National Bank showed that it had the potential to become central to Germany's interest in Persia, in the same way it had become central to Persia's national and overseas interests and activities. We have also established that Taimurtash played a key role in promoting German presence in the National Bank.

With its status as state bank of Persia and the privileges gained thereby, the National bank had achieved a position that was beyond competition.²⁵⁸ In pursuit of its objectives the National Bank, and therefore its German experts, had managed to avoid major conflicts with Britain, Russia and America. As a result we could conclude that now for the first time Germany had a relatively safe foothold in Persia. From a German point of view this meant that the National Bank had the potential to be a Trojan horse for German policy in Persia if it continued, on its fragile path, to play into the hands of Germany.

²⁵⁸ Article by Leo Matthias, titled 'Deutsche Arbeit in Persien', in *Berliner Tageblatt*, number 311. 4 July 1930, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/5289.

5. Trial for German policy towards Persia, and the National Bank

The National Bank, in its short history, had become central to many of Persia's more substantial decisions, which proved advantageous to Germany, albeit indirectly. By employing German nationals in key positions, the Persian government had on the one hand gained know-how but on the other hand it had also elevated Germany into a privileged position within its government apparatus. Therefore, although the Bank's staff were employed as civil servants of the Persian government and formally did not represent German commercial or political interest, it was quite clear that they were biased towards Germany, similar to the way in which other foreign nationals with posts within the Persian government had reflected their disposition. This tendency contributed in essence to the increase of German trade and commerce with Persia.

Since the German government had not formulated a coherent political agenda for Persia or a policy towards its National Bank, its principal interactions with Persia were largely initiated by the interests of German entrepreneurs. Lobbied by these entrepreneurs, the German foreign office had hardly an alternative but to endorse the employment of its nationals by the Persian government.

German projects in Persia were largely either co-financed or dependent on a financial guarantee or on bank loans. Since the National Bank was becoming the key to foreign commercial enterprise in Persia, its German bias assisted German entrepreneurs in pursue of loans, to secure contracts. However, the German government's interest in Persia did not seem to increase as one might have expected, considering the growing economic ties. German entrepreneurs who lobbied the government only occasionally received some degree of support from

the German foreign office for their projects. This becomes apparent in the acknowledgement letter of *Kommerzienrat* Berger from the company Julius Berger Tiefbau A.G., one of the larger investors in Persia, for the help received from the foreign office and Schulenberg with reference to a bid for the construction of the Trans Iranian railway.²⁵⁹ Yet there were very few initiatives originating from the German foreign office which could have provided us with an insight into official government policies.

The 'co-operation' between German industrialists and the National Bank proved more fruitful. For example, the National bank of Persia agreed to provide a loan of 250 000 Mark, to the concession holders, for the construction of electrical power stations in Rasht and Pahlavi. This loan was guaranteed by the German company AEG, which was the main supplier of power stations. Similar arrangements between the National Bank and AEG were also envisaged for projects in Tabriz and Isfahan. The main advantage of this type of agreement for German industrial companies was that the National Bank could directly settle their accounts through cash payment. Thus it was not necessary for the German companies to rely on loans secured in Persia for financial transfers.²⁶⁰

In this chapter we shall investigate a series of incidents that originated in Germany, revolved around left-wing propaganda against the Shah and his regime and brought about a political crisis between Germany and Persia in 1931. It is of interest to see how this crisis came about and how the German foreign office dealt with it. This brings us to the question of the German perception of how this crisis

²⁵⁹ German foreign office in Berlin. 18 April 1928, letter. PAAA, Department III-Economy, R92307.

²⁶⁰ Schulenberg to German foreign office in Berlin. 25 January 1930, letter. PAAA, Department III-Economy, R92431. Number 34.

effected the relations between the two countries, and what conclusion could be drawn with regard to the status of the National Bank in general.

a. On the verge of political crisis

In 1931 one of the first hints of upcoming political trouble between Germany and Persia came from Mayer, an official of the German embassy in Tehran. Mayer reported to the German foreign ministry that as a result of the appearance of several revolutionist leaflets (*Paykar* and *Setarehye Jahan*) the Persian government had expressed concern about the indoctrination of its students studying in Germany by communist influences. As a result the Persian foreign ministry had looked at relocating its students to other, less risky countries. In the event Germany's steps against the perceived threat proved ineffective.²⁶¹

As a direct response to Persia's concern the district court of Berlin-Central issued a court order against the publishers of the *Paykar*, Dr. Carl Wehner and affiliates.²⁶² According to this court order of 29 May 1931, the complete issue number 6 (1 June 1931) of the leaflet *Paykar* was to be confiscated and serve as evidence. The main claim against the *Paykar* was that it contained several insults to the Shah of Persia. These included the allegation that the Shah was to be blamed for the fact that he had turned Persia's interests into a toy of the Imperial Bank and the British. A further passage alleged that the Shah was more concerned with the purchase of goods than the progress of his country.²⁶³

²⁶¹ Mayer from the German embassy in Tehran to German foreign office in Berlin. 21 March 1931, letter. PAAA, Department III-Politics, R78107.

²⁶² Translated copy of *Paykar* issue number 16, from 15 September 1931. 30 October 1931, translation of leaflet. PAAA, Department III-Politics, R78109.

²⁶³ Mayer from the German embassy in Tehran to German foreign office in Berlin. 21 March 1931, letter. PAAA, Department III-Politics, R78107.

After the Persian government's request for his deportation, Grobba saw the Persian student Morteza Alawi as the main cause of the problem. Grobba consulted in this matter with the Prussian minister of the interior, who, together with the Berlin chief of police, was investigating Alawi's case. Grobba pointed out that Alawi had admitted to the police headquarters that he belonged to a group whose stated mission was to express and promote their resentment against Persia's current political rule, and to promote Persia's industrial development according to a co-operative model. The organ of this group, which was also known as *Revolutionäre Republikanische* or *Kommunistische Partei Persiens*, was the monthly leaflet *Der Rote Stern* (The Red Star). Since February 1931 this leaflet was renamed *Paykar* and appeared fortnightly. Alawi had also admitted that he was a supporter of the *Paykar* and that he had invested 8000 Mark in its publishing house *Orientverlag*.²⁶⁴

This evidence led Grobba to believe that Alawi was not, as he had claimed, a socialist but a communist and the middle-man of a German based organisation which aimed at overturning the Shah. Alawi's political activities also violated the conditions of his asylum status.

Grobba was convinced that Alawi's activities severely damaged Germany's relations with Persia. The Persian government had repeatedly insisted on Alawi's deportation while criticising Germany's reluctance to comply. Similar complaints were also brought to the attention of the foreign office by the Persian ambassador in Berlin, to the attention of the German ambassador in Tehran, and to German ambassadors resident in other countries. In this context the Persian government had stated that the French government had complied with its desire for the

²⁶⁴ Grobba from German foreign office in Berlin to the Prussian minister of the interior Severing. 28 August 1931, letter. PAAA, Department III-Politics, R78108.

deportation of several Persian students from France, and had also prohibited the distribution of the *Paykar*.

The ill-feeling of the Persian government had a most unfavourable influence upon commercial relations between Germany and Persia, which until then had been developing satisfactorily. Persia's dissatisfaction had already been manifested in breaking off negotiations with the German industry over significant and vital contracts. The anxiety of the Persian government about the activities of revolutionary Persian organisations in Germany became even more apparent in a telegram received by Grobba from the German ambassador in Tehran. According to the ambassador's report the Persian heir to the throne, who was accompanied by Taimurtash, had decided not to interrupt his visit to Switzerland with a stopover in Germany. Grobba felt that, in view of the offensive material spread by Asadoff, a member of the same revolutionary organisation as Alawi, during Taimurtash's visit to Germany in 1928, the anxiety of the heir to the throne was justified.²⁶⁵

Grobba also described it as intolerable that the political activities of a single Persian resident in Germany, who had violated his asylum terms, were threatening both the political and particularly the important commercial relations between Germany and Persia. Forthwith the foreign office had to insist on Alawi's deportation, for which it had already been appealing since March 1931. Grobba asked Severing, the Prussian minister of interior, to comply with the wishes of the foreign office in a way which would enable him to inform the Persian government of Alawi's deportation before the heir to the throne left Persia for Switzerland. Grobba also made clear that in the event that Alawi was not deported he was not

²⁶⁵ Grobba from German foreign office in Berlin to the Prussian minister of the interior Severing. 28 August 1931, letter. PAAA, Department III-Politics, R78108.

in a position to take responsibility for the consequences. He feared that non-compliance could cultivate a deep and long lasting ill-will in the Persian government, which would result in a severe damage to Germany's commercial relations with Persia.²⁶⁶

In a key telegram, the new German ambassador to Tehran, Blücher, reported of the Persian reaction to an article by Leo Mattias, published in the German paper *Münchener Illustrierte*. This article triggered off a malicious campaign by the Persian press against Germany for its tolerance of such articles and its failure to prohibit centres of anti-Persian propaganda in Germany. The newspaper "Iran" reported in its lead article that either Germany had one of the most incompetent governments, since it was not capable of preventing insults directed at another country, or the German government was prepared to watch the reputation of another country being dishonoured.²⁶⁷

The Persian foreign minister made the strong ill-feelings of the Shah known to Blücher, who tried to put things into perspective for the Shah. Blücher asked the foreign ministry to demand that in their next edition German newspapers, including the *Münchener Illustrierte*, should publicly distance themselves from Mattias and his convictions. Blücher also requested that the foreign office should remind the Prussian minister of interior of the urgency of decisive action against the *Paykar*.²⁶⁸

The article published in the reputable and government friendly newspaper 'Iran' reflected the Persian government's feelings against Leo Mattias's tactless

²⁶⁶ Grobba from German foreign office in Berlin to the Prussian minister of the interior Severing. 28 August 1931, letter. PAAA, Department III-Politics, R78108.

²⁶⁷ Blücher to German foreign office in Berlin. 19 October 1931, telegram. PAAA, Department III-Politics, R78108.

²⁶⁸ Blücher to German foreign office in Berlin. 19 October 1931, telegram. PAAA, Department III-Politics, R78108.

article and the handling of the *Paykar* affair by Germany. With reference to the temperament of the Shah, Blücher explained that it was conceivable that after reading such an article the Shah could become so infuriated that he could reach decisions destroying immediately all German accomplishments and achievements up to that date.²⁶⁹

b. Background of conflict

This German Persian conflict originally revolved around three individuals, Asadoff, Leo Mattias and Mortaza Alawi, as well as the publications *Der Rote Stern* and *Paykar*. Since 1926 there had been evidence of the activities of a Persian organisation in Germany, seemingly connected with communists, whose objective was to work towards a coup in Persia. The intermediary of this organisation was originally the Persian student Asadoff. Asadoff, who also was a member of the 'International league against imperialism', was later joined by other Persian students known to the Persia embassy in Berlin, including Alawi. This group called itself '*Revolutionäre republikanische Partei Persiens, Sektion Deutschland*' and later *Kommunistische Partei Persiens*. This group printed and distributed its first propaganda leaflet from a small Berlin-based printer in 1927. During the visit of Taimurtash in 1928, Asadoff initiated a German language leafleting campaign. His plan was to protest against any kind of official reception for what he called a "*gemeinen Mörder*" (common or mean murderer).²⁷⁰

²⁶⁹ Blücher to German foreign office in Berlin. 19 October 1931, letter. PAAA, Department III-Politics, R78109.

²⁷⁰ Report titled '*Die Vorgeschichte des deutsch-persischen Konflikts*' compiled by Grobba at the German foreign office in Berlin. 27 October 1931, 14 page report. PAAA, Department III-Politics, R78109.

A short while later a second leaflet appeared which contained personal insults against the Shah, his government and Taimurtash. This advocated a coup in Persia. As a direct result the Persian embassy asked the German foreign office to deport Asadoff and his collaborators on behalf of the Persian government. On 15 November 1928 the then Prussian minister of interior, Grzesinski, ordered the deportation of Asadoff. However, since a Member of Parliament, Dr. Breitscheid, had intervened, this deportation order was not carried out. Breitscheid had been approached by a group of Persian students who claimed that as Asadoff was a socialist he therefore had the right of asylum in Germany. In an article the communist newspaper *Die Welt am Abend* also spoke in support of Asadoff. Breitscheid criticised what he called the foreign office's endeavours to please the Shah, "*Liebedienerei für den Shah*", during a session of the *Reichstag* and in an article published in the *Vorwärts*. He pointed out that the foreign office was allowing itself to be the henchman of a foreign government and that such a stance was not consistent with the honour of Germany and the spirit of a democratic republic.

In November 1928, the Shah had sent Bahrami to the foreign office in order to emphasise the Shah's personal interest in the deportation of Asadoff. Despite other similar attempts the Prussian interior ministry declared on 18 December 1928 that it could not justify Asadoff's deportation, since according to its findings Asadoff was cleared of the claim of bringing about domestic political disorder or engaging in activities against the German state. Nevertheless, because of the foreign ministry's fear of serious foreign political implications following this decision, the interior ministry was prepared to negotiate.

When Taimurtash was made aware of the interior ministry's readiness to negotiate about its decision, he requested to consider seriously the Shah's personal point of view in this matter. He pointed out the Shah was temperamental and

unforgiving, and that he was convinced that any government was in the position to prevent revolutionary activities aimed at the leaders and civil servants of a befriended nation.²⁷¹

By this time Asadoff already had decided to leave Germany voluntarily for Moscow. However, the foreign office was determined to prevent his return to Germany. On 22 February 1929 Stresemann appealed in a letter to Grezinski to reconsider the interior ministries decision. Before a final judgement could be made a new immigration decree of the Prussian police, dated 1 January 1930, allowed for the deportation of foreign nationals on grounds of endangering the relations of Germany with another state. The foreign office viewed this decree as a satisfactory formal solution of the Asadoff case.

In July 1929 a new publication, *Der Rote Stern*, gave the foreign ministry cause for concern. This leaflet depicted itself as the organ of the central committee of the communist party of Persia. It was printed by Haag-Drugolin A.G. in Leipzig, and distributed by the communist friendly publisher Peuvah in Berlin. The foreign ministry repeatedly intervened in order to stop the publication and distribution of this leaflet, but failed. The Persian embassy, which had found Alawi and a group of Students responsible for the publication of *Der Rote Stern*, requested their deportation. The police headquarters rejected however this request put forward by the German foreign ministry. Soon after a further leaflet printed by Haag-Drugolin A.G. with the title "*Communiqué der kommunistischen Partei Persiens*" appeared in Paris.

The suicide of the Persian student Atai at the Persian embassy in Berlin resulted in further tensions amongst Persian students in Germany, adding to the

²⁷¹ Report titled '*Die Vorgeschichte des deutsch-persischen Konflikts*' compiled by Grobba at the German foreign office in Berlin. 27 October 1931, 14 page report.

problems of the foreign office. In May 1930 the inspector general in charge of all Persian students studying in Europe travelled from Paris to Berlin in order to investigate the matter. He asked the German foreign office to assist in maintaining discipline amongst Persian students, and if necessary imitate their French counterparts in showing their support by deporting problematic students. On several occasions the Persian ambassador to Paris presented similar requests for the deportation of problematic students to the German ambassador in Paris, von Hoesch. Yet, the Prussian police headquarters still maintained that it did not have a legal justification by which it could warrant the deportation of Persian students active in Germany.²⁷²

In late 1930 an article by Leo Mattias was published in the newspapers *Montagspost* and *Wiener Freie Presse*. In his article Mattias claimed to have witnessed the brutal execution of the son of a Ghashghai Khan. Allegedly the victim was tortured to death by being walled in with fresh clay on top of a hill. This article caused a storm of anger in the Persian press. Further investigations by the German embassy in Tehran revealed that the Mattias article was completely fictional. Mattias responded that he had heard the story from reliable sources.

On 17 February 1931 a group by the name of "*Aktionskomitee der persischen Republikaner*" gathered for a conference in Köln. On this occasion a leaflet was prepared and sent to a number of left-oriented newspapers across Europe. This leaflet contained protest against what it called the terror regime of Reza Khan. The police headquarters in Berlin reported that this group had intermediary agents outside Persia, in Berlin, Prague, Lemberg, Zurich, Geneva, Köln, Brussels, Paris,

PAAA, Department III-Politics, R78109.

²⁷² Report titled '*Die Vorgeschichte des deutsch-persischen Konflikts*' compiled by Grobba at the German foreign office in Berlin. 27 October 1931, 14 page report. PAAA, Department III-Politics, R78109.

Haifa and Delhi. The objective of this left-wing group was to influence Persia's intellectuals overseas by upholding the idea of a republic as the ideal model for Persia. Wehner, the publisher of the *Paykar* was closely affiliated with this group and Alawi.

The first issue of the *Paykar* was published in Berlin on 15 February 1931. The *Paykar*, like earlier revolutionary publications, attacked the Shah, his government and Taimurtash in an offensive way. It also called for a coup and combined propaganda for Russia and communism. The Persian ambassador in Berlin had legally charged Alawi and other individuals who had been involved in the *Paykar*. As a result the first six issues of the leaflet were confiscated. Yet, only in one case did the police succeed in confiscating a complete issue of about 2000 copies. The Berlin police refused to confiscate further issues of the *Paykar* without an order by the prosecuting attorney. As a result copies of the *Paykar* regularly appeared in several countries including Persia. The continuing publication of the *Paykar* and the increasing offensiveness of its articles left the Persian government and Shah to believe that the German government was not seriously interested in taking action against the accused.²⁷³

As mentioned earlier all efforts of the foreign ministry to persuade the Prussian ministry of interior to deport Alawi proved fruitless. The Berlin police headquarters were not prepared to deport Alawi on grounds of violation of immigration laws. Moreover, although Alawi had admitted to the police that he sympathised with the *Paykar*, and although the police had discovered that Alawi was involved in the distribution of the leaflet and even was a shareholder of its

²⁷³ Report titled '*Die Vorgeschichte des deutsch-persischen Konflikts*' compiled by Grobba at the German foreign office in Berlin. 27 October 1931, 14 page report. PAAA, Department III-Politics, R78109.

publishing house, they declared that they were not convinced of Alawi's collaboration with the *Paykar*.

On 4 October 1931 a further article by Mattias appeared in the *Münchener Illustrierte Presse*. His article titled "*Der Kaiser ohne Herkunft*" (the emperor without descent) outraged a Shah who had been exasperated for the past four years by defamatory publications originating in Germany. The fact that this article claimed that the Shah had been a porter at the German embassy in Tehran and had received a slap round the face by the former German ambassador was particularly insulting and abusive for the Shah. In actuality Reza Shah had been commander of the German embassy guards. Grobba believed that it was anyway inconceivable that a foreign ambassador would physically assault the host commander of his embassy guards. Accordingly, he knew the entire article to be based on pure fiction. The foreign ministry instantly contacted the Persian embassy in Berlin to explain the mendacity of the article. However, it was too late since the publication of this article brought about a conflict that essentially not only jeopardised German-Persian relations but also threatened to bring them to an end.²⁷⁴

c. Consequences of crisis

On 23 June 1931 Taimurtash's Armenian wife, Tātiana, arrived in Berlin to enrol her son in a German boarding school. On the grounds of the overwhelming influence of her husband in Persia's political life and the decisive influence of Taimurtash in granting commercial contracts, the foreign office recommended the

²⁷⁴ Report titled '*Die Vorgeschichte des deutsch-persischen Konflikts*' compiled by Grobba at the German foreign office in Berlin. 27 October 1931, 14 page report. PAAA, Department III-Politics, R78109.

arrangement of a social program for her.²⁷⁵ Since the heir to the throne, Mohammad Reza, was to be educated in Switzerland, Taimurtash accompanied him on his voyage to Lausanne in September 1931. Soon after he rejoined his wife, who was undergoing surgery in Berlin. During his stay in Europe Taimurtash had also planned to visit Italy, France and Britain before returning to Persia in December. During his absence from Persia Taimurtash was represented by the Persian minister of defence.²⁷⁶

It was during Taimurtash's absence from Persia that the Shah became so incensed by Mattias's article that in an outburst of rage he commanded all personnel of the Persian embassy in Berlin to return instantly to Persia.²⁷⁷ The Persian foreign minister confirmed the Shah's decision to Blücher and added that the Shah's command was given in such a decisive way that he, the foreign minister, did not dare to contradict him. The Shah's view was that if he could not protect himself and his government from attacks by the press in Germany, the least he could do was to order his representatives back to Persia.²⁷⁸

By consulting the Persian foreign minister, Blücher tried to find out the implications of the Shah's decision for German-Persian relations. The Persian foreign minister repeatedly declared that he was not in a position to explain the Shah's decision. Yet he made clear that he did not regard relations between Germany and Persia as terminated. For him Persia's not maintaining

²⁷⁵ Internal communiqué of the German foreign office in Berlin. 24 June 1931, letter. PAAA, Department III-Politics, R78166.

²⁷⁶ Schulenberg to German foreign office in Berlin. 1 September 1931, letter. PAAA, Department III-Politics, R78162.

²⁷⁷ The order for the return of the Persian embassy staff to Tehran was issued on 18 October 1931. The Italian embassy in Berlin was asked to represent Persian interests in Germany.

²⁷⁸ Blücher to German foreign office in Berlin. 20 October 1931, telegram. PAAA, Department III-Politics, R78108.

representatives in Berlin was only temporary. Blücher was convinced that this crisis was the direct result of the capricious decision of a despotic and ill-tempered Shah, whose decisions none of his ministers dared to challenge. The question here is whether this crisis would have been prevented if Taimurtash had not been in Europe. This brings us back to the status of Taimurtash and his role in German-Persian relations. It is most likely that he was the only minister who had the power to challenge the Shah and thereby inject some rationality into his decision. Blücher at least believed that if Taimurtash had been in Tehran at the time, he could have prevented the recall of the Persian embassy staff from Berlin. In the search for a solution and in the knowledge of Taimurtash's influence, Blücher instructed the German foreign ministry to find and contact Taimurtash for assistance in the matter. From Blücher's point of view it was encouraging that the Persian foreign minister appeared to be interested in a regulation to the crisis which would allow the continuation of relations between the two countries.²⁷⁹

In a first step, the publisher Knorr & Hirth GmbH declared that with respect to the defamatory article by Leo Mattias, it would willingly print a dementi of Mattias's article in its next issue of the *Münchener Illustrierte Presse*. It also explained that it had decided to publish a series of articles favourable to the Shah and the state of affairs in Persia. Knorr & Hirth's intention was also to publish these articles in other newspapers owned by the publishing house, including the *Münchener Neueste Nachrichten*.²⁸⁰

²⁷⁹ Blücher to German foreign office in Berlin. 20 October 1931, telegram. PAAA, Department III-Politics, R78108.

²⁸⁰ *Münchener Neueste Nachrichten* to German foreign office in Berlin. 23 October 1931, letter. PAAA, Department III-Politics, R78108. See also report titled '*Die Vorgeschichte des deutsch-persischen Konflikts*' compiled by Grobba at the German foreign office in Berlin. 27 October 1931, 14 page report. PAAA, Department III-Politics, R78109.

One such exposé was written by Sebastian Beck, a teacher of Persian language in Berlin. He dismissed Mattias's article as a product of fantasy with numerous inaccuracies. In an account of the Shah's life he portrayed him as an able and ambitious man from a military background who provided an example for every Persian. He painted the Shah's achievements in the brightest colours, pointing out the creation of the extraordinarily fast growing National Bank as just one in a seemingly endless list of accomplishments.²⁸¹

The foreign office had recognised and warned of the potential of a crisis developing between Germany and Persia. However, up till then its warnings had not been taken seriously by government agencies. This prior series of events also indicates that the foreign office was not powerful enough to stand up against the decisions of other state institutions, let alone enforce its own considerations in the interest of higher state objectives. Now, that through the threat of a breakdown of Persia's relations with Germany it became clear that Germany not only risked losing diplomatic relations but also a significant export market for its industrial goods, concerted actions followed in fast succession. It appears that the 1931 crisis provided Germany with the opportunity to attend to its deteriorating relations with Persia.

In a further step, on the afternoon of 22 October 1931, Dr. Prüfer from the foreign ministry met with the minister of interior, Severing. He impressed upon Severing the urgency of issuing a deportation order for Alawi as a sign of German goodwill to the Shah. This time Severing issued a warrant against Alawi on the same day, and the Persian ambassador to Berlin, Farzin, and Blücher in Tehran were informed instantly of the interior minister's decision.

²⁸¹ Exposé by Sebastian Beck. Late 1931, report. PAAA, Department III-Politics, R78109.

On 23 October 1931 the Persian ambassador to Germany declared that he was not authorised any more to negotiate with the foreign office.²⁸² On 24 October 1931 the Prussian interior ministry, through the Berlin police headquarters, enforced the total ban of the leaflet *Paykar* in Germany. In a note Grobba personally and officially informed the Persian embassy in Berlin, that in accordance with the decree aiming at preventing political rioting, the police president of Berlin had outlawed the *Paykar*.²⁸³

On 25 October 1925 Blücher informed the foreign office of his endeavours to keep the Persian government informed of all efforts that had been made in Germany, to accommodate the Persian government's criticism and bring about an accord. Additionally, in a quest to persuade the Shah to reconsider his decision and send his representatives back to Germany, Blücher made it understood that if the Persian government were to maintain its position, the German foreign office would be forced to withdraw its representatives from Persia in a counter move.²⁸⁴

The success of German efforts to solve the crisis in order to maintain its interests in Persia came when, in view of the facts presented and faced with a challenge, the Persian government agreed to reverse its decision. All embassy staff, with the exception of the Persian ambassador and his legation secretary, were ordered to return to Berlin.²⁸⁵

²⁸² Report titled '*Die Vorgeschichte des deutsch-persischen Konflikts*' compiled by Grobba at the German foreign office in Berlin. 27 October 1931, 14 page report. PAAA, Department III-Politics, R78109.

²⁸³ Grobba to the Persian embassy in Berlin. 27 October 1931, letter. PAAA, Department III-Politics, R78109.

²⁸⁴ Report titled '*Die Vorgeschichte des deutsch-persischen Konflikts*' compiled by Grobba at the German foreign office in Berlin. 27 October 1931, 14 page report. PAAA, Department III-Politics, R78109.

²⁸⁵ Blücher to German foreign office in Berlin. 25 October 1931, telegram. PAAA, Department III-Politics, R78109.

d. Immunity of the National Bank

With regard to German presence in Persia, just before the peak of the crisis, a Russian Economic journal²⁸⁶ had published an article titled "German imperialism in Persia". This article mentioned that the Persian press reported almost on a daily basis on the activities of German representatives in Persia. It was claimed that, as reflected in the rise of foreign trade figures, the objective of German activities was to strengthen and expand German commercial and political influence in Persia.

The article further claimed that the popularity of German technology and the sympathies of the Persian public for German culture had helped Germany to outrun its competitors, and that German influence was reflected in the accomplishments of the Junkers air service, the German financial experts active in Persian banking and the large number of railway experts involved in the construction of the Trans Iranian Railway. The article concluded that in anticipation of British, American and French resistance, Germany had secured commercial and political strongholds in Persia, and moreover was prepared to rely on the Persian "*bourgeoisie*" to maintain its influence.²⁸⁷

As we have shown, a few month later the Persian press published anything but positive reports about Germany. Yet, as the above article representatively stated, Germany had succeeded in securing a foothold in Persia through its economic and political accomplishments. It also was no secret that Germany's main strongholds were Junkers, the National Bank and the Trans Iranian Railway project. The question here is, how the National Bank, which constituted German influence in Persia, was effected through the challenges accompanying the crisis.

²⁸⁶ Economic journal: *Narodnoe Khozeistvo Zakavkasia*. Published in April 1931, number 6/7.

Despite the growing anti German publicity in Persia, it appears that the National Bank of Persia, as a commercial and political institution as well as a German stronghold was barely implicated. The crisis does not even seem to have had serious repercussions for the German staff of the bank. Yet, it is surprising that the Shah took no action against the National Bank or its German staff. In an era, when he broke off his diplomatic relations and put commercial contracts on hold, one might have at least expected steps directed against the staff of the German controlled National bank.

In fact the number of available German archival documents dealing with issues related to the National Bank during 1931 are less than during the previous and immediately following years. It is of interest to look briefly at the possible reasons for what appears to be the 'immunity' of the National Bank.

With regard to the German staff we could argue that these German nationals were in fact employed as Persian civil servants, and the Shah as well as the German government respected this fact. However, these individuals were also running the operations of the bank in all key areas, and therefore were indispensable for the Shah. This fact had to be known to the Germans, who were also benefiting from the presence of German staff at the National Bank.

The Shah must have been aware of the positive significance of the bank as a financial institution for Persia. By taking action against the German staff of the Bank, he would have harmed Persia economically more than he could have gained politically.

Throughout the crisis the position of the National Bank remained unimpaired. The bank maintained its operations and continued to expand its influence. We

²⁸⁷ German embassy in Tiflis to German foreign office in Berlin. 21 July 1931, letter. PAAA, Department III-Economy, R92513.

could argue that the more established the National Bank became as an economic institution the more independent it became from political influences. When the political problems between Germany and Persia escalated, the National Bank became even more indispensable and important. It is also significant that at the height of the crisis the president of the National Bank's board Gharagozlou was replaced by Hussein Gholi Khan Nawab, the former Persian ambassador to Berlin.²⁸⁸

In conclusion, the most likely explanation for the National Bank's 'immunity' during the German-Persian crisis was first, that its German staff were Persian civil servants who were respected for their professional skills and therefore not questioned; second, in conjunction with the National Bank, political and economic matters were kept separate, i. e. the bank as an overall functioning economic institution had reached a status by which it stood above the intergovernmental political crisis which affected German-Persian relations. Hence, the crisis had little impact on the operations of the National Bank or its German staff. Third, as the Russian article had anticipated, the German response to the crisis ultimately ensured that the National Bank remained one of its major strongholds.

²⁸⁸ Schulenberg to German foreign office in Berlin. 2 September 1931, letter. PAAA, German legation files-Iran, PKT 73/ IX A 11a. Volume 3, National Bank.

6. The controversy surrounding the National Bank and the end of the Taimurtash era

An unexpected and sudden decline in Germany's standing in Persia, not least with regard to the National Bank, the unexpected removal of Taimurtash from Persia's political scene, as well as Britain's aggressive attempts to reassert its national interests in Persia, all took place around the same period. Initially it was not at all clear where events were leading. German nationals were dismissed or the Persian government did not extend their contracts. This trend also started to affect the foreign staff of the National Bank to the extent that by the end of 1932 a great number of them faced unemployment.

Looking merely at each individual case makes it difficult to understand the background and the motivation behind what seemed a movement aimed at driving the Germans out of Persia. It is, however, necessary to look at particular cases in order to document what was going on. Specifically, we shall look at the German interpretation of the anti-German propaganda spread in the Persian media, and the allegations made against its nationals serving the Persian government, and particularly the National Bank. Furthermore, it is of interest to find out why Germany was suddenly, in early 1932, pounded in Persia by such a wave of disasters.

The main question is what went wrong? Did the German government's inefficiency with regard to Persia cause all the turmoil, or were German individuals directly responsible? We shall open this chapter by looking at the series of apparently unrelated events involving Germany and German nationals working for the Persian government and the National Bank. This should enable us

not only to highlight a possible pattern linking these separate events, but also to look at the way they affected the German employees of the National Bank and particularly its director Lindenblatt.

Since the removal of Taimurtash from Persia's political scene was of such relevance to the future of German involvement in the National Bank, it is furthermore essential to refer to Taimurtash by briefly describing the shattering events surrounding this chief promoter of German interest in Persia. The second part of this chapter will therefore address the events and intrigues that resulted in the death of this most influential Persian statesman. The next chapter will more directly address the repercussions of Taimurtash's demise for the National Bank and Lindenblatt.

a. Germany finds its position in Persia under threat

One of the first signs of Persian anti-German propaganda, when tracing the measures the Persian government appeared to be directing against Germany, came in the form of an article titled "We and the German press", published in the government newspaper "Iran" on 19 October 1931. This article argued, that either Germany was ruled by an incompetent government that was not able to take care of its own interest, or, alternatively, the German government was prepared, with cunning and intrigue, to damage the image of another country in order to maintain even the smallest advantage. The article criticised both Germany's economic state and the anti-Persian propaganda originating from it.²⁸⁹

²⁸⁹ Translation of article published in the government newspaper *Iran*. 19 October 1931, article. PAAA, Department III-Politics, R78111.

Persia's relations with Germany were described as not 'so necessary'. It was alleged that German political leaders had run down their country to the point of bankruptcy. Moreover, Germany was viewed as the only country to gain from bilateral relations with Persia. Germany would sell goods, set up factories, generate profits, and appoint its nationals to high government positions in Persia, while securing natural resources for its industry. Since Germany was perceived as not being capable of stopping the defamatory publications against Persia, its government was described as the most incompetent ever.

The article went on to criticise what it called the German government's "stupidity" and "idiocy", since it did not appear to understand that it should not tolerate the defamation of the dignity of a country it maintained friendly relations with. The author suggested that Germany, by facilitating the activities of a propaganda nest against Persia, could only have been using its political relations, maintained through its representatives, with cunning and intrigue, to pursue its ulterior motives in Persia. Hence, the question was posed whether it was at all desirable to maintain relations with a Germany, which was behaving so suspiciously.²⁹⁰

As an effect of this anti-German propaganda the Persian government passed a motion to reduce the number of foreign nationals it employed. This also directly affected the employees of the National Bank of Persia. The chairman of the board of the National Bank, Nawab, in the presence of the Persian minister of finance, Taqizadeh, approached the president of the National Bank, Lindenblatt, with the demand to cut down the number of his non-executive foreign staff.²⁹¹

²⁹⁰ Translation of article published in the government newspaper *Iran*. 19 October 1931, article. PAAA, Department III-Politics, R78111.

²⁹¹ Blücher to German foreign office in Berlin. 5 January 1932, letter. PAAA, German legation files-Iran, IX A 11a. Volume 3, National Bank. Number 42.

Hence the administration of the National Bank of Persia was forced to inform about a quarter of its 82 foreign staff that their contracts were not to be renewed. The majority of these employees, 40 employed in the provinces and 42 in Tehran, were German nationals.²⁹²

Moreover, according to a Persian source, the dissatisfaction with the way German authorities dealt with the anti-Persian campaigns, provoked an irreparable degree of resentment against everything German amongst the highest Persian ranks. This fact was also viewed as the main motive behind a further decision by which the German director of the arsenal and all his staff were to be replaced by Swedish experts.²⁹³

The technical director of the Persian arsenal, Hartmann, and the supervisor of the machine-gun section, Haase, were formally asked to leave their posts within three days. Hartmann was surprised, particularly because no reasons were given, and the Shah himself had issued the instructions for their dismissal. Later Hartmann was told that cost saving was the main reason for his dismissal. The German envoy to Tehran, Blücher, interpreted the manner by which Persia dealt with the German personnel of the arsenal inconsiderate and brutal. This becomes particularly evident when we consider how well, in over 8 years of hard work, Hartman had built up and managed the arsenal for the Persian government. Haase, also had been employed in Persia for over 25 years, and had been highly decorated for his services.²⁹⁴

²⁹² Blücher to German foreign office in Berlin. 5 January 1932, letter. PAAA, German legation files-Iran, IX A 11a. Volume 3, National Bank. Number 42.

²⁹³ Note by unknown Persian author. Early 1932, note. PAAA, Department III-Politics, R78111.

²⁹⁴ Blücher to German foreign office in Berlin. 29 April 1932, letter. PAAA, Department III-Politics, R78179. Number 1456.

Blücher considered three possible reasons for the dismissal of Hartmann and Haase. First, it could have been a direct reaction of the Shah to the release of the individuals detained in Germany in connection with the *Paykar* affair. Second, there might have been a genuine financial motive. Third, the Persian government might have had entered negotiations with Czechoslovakian companies, from which machinery could be purchased cheaper than offered by Germany. Hence, it is perceivable that the Persian government had planned to replace the German staff of the arsenal with Czechoslovakians.²⁹⁵

Later it was revealed that the Persian government had contrived to manage the arsenal without foreign assistance. But Swedish engineers were to be employed for the gun-powder factory, and the Shah had planned to instruct a Czechoslovakian company to erect a gun factory near Tehran.²⁹⁶

The Persian government also had plans to take over or reallocate all aspects of railway construction from German hands.²⁹⁷ Taimurtash had suspended his negotiations for employing German experts and instead initiated negotiations with Swedish experts in Stockholm.²⁹⁸

All these manoeuvres of the Persian government clearly threatened Germany's position in Persia. The initial victims of this change of mood in Persia were individuals and German companies working with the Persian government.

²⁹⁵ Blücher to German foreign office in Berlin. 29 April 1932, letter. PAAA, Department III-Politics, R78179. Number 1456.

²⁹⁶ Blücher to German foreign office in Berlin. 9 June 1932, letter. PAAA, Department III-Politics, R78111. Number 1868.

²⁹⁷ German embassy in Stockholm to German foreign office in Berlin. 17 February 1932, report. PAAA, Department III-Economy, R92309. Number 90. See also document over consortium for the construction of railways in Persia. 2 March 1932, memorandum. PAAA, German legation files-Iran, VI C4. Volume 11, railway.

b. The National Bank loses industrial projects

As mentioned earlier, the National Bank of Persia's operations involved industrial projects as well as banking. The Persian government had instructed the National Bank to set up production facilities all over Persia. Unexpectedly, by April 1932, the National Bank was losing control over most of its major industrial projects.

Sugar factory in Kahrizak: The sugar factory was established on 28 April 1931 with a share capital of 300 000 Toman. The company was to take over and rebuild the sugar factory in Kahrizak, which had been shut down for 35 years.

The National Bank of Persia held 180 000 Toman of the share capital invested in the project. The factory was reconditioned and complemented by machinery supplied by the German firm Grevenbroich, Magdeburg.

In March 1932 the Persian government bought the shares held by the National Bank and thereby became the majority shareholder. As a result the general administrator of the department of Industry, Farrokh, replaced the chairman of the board of the factory, Lindenblatt.²⁹⁹

Sugar factory in Karadj: The Karadj sugar factory was commissioned by the Persian government, and construction started in September 1931 under the management of the National Bank of Persia. By the end of 1932 the Persian government had decided to take over the management of the factory from the bank.

²⁹⁸ German embassy in Tehran to German foreign office in Berlin. 12 March 1932, letter. PAAA, German legation files-Iran, VI C4. Volume 11, railway.

²⁹⁹ Blücher to German foreign office in Berlin. 14 April 1932, letter. PAAA, Department III-Economy, R92518. Number 1259.

Kerman yarn spinning factory in Rafsanjan: The Kerman yarn spinning factory was commissioned by the Persian government in December 1931 with a share capital of 400 000 Toman. One third of the share capital of this factory was underwritten by the National Bank. The management of this project was formally in the hands of the National Bank of Persia, which included Lindenblatt as one of its board members. Nevertheless, plans existed by which the National Bank was to be cut out of the project.

Yarn spinning factory in Yazd: Similar to the Kerman factory, the Yazd factory was also commissioned in December 1931 by the Persian government. One third of its 400 000 Toman share capital was underwritten by the National Bank, and the remaining shares were held by local entrepreneurs. But, as in the case of the Kerman factory, plans were made to possibly join both projects, cut out the National Bank, and appoint a director from the department of industry.

Wool spinning factory in Kermanshah: The plan for the establishment of the Kermanshah wool spinning factory was abandoned by the National Bank of Persia.

Cotton factory in Mashad: The plan for the establishment of the Mashad cotton factory was also abandoned by the National Bank of Persia

Linen factory in Mazandaran: The plan for the establishment of the Mazandaran linen factory was also no longer pursued by the National Bank.

Cotton and fabric factory in Shahi: The Shahi factory was founded in 1930 with a share capital of 500 000 Toman. The main shareholders of this factory were the Shah and the National Bank of Persia. The following supplying German companies held the remaining shares: Deutsche Spinnereimaschinenbau A. G., Ingolstadt, Siemens-Schuckert-Werke, Berlin, and Unionmatex Gemeinschaft Deutscher Textilmachinenfabriken, Berlin.

The factory was officially opened on 11 February 1932. According to the German experts from Ingolstadt under full capacity the factory could produce 900 000 meters of yarn, using 286 000 kilos of cotton.

The Shah's designated expert, Hossein Khan Veillard, believed that the realistic capacity of the factory was only about two-third of the German figures. Veillard also reported that he felt that the machinery supplied to the factory was priced 30% over the bids made by a British and a further German company. Veillard's report was compromising for the National Bank of Persia since it had been in charge of ordering the machinery. The commercial director of this factory was the German national Hartmann, who was also the director of the Sari branch of the National Bank of Persia. However, it was learned that he was also to be replaced by a Persian director.³⁰⁰

The situation became more critical for Lindenblatt when rumours alleging irregularities concerning the Karadj sugar factory led to the circumstance that the National Bank of Persia had come under investigation by the department of Industry.³⁰¹

Lindenblatt was convinced that he was being set up, particularly as the investigations commissioned by him did not reveal any irregularities in the banks conduct. Lindenblatt viewed this case as an obvious intrigue planned against him from Persian side. Furthermore, other sources suspected that influential Persian personalities, who wanted Lindenblatt's resignation, had infiltrated agents with the intent of finding something that could be used against Lindenblatt. It was supposed that the unfortunate thing about this matter was that the Shah, who had

³⁰⁰ Blücher to German foreign office in Berlin. 14 April 1932, letter. PAAA, Department III-Economy, R92518. Number 1259.

³⁰¹ Blücher to Grobba at the German foreign office in Berlin. 8 February 1932, letter. PAAA, German legation files-Iran, IX A 11a. Volume 3, National Bank.

been exposed to the allegations against Lindenblatt and the National Bank, was furiously angry.³⁰²

The German company Robert Wönckhaus & Co. was also convinced that Veillard had insinuated acts of sabotage against the machinery they supplied in order to prove their inferiority contra Swiss and British products. By claiming that the German machinery was overpriced, Veillard also aimed at replacing the already delivered German models by his preferred non-German brands. Since Lindenblatt and the National Bank had become cautious about appearing to favour German companies or products, Robert Wönckhaus had to suffer disappointment from the bank's lack of support for the sale of new machinery.³⁰³

Blücher and Lindenblatt had for some time both been aware of the vulnerability of the National Bank with regard to its nation-wide industrial projects. Their intention was to transfer the National Bank's overall responsibility over industrial projects to individual directors. However, it was now too late, since the Persian side was already contemplating removing the National Bank from the management of industrial projects. Hence, what was planned as a voluntary withdrawal had turned into a penalty.

Blücher was more than surprised when Lindenblatt unexpectedly informed him of his plan to resign from his post. Lindenblatt evidently felt that he could not withstand his adversaries, chiefly Nawab and Taqizadeh. Blücher believed that a change in the directorship of the National Bank at such a critical time should be

³⁰² Blücher to Grobba at the German foreign office in Berlin. 8 February 1932, letter. PAAA, German legation files-Iran, IX A 11a. Volume 3, National Bank.

³⁰³ Robert Wönckhaus & Co. in Tehran, presumably, to *Reichskreditgesellschaft* in Berlin. 13 May 1932, letter. Bundesarchiv Potsdam, Reichskreditgesellschaft, 80 Re 2/ 2080.

avoided at all cost. He thus managed to convince Lindenblatt to stay until the final date of his contract.³⁰⁴

The situation for Lindenblatt and the National Bank had become tense. In a short period of time the National Bank of Persia had lost nearly all control over industrial projects.

c. The political reasons for Germany's loss of influence

Since the coronation of Reza Shah the economic influence of Germany in Persia had grown steadily. German financial advisors worked for Persian ministries. German Junkers aircraft provided an accident free and well appreciated air service. German engineers and experts had managed the arsenal and gunpowder factories. Multiple sections of the Trans Iranian Railway had been constructed and put into service by a German consortium. The National Bank of Persia had also grown in its four years of existence to a network of 32 branches. Under the supervision of the National Bank German companies had, with substantial results, constructed factories and supplied German machinery to the Persian industry. In only six months the German firm in charge of setting up the Kahrizak factory, which had been shut down for 35 years, managed to start production. It comes as no surprise that after such accomplishments Germany was highly praised for its competence. As late as 28 January 1932, the Shah himself was praising Germany in a speech given on the occasion of the induction ceremony of the Kahrizak factory. The Shah is quoted to have said that he could entrust the

³⁰⁴ Blücher to Grobba at the German foreign office in Berlin. 8 February 1932, letter. PAAA, German legation files-Iran, IX A 11a. Volume 3, National Bank.

industrial development of his country in to German hands with ease of mind, since they instituted success.³⁰⁵

Two weeks later the wind started to blow from another direction. Taimurtash had arrived back from London a day before the Shah had given his speech. The British high commissioner from Iraq arrived a short time later to prepare the state visit of King Faisal. Four days later the director of the arsenal, Hartmann, was expelled and the contracts of other Germans working for Persia's defence industry were not extended. Reducing government expenditures was given as the official reason for the dismissals. Blücher firmly believed that although the Persian government had legitimate reason to cut its expenditure, the main reason for the dismissals must have been the Shah's anger over the Mattias *Paykar* and Farrokh affairs.³⁰⁶ The Shah soon ordered that the National Bank's responsibility over industrial projects shall be withdrawn. It looked as if achievements accomplished over a decade by German pioneers were being undone in less than four month.

Hardly anyone on the German side doubted that the Mattias article and the *Paykar* affair provided the main reason for Persia's proceedings against Germany. However, there is a further hypothesis worth considering, that puts this explanation into the context of an ambitious strategic plan. According to this hypothesis, Britain was the main strategist behind what was happening to Germany in Persia. Britain's motive was not only to reclaim its superiority in the Middle East, but also to circumscribe Russia.

³⁰⁵ Document titled 'The political reasons for driving German influence out of Persia'. Document is marked 'Only for information, not to be published'. Date has been inserted in handwriting and may not be the precise date of publication. 6 April 1932, report. PAAA, Department III-Politics, R78112.

³⁰⁶ Blücher to German foreign office in Berlin. 9 June 1932, letter. PAAA, Department III-Politics, R78111. Number 1868.

For years Britain had to realistically consider the possibility of an armed conflict with Russia. The mere thought of this possibility must have encouraged Britain to want to secure strategic positions from which it could launch effective military strikes against Russia. Such ambitions do certainly not mean that Britain was determined to start an armed conflict. In fact it encouraged exactly the opposite. The more Britain was able to secure a strong position in peacetime, the easier it could negotiate with a wary Russia.³⁰⁷

In case of conflict it was most likely that the heart of Russian war efforts would have been the oil rich region of Baku. The only effective way by which this core of Russian military operations could have been overcome was by deploying heavily armed bomber aircraft. Such an attack could not have been launched via airfields in India or from Baghdad. Primarily this was because the range of the aircraft would not have been sufficient and secondly, the fully loaded bomber aircraft could not have climbed high enough to fly over the 3-4000 meter high mountain ranges. The only airfield from which an aircraft could have easily reached Baku in about 3 hours without flying for long stretches over militarised enemy territory was Tehran. Hence, for the likely case of armed confrontation Britain had to have control over the Tehran airfield at any price.

Given this context, it should come as no surprise either that Junkers was required to clear the Tehran airfield. This meant the temporary end to Junkers air service in Persia. One explanation given at the time was that since the Junkers negotiations with the Persian government came unexpectedly to a halt, payments

³⁰⁷ Document titled 'The political reasons for driving German influence out of Persia'. 6 April 1932, report. PAAA, Department III-Politics, R78112.

ceased and Junkers in Tehran was instructed to terminate its air service in Persia.³⁰⁸

The executive officer of Junkers in Tehran, H. Weil, regarded the termination of Junkers air service and the suspension of payments by the Junkers headquarters in Dessau as two separate issues. He reported to Blücher that the termination of the Junkers air service had been decided long before Dessau decided to halt its financial provisions. Weil had based his assumption on a report Junkers had received from his deputy Auerbach during his absence from Tehran. Auerbach had reported that in a meeting with Blücher, Taimurtash had made clear that he was forced to revoke the provisional arrangement that regulated the operations of the Junkers air service in Persia. Taimurtash had made the construction of a military aeroplane factory in Tehran the exclusive condition for the continuation of the Junkers air service.

Auerbach made the decision to swiftly close down the Junkers operations in Persia. Weil firmly believed that Auerbach had misinterpreted Taimurtash's position and alleged that he was abusing the confidence placed in him by fabricating misleading reports, which ultimately aimed at shutting down and dissolving Junkers air service. As a result Sommer and Koestner, who now faced the difficult task of saving what was left from Junkers, replaced Auerbach.

Weil personally initiated negotiations with the German foreign office, the German ministry of defence, the ministry of trade and commerce, Lufthansa and Junkers, with the result that all participants accepted that every effort should be made to reinstate and expand the Junkers air service in Persia. Interesting in this context is that the German ministry of defence played a leading role in trying to

³⁰⁸ Weil from Junkers bureau in Berlin to Blücher at the German embassy in Tehran. 25 April 1932, letter. PAAA, German legation files-Iran, VI C7. Volume 8,

reinstate Junkers. In fact it not only had been subsidising Junkers, but also was prepared to continue its subsidies, if Junkers was able to obtain flight permission through Iraq, making possible an efficient link from Germany to Persia and maybe even to Afghanistan.

Brown, who was commercially preoccupied in Iraq, was also asked for his support. Although Brown agreed that the termination of the Junkers air service and British activities had caused problems in air transport, he believed that since British interests were always respected and even invited, an acceptable solution could be found. However, it would still take some time for results to materialise and it remained uncertain if Junkers would be allowed to resume its operations in the near future.³⁰⁹

Consequently it appears that, to safeguard its national interest, Britain had chosen to engage in indirect diplomatic initiatives rather than opt for an open confrontation in Persia. Next to its central political goal, securing Tehran airfield and removing Germans from Persia's defence industry, Britain also must have contemplated plans for reclaiming its economic dominance in Persia. Under German supervision, Persia had managed to distance itself increasingly from Britain's economic hegemony. The transfer of printing rights from the Imperial Bank to the National Bank of Persia must have played a major role in Britain's strategic thinking. Particularly, because from a financial point of view, before the transfer of rights Britain had no need to assign sterling funds to its operations in Persia. Whenever money was needed the Imperial Bank, with its printing rights, was at hand. However, the Persian government had bought the money printing

Junkers.

³⁰⁹ Weil from Junkers bureau in Berlin to Blücher at the German embassy in Tehran. 25 April 1932, letter. PAAA, German legation files-Iran, VI C7. Volume 8, Junkers.

rights in 1930, from the Imperial Bank. But the Imperial Bank printing rights formally ended as late as September 1932. If Britain was also to launch a campaign aimed at regaining economic power in Persia, it had to do so before September 1932.³¹⁰

Nevertheless, from a German perspective, even though the British political and economic motives may have been obvious and rational, Persian and foreign circles failed to believe in a British offensive aiming at regaining power. The negative economic experiences with Britain and the strong nationalist movement in Persia were perceived as too strong a barrier for Britain to overcome. Yet, some crucial points were overlooked. First, it was not the nationalists, but the Shah and his ministers who determined Persia's policy. Second, we can trust that the Shah and his aides did have enough foresight to consider the consequences for Persia arising from a possible conflict between Britain and Russia. A monarchy such as Persia was likely to gain more advantage from taking the side of Britain.

The British must have recognised Persia's position and cunningly turned it into an advantage by embarking on its exploitation. First, the British placated the nationalists by appearing to generously relinquish privileges that actually had become superfluous. This included the monopoly over telegraphy, which had lost its strategic importance due to the advent of radio telecommunication. In a second step, the British ensured, through retaining the Imperial Bank's money printing monopoly until September 1932, the financial resources needed to start a diplomatic crusade, which ultimately would enable Britain to regain its lost power

³¹⁰ Document titled 'The political reasons for driving German influence out of Persia'. 6 April 1932, report. PAAA, Department III-Politics, R78112.

in Persia. This plan was labelled by a German source "*verwegen kühn und genial billig!*".³¹¹

According to the available intelligence, the British launched their offensive in July 1931 by organising a Persian art exhibition in London. It was alleged that Britain's motive for organising this was to flatter Persian vanity and to create a Persia friendly image for Britain. Of course, the British had ensured that the money, paid out by the Persian government for the transfer of printing rights of the Imperial Bank to the National Bank of Persia, was transferred to London before the exhibition and prior to the fall in the exchange rate of the pound. But primarily this exhibition served as an ideal forum for inviting Taimurtash and other Persian statesman to London. On arrival, in autumn 1931, the British foreign office officials had a good opportunity to brief the Persian statesman on the advantages that an anti-Russian, British-friendly policy would present for Persia. Moreover, it was made clear that Britain could not genuinely trust a Persian, anti-Russian policy as long as Germans ran the Persian defence industry and economy. This was explained mainly by arguing that from a British point of view, Germany was under the suspicion of being Russian-friendly, particularly in view of the Rapallo Treaty.

It appears that by this time the British strategy was starting to take shape. The British success becomes directly evident, for example, when we look at Taimurtash's revised return travel arrangements to Tehran via Berlin. Taimurtash had planned, to the surprise of the Germans, such a brief stopover in Berlin that it effectively made the expected meetings with German officials and negotiation with German industrialists impossible. This could be regarded as an assurance by

³¹¹ Document titled 'The political reasons for driving German influence out of Persia'. 6 April 1932, report. PAAA, Department III-Politics, R78112.

Taimurtash to the British that he had understood their message. Taimurtash's stay in Berlin was later only extended because of the prospect of a meeting with the German *Reichspräsident*.³¹²

A private reason for Taimurtash's visit to Europe was to enrol his son at a Swiss school, after having taken him out of a German school.³¹³

The first signs of a change in the Shah's disposition towards Germany appeared a few weeks after Taimurtash had returned to Persia. As we have pointed out, the first major victims of this change were the German experts running the Persian defence industry. A short time later the ground was being prepared for a Persian treaty with British-dominated Iraq. To emphasise and underline this Persian-Iraqi 'alliance' a visit of King Faisal was also to follow.

The reason for Britain's delay in removing Germans from Persia's economy and the National Bank was that it was determined to accomplish its much more urgent political goal before summer 1932. The British felt that their economic objectives, particularly with regard to the National Bank, had time until September 1932, the month of the transfer of the Imperial Bank's money printing rights to the National Bank. Although by now German authorities had already deported 'Persian communists' and convicted the individuals responsible for the Mattias and *Paykar* article, the closer September came the more Britain increased the intensity of its offensive against Germany. For the German source, this was a clear sign that the Mattias and *Paykar* affair had never been just a coincidence but a vehicle of the British offensive.³¹⁴

³¹² Document titled 'The political reasons for driving German influence out of Persia'. 6 April 1932, report. PAAA, Department III-Politics, R78112.

³¹³ Brown in Berlin to consul Kalisch at German foreign office in Berlin. 12 July 1932, report. PAAA, Department III-Politics, R78111.

³¹⁴ Document titled 'The political reasons for driving German influence out of Persia'. 6 April 1932, report. PAAA, Department III-Politics, R78112.

The evidence shows that the substance and timing of the publication of the anti-Persian articles in Germany were not a coincidence. Mattias's article, for example, appeared exactly at a time when Blücher in Tehran replaced Schulenberg as the new German envoy. Such 'coincidences' were expected to be most likely a result of careful operations of British agents. Similarly suspicious was that immediately after Taimurtash left London, the Persian communist Farrukhi appeared suddenly in Berlin, and thereafter the *Paykar* articles became more radical. Farrukhi, who had escaped Persia without being in possession of a passport, emerged in Berlin with an official passport issued at the Persian embassy in Moscow, also during the period of Blücher's take-over. A proof for the circumstance that Farrukhi's appearance and the timing of it were deliberately organised, and that Persian government agencies or a number of its civil servants were implicated in the British intrigue.³¹⁵

From his safe position in Berlin, Farrukhi also attempted to blackmail the Shah and Taimurtash into paying him money. This obviously triggered more resentment by the Shah against Germans in Persia. Blücher feared that this resentment would soon also affect German nationals employed by the National Bank. The bank's employees proposed to appeal to Hitler to intervene by deporting Farrukhi from Germany. Blücher likewise was convinced that the only way to lift the threat to which German nationals in Persia were exposed was by deporting Farrukhi. He suspected that in the interest of provoking anti-German Persian sentiment, 'tiresome foreigners' backed Farrukhi's devastating activities. Blücher suggested that if the formal deportation of Farrukhi should fail, he should

³¹⁵ Document titled 'The political reasons for driving German influence out of Persia'. 6 April 1932, report. PAAA, Department III-Politics, R78112.

be offered a financial incentive and be sent to Paris in the same way he was sent from Moscow to Berlin.³¹⁶

By announcing Schulenberg's departure a month in advance, the German government agencies had made it easy for the British to plan their first strike. This made it increasingly difficult for Blücher to engage in his new assignment. Blücher had to wait for an unusually long time before the Shah granted him an audience in order to acknowledge him as the new German representative to Persia. During this period Blücher was kept in a deadlock with respect to his official duties.³¹⁷ There was no course by which the situation for Blücher could have been resolved. Firstly, in contrast to Germany, Britain had political and economic instruments at its disposal with which it could put Persia under pressure. These included the Shah's fear of the Bolsheviks and the imminent threat of tribal attacks on southern oilfields with consequent reduction of oil revenues. Secondly, Britain was pursuing a vital interest for which it was determined to deploy all its political and financial power. Germany, on the other hand, was protecting an important, but not vital, position in Persia.³¹⁸

However, the British plan was not executed as straightforwardly as one might initially expect. The pro-British policy in Persia, as was to be expected, ran aground with nationalist groups. It also seems that, Taimurtash, who actually had appeared to have initiated Persia's pro-British stance, had become hesitant yielding to British demands. The British had as yet failed to reach a final agreement with the Persian government about the Tehran airfield. They had also

³¹⁶ Blücher to German foreign office in Berlin. 9 June 1932, telegram. PAAA, Department III-Politics, R78111.

³¹⁷ Brown in Berlin to consul Kalisch at German foreign office in Berlin. 12 July 1932, report. PAAA, Department III-Politics, R78111.

³¹⁸ Document titled 'The political reasons for driving German influence out of Persia'. 6 April 1932, report. PAAA, Department III-Politics, R78112.

still failed to achieve their prime political goal and they thus applied intense pressure upon Persia. They cut the Persian government's share of oil revenues by £1 000 000, and initiated turmoil in the oil-rich southern regions of Persia.

Under this pressure, which hit the Shah at his most vulnerable spot, the previously united front of Persian statesmen split into two fronts. Since British exercise of power and the survival instinct of the Shah supported it, the pro-British group, under the leadership of finance minister Taqizadeh, formed the stronger camp. This group's main goal evolved to be eliminating Taimurtash, who had become the leader of the opposition group. It was believed that Taimurtash was genuinely interested in making concessions to Britain but that he was not prepared to cut all his ties with Russia. The problem Taimurtash's group faced was that Russia had nothing to counter British pressure.³¹⁹

Taimurtash must have known of the weakness of his position and therefore probably had envisaged a more long-term strategy. He most likely relied on the strength of the nationalist movement in Persia and the support of the Persian military. But Taimurtash was engaging in a questionable gamble.

Although Germany was rapidly losing considerable ground, the National Bank of Persia was still under the control of Lindenblatt and his team. However rumours appeared which alleged that all German nationals working for the bank were to be replaced by other foreign nationals. As with our hypothesis of a British plan to regain power in Persia, there was some evidence for these rumours. Apparently the Persian government had tried to recruit new bank personnel in Paris. But the request of the Persian government was not endorsed by the French legation. Hence, the Persian ambassador in Paris reported that he was not able to

³¹⁹ Document titled 'The political reasons for driving German influence out of Persia'. 6 April 1932, report. PAAA, Department III-Politics, R78112.

recruit suitable individuals and that he had forwarded the government's request to the embassy in Bern. Since a Swiss national had just arrived in Persia as the chief consultant on railway matters to the government, many believed in the strong possibility of Swiss nationals replacing the Germans at the National Bank.³²⁰

A delegation of merchants and government officials conferred with Taimurtash about the negative implications of a possible sudden change of the staff of the National Bank. Taimurtash assured the delegation that the government was aware of this fact and was not planning to take any hasty decisions. Taimurtash also pointed out that he intended to recommend to the Shah to retain the German staff of the National Bank. Nevertheless, the ultimate decision remained with the Shah himself.

Let us return to our initial hypothesis by considering Brown's impression of the causes of the German crisis in Persia. Brown confirms the rumours that alleged the present crisis in Persia had a political background. He also confirms that there were those who went as far as to imply that Mattias's articles were not motivated by journalistic ambition but by British pounds. Yet Brown felt that this was a too easy justification which he could not share in full.

It is certain that Germany's relations with Russia and its position within the western powers' structure was monitored with great interest in Persia. The Shah's decision about keeping the German personnel of the National Bank was very much linked to the question of Germany being already "infested by Bolshevik ideology" or not.

³²⁰ Brown in Berlin to consul Kalisch at German foreign office in Berlin. 12 July 1932, report. PAAA, Department III-Politics, R78111.

Persian government circles denied that the recent removal of German nationals from key positions was politically motivated. They argued that the dismissals were exceptional cases for separate reasons, and only affected a limited number of people. Brown, and in his opinion Blücher, both shared the view that the current political combinations were exaggerated. Nevertheless, the Persian political and intellectual elite paid close attention to Germany's position within Europe. It was of crucial importance to Persia to see if Germany would sway pro-west or pro-Russia.³²¹

This makes the hypothesis of Britain wanting to protect its interests against Russia and to regain its lost influence in Persia all the more plausible. As Brown and Blücher point out, the extent and proportions of British operations may have been exaggerated to some extent. Yet it is unlikely that it was just a coincidence that German nationals were losing their positions on all levels of responsibility within months of each other. As before it is clear that Taimurtash held the key to the current and future developments concerning Germany in Persia.

d. The crisis surrounding Taimurtash

The shape events described in this section were taking presented a serious challenge to Taimurtash. Moreover, he faced a crusade against his status, in which the National Bank of Persia and its director played a notable role.

It becomes clear that up till now the available German documents have only succeeded in creating an ambiguous impression of Taimurtash's position within Persia, and with regard to the National Bank of Persia. On the one hand he was

³²¹ Brown in Berlin to consul Kalisch at German foreign office in Berlin. 12 July 1932, report. PAAA, Department III-Politics, R78111.

regularly described as being pro-Russian, on the other hand, he was suspected to be pro-British, and in one instance he was put forward as an agent of the Anglo-Persian Oil Company.³²² Then again he is described as the father to the idea of creating a national bank for the benefit of his country, and the strongest supporter of its German director. Yet, he is seen to harm the cause of the bank and even portrayed as abusing the bank for his own personal profit. Moreover, Taimurtash is described as the indispensable aid, all-powerful implementer, and right hand to the Shah, whereas the Shah is portrayed as not being fully aware of Taimurtash's significance.³²³

Therefore, in order to be able to judge its subsequent implications for Lindenblatt, his staff and the National Bank of Persia, a closer look at the threatening circumstances surrounding the main figure, on whom Germany's faith in the early 1930's Persia rested, becomes necessary.

For years Taimurtash had been exercising powers which went beyond his legitimate duties as court minister. Taimurtash had not restricted his activities to the royal household but had participated in all ministerial meetings, as quasi the representative of the Shah. Cabinet decisions reserved to the Shah were presented by Taimurtash, which gave him considerable influence over their outcome. Taimurtash's point of view was determining to a degree that he was seen as the actual leader of the cabinet.³²⁴

Blücher saw Taimurtash's personal qualities as the prime reason for his success. The Shah did not speak any foreign languages and was generally afraid of

³²² Blücher to German foreign office in Berlin. 12 August 1932, report. PAAA, Department III-Economy, R92341. Number A 266.

³²³ Blücher to German foreign office in Berlin. 12 August 1932, report. PAAA, Department III-Economy, R92341. Number A 266.

³²⁴ Blücher to German foreign office in Berlin. 12 August 1932, report. PAAA, Department III-Economy, R92341. Number A 266.

people and increasingly isolated himself from his environment. The Persian Prime Minister was well educated and respected, but he was old and did not possess any political determination. Taimurtash on the other hand was a spring of vitality, very intelligent, and was a born decision-maker. He also spoke several foreign languages and flourished in public. Therefore, he complemented the Shah in various ways and replaced the Prime Minister in many instances. Taimurtash was often described as being indispensable to the Shah. Many of the achievements of the Pahlavi era were associated with him. This reassured the Shah that Taimurtash was the right man for the execution of his ambitious plans. The co-operation between the Shah and Taimurtash flourished for years without any noticeable difficulties and the cabinet also willingly accepted the latter's domination. This was until Taqizadeh became minister of finance and started going his own way, which ultimately placed him into opposition against Taimurtash.³²⁵

Because of the economic crisis Persia was experiencing, opposing Taimurtash had become easier than it had been previously. Taimurtash had tried to halt Persia's economic downfall by introducing a foreign trade monopoly and a trade agreement with Russia. Neither measure achieved the desired results. On the contrary, Persia's economic situation worsened. Hence Taimurtash was made the scapegoat for the crisis. Moreover, Taimurtash, with his passion for gambling and exorbitant lifestyle, offered an easy target for his enemies. He was spending far more than he could have legitimately earned.

Taqizadeh concentrated his offensive against Taimurtash on exactly this last weak point. He suspected that part of Taimurtash's illegitimate income was acquired through an institution over which he had evident influence, the National

³²⁵ Blücher to German foreign office in Berlin. 12 August 1932, report. PAAA, Department III-Economy, R92341. Number A 266.

Bank of Persia.³²⁶ In a first step, Taqizadeh succeeded in infiltrating his close friend Nawab into the executive of the National Bank. As chairman of the board, in a second step, Nawab ordered the re-examination of all open and secret accounts held at the National Bank.

As a result it was revealed that irregularities had been discovered with regard to Taimurtash's currency transactions. It was alleged that at a time when currency transactions were banned, Taimurtash had sold foreign currency at a black market rate, after acquiring the same at the lower official rate from the National Bank. Nawab immediately reported his findings to the Shah, who became furious. The Shah asked Taimurtash to see him immediately, and it was reported that he got so angry that he attacked Taimurtash physically. Taimurtash suffered a heart cramp and was taken ill, withdrawing from the battlefield for the following two weeks.³²⁷

Taimurtash's absence created the opportunity for his enemies to launch more attacks against him. After the initial success of their campaign, not only members of the closer circle surrounding Taqizadeh, but also publicly respected statesmen, who had been politically incapacitated by Taimurtash, joined in. A number of them took the opportunity to consult the Shah during Taimurtash's absence. It was maintained that these men tried to increase the doubt in the mind of the characteristically suspicious Shah against the most recent designs of his ambitious court minister. Largely they desired a return to constitutional values and independent parliamentary elections.

The religious leaders also started their vengeance against Taimurtash for what they perceived as his loose life detached from Islamic values. Taimurtash's future

³²⁶ Blücher to German foreign office in Berlin. 12 August 1932, report. PAAA, Department III-Economy, R92341. Number A 266.

³²⁷ Blücher to German foreign office in Berlin. 12 August 1932, report. PAAA, Department III-Economy, R92341. Number A 266.

faced a critical phase during which he could have been stripped of all his powers and privileges, or worse.

However, events veered slightly in favour of Taimurtash. This was mainly because Nawab, who was investigating the accounts held at National Bank, had come across irregularities connected with numerous other significant public figures, some lower but some also higher in status than Taimurtash. The more these people felt threatened by Nawab's investigative findings, the more their opposition grew. When Nawab began to realise the level of discord he had caused, his activities slowed down rapidly.³²⁸

Precisely at this moment Taimurtash returned and attended to his duties as if nothing had happened. But he obviously was furious. Blücher points out that in Europe these events would have led to a public confrontation between the two rival camps, but in the orient this affair took a different route. Having been faced with such opposition Nawab decided to change camps. Hence, he had a four-hour meeting with Taimurtash after which they were seen embracing each other. Whereas Nawab had initially made Taimurtash responsible for the irregularities discovered at the National Bank, he now argued that the entire affair had resulted from the ill-formulated statutes of the bank. Smartly enough, Taqizadeh had managed to keep himself in the background during the entire campaign and therefore did not need to be reconciled with Taimurtash.

However, Blücher felt that no one could predict if the crisis surrounding Taimurtash was over or not. The Shah was known to treat the individuals whom he wanted to overthrow with utmost politeness until the moment he ordered their arrest. Blücher was convinced that non-of Taimurtash's adversaries could match

³²⁸ Blücher to German foreign office in Berlin. 12 August 1932, report. PAAA, Department III-Economy, R92341. Number A 266.

him in intelligence and vigour. In a time where the Shah's popularity was declining and the nation was increasingly dissatisfied, it was essential for the Shah to keep his most capable deputies at his side.³²⁹ Although the Shah was commonly accepted as Persia's reformer, he had neither visited a foreign country, nor did he speak any foreign language, and before the construction of the Trans Iranian Railway started he had not even seen a train. But his European educated court minister, who in turn regularly consulted European qualified experts, was in a position to inspire and implement many of the Shah's modern ideas. Hence, in the long run Taimurtash had good reason to feel needed.³³⁰

e. The Persian-British oil conflict and Taimurtash

It did not take long for Taimurtash to fall once more victim of a political manoeuvre by his active opponents. This time the former Persian ambassador to Moscow and at that time ambassador to London, Ansari, was the key figure. Taimurtash knew Ansari as an adversary long before he had launched his Anglo Persian Oil Company conspiracy against him.

Two unnamed Armenian individuals made Ansari aware that the opportunity was ideal for Persia to distance itself from the disadvantageous Anglo Persian Oil contract, since Britain was struggling with its world political status. Ansari saw in this an opportunity, first to impress the Shah and appeal to his nationalist feelings by suggesting the cancellation of the above-mentioned contract, and second to overshadow Taimurtash. To this end Ansari sent a report to Tehran. Taimurtash,

³²⁹ Blücher to German foreign office in Berlin. 12 August 1932, report. PAAA, Department III-Economy, R92341. Number A 266.

whose anti-British feelings were recognised, felt persuaded to endorse Ansari's recommendation.³³¹

On 27 November 1932 Taqizadeh informed the resident representative of the Anglo Persian Oil Company in Tehran of the Persian government's decision to cancel the D'Arcy concession.³³² In protest, the Anglo Persian Oil Company questioned the legality of the Persian government's decision. The British ambassador in Tehran declared on behalf of his government that Britain would take every step deemed necessary to protect its legitimate national interest. A similar declaration was also voiced in the House of Commons in London on December 5th. But the Persian government was determined in its objective to remove British influence from its most important national resource.³³³

The two main arguments for the hard line the Persian government was pursuing with the Anglo Persian Oil Company were, first the company's failure to increase the Persian government's share of its profits to above its current 16%, and second, the failure to include Persian nationals in the management of the company. Other reasons were the Anglo Persian Oil Company's reduction of the Persian government's income, because of falling oil prices, alleged irregularities in the company's accounting practice and a weak Pound Sterling exchange rate

³³⁰ Blücher to German foreign office in Berlin. 30 April 1932, report. PAAA, Department III-Politics, R78162. Also copies at, PAAA, Department III-Politics, R78179, and, PAAA, Department III-Economy, R92510. Number A 157.

³³¹ Document marked secret and forwarded by von Dirkse in Moscow, possibly, to the German foreign office in Berlin. 6 January 1933, report. PAAA, Department II-Economy, secret files 1920-1936, R30617.

³³² Text delivered by Taqizadeh to Anglo Persian Oil Company in Tehran as published in British article titled 'Anglo-Persian oil, origin of the dispute'. Early 1933, article. PAAA, Department III-Economy, R92524.

³³³ Report on the British-Persian oil conflict compiled by Prüfer at the German foreign office in Berlin, for the German embassies and consulates in: London, Paris, Rome, Moscow, Tokyo, Ankara, Tehran, Baghdad, Bucharest, Cairo, Trifles, Calcutta, Jerusalem, New York, Beirut and Geneva. 20 December 1932, report. PAAA, Department III-Economy, R92524.

affecting the Persian government's national reserves deposited in Pound Sterling. Besides these factors there was also a nationalistic motive which held that the Anglo Persian Oil Company was a threat to Persia's sovereignty and prestige.³³⁴

A German government internal news bulletin compared the effect of the unexpected arrival of the news over the cancellation of the D'Arcy concession from Persia with the impact of a bomb. This was because the Persian government's cancellation of the D'Arcy concession affected the Anglo Persian Oil Company, which was one of only two institutions on which British influence in Persia was based. The imperial bank being the other British institution had already lost in significance, and the 13 million Marks capital investment in the bank could not rival the 230 million Marks invested in the Anglo Persian Oil Company.³³⁵

At this point many putative explanations for the Persian government's action were circulating. It was alleged for example that the Russians had initiated the government move against Britain, or that Taqizadeh, out of his hate for Britain and under the influence of his German wife, had persuaded the Shah to end the Anglo Persian Oil Company's hegemony. It was also rumoured that Taimurtash had initiated this affair to outsmart Taqizadeh.³³⁶

Blücher was convinced that none of the above-mentioned factors described the real reason for the cancellation demand. Blücher gathered that the Shah himself must have come up with this idea. Evidently on a visit to the south of Persia on the occasion of inspecting his newly delivered Italian built gun boats, the Shah

³³⁴ Report on the British-Persia oil conflict compiled by Prüfer at the German foreign office in Berlin, for the German embassies and consulates in: London, Paris, Rome, Moscow, Tokyo, Ankara, Tehran, Baghdad, Bucharest, Cairo, Trifles, Calcutta, Jerusalem, New York, Beirut and Geneva. 20 December 1932, report. PAAA, Department III-Economy, R92524.

³³⁵ Article titled 'Der britische Oelkonflikt', in *Auslandsbriefe*, number 141. Early December 1932, article. PAAA, Department III-Economy, R92524.

could not fail to see for himself the might of the Anglo Persian Oil Company. In fact the Anglo Persian Oil Company with its impressive facilities, ranging from schools to airports, factories, roads, hospitals and villages, resembled a state within a state. Blücher was convinced that the Shah's decision was made after seeing the Anglo Persian Oil Company's omnipotence in southern Persia. On returning to Tehran the Shah supposedly demanded that his cabinet cancel the concession held by the Anglo Persian Oil Company. None of the ministers dared to question the Shah's decision. Only after the Shah left did Taqizadeh and his colleague, the foreign minister, add a section to the Shah's instructions which expressed the Persian government's willingness to negotiate over the matter with the Anglo Persian Oil Company.³³⁷

The Persian Prime Minister and foreign minister clarified to Blücher that they had no intention of instigating a conflict with Britain. Hence, the objectives of the Persian government were reformulated in order to reflect that not the cancellation of the concession was intended but its renegotiation. The Persian government tried to prove its position by not interfering with any aspects of the Anglo Persian Oil Company's operations.³³⁸

Blücher never believed in the theory that Ansari was behind the idea of cancelling the Anglo Persian Oil Company concession. However, one of the main sources on which he based his opinion was Taqizadeh.³³⁹

³³⁶ Blücher to German foreign office in Berlin. 17 December 1932, report. PAAA, Department III-Economy, R92524. Number 3963.

³³⁷ Blücher to German foreign office in Berlin. 17 December 1932, report. PAAA, Department III-Economy, R92524. Number 3963.

³³⁸ Blücher to German foreign office in Berlin. 17 December 1932, report. PAAA, Department III-Economy, R92524. Number 3963.

³³⁹ Blücher to German foreign office in Berlin. 3 February 1933, report. PAAA, Department III-Economy, R92525. Number 374.

Recognising the force behind the British reaction to the Persian government's initial demand, Ansari tried to deflect responsibility for its possible failure by making Taimurtash responsible for its implementation. Hence, he compiled a report in which he concluded that the cancellation of the Anglo Persian Oil Company's contract, as recommended by him, was beyond doubt a politically sound decision. Yet, he maintained that the procedure through which the cancellation was implemented could prove damaging to Persia. Ansari had his report delivered to the Shah who ostensibly became again intensely angry with Taimurtash, for whom his respect was constantly fading.³⁴⁰

The Shah placed Taimurtash directly under house arrest. Taimurtash's house was surrounded by armed forces that prevented him even from meeting his family. Newspapers already predicted the launch of court case against him. Yet it was not clear what the charges against him would be. The press predicted that he would be charged with having had treacherous relations with the Anglo Persian Oil Company, which ultimately were damaging for Persia. For Blücher this was a clear indication of the Shah's methods at work. He felt that the Shah inflated the Taimurtash affair to this degree in order to distract attention from the fact that he alone was responsible for the problems accompanying the oil conflict.³⁴¹ In a telegram he reported to Berlin that the Persian court minister was discharged in an offensive manner. He concluded, by pointing out that he expected wide-ranging

³⁴⁰ Document marked secret and forwarded by von Dirkse in Moscow, possibly, to the German foreign office in Berlin. 6 January 1933, report. PAAA, Department II-Economy, secret files 1920-1936, R30617.

³⁴¹ Blücher to German foreign office in Berlin. 28 January 1933, report. PAAA, Department III-Economy, R92525. Number A 27.

political implications, the consequence of which could not be foreseen in detail as yet.³⁴²

Ansari likewise was removed from office and replaced in London. The formal explanation for this change was that the Shah believed that Ansari was not representing Persia's position powerfully enough to his British counterparts. Ansari decided not to return to Persia on grounds of serious illness. Yet he felt fit enough to travel to Paris.³⁴³

The fall of Taimurtash, who had dominated Persia's domestic and foreign policies for seven years, was a sensation discussed in all levels of Persian society. Blücher distinguished a string of different reasons that caused the downfall of Taimurtash. Starting with his last trip to Europe, during which he was instructed to accompany the crown prince to his new school in Switzerland, it was alleged that he did not pay enough attention to the prince. The Shah was informed that Taimurtash was overshadowing the prince and that, when both appeared, it always looked as if the prince was accompanying Taimurtash rather than Taimurtash accompanying the prince. Moreover, Taimurtash had entered negotiations, when in London, with the Anglo Persian Oil Company over an increase in the Persian government's quota of the company's allowance. These negotiations failed to achieve any positive result. Hence, in consultation with the Shah, Taimurtash's opponents were able to play this failure against him. The Shah was also secretly informed that Taimurtash, on his way back from London, had stopped over in Moscow and celebrated Persia's relations with Russia in a

³⁴² Blücher to German foreign office in Berlin. 27 December 1932, telegram. PAAA, Department III-Politics, R78151.

³⁴³ Blücher to German foreign office in Berlin. 3 February 1933, report. PAAA, Department III-Economy, R92525. Number 374.

conspicuous way, neglecting to emphasize the Shah's role in a speech he gave to honour the occasion.³⁴⁴

On his return Taimurtash had managed to regain ground but by this time the Shah's distrust for him was already deeply seated. This was followed by the already described campaign launched by Taqizadeh and Nawab and the discovery of the account irregularities at the National Bank of Persia. Nawab had succeeded in staining Taimurtash's standing in the eyes of the Shah.³⁴⁵

Taimurtash soon faced a further pitfall that involved a good friend of his, the Shah's treasurer Diba. Both Diba and Taimurtash were passionate gamblers. During a card game Diba had won the phenomenally high sum of 25 000 Toman from the Shah's father in-law. As a result the Shah's father in-law suffered a stroke and died. The Shah became very angry and immediately dismissed Diba from his post. However, to his dismay Taimurtash continued to uphold his close friendship with Diba and his family.³⁴⁶ This conduct of Taimurtash brought the Shah's frustration to culmination.

This added to the conflict Persia faced with Britain regarding the Anglo Persian Oil Company's contract, and Persia's generally weak economic situation, which was also blamed on Taimurtash, made the Shah's decision to part from his court minister final.³⁴⁷

Taimurtash, who was put under house arrest, was completely cut off from the outside world. He was medically treated at his house for angina pectoris and a

³⁴⁴ Blücher to German foreign office in Berlin. 31 December 1932, report. PAAA, Department III-Politics, R78166.

³⁴⁵ Blücher to German foreign office in Berlin. 31 December 1932, report. PAAA, Department III-Politics, R78166.

³⁴⁶ Blücher to German foreign office in Berlin. 24 December 1932, report. PAAA, Department III-Politics, R78166.

wound on his head, over which Blücher refused to speculate. In the meantime the primary cause for the Shah's dismissal of Taimurtash, as predicted by usually well informed sources, involved Ansari. It was purported that Ansari had addressed three reports directly to the Shah long before the Persian government cancelled the Anglo Persian Oil Company's contract. In these reports he described the positive advance of his negotiations with the company. Taimurtash who had failed to achieve any results when negotiating with the oil company in London, apparently out of resentment, did not forward Ansari's reports to the Shah. After the cancellation of the Anglo Persian Oil Company's contract Ansari wrote to the Shah questioning the government's decision in light of the satisfactory state of his negotiations with the company. This enraged the Shah who believed he had discovered how deceiving Taimurtash was in his ways. Ansari, although successful in his plan to damage the reputation of Taimurtash in the eyes of the Shah, did, in the long run, not only lose his post but also his honour when he decided not to return to Persia.³⁴⁸ This must have particularly satisfied Taimurtash's worst opponent Taqizade who most probably had used Ansari only as part of his plan to bring down Taimurtash.

In Blücher's words, Taimurtash's fall meant that Persia faced a new era in its history. With him not only the helmsman of Persia's domestic and foreign policy was leaving the bridge, but also the only statesman who had been able to guide the often angry and unpredictable Shah.³⁴⁹

³⁴⁷ Blücher to German foreign office in Berlin. 31 December 1932, report. PAAA, Department III-Politics, R78166.

³⁴⁸ Blücher to German foreign office in Berlin. 6 January 1933, report. PAAA, Department III-Politics, R78147.

³⁴⁹ Blücher to German foreign office in Berlin. 6 January 1933, report. PAAA, Department III-Politics, R78147.

f. Taimurtash's era comes to an end

In February 1933 Taimurtash was transferred to prison, where he awaited his trial. It had been difficult to find solid evidence that could lead to his prosecution in court. Hence the preliminary judiciary investigation looked into different matters by which it could prosecute Taimurtash for high treason. In a new approach it aimed to prove that Taimurtash was a mercenary of the Anglo Persian Oil Company.³⁵⁰

The Anglo Persian Oil Company had been paying the tribal leaders in Persia's south for years to ensure the safety of its operations. More than twelve months before the investigation the Anglo Persian Oil Company had deposited £ 25 000 into the accounts of the National Bank of Persia for the tribal leaders. This transaction took place at a time when the Bazaar exchange rate for one pound sterling was 9 Toman and the official exchange rate 6 Toman. The chief prosecutor's line of investigation was based on the fact that the tribal leaders only received the equivalent sum derived by applying the Bazaar exchange rate to the transaction. This left, in comparison to the sum derived from applying the official exchange rate, a discrepancy of 75 000 Toman. The chief prosecutor's objective was to prove that Taimurtash was on the receiving end of the 75 000 Toman. He alleged that it was premeditated that the Anglo Persian Oil Company had deposited the £ 25 000 in pound sterling and not its equivalent in Toman, and moreover, that it was planned to negotiate this transfer through the National Bank

³⁵⁰ Blücher to German foreign office in Berlin. 24 February 1933, report. PAAA, Department III-Politics, R78147. See also identical document at PAAA, Department III-Economy, R92525.

of Persia, which in turn provided Taimurtash with the above-mentioned illegal proceeds.³⁵¹

To this end the prosecutor interrogated Lindenblatt for more than ten hours in one session. The interrogation must have been highly unpleasant for Lindenblatt since the prosecution had discovered on a number of foreign exchange receipts the letter 'T' for Taimurtash inscribed.³⁵²

The court in conclusion succeeded in convicting and imprisoning Taimurtash. Blücher observed significant changes after Taimurtash's removal from the public and diplomatic scene. For example Taimurtash was known to have accomplished most of the modern reforms in Persia in an uncomplicated and rapid manner. Instead, matters now had to be brought to the attention of the relevant ministries resulting in ineffective deliberations. Likewise, important matters had to be brought forward for discussion in cabinet meetings, which were chaired by the Shah himself. Since the Shah was known for his bad temper and volcanic outbursts, out of fear none of the cabinet ministers ever ventured to challenge him. They also would not dare to recommend anything of which they did not know that it had the full approval of the Shah. This resulted in unsatisfactory delays and hampering of official matters ranging from economy, to the construction of railways and the granting of monopoly concessions.³⁵³

³⁵¹ Blücher to German foreign office in Berlin. 24 February 1933, report. PAAA, Department III-Politics, R78147. See also identical document at PAAA, Department III-Economy, R92525.

³⁵² Blücher to German foreign office in Berlin. 24 February 1933, report. PAAA, Department III-Politics, R78147. See also identical document at PAAA, Department III-Economy, R92525. In the next chapter, we shall examine closer the role of Lindenblatt, and the National Bank of Persia, in the Taimurtash affaire.

³⁵³ Blücher to German foreign office in Berlin. 4 March 1933, report. PAAA, Department III-Politics, R78147. Number A 58.

This effected also very much Germany's situation in Persia which despite the Shah's reassurance that Germany was now cleared of communist influence remained in suspension over recent events.³⁵⁴

Taimurtash's poor treatment in prison was systematically increased to a degree that he was put in a cell together with thieves and murderers. Finally on October 3rd 1933 he was found dead. No autopsy was performed, yet it was rumoured that two prison wardens who had eaten the same food as Taimurtash were taken severely ill. In compliance with instructions coming from the highest ranks, no one besides Taimurtash's attorney and one of his sons were allowed to attend his funeral. It seemed to Blücher that the Shah not only had hated Taimurtash as long he was alive, but he also must have feared him unjustifiably until the last moment.³⁵⁵

The inescapable conclusion that emerges from the events described is that Lindenblatt's future at the National Bank of Persia was seriously in danger. He not only had lost one of his strongest promoters but he was implicated in the investigation following Taimurtash's prosecution. Moreover, the National Bank of Persia had already lost significant influence over its industrial projects; many of Lindenblatt's German colleagues had been removed from their posts; he had clashed with Taqizadeh who did not appear to be particularly German-friendly; the British had still not managed to achieve their political and economic goals, and therefore posed a threat for him; furthermore the Shah's attitude towards him, the bank and Germany was at the least unpredictable. As also previously indicated, Germany's involvement in Persia was predominantly of an economic nature and

³⁵⁴ Blücher to German foreign office in Berlin. 11 March 1933, report. PAAA, Department III-Politics, R78112. Number A 69.

³⁵⁵ Blücher to German foreign office in Berlin. 7 October 1933, report. PAAA, Department III-Politics, R78167. Number A 351.

correlated distinctly with Lindenblatt and the pursuits of National Bank of Persia. The problems Lindenblatt saw himself faced with certainly not only jeopardised his future, but also the future of German-Persian relations.

7. The Lindenblatt affair and the National Bank

Following the discovery of the irregularities revealed during the investigation of the National Bank of Persia in June 1932 by the Persian authorities, Germany's relations with Persia had come under even greater pressure. The National Bank's director Lindenblatt had moved into the forefront of allegations of fraud and was held responsible by the Persian authorities for their findings.³⁵⁶ However, the focus of the authorities unexpectedly shifted towards the German vice director of the National Bank, Otto Vogel. It is necessary to examine why Vogel suddenly became the prime suspect for the Persian authorities and why the investigation of the bank led to his suicide. Vogel's death refocused the authorities attention on Lindenblatt and the other German nationals working for the National Bank. While the understanding of the situations Lindenblatt was subjected to throughout the Persian authority's investigations, and the events that accompanied his resignation from the bank's directorship, is significant, it is important to see if Lindenblatt and his German colleagues had just become the victims of a political conspiracy, or if they were genuinely involved in fraud.

a. Director Lindenblatt and the National Bank crisis

Because of the continuing build up of tension in Persia, and following Taimurtash's advice, Lindenblatt decided to apply for a three-month leave of absence from his post as the director of the National Bank. Naturally, Lindenblatt's decision met with the resistance of the Persian minister of finance Taqizadeh as

well as the chairman of the board of the National Bank, Nawab. Before they considered Lindenblatt's application for leave, both demanded from him detailed accounts of the National Bank's financial transactions and statements with regard to the established factories.³⁵⁷

Nevertheless, they soon realised that their harsh attacks against Lindenblatt, and indirectly the National Bank, had mobilised the enemies of the bank, including the Imperial Bank of Persia and its entourage. As a result of the perceived threat to the existence of the National Bank they adapted their strategy of investigation to the extent that, with some assistance from Taimurtash, Lindenblatt was granted his leave.

Before leaving for Germany, Lindenblatt tried to indicate that he had understood the purpose of the investigation and the fact that his hitherto dominant role in the bank had become a point of criticism. Hence, according to Blücher, he concluded his last meeting with the board of the National Bank by commenting that: 'Since the first phase of organisation (of the National Bank) was now completed, it was to be followed by an epoch focusing on the regular day to day running of the bank. Until this time it had been necessary to centralise responsibility in one hand, but now the time had come to contemplate a more relaxed approach'.³⁵⁸

The board endorsed the National Banks vice director Otto Vogel taking over during the absence of Lindenblatt. According to Blücher, Vogel tried to approach

³⁵⁶ Document titled '*Politische und wirtschaftliche Beziehungen zu Persien*'. 1932/ 33, report. PAAA, Department III-Politics, R78156.

³⁵⁷ Blücher to German foreign office in Berlin about the crisis surrounding the National Bank. 17 June 1932, report. PAAA, Department III-Economy, R92341. Number 1972.

³⁵⁸ Blücher to German foreign office in Berlin about the crisis surrounding the National Bank. 17 June 1932, report. PAAA, Department III-Economy, R92341. Number 1972.

his responsibilities in a radically different way from Lindenblatt. Vogel had intended to keep regular contact with Taqizadeh, and allow Nawab to have permanent control over his activities. He also wished to transfer the responsibility for granting substantial bank loans to Nawab. Moreover, Vogel pledged not to resist employing Persian nationals in responsible positions within the bank. He also planned, by granting competitive loans to factories, to settle the remaining arguments between them and the National Bank. Vogel's approach led to what appeared to be a moderate relaxation of the prevailing crisis.

Blücher remarked that Lindenblatt's departure had constituted a turn in the history of the National Bank of Persia. He held that under Lindenblatt the National Bank was actually a German bank in the same way that the Imperial Bank had been an English bank. Blücher was confident that the Persian government, being aware of this state of affairs, was not prepared to tolerate it over a longer period of time. Blücher was convinced that there was no other route for German employees of the National Bank to take, then getting used to the idea of sharing responsibilities with Persian nationals.³⁵⁹

With regard to Lindenblatt's future, everything he did indicated that he had planned to leave Persia permanently. He had sent his children back to Germany and dissolved his entire household. For the Persian authorities Lindenblatt's departure provided an opportunity to see how the bank would perform without him. Success in this trial would have seriously circumscribed Lindenblatt's future prospects at the National Bank.³⁶⁰

³⁵⁹ Blücher to German foreign office in Berlin about the crisis surrounding the National Bank. 17 June 1932, report. PAAA, Department III-Economy, R92341. Number 1972.

³⁶⁰ Blücher to German foreign office in Berlin about the crisis surrounding the National Bank. 17 June 1932, report. PAAA, Department III-Economy, R92341. Number 1972.

On his arrival in Germany, Lindenblatt contacted the German foreign office in Berlin in order to report on his interpretation of the situation in Persia. Lindenblatt reported on the adverse effects for German nationals resident in Persia of the reluctance of German authorities to deal with the anti Persian press campaigns launched in Germany. As a result, Lindenblatt added, he also was expecting to lose his job at the bank. He explained that he was under the impression that the Persian authorities had only granted him this particular leave to return to Germany so that he could personally clarify the Persian government's point of view on the matter. Lindenblatt felt that this was his last opportunity to save his own job and that of about sixty other Germans still employed by the National Bank.³⁶¹

In the meantime the foreign office received more reports highlighting the anti German atmosphere in Persia. Next to the poor economic situation and the import restrictions imposed by the Persian government, the political stage also looked unfavourable to German interests. Some German nationals felt a distinct hostility directed against them. One of them reported that after Lindenblatt's departure, most of the German National Bank's employees were convinced that the end of their short-term contracts also signified the end of their careers in Persia. Even, the Persian medical administration, whose achievements owed much to the input of German nationals, felt obliged, due to the anti-German propaganda, to discontinue satisfying its demand for medical goods mainly through German companies, but was searching for other European suppliers.³⁶²

³⁶¹ German foreign office in Berlin to Prussian ministry of Justice. 25 June 1932, report marked secret. PAAA, Department III-Politics, R78111.

³⁶² Schering-Kahlbaum A.G. in Berlin to German foreign office in Berlin over economic relations with Persia. 7 July 1932, report. PAAA, Department III-Politics, R78111.

An employee of the German company Schering-Kahlbaum A.G. had speculated that the majority of the German colony believed that all problems had resulted from the rivalry between the National Bank and the Imperial Bank. Hence, he was convinced that Leo Mattias, the main cause of all the trouble in Persia, was on Britain's payroll. He described the situation in Persia as intensely hostile towards anything German. He urged his company to contact and alert the foreign office in Berlin of the situation in Persia. He remarked critically that it appeared to him that the German foreign office did not pay the necessary attention to the events taking place in Persia, nor did it seem to appreciate the sensitivities of the Persians.³⁶³

Back at the National Bank, Vogel had come under pressure through Nawab. For example, Nawab had pointed out to him that during his revision of the bank's accounts he had discovered inadequately secured loans. But Nawab had also made clear that his main intention in revealing the irregularities at the National Bank was to prove that Lindenblatt was following the instructions of his long-standing enemy Taimurtash. Hence, he demanded a written statement from Vogel, in which he was expected to state whether Lindenblatt was involved in foreign exchange speculations for his own favour and for that of other clients. Moreover, Nawab wanted Vogel to testify whether key documents concerning transactions had been destroyed at the bank. Vogel's initial reaction was to answer Nawab with his resignation. But, in view of appeals made by Blücher he did not

³⁶³ Schering-Kahlbaum A.G. in Berlin to German foreign office in Berlin over economic relations with Persia. 7 July 1932, report. PAAA, Department III-Politics, R78111.

do so. Blücher had tried to advocate patience in order not to allow the rivalry of Persian statesman to be carried out on the back of Germans.³⁶⁴

However, it looked as if Blücher's efforts had come too late. Vogel managed to update him confidentially on the allegations brought against Lindenblatt as follows:

1. Manipulating the bank's balance sheets:

- a. Through improper account entries
- b. Through using the bank's profits, to deduct from a loan he had granted two years earlier to a merchant named Kaseruni.

2. Engaging in foreign exchange speculations. While foreign exchange speculations were prohibited in Persia the National Bank granted foreign currency at an official rate to senior government civil servants, who sold the currency at a profit on the black market. In individual cases there were no bank slips that documented the receipt of foreign currency by these individuals.

The bank also had provided, at a loss of £ 25 000, currency for Taimurtash's trip to Europe. Moreover, it accepted a fictional sum of £ 2000 from the president of the Persian parliament in Germany, and paid him out the equivalent in Persia.

³⁶⁴ Blücher to German foreign office in Berlin. 27 July 1932, secret coded telegram. PAAA, Department III-Economy, R92341. See also identical report at PAAA, German legation files-Iran, IX A 11a. Volume 3, National Bank.

3. The discovery of unexplained extra payments to former members of the National Bank's staff had led to speculations that hush money was being paid out by the bank in an attempt to cover up its tracks.³⁶⁵

The most solid claim appeared to concentrate on the alleged foreign exchange transactions. Not only did much evidence appear to be available for this claim, but it also implicated influential individuals. As we had shown earlier similar claims had already greatly harmed Taimurtash's carrier. Here it is significant that, since they had to authorise foreign exchange transactions, both Lindenblatt and Vogel at the least had to have some insight into possible irregularities. It is certain that with regard to the investigation both had to expect the Persian clients involved to deny any wrongdoing or knowledge of illegal foreign exchange transactions. This would have left Lindenblatt and Vogel as the prime suspects of Nawab's investigation.

As a possible result of this suspicion, Vogel, to the surprise of all involved, suddenly disappeared from Tehran. Hearsay added to the evidence against Vogel and Lindenblatt by claiming that Vogel had fled the country because he had not been able to explain the absence of 50 000- 70 000 Toman which had been withdrawn from foreign banks by means of five cheques. Moreover, before he had left, Vogel supposedly had also removed the receipts for the missing money, that had been authorised by him and Lindenblatt, from the bank. Nawab had ordered an investigation into the whereabouts of the missing money by obtaining information from the overseas banks from which it had been withdrawn. At this stage, Blücher and the German employees of the National Bank strongly suspected

³⁶⁵ Blücher to German foreign office in Berlin. August 1932, secret coded telegram.

that Lindenblatt and Vogel had both been partners in crime and had embezzled the money.³⁶⁶

In the light of these developments and in case the upcoming circumstantial evidence supported Nawab's allegations, Blücher had asked the foreign office to inform Lindenblatt that he was probably to become the centre figure of a scandal of unimaginable scale. He added that this scandal would not only destroy him morally, but also would cause irreparable damage to Germany's reputation, and put the lives of sixty German members of the National Bank's staff and their families into misery. Blücher had also asked the foreign office to put pressure on Lindenblatt to persuade him to pay back the missing money and maybe prevent the worst consequences. He further deliberated that since Vogel had put himself in a weak position by escaping, a way out could be found by making Vogel the main scapegoat for the prosecution. As a result of this idea and to distract attention from Lindenblatt as prime suspect, he recommended that Lindenblatt should repay the owed money to the National Bank in Vogel's name and return to Persia as the Persian government had requested.³⁶⁷

The situation turned even worse for Vogel and Lindenblatt when in a confidential report by a German member of the National Bank's staff it was revealed that potentially both could face charges not only for personally profiting from illegal foreign exchange transaction, but also for the misappropriation of 200 000 Reichsmark forfeited from the bank's currency correction reserve accounts. The board of the bank had also embarked upon an investigation into forged

PAAA, Department III-Economy, R92341.

³⁶⁶ Blücher to German foreign office in Berlin. 5 September 1932, secret coded telegram. PAAA, Department III-Economy, R92341. See also identical report at PAAA, German legation files-Iran, IX A 11a. Volume 3, National Bank.

commission payments of more than 45 000 Guilders to the Dutch company Hochheimer Transandine Matschappy of Amsterdam.³⁶⁸

Faced with mounting evidence, Blücher again urged the foreign office to put pressure on Lindenblatt and Vogel to convince them to pay back the money they had misappropriated. Blücher expected that this would increase the likelihood of the board of the bank settling the matter behind closed doors.³⁶⁹

For Vogel and Lindenblatt Blücher's advice had come too late, since after his escape, Vogel had been arrested in Beirut for being in possession of a forged passport, and Lindenblatt's signatory rights at the National Bank had been transferred to Schneider, a German employee of the bank.³⁷⁰

In Tehran the board of the National Bank had indicated to Blücher that it was prepared to negotiate over possible solutions to the National Bank crisis. However, because of the mere fact that Vogel had escaped from Persia it felt it was impossible to proceed without publicity. Hence, in absence of an ideal solution, Blücher assessed the state of affairs as follows. If Lindenblatt was to return to Persia and was cleared of all charges in court, it would leave Vogel as the sole accused. On the other hand if Lindenblatt were proven guilty, as strongly predicted due to the strength of the circumstantial evidence, and were not prepared to repay the bank the misappropriated money, it was likely that he alone would be prosecuted and sentenced. Either way, the adverse publicity and

³⁶⁷ Blücher to German foreign office in Berlin. 5 September 1932, secret coded telegram. PAAA, Department III-Economy, R92341. See also identical report at PAAA, German legation files-Iran, IX A 11a. Volume 3, National Bank.

³⁶⁸ Blücher to director Dieckhoff at German foreign office in Berlin. 9 September 1932, secret coded telegram. PAAA, Department III-Economy, R92341.

³⁶⁹ Blücher to director Dieckhoff at German foreign office in Berlin. 9 September 1932, secret coded telegram. PAAA, Department III-Economy, R92341.

³⁷⁰ Blücher to director Dieckhoff at German foreign office in Berlin. 11 September 1932, secret coded telegram. PAAA, Department III-Economy, R92341.

consequent damage to Germany's status in Persia, would be unavoidable. Yet Blücher felt that there was a third way that would minimise damage. If Lindenblatt returned the misappropriated money to the National Bank, in view of the circumstances, the board might consider other less publicly damaging ways to settle his case.³⁷¹

The Persian government had not raised any formal allegations against Lindenblatt. The official reason for asking him to return to Persia was that his assistance was needed in order to solve the problems encountered by the investigation. Since Lindenblatt had told the German foreign office that, in view of the circumstances, he was contemplating to return to Persia, efforts were increased in search of a rapid solution. The matter became even more urgent when the British press started using these events to promote British interest in Persia. The German foreign office held that it was in the Persian government's own interest to come to a solution in order to protect its National Bank from further damage. Moreover, the Persian government had been relying heavily on the expertise of a number of German nationals, and in addition had recently approached the German government with the request to find a replacement for Lindenblatt.³⁷² Therefore, the Persian authorities believed that an end to the National Bank affair would not only benefit Persia, but also its future relations with Germany.³⁷³ While a mutually agreed positive solution would also have benefited Lindenblatt, Vogel's case presented a totally different challenge for the German authorities.

³⁷¹ Blücher to director Dieckhoff at German foreign office in Berlin. 11 September 1932, secret coded telegram. PAAA, Department III-Economy, R92341.

³⁷² The German national, and bank director, Nadolny had already been short-listed for the directorship of the National Bank of Persia.

³⁷³ From Schmidt-Ralke at the German foreign office in Berlin to the German League of Nations office. 14 September 1932, notes prepared for meeting with the Persian foreign minister Furughi in Geneva. PAAA, Department III-Economy, R92341.

b. National Bank vice director Vogel becomes prime suspect

Whilst much effort was put by Blücher and the German foreign office into solving the National Bank crisis, the board's investigation was busy revealing more evidence against Vogel. It was discovered that on 29 January 1930 Vogel had fraudulently prepared five cheques to the total value of 70 000 Toman to be drawn out of the National Bank's foreign currency reserves account. He had used the services of the *Commerz und Privatbank* in Berlin, the International Acceptance Bank in New York, the Midland Bank in London, the Amsterdam Bank in Amsterdam, and the Commercial Bank in Milan, for his financial transactions. After the discovery of the missing money, as pointed out earlier, Vogel had not been able to explain why these cheques were paid out, where the money had gone, or where the documentation of these transactions was to be found.³⁷⁴

Of the above mentioned banks two already had confirmed that Vogel had credited one cheque amounting to \$ 10 000 on 27 February 1930 to his private account, followed by a further cheque during the same month. Since this was the first clear evidence of fraud, which according to Persian as well as German law constituted a crime, Blücher appealed to the foreign office to support the extradition of Vogel (arrested in Beirut) to the Persian authorities.³⁷⁵

A twist in events took place when the Beirut authorities discovered that Vogel was a Bulgarian national. Sofia officially confirmed the authenticity of Vogel's Bulgarian citizenship. Vogel, who had completed his prison sentence and had

³⁷⁴ Blücher to German foreign office in Berlin. 20 September 1932, secret coded telegram. PAAA, Department III-Economy, R92341.

³⁷⁵ Blücher to German foreign office in Berlin. 20 September 1932, secret coded telegram. PAAA, Department III-Economy, R92341.

remained under police supervision, had also admitted that he had obtained Bulgarian citizenship without the obligatory permission of the German government. Hence, technically, Vogel had lost his German nationality at the time he had accepted his Bulgarian passport. Lindenblatt apparently knew about Vogel's unlawful dual nationality. In the light of this fact, the German representative in Beirut, Ziemke inquired at the German foreign office whether to treat Vogel as a German national or whether he should withdraw all assistance.³⁷⁶ On behalf of the Persian government he had already contacted Vogel in prison in order to ascertain whether he was prepared to return to Persia voluntarily.³⁷⁷

Although it had been discovered that Vogel possessed Bulgarian nationality, Blücher feared that if his trial was to take place in Tehran it would cause significant damage to the status of German nationals in Persia. A trial in Tehran would have inevitably triggered numerous other investigations and intrigues against the remaining German staff of the National Bank. According to Blücher even the Persian side had acknowledged the danger to the bank arising from a local trial and felt that it was not inappropriate for the trial to take place in Berlin. Therefore, Blücher recommended that the foreign office should demand Vogel be extradited to Germany instead of Persia. He also suggested that Vogel should be charged for fraudulently crediting a cheque to his own account at the *Commerz und Privatbank* in Berlin, since this would justify a trial held in Germany without the need to take into account Vogel's Bulgarian nationality. Additionally, Blücher

³⁷⁶ Ziemke from Beirut to German foreign office in Berlin. 22 September 1932, secret coded telegram. PAAA, Department III-Economy, R92341.

³⁷⁷ Blücher to director Dieckhoff at German foreign office in Berlin. 11 September 1932, secret coded telegram. PAAA, Department III-Economy, R92341.

wanted Vogel to be charged for unlawful application for a German passport on 25 April 1928.³⁷⁸

All this goes to show that:

a. There was genuine evidence that criminal and fraudulent activities were taking place at the National Bank.

b. These activities did not only benefit Persian nationals, such as Taimurtash, but also involved German nationals.

c. These illegal activities took place over a period of years and occurred in a variety of ways.

d. The directors of the National Bank, Lindenblatt and Vogel, both must have had knowledge of the irregularities so that we can almost certainly eliminate the possibility of a pure set-up engineered by the enemies of the bank.

e. Both directors at some stage abused their position to commit fraud for their personal gain.

f. Authorities on both the German and Persian side were interested in completing the investigation of the National Bank as soon as possible with as little publicity as feasible. Their main objective was to prevent further damage to Germany's reputation overseas and to the National Bank as Persia's key financial institution.

g. The Persian authorities, which probably were not unfamiliar with situations involving abuse of power for personal benefit, never publicly charged Lindenblatt and Vogel.

h. The Persian authorities seemed either genuinely interested in maintaining the presence of German experts at the National Bank, or by asking the German

³⁷⁸ Blücher to German foreign office in Berlin. 26 September 1932, secret coded telegram. PAAA, Department III-Economy, R92341.

foreign office to look for a replacement for Lindenblatt, aimed to maintain diplomatic continuity. The reason for this decision was either not to upset the German authorities further, or to maintain for the outside world an illusion of stability within the bank by playing down the events and re-employing a German director.

i. At this stage the evidence suggests that director Vogel was the principal character behind the irregularities uncovered at the National Bank and that Blücher was trying to minimise damage to Lindenblatt's reputation by incriminating Vogel.

c. Vice director Vogel's suicide

A further unexpected turn in events must have shocked Blücher, if not all concerned. On Monday 26 September 1932 a body was discovered on the shores in Beirut and identified on the following day as Vogel. Ziemke, who was entrusted with the Vogel case by the German government, appeared confused. He was not sure if he should act on behalf of his government by taking up responsibility for Vogel or if he should delegate all responsibility to the French consulate (which officially represented Bulgaria in Lebanon). When the Beirut police authorities formally contacted Ziemke with the news of Vogel's suicide, he told them that the German foreign office in Berlin had insisted that Vogel was a Bulgarian national and not German. Although he had received no official instructions, Ziemke did not want to take responsibility for administering Vogel's estate. The explanation Ziemke gave later to the foreign office for his decision to deny responsibility for

Vogel was that he did not want to interfere with the French authorities, since they were responsible for Bulgarian nationals.³⁷⁹

In a joint meeting with the French authorities and the police, Ziemke was told that the police had discovered a sketch describing the location where Vogel had committed suicide, plus two envelopes addressed to him and three additional envelopes intended for his next of kin. One of the envelopes, addressed to Ziemke, contained money that Ziemke immediately turned over to the French authorities. The other envelope contained three letters. The first indicated that Vogel seriously planned to take his own life, and in the other two he confessed his mistakes.

In order to prevent the police confiscating the letters for their investigation, Ziemke had the first letter translated into French and handed it over to the French authorities. The two confession letters Ziemke decided not to hand over to the French or police authorities. When asked about their whereabouts, Ziemke planned to state that he had already mailed them to the German foreign office in Berlin without keeping copies.

After Vogel was laid to rest at the former German protestant cemetery in Beirut, Ziemke requested the German consulate in Sofia to inform his next of kin of his death. He also notified Blücher that Vogel had committed suicide but did not tell him anything about the discovered envelopes. By reading Vogel's confession letters Ziemke had become aware that Vogel and Lindenblatt were to be blamed for serious irregularities at the bank. However, what also became apparent to him was that Vogel was not the main character behind the irregularities. Hence, Ziemke confidentially informed the foreign office that he had left out the following revealing paragraph from Vogel's suicide note in the

³⁷⁹ Ziemke from Beirut to German foreign office in Berlin. 30 September 1932, report. PAAA, Department III-Economy, R92341. See also identical report at PAAA,

translation prepared for the French authorities. 'The gold I had received from Dr. Lindenblatt, for which I had also signed a receipt (for Dr. Lindenblatt), I delivered through Mr. Klemme to Gesadtschaftsrat Mayer for Dr. Lindenblatt'.³⁸⁰

Ziemke appeared to have launched a cunning cover-up in Beirut to protect German interests and also perhaps Lindenblatt's neck. Nevertheless, Ziemke leaves the impression of a person who did not want to get involved, and by launching his cover up possibly deflected responsibility.

d. The Truth about the Irregularities at the National Bank

In order to gain a more objective view of what Vogel actually wanted to communicate and its implications, it is necessary to examine the original letters left by him including his suicide note, confession letter, a letter addressed to his wife and a letter addressed to Lindenblatt.

In his suicide note Vogel mainly mentioned that he was not able to protect Lindenblatt as before and that Lindenblatt had to stand up for his own mistakes. Vogel had also mentioned Lindenblatt's gold before requesting in detail what should happen with his remaining possessions, followed by instructions for his funeral. He had further requested that Ziemke should inform his family of his death but ask his wife not to come to Beirut. Vogel went on to explain that he had already intended to commit suicide in Tehran but believed that he could escape

German legation files-Iran, IX A 11a. Volume 4, National Bank.

³⁸⁰ Ziemke from Beirut to German foreign office in Berlin. 30 September 1932, report. PAAA, Department III-Economy, R92341. See also identical report at PAAA, German legation files-Iran, IX A 11a. Volume 4, National Bank.

from his problems by leaving Persia. He regretted having to end a life of hard work in such an undignified way, but saw no other solution.³⁸¹

More attention should be given to Vogel's confessional letter in order to find out what caused him to decide to commit suicide and why Ziemke decided to conceal this letter from the French authorities, from the police in Beirut, and from Blücher.

Vogel admitted that on two occasions he had received large bonuses from Lindenblatt for extraordinary duties. He explained that Lindenblatt had repeatedly assured him that as the only person responsible and as director of the National Bank of Persia he was authorised to approve such payments. In his letter Vogel pointed out that he had no insight into Lindenblatt's contract or into his dealings with the board of bank. He knew only that Lindenblatt had also approved bonuses of the same or higher amounts for himself. Vogel admitted that he had knowledge of these transactions and that he knowingly assisted Lindenblatt by, for example, running the money through his own accounts before returning it to Lindenblatt by writing out a cheque or transfer, or by signing off the relevant receipts. Hence, if some receipts only carried his signature it did not mean that Lindenblatt was left in the dark. All the steps he took were taken with Lindenblatt's approval and under his responsibility. Vogel further mentioned that all the forgoing transactions were managed from the National Bank's secretariat in Tehran and went through a foreign exchange fluctuation account, also known as *Konto Trans*.³⁸²

³⁸¹ Director Vogel's suicide note from Beirut. 25 September 1932, letter. PAAA, Department III-Economy, R92341.

³⁸² Director Vogel's confession note from Beirut. 25 September 1932, report. PAAA, Department III-Economy, R92341. See also secret coded telegram from Dieckhoff at the German foreign office in Berlin to Blücher in Tehran. 12

Moreover, Vogel had admitted that he had become so confused by the events of the past months that, without relying on his files in Tehran, he could not remember the exact amounts he had received as bonuses for extraordinary duties. This was partly because Lindenblatt's share of the money transferred had to be deducted from the total sum transferred from the National Bank's Konto Trans account to Vogel's overseas account. Vogel finally pointed out that Lindenblatt usually transferred his own proceeds directly to his overseas bank.³⁸³

In a last letter to his wife Vogel explained to her that the Persian authorities were trying to charge him for embezzlement of the money he had received from Lindenblatt for the extraordinary work he had put into his job. From his letter, in which he described in some detail the nature of his financial transactions, it appears that he believed himself not to have done anything wrong. He held that if a German court was to judge the case he was certain that his innocence would have been confirmed. Likewise he appreciated that with regard to the circumstantial evidence it would have proven not easy to clear him of all allegations particularly in absence of his insight into the arrangements made between the board of the National Bank and Lindenblatt.³⁸⁴

Vogel addressed a further final letter to Lindenblatt. In this he tried to describe why he had fled and what had happened after he had taken over the bank. Vogel explained that what he had to go through since Lindenblatt's departure had been beyond his powers. He perceived what he had suffered was not merely testing

October 1932, secret coded telegram. PAAA, German legation files-Iran, IX A 11a. Volume 3, National Bank.

³⁸³ Director Vogel's confession note from Beirut. 25 September 1932, report. PAAA, Department III-Economy, R92341. See also secret coded telegram from Dieckhoff at the German foreign office in Berlin to Blücher in Tehran. 12 October 1932, secret coded telegram. PAAA, German legation files-Iran, IX A 11a. Volume 3, National Bank.

him to the limit, but a form of torture. He explained that this was why he had lost his nerve, leaving him with only one solution, which was to leave Persia at all cost. Since all foreign members of the National Bank were under police observation, he could not have left Persia with his own passport. Hence, with the objective of getting to Berlin in order to try to clarify the situation in a meeting with Lindenblatt, he purchased a false passport and left the country. But, Vogel himself suspected that some one had tipped off the authorities so that he was arrested in Beirut and sentenced to fourteen days jail. His jail sentence ended on 22 September 1932. But he still was not permitted to continue his journey because he was asked to remain in Beirut and report to the police on a daily basis until completely vindicated.³⁸⁵

Vogel continued his letter to Lindenblatt by pointing out that he had become completely perplexed because despite the German embassy in Sofia confirming to the German embassy in Beirut that he was a Bulgarian national, not only had the Persian authorities asked for his extradition, but the French courts wanted him transferred to Paris. He was also surprised to hear that he was being charged for embezzling 200 000 Marks and performing balance manipulations at the National Bank. At this stage Vogel had decided to take some action, and that it was not realistic anymore to think he could meet Lindenblatt in order to discuss a solution. Vogel detailed for Lindenblatt that the investigation of the bank covered not the last business year of the National Bank's operations but the entire period since its existence. Likewise, Vogel made a point of disclosing that two bank employees,

³⁸⁴ Director Vogel's letter to his wife. 23 September 1932, letter. PAAA, Department III-Economy, R92341.

³⁸⁵ Director Vogel's letter to Lindenblatt. 23 September 1932, letter. PAAA, Department III-Economy, R92341.

Clavier and Movat, were well acquainted with all transactions, including his bonus payments, made through the Konto Trans accounts at the secretariat.³⁸⁶

Vogel described into what detail the investigations of the National Bank had gone, which included criticising every aspect of out of contract payments to companies and clients of the bank, and particularly his and other employee's unconventional bonus payments. Vogel suggested to Lindenblatt that the two of them should jointly try to explain all transactions, despite lacking documentation, and consider paying back part of the money privately received in order to clarify and settle the case with the Persian authorities.

The only way Vogel could explain the Persian authorities claim of embezzlement of 200 000 Marks was if all the transactions throughout the years which had been credited to his account were added together. Since the total amount was not equivalent to what he had received as bonus payments but included Lindenblatt's share he felt unjustly accused. Moreover, since Lindenblatt was fully responsible to the board of the bank and had full knowledge of the account movements within the banks balance, Vogel felt not guilty as charged.³⁸⁷

In his letter Vogel regretted the way in which a period of sacrifice and hard work for the cause of National Bank of Persia had come to an end. He continued by describing how the bank employee Movat first tried to justify all irregularities by accusing Taimurtash for his unauthorised interference in the bank's businesses. However, encouraged by Clavier, both Movat and Clavier changed their tone and developed an antipathy against the German staff of the bank. Vogel also pointed out to Lindenblatt that the privileges granted to Taimurtash and other Persian

³⁸⁶ Director Vogel's letter to Lindenblatt. 23 September 1932, letter. PAAA, Department III-Economy, R92341.

³⁸⁷ Director Vogel's letter to Lindenblatt. 23 September 1932, letter. PAAA, Department III-Economy, R92341.

nationals had also been uncovered by the Persian authorities. However, he saw a major difference between the accused Persian nationals and himself. Vogel was convinced that had he stayed in Persia, the Persian nationals would have come to some sort of arrangement between themselves, leaving him exposed to be crushed between the mill stones of the political and personal intrigues of the opposing parties. The most threatening aspect of the situation for him was that he did not believe in Persian justice. He quoted Movat who had stated that although Persia had a legal system, and even a parliament, nothing could rival the will of the Shah. Vogel knew of ample cases that proved this statement and therefore had no confidence in the Persian legal system whatsoever. He was devastated by the fact that all the effort, hard work, overtime, and personal sacrifice made by German employees for the National Bank, was neglected by individuals such as Movat and his colleagues. These were chasing every impropriety, however minor, that could stain the achievements of German nationals. Vogel concluded his letter to Lindenblatt by writing that he felt he had turned into an ideal candidate for a sanatorium.³⁸⁸

It would appear, then, that Vogel saw himself faced with an unstoppable flood of accusations resulting from the investigation into the National Bank and the fear of a deficient system of justice in Persia. We also may conclude that all his letters indicated that he felt victimised and not responsible for what he was accused of having done. Since Vogel had knowingly accepted irregular and exceptional payments from Lindenblatt he consequently had become part of the sham. Therefore, his confessions sound disingenuous or almost impossibly naive. But if we assume, that his statements made in the letters were true, this would shift the

³⁸⁸ Director Vogel's letter to Lindenblatt. 23 September 1932, letter. PAAA, Department III-Economy, R92341.

main focus of responsibility for the destructive irregularities at the bank back to Lindenblatt. Hence, when Blücher and the German foreign office, probably influenced by Blücher's reports, tried to brand Vogel as the main person responsible, this may have been unjust. Their judgement was obviously encouraged by Vogel's escape and later by his suicide.

Assuming that the German foreign office was aware that Vogel's role in the events was minor, its proceedings were motivated either by the goal of bringing the whole matter to a quick end at any price, or of covering up Lindenblatt's mistakes. In both cases the limitation of damage to Germany's reputation could have been the only main objective of the foreign office. The fact, which remains, is that there was serious evidence for the accuracy of some of the accusations brought forward by the investigating committee against the German directors of the National Bank. Lindenblatt's early decision to leave Persia in order to bring his family and property into safety, and Vogel's suicide, despite his possible secondary involvement, are evidence supporting the above conclusion. The questions arising here are how seriously the German foreign office took the embarrassment involving the National Bank, and what was going to happen to the accused National Bank employees, including Lindenblatt.

e. Politics surrounding corruption allegations

Director Dieckhoff of the German foreign office had agreed with Lindenblatt that he should follow the request of the Persian authorities by leaving Berlin for

Tehran, which Lindenblatt did on 11 October 1932.³⁸⁹ It would be justified to assume that life for the remaining German employees of the bank must have become increasingly arduous. Realistically, Lindenblatt's return to Persia could have only worsened the situation for himself and for them.

One of the employees of the National Bank at the Borudjerd branch, H. E. Altenburg, formulated his thoughts over his prevailing situation as follows. Altenburg maintained that his German staff at the bank were suffering from an intensifying and severe influx of harassment and agitation originating from the Persian side. Moreover, Altenburg felt that he could not rely on any protection or support for his provincial branch from the remaining German staff at the National Bank's headquarters in Tehran. Altenburg was even plagued by the impression that he was being played off against the Persian side by his German colleagues in Tehran who were trying to save their own necks. As a result Altenburg decided to hand in his resignation in order to leave the bank for Germany as soon as possible. He justified his decision by arguing that since in Persia every effort had been made to rapidly remove all Germans from office he did not want to wait and further render himself victim to the unpredictable moves of his Persian counterparts. Although he did not expect a smooth departure from Persia or an easy transition into work back in Germany, he was determined to leave, as were his German colleagues Arndt and possibly Cleinow.³⁹⁰

We noted earlier that on examination of the available German documents it was not likely that the Persian authorities had up to this stage ever officially formulated any charges against German individuals. Nor did the Persian side

³⁸⁹ Dieckhoff at the German foreign office in Berlin to Blücher in Tehran. 12 October 1932, secret coded telegram. PAAA, German legation files-Iran, IXA 11a. Volume 3, National Bank.

hold the German foreign office accountable for any of its findings at the bank. The Persian authorities did not even come up with any type of formal disciplinary measures against the remaining German staff of the National Bank. Yet, as a result of the indirect tension a large number of the German bank employees had either left or were planning to leave. What is more interesting is that it seems that, as in Altenburg's case, these people felt abandoned by their own nationals and government.

Hence, we can not maintain that the events surrounding the National Bank of Persia caused a diplomatic crisis between Germany and Persia. At most, under the given circumstances, an economic crisis could follow, accompanied by a loss of face for Germany. At this stage it is worth noting that Germany itself was going through difficult times with an economic crisis and high unemployment. Moreover, the sharp-minded Shah was likely to take advantage of this circumstance and of the whole National Bank situation at some point.

In order to gain an insight into the official position of the Persian government on the National Bank crisis, by relying on information which was available to the German foreign office, we turn to an interview given by the Persian foreign minister Furughi to a Turkish publisher. Asked about the relations between Germany and Persia, when simultaneously presented with an outline of the recent difficulties both countries had encountered, Furughi responded to the Turkish journalist by explaining that the word 'difficulty' was far too extreme when used to describe the recent events. He emphasised that he had no knowledge of any difficulties. At most, he continued to explain that there had been some tensions between Persian authorities and a number German newspapers which had

³⁹⁰ Altenburg from Borudjerd to German embassy in Tehran. 13 November 1932, letter. PAAA, German legation files-Iran, PKT 25/ III 10. Volume 2, bank.

occasionally printed material that had offended the Shah. He emphasised that this matter, which meanwhile had been resolved, had no bearing on the essentially good relations maintained by both countries and their people.³⁹¹

The interview made clear that Furughi, when asked about the National Bank was formally satisfied with its administration under the management of director Lindenblatt. But he pointed out that he did regret that the news of Vogel's flight and suicide came as such a surprise during the legitimate routine review of the bank that it led to speculations concerning a link between Vogel's suicide and the National Bank's review. However, Furughi stated that he was confident that the almost completed investigation of the bank would deliver reassuring clarity in this matter. Furughi moreover re-emphasised that, particularly in view of the Persian authority's endeavours to replace Lindenblatt, who had resigned from his office, with a German national, this issue also had no bearing on Persia's relations with Germany.³⁹²

Furughi added that reports, alleging that the Persian government was dissatisfied with German railway construction or was trying to distance itself from German construction companies, were unjustified. He concluded his interview by reassuring the readers that the Persian government was not only inclined but also determined to employ the excellent German technical know-how to advance Persia's development, wherever the opportunity and possibility arouse.³⁹³

³⁹¹ Transcript of interview with Furughi by the Turkish publication W. T. B., forwarded by its representative, Dr. Schmidt-Dumont, to Aschmann from the German embassy in Ankara, for the German foreign office in Berlin. 16 November 1932, letter. PAAA, Department III-Politics, R78111.

³⁹² Transcript of interview with Furughi by the Turkish publication W. T. B., forwarded by its representative, Dr. Schmidt-Dumont, to Aschmann from the German embassy in Ankara, for the German foreign office in Berlin. 16 November 1932, letter. PAAA, Department III-Politics, R78111.

³⁹³ Transcript of interview with Furughi by the Turkish publication W. T. B., forwarded by its representative, Dr. Schmidt-Dumont, to Aschmann from the German

On the basis of Furughi's interview, although difficult to prove (no additional source), the impression is given that the Persian government was officially trying to play down the National Bank crisis, while internally continuing to investigate the bank. This caused a possibly deliberate degree of tension and anxiety for German bank employees that culminated in their resignations. Hence, to a certain extent policy and reality were contradicting each other. One possible cause of this contradiction might be a continuing personally motivated manoeuvre of the Shah against the National Bank and its directors. The Shah, who identified himself closely with Persia, or in other words saw Persia as 'his' country, must have felt cheated and robbed by the German nationals, he was previously known to have admired a great deal. This possible personal perception of the Shah, however, appeared to be in sharp contrast to official Persian government policy. Nevertheless, since the two fronts did not clash publicly, there is little evidence to prove the above hypothesis.

The German foreign office on the other hand did not formally compromise its fragile relations with Persia by applying political pressure for the benefit of its nationals trapped in Persia. Informally, the foreign office appeared to maintain an approach of indecisive idleness when confronted with the specific predicaments of its nationals in the National Bank crisis. Ultimately, this stance of the German government risked the livelihood and safety of its nationals and proved its inability to take concerted action.

f. Lindenblatt and German colleagues face prosecution

In a letter to the German embassy in Tehran, Lindenblatt had initially appealed for the German government's protection following his readiness to comply with the formal invitation of the Persian embassy in Berlin (26 September 1933) to return to Persia. The official reason supplied by the embassy was that Lindenblatt's presence was required to shed light on the controversy regarding the management of the National Bank and to prepare the hand over of the bank's business. Since Lindenblatt's invitation to return was issued by the Persian government, the Persian authorities declared themselves to be prepared to reimburse Lindenblatt for his travel expenses and to continue paying his salary. A copy of this invitation was sent by the Persian embassy in Berlin to the German foreign office with the request to persuade Lindenblatt to return to Persia as soon as possible.³⁹⁴

When Lindenblatt was invited to the foreign office he was told that he alone had to make the decision whether to return to Persia. However, in the event that he decided to go, the foreign office promised to ask the German embassy in Tehran to request from the Persian authorities his unhindered entry into and exit out of Persia, as well as immunity from prosecution when in Persia. Before reaching a final decision Lindenblatt tried to find reassurance for his concerns. Aided by the Persian ambassador in Berlin, Ala, he contacted the Persian government. The response of the Persian government, which had been endorsed by the Shah and parliament, was communicated to Lindenblatt via Ala in presence of representative Samiy as follows: "*Personne en Perse n'a l'intention de vous faire du mal ni de vous traduire en justice ou de vous arrêter, il s'agit plutôt du transfert des*

comptes et donner de renseignements sur les affaires de la Banque et le temps de votre séjour en Perse sera celui que nécessitera le règlement de ces affaires".

Lindenblatt described how reassured he felt with the Persian government's statement, which made him decide not to apply for travel and prosecution immunity. After notifying the foreign office of his decision he left for Tehran accompanied by his legal representative Hirschowitz.³⁹⁵

However, even after six months in Persia, Lindenblatt felt that not much had resulted from his and Hirschowitz's efforts made towards clarifying and settling the prevailing disagreements with the Persian authorities. He isolated as the major difficulty the concentration of the investigation on personality matters rather than facts. Lindenblatt saw in the person of Nawab his main enemy. Lindenblatt pointed out that he had been told by a reliable source that Nawab was an agent of a third power, and that during a court session in Berlin Nawab's own legal representative had labelled him mentally ill. These were definitely no preconditions for a healthy settlement. Lindenblatt met regularly with representatives of the National Bank including Nawab and Clavier. He felt that both were on the one hand displaying their willingness to bring the prevailing disagreements to a positive end, but on the other hand obstructing progress by, for example, preventing Hirschowitz's access to promised documents crucial to the resolution of the differences.³⁹⁶

On 10 April 1933 Lindenblatt formally handed over the directorship of the National Bank of Persia. However, he was informed that just a few days prior to

³⁹⁴ Lindenblatt to German embassy in Tehran. 14 April 1933, letter. PAAA, Department III-Economy, R92342.

³⁹⁵ Lindenblatt to German embassy in Tehran. 14 April 1933, letter. PAAA, Department III-Economy, R92342.

³⁹⁶ Lindenblatt to German embassy in Tehran. 14 April 1933, letter. PAAA, Department III-Economy, R92342.

this event, either the bank or Nawab had referred his case to be investigated by the Persian judiciary authorities. This meant that Lindenblatt could expect to be arrested at any moment. His house had been put under observation by the secret police. In a desperate attempt, Lindenblatt had asked the German embassy to try to make every effort conceivable to obtain the immunity of prosecution he had initially been promised. Lindenblatt was particularly aware that during Taimurtash's court case, following which he was severely sentenced, he actually had emerged as the main person implicated and not Taimurtash. The only distinction at the time was that he was not the person being prosecuted.³⁹⁷

Meanwhile, consultations were in progress at the German ministry for trade and industry that aimed to determine the position of the German companies whose payments from the National Bank were overdue. The former financial advisor to the Persian government, Schniewind, as well as the former representative of the National Bank and manager of the Shahi factory, Bertram, were also consulted. During the consultations it became clear that, for example, in the case of the Shahi factory, the Shah, after discovering the profitability of the factory, had decided to take over the facility completely without considering the rights of the remaining shareholders. Therefore, the National Bank was left to adapt to the situation and had to promise the Shah that it also would deal with the consequences arising from the problems expected in settling with the supplying German companies. The German companies on the other hand could only negotiate with the National Bank since it was the only agency they were in business with. During the meeting any doubt over the legitimacy of outstanding claims against the National Bank had also been removed. The repeated advice

³⁹⁷ Lindenblatt to German embassy in Tehran. 14 April 1933, letter. PAAA, Department III-Economy, R92342.

given to the German companies by Gloye, to show some moderation in their demands in order not to endanger future business with Persia, was disregarded. The prime justification stated for this radical decision was that the probability of future significant business relations between German companies and the National Bank was most unlikely. This statement of the ministry of trade and industry emphasised the impact the National Bank crisis held for the future of trade between Germany and Persia. The National Bank was up till now the largest single trade partner of German companies in Persia. Not only had German influence over it now been lost, but also its potential as a future trade partner was put in question.³⁹⁸

The ministry of trade and industry instructed the foreign office to advise the German embassy in Tehran to support the negotiations between the concerned German companies and the National Bank. Likewise, the ministry recommended that the embassy should try to convey, in an appropriate manner, that it was of no advantage for the international relations of the National Bank of Persia, if it appeared from the outside not to comply with the legitimate claims of its overseas trade partners. This statement is one of the few clear warnings issued by a German government agency against Persian authorities. However, it is doubtful that Blücher ever conveyed this message in its full version to the appropriate persons responsible. For once he definitely did not want to aggravate further the situation for Lindenblatt and other German nationals employed in Persia.³⁹⁹

³⁹⁸ Koehler at the German ministry of trade and industry in Berlin to, amongst others, the German foreign office in Berlin. 2 June 1933, letter. Bundesarchiv Potsdam, ministry of trade and industry, 31.01/ 19094.

³⁹⁹ Koehler at the German ministry of trade and industry in Berlin to, amongst others, the German foreign office in Berlin. 02 June 1933, letter. Bundesarchiv Potsdam, ministry of trade and industry, 31.01/ 19094.

The Persian authorities' chain of activities against Germans had anyway continued and now also started to include other German members of the National Bank. Heinrich Rust, the German director of the National Bank branch in Ahwaz, and former member of the executive of the National Bank in Tehran, was for example summoned to come to Tehran in order to give evidence in the case against Lindenblatt. Blücher, who had a watchful eye on Rust, was personally comfortable with Rust's explanations, which clarified that Lindenblatt had been fully in charge and responsible for all major activities at the bank. But the Persian judge, to Blücher's surprise, must have seen the matter differently since he pronounced Rust as arrested and by doing so established a bail of 15 000 Toman for his release. Blücher instantly complained to the Persian foreign minister, by criticising the fact that a sixty-year-old man with an impeccable track record should not have been arrested under such questionable circumstances.⁴⁰⁰

A letter by H. S. Kazem Alavi made clear how respected and appreciated Rust actually was as the director of the Ahwaz branch of the National Bank: "I can say that Banque National de Perse, Ahwaz, took a step towards progress only from the time you possessed the honourable art of management, and it was really the best and fairest root you considered for the merchants,... The merchants are all confidently sure that if you had stayed a longer period at Ahwaz, the banque would have got a very good situation, and no complaints would rise from any individual, and with the views that they have in favour of banque Nationale de Perse no one would have referred their business to the Imperial Bank of Persia. ...

⁴⁰⁰ Blücher to German foreign office in Berlin. 10 June 1933, letter. PAAA, Department III-Economy, R92342.

The Khuzistan merchants in general and myself in special give you our best and purable salams and beg to remain."⁴⁰¹

Blücher contacted director Walter Horschitz-Horst at the National Bank with the suggestion that he should try to persuade his colleagues to jointly come up with Rust's bail. Horschitz-Horst took over the initiative and managed to get the support of all sixteen remaining German staff members of the National Bank in Tehran and that of nine German branch managers. As a result Rust was released from prison after four days. At this stage Blücher was still not convinced that a case was going to be brought against Rust and hoped that an out of court settlement could be reached. But the thought that Rust's arrest might have marked the beginning of a series of arrests of German nationals worried him. Yet, for once the German staff of the National Bank displayed to the Persian authorities that in the event of random arrests of German members of staff, they would not only be faced with an individual, but in solidarity, with all of them.⁴⁰² But this should not distort the fact that the Persian authorities were frantically trying to tighten the circle of evidence brought against a number of Germans employed by the National Bank including Lindenblatt. Clearly a final solution to the National Bank crisis was far from being achieved. Nor was it transparent which form it would take. After bargaining away the opportunity of an out of court settlement between Lindenblatt and Vogel and the board of the National Bank, the only route left open to the Persian authorities appeared to be to charge and prosecute Lindenblatt and his German colleagues.

⁴⁰¹ H. S. Kazem Alavi in Ahwaz to Heinrich Rust in Tehran. 16 July 1933, letter. PAAA, German legation files-Iran, IX A 11a. Volume 4, National Bank.

⁴⁰² Blücher to German foreign office in Berlin. 10 June 1933, letter. PAAA, Department III-Economy, R92342.

g. Insight into charges made against German staff

In a report, Döcker, a German member of the National Bank's staff, gave his account of the events that had taken place at the bank in conjunction with the allegations brought forward by the Persian authorities against German employees of the bank, including Lindenblatt. Döcker's report gives us one of very few insights available today into what really had happened at the National Bank. It helps us to understand and evaluate what had occurred exactly behind the closed doors of the bank. Moreover, we learn what the motive behind the alleged fraudulent account manipulations and foreign exchange transactions was, who really was accountable, and what significance and scale it had with regard to the operations of the National Bank.

Döcker foremost had emphasised that since the period, when the investigation of the National Bank had revealed irregularities and improprieties committed by Lindenblatt and Vogel, the main goal of all remaining German staff members of the bank had become to help the Persian authorities with their enquiries. According to him all were interested in proving to the outside world that a clear distinction had to be made between dishonest and honest employees of the National Bank.⁴⁰³

Döcker recalled how the investigating judge, Chademann, had approached him with the request to assist in the inquiry into the National Bank. Döcker was made to believe that he was being questioned in his capacity as witness, expert, and banker. Never, was it mentioned to him that his evidence might later be used

⁴⁰³ Draft of thirteen-page report by Döcker on allegations brought against the National Bank. Second half of 1933, report marked highly confidential. PAAA, Department III-Economy, R92342.

against him as the accused. This type of behaviour by the Persian authorities was similar to what Rust had experienced earlier.

Döcker described the procedure adopted by the judge during his inquiry and his method of note taking incredible. But in the light of the recent events he felt helpless when faced with the anti German attitude of the Persian courts, judges and their translators.⁴⁰⁴ Following their interrogations, the Persian authorities subsequently formally charged Döcker and his colleagues Rust, Stephan, Scheiblich and Feubel.

Döcker had been employed by Lindenblatt as his personal secretary. His contract had clearly stated that he was directly responsible to Lindenblatt and that he was expected to follow his direct instructions. He recalled how strict and intolerant Lindenblatt had been. Whenever Döcker had tried to criticise something, Lindenblatt had replied, 'keep out of this, I alone am responsible for this decision'. Döcker also recalled how a few days earlier at the manager's office of the National Bank the chairman of the board, Nawab, had described Lindenblatt as a person with the character of a dictator. Nawab had further stated that Lindenblatt did not even care to obey him, his superior. Yet, at the same occasion Nawab had also stated that if the five accused German members of staff were actually prosecuted, the whole board of the bank and the Persian government had also to be held responsible for giving a single individual so much power in the first place. Döcker felt irritated by the fact that he and his colleagues,

⁴⁰⁴ Draft of thirteen-page report by Döcker on allegations brought against the National Bank. Second half of 1933, report marked highly confidential. PAAA, Department III-Economy, R92342.

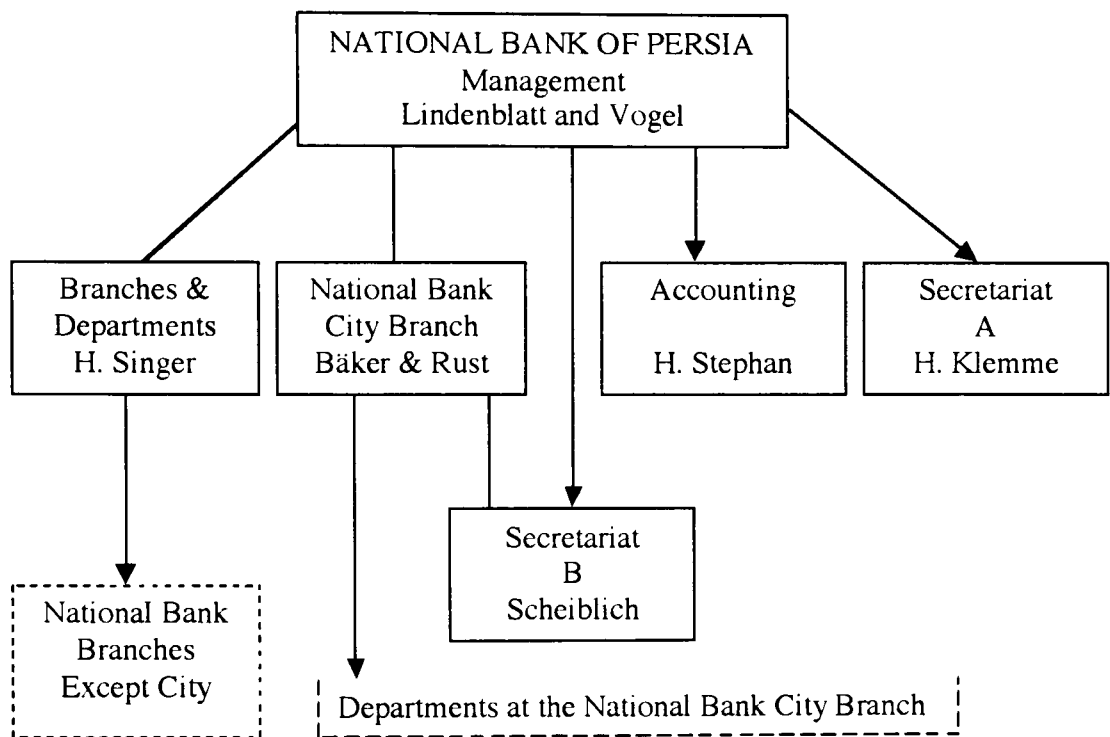
who had put enormous effort into developing the National Bank, were about to be punished for executing their superiors' orders.⁴⁰⁵

Döcker saw the root of all problems in a questionable reform instituted by the Shah. The Shah had asked the National Bank to introduce a foreign exchange law in order to stabilise the Persian national currency, the Toman. However, this law triggered off a series of chain reactions that ultimately led to those irregularities on which the Persian authorities had based their charges against German staff members at the National Bank. This law showed serious weaknesses that ultimately encouraged unwanted foreign exchange speculations by merchants, and the emergence of black market trading. It did not take long for the National Bank to run out of foreign currency to the extent that it could not even satisfy the demands of the government or of pilgrims travelling abroad. The National Bank had become the main victim of the reform. Döcker explained that the employees of the bank could not believe that the Persian government would entrust the responsibility for stabilising its currency to such a young (the National Bank was only one and half years old at the time) and inexperienced institution as the National Bank. However, the unthinkable had become true, and since the National Bank had lost tremendous amounts of money the German staff of the bank assumed that the financial losses had been approved through Lindenblatt by the Persian government or Taimurtash. They were certain that Lindenblatt would never have permitted such losses to accumulate.

In absence of any genuine support by the Persian government for the bank's dire situation, Lindenblatt decided to take matters in his own hands and introduce a system by which the bank would purchase durable goods in Persia for the sole

⁴⁰⁵ Draft of thirteen-page report by Döcker on allegations brought against the National Bank. Second half of 1933, report marked highly confidential. PAAA,

purpose of exporting them abroad. His plan was that the foreign currency acquired through the sales of these goods would in turn be used to balance the prevailing foreign currency deficits of the National Bank. For this purpose, under the management of Rust, he created the secretariat B.⁴⁰⁶



Management hierarchy at the National Bank of Persia as described by Döcker.⁴⁰⁷

In short, what followed was a series of account manipulations within the balance sheets of the bank in order to accommodate, from an accounting point of view, the new business of the secretariat B. The objective of this reorganisation was genuinely to combat further losses for the bank. According to Döcker, these

Department III-Economy, R92342.

⁴⁰⁶ Draft of thirteen-page report by Döcker on allegations brought against the National Bank. Second half of 1933, report marked highly confidential. PAAA, Department III-Economy, R92342.

⁴⁰⁷ Draft of thirteen-page report by Döcker on allegations brought against the National Bank. Second half of 1933, report marked highly confidential. PAAA, Department III-Economy, R92342.

movements were undoubtedly unorthodox, but did not serve the benefit of any one member of the staff. Hence, the bank's staff who were aware of the changes, felt quite confident that they had no cause for concern, since their operations were financially sound and approved by Lindenblatt. Yet, what they did not know is that Lindenblatt had not discussed or reported the reorganisation or account manipulations to the board of the National Bank. Döcker remained convinced that judgement about these proceedings was a matter of opinion. With regard to his own case, which probably was typical of the five accused German members of the National Bank's staff, he maintained that he had only followed Lindenblatt and Vogel's instructions and never intended to manipulate or hide anything.⁴⁰⁸

Based on such a statement, it should be apparent that if Döcker's account was reasonably accurate, and if the Persian authorities' investigation supported the evidence cited, the Persian courts would have had insufficient reason to justify prosecuting the bank's staff. That the situation for Lindenblatt, as the main person in charge, had to be different had also become evident. However, there remain too many gaps, open questions and uncertain elements, not covered by the documents available, to justify a final conclusion. For example, it would have been interesting to find out what the objective of the Persian authorities' investigation was. Could it have been the actual explanation of financial irregularities, or could politically motivated issues have been involved? We shall continue the analysis of unfolding events for a better insight into the background of the Lindenblatt and National Bank affair.

⁴⁰⁸ Draft of thirteen-page report by Döcker on allegations brought against the National Bank. Second half of 1933, report marked highly confidential. PAAA, Department III-Economy, R92342.

h. Lindenblatt sent to prison in Persia

The succeeding inevitable lawsuit against Lindenblatt and the other accused German members of the National Bank's staff took place during the period of 1-13 October 1933. The court passed its sentences accordingly on 14 October 1933. Blücher had established that the Persian authorities had been well aware of this first large Persian court case against foreigners, since Persia's abandonment of the capitulation rights, would attract much attention from the world media. Therefore the proceedings were conducted in a manner that left no space for criticism. According to Blücher the court was made up of one presiding judge and two assessor judges, both of whom had resided for a long period of time in Berlin and spoke German. On the other hand, two Persian legal experts and his own attorney Hirschowitz from Berlin represented Lindenblatt. Rust was represented by one of the best-respected legal experts, influential lawyer, and Member of Parliament, Schariat Zadeh. The other German nationals were represented one Persian lawyer each. Blücher felt that thanks to Schariat Zadeh's input all the lawyers had decided to pursue the same line of defence. Their main objective was to battle jointly against the strongest claim of the prosecution by proving that there was no foundation on which the prosecution could base its accusation of deliberate forgery and deception with reference to the National Bank's accounts. Success in proving this point in court would have eliminated one of the strongest allegations brought against Lindenblatt, and removed the only claim brought against Rust and the other accused Germans. Blücher explained that, as far as he could judge, the lawyers were pursuing their clients' cases in an outstanding manner, with

profound sensibility for the circumstances, and an excellent knowledge of the state of affairs.⁴⁰⁹

Surprisingly, the court case had attracted less attention than Blücher had expected. Although, during the first and final days of the trial, the courtroom had been full to the last space, during the other days there were hardly any spectators. Moreover, almost no foreigners, Persian dignitary or members of the German colony had attended the proceedings. Even the correspondent of the Times, resident in Tehran, had decided to stay away. Also the Shah seemed not to have interfered with the court, and Blücher considered it lucky that he was away travelling during the days of the trial. He also thought that the judges were performing their duties in a professional and unbiased manner.

During the court case, in reply to the defendants' lawyers, the public prosecutor had explained that the claims brought against a number of German nationals were in no way intended to represent Persia's verdict on Germany or the relations with German nationals. Blücher described how the public prosecutor had expressed his hope to be able even to improve the current good relations between Persia and Germany.

The pronouncement of the judges' verdict followed on the thirteenth day of the trial. The court had finally reached the verdict that Lindenblatt, and thereby also his other German colleagues, were not guilty of forging the National Bank's balance. Therefore the judges pronounced Lindenblatt free of the main claim brought against him and completely dropped the charges against Rust and the other German nationals. Yet Lindenblatt was found guilty of breach of confidence and dishonest foreign exchange dealings. Accordingly, the law required

⁴⁰⁹ Blücher to German foreign office in Berlin. 20 October 1933, report. PAAA, Department III-Economy, R92342. Number 3195.

Lindenblatt to be sentenced to three years imprisonment. However, when taking into account Lindenblatt's track record of services rendered, and the fact that he was by nature not a criminal, the court decided to halve his sentence to eighteen month imprisonment and to impose a fine of £ 7000 as well as 46 000 Rials.⁴¹⁰ (Lindenblatt was released from jail on 8 December 1934)⁴¹¹

Nevertheless, as common in Persian courts, both the public prosecutor and Lindenblatt's lawyers planned to appeal against the courts sentence. Blücher had not been very pleased with this decision because in the vast majority of cases the only thing the appeal court had done was to verify the sentence. Secondly, Blücher had been glad that this unhappy chapter of German history in Persia had come to an end. But an appeal would mean that the whole issue would be raised again and extend the period of uncertainty unnecessarily for the other accused Germans. Blücher therefore had planned to try covertly to persuade the Persian authorities to refrain from revising the courts decision.⁴¹²

The general impression left by the verdict was one of relief and satisfaction about the fact that several months of suspension had ended in a legally faultless manner. Blücher held that Lindenblatt could not have received a milder sentence, and that in fact a German court would have most probably sentenced him more severely. Blücher had been delighted about the established innocence of the remaining German members of the National Bank's staff. This eliminated the basis for rumours that had purported a conspiracy of all German employees to rob the National Bank. This encouraged Blücher to believe that the court's verdict had

⁴¹⁰ Blücher to German foreign office in Berlin. 20 October 1933, report. PAAA, Department III-Economy, R92342. Number 3195.

⁴¹¹ German foreign office in Berlin to Lindenblatt's legal representative, Hirschowitz, in Berlin. 11 January 1935, letter. PAAA, Department III-Economy, R92342.

⁴¹² Blücher to German foreign office in Berlin. 20 October 1933, report. PAAA, Department III-Economy, R92342. Number 3195.

helped to put an end to the negative state of affairs that had been triggered by the National Bank crisis.

In order to minimise the after effects of the court case he petitioned the foreign office to appeal to the German press to handle the Lindenblatt incident, which was highly embarrassing for Germany's status overseas, with utter sensitivity. He pointed out that the Persian press, although reporting the Lindenblatt case on a daily basis, had voluntarily refrained from any kind of comments or criticism. Therefore, Blücher felt it was necessary for the German press also to refrain from criticising the Persian authorities' legal proceedings. Since two German nationals, Stratil-Sauer, and the former reporter for the publisher Ullstein Verlag, von Stwolinski, had regularly attended the court sessions, Blücher also had asked them to refrain from writing articles or publishing any photographs in conjunction with the Lindenblatt case in the German media. Nevertheless, Blücher had reported to the foreign office that both men were seen to be secretly taking notes during court sessions and therefore it was to be expected that they would try to publish sensational articles in German newspapers. He recommended that the foreign office should seek the assistance of the press department in order to prevent the publication of material connected with the Lindenblatt case in Germany.⁴¹³

In one article, Blücher was criticised for not trying to solve the entire affair directly and discreetly behind closed doors and without publicity. Apparently, according to a senior member of the National Bank, Blücher was offered a resolution of the misappropriation case through repayment of the money embezzled, like the Italians, who thereby had resolved a similar case. The accused Italian national was later prosecuted in Italy. In pursuit of solving this incident the

⁴¹³ Blücher to German foreign office in Berlin. 20 October 1933, report. PAAA, Department III-Economy, R92342. Number 3195.

Italian ambassador had directly communicated with Mussolini. Blücher was sharply criticised for having been in Berlin, and even meeting the *Reichspräsident personally*, but still taking no steps to settle the case of the bank. However, as described earlier, there is enough evidence to show that this concept was not alien to Blücher and that its execution might have been disturbed by Vogel's escape.⁴¹⁴

Further criticism had condemned the incapability of the German embassy in Tehran that had led to a tremendous loss of respect for German nationals in the eyes of the Persian population. Even other European nationals in Persia were furious with the Germans since they also had to suffer under the hostile anti foreigner atmosphere created. The management of the National Bank and the German embassy were likewise seen as fully responsible for the millions Germany had lost in business over the past years. Moreover, Lindenblatt's decision to apply to the appeal court, instead of forgetting the 'disgraceful' matter, had come under more reproach.⁴¹⁵

Additional indicators for Germany's lost ground in Persia are highlighted by the economic fact that in the year 1932 Persia had exported goods worth 18.5 million Mark to Germany. During the same period Germany had only exported goods worth 5.5 million Mark to Persia. In 1929 German exports to Persia had still totalled 14 million Mark but since then had been dropping constantly. Areas such as railway construction had suffered dramatically. Moreover, the Persian authorities must have also drawn negative conclusions from their experiences with the German sugar factories managed by the National Bank. Otherwise it

⁴¹⁴ Copy of report from Shiraz, criticising the German embassy in Tehran for its approach, when faced with the National Bank affair. 2 November 1933, report. PAAA, Department III-Politics, R78112.

⁴¹⁵ Copy of report from Shiraz, criticising the German embassy in Tehran for its approach, when faced with the National Bank affair. 2 November 1933, report. PAAA, Department III-Politics, R78112.

would be difficult to explain why they had ordered six new sugar factories from the Skoda plants in Czechoslovakia instead of from Germany.⁴¹⁶

A move by the German embassy in Tehran, that had recommend combating Germany's trade deficit with Persia by increasing German import duties on Persian goods, had come under fire as being an easy solution for the embassy, but likely to make Germans even more unpopular in Persia. In 1933 Persia was perceived as a rich country with almost no foreign debt, a reasonably safe currency, and a potentially large and regular income from the Anglo Persian Oil Company's oil fields. Consequently, Persia was not only a country that was determined to invest in its development, but had also remained a commercially attractive partner for business. Persia still needed a wide range of heavy machinery for its factories. It also had to continue importing most of the material necessary for the construction of its railway project. Germany on the other hand remained a leading candidate for supplying the goods Persia required. Moreover, it could well use the income from their export to balance its trade deficit with Persia. Major criticism for the failure to improve German trade with Persia was again brought against the German embassy in Tehran that was accused of being completely out of touch with its nationals. It was criticised that instead of aiming to aid German trade with Persia, the embassy had recommended increasing import duties on Persian goods. In this context the replacement of the senior embassy official, Meyer, through Zölch was taken as a first step in the right direction.⁴¹⁷

⁴¹⁶ Copy of report from Shiraz, titled 'Trade relations between Germany and Persia'. 4 November 1933, report. PAAA, Department III-Politics, R78112.

⁴¹⁷ Copy of report from Shiraz, titled 'Trade relations between Germany and Persia'. 4 November 1933, report. PAAA, Department III-Politics, R78112.

The efforts invested in the investigation of the National Bank by the Persian authorities and Nawab had paid off. The authorities were able to eliminate a degree of criminal activity within the bank. It was only unfortunate for the German authorities that the principal individuals accused of the criminal activities were German nationals working for the National Bank. First the National Bank's director, Lindenblatt, came under fire, then its vice director, Vogel, followed by five further German members of the bank's staff. It also transpired that the German ambassador in Tehran, Blücher, had come under great criticism for his inability to identify himself with his own nationals and help solve the problems the accused faced in a discreet and professional manner. Hence, the negative publicity the case attracted greatly harmed the status of Germany and Germans in Persia. However, it was positive that, with the exception of Lindenblatt, the Persian courts cleared all Germans who had been accused of any misconduct. Yet, this verdict came too late for Vogel, who, as a result of the Persian authorities' investigation, lost control and committed suicide.

Therefore, it was rational for the Persian government authorities to just want to replace Lindenblatt by re-employing a German national, Horschitz-Horst, as new manager for the National Bank. However, the Persian authorities also employed a further German national, Acker, as director of the newly established agricultural bank in Tehran.⁴¹⁸

These 'gestures' by the Persian government were suspiciously generous at first sight. They could have employed any expert from any other country they desired, but they stuck with Germany despite of the negative experiences with Lindenblatt, and the prevailing tension between both nations. One conclusion that may be

⁴¹⁸ Document titled '*Politische und wirtschaftliche Beziehungen zu Persien*'. 1932/ 33, report. PAAA, Department III-Politics, R78156.

drawn is that the Persian government, in view of lack of significant trade partners, saw possibly its trade relations with Germany as indispensable. They even may have hoped that the German government would feel encouraged to respond by for example facilitating vital loans.

There are many other conclusions one might draw from the facts presented in this chapter. However, since we are focusing on German foreign policy in conjunction with the National Bank of Persia it is more important to note that the situation created demanded a recovery and improvement of relations between both countries.

It was now time for Germany to take advantage of the improved situation in Persia in order to generate trade and combat its trade deficit. The Persian government, in a further step to accommodate Germany, eased the trade sanctions originally imposed on German imports, by its 1931 trade monopoly act. Consequently, this step allowed and motivated German companies to increase the amount of goods exported to Persia.

8. Germany's re-established influence in Persia

A multitude of changes and joint efforts to improve trade relations between Germany and Persia marked the period immediately following the National Bank crisis. They ranged from changing Persia's name to Iran and mutual trade agreements, to the visit of the President of the German Central Bank (*Reichsbank*) and minister for economics, Hjalmar Schacht, in Iran. It appeared that both countries were eager to improve their own status in the eyes of the other. Whether the efforts made by the German government and Persia were genuinely successful in improving trade between both countries, also depended on the degree of damage the National Bank crisis and the Lindenblatt affair had caused in comparison to the Leo Mattias crisis and the *Paykar* affair to the future relations between Germany and Persia, and whether the German foreign office, by the end of 1939, had learned from its experiences in Persia.

a. Opportunity for Germany to win back lost territory

The National Bank had experienced significant losses during the financial year 1931. These losses had been assessed to be an estimated eight million Rials. The new management of the National Bank of Persia later officially confirmed in a report to the Persian government a loss of more than 8.7 million Rials. This report held the former directors of the bank and their mismanagement responsible. In an agreement with the Persian minister of finance the losses of the bank, which had exceeded the total value of its issued shares, were taken over by the government.

Accordingly the National Bank had to pledge annual back payments to the government, equivalent to 80% of its net profits.⁴¹⁹

During the following accounting year, the National Bank had made a profit of nearly 6 million Rials of which it used 2 million Rials to repay its debt to the Persian government. In 1932, the bank also had managed to improve the performance of its other financial services. The report that highlighted this success had also mentioned with praise the contribution of the German National Bank employee, Schneider, and his Persian colleague, Zand. These had managed the bank in the period between Lindenblatt's resignation and the induction of the National Bank's new management, made up of Ala, Farsin, and Horschitz-Horst.

In order to be able to assess the National Bank's financial state, Blücher maintained that the main capital of the bank did not come from the rather small shareholder assets, but from the large assets, which the Persian government had deposited. The National Bank's financial situation was helped through the circumstance that it had been able to agree an interest rate of only half a percent for the Persian government's holdings. However, the government treasury had started to question this advantageous agreement by trying to push for an increase of interest rate paid by the bank to the government. Blücher felt that a solution to this problem was not straight forward, since the stance of the treasury was represented by a Belgian national, and the stance of the National Bank by a German national. Nevertheless, the Persian government seemed determined to support and protect its National Bank through financial and political sacrifices. Therefore, Blücher regarded the future of the National Bank as closely linked to future political developments in Persia, and the question of how long the Persian

⁴¹⁹ Blücher to the German foreign office in Berlin. 2 November 1933, report. PAAA, Department III-Economy, R92340.

authorities were prepared to maintain the influence of foreign experts at the bank.⁴²⁰

We have already established that until just before the National Bank crisis German nationals were employed in high government positions significant for trade and industry. We have also shown that German industrial products had benefited from a growing popularity, and that the Shah had built up rapport with a number of German nationals such as Lindenblatt. However, from the outset of the discoveries of irregularities at the National Bank, the tension affecting Germans had increased so dramatically that for many of them it had become unbearable to stay and work in Persia. Yet, these tensions started to ease from the time when the court revealed that only a small number of individuals had been responsible for the irregularities discovered, and that the majority of German nationals resident in Persia had no dishonest intentions. Nevertheless, in some cases, this change of circumstances came too late. Smaller foreign companies, hitherto unknown to Persian trade, and similarly unfamiliar advisors, had replaced many of their German counterparts. By 1933, Czechoslovakian companies had secured contracts to set up sugar factories, the Danes had erected a cement plant, the British took over the construction of spinning mills, and a Swedish consortium had been appointed to control the construction of the Trans Iranian Railway. Therefore, we must re-emphasise that the breach of confidence between Lindenblatt, the Shah and the Persian public had not only caused considerable damage to Germany's prestige and image in Persia, but it had also

⁴²⁰ Blücher to the German foreign office in Berlin. 2 November 1933, report. PAAA, Department III-Economy, R92340.

led to vast economic losses for German industry, amounting to millions of Marks.⁴²¹

A report compiled in Tehran for the German minister for propaganda, Joseph Göbbels, suggested that Germany should plan a political or diplomatic *modus operandi*, by which it would not only stop further damage to German prestige and commercial enterprise in Persia, but also devise a strategy to rejuvenate relations. The report expressed doubt about the German embassy's ability to take up such responsibility. It had asked for a more high profile approach by the German government that aimed at winning back the faith of the Shah. Moreover, it had been suggested that the Shah's apparent admiration for Hitler's new government and Germany's declared fight against communism, which had already contributed to relaxing the situation for Germans in Persia, could be used to win back lost ground.⁴²² More appropriately, a political or diplomatic act was needed that would bring the Shah and the German government closer together. The stated purpose of this report was to draw Göbbels' attention to the changes Germany faced in Persia. Persia had already attracted considerable interest from other European countries looking for influence in the Middle East. Hence, in view of Persia's growing industrialisation, it was argued that it was inconceivable why a country such as

⁴²¹ Report from Tehran to German minister for propaganda, Dr. Joseph Göbbels, in Berlin. 17 December 1933, report. PAAA, Department III-Politics, R78112.

⁴²² Hitler's "*Drittes Reich*" (third Reich) had been established in 1933 on a brutal terror against everybody not concordant with the Nazi dogmas, extreme nationalism combined with contempt for everything not matching the ideal of 'Aryan' culture, propagation of a pure 'Aryan' *Herrenrasse* (master race) of Fair-haired, blue-eyed people, an uncompromising racism culminating in persecution, dispropriation and destruction of its large Jewish communities, and the claim to expand into territory lost after World War I or at some time ruled by Germans (Austria, Czechoslovakia, Poland, Rheinland, Saarland). The inaccurate Persian identification of propagated 'Aryan' roots also reinforced its leaning towards Hitler's Germany.

Germany, under a leader like Hitler, should want to relinquish its deserved presence in the Middle East to some small European nations.⁴²³

A further report also came to link the dire situation for Germans in Persia with the breach of confidence between the Shah and Lindenblatt. In this report, Lindenblatt was singled out as being of Jewish decent. This statement proved to be just a taster for what was to follow. Particularly, with reference to the choice of words used in this, and continued in other post 1933 reports, we may conclude that its author, Giese, was an advocate of the new German National Socialist line. He for example stated: 'A man (Lindenblatt), particularly a European national, never had been given so much power under the Shah, and he chose to cheat; the Jewish, money-greedy blood had triumphed'.⁴²⁴

This kind of language was new to German-Persian relations and foreshadowed a new area in German foreign policy. Hitler had been elected to power on 30 January 1933 as Germany's new chancellor. Almost exactly a year later Giese had compiled his report and was using language much associated with Nazi Germany. In his detailed report about the National Bank affair, and its negative effects for Germany, he stated that Vogel had jumped from a ship and had drowned near Beirut. Moreover, he had added that many people in Persia hesitated to believe that Vogel's body had really been discovered. What he did not mention was that Vogel was discovered to be a Bulgarian national. Giese went on to outline how Blücher, relying on his own judgement, persisting that Lindenblatt was innocent, had ignored all warnings and recommended Lindenblatt's return to Persia. Therefore, Lindenblatt, who was convinced that his friend Taimurtash

⁴²³ Report from Tehran to German minister for Propaganda, Dr. Joseph Göbbels, in Berlin. 17 December 1933, report. PAAA, Department III-Politics, R78112.

would protect him, had returned to Persia, triggering a farrago of undesired events. Unfortunate for him, by the time he arrived, Taimurtash had already been arrested.⁴²⁵

The information revealed in Giese's report proves either that he was observing the state of affairs in Persia far closer than could be expected under normal circumstances, or that he at least had access to files, such as the ones kept at the German embassy in Tehran. Unfortunately, the document does not identify Giese's background. Yet, his knowledge of Persia's railway construction was so comprehensive that he might have been employed as a railway engineer.

He continued his report by emphasising how much the Lindenblatt affair had harmed the perception of German honesty and correctness in the Shah's eyes and those of the Persian population. Giese alleged that it used to be easy to ask Germany's friends amongst Persian nationals to help to combat possible intrigues against Germany. But now no one dared to declare himself openly pro-German. Giese maintained that these Persian supporters of Germany, of whom there still were many, had understood that the activities of a few 'moral pigs' did not represent the character of a whole nation. He believed that the first object for Germany should be to win back the Shah's sympathies, then, when grass had grown over the Lindenblatt affair, Germany should start to think about regaining its former privileged status in Persia.

Giese had reported, that although criticism against Germany had never officially been raised in the local media, there had been times when German

⁴²⁴ Report (18 page) on the progress of the Trans Iranian Railway and the German standing in Persia. Compiled by M. Giese in Tehran for Hosbach in Germany. 20 January 1934, report. PAAA, Department III-Politics, R78112.

⁴²⁵ Report (18 page) on the progress of the Trans Iranian Railway and the German standing in Persia. Compiled by M. Giese in Tehran for Hosbach in Germany. 20 January 1934, report. PAAA, Department III-Politics, R78112.

nationals had to be wary in order not to be physically attacked on the streets in Persia. Many Germans were dismissed from their posts, and all German nationals risked being deported. All this agony, Giese maintained, could have been prevented if the German authorities had reacted faster, and had paid more attention to the Lindenblatt affair, and if the foreign office had made more efforts to solve the crisis through diplomatic channels. To allow Lindenblatt to return to Persia and present himself as an innocent man, instead of being severely prosecuted in Germany, was viewed by him to be the biggest mistake made by the German embassy in Tehran and the German government. He was convinced that in a similar case, the British would never have permitted such a scandal to unfold. In this context, he stated, 'well, what did the old red German government anyway know about (Germany's) prestige, particularly in relation to states overseas'. This statement is a further indicator of a new prestige focused approach in German foreign policy toward Persia.⁴²⁶

In the context of the Lindenblatt affair, Giese had also reflected on the unpopularity of Blücher with the German colony, mainly for not dealing appropriately with the Lindenblatt affair. Beyond this, Blücher was criticised for being a man with a good heart but completely out of touch with reality, and hence lacking the necessary understanding of the needs of the German colony. Blücher was described as appearing externally unemotional and cold, displaying the stiff style of communication associated with the old diplomatic school. Giese pitied him for not being able to leave his protective shields and relate to his own people. Evidently, Blücher had only very few friends amongst the Germans in Persia. What Giese also condemned was Blücher's apparent lack of awareness and

⁴²⁶ Report (18 page) on the progress of the Trans Iranian Railway and the German standing in Persia. Compiled by M. Giese in Tehran for Hosbach in Germany.

understanding of the latest political changes in Germany. Moreover, he criticised Blücher for exhibiting the same lack of 'national socialist enlightenment', when dealing with the Shah and his cabinet ministers. Blücher's unpopularity had been in sharp contrast to the popularity of his predecessor Schulenberg. Schulenberg had been well known for the good relations he had maintained with the Shah and a large number of Persian government officials. Giese concluded that in order to live in the Middle East and to be able to represent the interests of the *Vaterland* specific qualifications were essential, which Blücher had lacked.

In conjunction with the German construction and railway industry, Giese was convinced that Blücher also had failed to take the initiative in accordance with the new German government to develop a strategy aimed at improving commercial relations with Persia. He maintained that a generous gesture by the German government, such as financial support of large German companies, in order to allow them to offer their services at more competitive prices, would have provided Germany with an opportunity to regain the sympathies of the Shah and the Persian public, as well as to secure jobs for German nationals.⁴²⁷ A copy of Giese's report was later forwarded to the German minister for foreign affairs, von Neurath, in Berlin.⁴²⁸

It has become clear that the situation in Persia in early 1934 provided Germany with an opportunity to take after the Lindenblatt affair a first step in foreign policy towards regaining a degree of lost political and commercial ground. One evident obstacle for Germany had been Lindenblatt. But it has emerged that the German

20 January 1934, report. PAAA, Department III-Politics, R78112.

⁴²⁷ Report (18 page) on the progress of the Trans Iranian Railway and the German standing in Persia. Compiled by M. Giese in Tehran for Hosbach in Germany. 20 January 1934, report. PAAA, Department III-Politics, R78112.

ambassador Blücher had also turned into an obstacle, hindering Germany's estimation in Persia. According to these findings, the removal of both would have opened the doors in Persia for a new phase of relations. The new German government appears to have been faced with good reasons for a change of policy. Firstly, it cared more about its international standing overseas. Secondly, in line with the new National Socialist ideology it was interested in improving its trade and thereby creating jobs. Nevertheless, the last report cited, placed the ball in the hands of the German government by appealing for its financial support for German companies with business interests in Persia, and the replacement of its ambassador in Persia. The overwhelming objective of all German operations remained to advance its presence in the Middle East.

b. Persia opens doors to Hitler's Germany

The Persian government had declared that it was prepared to draw a line under the past, in order to encourage the commencement of mutual and friendly relations with the German government. To prove its commitment the Persian government had presented through its Berlin embassy representative Daftari a number of requests to Schmidt-Rolke at the foreign office in Berlin.⁴²⁹

The Persian government had asked the German authorities to recommend three experts for posts at the Persian department of Industry and Agriculture, a department of the Persian ministry of trade and economics in Tehran. It expected these German experts to administer Persia's industrial and agricultural

⁴²⁸ Ludwig Hossbach, retired construction engineer in Berlin, to foreign minister von Neurath at the German foreign office in Berlin. PAAA, Department III-Politics, R78112.

development in close co-operation with the National Bank of Persia and the newly established, German managed, Persian bank for agriculture.

Likewise, the Persian government had asked for two further German medical experts. One was destined as the director of a newly erected hospital in Mashad, and the other would have been responsible for internal medicine at that hospital. The Mashed hospital was a pet project of the Shah in which he took particular interest. The Persian authorities had declared themselves prepared to accept any experts the German government recommended on the only condition that they approve their remuneration.⁴³⁰

In this context, Daftari had referred to the fact that the Persian government had received numerous applications from non-Aryan medical experts and scientists who had lost their positions in Germany. However, he declared that in order to avoid any disagreement with Germany, the Persian authorities had refused to accommodate any of these applicants.

Furthermore, Daftari had brought up Persia's planned purchases of machinery and railway material. Accordingly, he had explained that the Persian authorities had been overwhelmed with bids made by Czechoslovakian companies during the recent years, and that the Persian authorities were aware that the Czechoslovakian government was providing export incentives to its industry. He had explained to Schmidt-Rolke, that if the German government were in the position to support export for German companies to Persia, the Persian government would be immediately prepared to purchase 90% of all its industrial needs from Germany. He gave weight to his statement by adding that the Persian

⁴²⁹ Report by Schmidt-Rolke in Berlin, on a meeting with Daftari. 27 January 1934, report. PAAA, German legation files-Iran, PKT 40/ VI A1. Volume 5, trade.

⁴³⁰ Report by Schmidt-Rolke in Berlin, on a meeting with Daftari. 27 January 1934, report. PAAA, German legation files-Iran, PKT 40/ VI A1. Volume 5, trade.

ministries of defence and transport were in the process of making significant acquisitions, for which they also had asked German companies to present bids.⁴³¹

After being informed of Daftari's proclamations, Zölch from the German embassy in Tehran explained in a letter to Schmidt-Rolke how pleased he was. Nevertheless, he alerted Schmidt-Rolke to the fact that the point Daftari had made about Persian enthusiasm to satisfy 90% of its import requirements from Germany, was more a Middle Eastern exaggeration than a factual statement. Zölch had established that with regard to the strong international competition, commercial contracts with the Persian authorities were secured predominantly through price competitiveness. Although Zölch had expressed his optimism about the breakthrough of the concerted efforts of the embassy, the foreign office and German companies could accomplish, he excluded the realistic possibility of German companies being actually in the position to underbid the vast majority of their competitors.⁴³²

In a further diplomatic step aimed at intensifying Persia's trade relations with Germany, the Persian government decided to establish a new consulate in Hamburg. Hamburg's importance for Persia was the city's strategic and logistic significance for trade as well as its well-developed port facilities.⁴³³ Although all signs hinted that the Persian authorities were opening their doors to Germany by creating opportunities for improving trade and diplomatic relations, they continued to reduce foreign influence at the National Bank of Persia.

⁴³¹ Report by Schmidt-Rolke in Berlin, on a meeting with Daftari. 27 January 1934, report. PAAA, German legation files-Iran, PKT 40/ VI A1. Volume 5, trade.

⁴³² Zölch at the German embassy in Tehran to Schmidt-Rolke at the German foreign office in Berlin. 17 February 1934, letter. PAAA, Department III-Economy, R92534.

⁴³³ Article titled, '*Persiens Wirtschaft und Finanzlage-Ein Land fast ohne Schulden*', in *Volkswirtschaftliche Correspondenz*. 26 June 1934, article. Bundesarchiv Potsdam, Reichslandbund, Presse Archiv, 61 Re 1/ 8153.

c. Post-Lindenblatt developments at the National Bank

By 1934, the National Bank of Persia had only 27 German nationals in its service. Nonetheless, 14 of them were still in charge of major branches of the National Bank throughout Persia.⁴³⁴ Horschitz-Horst's agreement with the National Bank was also ending. He was chiefly employed to reorganise the National Bank after the Lindenblatt affair.⁴³⁵

A *Financial Times* article on Persia interestingly enough described some of the reasons for Persia's financial crisis, without referring to Lindenblatt. The writer of this article, Owen Tweedy, did not see any reason for mentioning Lindenblatt within the context of his critical analysis of what had gone wrong with Persia's finances. He rather described the challenges Horschitz-Horst had faced when he was employed, after Lindenblatt had left, to reorganise the bank.

But there were other situations which in our post-war world were not peculiar to Persia, and which could not be so readily solved by mere forcefulness and narrow patriotism. Persia's two main problems are her currency and her trade balance. The currency, which is based on silver and not on gold, has fallen seriously with the depreciation of the metal. Although for a time Shah Reza vainly tried to "peg" the exchange and to control the movements of foreign currency by legislation, he has now abandoned the attempt.

Linked to this currency exchange policy was an arithmetically ingenious but otherwise quite unpractical effort to adjust Persia's trade balance. The essence of his import and export law that was passed in 1932 was that both imports and exports would be by licence only, and that import licences would be granted only to those who exported goods of equivalent value. The disastrous consequences of this legislation are at once apparent when it is realised on the one hand that Persia, apart from carpets and opium, has next to nothing to export (oil, incidentally, was excluded from the operation of the law); while on the other, the country as yet produces next to nothing of the modern essentials of modern life.⁴³⁶

⁴³⁴ Blücher to German foreign office in Berlin. 12 February 1934, telegram. PAAA, Department III-Economy, R92340.

⁴³⁵ Article titled '*Persische National bank*', in *Berliner Börsen Zeitung*. 9 March 1934, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/ 5289.

⁴³⁶ Article by Owen Tweedy, titled, 'Persia's unfortunate trade legislation', in *The Financial Times*. 15 February 1934, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/ 5289.

After one year, Horschitz-Horst managed to complete his special assignment at the National Bank and returned to Berlin.⁴³⁷ His departure, which had been widely reported in German national newspapers, implied also Germany's departure from the administration of the National Bank, which had been managed and developed by Germans from its outset. After Horschitz-Horst, the chances for a German national or indeed any foreigner to direct the National Bank of Persia in future were negligible. Foreign influence in general at the bank was steering towards decline. This also affected the remaining German nationals at the bank. Already in April 1935, with the departure of the director of National Bank branch in Esfahan, Erich Wiens, Zölch had reported to the foreign office that the number of Germans employed by the National Bank had rapidly decreased, leaving just a few.⁴³⁸

In 1934 in order to regain influence in banking, the German Orient Society had asked the German Dresdner Bank to survey the possibility of opening a branch in Persia. An official of the Dresdner Bank had confirmed that the idea of establishing a branch of the bank in Persia had long been on the agenda of the management. However, since good and commercially successful relations were maintained with the National Bank there had been no urgency to establish a branch. He further explained that because of the high cost involved, projects such as this had to be postponed until Germany's financial and foreign currency situation was improved.

Meanwhile other significant changes were taking place at the bank during the transition from administration executed by foreigners to Persian administrators.

⁴³⁷ Article titled '*Persische Nationalbank*', in *Frankfurter Zeitung*. 12 March 1934, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/ 5289.

⁴³⁸ Zölch at the German embassy in Tehran to German foreign office in Berlin. 16 April 1935, letter. PAAA, Department III-Economy, R92340.

One person with major impact on the next phase of the development of the bank was its newly appointed Persian administrator, Reza Gholi Khan Amir Khosravi. He reorganised the management structure of the bank so that the following departments came under the direct control of the head office of the bank: The main accounting department, under the management of Stephan, the administration department, managed by Zend, the bank's loan department, managed by Goldenberg, and the foreign exchange policy department, managed by Gold. It was unusual that the last mentioned two names were of Jewish origin, they also had been highlighted, most likely by a foreign office civil servant, on Blücher's original report. Moreover, in a world dominated by men, particularly in Persia, it was interesting to see that a woman, Goldenberg, had been employed by the National Bank to administer its loan department.⁴³⁹

The German national Jedermann, who originally had been brought back to Tehran from the Shiraz branch of the bank as a prime candidate for the newly formed executive of the National Bank, instead declared himself content to take over the prestigious Bazaar branch of the bank. He had expressed his hope, according to Blücher, that by doing so he would increase the chances of building up a healthy relation with the new directors of the National Bank. However, since Khosravi had been directly recommended by the Shah, Jedermann would have had no fair chance to take up Ala's post as administrator at any later stage. The new arrangement left three Persian nationals as joint directors of the National Bank. Ala and Farzin had become joint presidents and Khosravi, who replaced Horschitz-Horst, was appointed administrator.

⁴³⁹ Blücher to German foreign office in Berlin. 7 April 1934, report. PAAA, Department III-Economy, R92340.

Although Blücher was not in the position to comment on the professional qualities of Khosravi, he noted that owing to the fact of being appointed by the Shah, he would have better leverage on the directors than Horschitz-Horst. He also reported that the remaining German members of the National Bank's staff seemed happy with the new management of the bank. Some members of staff had allegedly commented that the new management had proved to be far more prepared to consider their recommendations and ideas, and in some cases, these were implemented. Also in the question of remuneration, the new administrator appeared more sympathetic to the staff's concerns.⁴⁴⁰

Overall, the observations reported by Blücher left the impression that the bank was well managed and that its staff seemed reasonably satisfied with the course of development at the bank. This was a good omen, since if all went according to the Persian government's plans, the efficient and professionally managed National Bank would provide a solid foundation for a subsequent increase of trade in Persia.

d. German ideology penetrates Persia

The new German government's first moves toward Persia appeared hesitant and more symbolic in nature. These included the proposal to invite the Shah to Germany and naming of a street in Berlin in honour of a Persian poet.

By 1934, Germany had received a large number of heads of states as guests from exotic countries such as Liberia, Afghanistan, Iraq, and Egypt; it therefore was not keen on inviting more. Nevertheless, the foreign office in Berlin had made

⁴⁴⁰ Blücher to German foreign office in Berlin. 7 April 1934, report. PAAA, Department III-Economy, R92340.

a special case for Persia to persuade the relevant German authorities to approve Blücher's suggestion to invite the Shah to Germany. States secretary Dieckhoff had argued that purely for commercial reasons it was necessary to win back the Shah's faded sympathies for Germany. This was for two reasons: First, the Shah still appeared not to have overcome his rage over the leftist articles published against him in Germany, the Leo Mattias article, and the Vogel-Lindenblatt affair. Second, the Shah was above all the sole determining factor in Persia. Dieckhoff believed that if the Shah was invited and treated well in Germany, and was also given the opportunity to visit major industrial companies such as Krupp, it would have a major impact on German exports to Persia.⁴⁴¹

The other initiative that aimed at improving German-Persian relations was based on a foreign office idea. It suggested that the Berlin municipal authorities should name a street after the Persian poet Ferdosi in honour of his one-thousandth anniversary. The municipal authorities were essentially prepared to honour Persia by naming a street, but the authorities had reservations over the suggested name 'Ferdosi'. Therefore, they instead recommended naming a large park in Berlin '*Persischer Platz*'.⁴⁴²

On 28 November 1934 a number of events were organised in Berlin to honour Ferdosi. As a compromise, during the festivities a street in Berlin was named '*Persische Straße*'. Other events of the day included a reception at the Persian embassy, lectures on Ferdosi, and a choir performance.⁴⁴³

⁴⁴¹ Dieckhoff at the German foreign office in Berlin to unidentified German government department. 21 March 1934, letter. PAAA, Department III-Politics, R78112.

⁴⁴² Pilger from German foreign office in Berlin to German embassy in Tehran. 3 October 1934, letter. PAAA, Department III-Politics, R78112.

⁴⁴³ Prüfer at the German foreign office in Berlin to Persian embassy in Tehran. 8 December 1934, letter. PAAA, Department III-Politics, R78112.

However, these efforts could not compare with the effects of a decision of the Persian government made in January 1935. In a circular, it had asked all foreign missions to substitute in future the country's name 'Iran' for 'Persia'. A further document released by the Persian authorities illustrates the background that led to this symbolic change of the country's name. According to this document, the idea for the change had come from the Persian embassy in Berlin. What had attracted the Persian government to this idea was that, as officially stated, 'at a time when foreign nations were priding themselves for being of Aryan descent, the time had come for Persia to display through its name that it was the homeland of the Aryan race'. In this context, it is worth mentioning that the word Iran translates into 'of Aryan decent'.⁴⁴⁴

Blücher instantly responded by explaining to the foreign office that the Persian government's assertion about the Aryan race could not be historically correct. He added that the Aryan element in the Persian population had anyway become diluted over centuries through the influence of Arabs and Mongols. Blücher feared that as a result of the Persian government's explanation for the reason for Persia's change of name, the Persians would now consider themselves, as the homeland, superior to Germany.⁴⁴⁵ Nonetheless, Persia was from this date onwards named Iran. (From here on the name Iran will substitute the name Persia)

It is likely that German 'propaganda' did influence the Persian embassy's proposal in Berlin. Moreover, even when disregarding Germany's role, if any, it is certain that the Shah approved Persia's change of name to Iran. From a diplomatic

⁴⁴⁴ Blücher to German foreign office in Berlin. 22 January 1935, letter. Bundesarchiv Potsdam, German legation files-Iran, PKT 1/ IA 2. Volume 7, Persia.

⁴⁴⁵ Blücher to German foreign office in Berlin. 22 January 1935, letter. Bundesarchiv Potsdam, German legation files-Iran, PKT 1/ IA 2. Volume 7, Persia.

point of view, this is almost a guaranteed sign of the Shah's association with and approval of Persia's alliance with Germany, its people, and government. This hypothesis shall be underlined by looking at the developments following Persia's change of name particularly with respect to its relations with Germany. The most dependable way to qualify changes in the state of the relations maintained by both countries remains an analysis of their commercial relations. This analysis becomes more tangible for the late 1930's, inasmuch as trade-statistics had become more readily available.

e. Commercial developments

In a memorandum, the former National Bank employee Paul Martin had presented his personal views about how Germany could win back its lost markets in Persia. He had maintained that since the unfortunate year of 1932 Germany had lost control over most of Persia's business. However, the Shah was keen to advance Persia's industrialisation, development of its cities, and the improvement of its transport system. Martin maintained that Persia needed to import many industrial goods available from the German market. In the light of the German drive against Jews, he had also argued that since Jews were not strongly represented in Persia, there was no fear of a repetition of a German boycott as experienced with other countries. He also presumed that since almost no other country had the sole capacity to absorb such a large percentage of Persia's exports, this made Germany and Persia ideal trade partners. In Martin's mind, it was nevertheless necessary to eliminate all bad memories of the tragic year of 1932, before any German progress with Persia could prove successful. In order to achieve this objective, he advised that it was essential for a number of

preconditions to be fulfilled. His principal precondition was that the cause of Germany's disgrace in Persia, Lindenblatt, had to leave the country as soon as possible.⁴⁴⁶

In response Blücher reported to the foreign office his reservations over the accuracy of the information cited by Martin. Blücher felt that Martin had misrepresented the proportion of the failings associated with Lindenblatt. He confirmed that Lindenblatt, who had been freed from jail and was resident in Tehran, was only waiting for a technicality to be resolved before he returned to Germany. But he confirmed that the atmosphere in Persia had improved and that Germany indeed had the potential to absorb goods produced in Persia. He also pointed out that the number of German immigrants arriving in Persia had been on a steady increase, numbering seven to eight hundred.⁴⁴⁷

At the outset of an extensive report on Persia's economic structure and the problems it faced, Alfred Tismer singled out the main problem to be faced when looking at the history of Persia's economy. This was the earlier mentioned absence of reliable statistics. Therefore, when looking at economic events taking place in Persia after 1935, as the case of Abbas Khan Alamir will show, reliance on non-statistical data is essential.⁴⁴⁸

Abbas Khan Alamir had been appointed head of the Iranian department of industry and agriculture in 1935. Alamir was well known to the German authorities, since he had been the secretary of legation at the Persian embassy in

⁴⁴⁶ Memorandum by Dr. Paul Martin titled '*Denkschrift betreffend die Rückgewinnung des Persischen Absatzmarktes*'. 31 August 1934, memorandum. PAAA, Department III-Economy, R92513.

⁴⁴⁷ Blücher to German foreign office in Berlin. 26 October 1934, report. PAAA, Department III-Economy, R92513.

⁴⁴⁸ Report by Dr. Alfred Tismer titled '*Aufbau- und Krisenprobleme der iranischen Wirtschaft*'. Approximately 1936, 63 page report. Bundesarchiv Dahlwitz-Hoppegarten, files of IG Farbenindustrie AG, 80 IGF/ A3818.

Berlin. Moreover, Alamir had studied in Germany where he also received his doctorate, he had a German wife, and spoke perfect German. Alamir's appointment must have pleased the German government authorities, since he had become the head of the department from which the majority of the Iranian government contracts were issued. Obviously, this fact on its own is difficult to qualify in terms of a commercial advantage for Germany.⁴⁴⁹ Nor is it easy to quantify the effect of the unexpected replacement of Blücher in March 1935, by one of his embassy staff, Zölch. However, Zölch's term of office did not last long. After four months the new German ambassador to Iran, Smend, replaced him.⁴⁵⁰

A further event that carried every sign of being advantageous to the German cause in Iran was the appointment of Madjid Ahy in 1936 as new head of the Iranian ministry of transport. He benefited from the support of the Iranian minister of finance, Dawar. Ahy's sympathies towards Germany were transparent. He had proudly told Smend that his brother had studied and practised medicine in Germany.

During a meeting, Smend explained to Ahy that German industry was keen to assist with the development of Iran's transport system. He enthusiastically supported this idea and added that in the past he had been pleased with his experiences of German companies and suppliers. In this context, he mentioned the big contract for the construction of the Tehran railway station that had been awarded to a German company. Ahy assured Smend that similar contracts would most likely follow, adding that the contract for building the Shah's royal train had also already gone to a German company. Smend emphasised that large German

⁴⁴⁹ Blücher to German foreign office in Berlin. 14 January 1935, letter. PAAA, Department III-Politics, R78151. Number 94.

⁴⁵⁰ Zahirnezhad Ershadi, Mina. *Selected documents relations between Iran and Germany*. (Tehran: Publishing division of the Iranian Ministry for foreign affairs, 1998), p. 176.

companies were interested in regaining their former standing in Iran, by, for example, advancing the construction of the Trans Iranian Railway. For this purpose the German company, Dyckerhoff & Widmann A. G., had already sent their representative Doering to Tehran to negotiate over the construction of a port facility in Bandar-Shapur. Ahy responded positively to Smend's suggestions, leaving him with the impression that he had found a further ally within the Iranian government who could help Germany to improve its commercial relations with Iran.⁴⁵¹

Arguably, the cited events point to the fact that both the German and the Iranian governments appeared by this stage to be prepared to draw a final line under their recent past and turn to the future. However, although Germany's move towards Iran in the past had almost always been commercially motivated, indirect clues help to underline the argument, that for the first time, an export of German political ideology to Iran had also been taking place. These clues include the use of phrases such as German prestige overseas, superiority of the Aryan race, and Hitler's national socialist ideology, in the context of Germany's relations with Iran. This observation also features in the concluding words of an article published in the *Bremer Nachrichten*. This article stated that through appropriate efforts of the German government, it was not only possible to win back lost spheres of influence, but also to develop trade relations serving the benefit of all involved. The article clearly reveals a distinct separation of what appears a primary political objective, followed by a secondary commercial objective.⁴⁵²

⁴⁵¹ Smend to German foreign office in Berlin. 8 February 1936, report. PAAA, Department III-Politics, R78167. Number A 51.

f. Success in German-Iranian trade

Persia's change of name to Iran can also be regarded as a symbol for the start of a new and promising era of German policy toward Iran. Developments during this era would increasingly include politically motivated activities, but at the outset, they continued to be dominated by mutual commercial trade interests. Hence, in order to be able to assess the state of the Iranian economy in 1935, which is a precondition for considering a possible shift in commercial relations, a number of points which affected German-Iranian trade relations will be cited.

The first point to consider is that Iran's trade rested on three distinct pillars. The first pillar was Iran's general trade, based on export certificates and import licences. The second was Iran's trade with Russia on a basis of special agreements. The third pillar was founded on business generated by the requirements of Iranian government authorities.⁴⁵³

With regard to the search for areas that could help to improve German trade with Iran, a short analysis of the merits of each of the three pillars individually is necessary. Concerning the first one, it could be argued that if price competitiveness for German goods could be maintained, and if Iranian merchants increased the volume of their orders in Germany, trade between both countries could be intensified.

The second pillar rested on the notion that Russia would continue to export up to the limit of the contingents it had agreed with Iran, leaving little opportunity for German trade expansion. Under the terms of its agreements with Iran, Russia

⁴⁵² Article in J. P. W. titled '*Persien und seine Bedeutung für den Deutschen Außenhandel*', in *Bremer Nachrichten*. 18 April 1935, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/ 5290.

⁴⁵³ Report titled '*Deutsch-Iranische Handelsbeziehungen*'. Approximately 1935, report. PAAA, Department III-Economy, R92369.

had to export goods of the same value as its imports from Iran. However, the Russians regularly used a cunning method to satisfy their demand for Iranian goods that exceeded the agreed quota. They shipped a certain percentage of their Iranian imports from Iran to Hamburg. These Iranian goods were then sold in Germany for Reichsmark. With the Reichsmark generated from the sale of the Iranian goods in Germany, the Russians then were in the position to purchase, and indirectly import, an even greater volume of Iranian goods from Germany to Russia. The German authorities did not welcome this Russian operation, nor did they like the fact that Russia was financing its exports to Iran through its re-exports to Hamburg. Since this practice was commercially damaging for Germany, the German authorities had taken steps to ban it.

The business generated through Iranian government agencies was by far the most attractive for Germany. For several years Germany had been almost isolated from conducting direct business with the Iranian government. Hence, because of its potential, efforts to revitalise trade relations between Germany and Iran had to be targeted as the third pillar on which Iranian trade was based. This implied improving relations with the Iranian government.⁴⁵⁴

The second point influencing German-Iranian trade relations was that for several years' statistics on trade between Iran and Germany had shown a strongly negative balance of trade for Germany, i.e. Germany was importing more goods from Iran than Iran was importing from Germany. Consequently, Germany's aim would have to be to minimise its export deficits, which also implied that fewer goods from Iran should be imported, while simultaneously more goods should be exported.

⁴⁵⁴ Report titled '*Deutsch-Iranische Handelsbeziehungen*'. Approximately 1935, report. PAAA, Department III-Economy, R92369.

Because of the strong capacity of German economy, increasing trade with Iran was a viable option, and negotiations with the Iranian authorities could lead to successful barter agreements. Therefore, Germany not only had the capacity to absorb other Iranian goods besides oil, but it could also export in exchange goods of at least the same value, at competitive prices, to Iran. The only sensible arrangement on which Germany could base its future trade negotiations with Iran was therefore reciprocal exchange.⁴⁵⁵

The general atmosphere in Iran in 1936 had started to become increasingly pro-German. Large German industrial companies such as Forestall A.G. had targeted, through the assistance of its representative Leese, exchange projects in Iran. Leese, who travelled to Iran for one month, had managed to achieve a breakthrough by finalising a contract with the Iranian ministry of finance. This contract aimed at developing a framework that would advance Iran's industrialisation for a period of four years. The Leese contract was expected to be worth between 20- 80 million Reichsmark. On his return to Germany Leese was planning to set up a central office which could represent the interests of large German industrial companies in Iran. These companies included Krupp, Gute Hoffnungshütte, Vereinigte Stahlwerke, Otto Wolff and others. Leese's accomplishments were potentially a first big success for German industry. Only time could determine also its practical value.⁴⁵⁶ .

It was not long before the German company Siemens followed by securing a further substantial contract with the Iranian authorities. Siemens agreed to construct an automated telephone exchange with a capacity of 6000 connections,

⁴⁵⁵ Report titled 'Deutsch-Iranische Handelsbeziehungen'. Approximately 1935, report. PAAA, Department III-Economy, R92369.

⁴⁵⁶ Report from Tehran titled '*Iran. Lagebericht*'. 22 April 1936, report marked confidential. PAAA, Department III-Politics, R78112.

provide the required handsets and telephone line network for Tehran, and equip the National Bank of Persia with telephones, clocks, fire alarms, and security control systems. In the late 1860's Siemens had already constructed one of the first telegraph lines in Iran, which stretched over 2000 kilometres. Later, in 1924, Siemens constructed the first telephone exchange in Tehran and had since continued to remain a highly regarded company. This contract was a great success for German trade and the company Siemens.⁴⁵⁷

An article published in the German newspaper *Berliner Lokal-Anzeiger* highlighted the creation of a German-Iranian chamber of commerce on 29 April 1936. The main objective of the chamber of commerce was to facilitate mutual trade. The Iranian ambassador to Germany, Mohsen Rais, was invited to present an opening speech at the inaugural meeting of the chamber. In his speech, Rais primarily emphasised that from his point of view obstacles that could have obstructed German-Iranian trade had been removed. He added that Iran's primary resources were essential for Germany, and Iran in turn required German industrial products. With respect to the creation of the German-Iranian chamber of commerce, Rais expressed his gratitude to the German minister of economics and president of the German central bank, Hjalmar Schacht, for his personal support and encouragement. A further German government representative, Spitta, from the ministry of economics, also emphasised in a speech that preconditions for a successful trade relationship between both countries had been met. He added that during the past three years trade between both countries had increased and that

⁴⁵⁷ Article by Eicke titled '*Neue Siemens Aufträge im Iran*', in *Siemens Mitteilungen*, number 174. June 1936, article. Bundesarchiv Potsdam, Arbeitswissenschaftliches Institut, 62 DAF 3/ 35717. See also Zahirnezhad Ershadi, Mina. *Selected documents relations between Iran and Germany*. (Tehran: Publishing division of the Iranian Ministry for foreign affairs, 1998), p. 312.

all commercial differences had been resolved. The article in which both speeches were quoted was revealingly titled 'Iran and Germany are natural partners'.⁴⁵⁸ Other newspaper articles carried titles such as 'As economically growing countries, Germany and Iran can complement each other in many areas'.⁴⁵⁹

The conclusion that can be drawn at this stage is that German-Iranian economic relations were heading for a prosperous future. Iran's economy had boomed in 1935, driving the industrialisation of the country. In order to finance its projects the Iranian government was starting to rely more and more on the National Bank. To meet the requirements of the government budget for the year 1935/36 it had become necessary to take on large loans obtained from the National Bank. Also 150 million Rials of the cost of the construction of the Trans Iranian Railway had been financed through the bank. By 1934, the National Bank had accumulated 300 million Rials capital and generated an operational profit of over 21 million Rials. The bank also continued its significant support for Iran's industrialisation. By 1934, Iran had already constructed more than 140 factories and industrial plants across the country. Two years later the government's approved budget had exceeded 1 billion Rials.⁴⁶⁰

Iran's financial situation was looking attractive to German trade. The country had almost no foreign debt and its income from taxes and custom duties was

⁴⁵⁸ Article titled '*Iran und Deutschland sind die gegebenen Partner*', in *Berliner Lokal-Anzeiger*. 22 July 1936, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/ 5290. See also for same article. Bundesarchiv Potsdam, Arbeitswissenschaftliches Institut, 62 DAF 3/ 35684.

⁴⁵⁹ Article by H. Bassewitz titled '*Ein Land im Wirtschaftsaufstieg, Deutschland und Iran können sich in vielem ergänzen*', in *Berliner Nachtausgabe*, number 380. 1936, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/ 5290.

⁴⁶⁰ Article by Massih Samiy titled '*Die Wirtschaftliche Entwicklung Irans*', in *Berliner Börsen-Zeitung*. 22 July 1936, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/ 5290.

constantly rising. Also its income from the Anglo Iranian Oil Company had risen by about £32 000 compared to the year before.⁴⁶¹

Concerning trade it is worth mentioning that in the years 1932/33 Germany, with about 93 million Rials value of trade (imports and exports), had already regained fifth rank in Iran's trade statistics. The first four positions were held by Russia, with almost 318 million Rials, Britain, with almost 144 million Rials, the United States, with over 137 million Rials, and British India, with more than 124 million Rials trade value. Iran's imports during the period 21 March 1932 until 20 March 1933, had totalled more than 611 million Rials, its exports excluding oil and fishery products from the Caspian see had totalled over 522 million Rials. Iran's total value of trade therefore amounted to over 1.13 billion Rials.⁴⁶²

During the following statistical year 1933/34 Iran's imports amounted to just over 605 million Rials, which was slightly reduced compared with the previous year. Iran's exports were also slightly down to just over 466 million Rials. Overall Iran's entire value of trade for the year 1933/34 amounted to 1.07 billion Rials. During 1934 Germany had moved down to eighth place in Iran's trade statistics. However, compared to the year before, Iran's imports from Germany had increased by 15 million Rials. Simultaneously, Iran's exports to Germany had risen by about 23 million Rials.⁴⁶³

During the statistical-year 1934/35 Iran's total trade value had grown to almost 1.12 billion Rials. During the following year Iran's imports had stayed

⁴⁶¹ Report titled '*Günstige Entwicklung der iranischen Wirtschaft im Jahre 1935/36*'. 25 October 1936, report. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/5290, p. 24.

⁴⁶² Article in Turkish magazine titled '*Persien-Der Aussenhandel*'. 20 June 1934, article. PAAA, Department III-Economy, R92355.

⁴⁶³ Article titled '*Der Aussenhandel von Iran*', in *Pressedienst Hansa, Wirtschaft und Verkehr*. 11 June 1935, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/5290.

almost constant, but its exports had risen from 466 to 514 million Rials. Germany, with over 103 million Rials trade, had regained position four in Iran's trade statistics ranking. It followed Russia with 385 million Rials, the United States with over 125 million Rials, British India with 106 million Rials trade value. Britain with just over 102 million Rials had moved to fifth place. Nevertheless, Germany's trade balance with Iran remained negative by about 15 million Rials. In 1934/35 Germany had imported goods to the value of just over 59 million Rials from Iran but only exported goods worth just over 44 million Rials. Again, these figures do not include Iran's oil exports or movements of valuable metals.⁴⁶⁴

It would appear, then, that the best time for an expansion of German-Iranian trade had come. The relevant Iranian government authorities had politically matured to a state prepared to allow Germany to take a stronger part in the development of Iran's economy. They had also shown keen interest in employing first-class German experts who could assist Iran to augment its productivity. Iran's demand for German goods and expertise was on the increase. Considering the comparatively healthy state of Iran's national budget and its key financial institutions, including the National Bank, the ideal time had come for Germany to take full advantage.

German trade with Iran had again increased in 1936 compared with 1935, and this time even more significantly. In 1936, Germany's export to Iran had reached 30.4 million Reichsmark compared with 13.5 million Reichsmark in 1935. This rise becomes even more significant if we consider that German exports in 1935 had already increased by almost 100% in contrast to its export value of 7.5 million Reichsmark in 1934. Accordingly, Germany's exports to Iran had quadrupled in

⁴⁶⁴ Report titled '*Günstige Entwicklung der iranischen Wirtschaft im Jahre 1935/36*'. 25 October 1936, report. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/

1936 compared with its value in 1934. In 1936 the value of German exports to Iran had thereby reached its highest ever level in the history of the two countries. It had even almost doubled its record value of 17 million Reichsmark in 1929.⁴⁶⁵

Likewise, the value of German imports from Iran in 1935 had increased significantly compared with 1934, rising from 15.3 million Reichsmark to 23 million Reichsmark. The following table of German-Iranian imports and exports, in million Reichsmark, is based on German trade data.

<u>Year</u>	<u>German imports from Iran</u>	<u>German exports to Iran</u>
1928	29.3	9.9
1929	30.6	17.0
1930	36.2	9.5
1931	35.3	6.0
1932	28.8	5.4
1933	20.6	6.6
1934	24.1	7.5
1935	15.3	13.5
1936	23.0	30.4

These figures also reveal that during the crisis years 1932/33 German exports to Iran had reached their lowest level. With the exception of 1935, 1933 marked the lowest level of German imports from Iran. Trade laws aimed at regulating the Iranian economy were the main cause for the exceptional low of 1935.⁴⁶⁶

A further important fact revealed in the above table is that for the first time in 1936 German exports to Iran had exceeded imports. This was not only a success

5290, pp. 24-32.

⁴⁶⁵ Article titled '*Starker Aufschwung des deutschen Handelsverkehrs mit Iran*', in *Pressedienst Hansa, Wirtschaft und Verkehr*. 25 March 1937, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/ 5290.

for the development of German trade with Iran, but it permitted German trade earnings of more than 7.5 million Reichsmark. This is significant insofar as Germany had regularly been left with a trade deficit with Iran. In 1934, Germany's trade deficit had even reached 16.6 million Reichsmark. What is more important is that Germany had not managed to achieve this success by reducing its imports from Iran but by significantly increasing its exports to Iran.⁴⁶⁷

The following table demonstrates German exports and imports to and from Iran for the year 1936:

<u>German exports to Iran</u>	<u>Value in million Reichsmark</u>
Metal products	3.9
Machinery for the textile and leather industry	3.1
Electrical equipment	2.5
Machinery for industry and agriculture	3.2
Textile products	2.3
Pharmacological products	0.9

The remaining German exports to Iran were comprised of motor vehicles, aeroplanes, chemical goods, steel pipes, copper wires, optical and fine mechanical goods, paper and paper products, and a number of other product categories.

⁴⁶⁶ Article titled '*Starker Aufschwung des deutschen Handelsverkehrs mit Iran*', in *Pressedienst Hansa, Wirtschaft und Verkehr*. 25 March 1937, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/ 5290.

⁴⁶⁷ Article titled '*Starker Aufschwung des deutschen Handelsverkehrs mit Iran*', in *Pressedienst Hansa, Wirtschaft und Verkehr*. 25 March 1937, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/ 5290.

<u>German imports from Iran</u>	<u>Value in million Reichsmark</u>
Fuel and petroleum	4.2
Selection of wool material	3.9
Animal skin (intestine)	3.2
Carpets and similar products	2.2
Leather	2.2
Fruits	1.9
Cotton	1.4

The remaining German imports from Iran were comprised of a number of product categories with a lower trade value.

In this context one of the major contributors to Germany's trade expansion had been a German-Iranian clearing agreement signed on 30 October 1935. This clearing agreement had brought good and fast results that had benefited both the Germans and the Iranians. According to this agreement, payments resulting from German-Iranian trade had to be cleared via a German clearing bank and the National Bank or special overseas accounts granted to foreigners for domestic payments. The success of the clearing agreement in 1936 promised also to increase trade in 1937. Compared to other trade partners, German-Iranian trade was also affected by the fact that the exported goods of both countries complemented each other, and thereby satisfied another major precondition for a continuing growth in trade.⁴⁶⁸

A further positive short-term indication for the future growth of German trade with Iran was that due to Iran's rapid industrialisation the Iranian government

had increased its quota for import of machinery by 30 million Rials. This meant that German companies could expect to continue to provide Iran's industry with machinery. Iran's planned and partly started roads, railway, and construction projects promised to become as well a good future market for German companies. The demand for German domestic and manufactured goods remained high too. Despite the increasing competition from Russia, Britain, the United States and Japan, resulting from Iran's commercially attractive economic situation, the cited figures and facts suggest that by 1937 Germany was making its way up Iran's trade statistics.⁴⁶⁹ But how could Germany secure its place in the future? That Iran had significant demand for goods and services which German companies could satisfy is not a strong and secure enough reason. There had to be a strong political will to give Germany preferential treatment in order to ensure an increase in trade for the following years. The German foreign office was, as mentioned, aware of the fact that some sort of diplomatic action had to be taken to regain the Shah's sympathies for Germany in order to ensure future growth in trade.

g. Visit of German Central Bank president Schacht

An idea of Germany's ex-ambassador to Iran, Blücher, was revived by the foreign office in November 1936. Blücher's idea had been to send the German minister and president of the Central Bank, Hjalmar Schacht, for a state visit to Iran. Just days before the planned visit of Schacht, Melchers, a German embassy

⁴⁶⁸ Article titled '*Starker Aufschwung des deutschen Handelsverkehrs mit Iran*', in *Pressedienst Hansa, Wirtschaft und Verkehr*. 25 March 1937, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/5290.

official in Tehran, had brought his concerns to the attention of the foreign office. Melchers felt that since Schacht's invitation to Iran had been forwarded through the Iranian director of the National Bank, this indicated either that the Iranian side failed to recognise Schacht's status, or that there were some political reservations. Moreover, Melchers feared that the recent visit of the Afghan war minister to Iran would overshadow Schacht's visit. Melchers re-emphasised in a coded secret telegram to the foreign office that an invitation by the Iranian National Bank president could not warrant the required recognition for a visit by Schacht.⁴⁷⁰

On the same day, Ritter, from the German foreign office in Berlin, relayed to Melchers that he had created a difficult situation by recommending that Schacht's visit to Iran should be reconsidered. On the one hand, since the invitation for the visit had come from the Iranian ministry of finance, and negotiations about the organisation of it had begun, it would be embarrassing for Germany if it was cancelled. Moreover, for economic and political reasons it was crucial to maintain the appointment. On the other hand, the visit had to be of a format appropriate to reflect the status of Germany and the standing of Schacht. Ritter instructed Melchers to inform the president of the National Bank of the honour with which Schacht had been received when recently visiting Budapest, Belgrade, Sofia and Athens. The respect shown to Schacht was not only in his role as president of the German Central Bank but also as a cabinet minister. Hence, all the heads of states, Prime ministers, and cabinet ministers of the countries visited had invited Schacht to meetings. Melchers was instructed to inform the president of the National Bank

⁴⁶⁹ Article titled '*Starker Aufschwung des deutschen Handelsverkehrs mit Iran*', in *Pressedienst Hansa, Wirtschaft und Verkehr*. 25 March 1937, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/5290.

⁴⁷⁰ Melchers from German embassy in Tehran to German foreign office in Berlin. 12 November 1936, secret coded telegram. PAAA, German legation files-Iran, PKT 28/III 11 d. Volume 2, Schacht.

that in view of the excellent relations between Germany and Iran it was desired that Schacht's visit to Iran should provide similar procedures. Likewise, although Schacht felt honoured to be invited to Iran by the National Bank president, the foreign office insisted that the Iranian government should also invite him. In addition, it was expected that the Shah and Iranian Prime Minister should receive Schacht. Ritter also instructed Melchers to keep the entire matter secret from the press until a final agreement with Iran was reached.⁴⁷¹

On 16 November 1936, the German embassy in Tehran received a telegram from Kamphaevener at the German foreign office informing them that, during his visit to Turkey, Schacht had finally received an official invitation from the Iranian government. Therefore, Schacht had decided to continue his voyage via Baghdad to Tehran. He was expected to stay in Tehran, accompanied by two of the officials of the ministry of economics, from 20- 24 November 1936. The embassy had also been instructed to arrange landing permission for the passengers, crew, and Schacht's aeroplane, D-AKY.⁴⁷²

The protocol prepared by the Iranian foreign ministry for Schacht's visit arranged for him to be met on arrival at the airport in Tehran by Iran's minister of finance, Dawar, the president of the National Bank, General Amir Khosravi, and a member of the protocol department of the Iranian foreign ministry. During his stay, Schacht was also expected to meet the Iranian Prime Minister, parliament's president, foreign minister, and other high government officials. In addition, the

⁴⁷¹ Ritter at the German foreign office in Berlin to German embassy in Tehran. 12 November 1936, coded telegram. PAAA, German legation files-Iran, PKT 28/ III 11 d. Volume 2, Schacht.

⁴⁷² Kamphaevener at the German foreign office in Berlin to German embassy in Tehran. 16 November 1936, telegram. PAAA, German legation files-Iran, PKT 28/ III 11 d. Volume 2, Schacht.

Iranian minister of finance, and foreign minister, had each arranged a dinner in Schacht's honour.⁴⁷³

During negotiations with Iranian officials in preparation for Schacht's visit on 17 November 1936, Melchers' suspicion, that the Iranians had political reservations concerning the visit, became more substantiated. Although the Iranian authorities had assured Melchers that Schacht would meet the Shah, they had neither decided when and where this meeting was supposed to take place, nor did they know when the Shah was expected back in Tehran. On 18 November 1936, Melchers was informed that the Shah was not returning to Tehran from Mazanderan, but that an audience at his residence could be arranged. The Iranian officials explained that an aeroplane could fly Schacht in a few hours to Mazanderan where an airfield could be prepared at his meeting point with the Shah. Melchers was upset and explained that this was against previous arrangements. He emphasised to Ansari, director of the political department III, that Schacht's audience with the Shah was the most important topic of his visit to Iran. Moreover, it was technically impracticable to expect a heavy plane to land on a temporary airfield. Hence, a different solution had to be found.⁴⁷⁴

Melchers was incensed with Ansari when he suggested that he could arrange Schacht's transit by light military aircraft. Melchers explained that the German president of the Central Bank could not be expected to fly in an open-top aircraft over the 4000 meter high Elborz mountain range. Finally, it was agreed that at the end of his visit, Schacht should be driven by motor car to the five-hour distant town of Chalus. This would have inevitably required Schacht to stay a further day

⁴⁷³ Program for the reception of Schacht in Iran. November 1936, report. PAAA, German legation files-Iran, PKT 28/ III 11 d. Volume 2, Schacht.

in Iran. Since this was not a very practical suggestion, it was agreed in a conference between the Iranian foreign minister with the finance minister, that because of the significance of Schacht's meeting with the Shah, the dinner arranged by the National Bank president should be cancelled in favour of an audience with the Shah on Schacht's third day in Iran. According to Melchers, as a good will gesture, the Shah had advised that Schacht should be accommodated during his visit to Iran in a designated section of the palace that previously had only been used to accommodate royal personages.⁴⁷⁵

Despite the problems that had to be dealt with, Schacht did visit Tehran and went to have an audience with the Shah. In conjunction with Schacht's sojourn a German newspaper article reported that the audience he was granted by the Shah underlined the significance the Shah gave to the presence of the German minister of economy and president of the Central Bank. Schacht's visit in turn was seen not only to have reflected the commitment of the German government authorities to its relations with Iran, but also to lead to stronger economic and cultural ties between the two countries.⁴⁷⁶

⁴⁷⁴ Melchers at the German embassy in Tehran to the German foreign office in Berlin. 19 November 1936, report. PAAA, German legation files-Iran, PKT 28/ III 11 d. Volume 2, Schacht.

⁴⁷⁵ Melchers at the German embassy in Tehran to the German foreign office in Berlin. 19 November 1936, report. PAAA, German legation files-Iran, PKT 28/ III 11 d. Volume 2, Schacht.

⁴⁷⁶ Article titled '*Iran strebt vorwärts*', in *Berliner Lokal Anzeiger*. 27 November 1936, article. Bundesarchiv Potsdam, Reichslandbund, Presse Archiv, 61 Re 1/ 8153.

h. Schacht's aftermath and Nouri-Esfandiari's visit to Germany

German companies with commercial interests in Iran saw in Schacht's visit an opportunity for an increase of their exports.⁴⁷⁷ A German newspaper article had reported that German trade with Iran had been expanding since 1933 every year, even from month to month.⁴⁷⁸ A further article stated that Iran had managed to emancipate itself from foreign influence in its economic policy between 1927 and 1933. Schacht's visit to Tehran took this observation a step further, by vividly illustrating the fact that Iran was no longer the object of economic exploitation, but had grown into an equal partner with regard to its trade policy.⁴⁷⁹

In early 1937, the German authorities had been made aware that the Iranian parliament's president Hassan Nouri-Esfandiari intended a short visit to Berlin on his way back to Iran. The Iranian government had delegated him to attend the coronation ceremonies in London. Nouri's first overseas post (around 1885) had been the Iranian embassy in Berlin. Back in Iran, he had been foreign, then finance, and later education minister. During World War I he contributed to Iran's friendly policy towards Germany. Nouri also had a distinguished relationship with the Shah, who held his opinion in high regard. One of his sons had also just married a daughter of the Shah. One of Nouri's sons was a General of the Iranian military forces, the other, who had studied in Germany, was the Shah's personal physician, and the third was in charge of government protocol.

⁴⁷⁷ Report by the German 'Iran consortium'. 1937, report. PAAA, German legation files-Iran, PKT 41/VI A2. Volume 1, economy.

⁴⁷⁸ Article titled '*Deutschlands Handelsbeziehungen zu Iran*', in *Die Deutsche Volkswirtschaft*, number 31. 1937, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/5290.

⁴⁷⁹ Article titled '*Iran's "regulierte" Wirtschaft*', in *Neue Zürcher Zeitung*. 21 January 1937, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/5290.

In view of Nouri's background, ideas were circulated as how to take most advantage of his presence in Berlin in order to improve what was regarded as the outstandingly good relations between both countries. Although Nouri's visit did not have an official character it had been decided that he should be treated as a guest of the German government. Via the German ambassador in Tehran, the Iranian foreign ministry explained that by asking its president (chairman) of parliament to visit Germany, the Iranian government intended to underline its high regard for the friendly relations it maintained with Germany. Likewise, Nouri's visit was particularly to symbolise the admiration of the Shah for the leader and chancellor of Germany, Adolf Hitler. As a result it was decided at the German foreign office to recommend an audience between Hitler and Nouri.⁴⁸⁰

Amongst others, Schacht had forwarded Nouri an invitation for a breakfast meeting, via the German foreign office and Iranian embassy.⁴⁸¹ On arrival in Berlin, before meeting with Schacht, *Generaloberst* Hermann Göring had received Nouri. Göring, who had been designated by Hitler to be responsible for Germany's economy as well, was Nouri's official host. At the ceremony hall of the German Central Bank Schacht received Nouri as his guest of honour. Other guests who attended Schacht's breakfast reception included the Iranian ambassador Mohsen Rais, Ali Gharagozlou, and other officials of the Iranian embassy. On the German side, government officials from the foreign office, the ministry of economy, and the executive of the Central bank were joined by a large number of leading German industrialists and banking experts. On this occasion, both Schacht and Nouri expressed their respect and admiration for their respective heads of

⁴⁸⁰ Protocol meeting of German authorities in Berlin regarding Nouri's visit to Germany. 4 May 1937, protocol. PAAA, Department VII-Politics, R104782.

⁴⁸¹ Schacht's office to German foreign office in Berlin. 13 May 1937, letter. PAAA, Department VII-Politics, R104782.

state, as well as emphasising the good relations Germany and Iran maintained.⁴⁸² On the following day, Hitler received Nouri, at a joint meeting, accompanied by Rais.⁴⁸³

Back in Iran, Smend invited Nouri to a dinner at the German embassy. On this occasion, Nouri expressed his gratitude for the warm reception in Germany and asked Smend to re-emphasise his acknowledgement to the appropriate German authorities. Nouri told Smend that his experiences in Germany proved to him the positive development of German-Iranian relations, which had possibly never been as sympathetic before. Nouri also spoke highly of his reception by Hitler, as well as praising his hosts Göring and Schacht for their hospitality and regard. Smend was convinced that German-Iranian diplomatic relations had been significantly enhanced as a result of Nouri's experiences surrounding his visit to Germany, on which he had most likely reported in detail to the Shah.⁴⁸⁴

An economic indicator for the above observation was that, not long after Schacht's visit and before Nouri's return to Iran, for example, a large contract between the Iranian government and the German machine industry was signed. This contract included orders for the construction of two blast furnaces with a daily capacity of 150 tons, one rolling mill, one steel works factory, one coking plant, and the required power station. The contract which was worth 27 000 Reichsmark was finalised by the German companies DEMAG and Krupp. Moreover, the Iranian government had placed an order in Germany for 65

⁴⁸² Article titled '*Der iranische Parlamentspräsident bei Generaloberst Göring und Dr. Schacht*', in *Völkischer Beobachter*. 17 June 1937, article. Bundesarchiv Potsdam, Arbeitswissenschaftliches Institut, 62 DAF 3/ 35684.

⁴⁸³ Article titled '*Der Führer empfing den iranischen Parlamentspräsidenten*', in *Deutsche Allgemeine Zeitung*. 17 June 1937, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/ 5290.

⁴⁸⁴ Smend from the German embassy in Tehran to German foreign office in Berlin. 24 July 1937, report. PAAA, Department VII-Politics, R104782.

locomotives and 700 train carriages in a contract worth 20 000 Reichsmark.⁴⁸⁵ This was the first significant German supply of locomotives and railway carriages for the Trans Iranian Railway that also involved the German company Friedrich Krupp as one of the major contractors.⁴⁸⁶ A second smaller order for 20 locomotives and 200 railway carriages was later awarded to the German company Lincke-Hoffmann-Werke AG.⁴⁸⁷ Also a large cement factory, with a daily production capacity of 300 tons, was delivered and constructed by the German company Polysius Dessau. This factory had been inaugurated by the Iranian crown prince in a suburb of Tehran.⁴⁸⁸ The production of matches in Iran had risen from 56 million boxes in 1933 to 113 million boxes in 1938. During the same period production of sugar had increased from 1 200 tons to over 14 000 tons.⁴⁸⁹ In general, newspapers in Germany not only increasingly reported on the trade successes between Germany and Iran; they also reported record turnovers.⁴⁹⁰

A meeting of members of the political department of the German company I. G. Farbenindustrie together with representatives of the German ministry of economics had come to another conclusion that was positive for German-Iranian trade. Based on the research both had conducted on Germany's trade with Iran,

⁴⁸⁵ Report by Erwin Spiegel in Tehran. 23 May 1937, report. Bundesarchiv Dahlwitz-Hoppegarten, files of the IG Farbenindustrie AG, 80 IGF/ B 2857.

⁴⁸⁶ Article titled '*Iranian contract for Germany*', in *The Times*. 15 May 1937, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/ 5290.

⁴⁸⁷ Article titled '*Iran- Waggonauftrag für die deutsche Industrie*', in *Nachrichten für Außenhandel*. 19 January 1940, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/ 5291.

⁴⁸⁸ Article titled '*Einweihung eines großen iranischen Zementwerkes*', in *Berliner Börsen-Zeitung*. 20 May 1937, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/ 5290. See also article titled '*Einweihung eines großen iranischen Zementwerkes*', in *Deutscher Handelsdienst*, number 20. 19 May 1937, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/ 5290.

⁴⁸⁹ Article titled '*Fortschritte der Industrialisierung in Iran*', in *Pressedienst- Hansa*. 22 January 1940, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/ 5291.

they concluded that the import of Iranian goods to Germany for the year 1937 could be increased by about 28- 30 million Reichsmark. This assessment had been mainly based on the data made available to the German ministry of economics by other trade monitoring agencies on the readiness for increasing imports from Iran such as carpets, skins and fruits. In June 1937, Germany had imported goods worth more than four million Reichsmark from Iran. The German ministry of economy expected German exports to Iran in 1937 to reach 50- 60 million Reichsmark, leaving a positive trade balance of approximately 20 million Reichsmark for Germany.⁴⁹¹

The main conclusions that can be drawn from this chapter are threefold: Firstly, compared to the years preceding the National Bank crisis, significantly higher efforts were made by the German and Iranian authorities to improve diplomatic relations and commercial ties. Secondly, although the Lindenblatt affair had obviously caused political and economic harm to Germany, both countries overcame their problems associated with this controversy significantly faster and more effectively, in comparison with the earlier controversy surrounding Leo Mattias and the leftist newspaper campaigns against the Shah. Thirdly, as reflected in the cited German foreign political achievements, it can be deduced that the foreign office had learned from its experiences in Iran. Partly as a consequence of a changing approach on the German domestic scene, and partly because of international developments, this resulted in a visible improvement of German diplomatic relations and trade with Iran. One of the few losses Germany suffered during this period was its influence over the National Bank of Persia,

⁴⁹⁰ Article titled '*Deutschland und Iran, Rekordumsätze*', in *Bremer Nachrichten*. 15 June 1937, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/ 5290.

which, however, still remains a significant player for Germany until today. Ultimately, it has been shown when trade relations between both countries improved, political relations followed suit. Moreover, it has been proven that after World War I Germany had managed to re-establish its influence in Iran. The expansion of German influence in Iran was brought to an abrupt end by the British-Russian invasion of Iran in 1941.

⁴⁹¹ Economic policy department of IG Farben in Berlin to IG Farben director Voigt in Frankfurt. 20 July 1937, report. Bundesarchiv Dahlwitz-Hoppegarten, files of the IG Farbenindustrie AG, 80 IGF/ B 2857.

9. Summary and Conclusion

Progress of German foreign policy towards Iran during the first half of the twentieth century can be divided into three distinct phases. The first phase, which was initiated before World War I, collapsed as a consequence of the war and the Versailles Treaty, achieving little success. The second, more significant phase began around 1924, and was marked by the appointment of the German national Lindenblatt as director of the National Bank of Persia, the appointment of his compatriot Schniewind as financial advisor to the Persian government, the contracts granted to German companies and consortiums for the construction of the Trans Iranian Railway, the re-establishment of trade relations between Germany and Iran, and the wide-ranging flight concessions granted by the Iranian government to the German company Junkers. The third phase of Germany's involvement with Iran came about with the achievements that resulted from the trade agreements of 1935. This phase lasted until the British-Russian invasion of Iran in 1941, and saw Germany become Iran's leading trade partner.

The French publication *L'Economiste français* perceived the success of German economic efforts in Iran after 1935 as so overwhelming that it stated: 'If we are to learn from history we should try not to forget one painful lesson (from Germany's success in Iran). It is wrong to believe that Iran is a faraway country in which one does not need to show interest. As a result of the tremendous developments brought about by the country's monarch, Iran has not only become a significant

factor for Near-and Middle Eastern politics, but, aided by the advent of modern transportation, it has moved on to the threshold of the Mediterranean sea'.⁴⁹²

a. German policy in Iran before the outbreak of World War II

It would hardly be an exaggeration to state that German foreign policy towards Iran had come a long way during the period under investigation. Before the outbreak of World War II, from a political point of view, both countries appeared to maintain sympathetic relations based on trust. In 1938 Germany's ambassador in Tehran, Smend, highlighted two reasons for this positive development. Firstly, Germany was an agreeable partner for Iran, to whom it felt related by common history and culture. The second was Reza Shah's admiration for the work of Hitler, in whom he saw an example to follow in order to cope with the tasks he faced in Iran and its society. The emphatically friendly way with which German dignitaries, such as Schacht, were received in Iran was undeniable evidence of the good relations between the two countries. From an economic point of view, by 1938 Germany had moved in just a few years from fifth to second rank in Iran's international trade statistics. Then already, Smend was convinced that Germany could in a foreseeable time take over Russia's position as Iran's largest trade partner. Smend felt that Germany's future strategy in Iran should be to seek

⁴⁹² Article by B. Nikitine titled 'Germany's penetration into Iran', in *L'Economiste francais*, number 31. 31 July 1937. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/5290.

a peaceful, trustworthy, and goal-oriented economic policy, to further a cultural bond, to preserve friendly relations, and remain politically neutral.⁴⁹³

The start of World War II in 1939 had certain consequences for Germany with regard to Iran. Public opinion in Iran displayed a certain degree of admiration for the post 1938 course German foreign policy was taking. Moreover, almost immediately after Germany's invasion of Czechoslovakia on 15 March 1939 the Iranian foreign minister, Alam, spontaneously congratulated Smend, and remarked that at last an intolerable state of affairs had been resolved, allowing order to return to central Europe. These events had also impressed the Shah, who during a cabinet meeting had stated his admiration for Hitler reuniting Austria and Germany.⁴⁹⁴

On another occasion, Smend was congratulated and overwhelmed by Iranian dignities, including the Prime Minister, who expressed their sympathies for Germany's new political achievements. The reasons for Iran's positive embrace of events in Germany are manifold. For one, there appeared to be a genuine admiration for Nazi Germany and Hitler. Then, there was sympathy for traits implicit within National Socialist policy such as order, national honour, and *Führerprinzip*. In addition there was a natural admiration in Iranian society for large scale and ambitious military and political operations, particularly when power was regained by what was perceived as a suppressed nation through its own strength. The Iranian esteem for Germany's fast rise was all the more genuine because it was believed that it did not have a negative effect on Germany's relations with Iran. Moreover, the Iranians found satisfaction in the political

⁴⁹³ Political report on the state of affairs in Iran for German foreign office in Berlin. Compiled by Smend at the German embassy in Tehran. 22 January 1938, fifteen page report. PAAA, Department VII-Politics, R104782.

desolation inflicted upon their long hated enemies, Britain and even more so Russia. This was displayed by ridiculing the apparent disbelief of what Smend labelled as the heads of state of the most brutal imperialist countries, over recent events. However, the admiration Iran displayed for Germany was in strong contrast to the disapproving position held by the rest of the diplomatic corps in Iran, with the exception of the representatives of Japan and Italy.⁴⁹⁵

In 1939, tension had build up so high that, for example, the British embassy refused to communicate its acknowledgement to the crew of a German airliner for the brave rescue of British citizens, including guests of the British embassy, from the flames of an Iranian airliner that had crashed in a tragic accident.⁴⁹⁶

However, it is not hard to see why Reza Shah, who wanted to keep Iran free from foreign influence, felt that any involvement in Germany's War efforts could only result in harm for his country.⁴⁹⁷ On 6 September 1939, faced with a decision, he formally declared Iran's neutral standing with view to the escalating conflict.⁴⁹⁸

⁴⁹⁴ Smend form German embassy in Tehran to German foreign office in Berlin. 25 March 1939, report. PAAA, Department VII-Politics, R104782.

⁴⁹⁵ Smend form German embassy in Tehran to German foreign office in Berlin. 25 March 1939, report. PAAA, Department VII-Politics, R104782.

⁴⁹⁶ Smend form German embassy in Tehran to German foreign office in Berlin. 25 March 1939, report. PAAA, Department VII-Politics, R104782.

⁴⁹⁷ Report by a German agent based in Iran looking at Iran on the verge of World War II. October 1939, report marked confidential. Bundesarchiv, Militär Archiv Freiburg, RW 5 V. 583.

⁴⁹⁸ Article titled '*Amtliche iranische Neutralitätserklärung*', in *Deutsche Allgemeine Zeitung*. 7 September 1939, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/ 5291. See also article titled '*Amtliche Neutralitätserklärung von Iran*', in *Deutsches Nachrichtenbüro*. 6 September 1939, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/ 5291.

b. Germany's contribution to Iran's pre-war achievements

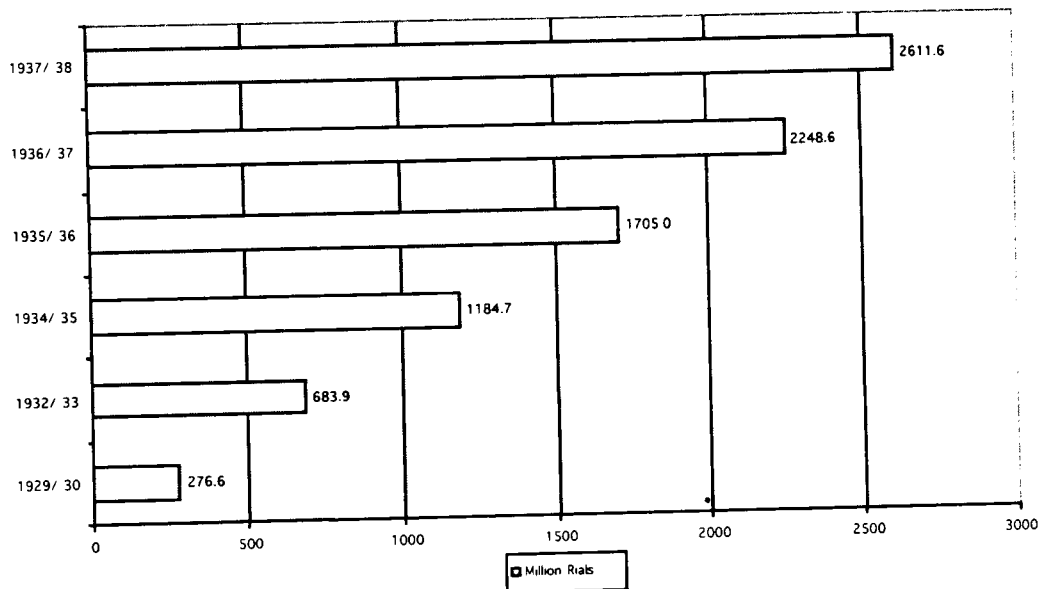
The National Bank of Persia had been established in keeping with the nationalistic element of the Shah's policies. Considering that in 1939 Iran had become the fourth largest oil producing country in the world,⁴⁹⁹ it can be concluded that the National Bank's successful development permitted a modest beginning to Iran's industrialisation, by providing the first experience of a modern economy outside the British-controlled oil sector. Key to the initial success of the bank, as has been shown, were German nationals.

Before World War I Iranian banking was in the hands of foreign powers. The gradual nationalisation of the Iranian banking system took place shortly after Reza Shah's coronation. The essential step was a law passed in May 1927, which regulated the framework for setting up a national bank for Persia. The National Bank of Persia had undergone a steady growth from its inauguration until today, when it continues to exist under the name Bank Melli Iran. Under German management, the bank had set up its headquarters in Tehran, from where it controlled its operations centrally. By 1932, its role as a leading financial institution was secured through money-printing rights and other banking privileges, which were acquired from the British controlled Imperial Bank of Persia. The starting capital of the National Bank, which had been organised as a joint-stock company with special rights, was around 20 million Rials. In July 1935 this figure had increased to 300 million Rials. The initial founding capital of the National Bank was derived from the sale of crown jewels and government estates. The bank's increase in capital had later been facilitated by the Iranian

⁴⁹⁹ Article titled 'Piping the oil from Iran's deserts to the tankers', in *The Daily Telegraph*. 27 January 1940, article. Bundesarchiv Potsdam, Deutsche Reichsbank, 25.01/5291.

government's decision to transfer its gold reserves to the Bank. At the same time, the government remained the sole shareholder of the National Bank. In addition to its day-to-day business as a financial institution, the bank was actively involved in Iran's industrialisation, and had financed major public projects. The National Bank also provided a large share of the capital needed for the development of Iranian industry, trade and transport. By the end of 1939, it held branches at 47 locations throughout Iran, and the number of its staff had risen to over 1800 employees. Moreover, by this time the National Bank was almost exclusively managed and run by Iranian nationals. Additionally, the bank's balance had grown from 276 million Rials in 1929/ 30 to over 2.6 billion Rials in 1937/ 38.⁵⁰⁰

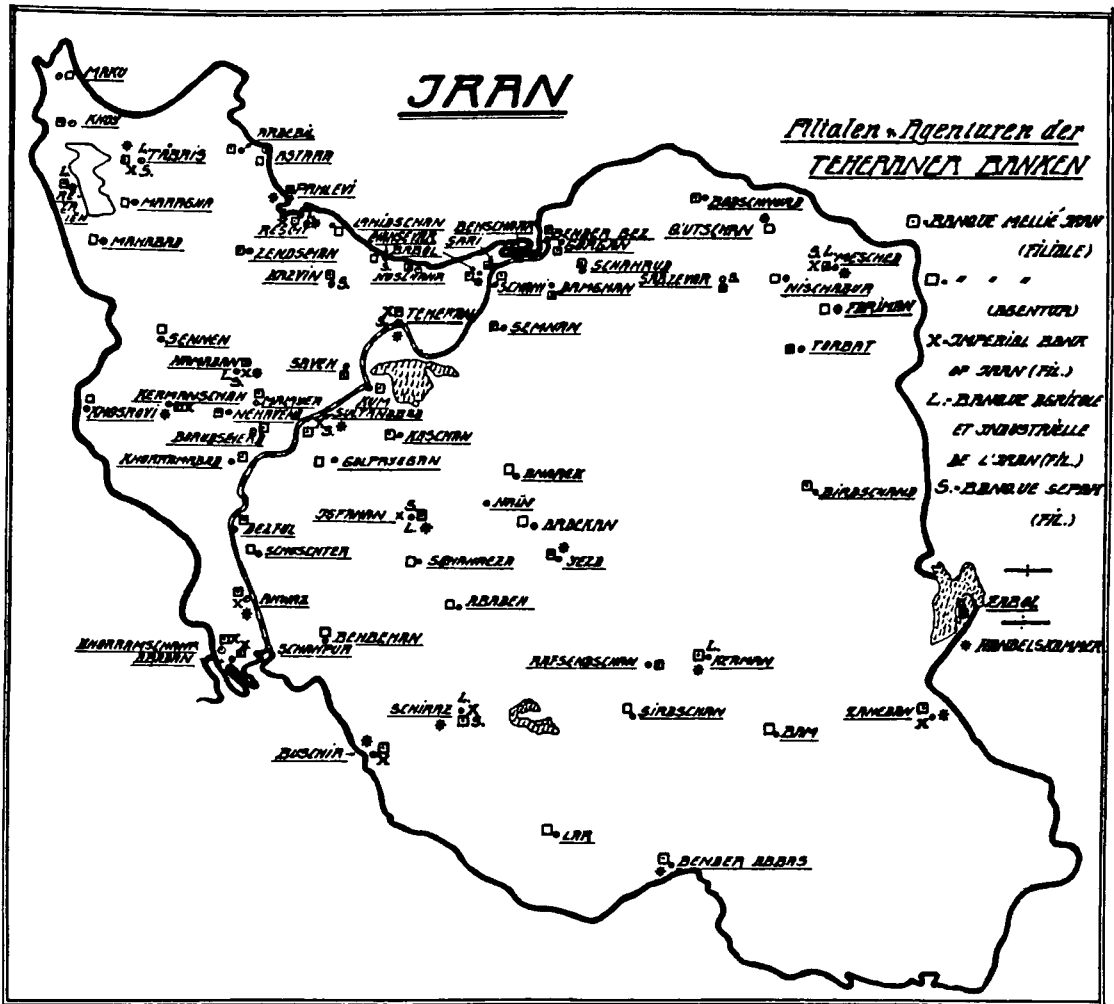
The National Bank's Balance



⁵⁰⁰ Special report on Iran. Approximately 1940/ 41, report. Bundesarchiv Dahlwitz-Hoppegarten, files of the IG Farbenindustrie AG, 80 IGF/ B 954.

The second prominent achievement for Iran during the inter-war period, was the Trans Iranian Railway project. Owing, to a great extent, to the persisting efforts of German companies, the massive construction of the Trans Iranian Railway came to its conclusion just after over ten years of construction, on 27 August 1938. The inauguration ceremony took place in the central Iranian town of Arak, the location where the final set of rails connected the southern with the northern sections of the Trans Iranian Railway. This project, truly grand for its time and for a developing country such as Iran, had resulted in a railway network measuring a total length of 1394 kilometres. For this project 224 tunnels covering an accumulated distance of 83 kilometres were constructed. Moreover, 4700 railway bridges, as well as 90 railway stations had been built. Already 52 locomotives and 8300 railway carriages were commissioned, and the arrival of more rolling-stock from Germany was expected. The total cost for the construction of the Trans Iranian Railway (1927-1938) amounted to almost 2.2 billion Rials, which was equivalent to 375 million Reichsmark.⁵⁰¹

⁵⁰¹ Report marked *Sonderdienst vertraulich*, and titled '*Iran- Zur Eröffnung der Transiranischen Bahn*'. 19 September 1939, report. Bundesarchiv Potsdam, Deutsche Reichsbank, 5290/ 25.01.



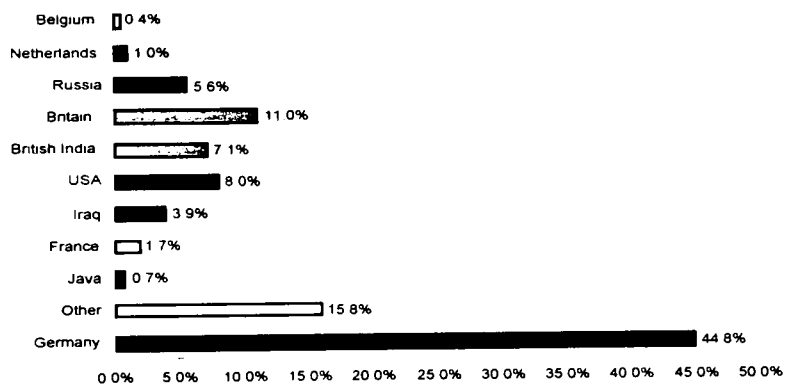
Map of Iran illustrating network of bank branches as well as the path of the Trans Iranian Railway.⁵⁰²

The prosperity of trade relations between Iran and Germany highlights the third major success for Iran. With regard to trade, Iran had succeeded for the first time in 1939/40, in the inter-war period, in exporting significantly more than it imported. In 1938/39 Iran's imports amounted to 562 million Rials and its exports to 464 million Rials, leaving a trade deficit of 98 million Rials. However, in 1939/40 Iran's imports came to 612 million Rials, whereas its exports amounted to

⁵⁰² Map of Iran (1941) illustrating branches and agencies maintained by major banks operating out of Tehran. These include branches of the National Bank of Persia, marked by squares, with a dot in the centre. Approximately 1941, map. Bundesarchiv Dahlwitz-Hoppegarten, files of the IG Farbenindustrie AG, 80 IGF/A4053.

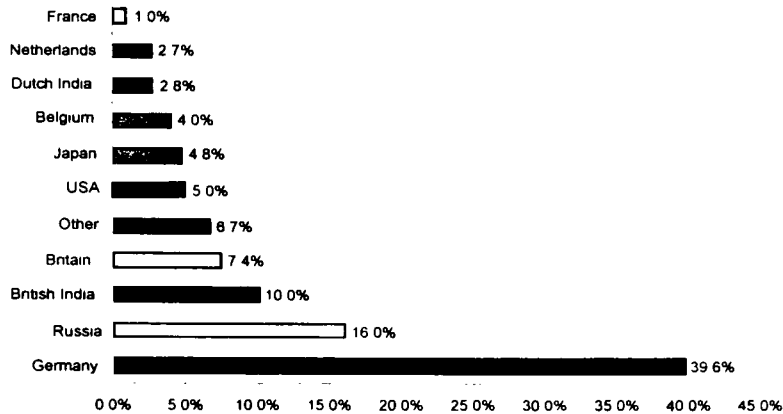
803 million Rials, leaving a trade surplus of over 191 million Rials for Iran. The biggest beneficiary of Iran's improved trade was Germany. By 1938/39 Germany had become the country with the largest volume of exports to Iran. Germany satisfied with its exports nearly 40% of Iran's total demand. Russia at this stage had slipped to second place with 16%, and Britain to third place with about 10%. Moreover, Germany had also become Iran's best trade partner with regard to imports from Iran. Germany imported almost 45% of all Iranian exports during this period, followed by Britain with about 11%.⁵⁰³

**Iran's Exports 1938/39
By Country**



⁵⁰³ Report detailing the economic and political situation in Iran, particularly with reference to German interest. Approximately 1940, report. Bundesarchiv, Militär Archiv Freiburg, Wi II A.6/8.

**Iran's Imports 1938/ 39
By Country**



Charts are based on data provided by report from Militär Archive Freiburg.⁵⁰⁴

Hence, Germany had succeeded in winning the majority of the Iranian export market. In 1939/40 Germany went on to import 50% of all Iranian exports. Compared to 1938/39 when German imports from Iran had reached nearly 206 million Rials, in 1939/40 this figure almost doubled by exceeding the amount of 393 million Rials. During the same period, Germany's exports to Iran had increased by almost a third. In 1938/39 German exports to Iran had reached the value of almost 160 million Rials. In 1939/40 German exports to Iran rose to about 214 million Rials.⁵⁰⁵

⁵⁰⁴ Report detailing the economic and political situation of Iran, particularly with respect to German interest. Approximately 1940, report. Bundesarchiv, Militär Archiv Freiburg, Wi II A.6/ 8.

⁵⁰⁵ Statistical data published by *Hamburgisches Welt-Wirtschafts-Institut E. V.*, in *Welt-Kartei der Wirtschaftspresse*. 22 February 1940, report. Bundesarchiv Potsdam, Arbeitswissenschaftliches Institut, 62 DAF 3/ 35717. This report also highlights the effect of Iran's continuous development during the period 1931-1939 by stating that 2050 companies with a total capital of over one billion Rials had been registered in Iran. During the same period 537 companies were removed

Therefore, by 1940 Germany had become by far the largest trade partner of Iran. Credit for this achievement can be given to the Iranian admiration for Germany's industrial, scientific, and organisational achievements, as well as to the sympathies of the Iranian public for German culture. However, it was the National Bank of Persia and the successful completion of the Trans Iranian Railway project that paved the ground for Germany's foreign political and commercial success in Iran.

again from the register, leaving 1513 companies with a total capital of almost 1.7 billion Rials in March 1939.

c. Conclusion

This thesis has set out to analyse German policy towards Iran during the inter-war period. Within this framework we have analysed the characteristics of the German move towards Iran, its underlying causes, and the consequences of its involvement.

Before we move to summarise the analysis, it is important to note that the thesis also reveals that individuals played a key role in the formation of German policy towards Iran (either as businessmen or civil servants as can be seen herein after).

It was the German entrepreneur Thomas Brown who in the early 1920s brought about the first vital phases in the relations of Germany and Iran. Brown's motivation was clearly a commercial one, but he also opened the door of Iran's financial market to Germany through his negotiations with Iranian authorities. An indirect outcome of Brown's efforts that aimed at establishing commercial relations between the two countries was that, when Reza Shah decided to create a national bank for Iran, his government appointed a German national, Lindenblatt, as the Bank's director. As a German managed project, the bank soon turned into a vehicle for German commercial influence in Iran. The resulting emergence of a low level of trade between Germany and Iran, and the appointment of a small number of German experts by the Iranian government, can be regarded as successes for Germany's move into Iran. This is particularly so, in the light of the dominance of British influence in the south, and Russian influence in the north, which left little scope for a third power to create its own sphere of influence.

German involvement in the National Bank represented an ideal opportunity for the implementation of German commercial objectives in Iran. There were hardly any other Iranian institutions that would have served the German national interest so well. Moreover, if Germany had not succeeded in gaining a degree of influence in Iran's financial sector, it probably could have been unable to develop influential relationships in any other area in Iran during this critical inter-war period.

However, not all was plain sailing. Britain and Russia did not just sit back and watch Germany enter their spheres of interest and threaten their status. Their political and commercial resistance, and Reza Shah's own perception of the state of affairs, started to have serious implications for German policy in Iran. As a result Germany's move into Iran was restrained. Moreover, German government authorities such as the foreign office showed little interest in what was perceived as a far away developing country dominated by the influence of the two most powerful empires in the world. In all German trade with Iran during the late 1920s was still insignificant compared to Iran's other trade partners. To make matters worse, the lack of dedication and the unprofessional stance of the German foreign office with regard to German relations with Iran caused probably the most serious political crises between both countries during the inter-war period. The indecisive way German authorities treated the communist threats against Reza Shah and Iran, originating from Iranian opposition groups based in Germany, demonstrated that German national interests in Iran were not perceived as important.

This attitude harmed Germany's status in Iran in several ways. Commercially, it brought about the loss of key contracts for German companies and a decline of trade. It also resulted in what Reza Shah perceived as his public defamation by exiled communist forces based in Germany. The impression left in Iran was that

German authorities were just standing by while a number of activists attacked Iran and its monarch. Politically, although the National Bank of Persia continued to be managed by German nationals, their powers were reduced. Moreover, Iran's industrial projects, which had been managed by the National Bank to the great benefit of German companies, suddenly were made the responsibility of other government agencies, such as the Iranian department of industry. Not even Taimurtash, Reza Shah's right hand man and an advocate of Germany, could remedy the situation. His enemies even used Germany's misfortune in Iran as part of a propaganda campaign that destroyed his career.

Germany's fate in Iran and Taimurtash's removal from power were both factors that contributed to a new era in Iranian history. This era was marked by the rise of nationalism and Reza Shah's increased desire for power. In 1933, these factors forced the renegotiation of the contract between the Iranian government and the British operated Anglo-Persian Oil Company, which generated the highest earnings of any oil company of its time. As a result, the royalties of the oil company to the Iranian government were increased, providing the country with a stronger financial standing. In Germany this period was marked by the rise of the National Socialist party, which gradually affected German foreign policy, resulting in a shift of German national interests in Iran.

At a time when Germany's political status in Iran was damaged, particularly in the eyes of Reza Shah, and trade suffered badly, German relations toward Iran experienced a further disaster which, while less critical than the communist propaganda affair preceding it, nonetheless had an impact. To the surprise of all involved, this disaster revolved around the institution that had been at the centre of German interests, the National Bank of Persia. The ill-starred escalation of a corruption case brought against the National Bank's German director, Lindenblatt,

and his vice director, Vogel, led to a chain of dramatic events that resulted in Lindenblatt's prosecution and Vogel's suicide. This time, however, the German government authorities tried harder to influence developments, though to little effect. Fortunately for them, the Iranian courts' findings, that Lindenblatt and Vogel had been the only Germans employed by the National Bank that could be held responsible for the alleged embezzlement and creative accounting, saved Germany's standing in Iran. Claims brought against other Germans employed by the National Bank were dismissed. As a result of these two crises, Germany had to react quickly, if it wanted to retain a degree of influence in Iran, and secure future growth in trade. Unlike in the 1920s, no charismatic individual, such as Thomas Brown, could single-handedly improve Germany's relations with Iran. This time the German government authorities faced the challenge: take an active stand and show initiative, or lose Iran altogether as a trade partner.

By the mid-1930s, Iran had evolved into an attractive country for international trade. Goods imported into Germany from Iran were in high demand, and vice versa. Newspaper articles in Germany underlined this trade by arguing that German and Iranian exports complemented each other in an ideal way. Realising the importance of this trade, the German government became for the first time seriously interested in Iran, taking the commercial relations as an opportunity to win back lost territory. Reza Shah's admiration for Hitler and Germany's National Socialist attacks against communism furthered Germany's cause.

By this time, the National Bank of Persia had matured into a key commercial financial institution and the central bank of the Iranian government. However, from a German point of view, a significant shift had taken place. Towards the end of the 1930s the National Bank had lost irrevocably its significance for Germany. As a firmly established Iranian institution, Iranian nationals replaced gradually

most foreign employees of the bank, including German fiscal experts. This policy was in accordance with Reza Shah's desire to minimise the control of foreigners over the bank.

At the same time, diplomacy seems to have more than compensated for the loss of influence over the bank. Germany progressively had increased its influence over trade with Iran. By 1939, trade between Germany and Iran had reached its highest level in the history of commercial relations between the two countries. These developments show that the role of the National Bank of Persia as a vehicle for German policy in Iran had become insignificant. From a German perspective, after 1933 diplomacy started to replace the role of the National Bank as the prime agent of Germany's relations with Iran. From the mid-1930s onwards, intergovernmental negotiations, rapprochement, agreements, and appraisements marked the new German foreign political approach. In order to underline its political determination to have better relations with Iran, the German government approved state visits of high government officials, sending, for example, the German minister of trade and industry and Central Bank president Schacht.

Germany's policy towards Iran had achieved its central objective by concentrating on developing commercial relations. This initially was facilitated by entrepreneurs and later executed via the National Bank of Persia. Relations were carried into their next stage of development, through diplomacy, as manifested by intergovernmental agreements. From a German perspective, this proved highly effective. Germany's foreign political success during the inter-war period resulted in an expansion of its commercial relations, which elevated Germany from a country with almost no trade relations with Iran to its largest trading partner.

After the outbreak of World War II in 1939, Iran declared its neutrality. Nevertheless, Germany maintained its unusually strong commercial relations with

Iran, and the added sympathies of the Shah for Hitler and his war efforts made the allied powers suspicious of Iran's impartiality. Moreover, the British suspected widespread and well-organised combatant activities of German nationals and agents in Iran. Hence, it feared that Germany's relations with Iran, as they stood, could sabotage possible allied operations in the region.

Even the desperate efforts of the alerted Shah in 1940, to rid himself of his pro German image by taking action against German influence in Iran, did not help. The fact that the number of German citizens in Iran was far less than the British had propagated did not make a difference either. As Churchill stated, German prestige stood high amongst Iranians.

Germany's own contribution to its destiny in Iran resulted from its invasion of Russia that forced Stalin to enter an alliance with Britain. In order to stop Germany, Russia needed supplies from Britain and the United States. The strategic thinking of the allied powers was that a strong defence-wall, 'Orient-front', should be erected from the east towards the west, which could combat Hitler's move into the region and the strategically attractive oilfields of Baku.

A crucial logistic move for this strategy was to use the Persian Gulf as the waterway to transport war shipments to the southern coasts of Iran. In a next step the Trans Iranian Railway was to be used to freight equipment across Iran to Russia. The availability of oil and the British grown infrastructure in the south of Iran was regarded as an added impetus, maximising the effectiveness of the operations. However, Reza Shah refused to allow the transport of war shipments through Iran.

When, after the Japanese attack on Pearl Harbour in 1941, the United States joined the war efforts against Germany, the pressure on the allied forces to ensure the success of their operations in Iran became even more apparent. Hence, any

German interference had to be stopped and Iran had to be completely won for the overall strategic goals of the allied front against Hitler.

In August 1941, Britain and Russia invaded Iran. On August 25th the Shah ordered his troops to resist the allied invasion, but only a few days later there was a change of cabinet, and a declaration of capitulation followed as a result. The Shah was faced with an ultimatum presented in a deal by the allied powers. He was asked to leave his country in a quest to ensure that his 21-year-old son would become his successor. On September 17th, 1941 his son Muhammad Reza became the last king of Iran. Reza Shah went into exile and died in Johannesburg in 1944.

These events not only signalled an end to Reza Shah's period but also opened the doors to the allied powers who, in absence of real authority of the new Shah, now had in actuality taken control over Iran. As a result all Iranian ties to Germany were broken off. The German embassy in Teheran was forced to close its gates in September 1941 and thereby break off all its diplomatic relations with Iran. The majority of German citizens in Iran were asked to leave the country and a number were detained. The end of Reza Shah's period therefore also became the end of German involvement in Iran for years to come.

The inescapable conclusion which emerges is that Germany's status in Iran during the late 1920s and early 1930s was almost solely based on the efforts and performance of a small number of German individuals who did not even work for, or represent formally Germany or its policies towards Iran. Hence, individuals such as Brown, Lindenblatt, Hartman, and Schniewind 'drove the German state' in Iran (using, for example, the National Bank of Persia as a tool).

These individuals, who went to Iran for their own economic gain, tried to negotiate deals which ultimately forced a German state oblivious of foreign policy to show a degree of co-operation. The German state was not prepared and had

little incentive or will to accommodate Iran in its newly evolving post war foreign political activities. Only when faced with an ultimatum, or under external and international pressure, the state took action in the form of granting loans, providing experts, or stopping leftist activities and attacks against Iran, originating in Germany.

However, when Iran became commercially more interesting for Germany, and the political climate in Germany changed because of Hitler and his National Socialist policies, German government interest became stronger and contributed more to the relations of both countries. This led to a shift of responsibility from individuals to the state, as we have seen in the case of the National Bank of Persia. This course of policy resulted in a number of state-initiated agreements with Iran and the exchange of key political figures, until its breakdown after the British Russian invasion of Iran in 1941.

The chief features of the central hypothesis of this thesis demonstrate that in practice Germany did not have a structured and consistent policy towards Iran. Instead, economic interests drove German policy. These interests were defined and implemented by the activity of certain German individuals through their involvement in Iran. Thus, although the state had provided the framework within the broad parameters of a state led policy idea; in fact individual German citizens shaped the German foreign policy toward Iran during the inter-war period.

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49.02	3848	49.02	10005
49.02	3849	49.02	10006
49.02	4081	49.02	10007
49.02	4309	49.02	10008
49.02	4366	49.02	11444
49.02	4714	49.02	11516
49.02	4718		
49.02	5449		
49.02	5450		
49.02	5453		
49.02	5675		
49.02	5676		
49.02	6646		
49.02	6647		
49.02	6649		
49.02	7039		
49.02	8678		
49.02	8679		
49.02	8680		

**15. Association Todt
(Organisation Todt)**

<u>FILE GROUP</u>	<u>NUMBER</u>
50.01	87
50.01	88

**16. Reichslandbund press archive
(Reichslandbund. Presse Archiv)**

<u>FILE GROUP</u>	<u>NUMBER</u>
61 Re 1	2755
61 Re 1	2756
61 Re 1	8149
61 Re 1	8150
61 Re 1	8151
61 Re 1	8152
61 Re 1	8153

**17. German-Iranian school
(Deutsch-Iranische Schule)**

<u>FILE GROUP</u>	<u>NUMBER</u>
61 Schu 3	2
61 Schu 3	10
61 Schu 3	11

**18. Labour research institute
(Arbeitswissenschaftliches Institut)**

<u>FILE GROUP</u>	<u>NUMBER</u>
62 DAF 3	1914
62 DAF 3	1940
62 DAF 3	35260
62 DAF 3	35653
62 DAF 3	35654
62 DAF 3	35655
62 DAF 3	35656
62 DAF 3	35657
62 DAF 3	35658
62 DAF 3	35660
62 DAF 3	35661
62 DAF 3	35662
62 DAF 3	35663
62 DAF 3	35676
62 DAF 3	35682
62 DAF 3	35684
62 DAF 3	35685
62 DAF 3	35688
62 DAF 3	35693
62 DAF 3	35696
62 DAF 3	35697
62 DAF 3	35709

<u>FILE GROUP</u>	<u>NUMBER</u>
62 DAF 3	35710
62 DAF 3	35711
62 DAF 3	35714
62 DAF 3	35715
62 DAF 3	35717
62 DAF 3	35718
62 DAF 3	35719
62 DAF 3	35721
62 DAF 3	35722
62 DAF 3	35728
62 DAF 3	35731
62 DAF 3	35732
62 DAF 3	35733
62 DAF 3	35734
62 DAF 3	35738
62 DAF 3	35739
62 DAF 3	35740
62 DAF 3	35741
62 DAF 3	35742
62 DAF 3	35743
62 DAF 3	35744
62 DAF 3	35745
62 DAF 3	35746
62 DAF 3	35747
62 DAF 3	35748
62 DAF 3	35749
62 DAF 3	35751

**19. Department Rosenberg
(Dienststellen Rosenberg)**

<u>FILE GROUP</u>	<u>NUMBER</u>
62 Di 1	175

20. Deutsche Bank

<u>FILE GROUP</u>	<u>NUMBER</u>
80 Ba 2	7961
80 Ba 2	7962
80 Ba 2	8410
80 Ba 2	8411
80 Ba 2	10168
80 Ba 2	10169
80 Ba 2	10984
80 Ba 2	21885

**21. Government lending institution
(Reichskreditgesellschaft)**

<u>FILE GROUP</u>	<u>NUMBER</u>
80 Re 2	2068
80 Re 2	2069
80 Re 2	2070
80 Re 2	2071
80 Re 2	2072
80 Re 2	2073
80 Re 2	2074
80 Re 2	2075
80 Re 2	2076
80 Re 2	2077
80 Re 2	2078
80 Re 2	2079
80 Re 2	2080
80 Re 2	2081

**22. Private papers Gustav Hilger
(Nachlaß Hilger, Gustav)**

<u>FILE GROUP</u>	<u>NUMBER</u>
90 Hi 1	12

23. IG Farbenindustrie AG

<u>FILE GROUP</u>	<u>NUMBER</u>
80 IGF	173818
80 IGF	174313

VI. BUNDESARCHIV MILITÄR ARCHIV FREIBURG

FILE NUMBER
 RHD 13 / 111 F
 RHD 13 / 111 N
 RHD 13 / 111 O
 RHD 13 / 111 R
 RHD 18 / 284
 RW 5 V. 34
 RW 5 V. 487
 RW 5 V. 583
 RW 19 3136
 RW 19 3182
 RW 19 3308
 RW 19 V. 532
 RW 19 V. 534
 Wi / II A. 6 / 1
 Wi / II A. 6 / 3
 Wi / II A. 6 / 4
 Wi / II A. 6 / 5a
 Wi / II A. 6 / 5b

FILE NUMBER
 Wi / II A. 6 / 6
 Wi / II A. 6 / 8
 Wi / II A. 6 / 11
 Wi / II A1 / 44
 Wi / VI . 244 / 1
 Wi / VI . 244 / 2
 Wi / VI . 264
 Wi / VI . 344

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