

## No. 284

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*Memorandum by the Assistant Secretary of State for Near Eastern,  
South Asian, and African Affairs (Byroade)*<sup>1</sup>

SECRET

WASHINGTON, February 11, 1953.

Subject: Proposed Treasury Action on Auditing Aramco Tax Statements

*Problem*

It has come to my attention that the Treasury Department is now auditing Aramco's 1950 tax statement. 1950 was the first year that Aramco initiated the 50-50 profit-sharing formula in the Middle East which had the effect of transferring to the Saudi Arabian Government corporation taxes paid previously to the United States Government. Two offices in Treasury are apparently interested in this problem: the legal staff and the policy staff. It is understood that from a legal point of view Aramco is within the law; from a policy point of view it is understood that Treasury is most reluctant to take the full onus of allowing this transfer of tax and will recommend to the Secretary of Treasury that he first obtain clearance from Congressional leaders.\* The question is what action, if any, is required of State at this time.

*Background*

The Saudi Arabian Government passed an income tax law in 1950 providing for a corporation tax which, when added to existing royalty payments, would give the Saudi Arabian Government and Aramco a 50-50 split of net profits. The company agreed to this tax on the grounds that taxes paid to Saudi Arabia could be deducted from their U.S. tax. Company lawyers were assured that this move was legal and could find precedents in Venezuela for this action.

The Aramco move quickly led to similar action by the other American companies operating in the Middle East. The net transfer from the U.S. Treasury is now probably in the neighborhood of two hundred million dollars a year. In order to become legally eligible for this U.S. tax credit Gulf in Kuwait went through a complete company reorganization, and Jersey and Socony in Iraq undertook incomparably complex and protracted inter-company negotiations with their French and British partners (and Gulbenkian) who in turn heavily involved the British and French Governments

<sup>1</sup> Drafted by Funkhouser and addressed to Linder, Phleger, and Mann.

\* This information on Treasury action should be closely held within State. [Footnote in the source text.]