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NSC/S PROFILE

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RECEIVED 26 MAR 85 11

TO MCFARLANE

FROM PETERSON, R

DOCDATE 21 MAR 85

KEYWORDS. INTL TRADE

IRAN

LEGISLATIVE REFERRAL

SUBJECT: STATE DRAFT RPT ON HR-720 TO IMPOSE AN EMBARGO ON TRADE BTWN IRAN &  
US

ACTION: MEMO KIMMITT TO PETERSON

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2428

**EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503  
March 21, 1985**

**SPECIAL**

**LEGISLATIVE REFERRAL MEMORANDUM**

**TO:** **Legislative Liaison Officer-**  
National Security Council  
Department of Defense  
Department of Commerce  
Office of the U.S. Trade Representative  
Department of Justice

**SUBJECT:** State draft report on H.R. 720, a bill "To impose an embargo on trade between Iran and the United States."

The Office of Management and Budget requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

A response to this request for your views is needed no later than THURSDAY, APRIL 18, 1985.

Questions should be referred to Tracey Lawler/Sue Thau ( 395-7300 ) the legislative analyst in this office.

*Ronald K. Peterson*  
**RONALD K. PETERSON FOR  
Assistant Director for  
Legislative Reference**

**Enclosures**

cc: S. Farrar  
J. Barie



United States Department of State

Washington, D.C. 20520

Dear Mr. Chairman:

I am writing to express the views of the Department of State on H.R. 720 introduced by Mr. Solomon on January 25, 1985. This bill would impose an embargo on trade between Iran and the United States and was referred jointly to the Committees on Foreign Affairs and Ways and Means.

The Administration opposes the enactment of H.R. 720 on grounds that it would not be in the interest of the United States to embargo all trade with Iran at this time. As a matter of general policy, the Administration supports free trade with non-communist nations. As a result we believe that the selective controls we now have in place with respect to Iran better serve U.S. foreign policy interests than would a total or near total embargo. Our policy of neutrality in the Iraq-Iran war seeks an early end to the fighting and a solution that will preserve the sovereignty and territorial integrity of both nations. Part of that policy is a complete ban on the sale of all items subject to munitions controls. Moreover, in light of the Iranian regime's general character and its intransigence in rejecting mediation in the war, we have undertaken a major effort to reduce the flow of arms to Iran from other sources.

In response to a cumulation of evidence, the Secretary of State in January 1984 designated Iran as a country which has repeatedly provided support for acts of international terrorism. On March 20, 1984, the Secretary of Commerce formally published new regulations in the Federal Register to embody that designation in the Export Administration Regulations. Additional restrictions were imposed on September 28, 1984. As a result of these actions, export licenses are generally denied for items controlled for national security purposes destined to military end-users or end-use, for all aircraft, and for certain other items.

We continue to review the effectiveness of existing controls and the possible need for additional actions but have concluded for now that the disadvantages of attempting to

The Honorable  
Dante B. Fascell,  
House of Representatives.

impose further controls outweigh the advantages. Unilateral controls are seldom effective, and our allies are generally unwilling to control the export of non-military items to non-communist destinations. Given our growing trade deficit, we have a special responsibility to avoid trade controls which are costly to the United States except in situations where their utility and effectiveness clearly outweigh their disadvantages. In the case of Iran, a trade embargo without multilateral support would be ineffective as it would neither prevent Iran from obtaining the goods it needs nor deny Iran markets for its exports.

In addition, the U.S. does not wish to jeopardize proceedings at the Iran/U.S. Claims Tribunal at The Hague by providing Iran with an excuse for claiming that the U.S. was imposing trade sanctions in violation of the Algiers Accords of January 1981 under which the hostages were released. American companies are depending on the Tribunal to settle several billion dollars worth of claims.

Finally, our policy must contain the basis for a normalization of relations and trade should there be a turn of events in Iran. Prior to the recent revolution, Iran was one of the best markets in the world for U.S.-origin goods and technology. Continued trade in non-military items maintains a basis for some contact with those elements of the Iranian community most likely to support such a normalization should a change occur.

The Office of Management and Budget advises that from the standpoint of the Administration's program there is no objection to the submission of this report.

Sincerely,

J. Edward Fox  
Acting Assistant Secretary  
Legislative and Intergovernmental Affairs