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## **Exempting Food and Agriculture Products from U.S. Economic Sanctions: Status and Implementation**

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CRS Report RL30806, Cuba: Issues for Congress

CRS Electronic Briefing Book on Trade, Economic Sanctions

## Exempting Food and Agriculture Products from U.S. Economic Sanctions: Status and Implementation

### SUMMARY

Falling agricultural exports and declining commodity prices led farm groups and agribusiness firms to urge the 106<sup>th</sup> Congress to pass legislation exempting foods and agricultural commodities from U.S. economic sanctions against certain countries. In completing action on the FY2001 agriculture appropriations bill, Congress codified the lifting of unilateral sanctions on commercial sales of food, agricultural commodities, medicine, and medical products to Iran, Libya, North Korea, and Sudan, and extended this policy to apply to Cuba (Title IX of H.R. 5426, as enacted by P.L. 106-387; the Trade Sanctions Reform and Export Enhancement Act of 2000, or TSRA). Other provisions place financing and licensing conditions on sales to these countries. Those that apply to Cuba, though, are permanent and more restrictive than for the other countries. TSRA also gives Congress the authority in the future to veto a President's proposal to impose a sanction on the sale of agricultural or medical products.

Codifying the food and medical sales exemption for Cuba generated controversy and delayed passage of the agriculture spending bill. Exemption proponents argued that prohibiting sales to Cuba harmed the U.S. agricultural sector, and that opening up limited trade would be one way to pursue a "constructive engagement" policy. Opponents countered an exemption would undercut a U.S. policy designed to pressure the Castro government to make political and economic reforms. Though top Cuban officials initially stated that no purchases will be made with TSRA's conditions in place, recent food stock losses due to the devastation caused by a hurricane led to some \$35 million in Cuban cash purchases of U.S. farm commodities in late 2001.

TSRA required that implementing regulations allowing commercial agricultural and medical exports to Cuba and the other countries be issued by late February 2001. Inter-agency disputes over how to interpret congressional intent, particularly with respect to Cuba, elevated this issue to the White House level. The interim rules now in effect and issued in mid-July 2001 by the Department of Commerce's Bureau of Export Administration allow for the commercial sale of eligible agricultural products to Cuba without an export license if other federal agencies do not object. Regulations issued by the Department of Treasury's Office of Foreign Assets Control agricultural product sales to Iran, Libya, and Sudan still require an export license.

Congressional opponents of Title IX's prohibitions on the private financing of agricultural sales, public financing of eligible exports, and tourist travel to Cuba have introduced several bills in the 107<sup>th</sup> Congress to repeal these provisions. The Senate farm bill (S. 1731) includes a provision (opposed by the Bush Administration) to repeal the private financing prohibition on Cuba. An amendment offered during Senate farm bill debate to place conditions on such a repeal was tabled. The Administration has signaled that while sales will be allowed under TSRA, its policy is not to change the embargo until political and economic reforms occur in Cuba. In other action, the Senate passed S. 149 which prohibits using export control authorities to restrict food exports for national security and foreign policy purposes and requires that any such exercise conform to TSRA's provisions. Also, changes enacted to TSRA (after some negotiation) as part of an anti-terrorism package (P.L. 107-56) effectively do not alter the main features of the 2000 Act.

## MOST RECENT DEVELOPMENTS

*The Senate's farm bill, passed on February 13, 2002, repeals the prohibition on the use of private financing to sell U.S. agricultural products to Cuba (Section 335 of S. 1731). With no comparable provision in the House farm bill, and Administration opposition, observers expect this proposed change to be a contentious issue during the farm bill conference.*

## BACKGROUND AND ANALYSIS

### **1999-2001 Changes in U.S. Policy Allowing Agricultural Sales to Sanctioned Countries**

The Clinton Administration on April 28, 1999, announced it would lift prohibitions on U.S. commercial sales of most agricultural commodities and food products to three countries -- Iran, Libya, and Sudan. Moreover, it indicated that it would not include these products in announcing future sanctions on other countries. The Administration's decision reflects the view that food should not be used as a foreign policy tool and officials' acknowledgment that U.S. sanctions policy has hurt the U.S. farm economy. On July 27, 1999, the U.S. Department of Treasury issued country-specific export licensing regulations to exempt commercial sales of food and medical products by U.S. companies that meet specified conditions and safeguards to Iran, Libya, and Sudan. Licenses are issued by the Treasury's Office of Foreign Assets Control (OFAC). Regulations issued June 19, 2000, to implement a White House decision announced in September 1999 now permit sales of agricultural products to North Korea without an export license. Licensed agricultural sales to Cuba under a policy announced in May 1999 were restricted only to private and non-governmental entities (but were broadened under a statutory change that went into effect in July 2001).

Since the Clinton Administration's policy went into effect, Treasury has approved licenses that have resulted in U.S. sales of corn to Iran, durum wheat to Libya, and hard red winter wheat to Sudan. Also, President Clinton, in issuing executive orders in 1999 to impose U.S. economic sanctions on Serbia and the Taliban in Afghanistan, specifically exempted commercial sales of food and medical products from prohibitions imposed on all U.S. exports to these destinations.

The Trade Sanctions Reform and Export Enhancement Act of 2000 (Title IX of H.R. 5426, as enacted by P.L. 106-387 on October 28, 2000; referred to below as TSRA) codified the lifting of U.S. sanctions on commercial sales of food, agricultural commodities, and medical products to Iran, Libya, North Korea, and Sudan, and extended this policy to apply to Cuba. Such sales are subject to export licensing procedures laid out in regulations. In a significant policy move, this Act also gives Congress veto power over a President's proposal to impose a unilateral agricultural or medical sanction in the future. Separately, P.L. 107-56 (enacted October 26, 2001) explicitly made Taliban-controlled areas of Afghanistan subject to TSRA's export licensing requirements, and added other clarifications to the law.

During the 2000 Presidential campaign, George W. Bush stated that food and medical exports should be exempt from unilateral economic sanctions. In one response published in *Farm Journal*, he indicated that “if sanctions are used, they should be directed at the offending government, not at innocent populations.” A Bush spokesman on October 18, 2000, following passage of the agriculture spending bill, stated that his candidate opposed “changing the sanctions against Cuba until Fidel Castro or the Cuban government allow free elections, free speech and freedom for political prisoners.” This position has been reaffirmed in subsequent statements made by President Bush and by top Administration officials in appearances before congressional committees.

## **Debate on Agricultural and Food Exports in U.S. Economic Sanctions Policy**

Farm organizations, agricultural commodity associations, and agribusiness firms have favored changing U.S. policy to exempt export sales of agricultural commodities, food products, and agricultural inputs from the broad economic sanctions currently imposed on targeted countries. They argued that prohibitions only hurt U.S. farmers and business, undermine this country's reputation as a “reliable supplier,” and do not change targeted countries' behavior. In recent years, these groups joined with firms in the pharmaceutical and manufacturing sectors to call for a comprehensive review of the economic impact of these sanctions and for limits on the executive branch's use of sanctions to restrict trade.

Opposition to exempting sales of agricultural commodities and food products from U.S. sanctions policy has been somewhat more diffuse. Opponents argued that current law gives the President sufficient flexibility to permit food to be shipped for humanitarian reasons, and that U.S. foodstuffs, if sold, could be misused by foreign governments or not made available to those in need. Some objected to the loosening of trade restrictions with certain countries, such as Cuba. Coming largely from the foreign policy and defense community, they viewed sanctions as a “legitimate and effective” policy tool, and drew little distinction between prohibiting sales of food and prohibiting exports of all other products.

## **Provisions Enacted to Exempt Food and Medical Products from U.S. Economic Sanctions**

**Overview of TSRA.** The most significant policy change made by the Trade Sanctions Reform and Export Enhancement Act of 2000 exempts commercial sales of agricultural and medical products to Cuba from the longstanding U.S. trade embargo on that country. At the same time, provisions make permanent a prohibition on Cuba's access to U.S. private and other public financing to purchase exempted products. Though press coverage suggested that the debate was solely over a Cuba-specific measure, this Act codified an exemption for sales of agricultural and medical products in the conduct of U.S. sanctions policy with respect to a number of countries and the terms under which this exemption operates. It further codified Clinton Administration policy (based on law) that prohibited making available U.S. government credits, credit guarantees, and other financial assistance to facilitate agricultural and medical product sales to certain sanctioned countries. Also, TSRA made changes to the food and medical products exemption-from-sanctions policy exercised administratively by the

Executive Branch since mid-1999. This Act (1) broadens the exemption to allow sales of non-food agricultural commodities and fertilizers, and (2) streamlines the process U.S. exporters follow to obtain licenses to sell exempted products to sanctioned countries.

The enacted exemption does not apply to Iraq, which is subject to a multilateral sanctions regime to which the United States subscribes and which the United Nations implements. Other provisions in the new law require that in the future the President secure congressional approval before he can impose for foreign policy or national security reasons a restriction or prohibition on the sale of agricultural and medical products, and limit the duration of any such approved sanction to not more than two years unless Congress approves an extension.

**Status of Implementation.** TSRA provisions with respect to countries currently subject to U.S. unilateral sanctions took effect on February 25, 2001. However, interagency differences between the Department of Commerce's Bureau of Export Administration (BXA) and Treasury's OFAC over how to interpret these provisions were not resolved until these were elevated for consideration and resolution by the White House's National Security Council. Both agencies issued their interim rules to reflect TSRA's statutory changes on July 12, 2001; these took effect on July 26. Public comments were accepted through September 10, and will be considered in any final regulations that may be issued.

**Extension of Food and Medical Exemption to Cuba.** TSRA allows licensed commercial sales of agricultural and medical products to Cuba. This policy change reflects the new law's requirement that the President "terminate any unilateral agricultural sanction or unilateral medical sanction" 120 days after enactment. This provision effectively supersedes statutory provisions in the Cuban Liberty and Democratic Solidarity Act of 1996 (P.L. 104-114). That law codified the-then regulatory prohibitions on all U.S. export/import and other transactions under the comprehensive U.S. embargo imposed on Cuba beginning in the early 1960s. Under this embargo, commercial sales of U.S.-origin agricultural products (and medical products at times) to Cuba generally were prohibited. Separately, the Cuban Democracy Act of 1992 allowed some commercial sales of U.S. medical products to Cuba, but under tight conditions.

Though the Clinton Administration announced sanctions policy changes in 1999 and in 2000 to allow sales of agricultural and medical products to Iran, Libya, Sudan, and North Korea, it did not have legal authority to do the same with respect to Cuba. This explains why most of the congressional debate leading up to passage of the new law revolved around whether this same exemption should be statutorily extended to apply also to Cuba. As House debate and a compromise unfolded in early summer 2000, those opposed to this opening in trade with Cuba succeeded in adding a number of Cuba-specific provisions.

Under TSRA, agricultural and medical sales to Cuba will be subject to various conditions and restrictions that are similar to those already in effect on similar product sales to the other sanctioned countries. U.S. exporters will be subject to an export licensing process before any product can be shipped. Further, a permanent prohibition is in place against the use of any U.S. government export program or financing provided by U.S. private banks or state and local governments to facilitate licensed sales.

***Debate on Proposed Regulations Governing Sales to Cuba.*** Members of the House who led the drive to exempt food and medical products from sanctions asserted that the draft regulations proposed by BXA and OFAC in early 2001 did not fully repeal the agricultural and medical sanctions in place with respect to Cuba. They challenged the Bush Administration's reported decision to retain restrictions on the sale of medicine to Cuba, arguing it would be contrary to their understanding of Section 903 of TSRA, which requires the President to terminate all medical product sanctions. In a letter to Treasury, these Members of Congress "strongly recommend[ed] that sales of medicine be permitted under the [Act's] liberalized framework" and emphasized the need to accommodate transactions related to permitted exports in the final regulations. The latter refers to their request that the new regulations include a waiver of the current legal restriction that prohibits any ship that docks in a Cuban port from entering a U.S. port for 6 months. Opponents of sales to Cuba, though, urged Administration officials to take a restrictive approach towards Cuba in finalizing the regulations.

***Cuba-Related Regulations Issued.*** BXA's interim rules continue pre-2001 policy that requires medical product exports to Cuba be licensed, establish an expedited process for handling agricultural product sales to Cuba, and waive the restriction on the direct shipment of eligible products now permitted to be sold to Cuba.

***Codification of Food/Medical Exemption.*** TSRA enacts as U.S. policy the principle that commercial sales of food, other agricultural products, medicine, and other medical products shall not be used as a tool to conduct foreign policy or to address national security objectives (see **Definition of Products Covered by Exemption**). This law stipulates that this principle apply to all countries now subject to U.S. unilateral sanctions; and require that a President in the future justify to Congress why sales of these products to a sanctioned country or foreign entity should be limited, and obtain congressional approval before taking such action. Limits on agricultural sales are defined to be "any prohibition, restriction, or condition on carrying out...any commercial export sale of agricultural commodities" or on using any USDA program authorized under 4 specified statutes or any U.S. government export financing ("including credits or credit guarantees") to facilitate such sales. For medical product sales, such limits are defined to be "any prohibition, restriction, or condition on exports of, or the provision of assistance consisting of, medicine or a medical device."

In immediate and practical terms, TSRA: (1) codified earlier Clinton Administration decisions to allow agricultural and medical product sales to four countries (Iran, Libya, North Korea, and Sudan) and (2) amended the laws and related regulations authorizing the U.S. embargo on Cuba to allow commercial sales of agricultural and medical products.

***Exceptions to Exemption.*** TSRA provides four exceptions to this general principle. These are when the United States acts against a foreign country or entity to impose a sanction that includes these products pursuant to: (1) its involvement in a multilateral sanctions regime or a mandatory decision of the United Nations Security Council; (2) a declaration of war, or specific statutory authorization for the use, or the imminent or actual involvement in hostilities, of U.S. armed forces; and (3) its export control to prevent potential military use under the Arms Export Control Act, the Export Administration Act, or other authority. President Bush tapped this exception authority in issuing Executive Order 13224 (September 23, 2001) to prohibit transactions with designated terrorists and their supporters. Section 4 states the determination that TSRA shall not affect the imposition or continuation of any

unilateral agricultural or medical sanction on any individual or entity “determined to be subject to this order because imminent involvement of [U.S.] Armed Forces ... in hostilities is clearly indicated by the circumstances.”

**Export Licensing Requirement.** Under TSRA’s exemption, exports of agricultural and medical products to governments and other entities in sanctioned countries are allowed only under an approved export license. Section 906(a)(1) requires that this export licensing requirement apply to sales to those countries that the Secretary of State (exercising authority under three cited statutes) has determined “have repeatedly provided support for acts of international terrorism.” In practice, this means that sales of eligible products to governments of countries currently so designated (Cuba, Iran, Libya, and Sudan), or to any other entity in each of these countries, must be licensed before any shipment can be made. Though the Secretary of State has determined that the governments of North Korea and Syria also are sponsors of international terrorism, Section 906(a)(2) explicitly states that the license requirement does not apply to sales to these two countries. The Secretary has discretion to drop this licensing requirement for Iran, Libya, and Sudan if the determination is made that its government no longer supports international terrorism.<sup>1</sup> No such discretion is permitted with respect to Cuba, meaning that this licensing requirement is made permanent for eligible sales to that country.

Relevant provisions in the Act seek to streamline and simplify the type of license an exporter must obtain to sell permitted products to sanctioned countries. These address concerns expressed by U.S. agricultural exporters that the Treasury regulations governing the licensing of agricultural sales to Iran, Libya, and Sudan have been cumbersome and time consuming. Differences between the pre-2001 licensing rules and the relevant enacted provisions that will modify these rules are described below.

**Previous Licensing Rules.** For countries covered by the Clinton Administration’s 1999 food and medical exemption policy (**Iran, Libya and Sudan**), the Department of Treasury’s OFAC issued two types of export licenses - **general** and **specific**. The type required, and the relevant conditions and procedures that apply to each, depended on the nature of the product the exporter wanted to sell, the end user of the proposed sale, the details of the terms of a sales contract, the date of contract performance, and on how the sale would be paid for (see **Payment and Financing Terms of Exempted Sales** for important related conditions). A **general license** authorizes certain transactions without the need for an exporter to file an application providing all the details of each individual transaction. A **specific license** is issued on a case-by-case basis to an individual or company allowing an activity or transaction to take place.

OFAC’s food exemption regulations set up two different procedures for obtaining licenses, depending on the product to be sold. The conditions that an exporter must meet varied according to which procedure is followed. An expedited licensing process applied to prospective sales of specified *bulk agricultural commodities*. A “specific license” authorized an exporter to enter into “executory contracts” (i.e., respond to requests for bids, enter into binding contracts, and perform against contract terms), and covered transactions over a

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<sup>1</sup> In practice, the State Department under these statutes has never changed, or reversed, a “sponsor of international terrorism” determination made with respect to a foreign government.



specified time period. Certain conditions had to be met to obtain this license. For sales of all other *food products, medicines and medical equipment*, OFAC used a two-step licensing procedure to review each contract on a case-by-case basis. First, an exporter had to obtain a “general license” to enter into an executory contract that made performance contingent upon prior approval by OFAC, disclose all parties with an interest in the sale, and lay out all terms of the sale. Second, the exporter had to apply for a “specific license” permitting performance of the executory contract before the sale can be completed. OFAC issued these regulations under the authority of the Export Administration Act of 1979 (as extended) that requires a “validated license” to export any good to a country determined to be a sponsor of international terrorism.

For **Cuba**, Commerce’s BXA administers different licensing rules applicable to shipments of eligible food and agricultural commodities, farm inputs, and medical products. Though various statutes and regulations prohibit most exports of U.S. origin to Cuba, there are some exceptions. Three exceptions until July 26, 2001 allow for the donation and sale of food and agricultural products only to individuals, eligible non-governmental entities, and private businesses. First, regulations allow U.S. individuals to ship gift parcels of food, seeds, veterinary medicines and supplies, among other specified items, to individuals in Cuba without a license. Eligible U.S. charitable organizations with an established record in delivering humanitarian donations may also export food without license to non-government entities in Cuba. Second, BXA regulations require a **specific** export license to ship donated food (among five other permitted categories) for humanitarian purposes to eligible beneficiaries in Cuba. Third, President Clinton announced on January 5, 1999, that U.S. policy will now allow “the sale of food and agricultural inputs to independent non-governmental entities, including religious groups and Cuba's emerging private sector.” BXA's final rule issued on May 13, 1999, authorizes **specific** export licenses for each sale of permitted products to these recipients in Cuba and spells the procedures permitted to transport such exports. Regulations specifically prohibit financing for such sales. The underlying rationale for these limited exceptions as set out in statute or regulation is to ensure that the Cuban government, operating through its import entities, does not receive any financial benefit from agricultural or medical products that it imports directly from the United States or from a U.S. firm operating in a third country. (See below for brief summary of the fourth exception added by TSRA).

**TSRA’s Changes to Licensing Rules.** Section 906(a) of TSRA allows sales of exempted agricultural and medical products to sanctioned countries on terms that are less restrictive than under previous policy (see above). The law stipulates that such exports “shall only be made pursuant to one-year licenses ... for contracts entered into during the one-year period of the license and shipped within the 12-month period beginning on the date of the signing of the contract” and that “such one-year licenses shall be no more restrictive than license exceptions administered by the Department of Commerce or general licenses administered by the Department of Treasury.” The wording’s intent appears to require BXA and OFAC to consider license applications on a streamlined and less conditioned basis rather than on the present case-by-case and highly regulated basis. In other words, the aim is to move away from a complex and time consuming process that may require an exporter to walk through a multiple step process to seek approval for the several transactions involved in completing one sale. The new law removes executive branch discretion in determining the time period that applies to transactions covered by an export license, by placing a defined time parameter on the period during which an approved license covers eligible product

transactions. One related provision is intended to ensure that other licensing conditions and procedures cover multiple types of transactions (e.g., an exporter submits one application providing the information required for all of the sales transactions covered by a license). Another requires that regulations must ensure procedures that will deny licenses for exports to any entity, or “end user,” within an affected country that promotes international terrorism.

***Debate over Proposed Licensing Regulations.*** BXA and OFAC had in early 2001 drafted licensing rules to implement the new law’s exemption. These, reportedly, differed in some key respects. BXA proposed for the countries under its jurisdiction (Cuba, North Korea, and Syria) an “arrangement” to allow companies during a one-year period to export eligible products without the need to secure an individual license for each shipment. BXA reportedly would grant a “license exception” if a company agrees to monitor sales of eligible products using a prescribed set of parameters. Under this exception, sales would still be subject to a government audit. OFAC proposed for all affected countries (Cuba, Iran, Libya, North Korea, Sudan, and Syria) a case-by-case licensing system that includes end use verification. Its proposal was similar to rules already in effect for Iran, Libya, and Sudan. This two-step licensing process would involve first approving a license to allow an exporter to enter into negotiations to make sales, and then issuing another license to cover actual shipments. The reported differences in these draft regulations reflected conflicting views on how to interpret TSRA’s provisions as well as language that some observers suggested was unclear and contradictory. As these differences became known during February 2001, Members of Congress and key interest groups weighed in with their views.

***Regulations Published.*** BXA’s rule allows for the sale of eligible agricultural products to Cuba without an export license (subject, though, to a review of a written contract) if other federal agencies do not object within 11 days. In other words, BXA will administer a licensing exception with respect to only those products that are covered by the regulation’s definitions of agricultural and medical products. OFAC’s rule requires an exporter to obtain a one-year export license for sales of agricultural and medical sales to Iran, Libya and Sudan. If a reviewing agency objects within 11 days, the license application is denied; if a “concern” is raised, OFAC has 30 more days to review the license request. Some agricultural exporters have since expressed concern that the requirement to have OFAC check each time that the end user (e.g., buyer) in the latter three countries is not involved in promoting international terrorism slows down the licensing process. They have urged that OFAC change its rules to reflect the more flexible licensing system implemented under Clinton’s 1999 executive order.

***Payment and Financing Terms of Exempted Sales.*** U.S. policy seeks to ensure that sanctioned countries do not receive any financial benefit from permitted, or licensed, transactions. It also prohibits such countries from accessing bank accounts and other assets that their governments, or organizations or firms in these countries, hold in the United States. The new law does not change current policy, meaning that U.S. banks cannot offer trade financing to facilitate export sales of exempted products to such countries. With respect to Cuba, TSRA codifies two of the three types of financial transactions that OFAC regulations permit to facilitate licensed food and medical product sales to Iran, Libya, and Sudan. Other provisions prohibit U.S. government support of such sales to all sanctioned countries (see **Prohibition on U.S. Government Assistance for Export Sales**).

**Current Prohibition and Restrictions.** OFAC regulations specifically prohibit U.S. banks from extending financing to countries subject to U.S. unilateral economic sanctions. This policy is reflected in the current payment and financing rules that apply to licensed sales of agricultural and medical products to Iran, Libya, and Sudan under Clinton Administration policy, and to Cuba under embargo regulations. With respect to the first three countries, OFAC regulations allow only for payment of cash in advance to be made to the U.S. seller for a sanctioned country's purchase of exempted products. The two permitted trade financing, or credit, terms are (1) sales on open account<sup>2</sup> with certain limitations, and (2) financing by third country banks that are neither an overseas office of a U.S. bank nor entities of the governments of these three countries.<sup>3</sup> U.S. banks are permitted to advise or confirm letters of credit<sup>4</sup> issued by third country banks, but are prohibited from providing any trade financing. An exporter must obtain a general license from OFAC for each of these payment or credit terms. OFAC also will consider an application from U.S. banks for a specific license to participate in financing sales on a case-by-case basis, where such financing arrangements would not undermine overall compliance with U.S. sanctions.

**Prohibition on U.S. Financing of Agricultural Sales to Cuba.** Section 908(b) of TSRA prohibits the financing of agricultural sales "to Cuba or any person in Cuba" by U.S. banks, any state or local government, the federal government, or any other U.S. private person or entity. This prohibition effectively codifies a provision in the Cuban embargo regulations (31 CFR 515.533(f)) that does not allow trade financing for the commercial sale of food or agricultural commodities to non-governmental entities in Cuba that BXA is authorized to license under a 1999 policy change. TSRA language stipulates that licensed sales can occur only on a cash-in-advance basis, or if financed by a third country bank. In codifying this financing prohibition, the Executive Branch no longer has discretion to revise the financing rules should it determine the nature of the U.S.-Cuban relationship is changing.

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<sup>2</sup> Sales on open account refers to a transaction in which goods are released to a buyer prior to payment, or a promise of payment. Because the exporter bears all the risk of non-payment by the buyer, this type of transaction requires a high level of established trust between both parties. An exporter, however, may view sales on these terms as providing entry to a potential market that outweighs such risk. Such terms allow a buyer to delay payment until the imported products have been examined.

<sup>3</sup> An example of third country financing would be a French bank providing trade finance for a U.S. exporter's sale of wheat to Iran. This bank must not be an affiliate of a U.S. bank nor of any Iranian state financial institution.

<sup>4</sup> A *letter of credit* (L/C) is used when the importer/buyer's ability to pay is uncertain, or when the exporter/seller needs it to obtain financing. A L/C gives the buyer the financial backing of an issuing bank, which makes payment within a specified time period to the seller via the seller's bank upon presentation of certain documents (e.g., those that reflect the carrying out of a sales contract's terms). To the seller, a L/C substitutes a bank's credit for that of the buyer, provides assured prompt payment, and protects against cancellation of the underlying sales contract. To the buyer, a L/C provides reasonable assurance that proper shipment is made prior to payment. The buyer also may obtain a lower price for the imported product due to the seller being exposed to a lower risk. In this case, an *advising bank* (a U.S. bank) would notify the availability of the third country's L/C to the U.S. exporter. This bank is responsible only for authenticating and forwarding the L/C, but makes no commitment to pay unless it agrees to act as a confirming bank. A *confirming bank* (a U.S. bank) adds its commitment to pay for compliant documents of, for example, the third country bank that issues the L/C for the Iranian importer.

In practical terms, this financing policy treats Cuba no different than other sanctioned countries under pre-2001 regulations with respect to licensed sales.

**Prohibition on U.S. Private Financing of Licensed Exports to Other Countries.** Though the issue of prohibiting any U.S. private financing of agricultural exports to Cuba received much attention during the legislative debate, none of TSRA's provisions require any change in OFAC regulations that prohibit U.S. private financing of agricultural and medical product sales to Iran, Libya and Sudan. With respect to these three countries, OFAC will continue to implement its current policy prohibiting U.S. private financing of licensed sales. Though some thought that TSRA would allow these three countries to take advantage of U.S. private financing despite the statutory prohibition imposed on Cuba, no provision in the Act explicitly addressed this issue in a way that would require a change to be made to existing regulations. Members supportive of the financing exemption argued that since Congress did not place in the law any restrictions on commercial financing for these three countries, new administrative regulations should not include restrictions that run counter to the congressional intent to eliminate sanctions on those tools (e.g., credit) that can facilitate eligible commercial sales. OFAC's reported view was that since the thrust of U.S. policy is to restrict currency flows to sanctioned countries, it would be burdensome to set up a mechanism to allow for the financing of agricultural and medical product sales, and thus better not to permit it.

**Prohibition on U.S. Government Assistance for Export Sales.** Section 908(a) of TSRA prohibits making available any U.S. government assistance (including foreign aid, credit or guarantees, and export assistance) "for exports to Cuba or for commercial exports to Iran, Libya, North Korea, or Sudan." Wording grants the President authority to waive this prohibition for humanitarian reasons, or if he determines it is in the national interest to do so with respect to Iran, Libya, North Korea, and Sudan. This waiver authority does not extend to Cuba. Statutory wording further differentiates among the 5 above-cited countries by applying this prohibition on all exports (and not just commercial exports) to Cuba. Clarifying language also stipulates that this U.S. government assistance prohibition does not "alter, modify, or otherwise affect" certain provisions of the Cuban Liberty and Democratic Solidarity Act of 1996 that authorize the President "to furnish assistance and provide other support for individuals and independent nongovernmental organizations to support democracy-building efforts for Cuba" and that require the President to "take all necessary steps to ensure that no funds or other assistance is provided to the Cuban Government."

In the regulations issued, the Bush Administration chose not to exercise Presidential waiver authority on this issue. Although some Members of Congress since mid-1999 have urged that credit guarantees be made available to facilitate agricultural sales to Iran, U.S. policy (reaffirmed by TSRA) is not to extend any government assistance in support of permitted commercial sales to a sanctioned country listed as a sponsor of international terrorism. This position is primarily based on the statutory prohibition found in Section 620A of the Foreign Assistance Act of 1961 (22 U.S.C. 2371), which TSRA affirms.

**Definition of Products Covered by Exemption.** Compared to OFAC's 1999 policy, TSRA broadens the types of *agricultural products* covered by the enacted exemption (Sections 775 and 902(1)). Such products are defined to include "any agricultural commodity, food, feed, fiber, or livestock," and any derived product. Livestock is defined to include "cattle, sheep, goats, swine, poultry (including egg-producing poultry), equine

animals used for food or in the production of food, fish used for food, ... other animals designated” by the Secretary of Agriculture, and insects. Conferees on October 5, 2000, accepted an amendment that added “fertilizer” and “organic fertilizer” to the definition of an agricultural commodity. Exports of these inputs are allowed, unless subject to export control under other specified statutes. Section 902(4) and (5) of the new law defines *medicine* and *medical devices* with reference to the same terms used in statutes administered by the Food and Drug Administration.

Treasury regulations followed to implement the Clinton Administration’s 1999 policy governing sales to Iran, Libya, and Sudan listed the bulk agricultural commodities and some food products eligible to be licensed. OFAC’s list encompassed most of the products covered by the 2000-enacted definition, but did not allow for sales of non-food commodities like cotton (a fiber), tobacco, and wood products. Treasury’s stated rationale for excluding these non-food commodities was that they could be used for military purposes. OFAC’s regulations did not detail the other food products nor specify any medical product that could be sold, and thus required an exporter to apply for a license to ascertain whether a product could be sold. Concern about the use of fertilizer and agri-chemicals for military purposes was reflected also in OFAC regulations, which did not allow sales of these items (including insecticides and pesticides) as agricultural products to sanctioned countries.

**Definitions in TSRA Regulations.** Both BXA and OFAC agreed upon common definitions for agricultural and medical products in implementing their respective new export licensing exceptions and requirements. Based on the statutory language, the rules spell out that agricultural commodities include food commodities, feed, fish, shellfish and fish products; beer, wine, and spirits; soft drinks; livestock; fiber, including cotton, wool, and other fibers; tobacco and tobacco products; wood and wood products, including lumber and utility poles; seeds for food; reproductive materials such as fertilized eggs, embryos and semen; vitamins and minerals; food additives and supplements; and bottled drinking water. This definition also includes fertilizers and organic fertilizers, but excludes furniture made from wood; clothing manufactured from plant or animal materials; agricultural equipment (whether hand tools or motorized equipment); pesticides, insecticides, or herbicides; and cosmetics (unless derived entirely from plant materials). Both agencies require sales of 3 products to meet stringent export control rules: fertilizer, western red cedar, and live horses.

**Congressional Role in Future Sanctions on Exempted Products.** TSRA, in effect, gives Congress veto power over a President’s proposal to impose a unilateral agricultural or medical sanction in the future. Section 903(a) requires a President to first secure congressional approval before he can restrict or prohibit the sale of agricultural and medical products on a targeted country for foreign policy or national security reasons. The President must report to Congress not later than 60 days *before* he plans to impose a sanction. This report must describe the proposed sanction and the activities by the foreign country or entity that justify the sanction. Before a sanction can take effect, two procedural steps must occur. First, a Member of Congress must introduce a joint resolution with the required wording within 10 session days after Congress receives the President’s report. Second, Congress must pass a joint resolution stating its approval of the President’s report. If both steps occur, the President may proceed. However, if these two actions do not occur within the 60 day period, the President cannot proceed with the planned sanction. This requirement and the process to be followed appears to remove any authority that the President might exercise under other statutory authorities to set sanctions policy on the sale of U.S.

agricultural commodities and medical products, *unless* Congress first allows him to do so, and does so within a specified time period.

The Presidential reporting requirement appears also to apply to an Executive Branch decision in the future to no longer allow a targeted country to take advantage of any U.S. government export financing (credit or credit guarantees) program or certain USDA programs to purchase or receive U.S. agricultural commodities. These include: the P.L. 480 (Title I - concessional credits, Title II - food aid, and Title III - food for development) programs, the Section 416 surplus commodity overseas donation program, the export credit guarantee (GSM-102 and GSM-103) programs, the direct export credit program, the Export Enhancement Program, and the Dairy Export Incentive Program. The new law's inclusion of restrictions on the proposed, or continued, use of any of these programs in defining a unilateral "agricultural sanction" appears to be intended to prevent a repeat of a situation that occurred in 1998, when the Clinton Administration interpreted the nuclear nonproliferation sanctions provisions in the Arms Export Control Act to suspend the availability of GSM-103 credit guarantees to Pakistan, effectively denying that country access to private financing in order to purchase U.S. wheat. Congress subsequently passed P.L. 105-194 to overturn this interpretation. For background, see CRS Report 98-770 *U.S. Agricultural Exports and the Nuclear Nonproliferation Sanctions on India and Pakistan*.

Section 904 specifies that the requirement for the President to report to Congress on a proposed sanction does not apply when the United States is at war or involved militarily against a target country, when the sanctioned product is controlled under specified export control laws or could be used to facilitate the development or production of a chemical, biological, or nuclear weapon, or when it is imposed as part of a multilateral sanctions regime or a mandatory decision of the United Nations Security Council.

Section 905 provides that any unilateral agricultural or medical sanction approved by Congress (described above) automatically ends not later than 2 years after it goes into effect. The President may request that Congress extend the sanction for another 2 years. This process can be repeated as many times as Congress enacts a joint resolution approving the President's request for continuing the sanction. These provisions dealing with future sanctions took effect upon enactment (October 28, 2000).

## **Sales to Cuba under TSRA's Policy**

While sales to Iran, Libya, and Sudan under the Clinton Administration's 1999 exemption policy have been small relative to their total agricultural imports, U.S. farmers, commodity groups, and agribusiness eye Cuba as a promising market. Calling for a broadening of U.S. policy to also exempt food from sanctions in Cuba, they argued that U.S. agriculture has lost out to foreign competitors in making sales to a sizable, nearby market.

Cuban agricultural imports averaged almost \$700 million annually in the 1996-1998 period. Leading commodities imported were wheat, rice, lentils, flour, and corn. Food and agricultural imports represented 18% of total Cuban merchandise imports, and have declined as a share of total imports since the early 1990s. Top suppliers were France, Argentina, Canada, Spain, and China, which accounted for some two-thirds of Cuba's food imports. In

addition, Cuba's tourism industry reportedly imports an additional \$100 to \$250 million in food products to cover the needs of visiting tourists.

U.S. agricultural interests argued that exempting agricultural exports from the U.S. embargo on Cuba would result in an opening that yields substantial sales. They hold that such a policy change will give U.S. exporters (particularly of rice and wheat) a competitive edge if Cuba takes advantage of its proximity to buy from its nearest supplier in order to save the cost of transporting commodities and food from its current suppliers (France, Canada, Argentina) located much farther away. Cuba reportedly could save up to \$100 million in transportation costs if officials decided to buy primarily from U.S. agricultural exporters.

Expectations of large immediate U.S. sales to the island may be unrealistic, however, according to some analysts. One analysis projected that first-year sales taking into account the financing prohibition could be in the \$25-\$50 million range. Analysts point to Cuba's limited financial resources, its reliance on barter and credit transactions to finance agricultural imports, its denial of access to U.S. government programs and to all public and private financing, and the possible application of other restrictive rules under current embargo regulations that could hamper such sales. They also suggested that it is uncertain that Cuba would purchase from the United States, pointing out there may be pressure to maintain trade ties with some of its "socialist partners" supplying such key commodities as rice, as well as resistance to relying on just one single supplier.

Some observed also that the Cuban government may not be prepared for or interested in taking advantage of this possible U.S. trade opening. Top Cuban officials, including Castro himself, rejected the enacted measure. They strongly criticized its financing, travel, and other prohibitions as "unworkable" and "insulting," viewing it as a tightening rather than an easing of the embargo, and stated that Cuba will not buy any U.S. product with such conditions in place. Some observers view such talk as political rhetoric and speculate that pragmatists in the Cuban government seeking to save scarce resources may in time influence a softening in the leadership's views.

**First Sales.** Notwithstanding this position, the Cuban government on November 13, 2001, signaled interest in buying U.S. agricultural commodities to quickly rebuild food reserves damaged or lost due to the devastation caused by Hurricane Michelle. This move followed an earlier U.S. government offer of humanitarian assistance, to which Cuba responded on November 8 with a request that the United States temporarily suspend TSRA's licensing requirements to purchase foodstuffs and allow Cuban vessels to transport them from U.S. ports. The State Department agreed only to speed up the licensing process, and noted some problems might arise if Cuban ships were used.

Negotiations between several U.S. agribusiness firms and Alimport, Cuba's food import agency, in late November and early December led to the signing of contracts to sell U.S. wheat, corn, soybeans, soy meal, soy oil, poultry, and rice valued at almost \$35 million. The first shipment of corn and poultry arrived in Havana on December 13, with subsequent deliveries scheduled through February 2002. U.S. farm groups, agribusiness firms, and anti-embargo groups have hailed these sales under the new sanctions policy, and hope they will lead to additional sales and represent a symbolic beginning of a changing relationship, respectively. Though top Cuban officials initially stated these cash purchases were a one time

event, this stance may be changing following recent statements made by Castro and Alimport's president that raise the prospect of additional purchases later this year.

## Legislation Considered in the 107<sup>th</sup> Congress

Members have introduced several bills to revise U.S. policy on how food products are handled in sanctions regimes. Most measures seek to terminate the export financing and travel prohibitions imposed on Cuba by TSRA; the Senate included one such provision in its farm bill. One measure focuses on the U.S. role in the multilateral sanctions regime imposed on Iraq. Two other bills revisit the broader issue of the parameters and process to be followed to exempt agricultural sales in U.S. sanctions policy. Bush Administration's efforts to amend TSRA in light of the September 11<sup>th</sup> terrorist attacks are reflected in compromise language included in major anti-terrorism legislation enacted in October 2001.

**Cuba-Specific Bills and Provisions.** Proposals offered last year varied in approach and in scope. H.R. 173 and Section 335 of S. 1731 (the Senate Agriculture Committee's farm bill) simply repeal the prohibition on U.S. private financing of agricultural sales to Cuba. Seven measures (Section 2(h) of H.R. 174; H.R. 797/S. 402; Section 3(f) of H.R. 798/S. 400; Titles I and II of H.R. 2138/S. 1017; S.171; and S. 239) are broader in their coverage, proposing to drop 3 provisions in TSRA. These are (1) the requirement that eligible exports to Cuba be licensed in advance, (2) the prohibitions on U.S. government assistance/financing of food and medical product sales and on private financing of agricultural sales to Cuba, and (3) the prohibition on tourist travel to Cuba. Some bills repeal specific provisions; S. 239 broadly states that irrespective of TSRA, "the prohibition or restriction on trade or financial transactions with Cuba shall not apply" to the export of agricultural and medical products, or to travel related to the sale or delivery of these products, to Cuba. Additional language found only in H.R. 797/S. 402; H.R. 798/S. 400; and S. 239 effectively repeals the current restriction that ships entering Cuba cannot enter a U.S. port for 6 months. This would allow such vessels to transport U.S. agricultural and medical shipments to Cuba. Some of these bills would retain restrictions or prohibitions on agricultural/medical product exports to Cuba to meet broader export control and national security objectives. In most of these bills, the referenced provisions are part of broader legislative efforts to modify or terminate some or all aspects of the U.S. embargo on Cuba. For more background, see Cuba Sanctions in the CRS Electronic Briefing Book on Trade.

**Debate on Farm Bill Provision.** The Bush Administration "strongly opposes" the Senate-passed farm bill provision (Section 355 of S. 1731) that would repeal the prohibition on private financing on U.S. sales of agricultural commodities to Cuba. The Administration bases this stance on its view that Cuba continues to deny basic civil rights to its citizens and rejects global efforts to combat terrorism. Reflecting this perspective, Senator Smith during floor debate offered an amendment to require the President to certify to Congress that Cuba's government is not involved in supporting acts of international terrorism before the Cuba-specific prohibition is repealed. A second-degree amendment offered by Senator Torricelli to also require Presidential certification that all convicted felons living in Cuba have been returned to the United States before the prohibition is removed fell when the Senate on December 18, 2001 tabled the Smith amendment (61-33). The Senate-passed provision is expected to be a contentious issue in the farm bill conference held to resolve differences with the House measure, which does not contain any comparable provision.



**Bills Dealing with Other Sanctioned Countries.** One measure seeking to amend TSRA is broader in the range of countries to be covered. S. 171 would repeal the TSRA's prohibition on U.S. government assistance and financing of sales not just with respect to Cuba, but also with respect to Iran, Libya, North Korea, and Sudan. Focusing on just one country, H.R. 742 stipulates that U.S. restrictions and prohibitions imposed under the Iraq Sanctions Act of 1990 or other laws not apply with respect to the export of food, agricultural commodities, and medical products, or to travel related to their sale or delivery, to Iraq. Other provisions are intended to allow for the free flow of humanitarian aid to Iraq without the threat of prosecution by waiving the requirement that exports be licensed in advance. Exporters would be required to notify the Department of Commerce of such shipments. (For background on U.S. and United Nations sanctions policy toward Iraq, see *Iraqi Compliance with Cease-Fire Agreements*, CRS Issue Brief IB92117, and *Iraq: Oil-For-Food Program*, CRS Report RL30472.)

**Proposed Changes to Overall Food Sanctions' Exemption Policy.** Three measures address broad U.S. policy on the issue of exempting agricultural exports from export control or sanctions regimes. Title IV of S. 149, as introduced, proposed to exempt agricultural commodities, medicine, and medical supplies from export controls imposed for foreign policy reasons. Language specified that this exemption would not apply to any such items subject to national security export controls imposed under Title II of this bill or listed on the U.S. Munitions List, nor to their export to a country against which an embargo is in effect under the Trading With the Enemy Act (Cuba and North Korea). During Senate Banking Committee markup on March 22, 2001, all of Title IV was deleted. Concerned the Executive Branch might exercise the bill's broad authorities in ways that undercut TSRA's intent to exempt food and medical products from unilateral sanctions, Senator Roberts succeeded in including language in a manager's amendment that addressed this issue. Section 603 (as adopted by the Senate in early September) states that S. 149 does not authorize export controls on food for national security purposes. It also states that such controls cannot be used to restrict food exports for foreign policy reasons, unless Congress in advance approves such action following TSRA's provisions, and explicitly states that nothing in S. 149 authorizes the exercise of authority to restrict agricultural and medical product exports contrary to any TSRA provision.

Separately, an identical Title IV in H.R. 627 and S. 333 exempts (under different parameters than laid out in TSRA) agricultural commodities from U.S. unilateral sanctions. The exemption would apply to any prohibition, condition, or restriction on commercial sales, unless the President determines that these commodities should be included in a sanction on a foreign country or entity "for reasons of the national interest" and Congress does not disapprove. S. 1571 expresses the sense of the Senate on effectively maintaining TSRA's exemption for food and medical product sales for all countries subject to U.S. sanctions.

**Amendments to TSRA in Anti-Terrorism Legislation.** The package of anti-terrorism measures (P.L. 107-56; H.R. 3162) signed into law on October 26, 2001 amends some TSRA provisions. The compromise struck between the Bush Administration and key Senators modifies one circumstance under which TSRA's food/medical exemption would not apply, codifies that agricultural and medical product sales to the Taliban-controlled area of Afghanistan are subject to TSRA's export licensing requirements that now apply to Cuba and to governments of other countries determined to be sponsors of international terrorism, and expressly allows eligible export sales to be made also to any other entity in Syria or North

Korea without the need for an exporter to secure a license. Other provisions state that no TSRA provision limits the application of criminal or civil penalties on those who unlawfully engage in the export of agricultural and medical products to designated foreign organizations, groups, persons, or entities, nor affects the statutory prohibitions against providing material support or resources to designated foreign terrorist organizations.

## LEGISLATION

### **P.L. 107-56 (H.R. 3162)**

USA Patriot Act of 2001. Sections 221 and 807 amend two sections of TSRA, and clarify that TSRA provisions do not limit the application or scope of any other law that imposes penalties on unlawful sales to terrorist and other groups and individuals, nor affect prohibitions against providing support and resources to terrorist organizations. These provisions reflect language found in H.R. 2975 and S. 1510. H.R. 3162 introduced October 23, 2001; passed House on October 24. Passed Senate October 25. Signed into law (P.L. 107-56) October 26.

### **H.R. 173 (Serrano)**

To amend the Trade Sanctions Reform and Export Enhancement Act of 2000 to allow for the financing of agricultural sales to Cuba. Introduced January 3, 2001; referred to the Committees on Financial Services, International Relations, and Agriculture. Section 2(h) of **H.R. 174**, introduced by Representative Serrano, is identical to H.R. 173.

### **H.R. 627 / S. 333 (Lugar / Boehner)**

Rural America Prosperity Act of 2001. Title IV (Agricultural Trade Freedom Act) amends the Agricultural Trade Act of 1978 to exempt commercial sales of agricultural commodities from a unilateral economic sanction imposed by the United States for reasons of the national interest. Introduced February 14, 2001. In House, referred to Committee on Ways and Means, and also to the Committees on Agriculture, Rules, and Government Reform. In Senate, referred to Committee on Finance.

### **H.R. 742 (Conyers)**

Humanitarian Exports Leading to Peace Act of 2001. Provides the people of Iraq with access to food and medicines from the United States. Introduced February 27, 2001; referred to the Committee on International Relations.

### **H.R. 797 / S. 402 (Rangel / Baucus)**

Cuban Humanitarian Trade Act of 2001. Makes an exception to the U.S. embargo on trade with Cuba for the export of agricultural commodities, medicines, medical supplies, medical instruments, or medical equipment. H.R. 797 introduced February 28, 2001; referred to the Committee on International Relations, and also to the Committee on Ways and Means. S. 402 introduced February 27, 2001; referred to the Committee on Finance. Section 3(f) of **H.R. 798 / S. 400**, introduced by Representative Rangel and Senator Baucus, is identical to H.R. 797 / S. 402.

**H.R. 2138 / S. 1017 (Serrano / Dodd)**

Bridges to the Cuban People Act of 2001. Section 104 supersedes TSRA to state that any prohibition or restriction on trade or the financing of the export of any agricultural commodity, farm machinery or equipment, medicine or medical device shall not apply. Introduced June 12, 2001. H.R. 2138 referred to Committee on International Relations, and in addition to the Committees on Agriculture, Financial Services, Ways and Means, and Judiciary. S. 1017 referred to Committee on Foreign Relations.

**S. 149 (Enzi)**

Export Administration Act of 2001. As introduced, Title IV exempts agricultural commodities, medicine, and medical supplies from the foreign policy export controls imposed under Title III of this bill. Provides for exceptions to this exemption. Introduced January 23, 2001; referred to Committee on Banking, Housing, and Urban Affairs. Hearings held February 7 and 14. A manager's amendment deleted Title IV from the measure the Committee approved (19-1) during markup on March 22. Motion to proceed to consideration of measure made, and subsequently withdrawn, on April 26. Laid before Senate by unanimous consent on September 4. An amendment offered by Senator Sarbanes (adopted by voice vote) added Section 603, which states that this bill does not authorize export controls on food for national security reasons, nor for foreign policy purposes (unless approved by Congress in advance under TSRA procedures). Passed Senate as amended (85-14) on September 6.

**S. 171 (Dorgan)**

Repeals certain travel provisions relative to Cuba and certain trade sanctions relative to Cuba, Iran, Libya, North Korea, and Sudan. Introduced January 24, 2001; referred to Committee on Foreign Relations.

**S. 239 (Hagel)**

Cuba Food and Medicine Access Act of 2001. Improves access to the Cuban market for U.S. agricultural producers. Introduced February 1, 2001; referred to Committee on Foreign Relations.

**S. 1571 (Lugar)**

Farm and Ranch Equity Act of 2001. Section 332 expresses the sense of the Senate that, among other provisions, TSRA's prohibition on the imposition of unilateral sanctions involving agricultural and medical products should apply (with three exceptions) to all foreign countries. Introduced October 18, 2001; referred to Committee on Agriculture, Nutrition, and Forestry.

**S. 1731 (Harkin)**

Agriculture, Conservation, and Rural Enhancement Act of 2001. Section 335 repeals the TSRA provision that prohibits private U.S. financing of agricultural sales to Cuba. Included as part of the agriculture trade title approved November 7, 2001, by the Committee on Agriculture, Nutrition, and Forestry. Committee approved entire farm bill by voice vote, and ordered it to be reported as an original measure in lieu of S. 1628, on November 15. Committee filed S.Rept. 107-117 on December 7. During floor debate on December 18, Senate tabled (61-33) amendment (S.Amdt. 2596) offered by Senator Smith to condition the repeal upon a Presidential certification to Congress that Cuba is not a state sponsor of international terrorism. Senate passed S. 1731, as modified, on February 13, 2002, and incorporated it as an amendment to H.R. 2646.