STATEMENT BY THE PRESS SECRETARY

Administration Announces New Approach to Encryption

One year ago today, Vice President Gore announced updates to the Administration's encryption policy to serve the full range of national interests: promoting electronic commerce, supporting law enforcement and national security, and protecting privacy. The announcement permitted the export of strong encryption to protect sensitive information in the financial, health, medical, and electronic commerce sectors. It also included support for the continued ability of the nation's law enforcement community to access, under strictly defined legal procedures, the plain text of criminally related communications and stored information. At that time the Administration committed to reviewing its policy in one year. Today, the Administration announces the results of that review, conducted in consultation with industry and privacy groups and the Congress.

The strategy announced today continues to maintain the balance among privacy, commercial interests, public safety and national security. This approach is comprised of three elements: information security and privacy, a new framework for export controls, and updated tools for law enforcement. First, the strategy recognizes that sensitive electronic information -- government, commercial, and privacy information -- requires strong protection from unauthorized and unlawful access if the great promise of the electronic age is to be realized. Second, it protects vital national security interests through an updated framework for encryption export controls that also recognizes growing demands in the global marketplace for strong encryption products. Finally, it is designed to assure that, as strong encryption proliferates, law enforcement remains able to protect America and Americans in the physical world and in cyberspace.

With respect to encryption export controls, the strategy announced today rests on three principles: a one-time technical review of encryption products in advance of sale, a streamlined post-export reporting system, and a process that permits the government to review the exports of strong encryption to foreign government and military organizations and to nations of concern. Consistent with these principles, the government will significantly update and simplify export controls on encryption.

The updated guidelines will allow U.S. companies new opportunities to sell their products to most end users in global markets. Under this policy:

- Any encryption commodity or software of any key length may be exported under license exception (i.e., without a license), after a technical review, to individuals, commercial firms, and other non-government end users in any country except for the seven state supporters of terrorism.
- Any retail encryption commodities and software of any key length may be exported under license exception, after a technical review, to any end user in any country, except for the seven state supporters of terrorism.
- Streamlined post-export reporting will provide government with an understanding of where strong encryption is being exported, while also reflecting industry business models and distribution channels.
- Sector definitions and country lists are eliminated.

The Administration intends to codify this new policy in export regulations by December 15, 1999, following consultations on the details with affected stakeholders.
In support of public safety, the President is today transmitting to the Congress legislation that seeks to assure that law enforcement has the legal tools, personnel, and equipment necessary to investigate crime in an encrypted world. Specifically, the Cyberspace Electronic Security Act of 1999 would:

- Ensure that law enforcement maintains its ability to access decryption information stored with third parties, while protecting such information from inappropriate release.
- Authorize $80 million over four years for the FBI’s Technical Support Center, which will serve as a centralized technical resource for Federal, State, and local law enforcement in responding to the increasing use of encryption by criminals.
- Protect sensitive investigative techniques and industry trade secrets from unnecessary disclosure in litigation or criminal trials involving encryption, consistent with fully protecting defendants' rights to a fair trial.

In contrast to an early draft version of the bill, the Administration's legislation does not provide new authorities for search warrants for encryption keys without contemporaneous notice to the subject. The bill does not regulate the domestic development, use and sale of encryption. Americans will remain free to use any encryption system domestically.

The Administration looks forward to continuing to work with the Congress, industry, and privacy and law enforcement communities to ensure a balanced approach to this issue.

# # #
For Immediate Release September 16, 1999

TO THE CONGRESS OF THE UNITED STATES:

I am pleased to transmit for your early consideration and speedy enactment a legislative proposal entitled the "Cyberspace Electronic Security Act of 1999" (CESA). Also transmitted herewith is a section-by-section analysis.

There is little question that continuing advances in technology are changing forever the way in which people live, the way they communicate with each other, and the manner in which they work and conduct commerce. In just a few years, the Internet has shown the world a glimpse of what is attainable in the information age. As a result, the demand for more and better access to information and electronic commerce continues to grow -- among not just individuals and consumers, but also among financial, medical, and educational institutions, manufacturers and merchants, and State and local governments. This increased reliance on information and communications raises important privacy issues because Americans want assurance that their sensitive personal and business information is protected from unauthorized access as it resides on and traverses national and international communications networks. For Americans to trust this new electronic environment, and for the promise of electronic commerce and the global information infrastructure to be fully realized, information systems must provide methods to protect the data and communications of legitimate users. Encryption can address this need because encryption can be used to protect the confidentiality of both stored data and communications. Therefore, my Administration continues to support the development, adoption, and use of robust encryption by legitimate users.

At the same time, however, the same encryption products that help facilitate confidential communications between law-abiding citizens also pose a significant and undeniable public safety risk when used to facilitate and mask illegal and criminal activity. Although cryptography has many legitimate and important uses, it is also increasingly used as a means to promote criminal activity, such as drug trafficking, terrorism, white collar crime, and the distribution of child pornography.

The advent and eventual widespread use of encryption poses significant and heretofore unseen challenges to law enforcement and public safety. Under existing statutory and constitutional law, law enforcement is provided with different means to collect evidence of illegal activity in such forms as communications or stored data on computers. These means are rendered wholly insufficient when encryption is utilized to scramble the information in such a manner that law enforcement, acting pursuant to lawful authority, cannot decipher the evidence in a timely manner, if at all. In the context of law enforcement operations, time is of the essence and may mean the difference between success and catastrophic failure.

A sound and effective public policy must support the development and use of encryption for legitimate purposes but allow access to plaintext by law enforcement when encryption is utilized by criminals. This requires an approach that properly balances critical privacy interests with the need to preserve public safety. As is explained more fully in the sectional analysis that accompanies this proposed legislation, the CESA provides such a balance by simultaneously creating significant new privacy protections for lawful users of encryption, while assisting law enforcement's efforts to preserve existing and constitutionally supported means of responding to criminal activity.

The CESA establishes limitations on government use and disclosure of decryption keys obtained by court process and provides special protections for decryption keys stored with third party "recovery agents." CESA authorizes a recovery agent to disclose stored recovery information to the government, or to use stored recovery
information on behalf of the government, in a narrow range of circumstances (e.g., pursuant to a search warrant or in accordance with a court order under the Act). In addition, CESA would authorize appropriations for the Technical Support Center in the Federal Bureau of Investigation, which will serve as a centralized technical resource for Federal, State, and local law enforcement in responding to the increasing use of encryption by criminals.

I look forward to working with the Congress on this important national issue.

WILLIAM J. CLINTON

THE WHITE HOUSE,
September 16, 1999.

# # #
FACT SHEET

Administration Updates Encryption Export Policy

Today, the Clinton Administration announced a new approach to encryption policy that includes updates and simplifies export controls. The major components of this update are as follows:

Global exports to individuals, commercial firms or other non-governmental entities

Any encryption commodity or software of any key length can now be exported under a license exception (i.e., without a license) after a technical review, to commercial firms and other non-government end users in any country except for the seven state supporters of terrorism. Exports previously allowed only for a company's internal use can now be used for communication with other firms, supply chains and customers. Additionally, telecommunication and Internet service providers may use any encryption commodity or software to provide services to commercial firms and non-government end users. Previous liberalizations for banks, financial institutions and other approved sectors are subsumed under this Update. Exports to governments can be approved under a license.

Global exports of retail products

Retail encryption commodities and software of any key length may be exported under a license exception (i.e., without a license) after a technical review, to any recipient in any country except to the seven state supporters of terrorism. Retail encryption commodities and software are those products which do not require substantial support for installation and use and which are sold in tangible form through independent retail outlets, or products in tangible or intangible form, which have been specifically designed for individual consumer use. There is no restriction on the use of these products. Additionally, telecommunication and Internet service providers may use retail encryption commodities and software to provide services to any recipient.

Implementation of the December 1998 Wassenaar Arrangement Revisions

Last year, the Wassenaar Arrangement (33 countries which have common controls on exports, including encryption) made a number of changes to modernize multilateral encryption controls. As part of this update, the U.S. will allow exports without a license of 56 bits DES and equivalent products, including toolkits and chips, to all users and destinations (except the seven state supporters of terrorism) after a technical review. Encryption commodities and software with key lengths of 64-bits or less which meet the mass market requirements of Wassenaar's new cryptographic note will also be eligible for export without a license after a technical review.

U.S. Subsidiaries

Foreign nationals working in the United States no longer need an export license to work for U.S. firms on encryption. This extends the policy adopted in last year's update, which allowed foreign nationals to work for foreign subsidiaries of U.S. firms under a license exception (i.e., without a license).

Export Reporting

Post-export reporting will now be required for any export to a non-U.S. entity of any product above 64 bits. Reporting helps ensure compliance with our regulations and allows us to reduce licensing requirements.
reporting requirements will be streamlined to reflect business models and practices, and will be based on what companies normally collect. We intend to consult with industry on how best to implement this part of the update.

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The Cyberspace Electronic Security Act of 1999

Today, the President is transmitting to the Congress a legislative proposal entitled the "Cyberspace Electronic Security Act of 1999" (CESA). This legislation would protect the growing use of encryption for the legitimate protection of privacy and confidentiality by businesses and individuals, while helping law enforcement obtain evidence to investigate and prosecute criminals despite their use of encryption to hide criminal activity.

Encryption is an important tool for protecting personal privacy and is essential for the expansion of electronic commerce. Yet, the advent and eventual widespread use of encryption poses significant challenges to law enforcement and public safety. Under existing law, investigators have a variety of legal tools to collect electronic evidence of illegal activity. These tools are rendered useless when encryption is used to scramble evidence so that law enforcement cannot decipher it in a timely manner, if at all. Timely action against terrorists, drug dealers, or kidnappers may require rapid access to electronic information that must not be thwarted by encryption.

CESA balances the needs of privacy and public safety. It establishes significant new protections for the privacy of persons who use encryption legally. The bill is technology neutral, and does not presuppose technology solutions. CESA also provides mechanisms to help maintain law enforcement's current ability to obtain useable evidence as encryption becomes more common. More specifically, CESA would:

- Ensure that law enforcement maintains its ability to access decryption information stored with third parties, while protecting such information from inappropriate release. Law enforcement must inform a person whose key is obtained using court process, and must destroy the keys after their use is complete and when Federal records laws permit. Law enforcement may only use decryption keys obtained from a key recovery agent for an explicitly authorized purpose. A key recovery agent may not disclose or use a decryption key, nor disclose the identity of a customer, except under explicit and limited circumstances. Individuals remain completely free to use -- or not to use - the services of a recovery agent.
- Authorize $80 million over four years for the FBI's Technical Support Center, which will serve as a centralized technical resource for Federal, State, and local law enforcement in responding to the increasing use of encryption by criminals.
- Ensure that sensitive investigative techniques and industry trade secrets remain useful in current and future investigations by protecting them from unnecessary disclosure in litigation or criminal trials involving encryption. Orders protecting such techniques and trade secrets must be consistent with fully protecting defendants' rights to a fair trial under the Constitution's Due Process clause and the Sixth Amendment. Protection of techniques requires a judicial finding in accordance with specified criteria. Firms' competitive and liability positions are protected when lawfully assisting law enforcement through the sharing of trade secrets.

In contrast to an early draft version of the bill, the Administration's legislation does not provide new authority for search warrants for encryption keys without contemporaneous notice to the subject. The bill also does not regulate the domestic development, use or sale of encryption. Americans will remain free to use any encryption system domestically.

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John R. Steer, of Virginia, to be a member of the U.S. Sentencing Commission for the remainder of the term expiring October 31, 1999, vice Wayne Anthony Budd, resigned.

John R. Steer, of Virginia, to be a member of the U.S. Sentencing Commission for a term expiring October 31, 2005 (reappointment).

Submitted September 16

Kathleen M cCree Lewis, of Michigan, to be U.S. Circuit Judge for the Sixth Circuit, vice Cornelia G. Kennedy, retired.

Enrique Moreno, of Texas, to be U.S. Circuit Judge for the Fifth Circuit, vice William L. Garwood, retired.

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**Checklist of White House Press Releases**

The following list contains releases of the Office of the Press Secretary that are neither printed as items nor covered by entries in the Digest of Other White House Announcements.

**Released September 11**
Transcript of a press briefing by National Security Adviser Samuel Berger, National Economic Council Director Gene Sperling, and Press Secretary Joe Lockhart

**Released September 12**
Transcript of a readout by National Security Adviser Samuel Berger on the President’s meetings with foreign leaders

Transcript of a press briefing by Press Secretary Joe Lockhart

Fact sheet: Asia-Pacific Economic Cooperation

Fact sheet: The World Trade Organization Ministerial in Seattle

**Released September 13**
Transcript of a press briefing by National Security Adviser Samuel Berger, National Economic Council Director Gene Sperling, and Press Secretary Joe Lockhart

Transcript of a press briefing by National Security Adviser Samuel Berger on the statement of President Bacharuddi Habibie of Indonesia on the situation in East Timor

Statement by the Press Secretary on the imprisonment of Canadian journalist Murray H eibert in Malaysia

Announcement of the letter to Members of Congress on proposed campaign reform legislation

**Released September 14**
Statement by the Press Secretary: President to Address the United Nations General Assembly

Statement by Chairman Martin N. Baily, President’s Council of Economic Advisers on the national economy

Announcement of nomination of U.S. Marshal for the Eastern District of Vermont

**Released September 15**
Fact sheet: President Clinton: Protecting Antarctica and the Global Environment

**Released September 16**
Transcript of a press briefing by Press Secretary Joe Lockhart

Transcript of a press briefing by Deputy National Security Adviser Jim Steinberg, Attorney General Janet Reno, Deputy Secretary of Defense John Hamre, Under Secretary of Commerce Bill Reinsch, and Office of Management and Budget Chief Counselor for Privacy Peter Swire on encryption policy

Statement by the Press Secretary: Administration Announces New Approach to Encryption

Fact sheet: Administration Updates Encryption Export Policy

Announcement of nomination for U.S. Court of Appeals Judges for the Fifth Circuit and the Sixth Circuit

Announcement: Vice President Al Gore Announces New Report Demonstrating Stronger Federal and State Laws Needed to Protect Americans Against On-Line Stalking

Released September 17

Transcript of a press briefing by Press Secretary Joe Lockhart

Statement by the Press Secretary: Easing Sanctions Against North Korea

Fact sheet: Easing Sanctions Against North Korea

Acts Approved by the President

Note: No acts approved by the President were received by the Office of the Federal Register during the period covered by this issue.
DEPARTMENT OF COMMERCE
Bureau of Export Administration

15 CFR Parts 734, 740, 742, 770, 772, and 774

[Docket No. 000110010–0010–01]
RIN: 0694–AC11

Revisions to Encryption Items

AGENCY: Bureau of Export Administration, Commerce.

ACTION: Interim final rule; request for comments.

SUMMARY: This rule amends the Export Administration Regulations (EAR) to allow the export and reexport of any encryption commodity or software to individuals, commercial firms, and other non-government end-users in all destinations. It also allows exports and reexports of retail encryption commodities and software to all end-users in all destinations. Post-export reporting requirements are streamlined, and changes are made to reflect amendments to the Wassenaar Arrangement. This rule implements the encryption policy announced by the White House on September 16 and will simplify U.S. encryption export rules.

Restrictions on terrorist supporting states (Cuba, Iran, Iraq, Libya, North Korea, Sudan or Syria), their nationals and governments. The full range of national interests continue to be served by this new policy: supporting law enforcement and national security, protecting privacy and promoting electronic commerce. Encryption export controls will be simplified and U.S. companies will have new opportunities to sell their products in the global marketplace.

This regulation also implements changes for encryption items made by the Wassenaar Arrangement, including: conversion of Category 5—Part 2 (Information Security) of the Commerce Control List (CCL) to a positive list; creation of a Cryptography Note and removal of encryption software from the General Software Note; decontrol of 64-bit mass market software and commodities, including components; and decontrol of certain 512-bit key management products.

The EAR is amended as follows:

1. In §734.2, Important EAR Terms and Principles, unrestricted encryption source code under §740.13(e), commercial encryption source code under §740.17(a)(5)(i) and retail products under §740.17(a)(3) are exempted from Internet download screening requirements in §734.2(b)(9)(iii). A revised screening mechanism for other encryption products exported to government end-users is added. Please note that §734.2(b)(9) contains the relevant definitions for the export of encryption source code and object code software. In addition, cross-referencing changes are made to §§734.7, 734.8, and 734.9.

2. In §740.13, Technology and Software Unrestricted, changes are made to reflect amendments to the Wassenaar Arrangement. Specifically, encryption software is no longer eligible for mass market treatment under the General Software Note. Encryption commodities and software are now eligible for mass market treatment under the new Cryptography Note in Category 5—Part 2 of the CCL. This Note multilaterally decontrols mass market encryption commodities and software up to and including 64-bits. Such products, after review and classification by BXA, are classified under Export Commodity Control Numbers (ECCNs) 5A992 or 5D992, thereby releasing them from “EI” (Encryption Items) and “NS” (National Security) controls, and making them eligible for export and reexport to all destinations (see §742.15(b)(1)(iii) of the EAR). Once mass market encryption software and commodities are released from “EI” controls they may be eligible for de minimis and publicly available treatment (see part 734 of the EAR).

3. Allowing, in part, take into account the “open source” approach to software development, unrestricted encryption source code not subject to an express agreement for the payment of a licensing fee or royalty for commercial production or sale of any product developed using the source code can, without review, be released from “EI” controls and exported and reexported under License Exception TSU. Intellectual property protection (e.g., copyright, patent, or trademark) would not, by itself, be construed as an express agreement for the payment of a licensing fee or royalty for commercial production or sale of any product developed using the source code. To qualify, exporters must notify BXA of the Internet location (e.g., URL or Internet address) or provide a copy of the source code by the time of export. These notifications are only required for the initial export; there are no notification requirements for end-users subsequently using the source code. Notification can be made by e-mail to crypt@bxadoc.gov.

Review and classification are not required for foreign made products using this source code. Moreover, under §744.9, exporters of unrestricted encryption source code are not restrained from providing technical assistance to foreign persons working with such source code. In addition, exporters of source code are not subject to Internet download screening requirements under §734.2(b)(9)(iii). Posting of the source code on the Internet (e.g., FTP or World Wide Web site), where it may be downloaded by anyone, would not establish “knowledge” (as that term is defined in the EAR) of a prohibited export or reexport. Such posting would not trigger “red flags” necessitating the affirmative duty to inquire under the “Know Your Customer” guidance provided in Supplement No. 3 to Part 732. Otherwise, compliance with EAR requirements as to prohibited exports and reexports still apply.

4. In §740.17, Encryption Commodities and Software, language is added to implement the Administration’s new policy. License Exception ENC (Encryption Commodities and Software) is revised as follows:

a. Encryption items under ECCNs 5A002, 5D002 or 5E002 can be exported and reexported to foreign subsidiaries of U.S. companies, including the transfer of encryption technology to their foreign employees in the U.S., without technical review and classification. Any items developed by the U.S. company for sale or retransfer outside the U.S. company are subject to review and classification by BXA. Foreign companies with subsidiaries in the U.S.

DATES: This rule is effective January 14, 2000. Comments must be received on or before May 15, 2000.

ADDRESSES: Written comments on this rule should be sent to Frank J. Ruggiero, Regulatory Policy Division, Bureau of Export Administration, Department of Commerce, P.O. Box 273, Washington, DC 20230.

FOR FURTHER INFORMATION CONTACT: James A. Lewis, Director, Office of Strategic Trade, at (202) 482–0092.

SUPPLEMENTARY INFORMATION:
Background:

On September 16, 1999, the U.S. announced a new approach to its encryption export control policy. This approach rests on three principles: A technical review of encryption products in advance of sale, a streamlined post-export reporting system, and a process that permits the government to review exports of strong encryption to foreign governments. The full range of national
products are considered retail products. A new paragraph entitled “Retail encryption commodities and software,” is created to implement the broad authorization for encryption exports contained in the September 16 announcement. Under this paragraph, any encryption commodity, software or components of any key length classified under ECCNs 5A002 and 5D002 can be exported and reexported to individuals, commercial firms and other non-government end-users. Previous sector-specific liberalizations for banks and financial institutions, health and medical end-users and on-line merchants are subsumed into this new paragraph. Previous restrictions limiting exports to foreign commercial firms for internal company proprietary use are removed. In addition, foreign products developed from encryption components, while subject to the EAR, do not require review and classification prior to reexport. Exports and reexports to government end-users require a license.

c. A new paragraph entitled “Retail encryption commodities and software” is created. Retail encryption commodities and software under ECCNs 5A002 and 5D002 are those which are widely available and can be exported and reexported to any end-user (including any Internet and telecommunications service provider), to provide products and services (e.g., e-commerce, client-server applications, or software subscriptions) to any end-user. The criteria to determine eligibility as a retail product include functionality, sales volume, distribution methods, ability to modify products and requirements for substantial support by the supplier. Substantial support for encryption commodities and software would mean a service contract or other significant vendor support beyond what is minimally necessary for the product’s operation. Help desk calls are not considered substantial support. Refer to § 740.17(a)(3) of the EAR for a detailed definition of retail encryption commodities and software (which may include components as well as encryption source code) and an illustrative, yet non-restrictive, list of such products. Finance-specific, 56-bit non-mass market products with a key exchange greater than 512 bits and up to 1024 bits, network-based applications and other products which are functionally equivalent to retail products are considered retail products. Encryption toolkits may be exported and reexported to any non-government end-user after review and classification by BXA.

d. A new paragraph is added to License Exception ENC entitled “Telecommunications and Internet service providers.” Telecommunications and Internet service providers can obtain and use any encryption product under this license exception to provide encryption services, including public key infrastructure services for the general public; however, provision of services specific to governments (e.g., running a virtual private network for a government agency), will require a license.

e. A paragraph entitled “Commercial encryption source code” is added. You may export and reexport general purpose encryption toolkits and encryption source code, not released under § 740.13, classified under ECCN 5D002, subject to the following provisions:

1. Commercial encryption source code which would be considered publicly available under § 734.3 and which is subject to an express agreement for the payment of a licensing fee or royalty for commercial production or sale of any product developed using the source code, can be exported or reexported to any end-user. This source code, which includes some “community” source code, may be exported or reexported without review and classification, provided you have submitted to BXA, by the time of export, written notification of the Internet location (e.g., URL or Internet address) or a copy of the source code. These notifications are only required for the initial export; there are no notification requirements for end-users subsequently utilizing the source code. The notification can be sent via e-mail to crypt@bxaw.doc.gov.

2. Encryption source code which would not be considered publicly available may be exported or reexported to any non-government end-user after review and classification by BXA.

f. Grandfathering and Upgrades in Key Length: Encryption commodities and software previously approved under a license, or eligible for License Exception ENC, excepting items previously approved only to U.S. subsidiaries, can be exported and reexported to non-government end-users without additional review and classification. Previously classified financial-specific or certain 56-bit products are eligible for export and reexport to any end-users without an additional classification. All previously classified products can be upgraded provided the only change is in the key length used for confidentiality and key exchange. Exporters must, prior to export of an upgraded product, certify in a letter from a corporate official the only change is the key length for confidentiality or key exchange algorithms and there is no other change in cryptographic functionality.

g. Exporters may export any product to any non-government end-user 30 days after receipt by BXA of a complete classification request, unless otherwise notified by BXA. No exports to government end-users are allowed under this provision and BXA reserves the right to suspend eligibility in those instances where requested additional information has not been provided or when the classification review is not proceeding in an appropriate fashion.

h. Reporting requirements under License Exception ENC are eliminated for many encryption items. Remaining reporting requirements are streamlined to reflect business models normally used by exporters. Note that reporting requirements for exports and reexports of encryption components can be adjusted or reduced, on a case-by-case basis, provided an exporter supplies BXA with sufficient information during the initial technical review of the U.S.
encryption component concerning its incorporation into a final foreign product. Examples include those components restricted by their design for use in certain types of products. BXA will notify exporters of such treatment in its classification determination. All required notifications, upgrade certifications and reports should be sent electronically or mailed to the addresses cited in this regulation.

Note to this paragraph: Post-export reporting is required for certain exports to foreign banks and financial institutions.

5. In part 740, Supplement No. 3 is removed. Supplement No. 3 previously listed countries eligible to receive certain encryption products; such products are now eligible for export and reexport to all destinations.

6. In §742.15, the licensing policy section on exports and reexports of encryption items is changed as follows:

   a. Review and classification are required by BXA before certain encryption items can be released from “EI” and “NS” controls under ECCNs 5A992, 5D992 and 5E992. These items include: 64-bit mass market encryption commodities and software; certain encryption items up to and including 56-bits; and asymmetric key exchange algorithms not exceeding 512 bits or an elliptic curve at 112 bits. Encryption items under these ECCNs do not require a license or license exception and may be exported and reexported as “NLK” (No License Required).

   b. Upgrades: 40 and 56-bit DES or equivalent mass market commodities and software previously classified as eligible for License Exception ENC or TSU may be upgraded to 64-bits for the confidentiality algorithm. Exporters must, prior to export of an upgraded product, certify to BXA in a letter from a corporate official that the only change is the key length for confidentiality or key exchange algorithms and there is no other change in cryptographic functionality. Note that other mass market encryption commodities and software previously exported under License Exception ENC or TSU are now classified as either 5A992 or 5D992 and eligible for “NLK” treatment. Encryption items under 5A992, 5D992 and 5E992 are not subject to Internet download screening requirements listed in §734.2(b)(9)(iii).

   c. The licensing policies for exports and reexports of encryption items for banks and financial institutions, health and medical end-users, and on-line merchants as well as U.S. subsidiaries, are subsumed into a new licensing policy paragraph for all encryption items under ECCNs 5A002, 5D002 or 5E002 eligible for License Exception ENC. For U.S. subsidiaries, any encryption item (including technology classified under 5E002 to foreign employees located in the U.S.) is permitted for export or reexport under License Exception ENC without review and classification. Also, any encryption item, including components, under ECCNs 5A002 or 5D002 can be exported and reexported to non-government end-users in all destinations. Retail products under 5A002 or 5D002 can be exported and reexported to all end-users.

   d. Licenses required for exports and reexports of encryption items to governments, or Internet and telecommunications service providers for the provision of services specific to governments, may be considered favorably for civil uses.

   e. Under Encryption Licensing Arrangements (ELAs), distributors and resellers can export and reexport under ELAs as long as they comply with restrictions contained in the ELA.

   7. In §770.2, Commodity interpretations, a new interpretation for “Encryption commodity and software reviews” is added. This interpretation clarifies which encryption items require a review and what a review entails.

   8. In part 772, Definitions of terms, definitions for the following terms are added: Asymmetric Algorithm, Encryption Component, Government End-User, Open Cryptographic Interface and Symmetric Algorithm.

   9. In part 774, the Commerce Control List, ECCNs 5A002 and 5D002 are revised to reflect changes in the Wassenaar Arrangement, and the Cryptography Note is added as Note 3 to Category 5—Part 2.

   In addition to these changes, BXA is making the following clarifications and interpretations for all encryption items subject to the EAR.

   1. The review and classification process is used to classify encryption items for their proper licensing mechanism and not to delay or deny a proposed transaction. Once a classification request is received, the item’s specifications are reviewed and processed in accordance with §748.3 of the EAR to determine its classification. Once completed, exporters will receive a document by mail informing them of the product’s technical classification and proper licensing mechanism. The EAR also provides an appeal process for exporters unsatisfied with BXA’s product classification (see §756.2 of the EAR).

   2. It is BXA’s intent to allow end-users of encryption items to provide their customers with encryption products and services. However, exports to Internet and telecommunications service providers are subject to restrictions when providing services specific to government end-users.

   3. It was not the intent of the new Wassenaar language for ECCN 5A002 to be more restrictive concerning Message Authentication Codes (MAC). “Data authentication equipment that calculates a Message Authentication Code (MAC) or similar result to ensure no alteration of text has taken place, or to authenticate users, but does not allow for encryption of data, text or other media other than that needed for the authentication” continues to be excluded from control under 5A002. These commodities are controlled under ECCN 5A992.

   4. Note that §740.8, Key Management Infrastructure (KMI), authorizes the export and reexport of certain encryption software and commodities under License Exception KMI and will continue as an eligible licensing mechanism for encryption products.

   5. A number of companies have expressed concern that the European Union (EU) may implement a general authorization permitting encryption items to be exported freely within the EU and other specified countries. If and when the EU implements such an authorization, the Administration will take the necessary steps to ensure U.S. exporters are not disadvantaged.

   6. Note that Serbia and the Taliban controlled areas of Afghanistan are embargoed destinations.

   7. Please refer to the BXA website at “www.bxa.doc.gov” for a detailed explanation of the EAR, the Commerce Control List, the licensing process and key terms used in this regulation.

   Although the Export Administration Act (EAA) expired on August 20, 1994, the President invoked the International Emergency Economic Powers Act and continued in effect the EAR, and, to the extent permitted by law, the provisions of the EAA in Executive Order 12924 of August 19, 1994, as extended by the President’s notices of August 15, 1995 (60 FR 42767), August 14, 1996 (61 FR 42527), August 13, 1997 (62 FR 43629), August 13, 1998 (63 FR 44121), and August 10, 1999 (64 FR 44101).

Rulemaking Requirements

1. This interim final rule has been determined to be significant for purposes of E.O. 12866.

2. Notwithstanding any other provision of law, no person is required to respond to, nor shall any person be subject to a penalty for failure to comply with a collection of information, subject to the requirements of the Paperwork
Reduction Act (PRA), unless that collection of information displays a currently valid OMB Control Number. This rule involves collections of information subject to the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 et seq.). These collections have been approved by the Office of Management and Budget under control numbers 0694–0088, “Multi-Purpose Application” and 0694–0104, “Commercial Encryption Items Transferred from the Department of State to the Department of Commerce.” The Department has submitted to OMB an emergency request for approval of the changes to the collection of information under OMB control number 0694–0104.

This interim final rule reduces the annual burden hours associated with collection 0694–0104 from 703 hours to 692 hours, and reduces collection 0694–0088 by 200 burden hours. For collection 0694–0104, it is estimated it will take companies 5 minutes to complete notifications for source code under License Exceptions TSU and ENC. It will take companies 15 minutes to complete upgrade notifications. For reporting under License Exception ENC and licenses for encryption items, it will take companies 4 hours to complete semi-annual reporting requirements.

Comments on collection 0694–0104 are welcome, and will be accepted until April 13, 2000. Comments are invited on: (a) Whether the collection of information is necessary for the proper performance of the functions of the agency, including whether the information shall have practical utility; (b) the accuracy of the agency’s estimate of the burden of the proposed collection of information; (c) ways to enhance the quality, utility, and clarity of the information to be collected; and (d) ways to minimize the burden of the collection of information on respondents, including through the use of automated collection techniques or other forms of information technology. Comments regarding these burden estimates or any other aspect of the collection of information, including suggestions for reducing the burdens, should be forward to Frank J. Ruggiero, Regulatory Policy Division, Office of Exporter Services, Bureau of Export Administration, Department of Commerce, P.O. Box 273, Washington, D.C. 20230, and Pennsylvania Avenue, N.W., Washington, D.C. 20230. Records in this facility, including written public comments and memoranda summarizing the substance of oral communications, may be inspected and copied in accordance with regulations published in Part 4 of Title 15 of the Code of Federal Regulations. Information about the inspection and copying of records at the facility may be obtained from the Bureau of Export Administration Freedom of Information Officer, at the above address or by calling (202) 482–0500.

List of Subjects

15 CFR Parts 734
Administrative practice and procedure, Exports, Foreign trade.

15 CFR Parts 740
Administrative practice and procedure, Exports, Foreign trade, Reporting and record keeping requirements.

15 CFR Parts 742, 770, 772, and 774
Exports, Foreign Trade.

Accordingly, parts 734, 742, 770, 772, and 774 of the Export Administration Regulations (15 CFR parts 730 through 799) are amended as follows:

1. The authority citation for part 734 continues to read as follows:


2. The authority citation for part 740 continues to read as follows:


3. The authority citation for part 742 continues to read as follows:

4. The authority citation for part 770 continues to read as follows:


5. The authority citation for part 772 continues to read as follows:


6. The authority citation for part 774 continues to read as follows:


PART 734—[AMENDED]

7. Section 734.2 is amended by revising paragraph (b)(9)(ii) and adding new paragraph (b)(9)(iii) to read as follows:

§ 734.2 Important EAR terms and principles.

* * * * *

(b) * * * * *(ii) The export of encryption source code and object code software controlled for “EI” reasons under ECCN 5D002 on the Commerce Control List (see Supplement No. 1 to part 774 of the EAR), except for source code eligible for export under §§ 740.13(e) and 740.17(a)(5)(i), includes downloading, or causing the downloading of, such software to locations (including electronic bulletin boards, Internet file transfer protocol, and World Wide Web sites) outside the U.S., or making such software available for transfer outside the United States, over wire, cable, radio, electromagnetic, photo optical, photoelectric or other comparable communications facilities accessible to persons outside the United States, including transfers from electronic bulletin boards, Internet file transfer protocol and World Wide Web sites, unless the person making the software available takes precautions adequate to prevent unauthorized transfer of such code.

(iii) Subject to the General Prohibitions described in part 736 of the EAR, such precautions for Internet transfers of products eligible for export under §§ 740.17(a)(2) (encryption software products), (a)(5)(ii) (certain encryption source code) and (a)(5)(iii) (encryption toolkits) shall include such measures as:

(A) The access control system, either through automated means or human intervention, checks the address of every system outside of the U.S. or Canada requesting or receiving a transfer and verifies such systems do not have a domain name or Internet address of a foreign government end-user (e.g., “gov,” “gouv,” “mil” or similar addresses);

(B) The access control system provides every requesting or receiving party with notice that the transfer includes or would include cryptographic software subject to export controls under the Export Administration Regulations, and anyone receiving such a transfer cannot export the software without a license or other authorization; and

(C) Every party requesting or receiving a transfer of such software must acknowledge affirmatively that the software is not intended for use by a government end-user, as defined in part 772, and he or she understands the cryptographic software is subject to export controls under the Export Administration Regulations and anyone receiving the transfer cannot export the software without a license or other authorization. BXA will consider acknowledgments in electronic form provided they are adequate to assure legal undertakings similar to written acknowledgments.

8. Section 734.4 is amended by revising the last sentence of paragraph (b) to read as follows: “Certain encryption commodities, software and technology controlled under ECCNs 5A992, 5D992, and 5E992 may be eligible for de minimis (refer to § 742.15(b)(1)).”

9. Section 734.7 is amended by revising paragraph (c) to read as follows:

§ 734.7 Published information and software.

* * * * *

(c) Notwithstanding paragraphs (a) and (b) of this section, note that encryption software controlled under ECCN 5D002 for “EI” reasons on the Commerce Control List (refer to Supplement No. 1 to part 774 of the EAR) remains subject to the EAR (refer to §§ 740.13(e) and 740.17(a)(5)(i) of the EAR for release under license exception).

§ 734.8 [Amended]

10. Section 734.8 is amended by revising the last sentence of paragraph (a) to read as follows: “Note that the provisions of this section do not apply to encryption software controlled under ECCN 5D002 for “EI” reasons on the Commerce Control List (refer to §§ 740.13(e) and 740.17(a)(5)(i) of the EAR for release under license exception).”

§ 734.9 [Amended]

11. Section 734.9 is amended by revising the last sentence to read as follows: “Note that the provisions of this section do not apply to encryption software controlled under ECCN 5D002 for “EI” reasons on the Commerce Control List (refer to §§ 740.13(e) and 740.17(a)(5)(i) of the EAR for release under license exception).”

PART 740—[AMENDED]

12. Section 740.8 is amended by revising the address in paragraph (b)(2) to read as follows:

§ 740.8 Key management infrastructure (KMI).

* * * * *

(b) * * * * *

Attn: KMI Encryption Request Coordinator, 9800 Savage Road, Suite 6131, Fort Meade, MD 20755–6000.

* * * * *

13. Section 740.13 is amended by:

a. By revising the introductory paragraph;

b. By revising paragraph (d)(2); and

c. By adding new paragraph (e) to read as follows:

§ 740.13 Technology and software—unrestricted (TSU)

This license exception authorizes exports and reexports of operation technology and software; sales technology and software; software updates (bug fixes); “mass market” software subject to the General Software Note; and unrestricted encryption source code. Note that encryption software is not subject to the General Software Note (see paragraph (d)(2) of this section).

* * * * *

(e) * * * * *

(2) Software not eligible for this license exception. This license exception is not available for certain encryption software controlled under ECCN 5D002. Refer to the Cryptography Note in Category 5—Part 2 of the Commerce Control List for information
on Mass Market Encryption commodities and software. Also refer to §§ 742.15(b)(1) and 748.3(b) of the EAR for information on item classifications for release from “EI” controls and “NS” controls.

(e) Unrestricted encryption source code.

(1) Encryption source code controlled under 5D002, which would be considered publicly available under § 734.3(b)(3) and which is not subject to an express agreement for the payment of a licensing fee or royalty for commercial production or sale of any product developed with the source code, is released from “EI” controls and may be exported or reexported without review under License Exception TSU, provided you have submitted written notification to BXA of the Internet location (e.g., URL or Internet address) or a copy of the source code by the time of export. Submit the notification to BXA and send a copy to ENC Encryption Request Coordinator (see § 740.17(j)(5) for mailing addresses). Intellectual property protection (e.g., copyright, patent or trademark) will not, by itself, be construed as an express agreement for the payment of a licensing fee or royalty for commercial production or sale of any product developed using the source code.

(2) You may not knowingly export or reexport source code or products developed with this source code to Cuba, Iran, Iraq, Libya, North Korea, Sudan, or Syria.

(3) Posting of the source code on the Internet (e.g., FTP or World Wide Web site) where the source code may be downloaded by anyone would not establish “knowledge” of a prohibited export or reexport, including that described in paragraph (e)(2) of this section. In addition, such posting would not trigger “red flags” necessitating the affirmative duty to inquire under the “Know Your Customer” guidance provided in Supplement No. 3 to part 732 of the EAR.

14. Section 740.17 is revised to read as follows:

§ 740.17 Encryption commodities and software (ENC).

(a) Exports and reexports of certain encryption commodities and software.

As enumerated in this section, you may export and reexport encryption commodities, software and components (as defined in part 772 EAR) under License Exception ENC. License Exception ENC cannot be used if the encryption commodity or software provides an open cryptographic interface (as defined in part 772), unless the export is to a subsidiary of a U.S. company, as described in paragraph (a)(1) of this section.

(1) Encryption commodities, software, and technology for U.S. subsidiaries.

You may export and reexport any encryption item of any key length under ECCNs 5A002, 5D002 and 5E002 to foreign subsidiaries of U.S. companies (as defined in part 772) without review and classification. This includes source code and technology for internal company use, such as the development of new products. U.S. firms may also transfer under License Exception ENC encryption technology (5E002) to their foreign employees in the U.S. (except nationals of Cuba, Iran, Iraq, Libya, North Korea, Sudan or Syria) for internal company use, including the development of new products. All items produced or developed by U.S. subsidiaries with encryption commodities, software and technology exported under this paragraph are subject to the EAR and require review and classification before any sale or retransfer outside of the U.S. company.

(2) Encryption commodities and software.

You may export and reexport any encryption commodity, software and component after review and classification by BXA under ECCNs 5A002 and 5D002 to any individual, commercial firm or other non-government end-user. Encryption products classified under this paragraph require a license for export and reexport to government end-users (as defined in part 772). The former restriction limiting exports or reexports to internal company proprietary use is removed.

(3) Retail encryption commodities and software.

You may export and reexport to any end-user encryption commodities, software and components which have been reviewed and classified as retail under ECCNs 5A002 and 5D002. Retail encryption commodities, software and components are products:

(i) Generally available to the public by means of any of the following:

(A) Sold in tangible form through retail outlets independent of the manufacturer;

(B) Specifically designed for individual consumer use and sold or transferred through tangible or intangible means; or

(C) Sold in large volume without restriction through mail order transactions, electronic transactions, or telephone call transactions; and

(ii) Meeting all of the following:

(A) The cryptographic functionality cannot be easily diverted to commercial uses; and

(B) Do not require substantial support for installation and use;

(C) The cryptographic functionality has not been modified or customized to customer specification; and

(D) Are not network infrastructure products such as high end routers or switches designed for large volume communications.

(iii) Subject to the criteria in paragraphs (a)(3)(i) and (ii) of this section, retail encryption products include (but are not limited to) general purpose operating systems and their associated user-interface client software or general purpose operating systems with embedded networking and server capabilities; non-programmable encryption chips and chips that are constrained by design for retail products; low-end routers, firewalls and networking or cable equipment designed for small office or home use; programmable database management systems and associated application servers; low-end servers and application-specific servers (including client-server applications, e.g., Secure Socket Layer (SSL)-based applications) that interface directly with the user; and encryption products distributed without charge or through free or anonymous downloads.

(iv) Encryption products and network-based applications which provide functionality equivalent to other encryption products classified as retail will be considered retail.

(v) Encryption products exported or reexported under paragraph (a)(3) of this section can be used to provide services to any entity.

(vi) Finance-specific encryption commodities and software of any key length restricted by design (e.g., highly field-formatted with validation procedures and not easily diverted to other end-uses) and used to secure financial communications such as electronic commerce will be considered retail encryption products.

(vii) 56-bit products with key exchange mechanisms greater than 512 bits and up to and including 1024 bits, or equivalent products not classified as mass market, will be considered retail.

(4) Internet and Telecommunications service providers. Certain restrictions apply to Internet and telecommunications service providers. Any Internet or telecommunications service provider can obtain retail products under License Exception ENC and use them to provide any service to any entity. Internet and telecommunications service providers can obtain and use any encryption product for their internal use and to provide any service under License Exception ENC. However, a license is required for the use of any product not
classified as retail to provide services specific to government end-users, e.g., WAN, LAN, VPN, voice and dedicated-link services; application specific and e-commerce services and PKI encryption services specifically for government end-users only.

(5) Commercial encryption source code and general purpose toolkits. You may export and reexport encryption source code not released under § 740.13(e) or general purpose toolkits (application specific toolkits are covered under components, as defined in part 772), subject to the following provisions:

(i) Encryption source code, which would be considered publicly available under § 734.3(b)(3) of the EAR and which is subject to an express agreement for the payment of a licensing fee or royalty for commercial production or sale of any product developed using the source code, can be exported or reexported using License Exception ENC to any end-user without review and classification, provided you have submitted to BXA, by the time of export, written notification of the Internet location (e.g., URL or Internet address) or a copy of the source code. You may not knowingly export or reexport source code or products developed with this source code to Cuba, Iran, Iraq, Libya, North Korea, Sudan or Syria. Posting of the source code on the Internet (e.g., FTP or World Wide Web site) where the source code may be downloaded by anyone would not establish “knowledge” of a prohibited export or reexport. In addition, such posting would not trigger “red flags” necessitating the affirmative duty to inquire under the “Know Your Customer” guidance provided in Supplement No. 3 to part 732 of the EAR.

(ii) Encryption source code which would neither be considered publicly available nor include source code that when compiled provides an open cryptographic interface (as defined in part 772). This includes products approved under paragraph (a)(1) of this section to government end-users or end-users within the same country are prohibited unless otherwise authorized by license or license exception.

(iii) General purpose encryption toolkits may be exported or reexported after review and classification by BXA under License Exception ENC to any non-government end-user.

(iv) Any foreign product developed for commercial sale using encryption source code or general purpose toolkits exported under paragraph (a)(5) of this section is subject to reporting requirements under paragraph (g)(3) of this section. Foreign products developed by bundling or compiling of source code are not subject to this reporting requirement.

(b) Ineligible destinations. No encryption item(s) may be exported or reexported under this license exception to Cuba, Iran, Iraq, Libya, North Korea, Sudan or Syria.

(c) Transfers. Transfers of encryption items listed in paragraph (a) of this section to government end-users or end-users within the same country are prohibited unless otherwise authorized by license or license exception.

(d) Exports and reexports of foreign products incorporating U.S. encryption source code, components or general purpose encryption toolkits. Foreign products developed with or incorporating U.S.-origin encryption source code, components or toolkits remain subject to the EAR, but do not require review and classification by BXA and can be exported or reexported without further authorization.

(e) Eligibility for License Exception ENC. (1) Review and classification. You may initiate review and classification of your encryption commodities and software as required by paragraph (a) of this section by submitting a classification request in accordance with the provisions of § 748.3(b) and Supplement 6 to part 742 of the EAR. Indicate “License Exception ENC” in Block 9: Special purpose, on form BXA–748P. Submit the original request to BXA in accordance with § 748.3 of the EAR and send a copy of the request to ENC Encryption Request Coordinator (see paragraph (g)(5) of this section for mailing addresses). Thirty days after receipt of a complete classification request by BXA, unless otherwise notified by BXA, exporters may export and reexport to any non-government end-user any encryption product eligible under paragraphs (a)(2), (a)(4) and (a)(5) of this section. No exports to government end-users are allowed under this provision, and BXA reserves the right to suspend eligibility to export while a classification is pending.

(2) Grandfathering. Finance-specific and 56-bit products previously reviewed and classified by BXA can be exported or reexported to any end-user without further review. Other encryption commodities, software or components previously approved for export can be exported and reexported without further review to any non-government end-user under the provisions of § 740.17 (a). This includes products approved under a license, an Encryption Licensing Arrangement, or previously classified as eligible to use License Exception ENC (except for those products which were only authorized for export to U.S. subsidiaries). Exports to government end-users require a license unless BXA has classified the product as a “retail” product under paragraph (a)(3) of this section.

(3) Key Length Increases. Exporters can increase the key lengths of previously classified products and continue to export without another review. No other change in the cryptographic functionality is allowed.

(i) Any product previously classified as 5A002 or 5D002 can, with any upgrade to the key length used for confidentiality or key exchange algorithms, be exported or reexported under provisions of License Exception ENC to any non-government end-user without an additional review. Another classification is necessary to determine eligibility as a “retail” product under paragraph (a)(3) of this section.

(ii) Exporters must certify to BXA in a letter from a corporate official that the only change to the encryption product is the key length for confidentiality or key exchange algorithms and there is no other change in cryptographic functionality. Certifications must include the original authorization number issued by BXA and the date of issuance. BXA must receive this certification prior to any export of an upgraded product. The certification should be sent to BXA, with a copy sent to the ENC Encryption Request Coordinator (see paragraph (g)(5) of this section for mailing addresses).

(f) Open cryptographic interfaces. License Exception ENC shall not apply to exports or reexports of encryption commodities, software and components (unless exported to a subsidiary of a U.S. company under paragraph (a)(1) of this section), if the encryption product provides an open cryptographic interface (as defined in part 772). This does not apply to source code that would be considered publicly available under § 734.3(b)(3).

(g) Reporting requirements. (1) No reporting is required for exports of:

(i) Any encryption to U.S. subsidiaries;

(ii) Finance-specific products;

(iii) Encryption commodities or software with a symmetric key length not exceeding 64 bits or otherwise classified as qualifying for mass market treatment;

(iv) Retail products exported to individual consumers;

(v) Any export made via free or anonymous download; and

(vi) Any export made from or to a U.S. bank, financial institution or their subsidiaries, affiliates, customers or contractors for banking or financial operations.
(2) Exporters must provide all available information as follows:
   (i) For items exported to a distributor or other reseller, the name and address of
       the distributor or reseller and the quantity exported and, if collected in the
       normal course of business, the end-user’s name and address;
   (ii) For items exported through direct sale, the name and address of the
       recipient and the quantity exported (except for retail products if the end-
       user is an individual consumer); and
   (3) For direct sales or transfers of encryption components, commercial
       source code described under § 740.17(a)(5) or general purpose
       encryption toolkits to foreign manufacturers, you must submit the
       names and addresses of the manufacturers using such encryption
       components, commercial source code or general purpose encryption
       toolkits and a non-proprietary technical description of the products for which the
       components or code or toolkit are being used (e.g., brochures, other
       documentation, descriptions or other identifiers of the final foreign product;
       the algorithm and key lengths used; general programming interfaces to the
       product, if known; any standards or protocols that the foreign product
       adheres to; and source code, if available).

(4) Exporters of encryption commodities, software and components
    which were previously classified under License Exception ENC, or which have
    been licensed for export under an Encryption Licensing Arrangement, must
    comply with the reporting requirements of this section.

(5) Beginning January 14, 2000, you must submit reports required under this
    section semi-annually to BXA, unless otherwise provided in this paragraph.
    For exports occurring between January 1 and June 30, a report is due no later
    than August 1. For exports occurring between July 1 and December 31, a
    report is due no later than February 1. For exports and reexports to Internet
    and telecommunications service providers of network infrastructure
    products (e.g., high-end routers or switches designed for large volume
    communications), reports are due by the time of export. Reports must include
    the classification or other authorization number. These reports must be provided
    in electronic form to BXA; suggested file formats for electronic submission
    include spreadsheets, tabular text or structured text. Exporters may request
    other reporting arrangements with BXA to better reflect their business models.
    Reports should be sent electronically to crypt@bxaprod.gov, or disks and CDs
    can be mailed to the following addresses:

   (i) Department of Commerce, Bureau of Export Administration, Office of
       Strategic Trade and Foreign Policy
       Controls, 14th Street and Pennsylvania
       Ave., N.W., Room 2705, Washington,
       DC 20230. Attn: Encryption Reports.
   (ii) A copy of the report should be sent to:
       Attn: ENC Encryption Request
       Coordinator, 9800 Savage Road, Suite
       6131, Ft. Meade, MD 20755-6000.
   (iii) Distributors and resellers. U.S. or
       foreign distributors, resellers or other
       entities who are not original
       manufacturers of encryption
       commodities and software are permitted
       to use License Exception ENC only in
       instances where the export or reexport
       meets the applicable terms and
       conditions of § 740.17.

PART 742—[AMENDED]

15. Section 742.15 is revised to read as follows:

§ 742.15 Encryption items.

Encryption items can be used to
maintain the secrecy of information, and
thereby may be used by persons abroad
to harm national security, foreign policy
and law enforcement interests. The U.S.
has a critical interest in ensuring that
important and sensitive information of
the public and private sector is
protected. Consistent with our
international obligations as a member of
the Wassenaar Arrangement, the U.S.
has a responsibility to maintain control
over the export of encryption items. As
the President indicated in Executive
Order 13026 and in his Memorandum of
November 15, 1996, export of
encryption software, like export of
encryption hardware, is controlled
because of this functional capacity to
encrypt information on a computer
system, and not because of any
informational or theoretical value that
such software may reflect, contain, or
represent, or that its export may convey
to others abroad. For this reason, export
controls on encryption software are
distinguished from controls on other
software regulated under the EAR.

(a) License requirements. Licenses are
required for exports and reexports to all
destinations, except Canada, for items
controlled under ECCNs having an “EI”
(for “encryption items”) under the
“Control(s)” paragraph. Such items include:
encryption commodities
controlled under ECCN 5A002;
encryption software controlled under
ECCN 5D002; and encryption
technology controlled under ECCN
5E002. Refer to part 772 of the EAR for
the definition of “encryption items”.

(b) Licensing policy. The following
licensing policies apply to items
identified in paragraph (a) of this
section. Except as otherwise noted,
applications will be reviewed on a case-
by-case basis by BXA, in conjunction
with other agencies, to determine
whether the export or reexport is
consistent with U.S. national security
and foreign policy interests. For
subsequent bundling and updates of
these items see paragraph (n) of § 770.2
of the EAR.

(1) Encryption commodities, software
and technology under ECCNs 5A992,
5D992 and 5E992. Certain encryption
commodities, software and technology
may, after classification by BXA as
ECCNs 5A992, 5D992 or 5E992, be
released from “EI” or “NS” controls.
Items controlled under these ECCNs are
eligible for export and reexport to all
destinations except Cuba, Iran, Iraq,
Libya, North Korea, Sudan or Syria.
Refer to § 748.3(b)(3) of the EAR for
additional information regarding
classification requests. The following
encryption items may be eligible for
such treatment:

   (i) 56-bit encryption commodities,
       software and technology. Encryption
       commodities, software and technology
       up to and including 56-bits with an
       asymmetric key exchange algorithm not
       exceeding 512 bits may be classified
       under ECCNs 5A992, 5D992 or 5E992.

   (ii) Key management products.
       Products which only provide key
       management with asymmetric key
       exchange algorithms not exceeding 512
       bits may be eligible for classification
       under ECCNs 5A992 or 5D992.

   (iii) 64-bit mass market encryption
       commodities and software. (A) Mass
       market encryption commodities and
       software with key lengths not exceeding
       64-bit for the symmetric algorithm may
       be eligible for classification by BXA
       under ECCNs 5A992 or 5D992.

       Refer to the Cryptography Note (Note
       3) to part 2 of Category 5 of the CCL for
       a definition of mass market encryption
       commodities and software. Key
       exchange mechanisms, proprietary key
       exchange mechanisms, or company
       proprietary commodities and software
       implementations may also be eligible
       for this treatment. Refer to Supplement
       No. 6 to part 742 and § 748.3(b)(3) of
       the EAR for additional information.

       (B) Mass market encryption
       commodities and software (e.g., 40 and
       56-bit DES or equivalent) previously
       eligible for License Exception TSU (or
       for hardware, ENC) may increase key
       lengths for the confidentiality algorithm
       up to 64 bits and still be classified as a
       mass market product without an
       additional review. Exporters must
certify to BXA in a letter from a corporate official the only change to the encryption product is the key length for confidentiality or key exchange algorithms and there is no other change in cryptographic functionality. Certifications must include the original authorization number issued by BXA and the date of issuance. BXA must receive this certification prior to any export of upgraded products. The certification should be sent to BXA, with a copy to ENC Encryption Request Coordinator at the following addresses:

(1) Department of Commerce, Bureau of Export Administration, Office of Strategic Trade and Foreign Policy Controls, 14th Street and Pennsylvania Ave., N.W., Room 2705, Washington, DC 20230.

(2) A copy of the report should be sent to: Attn: ENC Encryption Request Coordinator, 9800 Savage Road, Suite 6131, Ft. Meade, MD 20755–6000.

(4) For classification of these encryption items under these ECCNs, mark “NLR” in Block 9: Special purpose, on Form BXA–748P, of your classification request.

(2) Encryption commodities and software eligible for classification under ECCNs 5A002, 5D002 and 5E002 and qualified for License Exception ENC. Items classified by BXA as retail products under ECCNs 5A002 and 5D002 are permitted for export and reexport to any end-user. All other encryption commodities, software and components classified by BXA under ECCNs 5A002 and 5D002 may be exported to any individual, commercial firm or other non-government end-user. Any encryption item (including technology classified under 5E002) will be permitted for export or reexport to U.S. subsidiaries (as defined in part 772). Products developed using U.S. encryption items are subject to the EAR. No exports are authorized to Cuba, Iran, Iraq, Libya, North Korea, Sudan or Syria.

(3) Encryption licensing. Exporters may submit applications for licenses or Encryption Licensing Arrangements for exports and reexports of encryption items not eligible for license exception, including exports and reexports of encryption technology to strategic partners of U.S. companies (as defined in part 772). For Encryption Licensing Arrangements, the applicant must specify the sales territory and class of end-user. Encryption Licensing Arrangements granted for exports of unlimited quantities for all destinations except Cuba, Iran, Iraq, Libya, North Korea, Sudan or Syria, are valid for four years, and may require reporting.

Licenses are required for exports of encryption items to governments, or Internet and telecommunications service providers for the provision of services specific to governments, and may be favorably considered for civil uses, e.g., social or financial services to the public; civil justice; social insurance, pensions and retirement; taxes and communications between governments and their citizens.

16. Supplement No. 6 to Part 742 is revised to read as follows:

Supplement No. 6 to Part 742—
Guidelines for Submitting a Classification Request for Encryption Items

Classification requests for encryption items must be submitted on Form BXA–748P, in accordance with §748.3 of the EAR. Insert in Block 9: Special Purpose of the Form BXA–748P, the phrase “License Exception ENC” or “NLR”, based on your classification request. Failure to insert this phrase will delay processing. In addition, the Bureau of Export Administration recommends that such requests be delivered via courier service to: Bureau of Export Administration, Office of Exporter Services, Room 2705, 14th Street and Pennsylvania Ave., NW, Washington, DC 20230. In addition, you must send a copy of the request and all supporting documents to: Attn: ENC Encryption Request Coordinator, 9800 Savage Road, Suite 6131, Fort Meade, MD 20755–6000.

(a) Requests for encryption items will be processed in thirty (30) days from receipt of a properly completed request.

(b) To submit a classification request for a technical review of commodities and software, ensure that the information provided includes brochures or other documentation or specifications (to include applicable cryptographic source code) related to the technology, commodity or software, as well as any additional information which you believe would assist the review process. You must provide the following information in a cover letter to the classification request:

(1) Clearly state at the top of the page whether “ENC” or “NLR”—“30 Day Technical Review Requested.”

(2) State that you have reviewed and determined that the commodity or software subject to the classification request meets the criteria of this Supplement;

(3) State the name of the commodity or software being submitted for review;

(4) State how the commodity or software has been written to preclude user modification of the encryption algorithm, key management mechanism, and key space;

(5) State that a duplicate copy has been sent to the ENC Encryption Request Coordinator;

(6) Provide the following information for the commodity or software product:

(i) Description of all encryption algorithms and key lengths, e.g. source code, and how the algorithms are used. If any combination of different algorithms are used in the same product, also state how each is applied to the data.

(ii) Pre-processing information of plaintext data before encryption (e.g. compression of the data).

(iii) Post-processing information of cipher text data after encryption (e.g. packetization of the encrypted data).

(iv) For classification requests regarding object code or Java byte code, describe what techniques (including obfuscation, private access modifiers, final classes) are used to protect against decompilation and misuse.

(v) For classification requests regarding components:

(A) Reference the application for the components if known;

(B) State if there is a general programming interface to the component;

(C) State whether the component is constrained by function;

(D) List any standards and protocols that the component adheres to;

(E) Include a complete description of all functionalities and their accessibility; and

(F) Encryption components need to be clearly identified to include the name of the manufacturer, component model number, or other identifier.

(vi) For classification requests regarding source code:

(A) If applicable, reference the executable product that has already received a technical review;

(B) Include whether the source code has been modified and, if modified, provide the technical details on how the source code was modified;

(C) Include a copy of the sections of the source code that contain the encryption algorithm, key management routines, and their related calls.

PART 770—[AMENDED]

17. Section 770.2 is amended by adding new paragraph (n) to read as follows:

§ 770.2 Item interpretations.

* * * * *

(n) Interpretation 14: Encryption commodity and software reviews. Classification of encryption
commodities or software is required to determine eligibility for all licensing mechanisms except source code (see §§ 740.13(e) and 740.17(a)(5)(i) of the EAR) and exports to subsidiaries of U.S. firms (see § 740.17(a)(1)). Note that subsequent bundling, patches, upgrades or releases, including name changes, may be exported or reexported under the applicable provisions of the EAR without further technical review as long as the functional encryption capacity of the originally reviewed encryption product has not been modified or enhanced. This does not extend to products controlled under a different category on the CCL.

18. Part 772 is amended by removing the definitions for “Health/medical end-user” and “On-line merchant” and adding definitions for “asymmetric algorithm”, “encryption component”, “government end-user”, “open cryptographic interface”, and “symmetric algorithm” in alphabetical order, to read as follows:

PART 772—DEFINITIONS OF TERMS

* * * * *

“Asymmetric algorithm”. (Cat 5, Part II) A cryptographic algorithm using different, mathematically-related keys for encryption and decryption. A common use of “asymmetric algorithms” is key management.

“Encryption component”. Any encryption commodity or software (except source code), including encryption chips, integrated circuits, application specific encryption toolkits, or executable or linkable modules that alone are incapable of performing complete cryptographic functions, and is designed or intended for use in or the production of another encryption item.

“Open cryptographic interface”. A mechanism which is designed to allow a customer or other party to insert cryptographic functionality without the intervention, help or assistance of the manufacturer or its agents, e.g., manufacturer’s signing of cryptographic code or proprietary interfaces. If the cryptographic interface implements a fixed set of cryptographic algorithms, key lengths or key exchange management systems, that cannot be changed, it will not be considered an “open” cryptographic interface. All general application programming interfaces (e.g., those that accept either a cryptographic or non-cryptographic interface but do not themselves maintain any cryptographic functionality) will not be considered “open” cryptographic interfaces.

“Symmetric algorithm”. (Cat 5, Part II) A cryptographic algorithm using an identical key for both encryption and decryption. A common use of “symmetric algorithms” is confidentiality of data.

PART 774—[AMENDED]

Supplement No. 1 to Part 774 [Amended]

19. Supplement No. 1 to Part 774, Category 5—Telecommunications and Information Security, is amended:

a. By revising, immediately following EAR 99, the heading for “Part 2—Information Security,” removing the Note, and inserting in its place three new Notes;

b. By revising the heading and the “List of Items Controlled” for ECCN 5A002; and

c. By revising the Licensing Requirements section of ECCN 5D002 to read as follows:

Category 15—Telecommunications and “Information Security”

II. “Information Security”

Note 1: The control status of “information security” equipment, “software”, systems, application specific “electronic assemblies”, modules, integrated circuits, components, or functions is determined in Category 5, Part 2 even if they are components or “electronic assemblies” of other equipment.

Note 2: Category 5, Part 2 encryption products, when accompanying their user for the user’s personal use, are eligible for License Exceptions TMP or BAG.

Note 3: Cryptography Note: ECCNs 5A002 and 5D002 do not control items that meet all of the following:

a. Generally available to the public by being sold, without restriction, from stock at retail selling points by means of any of the following:

1. Over-the-counter transactions;

2. Mail order transactions;

3. Electronic transactions; or

4. Telephone call transactions;

b. The cryptographic functionality cannot be easily changed by the user;

c. Designed for installation by the user without further substantial support by the supplier;

d. Does not contain a “symmetric algorithm” employing a key length exceeding 64-bits; and

e. When necessary, details of the items are accessible and will be provided, upon request, to the appropriate authority in the exporter’s country in order to ascertain compliance with conditions described in paragraphs (a) through (d) of this note. See § 742.15(b)(1) of the EAR.

* * * * *

5A002 Systems, equipment, application specific “electronic assemblies”, modules and integrated circuits for “information security”, and other specially designed components therefor.

* * * * *

List of Items Controlled

Unit: $ value.

Related Controls: See also 5A992.

This entry does not control: (a) “Personalized smart cards” where the cryptographic capability is restricted for use in equipment or systems excluded from control paragraphs (b) through (f) of this note. Note that if a “personalized smart card” has multiple functions, the control status of each function is assessed individually; (b) receiving equipment for radio broadcast, pay television or similar restricted audience television of the consumer type, without digital encryption except that exclusively used for sending the billing or program-related information back to the broadcast providers; (c) portable or mobile radiotelephones for civil use (e.g., for use with commercial civil cellular radio communications systems) that are not capable of end-to-end encryption; (d) equipment where the cryptographic capability is not user-accessible and which is specially designed and limited to allow any of the following: (1) Execution of copy-protected “software”; (2) access to any of the following: (a) Copy-protected read-only media; or (b) information stored in encrypted form on media (e.g., in connection with the protection of intellectual property rights) where the media is offered for sale in identical sets
to the public; or (3) one-time encryption of copyright protected audio/video data; (e) cryptographic equipment specially designed and limited for banking use or money transactions; (f) cordless telephone equipment not capable of end-to-end encryption where the maximum effective range of unboosted cordless operation (e.g., a single, unrelayed hop between terminal and home basestation) is less than 400 meters according to the manufacturer’s specifications.

Related Definitions: (1) The term money transactions in paragraph (e) of Related Controls includes the collection and settlement of fares or credit functions.

(2) For the control of global navigation satellite systems receiving equipment containing or employing decryption (e.g., GPS or GLONASS) see 7A005.

Items

Technical Note: Parity bits are not included in the key length.

a. Systems, equipment, application specific “electronic assemblies”, modules and integrated circuits for “information security”, and other specially designed components therefor:
   a.1. Designed or modified to use “cryptography” employing digital techniques performing any cryptographic function other than authentication or digital signature having any of the following:
      a.1.a. A “symmetric algorithm” employing a key length in excess of 56-bits; or
      a.1.b. An “asymmetric algorithm” where the security of the algorithm is based on any of the following:
         a.1.b.1. Factorization of integers in excess of 512 bits (e.g., RSA);
         a.1.b.2. Computation of discrete logarithms in a multiplicative group of a finite field of size greater than 512 bits (e.g., Diffie-Hellman over Z/pZ); or
         a.1.b.3. Discrete logarithms in a group other than mentioned in 5A002.a.1.b.2 in excess of 112 bits (e.g., Diffie-Hellman over an elliptic curve);
      a.2. Designed or modified to perform crypto analytic functions;
      a.3. [Reserved]
      a.4. Specially designed or modified to reduce the compromising emanations of information-bearing signals beyond what is necessary for the health, safety or electromagnetic interference standards;
      a.5. Designed or modified to use cryptographic techniques to generate the spreading code for “spread spectrum” or the hopping code for “frequency agility” systems;
      a.6. Designed or modified to provide certified or certifiable “multilevel security” or user isolation at a level exceeding Class B2 of the Trusted Computer System Evaluation Criteria (TCSEC) or equivalent;
      a.7. Communications cable systems designed or modified using mechanical, electrical or electronic means to detect surreptitious intrusion.

Technical Notes: 1. Authentication and digital signature functions include their associated key management function.

2. Authentication includes all aspects of access control where there is no encryption of files or text except as directly related to the protection of passwords, Personal Identification Numbers (PINs) or similar data to prevent unauthorized access.

3. “Cryptography” does not include “fixed” data compression or coding techniques.

Note: 5A002.a.1 includes equipment designed or modified to use “cryptography” employing analogue principles when implemented with digital techniques.

License Requirements

<table>
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<tr>
<th>Control(s)</th>
<th>Country chart</th>
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<tbody>
<tr>
<td>NS applies to entire entry</td>
<td>NS Column 1</td>
</tr>
<tr>
<td>AT applies to entire entry</td>
<td>AT Column 1</td>
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</tbody>
</table>

EI applies to encryption items transferred from the U.S. Munitions List to the Commerce Control List consistent with E.O. 13026 of November 15, 1996 (61 FR 58767) and pursuant to the Presidential Memorandum of that date. Refer to § 742.15 of the EAR.

Note: Encryption software is controlled because of its functional capacity, and not because of any informational value of such software; such software is not accorded the same treatment under the EAR as other “software”; and for export licensing purposes, encryption software is treated under the EAR in the same manner as a commodity included in ECCN 5A002.

Note: Encryption software controlled for “EI” reasons under this entry remains subject to the EAR even when made publicly available in accordance with part 734 of the EAR. See §§ 740.13(e) and 740.17(5)(i) of the EAR for information on releasing certain source code which may be considered publicly available from “EI” controls.

Note: After a technical review, 56-bit items, key management products not exceeding 512 bits and mass market encryption commodities and software eligible for the Cryptography Note (see § 742.15(b)(1) of the EAR) may be released from “EI” and “NS” controls.

License Exceptions: * * * * * * * * * *

20. Supplement No. 2 to part 774 (General Technology and Software Notes) is amended by revising the Note at the end of the Supplement to read as follows:

Supplement No. 2 to Part 774—General Technology and Software Notes

* * * * *

Note: The General Software Note does not apply to “software” controlled by Category 5, Part 2 (“Information Security”). For “software” controlled by Category 5, Part 2, see Supplement No. 1 to Part 774, Category 5, Part 2, Note 3—Cryptography Note.


R. Roger Majak,
Assistant Secretary for Export Administration.

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