The attached document is submitted FOR INFORMATION under Item VI of the Draft Agenda of the Sixth Meeting of the Working Party No. 9 Sub-group on Electronic Commerce, to be held on 21-22 September 2000.

Contact person: Simon Woodside, Tel: (33 1) 45 24 95 91
Fax: (33 1) 44 30 61 36, E-mail: simon.woodside@oecd.org
FEEDBACK LETTER FROM THE CHAIR OF THE WORKING PARTY NO. 9 SUB-GROUP ON ELECTRONIC COMMERCE TO THE TECHNOLOGY TAG

From: Mr. Andrew Marsland
To: Mr. Joseph Alhadeff
Business Co-Chair of Technology Technical Advisory Group (TAG)
Date: 16 August 2000

Dear Joe,

1. I am writing to you and your colleagues on the Technology TAG:
   - To outline how the Sub-group will be proceeding with its work over the coming months – please see the first section of the attached copy of my letter to the Consumption Tax (CT) TAG [ref. DAFFE/CFA/WP9/EC(2000)3].
   - To thank the TAG for its important contribution “Technological Perspectives on Consumption Tax Collection Models for Cross Border Electronic Commerce Trade”; and
   - To identify areas in which the Sub-group would welcome further advice from the TAG.

2. The Sub-group discussed, and drew heavily upon, the TAG’s comprehensive paper during our meetings in early June. The Sub-group’s reaction to your input was very positive overall. The “hybrid” type approach reflected in your analysis and recommendation was discussed in some detail. The Sub-group is generally interested in exploring longer-term solutions based on underlying technology and “hybrid” tax collection mechanisms.

3. In the near term, as you will see from the timetable of work set out in my letter to the CT TAG, the Sub-group is committed to achieving a consensus position on the application of the principle of taxation in the place of consumption, with possible recommendations on specific collection mechanisms to support that application (for example, self-assessment for business to business transactions).

4. The report that we will be preparing will very probably include some form of a guideline on the application of the place of consumption principle. The guideline might well define the place of consumption for cross-border business to consumer transactions to be the consumer’s permanent address, or alternatively, their usual place of residence. Clearly a key to this approach is the practical difficulties in determining and ‘verifying’ the place of residence.

5. The Sub-group was particularly intrigued by the information in Annex G of the Technology TAG’s note (as well as that in the room document entitled “Usage of Credit Card Indicia for Jurisdictional Verification”). Like the Technology TAG, we see merit in developing a simple system to determine and verify the consumer’s residence. The first step might be a request by the supplier for the recipient’s jurisdiction, e.g. via a pull-down menu. A second step to verify the recipient’s self-declaration could then be based on one or more proxies such as the jurisdiction of the credit card issuer (as determined from the
credit card number). As you are aware, we are in the process of exploring this possibility with representatives of the credit card industry.

6. In Annex G, the Technology TAG included an explanation of the limitations inherent in both the use of credit card data and Internet provider (IP) tracing mechanisms. However, I would like to suggest that the TAG expand its work with specific regard to the authentication techniques. More specifically, the Sub-group would be interested in a further evaluation of which is a more practicable option in the short term: verification based on credit card number or IP tracing technologies? The TAG might consider the implications for the various parties involved including, vendors (compliance burden), the consumer (privacy), third parties and revenue authorities (administrative burden). Can the difficulties with tracing systems (e.g. AOL and “anonymiser” software) be overcome?

7. We understand that, in the longer term, the Internet Protocol Version 6 (IPv6) will replace the current IPv4 system. It has been pointed out that much could be gained if the allocation of IPv6 addresses were aligned with geographic factors, including country. Is the IPv6 hierarchy rollout solely in the hands of the appropriate standards bodies? What role could governments play in influencing this process? In this respect, we would be very interested in knowing whether there are private sector interests in having some form of geographical identifier tied into the IPv6 address (e.g. for marketing purposes, for the protection of intellectual property, or for franchising agreements).

8. The TAG paper points to general agreement that digital certificates and digital signatures show the most promise for the future. The Sub-group would like to assess how viable digital certificates and digital signatures may prove over the longer term. In this respect, would it be possible for the TAG to expand on its commentary in Annex G? Additionally, are we to understand that digital certificates may never be widely used by private consumers? Could the TAG also expand on the role revenue authorities might play in advancing the relevancy of digital certificates? Are there other proxies inherent in technology that suppliers and revenue authorities could rely on for authentication? Apart from digital certificates, are there other technological means of distinguishing between a consumer and a business (via proxy or otherwise)?

9. The Sub-group would be particularly interested in TAG’s insight into approaches currently in use by business to identify the location of their customers. For example, we note that some music companies, in conjunction with digital service providers, are now placing territorial restrictions on downloads. How is this accomplished (is it via “Digital Rights Management”)? How are they able to determine the location of the downloader? Is this likely to become a part of the dominant business model?

10. The Sub-group appreciates that there may not be simple answers to these types of questions. Nevertheless, any further input that could be provided by the TAG would be valuable in assisting our analysis of the near and longer term options.

11. Finally, in the context of providing some further advice as requested in this letter, the Sub-group would also find it very helpful if the TAG were able to produce a summary of the principal conclusions in your main paper.

12. Thank you once again for the constructive input of the Technology TAG.

Yours sincerely,

Andrew Marsland