



## **Business and government agree privacy is major issue in use of electronic commerce**

**The OECD conference, *Dismantling the Barriers to Global Electronic Commerce* gathered private sector leaders and government policy makers together to discuss the future of e-commerce. Apart from different views on cryptography, business was united in its demand to maintain a business-led, market-driven environment for electronic commerce.**

The conference, organised in Turku, Finland 19th-21st November 1997 by the OECD and the Government of Finland, provided a high level business and government dialogue on issues that slow down the development of global electronic commerce. Topics discussed included access to and use of infrastructure, user and consumer trust, the regulatory environment, logistical problems for delivery and secure payment systems. The event was organised in co-operation with the Business and Industry Advisory Committee to the OECD (BIAC), the European Commission and the Government of Japan.

The conference continued the work done in a number of international meetings, especially the G7 Ministerial conference on the Information Society held in February 1995 (PL&B Feb '95 p.21), and the Ministerial conference on Global Information Networks which was attended by the ministers of 29 countries last July (PL&B Oct '97 p. 16).

Although it was recognised that solutions to dismantle barriers to electronic commerce need to be found quickly, the role of the Turku conference was a preparatory one. It is expected that guiding principles for electronic commerce will be adopted at the OECD's ministerial conference, scheduled for October 1998 in Ottawa, Canada.

### **Is e-com the next industrial revolution?**

Electronic commerce generally means commercial transactions based on transmitting digitised data over open networks, mainly the Internet. Most transactions currently taking place are between businesses. The applications in this area include services and products for specific sectors, such as

finance. E-commerce is also used between businesses and consumers, and businesses and government. Applications developed for transactions between business and administrations include electronic tendering and tax forms.

The use of electronic commerce is a long way from a breakthrough amongst consumers at the moment. One of the sectors where e-commerce has been predicted to grow extremely fast is transport. There are estimates that in a few years time, 40% of airline tickets will be bought on-line, although so far, the volume of business has been modest. Amadeus, a global airline reservation system, announced at the conference that at present only 0.5% of sales are made on-line.

Some industry leaders believe that the change electronic commerce will bring into our lives compares with that caused by the industrial revolution. The wildest scenarios suggest that in a couple of years, most consumers, at least in industrialised countries, will shop via the Internet. However, e-commerce is much more than just buying and selling goods. Examples of services already available are health care and telebanking.

Taking into account a recent survey which suggests that in two years time, 39% of all US retailers plan to sell on-line, the real take-off may be in the very near future. The Internet has already proved that explosive growth can happen. Of the estimated 250,000 web-sites that currently exist, almost all have been created in the last twelve months.

### **Lack of e-commerce security and privacy**

At present, most governments share the view that industry self-regulation is the most effective way to control electronic commerce. However, many of the problems are still unresolved. The International Chamber of Commerce (ICC), which has been active in this field, (PL&B Dec '92 pp.13-16) believes that business is running out of time. Maria Livanos Cattai, Secretary General of the organisation, suggested that business has probably only one and a half years to act and stop the misuse of the Internet. If solutions cannot be found quickly, governments are likely to interfere, she predicted.



Professor **Masao Horibe** from Chuo University, Japan, studied the privacy issue in more detail in his presentation. His approach to regulation followed the general view of the conference that governments must regulate as little as possible, and implement technologically neutral policies. Professor Horibe stressed that security must be guaranteed in order to ensure that no illegal access, information leaks, alteration or destruction of data is possible. Individuals' privacy is threatened by the same factors as those which threaten the Internet in general, for example, collection of information on the sites visited. Privacy protection can be achieved by a combination of universal technological solutions and a legal framework to support those standards, Professor Horibe said.

A more provocative view was put forward by **William Fagan**, Director of Consumer Affairs, Ireland. He claimed that lack of access is still a bigger problem than lack of trust. When speaking about electronic commerce we are effectively speaking only about industrialised countries with a high level of computer users. Mr Fagan identified several issues that cause lack of trust in the consumer. There is no contact with the vendor, or in fact, knowledge of his location. Payment difficulties are still common - many consumers avoid paying by credit card over the Internet, and not everyone has a credit card. Also the possibilities for redress are limited. This may soon be corrected in Europe as the European Union is preparing a Directive to allow redress.

**Jorma Ollila**, Chief Executive Officer of Nokia, touched upon the security issue by strongly criticising the lack of a common encryption environment. He said that the situation could seriously hinder the development of electronic commerce.

### **Safeguarding Internet payments**

**Andrew Konstantaras**, Vice President of VISA International, reported on developments regarding the security of payments on open networks. He emphasised that there are three components to security

1. privacy
2. authentication of parties
3. data integrity.

To safeguard credit card payments on the Internet, IBM has, together with VISA, Mastercard and industry associations, developed the SET standard. The standard is based on the use of both public and secret key cryptography, and digital signatures. To create a digital signature, the system uses a distinct public/private key pair.

The standard was first piloted in Denmark in 1996. It has since been used in pilots in several countries. Payments based on the newest version, SET 1.0, are expected to be conducted in the near future. The standard has been approved for export.

### **USA views global network regulation on privacy as unenforceable**

One of the keynote speakers of the business-government forum was **Ira Magaziner**, Special Advisor to President Clinton. He strongly advised governments to leave the development of electronic commerce to the private sector. The market-driven arena should not be regulated as electronic commerce is decentralised by its nature.

His views on privacy protection for electronic commerce reinforced the US position on privacy (PL&B Aug '97 p.22). Although regarding privacy protection as extremely important, he did not see that any central government could enforce privacy laws on global information networks. People will protect themselves with the help of filtering and rating technologies already available, he promised. With regard to international co-operation, he welcomed the OECD's interest in the economic questions in this area, and stressed the importance of Codes of Conduct by industry groups.

### **Does self-regulation work across national borders?**

Although many speakers supported the view that privacy protection can be taken care of in a self-regulatory framework, there were a few opposing statements. **Paul Vandoren**, Head of Division of DG 1 of the European Commission, reminded the audience that self-regulation does not work across borders. The measures taken are often limited to national application, and do not serve the global nature of electronic commerce.



## **BIAC calls for government co-ordination**

BIAC, the Business and Industry Advisory Committee to the OECD, presented the following proposals for future action and called on governments to endorse them.

1. Electronic commerce should be led primarily by the private sector in response to market forces. Government action should take place only when required, and government should ensure private sector input in policy decisions. All government decisions should be internationally co-ordinated.
2. Electronic commerce should not receive unfavourable tax treatment in comparison to transactions by other means.
3. Regulation of the telecommunication infrastructure should be market-oriented.
4. With regard to privacy, confidentiality, anonymity and content control, BIAC proposed that individuals can protect themselves through choice. Business was called on to make the technological means available for users to exercise that choice.

## **Towards encryption consensus**

Encryption and digital signatures were covered by many delegates. The EU has proposed minimum harmonisation for digital signatures (PL&B Oct '97 p. 5). For electronic signatures to work at the international level, Paul Vandoren of DG XV, European Commission, suggested the possibility of an international convention. The need for Europe and America to come together on encryption issues was also recognised by several business leaders.

Work on cryptography questions has continued in other international fora. Since the adoption of the Guidelines for Cryptography in March 1997, the OECD's Group of Experts on Information and Security and Privacy has decided to compile an inventory of national laws on encryption.

Furthermore, the OECD organised a workshop in December for non-member countries to inform them about the issues to be considered in cryptography policy concerning electronic commerce.

In the United Nations, the UNCITRAL (United Nations Commission on International Trade Law) Working Group on Electronic Data Interchange is

preparing a background study on digital signatures. Based on the findings about laws being prepared in several countries, the group will study the feasibility of international rules.

## **Guidelines ready soon**

Before Canada hosts the follow-up conference in Ottawa, 7th-9th October 1998, many issues will need to be resolved. The aim in Canada will be to establish a global consensus on general principles for electronic commerce. As a start, UNCITRAL's model law on electronic commerce of 1996 has been elaborated by Guidelines adopted by the International Chamber of Commerce last November. The Guidelines were developed to provide common definitions and best practices for certifying electronic commerce. While the Guidelines build on the UNCITRAL model law and the American Bar Association's Digital Signature Guidelines, they have aimed to adopt a global perspective. For example, the term "ensure" is suggested to replace the term "authenticate," which is widely used in the USA in the context of message identification by individuals, but in some other countries means the identification by third parties.

The ICC welcomes comments and suggestions for the improvement of the Guidelines. The text, called GUIDEC, is available on the Internet at <http://www.iccwbo.org>.

Much work is also being done in other fields. For example, the OECD Committee on Consumer Policy is preparing guidelines on electronic commerce both for administering existing laws on consumer protection, and developing new ones. The guidelines, scheduled to be completed by the end of 1998, are planned to be issued as a Recommendation of the OECD Council. The guidelines will deal with fraudulent and misleading commercial conduct, redress mechanisms and on-line consumer privacy.

Privacy questions were further discussed in February, when the OECD organised a business-government workshop to study implementation of the OECD Privacy Guidelines in the electronic environment. A report will be released soon.

**Information on the conference is available on the OECD web site:**

<http://www.oecd.org/dsti/iccp/e-comm>