



Executive Summary

This report summarizes the activities of the Department of Commerce’s Bureau of Industry and Security (BIS) during Fiscal Year 2002.¹

On April 18, 2002, the Department announced that it had changed the name of the Bureau from the “Bureau of Export Administration” to the “Bureau of Industry and Security.” While a core mission of BIS continues to be the administration and enforcement of dual-use export controls, BIS’s responsibilities also include a broad range of non-export-related functions arising at the intersection of industry and security. The new name more accurately reflects the full scope of the activities in which BIS is engaged, while also reflecting that, in today’s world, industry and security are more closely intertwined than ever before.

Highlights of Fiscal Year 2002

BIS implemented a number of significant export control policies and regulations in Fiscal Year 2002. These included:

- Publication of rules adjusting controls on high performance computers and microprocessors, to reflect recent advancements in these technologies, the mass market and foreign availability of certain products, and changes in multilateral regime controls on these items.
- Publication of a rule implementing an agreement with the Departments of State and Defense resolving jurisdictional issues over several classes of space qualified items.
- Publication of a rule to implement changes in export controls on encryption items that were agreed to by the Wassenaar Arrangement.

In the export licensing area, BIS processed virtually the same number of applications it did in Fiscal Year 2001, but improved the average application processing time. In Fiscal Year 2002, BIS:

- Completed the review of 10,767 license applications, with an average processing time of 39 days, compared to the review of 10,773 license applications with an average processing time of 40 days in Fiscal Year 2001.
- Resolved a significant backlog of deemed export license applications by reallocating resources and personnel and by negotiating agreements with other relevant agencies to expedite the review process.

BIS continued to vigorously enforce U.S. export control laws and further its efforts to ensure compliance with export license conditions. During Fiscal Year 2002, BIS:

- Closed 25 administrative enforcement cases, including a \$2.12 million settlement agreement with McDonnell-Douglas to resolve charges that the company violated export control laws in connection with the diversion of certain machine tools to a military factory in China. This settlement was the second-largest civil penalty ever imposed by BIS.
- Contributed to the work of the FBI’s Joint Terrorism Task Forces, bringing BIS’s export control enforcement expertise to bear in the nation’s fight against terrorism.
- Published a notice establishing the “Unverified List” – a list of companies for which U.S. exporters are required to exercise heightened due diligence because of concerns raised by BIS’s inability to perform pre-license checks or post-shipment verifications at these companies.

¹In accordance with the Department’s past practice, this report has been prepared and is being submitted to the Congress pursuant to the annual reporting requirement set forth in Section 14 of the Export Administration Act of 1979 (EAA). It should be noted, however, that this annual reporting requirement, together with the rest of the EAA, has expired, and the President has continued the U.S. dual-use export control regime under the authority of the International Emergency Economic Powers Act. It should be further noted that some of the information included in the report fulfills reporting requirements in statutes other than the EAA.

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- Created an Administrative Case Review Board designed to ensure that export enforcement cases are processed consistently, fairly, and in accordance with best legal practices.

BIS undertook a number of efforts in Fiscal Year 2002 to inform the public of its programs and initiatives and to seek input from the public on those activities, including:

- Conducting educational “outreach” seminars on subjects ranging from the obligations of exporters and others under the Export Administration Regulations, to BIS’s enforcement of the Export Administration Regulations, to the reporting requirements under the Chemical Weapons Convention regulations, to raising awareness of state and local governments and corporate executives regarding the need to work in partnership with the Federal Government to protect the nation’s critical infrastructures from physical and cyber attacks.
- Supporting the Partnership for Critical Infrastructure Security, which brings together the government and private sector owners and operators of critical infrastructures in order to address common infrastructure security issues.

BIS, in coordination with other Federal agencies, participated in a number of international programs during Fiscal Year 2002, including:

- Working to strengthen the various multilateral export control regimes – the Wassenaar Arrangement, the Missile Technology Control Regime, the Nuclear Suppliers Group, and the Australia Group.
- Organizing 53 bilateral or multilateral conferences and workshops to strengthen and support indigenous export control regimes in other countries, including a number of countries formerly part of the Soviet Union and a number of countries that function as key trans-shipment hubs in global commerce.
- Vigorously engaging several countries of strategic importance – including, China, India, and Russia – on a number of high-technology trade and export control issues.

- Hosting eight on-site inspections of U.S. facilities engaged in chemical production activities, which were conducted by the Organization for the Prohibition of Chemical Weapons and carried out in compliance with the requirements of the Chemical Weapons Convention.
- Expanding BIS’s presence overseas by placing export control attachés in Abu Dhabi, United Arab Emirates and Cairo, Egypt, thereby supplementing the existing BIS attachés in Moscow, Russia and Beijing, China.

BIS activities during Fiscal Year 2002 to monitor and support the U.S. defense industrial and technological base included:

- Exercising authority under the Defense Priorities and Allocations System to require preferential acceptance and performance of certain contracts supporting Operation Enduring Freedom and homeland security activities, including contracts for components of Predator unmanned aerial vehicles and contracts for airline passenger baggage screening systems for the Transportation Security Administration.
- Assisting U.S. companies in securing \$7.8 billion in contracts to supply foreign governments with defense articles, including fighter aircraft, naval systems, attack helicopters, and aircraft electro-optical systems.

Highlights of BIS’s activities to protect the Nation’s critical infrastructures included:

- Continued use of the Critical Infrastructure Assurance Office’s Project Matrix™ program to assist other civilian Federal agencies in analyzing their dependence on critical infrastructures. Project Matrix™ is designed to give civilian Federal agencies the information that they need to ensure that the Federal Government continues to deliver services essential to the security, economy, and health and safety of its citizens in the event of deliberate attempts to disrupt such services through physical or cyber attacks.
- Coordinating the development and drafting of the *National Strategy to Secure Cyberspace* and providing assistance to the Office of Homeland Security in developing the *National Strategy for the Physical Protection of Critical Infrastructures and Key Assets*.