

repaired so that the performance of the requirements of this AD is affected, the owner/operator must request approval for an alternative method of compliance in accordance with paragraph (c) of this AD. The request should include an assessment of the effect of the modification, alteration, or repair on the unsafe condition addressed by this AD; and, if the unsafe condition has not been eliminated, the request should include specific proposed actions to address it.

Compliance: Required within the next 100 hours time-in-service (TIS) after the effective date of this AD, unless already accomplished.

To prevent propeller-induced vibrations from occurring during icing encounters at low ambient temperatures, which could result in decreased performance of the de-icing system during icing encounters with possible loss of control of the airplane, accomplish the following:

(a) Modify the propeller de-icing system by incorporating the following modifications in accordance with Jetstream Service Bulletin 30-JM 7453, Original Issue: October 24, 1984, Revision 2: December 10, 1984:

(1) Modification No. JM 7398: Ice Protection—Introduction of Revised Propeller De-Ice Circuit.

(2) Modification No. JM 7407: Ice and Rain Protection—Introduction of Dowty Rotol Dual Brush Block Assembly in Propeller De-icing Systems.

(3) Modification No. JM 7408: Propeller—Introduction of Propeller Incorporating Slipring to Dowty Rotol Mod VP3062.

(4) Modification No. JM 7445: Propeller—Introduction of Propeller with Revised 21-inch Boots.

(5) Modification No. JM 7449: Ice and Rain Protection—Introduction of Dowty Rotol Dual Rate Timer, Revised Ammeter, Selector Switch, and Fuses.

(b) Special flight permits may be issued in accordance with sections 21.197 and 21.199 of the Federal Aviation Regulations (14 CFR 21.197 and 21.199) to operate the airplane to a location where the requirements of this AD can be accomplished.

(c) An alternative method of compliance or adjustment of the compliance time that provides an equivalent level of safety may be used if approved by the Manager, Small Airplane Directorate, Aircraft Certification Service, 1201 Walnut, suite 900, Kansas City, Missouri 64106. The request shall be forwarded through an appropriate FAA Maintenance Inspector, who may add comments and then send it to the Manager, Small Airplane Directorate.

Note 2: Information concerning the existence of approved alternative methods of compliance with this AD, if any, may be obtained from the Small Airplane Directorate.

(d) The modifications required by this AD shall be done in accordance with Jetstream Service Bulletin 30-JM 7453, Original Issue: October 24, 1984, Revision 2: December 10, 1984. This incorporation by reference was approved by the Director of the Federal Register in accordance with 5 U.S.C. 552(a) and 1 CFR part 51. Copies may be obtained from British Aerospace Regional Aircraft, Prestwick International Airport, Ayrshire, KA9 2RW, Scotland. Copies may be

inspected at the FAA, Central Region, Office of the Regional Counsel, Room 1558, 601 E. 12th Street, Kansas City, Missouri, or at the Office of the Federal Register, 800 North Capitol Street, NW, suite 700, Washington, DC.

Note 3: The subject of this AD is addressed in Jetstream Service Bulletin 30-JM-7453, Original Issue: October 24, 1984, Revision 2: December 10, 1984. This service bulletin is classified as mandatory by the United Kingdom Civil Aviation Authority (CAA).

(e) This amendment becomes effective on January 15, 1999.

Issued in Kansas City, Missouri, on October 6, 1998.

Carolanne L. Cabrini,

Acting Manager, Small Airplane Directorate, Aircraft Certification Service.

[FR Doc. 98-27329 Filed 10-13-98; 8:45 am]

BILLING CODE 4910-13-U

DEPARTMENT OF COMMERCE

Bureau of Export Administration

15 CFR Parts 740 and 743

[Docket No. 980814218-8218-01]

RIN 0694-AB724

Clarification of Reporting Requirements Under the Wassenaar Arrangement

AGENCY: Bureau of Export Administration, Commerce.

ACTION: Interim rule with request for comments.

SUMMARY: On January 15, 1998, the Bureau of Export Administration (BXA) published an interim rule implementing the Wassenaar Arrangement list of dual-use items and reporting requirements under the Wassenaar Arrangement. On February 17, 1998, BXA published an interim final rule that conformed the savings clause date for shipments of items removed from eligibility for export or reexport under a particular License Exception authorization or the designator NLR until April 15, 1998. The February 17 rule did not affect the reporting requirement provisions and any item removed from License Exception or NLR eligibility as a result of the January 15 rule continues to be subject to the reporting requirements of the Wassenaar Arrangement. This interim rule provides further clarification on the savings clause provisions and the reporting requirements under the Wassenaar Arrangement. Specifically, this rule clarifies: the reporting requirement obligations of items described on the Wassenaar Arrangements Annex 1 (Sensitive List) and Annex 2 (Very

Sensitive List) of the List of Dual-Use Goods and Technologies, including clarification on the timing of the first report in accordance with the savings clause provision; the reporting requirements for computers controlled under Export Control Classification Number (ECCN) 4A003.b; the reporting requirement procedures under License Exception TSR; and that the reporting requirement provisions do not apply to reexports, release of technology or source code to foreign nationals in the United States (i.e., "deemed exports" to foreign nationals), or to items not controlled for National Security (NS) reasons.

In addition, this rule revises the country scope for reporting requirements.

DATES: Effective Date: This rule is effective October 14, 1998.

Comment Date: Comments on this rule must be received on or before December 14, 1998.

ADDRESSES: Written comments should be sent to Patricia Muldonian, Regulatory Policy Division, Bureau of Export Administration, Department of Commerce, P.O. Box 273, Washington, DC 20044.

FOR FURTHER INFORMATION CONTACT: Patricia Muldonian, Regulatory Policy Division, Bureau of Export Administration, telephone: (202) 482-2440.

SUPPLEMENTARY INFORMATION:

Background

On January 15, 1998, the Bureau of Export Administration (BXA) published an interim rule (63 FR 2452) that made changes to the Commerce Control List necessary to implement the Wassenaar Arrangement List of Dual-Use Goods and Technologies. In addition, the January 15 rule imposed new reporting requirements on persons that export certain items controlled under the Wassenaar Arrangement to countries outside of Country Group A:1 in order to fulfill the information exchange requirements of the Wassenaar Arrangement. The January 15 rule also removed License Exception availability for certain items controlled for missile technology reasons and for certain other items controlled for national security reasons for which the U.S. has agreed to license with extreme vigilance.

BXA received many industry comments on the savings clause provision date of February 17, 1998, for submission of license applications for items removed from eligibility for export or reexport under a particular License Exception authorization or the designator NLR, stating that more time

was required to determine how the rule affected their products and to develop and revise their export compliance software necessary to implement the provisions of the Export Administration Regulations. In response to the industry issues raised, BXA published an interim rule on February 17, 1998 (63 FR 7699) that confirmed the savings clause date for shipments of items removed from eligibility for export or reexport under a particular License Exception authorization or NLR until April 15, 1998. The February 17 rule did not affect the reporting requirements of section 743.1 of the Export Administration Regulations, and any item removed from License Exception or NLR eligibility as a result of the January 15 rule continued to be subject to reporting requirements.

This rule provides further clarification on the savings clause provision of the February 17 rule and on reporting requirements under the Wassenaar Arrangement.

Clarification of Reporting Requirements of Items on the Wassenaar Arrangement's Annex 1 and Annex 2

Reporting obligations under the Wassenaar Arrangement are required for exports in accordance with the provisions of § 743.1 of the Export Administration Regulations (items on the Wassenaar Arrangement's Annex 1—List of Dual-Use Goods and Technologies (Sensitive List)), effective from January 15, 1998 until April 15, 1998, and for the following items on the Wassenaar Arrangement's Annex 2—List of Dual-Use Goods and Technologies (Very Sensitive List), in which License Exceptions or the designator NLR have been removed and export license requirements imposed in accordance with the savings clause provision. Reports for Annex 2 items are also effective from January 15, 1998 until April 15, 1998. After April 15, 1998, these items require a license for export or reexport.

License Exception eligibility has been removed and licensing requirements imposed for the following ECCNs on the Wassenaar Arrangement's Annex 2—List of Dual-Use Goods and Technologies: 1A002.a, 1C001, 1E001, 4A003.b, 4A003.c, 4D001, 4E001, 5A001.b.9, 5D001, 5E001.a, 6A001.a.2.a.1, 6A001.a.2.a.2, 6A001.a.2.a.7, 6A001.a.2.b, 6A001.a.2.c, 6A001.a.2.e, 6A008.1.3, 6B008, 6D001, 6D003.a, 6E001, 6E002, 8A001.b, 8A001.d, 8A002.o.3.b, 8D001, 8E001, and 9A001. The Bureau of Export Administration will extract the necessary information from licenses to report these exports to the Arrangement.

The Wassenaar reporting requirement provisions do not apply to:

- (1) Reexports;
- (2) Any release of technology or source code subject to the EAR to a foreign national in the United States; or
- (3) Items controlled solely for Missile Technology (MT), Nuclear Nonproliferation (NP), Chemical and Biological Weapons (CB), or Short Supply (SS) reasons.

Clarification of License Exception TSR

BXA received comments from industry requesting guidance on how to comply with the Wassenaar reporting requirements for exports of technology under License Exception TSR. This rule clarifies that, for exports of technology under License Exception TSR for which reports are required under § 743.1(c) of the EAR, exporters should report the number of units in the shipment as one (1) for the initial export of the technology to a single ultimate consignee. Additional exports of the technology must be reported only when the type or scope of technology changes or exports are made to other ultimate consignees. In addition, release of controlled technology or source code to foreign nationals in the U.S., should not be included in the reports.

Revisions to the Reporting Requirements for Computers

In order to reduce duplicative reporting requirements on industry, this rule revises § 743.1(c)(2) by eliminating the reporting requirement for computers controlled under 4A003.b for exports to destinations in Computer Tier 3. Reporting requirements for exports of such computers to destinations in Computer Tier 3 continue to be required under the post-shipment verification reporting requirements of § 740.7(d)(4)(v) and § 742.12(b)(3)(iv).

Clarification of Reporting Requirement for License Exception GOV

This rule corrects an inadvertent error in the January 15 rule for License Exception GOV. This rule revises § 740.11(b)(2)(iii)(A) and paragraph (a) to Supplement No. 1 to § 740.11 by revising the phrase "Items for official use within a national territory by agencies of the U.S. Government" to read "Items for official use within a national territory by agencies of cooperating governments".

Additions to the Commerce Control List and Clarification of the Savings Clause Provision

BXA received comments from industry requesting that BXA clearly describe the new entries that were

added in the January 15 rule and explain the impact of those entries in accordance with the February 17 extension of the savings clause provision. This rule clarifies that, in addition to the modifications in some parameters of items controlled on the Commerce Control List, the following new entries have been added that control items previously (prior to January 15, 1998) eligible for export or reexport under the designator NLR. Items changed from NLR eligibility to requiring a license for export or reexport were authorized for export or reexport under the designator NLR in accordance with the February 17 rule until April 15, 1998. After April 15, 1998, these items require a license for export or reexport. However, use of the designator NLR until April 15, 1998, does not relieve exporters of their responsibility to provide reports for items subject to the reporting requirements under the Wassenaar Arrangement retroactive from January 15, 1998 to April 15, 1998.

New ECCNs Added to the Commerce Control List by the January 15 Rule

1A005: Body armor, and specially designed components therefor, not manufactured to military standards or specifications, not to their equivalents in performance.

1C006.d: Certain fluorocarbon electronic cooling fluids.

1C007.f: Certain ceramic-ceramic composite materials with oxide or glass matrix.

1C009.b: Fluorinated polyimides containing 10% by weight or more of combined fluorine. (Note that this control is a slight rollback, based on % by weight of combined fluorine.)

1C011: Certain metals and compounds.

2B007.d: Robots specially designed to operate at altitudes exceeding 30,000 m.

2B009: Certain spin-forming/flow forming machines.

5E001.b.10: Development technology for spread spectrum and frequency hopping techniques.

6A001.a.2.e: Certain bottom or bay cable systems.

6A005.a.4.c.1: Carbon dioxide lasers having a pulse energy exceeding 5 J per pulse. (Note that this control is a slight rollback, because "peak power" is no longer a controlling parameter.)

6D003.a.3: Software for bottom or bay cable systems.

7D003.e: Computer aided design software.

7E004.a.5: Technology for the development or production of electric actuators specially designed for primary flight control.

7E004.a.6: Technology for the development or production of flight control optical sensor arrays.

8A002.j.4: Certain stirling cycle engine air independent power systems.

9B004: Intermetallic airfoil-to-disk combinations.

In addition, this rule revises the country scope for reports under the Wassenaar Arrangement. The January 15 rule stated that reporting requirements apply to all destinations, except Country Group A:1. This rule revises § 743.1(d), Country Exceptions, to state that the reporting requirements apply to all destinations, except Wassenaar member countries, as identified in a new Supplement No. 1 to part 743.

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), and August 13, 1998 (63 FR 44121).

Rulemaking Requirements

1. This interim rule has been determined to be not 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 and 0694-0201.

3. This rule does not contain policies with Federalism implications sufficient to warrant preparation of a Federalism assessment under Executive Order 12612.

4. The provisions of the Administrative Procedure Act (5 U.S.C. 553) requiring notice of proposed rulemaking, the opportunity for public participation, and a delay in effective date, are inapplicable because this regulation involves a military and foreign affairs function of the United States (Sec. 5 U.S.C. 553(a)(1)). Further, no other law requires that a notice of proposed rulemaking and an opportunity for public comment be given for this interim rule. Because a

notice of proposed rulemaking and an opportunity for public comment are not required to be given for this rule under 5 U.S.C. or by any other law, the analytical requirements of the Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*) are not applicable.

However, because of the importance of the issues raised by these regulations, this rule is issued in interim form and comments will be considered in the development of final regulations.

Accordingly, the Department encourages interested persons who wish to comment to do so at the earliest possible time to permit the fullest consideration of their views.

The period for submission of comments will close December 14, 1998. The Department will consider all comments received before the close of the comment period in developing final regulations. Comments received after the end of the comment period will be considered if possible, but their consideration cannot be assured. The Department will not accept public comments accompanied by a request that a part or all of the material be treated confidentially because of its business proprietary nature or for any other reason. The Department will return such comments and materials to the person submitting the comments and will not consider them in the development of final regulations. All public comments on these regulations will be a matter of public record and will be available for public inspection and copying. In the interest of accuracy and completeness, the Department requires comments in written form.

Oral comments must be followed by written memoranda, which will also be a matter of public record and will be available for public review and copying. Communications from agencies of the United States Government or foreign governments will not be made available for public inspection.

The public record concerning these regulations will be maintained in the Bureau of Export Administration Freedom of Information Records Inspection Facility, Room 4525, Department of Commerce, 14th Street and Pennsylvania Avenue, NW., Washington, DC 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 Margaret Cornejo, Bureau of Export Administration Freedom of

Information Officer, at the above address or by calling (202) 482-5653.

List of Subjects in 15 CFR Parts 740 and 743

Administrative practice and procedure, Exports, Foreign trade, Reporting and recordkeeping requirements.

Accordingly, parts 740 and 743 of the Export Administration Regulations (15 CFR parts 730 through 799) are amended as follows:

1. The authority citation for part 740 is revised to read as follows:

Authority: 50 U.S.C. app. 2401 *et seq.*; 50 U.S.C. 1701 *et seq.*; E.O. 12924, 59 FR 43437, 3 CFR, 1994 Comp., p. 917; Notice of August 15, 1995, 3 CFR, 1995 Comp., p. 501; Notice of August 14, 1996, 3 CFR, 1996 Comp., p. 289; Notice of August 13, 1997 (62 FR 43629, August 15, 1997); and Notice of August 13, 1998 (63 FR 44121).

2. The authority citation for part 743 is revised to read as follows:

Authority: 50 U.S.C. app. 2401 *et seq.*; 50 U.S.C. 1701 *et seq.*; E.O. 12924, 59 FR 43437, 3 CFR, 1994 Comp., p. 917; Notice of August 15, 1995, 3 CFR, 1995 Comp., p. 501; Notice of August 14, 1996, 3 CFR, 1996 Comp., p. 289; Notice of August 13, 1997 (62 FR 43629, August 15, 1997); and Notice of August 13, 1998 (63 FR 44121).

PART 740—[AMENDED]

3. Section 740.6 is amended by revising paragraph (b) to read as follows:

§ 740.6 Technology and software under restriction (TSR).

* * * * *

(b) *Reporting requirements.* See § 743.1 of the EAR for reporting requirements for exports of certain items under License Exception TSR. Note that reports are not required for release of technology or source code subject to the EAR to foreign nationals in the U.S. under the provisions of License Exception TSR.

4. Section 740.11 is amended:

a. By revising the heading of paragraph (b)(2)(iii)(A); and

b. By revising the first sentence of paragraph (a) in Supplement No. 1, to read as follows:

§ 740.11 Governments and international organizations (GOV).

* * * * *

(b) * * *

(2) * * *

(iii) * * *

(A) *Items for official use within national territory by agencies of cooperating governments.* * * *

* * * * *

Supplement No. 1 to § 740.11—Additional Restrictions on Use of License Exception GOV

(a) Items for official use within the national territory by agencies of cooperating governments. * * *

PART 743—[AMENDED]

5. Section 743.1 is amended:
 a. By revising paragraph (b);
 b. By adding a note immediately following paragraph (c)(2);
 c. By revising paragraph (d); and
 d. By adding a note immediately following paragraph (e)(1)(ii), to read as follows:

§ 743.1 Wassenaar Arrangement.

(b) *Requirements.* You must submit two (2) copies of each report required under the provisions of this section and maintain accurate supporting records (see § 762.2(b) of the EAR) for all exports of items specified in paragraph (c) of this section under any of the following License Exceptions authorized by part 740 of the EAR: License Exceptions GBS, CIV, TSR, LVS, CTP, GOV and KMI (under the provisions of § 740.8(b)(2)(ii) and (iii) only). Exports of technology and source code under License Exception TSR to foreign nationals in the U.S. should not be reported. For purposes of this part 743, "you" has the same meaning as "U.S. exporter", as defined in part 772 of the EAR.

(c) * * *
 (2) * * *

Note to paragraph (c)(2): Exports of computers controlled under 4A003.b to destinations in Computer Tier 3 (see § 740.7(d)(1) of the EAR) should not be included in the reports required under paragraph (c) of this section. Reporting for computers under 4A003.b to Computer Tier 3 destinations should be reported under the post-shipment verification reporting provisions of § 740.7(d)(4)(v) or under § 742.12(b)(3)(iv) of the EAR.

(d) *Country Exceptions.* You must report each export subject to the provisions of this section, except for exports to Wassenaar member countries, as identified in Supplement No. 1 to part 743.

(e) * * *
 (1) * * *
 (ii) * * *

Note to paragraph (e)(1)(ii): For exports of technology for which reports are required under § 743.1(c) of this section, the number of units in the shipment should be reported as one (1) for the initial export of the technology to a single ultimate consignee. Additional exports of the technology must be reported only when the type or scope of

technology changes or exports are made to other ultimate consignees. Additionally, do not report the release of technology or source code subject to the EAR to foreign nationals in the U.S.

* * * * *

6. Part 743 is amended by adding a new Supplement No. 1 to read as follows:

Supplement No. 1 to Part 743—Wassenaar Arrangement Member Countries

Argentina
 Australia
 Austria
 Belgium
 Bulgaria
 Canada
 Czech Republic
 Denmark
 Finland
 France
 Germany
 Greece
 Hungary
 Ireland
 Italy
 Japan
 Luxembourg
 Netherlands
 New Zealand
 Norway
 Poland
 Portugal
 Romania
 Russia
 Slovakia
 South Korea
 Spain
 Sweden
 Switzerland
 Turkey
 Ukraine
 United Kingdom
 United States

Dated: October 5, 1998.

R. Roger Majak,
Assistant Secretary for Export Administration.

[FR Doc. 98-27391 Filed 10-13-98; 8:45 am]

BILLING CODE 3510-33-P

DEPARTMENT OF THE TREASURY**Internal Revenue Service****26 CFR Parts 1 and 602**

[TD 8786]

RIN 1545-AU79

Source of Income From Sales of Inventory Partly From Sources Within a Possession of the United States; Also, Source of Income Derived From Certain Purchases From a Corporation Electing Section 936

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations.

SUMMARY: This document contains final regulations under section 863 governing the source of income from sales of inventory produced in the United States and sold in a possession of the United States or produced in a possession of the United States and sold in the United States; final regulations under section 863 governing the source of income from sales of inventory purchased in a possession of the United States and sold in the United States; and final regulations under section 936 governing the source of income of a taxpayer from the sale in the United States of property purchased from a corporation that has an election under section 936 in effect. This document affects persons who produce (in whole or in part) inventory in the United States and sell in a possession, or produce (in whole or in part) inventory in a possession and sell in the United States, as well as persons who purchase inventory in a possession and sell in the United States, and also persons who sell in the United States property purchased from a corporation that has a section 936 election in effect.

DATES: *Effective Date:* These regulations are effective November 13, 1998.

Applicability Date: These regulations apply to taxable years beginning on or after November 13, 1998.

FOR FURTHER INFORMATION CONTACT: Anne Shelburne, (202) 874-1305 (not a toll-free number).

SUPPLEMENTARY INFORMATION:**Paperwork Reduction Act**

The collection of information contained in this final regulation has been reviewed and approved by the Office of Management and Budget in accordance with the requirements of the Paperwork Reduction Act of 1995 (44 U.S.C. 3507(d)) under control number 1545-1556. Responses to this collection of information are mandatory.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid control number.

The estimated average annual burden per respondent is approximately 2.5 hours.

Comments concerning the accuracy of this burden estimate and suggestions for reducing this burden should be sent to the Internal Revenue Service, Attn: IRS Reports Clearance Officer, OP:FS:FP, Washington, DC 20224, and the Office of Management and Budget, Attn: Desk Officer for the Department of Treasury, Office of Information and Regulatory Affairs, Washington, DC 20503.

Books or records relating to a collection of information must be