UNITED STATES DEPARTMENT OF COMMERCE
BUREAU OF INDUSTRY AND SECURITY
WASHINGTON, D.C. 20230

In the Matter of:	)
	)
	)
PPG Paints Trading (Shanghai) Co., Ltd.	)
489 Huai Yin Road	)
Shanghai, People's Republic of China	)
200336	)
	)
Respondent	)

ORDER RELATING TO PPG PAINTS TRADING (SHANGHAI) CO., LTD.

The Bureau of Industry and Security, U.S. Department of Commerce ("BIS"), has notified PPG Paints Trading (Shanghai) Co., Ltd. ("PPG Paints Trading") of its intention to initiate an administrative proceeding against PPG Paints Trading pursuant to Section 766.3 of the Export Administration Regulations (the "Regulations"),[1] and Section 13(c) of the Export Administration Act of 1979, as amended (the "Act"),[2] through the issuance of a Proposed Charging Letter to PPG Paints Trading that alleged that it committed four violations of the Regulations. Specifically, the charges are:

Charge 1 15 C.F.R. § 764.2(d) – Conspiracy

Beginning on or about June 2006 and continuing through on or about March 2007, PPG Paints Trading conspired and acted in concert with others, known and unknown, to bring about an act that constitutes a violation of the Regulations. The purpose of the conspiracy was to bring about exports of epoxy paint and epoxy paint thinner, items subject to the Regulations, by PPG Paints

[1] The Regulations are currently codified in the Code of Federal Regulations at 15 C.F.R. Parts 730-774 (2010). The violations alleged occurred in 2006 and 2007. The Regulations governing the violations at issue are found in the 2006 and 2007versions of the Code of Federal Regulations. 15 C.F.R. Parts 730-774 (2006-2007). The 2010 Regulations govern the procedural aspects of this case.

[2] 50 U.S.C. app. §§ 2401-2420 (2000). Since August 21, 2001, the Act has been in lapse and the President, through Executive Order 13222 of August 17, 2001 (3 C.F.R., 2001 Comp. 783 (2002)), which has been extended by successive Presidential Notices, the most recent being that of August 12, 2010 (75 Fed. Reg. 50,681 (Aug. 16, 2010)), has continued the Regulations in effect under the International Emergency Economic Powers Act (50 U.S.C. § 1701 *et seq.*).

Trading's U.S. parent company, PPG Industries, Inc. ("PPG") to Pakistan, through China, for use in a nuclear power plant that was under construction in Islamabad, Pakistan and under the ownership and control of the Pakistan Atomic Energy Commission ("PAEC"), an entity that is listed on the Entity List set forth in Supplement No. 4 to Part 744 of the Regulations. The nuclear plant was being constructed for PAEC by China Zhongyuan Engineering Corporation ("Zhongyuan") with the assistance of subcontractor China Nuclear Engineering Huaxing Construction Co. Ltd. ("Huaxing"). The epoxy paint and thinner are designated as EAR99 items[3] and are certified as meeting industry standards for "Level 1" use in a nuclear reactor and core. Pursuant to Section 744.1 and Supplement No. 4 to Part 744 of the Regulations, a Department of Commerce license was required before these items could be exported or reexported to the PAEC or any PAEC nuclear power plant.

In January 2006, PPG Paints Trading entered into a sales agreement with Huaxing, under which PPG Paints Trading agreed to provide three shipments of PPG epoxy paint and thinner for use in the PAEC nuclear facility in Pakistan. On or about June 8, 2006, PPG informed PPG Paints Trading that the license application submitted to the Department of Commerce for the export of these items had been denied, and PPG instructed PPG Paints Trading to notify Huaxing of this fact. In response to this information, on or about June 9, 2006, a PPG Paints Trading employee informed PPG management that, "At this point, we probably have minimal chance of winning any future Chinese nuclear plant projects since it is the same customer that is dealing with Pakistan."

On or about June 15, 2006, PPG Paints Trading and Huaxing met to discuss the licensing decision and PPG Paints Trading's inability to fulfill the contract. During this meeting, PPG Paints Trading and Huaxing developed and agreed upon a scheme under which PPG Paints Trading would continue to supply PPG epoxy paint and thinner despite the lack of a Department of Commerce license. Under this scheme, PPG Paints Trading would obtain the items from PPG, and a third-party Chinese distributor would be added to facilitate the shipment to Pakistan. After the items arrived in China, they would be transshipped to Pakistan. This approach avoided PPG or PPG Paints Trading shipping the items directly to the PAEC facility in Pakistan. Thereafter, PPG Paints Trading took actions in furtherance of the conspiracy, including, inter alia, ordering three shipments of epoxy paint and thinner from PPG; informing PPG that the end-user was the Da Lian Shi Zi Kou Nuclear Power Station in China, even though PPG Paints Trading knew that the PAEC facility was the actual end user; and then shipping the items to the intermediate Chinese distributor after their arrival in China from the United States.

In so doing, PPG Paints Trading committed one violation of Section 764.2(d) of the Regulations.

Charges 2-3 15 C.F.R. § 764.2(e) – Acting with Knowledge of a Violation

On two occasions between June 21, 2006 through on or about December 18, 2006, PPG Paints Trading ordered, bought, stored, [sold, or transported] items exported from the United States with knowledge that a violation of the Regulations was about to occur or was intended to occur in

[3] EAR99 is a designation for items subject to the Regulations but not listed on the Commerce Control List. 15 C.F.R. § 734.3(c) (2006).

connection with the items. Specifically, PPG Paints Trading ordered or bought from PPG, its parent company in the United States, epoxy paint and epoxy paint thinner, items subject to the Regulations and designated as EAR99, for export from the United States for use in a nuclear power plant that was under construction in Pakistan and under the ownership and control of PAEC, an entity that is listed on BIS's Entity List set forth in Supplement No. 4 to Part 744 of the Regulations. Pursuant to Section 744.1 and Supplement No. 4 to Part 744 of the Regulations, Department of Commerce licenses were required before these items could be exported or reexported to the PAEC nuclear facility. After receiving the items, PPG Paints Trading stored, sold, or transported them to a distributor in China to be shipped to Pakistan for use in the PAEC facility.

In January 2006, PPG Paints Trading and Huaxing entered into a sales agreement under which PPG Paints Trading agreed to supply three shipments of PPG epoxy paint and thinner for use at the PAEC nuclear facility in Pakistan. At all times relevant hereto, PPG Paints Trading knew that the items were destined for the PAEC facility.

PPG Paints Trading also knew at all relevant times hereto that a violation of the Regulations was about to occur or was intended to occur in connection with the items because, inter alia, on or about January 22, 2006, before the violations occurred, PPG Paints Trading was informed by Huaxing that a license was required for shipment from the United States to the PAEC nuclear facility, and that Huaxing had "tried to apply for a license 5 times and had failed each time." In addition, PPG Paints Trading also knew that in January 2006, PPG had filed a license application with the Department of Commerce seeking authorization for the export of the items to Pakistan for use at the PAEC facility, and in fact had been involved with the preparation of that application. On or about June 8, 2006, PPG Paints Trading was informed by PPG that the license application had been denied and that PPG Paints Trading should inform Huaxing that it could not fulfill its January 2006 contractual agreement with Huaxing to provide shipments of PPG epoxy paint and thinner.

In so doing, PPG Paints Trading committed two violations of Section 764.2(e) of the Regulations.

Charge 4 15 C.F.R. § 764.2(e) – Acting with Knowledge of a Violation

On one occasion between on or about October 23, 2006 and March 20, 2007, PPG Paints Trading ordered, bought or stored items exported from the United States with knowledge that a violation of the Regulations was about to occur or was intended to occur in connection with the items. Specifically, PPG Paints Trading ordered or bought from PPG, its parent company in the United States, epoxy paint and epoxy paint thinner, items subject to the Regulations and designated as EAR99, for export from the United States for use in a nuclear power plant in Pakistan that was under construction and under the ownership and control of PAEC, an entity that is listed on BIS's Entity List set forth in Supplement No. 4 to Part 744 of the Regulations. Pursuant to Section 744.1 and Supplement No. 4 to Part 744 of the Regulations, a Department of Commerce license was required before these items could be exported or reexported to the PAEC or any PAEC nuclear power plant. After receiving the items, PPG Paints Trading stored the items for sale, transfer or transport to a distributor in China, which had in the past transferred the items to Huaxing for construction of the PAEC facility.

In January 2006, PPG Paints Trading and Huaxing entered into a sales agreement under which PPG Paints Trading agreed to supply three shipments of PPG epoxy paint and thinner to Huaxing for use at the PAEC nuclear facility in Pakistan. At all times relevant hereto, PPG Paints Trading knew that the items were destined for the PAEC facility.

PPG Paints Trading also knew at all relevant times hereto that a violation of the Regulations was about to occur or was intended to occur in connection with the items because, inter alia, on or about January 22, 2006, before the violations occurred, PPG Paints Trading was informed by Huaxing that a license was required for shipment from the United States to the PAEC nuclear facility, and that Huaxing had "tried to apply for a license 5 times and had failed each time." In addition, PPG Paints Trading also knew that in January 2006, PPG had filed a license application with the Department of Commerce seeking authorization for the export of the items to Pakistan for use at the PAEC facility, and in fact had been involved with the preparation of that application. On or about June 8, 2006, PPG Paints Trading was informed by PPG that that license application had been denied and that PPG Paints Trading should inform Huaxing that it could not fulfill its January 2006 contractual agreement with Huaxing to provide shipments of PPG epoxy paint and thinner.

In so doing, PPG Paints Trading committed one violation of Section 764.2(e) of the Regulations.

WHEREAS, BIS and PPG Paints Trading have entered into a Settlement Agreement pursuant to Section 766.18(a) of the Regulations, whereby they agreed to settle this matter in accordance with the terms and conditions set forth therein; and

WHEREAS, I have approved of the terms of such Settlement Agreement;

IT IS THEREFORE ORDERED:

FIRST, PPG Paints Trading shall be assessed a civil penalty in the amount of $1,000,000, which shall be paid to the U.S. Department of Commerce within 30 days of the date of the Order.

SECOND, that, pursuant to the Debt Collection Act of 1982, as amended (31 U.S.C. §§ 3701-3720E (2000)), the civil penalty owed under this Order accrues interest as more fully described in the attached Notice, and if payment is not made by the due date specified herein, PPG Paints Trading will be assessed, in addition to the full amount of the civil penalty and interest, a penalty charge and an administrative charge, as more fully described in the attached Notice.

THIRD, that the timely payment of the civil penalty set forth above is hereby made a condition to the granting, restoration, or continuing validity of any export license, license exception, permission, or privilege granted, or to be granted, to PPG Paints Trading. Accordingly, if PPG Paints Trading should fail to pay the civil penalty in a timely manner, the undersigned may issue an Order denying all of PPG Paints Trading's export privileges under the Regulations for a period of one year from the date of this Order.

FOURTH, PPG Paints Trading on its own accord or in conjunction with PPG, shall complete two external export compliance audits as set forth in this Paragraph. The results of both audits, including any relevant supporting materials, shall be submitted to the Department of Commerce, Bureau of Industry and Security, Special Agent in Charge, New York Field Office, 1200 South Avenue, Suite 104, Staten Island, NY 10314 ("SAC New York"). An unaffiliated third-party consultant with expertise in U.S. export control laws and sanctions regulations shall conduct these audits, as described below, of PPG and PPG Paints Trading's compliance with U.S. export control laws and sanctions regulations (including recordkeeping requirements). The audits shall cover the following:

(i) Exports and reexports made by PPG's Architectural Coatings, Automotive Refinishes, and Protective and Marine Coatings business units located in both China and the United States ("Coatings & Refinishings Units") and the effectiveness of each business unit's export controls compliance procedures and compliance with the Regulations;

(ii) Exports and reeexports made by the Coatings & Refinishings Units to China, Hong Kong and D:2 countries (as set forth in Supplement No. 1 to

15 C.F.R. 740 (2010), as well as any countries that may be added to this list during the audit period) of commodities, software, and technology and related services that are controlled for nuclear nonproliferation reasons or subject to Section 744.2 of the Regulations and the effectiveness of PPG's and the Coatings & Refinishings Units' export controls compliance procedures and compliance with the Regulations;

(iii) All exports, reexports and in-country transfers by PPG and its subsidiaries, including PPG Paints Trading, involving an entity on the Entity List (as set forth in Supplement No. 4 to Part 744 (2010)) that are subject to the Regulations; and

(iv) All exports, reexports and in-country transfers by PPG and its subsidiaries, including PPG Paints Trading, involving nuclear end uses or nuclear end users that are subject to the Regulations.

The first external audit shall cover the time period of January 1, 2011 through December 31, 2011, and the related report shall be due to SAC New York by March 30, 2012. The second external audit shall cover the time period of January 1, 2012 through December 31, 2012, and the related report shall be due to SAC New York by March 30, 2013. Said audits shall be in substantial compliance with the requirements set out in the Export Management and Compliance Program audit module, which is available from the BIS website at http://www.bis.doc.gov/complianceandenforcement/emcp_audit.pdf, and shall include an assessment of PPG's and PPG Paints Trading's compliance with the Regulations. In addition, where said audit identifies actual or potential violations of the Regulations regarding transactions outlined in this paragraph, PPG Paints Trading on its own accord or in conjunction with PPG must promptly provide copies of the pertinent export control documents to SAC New York. PPG and PPG Paints Trading shall cooperate in providing additional information related to the audits as requested by BIS.

FIFTH, that the Proposed Charging Letter, the Settlement Agreement, and this Order shall be made available to the public.

This Order, which constitutes the final agency action in this matter, is effective immediately.

David W. Mills
Assistant Secretary of Commerce
for Export Enforcement

Issued this 21 day of December, 2010.

UNITED STATES DEPARTMENT OF COMMERCE
BUREAU OF INDUSTRY AND SECURITY
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489 Huai Yin Road	)
Shanghai, People's Republic of China	)
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Respondent	)

SETTLEMENT AGREEMENT

This Settlement Agreement ("Agreement") is made by and between PPG Paints Trading (Shanghai) Co., Ltd. ("PPG Paints Trading") and the Bureau of Industry and Security, U.S. Department of Commerce ("BIS") (collectively, the "Parties"), pursuant to Section 766.18(a) of the Export Administration Regulations (the "Regulations"),[1] issued pursuant to the Export Administration Act of 1979, as amended (the "Act").[2]

WHEREAS, BIS has notified PPG Paints Trading of its intention to initiate an administrative proceeding against it, pursuant to the Act and the Regulations;

WHEREAS, BIS has issued a Proposed Charging Letter to PPG Paints Trading that alleged that PPG Paints Trading committed four violations of the Regulations, specifically:

[1] The Regulations are currently codified in the Code of Federal Regulations at 15 C.F.R. Parts 730-774 (2010). The violations alleged occurred in 2006 and 2007. The Regulations governing the violations at issue are found in the 2006 and 2007versions of the Code of Federal Regulations. 15 C.F.R. Parts 730-774 (2006-2007). The 2010 Regulations govern the procedural aspects of this case.

[2] 50 U.S.C. app. §§ 2401-2420 (2000). Since August 21, 2001, the Act has been in lapse and the President, through Executive Order 13222 of August 17, 2001 (3 C.F.R., 2001 Comp. 783 (2002)), which has been extended by successive Presidential Notices, the most recent being that of August 12, 2010 (75 Fed. Reg. 50,681 (Aug. 16, 2010)), has continued the Regulations in effect under the International Emergency Economic Powers Act (50 U.S.C. § 1701 *et seq.*).

Charge 1 15 C.F.R. § 764.2(d) – Conspiracy

Beginning on or about June 2006 and continuing through on or about March 2007, PPG Paints Trading conspired and acted in concert with others, known and unknown, to bring about an act that constitutes a violation of the Regulations. The purpose of the conspiracy was to bring about exports of epoxy paint and epoxy paint thinner, items subject to the Regulations, by PPG Paints Trading's U.S. parent company, PPG Industries, Inc. ("PPG") to Pakistan, through China, for use in a nuclear power plant that was under construction in Islamabad, Pakistan and under the ownership and control of the Pakistan Atomic Energy Commission ("PAEC"), an entity that is listed on the Entity List set forth in Supplement No. 4 to Part 744 of the Regulations. The nuclear plant was being constructed for PAEC by China Zhongyuan Engineering Corporation ("Zhongyuan") with the assistance of subcontractor China Nuclear Engineering Huaxing Construction Co. Ltd. ("Huaxing"). The epoxy paint and thinner are designated as EAR99 items[3] and are certified as meeting industry standards for "Level 1" use in a nuclear reactor and core. Pursuant to Section 744.1 and Supplement No. 4 to Part 744 of the Regulations, a Department of Commerce license was required before these items could be exported or reexported to the PAEC or any PAEC nuclear power plant.

In January 2006, PPG Paints Trading entered into a sales agreement with Huaxing, under which PPG Paints Trading agreed to provide three shipments of PPG epoxy paint and thinner for use in the PAEC nuclear facility in Pakistan. On or about June 8, 2006, PPG informed PPG Paints Trading that the license application submitted to the Department of Commerce for the export of these items had been denied, and PPG instructed PPG Paints Trading to notify Huaxing of this fact. In response to this information, on or about June 9, 2006, a PPG Paints Trading employee informed PPG management that, "At this point, we probably have minimal chance of winning any future Chinese nuclear plant projects since it is the same customer that is dealing with Pakistan."

On or about June 15, 2006, PPG Paints Trading and Huaxing met to discuss the licensing decision and PPG Paints Trading's inability to fulfill the contract. During this meeting, PPG Paints Trading and Huaxing developed and agreed upon a scheme under which PPG Paints Trading would continue to supply PPG epoxy paint and thinner despite the lack of a Department of Commerce license. Under this scheme, PPG Paints Trading would obtain the items from PPG, and a third-party Chinese distributor would be added to facilitate the shipment to Pakistan. After the items arrived in China, they would be transshipped to Pakistan. This approach avoided PPG or PPG Paints Trading shipping the items directly to the PAEC facility in Pakistan. Thereafter, PPG Paints Trading took actions in furtherance of the conspiracy, including, inter alia, ordering three shipments of epoxy paint and thinner from PPG; informing PPG that the end-user was the Da Lian Shi Zi Kou Nuclear Power Station in China, even though PPG Paints Trading knew that the PAEC facility was the actual end user; and then shipping the items to the intermediate Chinese distributor after their arrival in China from the United States.

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[3] EAR99 is a designation for items subject to the Regulations but not listed on the Commerce Control List. 15 C.F.R. § 734.3(c) (2006).

In so doing, PPG Paints Trading committed one violation of Section 764.2(d) of the Regulations.

Charges 2-3 15 C.F.R. § 764.2(e) – Acting with Knowledge of a Violation

On two occasions between June 21, 2006 through on or about December 18, 2006, PPG Paints Trading ordered, bought, stored, sold, or transported items exported from the United States with knowledge that a violation of the Regulations was about to occur or was intended to occur in connection with the items. Specifically, PPG Paints Trading ordered or bought from PPG, its parent company in the United States, epoxy paint and epoxy paint thinner, items subject to the Regulations and designated as EAR99, for export from the United States for use in a nuclear power plant that was under construction in Pakistan and under the ownership and control of PAEC, an entity that is listed on BIS's Entity List set forth in Supplement No. 4 to Part 744 of the Regulations. Pursuant to Section 744.1 and Supplement No. 4 to Part 744 of the Regulations, Department of Commerce licenses were required before these items could be exported or reexported to the PAEC nuclear facility. After receiving the items, PPG Paints Trading stored, sold, or transported them to a distributor in China to be shipped to Pakistan for use in the PAEC facility.

In January 2006, PPG Paints Trading and Huaxing entered into a sales agreement under which PPG Paints Trading agreed to supply three shipments of PPG epoxy paint and thinner for use at the PAEC nuclear facility in Pakistan. At all times relevant hereto, PPG Paints Trading knew that the items were destined for the PAEC facility.

PPG Paints Trading also knew at all relevant times hereto that a violation of the Regulations was about to occur or was intended to occur in connection with the items because, inter alia, on or about January 22, 2006, before the violations occurred, PPG Paints Trading was informed by Huaxing that a license was required for shipment from the United States to the PAEC nuclear facility, and that Huaxing had "tried to apply for a license 5 times and had failed each time." In addition, PPG Paints Trading also knew that in January 2006, PPG had filed a license application with the Department of Commerce seeking authorization for the export of the items to Pakistan for use at the PAEC facility, and in fact had been involved with the preparation of that application. On or about June 8, 2006, PPG Paints Trading was informed by PPG that the license application had been denied and that PPG Paints Trading should inform Huaxing that it could not fulfill its January 2006 contractual agreement with Huaxing to provide shipments of PPG epoxy paint and thinner.

In so doing, PPG Paints Trading committed two violations of Section 764.2(e) of the Regulations.

Charge 4 15 C.F.R. § 764.2(e) – Acting with Knowledge of a Violation

On one occasion between on or about October 23, 2006 and March 20, 2007, PPG Paints Trading ordered, bought or stored items exported from the United States with knowledge that a violation of the Regulations was about to occur or was intended to occur in connection with the items. Specifically, PPG Paints Trading ordered or bought from PPG, its parent company in the United States, epoxy paint and epoxy paint thinner, items subject to the Regulations and designated as EAR99, for export from the United States for use in a nuclear power plant in Pakistan that was under construction and under the ownership and control of PAEC, an entity that is listed on BIS's Entity List set forth in Supplement No. 4 to Part 744 of the Regulations. Pursuant to Section 744.1 and Supplement No. 4 to Part 744 of the Regulations, a Department of Commerce license was required before these items could be exported or reexported to the PAEC or any PAEC nuclear power plant. After receiving the items, PPG Paints Trading stored the items for sale, transfer or transport to a distributor in China, which had in the past transferred the items to Huaxing for construction of the PAEC facility.

In January 2006, PPG Paints Trading and Huaxing entered into a sales agreement under which PPG Paints Trading agreed to supply three shipments of PPG epoxy paint and thinner to Huaxing for use at the PAEC nuclear facility in Pakistan. At all times relevant hereto, PPG Paints Trading knew that the items were destined for the PAEC facility.

PPG Paints Trading also knew at all relevant times hereto that a violation of the Regulations was about to occur or was intended to occur in connection with the items because, inter alia, on or about January 22, 2006, before the violations occurred, PPG Paints Trading was informed by Huaxing that a license was required for shipment from the United States to the PAEC nuclear facility, and that Huaxing had "tried to apply for a license 5 times and had failed each time." In addition, PPG Paints Trading also knew that in January 2006, PPG had filed a license application with the Department of Commerce seeking authorization for the export of the items to Pakistan for use at the PAEC facility, and in fact had been involved with the preparation of that application. On or about June 8, 2006, PPG Paints Trading was informed by PPG that that license application had been denied and that PPG Paints Trading should inform Huaxing that it could not fulfill its January 2006 contractual agreement with Huaxing to provide shipments of PPG epoxy paint and thinner.

In so doing, PPG Paints Trading committed one violation of Section 764.2(e) of the Regulations.

WHEREAS, PPG Paints Trading has reviewed the Proposed Charging Letter and is aware of the allegations made against it and the administrative sanctions which could be imposed against PPG Paints Trading if the allegations are found to be true;

WHEREAS, PPG Paints Trading fully understands the terms of this Agreement and the Order ("Order") that the Assistant Secretary of Commerce for Export Enforcement will issue if he approves this Agreement as the final resolution of this matter;

WHEREAS, PPG Paints Trading enters into this Agreement voluntarily and with full knowledge of its rights;

WHEREAS, the Parties enter into this Agreement having taken into consideration a plea agreement that PPG Paints Trading agreed to enter into with the United States Attorney's Office for the District of Columbia;

WHEREAS, PPG Paints Trading states that no promises or representations have been made to it other than the agreements and considerations herein expressed;

WHEREAS, PPG Paints Trading neither admits nor denies the allegations contained in the Proposed Charging Letter;

WHEREAS, PPG Paints Trading wishes to settle and dispose of all matters alleged in the Proposed Charging Letter by entering into this Agreement; and

WHEREAS, PPG Paints Trading agrees to be bound by the Order, if issued;

NOW THEREFORE, the Parties hereby agree, for purposes of this Settlement Agreement, as follows:

1. BIS has jurisdiction over PPG Paints Trading, under the Regulations, in connection with the matters alleged in the Proposed Charging Letter.

2. The following sanction shall be imposed against PPG Paints Trading in complete settlement of the alleged violation of the Regulations relating to the transaction specifically detailed in the Proposed Charging Letter:

a. PPG Paints Trading shall be assessed a civil penalty in the amount of $1 million, which shall be paid to the U.S. Department of Commerce within 30 days of the date of the Order.

b. The timely payment of the civil penalty agreed to in paragraph 2.a is hereby made a condition to the granting, restoration, or continuing validity of any export license, permission, or privilege granted, or to be granted, to PPG Paints Trading. Failure to make timely payment of the civil penalty set forth above may result in the denial of all of PPG Paints Trading's export privileges for a period of one year from the date of imposition of the penalty.

c. PPG Paints Trading on its own accord or in conjunction with PPG, shall complete two external export compliance audits as set forth in this Paragraph. The results of both audits, including any relevant supporting materials, shall be submitted to the Department of Commerce, Bureau of Industry and Security, Special Agent in Charge, New York Field Office, 1200 South Avenue, Suite 104, Staten Island, NY 10314 ("SAC New York"). An unaffiliated third-party consultant with expertise in U.S. export control laws and sanctions regulations shall conduct these audits, as described below, of PPG and PPG Paints Trading's compliance with U.S. export control laws and sanctions regulations (including recordkeeping requirements). The audits shall cover the following:

(i) Exports and reexports made by PPG's Architectural Coatings, Automotive Refinishes, and Protective and Marine Coatings business units located in both China and the United States ("Coatings and Refinishings Units") and the effectiveness of each business unit's export controls compliance procedures and compliance with the Regulations;

(ii) Exports and reexports made by the Coatings and Refinishings Units to China, Hong Kong and D:2 countries (as set forth in Supplement No. 1 to 15 C.F.R. 740 (2010), as well as any countries that may be added to this list during the audit period) of commodities, software, and technology and related services that are controlled for nuclear nonproliferation reasons or subject to Section 744.2 of the Regulations and the effectiveness of PPG's and the Coatings and Refinishings Units' export controls compliance procedures and compliance with the Regulations;

(iii) All exports, reexports and in-country transfers by PPG and its subsidiaries, including PPG Paints Trading, involving an entity on the Entity List (as set forth in Supplement No. 4 to Part 744 (2010)) that are subject to the Regulations; and

(iv) All exports, reexports and in-country transfers by PPG and its subsidiaries, including PPG Paints Trading, involving nuclear end uses or nuclear end users that are subject to the Regulations.

The first external audit shall cover the time period of January 1, 2011 through December 31, 2011, and the related report shall be due to SAC New York by March 30, 2012. The second external audit shall cover the time period of January 1, 2012 through December 31, 2012, and the related report shall be due to SAC New York by March 30, 2013. Said audits shall be in substantial compliance with the requirements set out in the

Export Management and Compliance Program audit module, which is available from the BIS website at http://www.bis.doc.gov/complianceandenforcement/emcp_audit.pdf, and shall include an assessment of PPG's and PPG Paints Trading's compliance with the Regulations. In addition, where said audit identifies actual or potential violations of the Regulations regarding transactions outlined in this paragraph, PPG Paints Trading on its own accord or in conjunction with PPG must promptly provide copies of the pertinent export control documents to SAC New York. PPG and PPG Paints Trading shall cooperate in providing additional information related to the audits as requested by BIS.

3. Subject to the approval of this Agreement pursuant to paragraph 8 hereof, PPG Paints Trading hereby waives all rights to further procedural steps in this matter (except with respect to any alleged violations of this Agreement or the Order, if issued), including, without limitation, any right to: (a) an administrative hearing regarding the allegations in any charging letter; (b) request a refund of any civil penalty paid pursuant to this Agreement and the Order, if issued; and (c) seek judicial review or otherwise contest the validity of this Agreement or the Order, if issued.

4. BIS agrees that, upon issuance of the Order, it will not initiate any further administrative proceeding against PPG Paints Trading in connection with any violation of the Act or the Regulations arising out of the transactions specifically detailed in the Proposed Charging Letter.

5. BIS will make the Proposed Charging Letter, this Agreement, and the Order, if issued, available to the public.

6. This Agreement is for settlement purposes only. Therefore, if this Agreement is not accepted and the Order is not issued by the Assistant Secretary of

Commerce for Export Enforcement pursuant to Section 766.18(a) of the Regulations, no Party may use this Agreement in any administrative or judicial proceeding and the Parties shall not be bound by the terms contained in this Agreement in any subsequent administrative or judicial proceeding.

7. No agreement, understanding, representation or interpretation not contained in this Agreement may be used to vary or otherwise affect the terms of this Agreement or the Order, if issued; nor shall this Agreement serve to bind, constrain, or otherwise limit any action by any other agency or department of the U.S. Government with respect to the facts and circumstances addressed herein.

8. This Agreement shall become binding on the Parties only if the Assistant Secretary of Commerce for Export Enforcement approves it by issuing the Order, which will have the same force and effect as a decision and order issued after a full administrative hearing on the record.

9. Each signatory affirms that he has authority to enter into this Settlement Agreement and to bind its respective party to the terms and conditions set forth herein.

BUREAU OF INDUSTRY AND SECURITY
U.S. DEPARTMENT OF COMMERCE

Date: 12/20, 2010

Douglas Hassebrock
Director
Office of Export Enforcement

Date: December 18, 2010

Victor Sekmakas
Director, Chairman and Legal Representative
PPG Paints Trading (Shanghai) Co., Ltd.

PROPOSED CHARGING LETTER

REGISTERED MAIL - RETURN RECEIPT REQUESTED

PPG Paints Trading (Shanghai) Co., Ltd.
489 Huai Yin Road
Shanghai, People's Republic of China
200336

Attention: Victor Sekmakas
Director, Chairman and Legal Representative

Dear Mr. Sekmakas:

The Bureau of Industry and Security, U.S. Department of Commerce ("BIS"), has reason to believe that PPG Paints Trading (Shanghai) Co., Ltd. ("PPG Paints Trading") of Shanghai, China, a wholly-owned subsidiary of PPG Industries, Inc. ("PPG") of Pittsburgh, Pennsylvania, has committed four violations of the Export Administration Regulations (the "Regulations"),[1] which are issued under the authority of the Export Administration Act of 1979, as amended (the "Act").[2] Specifically, BIS alleges that PPG Paints Trading committed the following violations:

Charge 1 15 C.F.R. § 764.2(d) – Conspiracy

Beginning on or about June 2006 and continuing through on or about March 2007, PPG Paints Trading conspired and acted in concert with others, known and unknown, to bring about an act that constitutes a violation of the Regulations. The purpose of the conspiracy was to bring about exports of epoxy paint and epoxy paint thinner, items subject to the Regulations, by PPG Paints Trading's U.S. parent company, PPG Industries, Inc. ("PPG") to Pakistan, through China, for use in a nuclear power plant that was under construction in Islamabad, Pakistan and under the ownership and control of the Pakistan Atomic Energy Commission ("PAEC"), an entity that is listed on the Entity List set forth in Supplement No. 4 to Part 744 of the Regulations. The nuclear plant was being constructed for PAEC by China Zhongyuan Engineering Corporation ("Zhongyuan") with the assistance of subcontractor China Nuclear Engineering Huaxing Construction Co. Ltd. ("Huaxing"). The epoxy paint and thinner are designated as

[1] The Regulations are currently codified in the Code of Federal Regulations at 15 C.F.R. Parts 730-774 (2010). The violations alleged occurred in 2006 and 2007. The Regulations governing the violations at issue are found in the 2006 and 2007versions of the Code of Federal Regulations. 15 C.F.R. Parts 730-774 (2006-2007). The 2010 Regulations govern the procedural aspects of this case.

[2] 50 U.S.C. app. §§ 2401-2420 (2000). Since August 21, 2001, the Act has been in lapse and the President, through Executive Order 13222 of August 17, 2001 (3 C.F.R., 2001 Comp. 783 (2002)), which has been extended by successive Presidential Notices, the most recent being that of August 12, 2010 (75 Fed. Reg. 50,681 (Aug. 16, 2010)), has continued the Regulations in effect under the International Emergency Economic Powers Act (50 U.S.C. § 1701, *et seq.*).

EAR99 items[3] and are certified as meeting industry standards for "Level 1" use in a nuclear reactor and core. Pursuant to Section 744.1 and Supplement No. 4 to Part 744 of the Regulations, a Department of Commerce license was required before these items could be exported or reexported to the PAEC or any PAEC nuclear power plant.

In January 2006, PPG Paints Trading entered into a sales agreement with Huaxing, under which PPG Paints Trading agreed to provide three shipments of PPG epoxy paint and thinner for use in the PAEC nuclear facility in Pakistan. On or about June 8, 2006, PPG informed PPG Paints Trading that the license application submitted to the Department of Commerce for the export of these items had been denied, and PPG instructed PPG Paints Trading to notify Huaxing of this fact. In response to this information, on or about June 9, 2006, a PPG Paints Trading employee informed PPG management that, "At this point, we probably have minimal chance of winning any future Chinese nuclear plant projects since it is the same customer that is dealing with Pakistan."

On or about June 15, 2006, PPG Paints Trading and Huaxing met to discuss the licensing decision and PPG Paints Trading's inability to fulfill the contract. During this meeting, PPG Paints Trading and Huaxing developed and agreed upon a scheme under which PPG Paints Trading would continue to supply PPG epoxy paint and thinner despite the lack of a Department of Commerce license. Under this scheme, PPG Paints Trading would obtain the items from PPG, and a third-party Chinese distributor would be added to facilitate the shipment to Pakistan. After the items arrived in China, they would be transshipped to Pakistan. This approach avoided PPG or PPG Paints Trading shipping the items directly to the PAEC facility in Pakistan. Thereafter, PPG Paints Trading took actions in furtherance of the conspiracy, including, inter alia, ordering three shipments of epoxy paint and thinner from PPG; informing PPG that the end-user was the Da Lian Shi Zi Kou Nuclear Power Station in China, even though PPG Paints Trading knew that the PAEC facility was the actual end user; and then shipping the items to the intermediate Chinese distributor after their arrival in China from the United States.

In so doing, PPG Paints Trading committed one violation of Section 764.2(d) of the Regulations.

Charges 2-3 15 C.F.R. § 764.2(e) – Acting with Knowledge of a Violation

On two occasions between June 21, 2006 through on or about December 18, 2006, PPG Paints Trading ordered, bought, stored, sold, or transported items exported from the United States with knowledge that a violation of the Regulations was about to occur or was intended to occur in connection with the items. Specifically, PPG Paints Trading ordered or bought from PPG, its parent company in the United States, epoxy paint and epoxy paint thinner, items subject to the Regulations and designated as EAR99, for export from the United States for use in a nuclear power plant that was under

[3] EAR99 is a designation for items subject to the Regulations but not listed on the Commerce Control List. 15 C.F.R. § 734.3(c) (2006).

construction in Pakistan and under the ownership and control of PAEC, an entity that is listed on BIS's Entity List set forth in Supplement No. 4 to Part 744 of the Regulations. Pursuant to Section 744.1 and Supplement No. 4 to Part 744 of the Regulations, Department of Commerce licenses were required before these items could be exported or reexported to the PAEC nuclear facility. After receiving the items, PPG Paints Trading stored, sold, or transported them to a distributor in China to be shipped to Pakistan for use in the PAEC facility.

In January 2006, PPG Paints Trading and Huaxing entered into a sales agreement under which PPG Paints Trading agreed to supply three shipments of PPG epoxy paint and thinner for use at the PAEC nuclear facility in Pakistan. At all times relevant hereto, PPG Paints Trading knew that the items were destined for the PAEC facility.

PPG Paints Trading also knew at all relevant times hereto that a violation of the Regulations was about to occur or was intended to occur in connection with the items because, inter alia, on or about January 22, 2006, before the violations occurred, PPG Paints Trading was informed by Huaxing that a license was required for shipment from the United States to the PAEC nuclear facility, and that Huaxing had "tried to apply for a license 5 times and had failed each time." In addition, PPG Paints Trading also knew that in January 2006, PPG had filed a license application with the Department of Commerce seeking authorization for the export of the items to Pakistan for use at the PAEC facility, and in fact had been involved with the preparation of that application. On or about June 8, 2006, PPG Paints Trading was informed by PPG that the license application had been denied and that PPG Paints Trading should inform Huaxing that it could not fulfill its January 2006 contractual agreement with Huaxing to provide shipments of PPG epoxy paint and thinner.

In so doing, PPG Paints Trading committed two violations of Section 764.2(e) of the Regulations.

Charge 4 15 C.F.R. § 764.2(e) – Acting with Knowledge of a Violation

On one occasion between on or about October 23, 2006 and March 20, 2007, PPG Paints Trading ordered, bought or stored items exported from the United States with knowledge that a violation of the Regulations was about to occur or was intended to occur in connection with the items. Specifically, PPG Paints Trading ordered or bought from PPG, its parent company in the United States, epoxy paint and epoxy paint thinner, items subject to the Regulations and designated as EAR99, for export from the United States for use in a nuclear power plant in Pakistan that was under construction and under the ownership and control of PAEC, an entity that is listed on BIS's Entity List set forth in Supplement No. 4 to Part 744 of the Regulations. Pursuant to Section 744.1 and Supplement No. 4 to Part 744 of the Regulations, a Department of Commerce license was required before these items could be exported or reexported to the PAEC or any PAEC nuclear power plant. After receiving the items, PPG Paints Trading stored the items for sale, transfer or transport to a distributor in China, which had in the past transferred the items to Huaxing for construction of the PAEC facility.

In January 2006, PPG Paints Trading and Huaxing entered into a sales agreement under which PPG Paints Trading agreed to supply three shipments of PPG epoxy paint and thinner to Huaxing for use at the PAEC nuclear facility in Pakistan. At all times relevant hereto, PPG Paints Trading knew that the items were destined for the PAEC facility.

PPG Paints Trading also knew at all relevant times hereto that a violation of the Regulations was about to occur or was intended to occur in connection with the items because, inter alia, on or about January 22, 2006, before the violations occurred, PPG Paints Trading was informed by Huaxing that a license was required for shipment from the United States to the PAEC nuclear facility, and that Huaxing had "tried to apply for a license 5 times and had failed each time." In addition, PPG Paints Trading also knew that in January 2006, PPG had filed a license application with the Department of Commerce seeking authorization for the export of the items to Pakistan for use at the PAEC facility, and in fact had been involved with the preparation of that application. On or about June 8, 2006, PPG Paints Trading was informed by PPG that that license application had been denied and that PPG Paints Trading should inform Huaxing that it could not fulfill its January 2006 contractual agreement with Huaxing to provide shipments of PPG epoxy paint and thinner.

In so doing, PPG Paints Trading committed one violation of Section 764.2(e) of the Regulations.

* * * * *

Accordingly, PPG Paints Trading is hereby notified that an administrative proceeding is instituted against it pursuant to Section 13(c) of the Act and Part 766 of the Regulations for the purpose of obtaining an order imposing administrative sanctions and any other liability sanction or penalty available under law, including, but not limited to any or all of the following:

- The maximum civil penalty allowed by law of up to the greater of $250,000 per violation, or twice the value of the transaction that is the basis of the violation;[4]
- Denial of export privileges; and/or
- Exclusion from practice before BIS.

If PPG Paints Trading fails to answer the charges contained in this letter within 30 days after being served with notice of issuance of this letter, that failure will be treated as a

[4] *See* International Emergency Economic Powers Enhancement Act of 2007, Pub. L. No. 110-96, 121 Stat. 1011 (2007).

default. *See* 15 C.F.R. §§ 766.6 and 766.7. If PPG Paints Trading defaults, the Administrative Law Judge may find the charges alleged in this letter are true without a hearing or further notice to PPG Paints Trading. The Under Secretary of Commerce for Industry and Security may then impose up to the maximum penalty for the charges in this letter.

PPG Paints Trading is further notified that it is entitled to an agency hearing on the record if it files a written demand for one with its answer. *See* 15 C.F.R. § 766.6. PPG Paints Trading is also entitled to be represented by counsel or other authorized representative who has power of attorney to represent it. *See* 15 C.F.R. §§ 766.3(a) and 766.4.

The Regulations provide for settlement without a hearing. *See* 15 C.F.R. § 766.18. Should PPG Paints Trading have a proposal to settle this case, PPG Paints Trading should transmit it to the attorney representing BIS named below.

PPG Paints Trading is further notified that under the Small Business Regulatory Enforcement Flexibility Act, PPG Paints Trading may be eligible for assistance from the Office of the National Ombudsman of the Small Business Administration in this matter. To determine eligibility and get more information, please see: http://www.sba.gov/ombudsman/

The U.S. Coast Guard is providing administrative law judge services in connection with the matters set forth in this letter. Accordingly, PPG Paints Trading's answer must be filed in accordance with the instructions in Section 766.5(a) of the Regulations with:

> U.S. Coast Guard ALJ Docketing Center
> 40 S. Gay Street
> Baltimore, Maryland 21202-4022

In addition, a copy of PPG Paints Trading's answer must be served on BIS at the following address:

> Chief Counsel for Industry and Security
> Attention: R. Elizabeth Abraham, Esq.
> Room H-3839
> 14th Street and Constitution Avenue, N.W.
> Washington, D.C. 20230

R. Elizabeth ("Liz") Abraham is the attorney representing BIS in this case; any communications that PPG Paints Trading may wish to have concerning this matter should occur through her. Ms. Abraham may be contacted by telephone at (202) 482-5301.

Sincerely,

Douglas Hassebrock
Director
Office of Export Enforcement

Schedule of Violations

Charge	Violation Date	Destination	Commodity Description	ECCN	Violations
2	6/21/2006-12/18/2006	Pakistan Atomic Energy Commission, Pakistan	Nuclear certified Level 1 epoxy coatings.	EAR99	15 C.F.R. § 764.2(d), (e)
3	8/7/2006-12/18/2006	Pakistan Atomic Energy Commission, Pakistan	Nuclear certified Level 1 epoxy coatings.	EAR99	15 C.F.R. § 764.2(d), (e)
4	10/23/2006-3/20/2007	Pakistan Atomic Energy Commission, Pakistan	Nuclear certified Level 1 epoxy coatings.	EAR99	15 C.F.R. § 764.2(d), (e)