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## Chinese National Charged with Illegal U.S. Exports to Pakistani Nuclear Program

By Andrea Stricker

On July 8, 2011, the United States District Attorney for the District of Columbia [announced](#) charges against Xun Wang, 51, a Chinese national and lawful permanent resident of the United States, for allegedly exporting controlled U.S. goods to the Pakistani nuclear program via China. Wang is [charged](#) with four counts of export related violations for allegedly conspiring to send to Pakistan high-performance epoxy paint coatings made in the United States that are specially designed for use in nuclear reactors. In this case, the sale was to the Chashma nuclear power reactor that the Chinese government has sold Pakistan.

The United States does not conduct nuclear trade with Pakistan, and U.S. companies are forbidden from doing business with the Pakistani Atomic Energy Commission (PAEC) and entities controlled by it. Wang, then a senior executive of PPG Paints Trading of Shanghai, China, owned by PPG Industries of Pittsburgh, Pennsylvania, is alleged to have sent the paint coatings to the Chashma nuclear power plant, which is owned and operated by the PAEC. Two Chinese companies working on the construction of Chashma allegedly conspired with Wang on the scheme to obtain the paints. One of the companies is owned by the Chinese government.

Wang was arrested in June 2011 in Atlanta and transferred to Washington, D.C., which is prosecuting the case. She appeared in court in July 2011. Prosecutors sought to hold her without bond because they consider her a flight risk; if she were to flee to China, they argue, extradition would be impossible due to the lack of a Sino-U.S. extradition treaty. Prosecutors also had evidence that she planned to avoid returning to the United States if the alleged scheme were ever uncovered. On July 26, however, Wang [was released to serve house arrest](#) at her home in California and will undergo electronic monitoring until her next court date on September 28, 2011. She is not allowed to go within 1,000 feet of an airport.

In December 2010, PPG Industries pled guilty to four counts of export-related violations following a proceeding led by the U.S. Department of Commerce's Bureau of Industry and Security (BIS). The company was fined \$3.75 million in criminal and administrative fines and will pay \$32,000 in [restitution](#). PPG Paints Trading was [fined \\$1 million and faces five years of corporate probation](#) and cannot do business with the United States during that time. Department of Justice noted in a [press release](#) on the case, "The combined amount of criminal and civil fines represent one of the largest monetary penalties for export violations in the history of the U.S. Department of Commerce's Bureau of Industry and Security."

While the evidence does not show Chinese government complicity, despite the involvement of a state-owned company, this case shows at least the inadequacy of China's current enforcement policies toward its export controls. In this incident, major Chinese companies working on official government contracts allegedly arranged for the illegal procurement of goods from the United States. The major gap in China's oversight and law enforcement efforts is apparent.

## **The Scheme**

From May 2006 until September 2007, Xun Wang was the managing director of Architectural Coatings at PPG Paints Trading of Shanghai, China. PPG Paints Trading is owned by PPG Industries, located in Pittsburgh, Pennsylvania. PPG Industries is a global manufacturer and supplier of chemicals, glass, fiberglass, and architectural and industrial performance coatings. PPG Paints Trading imports and exports architectural, refinish, industrial, and packaging coatings for PPG Industries clients in China.

At its factory in Watertown, Connecticut, PPG Industries manufactures a high-performance paint system with certification for use in nuclear reactors. The paint system includes a "two-part epoxy base coat, an epoxy top coat, a thinner, and a solvent." Because of their application in nuclear reactors, these paint coatings require a license for export from the United States and cannot be exported to countries with which the United States does not conduct civil nuclear trade.

One of the Chinese companies constructing the Chashma nuclear power plant in Pakistan, Zhongyuan Engineering Corporation, specializes in nuclear engineering, among other engineering specializations. Its work on constructing Chashma includes applying the specialized nuclear reactor paint coatings. China Nuclear Engineering Huaxing Construction Co. Ltd. [assists Zhongyuan Engineering on construction of the Chashma plant](#) and is a Chinese government-owned company. Huaxing Construction distributes paint coatings and is located in Shanghai.

On January 20, 2006, PPG Industries submitted an application for a license to the U.S. Department of Commerce to export the controlled paint coatings to Chashma. On June 8, PPG Industries was informed of a denial of the license. PPG Industries notified PPG Paints Trading and Wang of the denial, and told her to inform Huaxing Construction so that it could inform Zhongyuan Engineering to acquire other products. Wang told PPG Industries that she had informed Huaxing Construction of the denial. Huaxing Construction told PPG Paints Trading at one point that it had unilaterally applied for an export license on five separate occasions from BIS to export the paints at Chashma and had failed each time.

The indictment alleges that in June 2006, Wang allegedly conspired with Zhongyuan Engineering and Huaxing Construction to arrange a scheme to transship the paint coatings to Pakistan via China. To conceal the true end-user, Wang allegedly arranged for Zhongyuan Engineering to submit requests to PPG Paints Trading in Shanghai for the coatings Huaxing Construction needed to provide to Chashma. PPG Paints Trading placed the orders with PPG Industries in the United States. Wang and the companies allegedly conspired to list Dalian Shi Zi Kou nuclear power station in China as the end-user because the United States would not require an export license to ship the goods. Wang allegedly indicated in her communications, "If [the United States does] not know where the paint [is] going to end up it [is] okay to sell the paint."

Wang and the alleged conspirators allegedly falsified export documents, including purchase requests, shipping, and end-user documents, to evade detection of the scheme by U.S. export control authorities. Between June 2006 and March 2007, PPG Industries allegedly exported 360 gallons of paint coatings in three consignments to China before they were diverted to Pakistan. On one occasion, PPG Paints Trading allegedly stored a shipment before it was sent to Pakistan. A fourth shipment of 265 gallons was stopped by PPG Industries in Shanghai in December 2006 when it learned of a [BIS investigation](#) into the exports. According to the indictment, Wang and the alleged conspirators wired money from Pakistan via Huaxing Construction to PPG Paints Trading's account for the shipments that were made.

The goal of Wang and her alleged accomplices was, according to the indictment, to "satisfy...obligations under the Chashma II contract." Legal documents from the case indicate that PPG Industries wanted to avoid upsetting a Chinese government-owned client, Huaxing Construction, because if they did, "they would have serious problems." In defense of her actions to PPG Industries and following her termination by the company over the issue, Wang indicated that she was attempting to uphold an important contract between PPG Paints Trading and Huaxing Construction in order to avoid being sued or violating Chinese contract law. She said that she took the fall for PPG Industries' mistake in making the [original deal to supply](#) the Chinese companies working at Chashma, which was negotiated some months prior to Wang beginning her employment with the company.

According to legal documents from the BIS proceeding against PPG Industries, PPG Industries entered into the Chinese company-Chashma deal in January 2006, before Wang began working at PPG Paints Trading in May 2006. The documents claim, "PPG [Industries] engaged in conduct prohibited by [export] regulations by exporting from the United States epoxy paint and epoxy paint thinner...for use in a nuclear power plant...without the required Department of Commerce licenses." They indicate, "PPG failed to detect and resolve certain red flags that indicated that PPG Paints Trading was supplying the items for use at the PAEC facility in fulfillment of the contract that had ostensibly been abandoned...PPG knew, however, that the epoxy paint and thinner had not been certified by the relevant Chinese Government authority for use in Chinese nuclear facilities and thus could not be applied in any Chinese nuclear plant...[Contrary to its own policies and procedures](#) [and contrary to industry standards], PPG [also] shipped the epoxy paint and thinner directly to PPG Paints Trading's facilities, rather than shipping them directly to Da Lian Station, the stated end-user."

It is unclear whether PPG Industries executives at the highest levels willfully engaged in the alleged scheme, turned a blind eye, or failed to know about the actions of sales executives at PPG Industries and PPG Paints Trading. Yet, earlier illicit shipments to Chashma suggest at minimum a failure to maintain strong internal oversight over the company's foreign sales practices and that the company's poor sales practices may have been systemic, beginning prior to Wang. On June 8, 2011 BIS settled out of court with PPG Industries' regional sales manager, Curtis Hickcox, for his alleged involvement in shipping the controlled paints to Chashma. According to the [Pittsburgh Tribune-Review](#), citing BIS and California state exhibits, Hickcox allegedly arranged for a February 2006 shipment of 290 gallons of paint coatings to Chashma and "knew the epoxy was headed for the Pakistani [Chashma] reactor but told his bosses it 'would not be used by PAEC.'" According to the case documents, Hickcox "took actions designed to make the transaction appear to be a domestic sale in the United States between PPG and Innovative Decoration International Inc." In a possible sinister correlation, the business agent allegedly involved in the transaction with PPG Industries for the company Innovative

Decoration was Xun Wang's husband, Chunlin Liang. Hickcox agreed to pay a settlement of \$500,000, \$485,000 of which would be dismissed if \$15,000 was paid by June 29.

## **Lessons**

PPG Paints Trading's alleged law breaking shows that strong internal company compliance systems are vital to preventing bad sales to nuclear programs in violation of U.S. laws. Strong internal compliance systems regulating a company's foreign trade often detect and prevent sales that bad employees might make that could have serious financial and business ramifications for entire corporations.

This episode raises the question of whether China knowingly conducts illicit nuclear trade in violation of other countries' laws. Determining this question in the case of the Chashma reactor is a priority. In any case, the fact that a Chinese government-owned company was engaged in this scheme at least underlines the government's failure to control the practices of its own companies.

This case also illustrates that China remains a problem in global efforts to prevent illicit nuclear trade and bears special scrutiny by all concerned about goods being diverted to banned purposes. China remains a gap in efforts to prevent sensitive or sanctioned goods from reaching the nuclear programs of Pakistan, Iran, and North Korea. Governments need to make additional efforts to convince the Chinese government to come into compliance with Security Council sanctions resolutions on Iran and North Korea and adopt modern trade controls against the spread of nuclear weapons capabilities.

See the following legal documents from the case for further reading:

[Indictment.pdf](#)

[PPG.pdf](#)

[Press\\_release.pdf](#)

[Xun\\_Wang\\_-\\_Government\\_Motion\\_July\\_15.pdf](#)

[Xun\\_Wang\\_-\\_Government\\_Motion.pdf](#)

[Xun\\_Wang\\_-\\_Government\\_Motion\\_July\\_19.pdf](#)

[Xun\\_Wang\\_-\\_Release\\_order.pdf](#)