

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

In the Matter of:)
)
PPG Industries, Inc.)
One PPG Place)
Pittsburgh, Pennsylvania 15272)
)
)
Respondent)

ORDER RELATING TO PPG INDUSTRIES, INC.

The Bureau of Industry and Security, U.S. Department of Commerce (“BIS”), has notified PPG Industries, Inc. (“PPG”) of its intention to initiate an administrative proceeding against PPG 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 that alleged that it committed three violations of the Regulations. Specifically, the charges are:

Charges 1-2 15 C.F.R. § 764.2(a) – Engaging in Conduct Prohibited by the Regulations by Exporting Items to an Entity on the Entity List without the Required Department of Commerce Licenses

On or about July 7, 2006, and on or about September 5, 2006, PPG engaged in conduct prohibited by the Regulations by exporting from the United States epoxy paint and epoxy paint thinner, items subject to the Regulations and designated as EAR99,³ for use in a nuclear power plant that was under construction in Islamabad, Pakistan and under the ownership and control of

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. The Regulations governing the violations at issue are found in the 2006 version of the Code of Federal Regulations. 15 C.F.R. Parts 730-774 (2006). 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.*).

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).

the Pakistan Atomic Energy Commission (“PAEC”), without the required Department of Commerce licenses. PAEC is an entity that is listed on the Entity List set forth in Supplement No. 4 to Part 744 of the Regulations, and a license was required for any export or reexport of items to PAEC or any PAEC nuclear power plant. The items were transshipped to the PAEC facility through PPG Paints Trading (Shanghai) Co., Ltd. (“PPG Paints Trading”) in China.

The items fulfilled, in part, a January 2006 contract entered into by PPG Paints Trading and China Nuclear Engineering Huaxing Construction Co. Ltd. (“Huaxing”), a subcontractor to another Chinese company on the construction of the PAEC nuclear facility. Under this contract, PPG Paints Trading was to supply PPG epoxy paint and thinner to Huaxing for use at the PAEC facility. Because PAEC was on the Entity List and a license was required for exports of these items to the PAEC facility, PPG applied for a license for the shipments. On June 8, 2006, PPG learned that BIS had denied the license application. PPG then informed PPG Paints Trading of the denial and that PPG could not fulfill the orders under the contract. 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.”

Less than one month later, PPG exported the same type of epoxy paint and thinner that was the subject of the PPG Paints Trading-Huaxing contract to PPG Paints Trading, and 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 Paints Trading informed PPG that it was supplying the epoxy paint and thinner to a customer in China for use at Da Lian Shi Zi Kou Nuclear Power Station (“Da Lian Station”) in China. 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. Furthermore, at the time of its exports, PPG should have known Da Lian Station would not have needed the paint because construction of the Level 1 areas of Da Lian Station had not begun. For example, public source materials available at the time stated that as of June 2006, excavation had begun for the Da Lian Station reactors, but that concrete pouring would not start until approximately September 2007. PPG also knew that the epoxy paint and thinner was certified as meeting industry standards for “Level 1” use in a nuclear reactor and core and that the shelf-life of such nuclear certified epoxy paint is only one year, making an advance purchase highly unlikely.

In addition, contrary to its own policies and procedures, PPG 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. PPG’s policies and procedures provided that such nuclear certified paint and thinner were to be shipped directly to the end user in accordance with industry standards.

PPG engaged in these exports without the Department of Commerce licenses required by Section 744.1 and Supplement No. 4 to Part 744 of the Regulations. In so doing, PPG committed two violations of Section 764.2(a) of the Regulations.

Charge 3

15 C.F.R. § 764.2(c) – Attempted Export to an Entity on the Entity List without the Required Department of Commerce License

On or about December 14, 2006, PPG attempted to export from the United States epoxy paint and epoxy paint thinner, items subject to the Regulations and designated as EAR99, to Pakistan for use in a nuclear power plant that was under construction in Pakistan and under the ownership and control of PAEC, without the required Department of Commerce license. PAEC is an entity that is listed on the Entity List set forth in Supplement No. 4 to Part 744 of the Regulations, and a license was required for any export or reexport of items to PAEC or any PAEC nuclear power plant. The items were intended to be transshipped to the PAEC facility through PPG Paints Trading in China.

The items were intended to fulfill, in part, a January 2006 contract entered into by PPG Paints Trading and Huaxing, a subcontractor to another Chinese company on the construction of the PAEC nuclear facility. Under this contract, PPG Paints Trading was to supply PPG epoxy paint and thinner to Huaxing for use at the PAEC facility. Because PAEC was on the Entity List and a license was required for exports of these items to the PAEC facility, PPG applied for a license for the shipments. On June 8, 2006, PPG learned that BIS had denied the license application. PPG then informed PPG Paints Trading of the denial and that PPG could not fulfill the orders under the contract. 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 December 14, 2006, PPG exported the same type of epoxy paint and thinner that was the subject of the PPG Paints Trading-Huaxing contract to PPG Paints Trading, and 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 Paints Trading informed PPG that it was supplying the epoxy paint and thinner to a customer in China for use at Da Lian Station in China. 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. Furthermore, at the time of its exports, PPG should have known Da Lian Station would not have needed the paint because construction of the Level 1 areas of Da Lian Station had not begun. For example, public source materials available at the time stated that as of June 2006, excavation had begun for the Da Lian Station reactors, but that the concrete pouring would not start until approximately September 2007. PPG also knew that the epoxy paint and thinner was certified as meeting industry standards for "Level 1" use in a nuclear reactor and core and that the shelf-life of such nuclear certified epoxy paint is only one year, making an advance purchase highly unlikely.

In addition, contrary to its own policies and procedures, PPG 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. PPG's policies and procedures provided that such nuclear certified paint and thinner were to be shipped directly to the end user in accordance with industry standards.

After learning of the Department of Commerce's investigation into the unlicensed exports to the PAEC facility, PPG stopped the December 14, 2006 export while the epoxy paint and thinner

was in PPG Paints Trading's custody in China and before transshipment to the PAEC facility had been completed.

PPG engaged in this attempted export to the PAEC facility in Pakistan without the Department of Commerce license required by Section 744.1 and Supplement No. 4 to Part 744 of the Regulations. In so doing, PPG committed one violation of Section 764.2(c) of the Regulations.

WHEREAS, BIS and PPG 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 shall be assessed a civil penalty in the amount of \$750,000, 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 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. Accordingly, if PPG should fail to pay the civil penalty in a timely manner, the undersigned may issue an Order denying all of PPG's export privileges under the Regulations for a period of one year from the date of this Order.

FOURTH, 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”). PPG shall hire an unaffiliated third-party consultant with expertise in U.S. export control laws and sanctions regulations to 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 the 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 reexports 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 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 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/complianceand enforcement/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 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
WASHINGTON, D.C. 20230

In the Matter of:)
)
PPG Industries, Inc.)
One PPG Place)
Pittsburgh, Pennsylvania 15272)
)
)
Respondent)

SETTLEMENT AGREEMENT

This Settlement Agreement (“Agreement”) is made by and between PPG Industries, Inc. (“PPG”) 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 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 that alleged that PPG committed three violations of the Regulations, specifically:

Charges 1-2 15 C.F.R. § 764.2(a) – Engaging in Conduct Prohibited by the Regulations by Exporting Items to an Entity on the Entity List without the Required Department of Commerce Licenses

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. The Regulations governing the violations at issue are found in the 2006 version of the Code of Federal Regulations. 15 C.F.R. Parts 730-774 (2006). 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.*).

On or about July 7, 2006, and on or about September 5, 2006, PPG engaged in conduct prohibited by the Regulations by exporting from the United States epoxy paint and epoxy paint thinner, items subject to the Regulations and designated as EAR99,³ 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”), without the required Department of Commerce licenses. PAEC is an entity that is listed on the Entity List set forth in Supplement No. 4 to Part 744 of the Regulations, and a license was required for any export or reexport of items to PAEC or any PAEC nuclear power plant. The items were transshipped to the PAEC facility through PPG Paints Trading (Shanghai) Co., Ltd. (“PPG Paints Trading”) in China.

The items fulfilled, in part, a January 2006 contract entered into by PPG Paints Trading and China Nuclear Engineering Huaxing Construction Co. Ltd. (“Huaxing”), a subcontractor to another Chinese company on the construction of the PAEC nuclear facility. Under this contract, PPG Paints Trading was to supply PPG epoxy paint and thinner to Huaxing for use at the PAEC facility. Because PAEC was on the Entity List and a license was required for exports of these items to the PAEC facility, PPG applied for a license for the shipments. On June 8, 2006, PPG learned that BIS had denied the license application. PPG then informed PPG Paints Trading of the denial and that PPG could not fulfill the orders under the contract. 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.”

Less than one month later, PPG exported the same type of epoxy paint and thinner that was the subject of the PPG Paints Trading-Huaxing contract to PPG Paints Trading, and 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 Paints Trading informed PPG that it was supplying the epoxy paint and thinner to a customer in China for use at Da Lian Shi Zi Kou Nuclear Power Station (“Da Lian Station”) in China. 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. Furthermore, at the time of its exports, PPG should have known Da Lian Station would not have needed the paint because construction of the Level 1 areas of Da Lian Station had not begun. For example, public source materials available at the time stated that as of June 2006, excavation had begun for the Da Lian Station reactors, but that concrete pouring would not start until approximately September 2007. PPG also knew that the epoxy paint and thinner was certified as meeting industry standards for “Level 1” use in a nuclear reactor and core and that the shelf-life of such nuclear certified epoxy paint is only one year, making an advance purchase highly unlikely.

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 addition, contrary to its own policies and procedures, PPG 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. PPG's policies and procedures provided that such nuclear certified paint and thinner were to be shipped directly to the end user in accordance with industry standards.

PPG engaged in these exports without the Department of Commerce licenses required by Section 744.1 and Supplement No. 4 to Part 744 of the Regulations. In so doing, PPG committed two violations of Section 764.2(a) of the Regulations.

Charge 3 15 C.F.R. § 764.2(c) – Attempted Export to an Entity on the Entity List without the Required Department of Commerce License

On or about December 14, 2006, PPG attempted to export from the United States epoxy paint and epoxy paint thinner, items subject to the Regulations and designated as EAR99, to Pakistan for use in a nuclear power plant that was under construction in Pakistan and under the ownership and control of PAEC, without the required Department of Commerce license. PAEC is an entity that is listed on the Entity List set forth in Supplement No. 4 to Part 744 of the Regulations, and a license was required for any export or reexport of items to PAEC or any PAEC nuclear power plant. The items were intended to be transshipped to the PAEC facility through PPG Paints Trading in China.

The items were intended to fulfill, in part, a January 2006 contract entered into by PPG Paints Trading and Huaxing, a subcontractor to another Chinese company on the construction of the PAEC nuclear facility. Under this contract, PPG Paints Trading was to supply PPG epoxy paint and thinner to Huaxing for use at the PAEC facility. Because PAEC was on the Entity List and a license was required for exports of these items to the PAEC facility, PPG applied for a license for the shipments. On June 8, 2006, PPG learned that BIS had denied the license application. PPG then informed PPG Paints Trading of the denial and that PPG could not fulfill the orders under the contract. 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."

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construction of the Level 1 areas of Da Lian Station had not begun. For example, public source materials available at the time stated that as of June 2006, excavation had begun for the Da Lian Station reactors, but that the concrete pouring would not start until approximately September 2007. PPG also knew that the epoxy paint and thinner was certified as meeting industry standards for "Level 1" use in a nuclear reactor and core and that the shelf-life of such nuclear certified epoxy paint is only one year, making an advance purchase highly unlikely.

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After learning of the Department of Commerce's investigation into the unlicensed exports to the PAEC facility, PPG stopped the December 14, 2006 export while the epoxy paint and thinner was in PPG Paints Trading's custody in China and before transshipment to the PAEC facility had been completed.

PPG engaged in this attempted export to the PAEC facility in Pakistan without the Department of Commerce license required by Section 744.1 and Supplement No. 4 to Part 744 of the Regulations. In so doing, PPG committed one violation of Section 764.2(c) of the Regulations.

WHEREAS, PPG 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 if the allegations are found to be true;

WHEREAS, PPG 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 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's wholly-owned subsidiary PPG Paints Trading (Shanghai)

LLC (“PPG Paints Trading”) have agreed to enter into with the United States Attorney’s Office for the District of Columbia;

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

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

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

WHEREAS, PPG 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, under the Regulations, in connection with the matters alleged in the Proposed Charging Letter.

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

a. PPG shall be assessed a civil penalty in the amount of \$750,000, 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.

Failure to make timely payment of the civil penalty set forth above may result in

the denial of all of PPG's export privileges for a period of one year from the date of imposition of the penalty.

c. 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"). PPG shall hire an unaffiliated third-party consultant with expertise in U.S. export control laws and sanctions regulations to 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 the 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 reexports 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 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 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/complianceand enforcement/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 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 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 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.

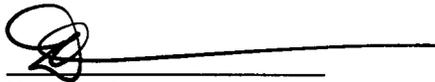
7. No agreement, understanding, representation or interpretation not contained in this Agreement may be used to vary or otherwise affect the terms of this Agreement or the Order, if issued; nor shall this Agreement serve to bind, constrain, or

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



Douglas Hassebrock
Director
Office of Export Enforcement

Date: 12/20, 2010



Charles E. Bunch
Chairman & CEO
PPG Industries, Inc.

Date: 12/20, 2010

PROPOSED CHARGING LETTER

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

PPG Industries, Inc.
One PPG Place
Pittsburgh, Pennsylvania 15272

*Attention: Charles E. Bunch
Chairman & CEO*

Dear Mr. Bunch:

The Bureau of Industry and Security, U.S. Department of Commerce (“BIS”), has reason to believe that PPG Industries, Inc. (“PPG”) of Pittsburgh, Pennsylvania, has committed three 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 committed the following violations:

Charges 1-2 15 C.F.R. § 764.2(a) – Engaging in Conduct Prohibited by the Regulations by Exporting Items to an Entity on the Entity List without the Required Department of Commerce Licenses

As described in greater detail in the Schedule of Violations, which is enclosed herewith and incorporated herein by reference, on or about July 7, 2006, and on or about September 5, 2006, PPG engaged in conduct prohibited by the Regulations by exporting from the United States epoxy paint and epoxy paint thinner, items subject to the Regulations and designated as EAR99,³ 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”), without the required Department of Commerce licenses. PAEC is an entity that is listed on the Entity List set forth in Supplement No. 4 to Part 744 of the Regulations, and a license was required for any export or reexport of items to PAEC or any PAEC nuclear power plant. The items were transhipped to the PAEC facility through PPG Paints Trading (Shanghai) Co., Ltd. (“PPG Paints Trading”) in China.

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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.*).

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).

The items fulfilled, in part, a January 2006 contract entered into by PPG Paints Trading and China Nuclear Engineering Huaxing Construction Co. Ltd. (“Huaxing”), a subcontractor to another Chinese company on the construction of the PAEC nuclear facility. Under this contract, PPG Paints Trading was to supply PPG epoxy paint and thinner to Huaxing for use at the PAEC facility. Because PAEC was on the Entity List and a license was required for exports of these items to the PAEC facility, PPG applied for a license for the shipments. On June 8, 2006, PPG learned that BIS had denied the license application. PPG then informed PPG Paints Trading of the denial and that PPG could not fulfill the orders under the contract. 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.”

Less than one month later, PPG exported the same type of epoxy paint and thinner that was the subject of the PPG Paints Trading-Huaxing contract to PPG Paints Trading, and 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 Paints Trading informed PPG that it was supplying the epoxy paint and thinner to a customer in China for use at Da Lian Shi Zi Kou Nuclear Power Station (“Da Lian Station”) in China. 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. Furthermore, at the time of its exports, PPG should have known Da Lian Station would not have needed the paint because construction of the Level 1 areas of Da Lian Station had not begun. For example, public source materials available at the time stated that as of June 2006, excavation had begun for the Da Lian Station reactors, but that concrete pouring would not start until approximately September 2007. PPG also knew that the epoxy paint and thinner was certified as meeting industry standards for “Level 1” use in a nuclear reactor and core and that the shelf-life of such nuclear certified epoxy paint is only one year, making an advance purchase highly unlikely.

In addition, contrary to its own policies and procedures, PPG 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. PPG’s policies and procedures provided that such nuclear certified paint and thinner were to be shipped directly to the end user in accordance with industry standards.

PPG engaged in these exports without the Department of Commerce licenses required by Section 744.1 and Supplement No. 4 to Part 744 of the Regulations. In so doing, PPG committed two violations of Section 764.2(a) of the Regulations.

Charge 3 **15 C.F.R. § 764.2(c) – Attempted Export to an Entity on the Entity List without the Required Department of Commerce License**

As described in greater detail in the Schedule of Violations, which is enclosed herewith and incorporated herein by reference, on or about December 14, 2006, PPG attempted to export from the United States epoxy paint and epoxy paint thinner, items subject to the Regulations and designated as EAR99, to Pakistan for use in a nuclear power plant that was under construction in Pakistan and under the ownership and control of PAEC, without the required Department of Commerce license. PAEC is an entity that is listed on the Entity List set forth in Supplement No. 4 to Part 744 of the Regulations, and a license was required for any export or reexport of items to PAEC or any PAEC nuclear power plant. The items were intended to be transshipped to the PAEC facility through PPG Paints Trading in China.

The items were intended to fulfill, in part, a January 2006 contract entered into by PPG Paints Trading and Huaxing, a subcontractor to another Chinese company on the construction of the PAEC nuclear facility. Under this contract, PPG Paints Trading was to supply PPG epoxy paint and thinner to Huaxing for use at the PAEC facility. Because PAEC was on the Entity List and a license was required for exports of these items to the PAEC facility, PPG applied for a license for the shipments. On June 8, 2006, PPG learned that BIS had denied the license application. PPG then informed PPG Paints Trading of the denial and that PPG could not fulfill the orders under the contract. 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 December 14, 2006, PPG exported the same type of epoxy paint and thinner that was the subject of the PPG Paints Trading-Huaxing contract to PPG Paints Trading, and 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 Paints Trading informed PPG that it was supplying the epoxy paint and thinner to a customer in China for use at Da Lian Station in China. 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. Furthermore, at the time of its exports, PPG should have known Da Lian Station would not have needed the paint because construction of the Level 1 areas of Da Lian Station had not begun. For example, public source materials available at the time stated that as of June 2006, excavation had begun for the Da Lian Station reactors, but that the concrete pouring would not start until approximately September 2007. PPG also knew that the epoxy paint and thinner was certified as meeting industry standards for "Level 1" use in a nuclear reactor and core and

that the shelf-life of such nuclear certified epoxy paint is only one year, making an advance purchase highly unlikely.

In addition, contrary to its own policies and procedures, PPG 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. PPG's policies and procedures provided that such nuclear certified paint and thinner were to be shipped directly to the end user in accordance with industry standards.

After learning of the Department of Commerce's investigation into the unlicensed exports to the PAEC facility, PPG stopped the December 14, 2006 export while the epoxy paint and thinner was in PPG Paints Trading's custody in China and before transshipment to the PAEC facility had been completed.

PPG engaged in this attempted export to the PAEC facility in Pakistan without the Department of Commerce license required by Section 744.1 and Supplement No. 4 to Part 744 of the Regulations. In so doing, PPG committed one violation of Section 764.2(c) of the Regulations.

* * * * *

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

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

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PPG 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 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 have a proposal to settle this case, PPG should transmit it to the attorney representing BIS named below.

PPG is further notified that under the Small Business Regulatory Enforcement Flexibility Act, PPG 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'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'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 may wish to have concerning this matter should occur with her. Ms. Abraham may be contacted by telephone at (202) 482-5301.

Sincerely,

Douglas Hassebrock
Director
Office of Export Enforcement

Schedule of Violations

Charge	Export or Attempted Export Date	Destination	Commodity Description	ECCN	Violations
1	7/7/2006	Pakistan Atomic Energy Commission, Pakistan (via China)	Nuclear certified Level 1 epoxy coatings.	EAR99	15 C.F.R. § 764.2(a)
2	9/5/2006	Pakistan Atomic Energy Commission, Pakistan (via China)	Nuclear certified Level 1 epoxy coatings.	EAR99	15 C.F.R. § 764.2(a)
3	12/14/2006	Pakistan Atomic Energy Commission, Pakistan (via China)	Nuclear certified Level 1 epoxy coatings.	EAR99	15 C.F.R. § 764.2(c)