

Congress of the United States
Washington, DC 20515

September 4, 2024

Philip B. Daniele
Chief Executive Officer
AutoZone
123 S. Front Street
Memphis, Tennessee 38103

Dear Mr. Daniele,

We write today regarding the potentially unlawful transshipment of goods by one of your suppliers and your company's due diligence practices for detecting and preventing tariff evasion and forced labor throughout your procurement supply chain. Publicly available information and a recent Department of Homeland Security (DHS) raid raise serious concerns that Qingdao Sunsong—a company based in the People's Republic of China (PRC)—and its U.S.-based subsidiary are circumventing Section 301 tariffs by unlawfully transshipping products with limited transformation through Thailand to the United States.¹ Public company disclosures reveal that U.S. auto part retailers like AutoZone, Advance Auto Parts, and O'Reilly Auto Parts account for more than 40% of the company's sales.² U.S. retailers are responsible for ensuring their procurement practices do not inadvertently support companies engaged in tariff evasion or other unlawful trade practices. Such practices harm American manufacturers, undermine U.S. policy goals, and reward the Chinese Communist Party (CCP)'s unfair economic policies.

Reviews of Qingdao Sunsong's public disclosures reveal a consistent pattern of trade fraud, which is causing severe harm to American manufacturers. In 2019, following the imposition of Section 301 tariffs on goods produced by Qingdao Sunsong, including rubber hose assembly products, the company established a transshipping facility for these goods in Thailand. Indeed, one Qingdao Sunsong filing reveals that the primary objective of its investments in Thailand is to circumvent U.S. tariffs and allow for the low-cost shipment of goods to U.S. auto part retailers.³ As the filing states, Qingdao Sunsong's Thailand operation is designed to "ease the cost pressure of U.S. tariffs on products shipped directly from China."⁴

¹ Bethany Allen-Ebrahimiyan, Axios, *DHS raids Chinese car parts maker's U.S. headquarters* (January 21, 2024), available at: <https://www.axios.com/2024/01/21/dhs-raid-chinese-car-parts-makers-us-tariff>.

² Beijing Stock Exchange, *Qingdao Sunsong Technology Co., Ltd. Reply to the inquiry letter regarding the review of application documents for Qingdao Sanxiang Technology Co., Ltd. 's public issuance of shares and listing on the Beijing Stock Exchange*, (September 13, 2022) available at: chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.bse.cn/disclosure/2022/2022-09-16/1663332006_805191.pdf.

³ Beijing Stock Exchange, *Qingdao Sunsong Technology Co., Ltd. Reply to the inquiry letter regarding the review of application documents for Qingdao Sanxiang Technology Co., Ltd. 's public issuance of shares and listing on the Beijing Stock Exchange*, (September 13, 2022) available at: chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.bse.cn/disclosure/2022/2022-09-16/1663332006_805191.pdf.

In June 2022, Qingdao Sunsong applied to be publicly listed on the Beijing Stock Exchange (BSE).⁵ The BSE listing process requires Qingdao Sunsong to provide a detailed accounting of its international operations, including its operations in Thailand and North America.⁶ In a letter to the BSE, Qingdao Sunsong confirmed its rubber hose assembly products produced in China were subject to a 25% tariff and that “in order to reduce tariff costs, the issuer shifted its production (from China) to Thailand.” Qingdao Sunsong’s response detailed how it relied on its relationships with Thailand-based Virayont Group Co. Ltd. and Imperial Cable Industry Co. Ltd. to reduce tariff costs borne by its U.S. subsidiary, Sunsong North America.

Qingdao Sunsong’s disclosure to the BSE demonstrates a clear pattern of trade fraud as it indicated that the effect of outsourced processing in Thailand between 2019 and 2021 added only between 12 cents and 23 cents to the value of its power steering hose assemblies. These numbers reveal that processing by Virayont of the products received from Qingdao Sunsong accounted for only 4 to 8 percent of the declared value of assembly, far below the threshold expected to qualify as “substantial transformation” as defined by the U.S. Department of Commerce, which would allow for shipment to the United States at the lower tariff levels accorded to goods produced in Thailand. Indeed, the Qingdao Sunsong disclosure indicates that Virayont’s added value only constitutes “assembly processing,” which it described as a process that “is relatively simple.” In 2021, Qingdao Sunsong began to use a new wholly-owned subsidiary, Sunsong Thailand, to facilitate this continued practice.

Engaging in transshipment to evade U.S. tariffs, smuggle goods into the country, or facilitate trade-based money laundering constitutes a criminal violation under U.S. law and poses a serious threat to American economic security. To avoid Section 301 tariffs and duties, many PRC companies—including Qingdao Sunsong—ship their Made in China products through countries that face lower tariff levels than those the United States has imposed on the PRC. Shipments of this nature are only permitted at the lower tariff level when a good has undergone substantial transformation in the third country, defined as a “fundamental change in form, appearance, nature, or character” resulting from processing or manufacturing that significantly increases its value compared to its original value when exported from the country of origin.⁷

As is apparent from its own financial disclosures, Qingdao Sunsong fails to substantially transform its products in the third country before shipping its products to the United States. Foreign importers that knowingly falsify the country of origin label on their products are subject

extension://efaidnbmnnnibpcajpcgclefindmkaj/https://www.bse.cn/disclosure/2022/2022-09-16/1663332006_805191.pdf.

⁴ *Id.*

⁵ *Id.*

⁶ Available at www.bse.cn/disclosure/2022/2022-10-31/1667201822_122172.pdf.

⁷ International Trade Administration, *Rules of Origin: Substantial Transformation*, available at: <https://www.trade.gov/rules-origin-substantial-transformation>.

to criminal and civil penalties, including significant fines and penalties under 19 U.S.C. § 1592. **Companies found complicit in knowingly purchasing unlawfully transshipped products also face serious criminal and civil liability.**⁸ Given prior congressional efforts to raise concerns about Qingdao Sunsong and the recent DHS raid of its U.S. facility, we are troubled by your company's continued procurement of its products. While it is important for U.S. auto aftermarket companies to maximize value for their customers and shareholders, it cannot be done at the expense of U.S. trade laws.⁹

Therefore, we respectfully request that you provide answers in writing to the following questions as soon as possible but no later than September 20, 2024:

1. Did your company purchase any products from Qingdao Sunsong before May 10, 2019, when the United States implemented 25% tariffs on automotive parts from the PRC under Section 301?
 - a. How did your company verify Qingdao Sunsong's claimed shift of Country of Origin (COO) from China to Thailand after the 25% Section 301 automotive tariffs were implemented?
 - b. Did Qingdao Sunsong inform your company that it shifted production from the PRC to Thailand?
 - c. Did your company increase purchases from Qingdao Sunsong after the imposition of 25% tariffs in May 2019; after a congressional letter warned of Qingdao Sunsong's likely illegal transshipment practices in September 2023; or after DHS executed a search warrant at Qingdao Sunsong's U.S.-based subsidiary in January 2024?
 - d. Do you plan on increasing your purchases of Qingdao Sunsong products in the future? Please provide a detailed accounting of your procurement of Qingdao Sunsong products since May 10, 2019.
 - e. Are there other instances in which your company has engaged in commercial relations with suppliers who are under investigation for trade fraud?

⁸ Under 19 U.S.C. § 1586 consequences for aiding companies who transship products to the U.S. include imprisonment for up to 15 years with significant civil penalties that exceed the total value of annual purchases, plus unpaid tariffs, interest payments, and other fines; Office of the Law Revision Counsel, United States Code, *19 USC 1586: Unlawful unloading or transshipment*, available at: <https://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title19-section1586&num=0&edition=prelim>.

⁹ *Recent Developments in Sunsong Transshipment*, TARIFF INTEGRITY, available at www.tariffintegrity.org/.

2. How has your company specifically responded to allegations of Qingdao Sunsong's transshipment and the ongoing DHS investigation?
 - a. Based on the allegations, did you request that Qingdao Sunsong obtain a COO ruling by CBP?
 - b. Did supply chain professionals from your company visit Qingdao Sunsong in Thailand? If so, did they conclude definitively the COO of the products that your company purchased from that facility?
3. How does your company conduct due diligence of its suppliers to ensure all products comply with U.S. trade laws?
 - a. What was your company's percentage of COO PRC product purchases vs. total purchases in 2019 and 2023?
 - b. What percentage of your company's COO PRC product supply changed to another COO after the United States implemented 25% Section 301 automotive tariffs in 2019?
4. Please provide a detailed description of your company's due diligence process for detecting and preventing the procurement of goods that are produced with forced labor, including those prohibited entry into the United States under the Uyghur Forced Labor Prevention Act.

We appreciate in advance your timely response to this important matter.

Sincerely,



John Moolenaar
Chairman
Select Committee on the CCP



Raja Krishnamoorthi
Ranking Member
Select Committee on the CCP



Sherrod Brown
United States Senator



Bill Cassidy
United States Senator



Darin LaHood
Member of Congress



Ashley Hinson
Member of Congress



Glenn Ivey
Member of Congress