



ONE HUNDRED EIGHTEENTH CONGRESS
REPRESENTATIVE CHRISTOPHER H. SMITH, CHAIR
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October 31, 2023

W. Craig Jelinek
Chief Executive Officer
Costco Wholesale Corporation
999 Lake Drive
Issaquah, WA 98027

Dear Mr. Jelinek:

We write to ask questions about Costco's sale of Lorex security products, which are linked directly to the Chinese company Dahua, whose products are restricted for all in the U.S. by the Federal Communications Commission (FCC). The bulk of this letter details our concerns about the sale of Lorex security products to American consumers. However, given recent reports indicating the possibility of forced labor in your company's seafood supply-chain, we also seek from you the audits and risk assessments used by your company to justify the sale of seafood caught and processed by companies in the People's Republic of China (PRC). We should both agree that American consumers should not be subsidizing horrific human rights abuses—by either Chinese security or seafood companies.

The sale of Lorex security equipment allows Dahua to profit from the U.S. market even though its equipment is banned from U.S. government use because of security and human rights concerns. Dahua has also been placed on the Department of Commerce's "Entity List," because of its role in the PRC's genocide in the Xinjiang Uyghur Autonomous Region (XUAR).

Your competitors, Best Buy, Home Depot, and Lowe's, discontinued the sale of Lorex products, citing human rights and ethical sourcing concerns—making Costco's continued sale of the equipment all the more puzzling and seemingly in conflict with your company's stated commitment to the United Nations Guiding Principles on Business and Human Rights and the International Bill of Human Rights.

In November of 2022, the Federal Communications Commission (FCC) deemed that telecommunications and surveillance equipment from Hikvision and Dahua posed an "unacceptable risk" to national security and announced that additional equipment sales in the United States would not be authorized until the companies submitted a plan for approval. As you likely know, Dahua submitted a plan, though the FCC did not approve it. New rules issued in February of 2023 state that the FCC will no longer approve plans from five different entities including Dahua, Hikvision, and their respective subsidiaries and affiliates.

In addition to concerns about security, the United States government linked Dahua to the genocide of the Uyghurs and other predominately Muslim ethnic minorities in the XUAR. Dahua developed alert and tracking technology that allows police to identify ethnic Uyghur faces and deploy invasive surveillance technology, such as Wi-Fi sniffers. Dahua also co-developed "ethnicity tracking" technical standards within China that predict the probability an individual is a Uyghur, Tibetan, or other ethnic group.

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We should all agree that in a national security state like the PRC, Dahua's efforts to help track and identify ethnic minorities are particularly noxious and should be condemned. American consumers should not be subsidizing a company actively enabling the PRC's atrocities, including imports of goods made with forced labor in the XUAR.

Lorex products are also a known security risk to U.S. customers because critical vulnerabilities are regularly discovered in Dahua products, including unauthorized viewing of video and audio feeds and archives, as well as unauthorized network access and remote tampering with settings. While Dahua denies it shares any data and claims its products are safe, the PRC's 2017 National Intelligence Law requires Dahua to support national intelligence work. No data collected can be withheld from PRC authorities should they request it for intelligence purposes—a vulnerability that your U.S. and global customers should be notified of. The recent sale of Lorex to a Taiwanese company Skywatch does not allay our concerns or immediately change the security risks posed to U.S. companies and consumers moving forward, as Dahua still supplies all the component parts for the Lorex cameras and other surveillance equipment.

The material and reputational risks associated with selling Lorex equipment are something your company recognizes. After an Internet Video Protocol Market (IVPM) report showed that Lorex video surveillance kits sold in Costco bore "Made in the USA" labels, the kits were later re-labeled as "Made in China." Nevertheless, they stayed on Costco's shelves, with no further explanation of who was responsible for this mistake or why the Lorex name stayed on Dahua equipment.

In addition to our concerns about the sale of Lorex equipment, we ask that you also provide a detailed response to reports about Costco's sale of seafood from Chinese companies that use forced labor to catch and process seafood for the U.S. market. The research done by the Outlaw Oceans Project, detailed in the New Yorker and other publications, is compelling and implicates the supply-chains of Costco and many other retailers and grocery chains in forced labor, including of ethnic Uyghurs and North Koreans.

To help us understand Costco's decision to sell security equipment and seafood products from the PRC to American consumers, and given Costco's massive footprint in the U.S. and global market, please respond to the questions below about our concerns and other issues regarding Costco's business practice that will help the Commission's oversight of U.S. laws and national security.

Questions:

1. How has the sale of Lorex security equipment complied with Congressional and FCC restrictions? How is it consistent with Costco's commitment to the United Nation's Guiding Principles on Business and Human Rights?
2. Given that your competitors have stopped selling Lorex products citing human rights and sourcing concerns, why didn't Costco follow suit? Does Costco have information that contradicts the concerns raised by your competitors? If so, can you share it with us?
3. Would Costco commit to ending the sale of Lorex security equipment, given its continued association with Dahua components?
4. Has Costco done any analysis of the risks to the personal sensitive information of customers presented by Lorex equipment? If so, can you share this analysis with us?

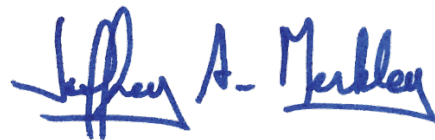
5. Have U.S. customers been warned about the security vulnerabilities associated with Lorex equipment and offered ways to mitigate such risks? If so, can you provide the Commission with these warnings?
6. Did Lorex provide Costco with any special incentives or finance packages for the sale of Lorex equipment? Have those incentives continued after the sale of Lorex to Skywatch? Can you share that with us?
7. What is the policy of Costco to selling Dahua or other video surveillance equipment prohibited for sale in the U.S.—such as Hikvision—in stores outside the U.S.? Are the products widely available at Costco locations outside of the United States? If so, where?
8. Do any Costco Wholesale Corporation entities or subsidiaries in the PRC have communist party committees instituted in their corporate charters? Do communist party committees operate in Costco’s stores in the PRC?
9. Are Costco’s workers in the PRC allowed to organize labor groups or conduct religious activities at your stores? If not, why not and can you provide us with store policies regarding such associations and assembly?
10. Has Costco leadership met with Uyghur-Americans to discuss the genocide and forced labor experienced by their families in China? Would you commit to doing so?
11. Given the recent report by the Outlaw Oceans Project about forced labor in China’s fishing and seafood processing industries and Costco’s sale of seafood from China, we ask that you provide us with the audits and risk assessments your company completed to justify the sale of seafood from the PRC. Is it Costco’s position that its seafood supply-chain is completely free of forced labor and that no Uyghurs or North Koreans are processing seafood for sale at Costco? If not, what concrete steps are you taking right now to ensure that Costco’s customers are not consuming seafood tainted by forced labor?

Thank you for your consideration. We look forward to your response.

Sincerely,



Representative Chris Smith
Chair



Senator Jeffrey A. Merkley
Cochair