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Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

Calif. Importer Pays \$3.25M To End Customs Fraud Case

By **Alyssa Aquino**

Law360 (November 9, 2022, 6:13 PM EST) -- A California importer paid the federal government \$3.25 million Wednesday to resolve a former worker's claims that it evaded millions of dollars in tariffs on Chinese furniture, according to the whistleblower's attorney at Newman & Shapiro.

RGE Motor Direct Inc., which does business as One Big Outlet, made the payment under a settlement reached more than one year after Chi Kwan Chan, the ex-employee of its overseas supplier accused it of customs fraud, Chan's attorney, Gregg Shapiro, confirmed to Law360.

Shapiro said that a very small percentage of whistleblower cases are brought by people living overseas. But Chan's Hong Kong residency gave him access to RGE Motor Direct's pricing spreadsheets, he said.

"Overseas whistleblowers have the potential to expose customs fraud in the United States," Shapiro said.

RGE Motor Direct denied all the allegations, according to the settlement, and the U.S. Department of Justice declined to pursue the case itself.

Chan, who was fired in January 2021, was responsible for sourcing furniture from China and monitoring production and order processing. Royal Sourcing Ltd., his employer and RGE Motor Direct's overseas supplier, would then ship the products to California-based RGE Motor Direct and another importer, Phoenix Tools Inc., according to Chan's amended complaint.

In June 2021, Chan accused RGE Motor Direct as well as Phoenix Tools in California federal court of violating the False Claims Act.

In his suit, which was updated in May 2022, Chan said that the companies used false invoices to skirt the 25% tariff that former President Donald Trump imposed on broad swathes of Chinese industry in 2018 in response to China's intellectual property practices and forced technology transfers.

Chan alleged that when Royal Sourcing purchased merchandise to resell to RGE Motor Direct and Phoenix Tools, the company would create an invoice showing the true price the businesses paid for the products, and a fake one showing a reduced price to offset the duty. The fake invoice would be presented to customs officials alongside an invoice showing a fake testing or certification fee, Chan said.

He estimated that the scheme saved the companies from paying millions of dollars in additional tariffs.

The California federal court entered a default order against Phoenix Tools in June, after the company failed to respond to the allegations.

Counsel for RGE Motor Direct didn't respond to a Wednesday request for comment.

Contact information for Phoenix Tools was not available.

Chan is represented by Gregg Shapiro of Newman & Shapiro.

RGE Motor Direct is represented by Adam Tarosky and Jonah Retzinger of Nixon Peabody LLP.

The U.S. is represented by Lisa Palombo of the U.S. Attorney's Office for the Central District of California.

The case is U.S. ex rel. Chi Kwan Chan v. RGE Motor Direct et al., case number 2:21-cv-04763, in the U.S. District Court for the Central District of California.

--Editing by Patrick Reagan.

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