**A Mysterious Pencil Factory Sharpens Focus On Tariff Scams**

Products that carry a Made in China label are getting more expensive because of President Trump's tariffs. Some unscrupulous business people are looking for a way around that; not by changing the products, just by changing the labels. This is an old scam that may be getting more prevalent as the trade war drags on. NPR's Scott Horsley reports on a hunt for tariff scofflaws that took the U.S. Customs cops all the way to a dusty factory in the Philippines.

SCOTT HORSLEY, BYLINE: A few weeks ago, I spoke with a guy named Roberto Durazo, who helps companies setting up factories in Mexico. Lately, he told me he's been getting a lot of calls from Chinese business people eager to avoid the mounting tariffs imposed by the Trump administration.

ROBERTO DURAZO: So they tell us, like, hey, I build a TV, and I want that TV to be made in Mexico so I cannot pay the duties.

HORSLEY: Durazo told me if a company really wants to move their factory to Mexico, he's happy to help. But some don't want to go that far. They want to keep making TVs and other products in China but pretend they're made in Mexico just to avoid paying the tariffs.

DURAZO: They just wanted to put it in the box, add labels and claim that it's made in Mexico. And we tell them that it doesn't work like that.

HORSLEY: But sometimes, it does work like that because not everyone's as honest as Durazo is. Customs officials say there's a cottage industry devoted to avoiding a costly made-in-China label by falsely claiming products are manufactured elsewhere. Sometimes, the goods are actually shipped to that third country on their way to the United States. Attorney Benjamin Bucy says he's starting to see more of these cases as tariffs on Chinese imports mount. Bucy co-authored a law review article calling trade fraud the wild new frontier of white-collar crime. Often, he says, it's up to competitors to blow the whistle.

BENJAMIN BUCY: If they're paying a 25% tariff and being undercut by someone where they know the export price and the tariff price and something isn't matching up, that's often the kind of knowledge that a competitor uses to build a case.

HORSLEY: Dixon Ticonderoga built a case like that. The pencil maker suspected one of its competitors, Royal Brush Manufacturing, was buying cheap pencils from China but claiming the pencils were made in the Philippines to avoid paying an anti-dumping tariff that would have more than doubled the wholesale cost. Dixon filed a complaint with Customs and Border Protection. Investigators scoured records and even paid an unannounced visit to the purported factory in the Philippines. My NPR colleague reads from a public record of what their inspector found.

UNIDENTIFIED PERSON: (Reading) The manufacturing equipment that Royal Brush had represented as being in use at the Subic Bay facility appeared to have been covered in dust and cobwebs, indicating they had not been used for some time.

HORSLEY: The inspector saw no evidence of manufacturing, but there were boxes and boxes of finished pencils made in China.

UNIDENTIFIED PERSON: (Reading) The attache witnessed staff repacking what appeared to be Chinese-origin products into boxes labeled made in the Philippines.

HORSLEY: Bucy, the attorney, says it doesn't exactly take Sherlock Holmes to crack the case when the people doing the relabeling make little effort to cover their tracks.

BUCY: They're not expecting to be investigated at all.

HORSLEY: Customs officials say sometimes, they find a vacant lot where a factory is supposed to be. Royal Brush was ordered to pay back the avoided tariffs, and it stopped doing business with its Philippine supplier. The company's lawyer, Ron Oleynik, says Royal Brush is appealing the Customs ruling.

RONALD OLEYNIK: This has been a costly, time-consuming, really psychologically painful process. And they're struggling to clear their name.

HORSLEY: Oleynik concedes, though, his client may have been duped along with everyone else about the origin of those pencils. It's hard to know for certain when the factory is an ocean away.

OLEYNIK: The Trump administration, I keep saying, doesn't have a trade war. It's, in some ways, got a war on trade.

HORSLEY: With tariffs now hitting more than $360 billion worth of Chinese imports, Customs officials say it's only natural some production really does move to other countries. But if a company is buying all of its products from China on Monday and on Tuesday says they're all coming from Vietnam, for example, that can arouse suspicion, especially if a new tariff took effect against China overnight. Policing tariff fraud in far-flung countries is not easy or cheap. Even when Customs cops succeed in shutting down one fraudulent factory, another often pops up to take its place. University of North Carolina economist Patrick Conway likens tariff enforcement to a game of whack-a-mole.

PATRICK CONWAY: There are no strong consequences, at least in their home country. So it is difficult to have a long-term impact even if you find evidence of an almost open-and-shut case.

HORSLEY: And the higher Trump builds his tariff wall, the more incentive there is for unscrupulous business people to tunnel under.

Scott Horsley, NPR News, Washington.