

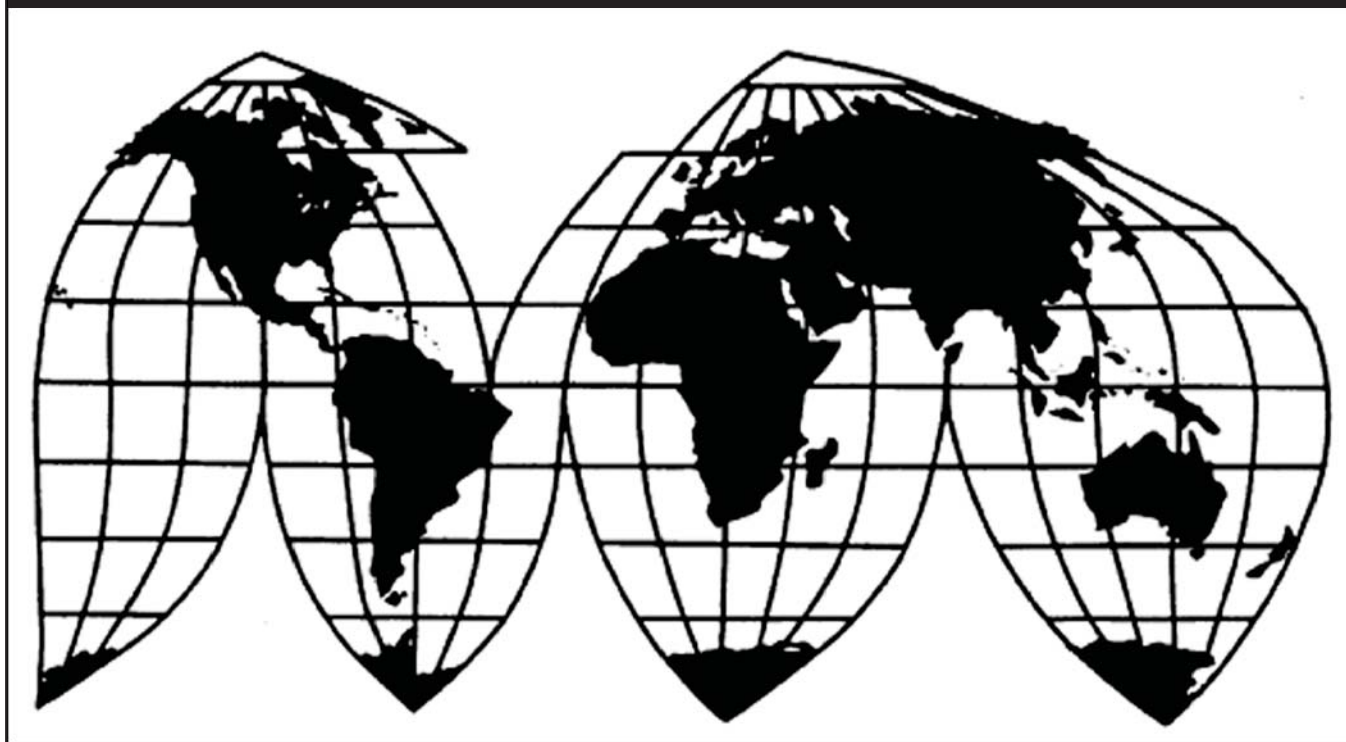
# Cased Pencils from China

Investigation No. 731-TA-669 (Fourth Review)

Publication 4715

August 2017

**U.S. International Trade Commission**



Washington, DC 20436

# U.S. International Trade Commission

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# U.S. International Trade Commission

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Note.— Information that would reveal confidential operations of individual concerns may not be published and therefore has been deleted. Such deletions are indicated by asterisks.





# UNITED STATES INTERNATIONAL TRADE COMMISSION

Investigation No. 731-TA-669 (Fourth Review)

Cased Pencils from China

## DETERMINATION

On the basis of the record<sup>1</sup> developed in the subject five-year review, the United States International Trade Commission (“Commission”) determines, pursuant to the Tariff Act of 1930 (“the Act”), that revocation of the antidumping duty order on cased pencils from China would be likely to lead to continuation or recurrence of material injury to an industry in the United States within a reasonably foreseeable time.

## BACKGROUND

The Commission, pursuant to section 751(c) of the Act (19 U.S.C. 1675(c)), instituted this review on June 1, 2016 (81 F.R. 35059) and determined on September 6, 2016 that it would conduct a full review (82 F.R. 12467, March 3, 2017). Notice of the scheduling of the Commission’s review and of a public hearing to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the *Federal Register* on March 3, 2017 (82 F.R. 12467). The hearing was cancelled at the request of the domestic interested parties. The notice of cancellation of the hearing was published in the *Federal Register* on June 6, 2017 (82 F.R. 26118).

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<sup>1</sup> The record is defined in sec. 207.2(f) of the Commission’s Rules of Practice and Procedure (19 CFR 207.2(f)).



## Views of the Commission

Based on the record in this five-year review, we determine under section 751(c) of the Tariff Act of 1930, as amended (“the Tariff Act”), that revocation of the antidumping duty order on cased pencils from China would be likely to lead to continuation or recurrence of material injury to an industry in the United States within a reasonably foreseeable time.

### I. Background

#### A. Original Investigation

In response to a petition filed on November 10, 1993, by the Pencil Makers Association, Inc., the Commission determined in December 1994 that an industry in the United States producing cased pencils was threatened with material injury by reason of imports of cased pencils from China that the U.S. Department of Commerce (“Commerce”) had found were sold in the United States at less than fair value (“LTFV”).<sup>1</sup> On December 28, 1994, Commerce issued an antidumping duty order on imports of cased pencils from China.<sup>2</sup>

#### B. Prior Reviews

In December 1999, July 2005, and November 2010, the Commission instituted its first, second, and third five-year reviews, respectively, of the antidumping duty order on cased pencils from China.<sup>3</sup> In each of those reviews, the Commission decided to conduct an expedited review pursuant to section 751(c)(3) of the Tariff Act.<sup>4</sup> The Commission determined in each of

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<sup>1</sup> *Cased Pencils from China*, Inv. No. 731-TA-669 (Final), USITC Pub. 2837 (Dec. 1994) (“Original Determination”). The petition in the original investigation concerned subject imports from Thailand and China. The Commission made a final negative determination with respect to cased pencils from Thailand. See *Certain Cased Pencils from Thailand*, Inv. No. 731-TA-670 (Final), USITC Pub. 2816 (Oct. 1994) (“Original Determination for Thailand”). The Commission did not cumulate subject imports from Thailand with subject imports from China because it found that subject imports from Thailand were negligible and therefore ineligible for cumulation under the negligible imports provision that existed prior to the Uruguay Round Agreements Act (URAA). *Id.* at I-11 to I-16.

<sup>2</sup> 59 Fed. Reg. 66909 (Dec. 28, 1994).

<sup>3</sup> 64 Fed. Reg. 67304 (Dec. 1, 1999) (first five-year review); 70 Fed. Reg. 38192 (July 1, 2005) (second five-year review); 75 Fed. Reg. 67102 (Nov. 1, 2010) (third five-year review).

<sup>4</sup> *Cased Pencils from China*, Inv. No. 731-TA-669 (First Review), USITC Pub. 3328 (June 2000) at appendix B (Explanation of Commission Determination on Adequacy) (“First Five-Year Review”); *Cased Pencils from China*, Inv. No. 731-TA-669 (Second Review), USITC Pub. 3820 (Nov. 2005) at appendix B (Explanation of Commission Determination on Adequacy) (“Second Five-Year Review”); *Cased Pencils from China*, Inv. No. 731-TA-669 (Third Review), USITC Pub. 4239 (June 2011) at appendix B (Explanation of Commission Determination on Adequacy) (“Third Five-Year Review”). One importer that accounted for a very small portion of subject import volume responded to the notice of institution in the first (Continued...)

those reviews that revocation of the order would be likely to lead to continuation or recurrence of material injury to an industry in the United States within a reasonably foreseeable time.<sup>5</sup> Following the third five-year review, Commerce published its most recent notice of continuation of the antidumping duty order, on July 12, 2011.<sup>6</sup>

In 2013, Commerce revoked the antidumping duty order with respect to “Beijing Fila Dixon Stationery Company, Ltd. a/k/a Beijing Dixon Ticonderoga Stationery Company, Ltd., a/k/a Beijing Dixon Stationery Company, Ltd., and Dixon Ticonderoga Company”<sup>7</sup> and in 2015 affirmed that the revocation of the order in part continues to apply to Beijing Fila Dixon Stationery Co., Ltd. (“Beijing Fila”) as successor in interest.<sup>8</sup>

### C. Current Review

On June 1, 2016, the Commission instituted the instant five-year review to determine whether revoking the antidumping duty order on cased pencils from China would be likely to lead to continuation or recurrence of material injury to a domestic industry.<sup>9</sup> On September 6, 2016, the Commission determined that it would conduct a full five-year review.<sup>10</sup>

*Parties to the Review.* The Commission received prehearing and posthearing submissions jointly from domestic producers General Pencil Co., Inc. (“General Pencil”);

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(...Continued)

review. First Five-Year Review, USITC Pub. 3328 at appendix B. No respondent interested party responded to the notice of institution in the second and third reviews. Second Five-Year Review, USITC Pub. 3820 at appendix B; Third Five-Year Review, USITC Pub. 4239 at appendix B.

<sup>5</sup> First Five-Year Review, USITC Pub. 3328 at 13; Second Five-Year Review, USITC Pub. 3820 at 15; Third Five-Year Review, USITC Pub. 4239 at 21.

<sup>6</sup> 76 Fed. Reg. 40880 (July 12, 2011).

<sup>7</sup> 78 Fed. Reg. 42932 (July 18, 2013).

<sup>8</sup> 80 Fed. Reg. 19073 (April 9, 2015).

<sup>9</sup> 81 Fed. Reg. 35059 (June 1, 2016). Commerce initiated its five-year review on the same date. 81 Fed. Reg. 34974 (June 1, 2016). It issued the results of its expedited review thereafter. 81 Fed. Reg. 69513 (Oct. 6, 2016).

<sup>10</sup> Domestic producers General Pencil Co., Inc. (“General Pencil”); Musgrave Pencil Co., Inc. (“Musgrave”); and RoseMoon, Inc. (“RoseMoon”) (jointly “combined domestic producers”) and domestic producer Dixon Ticonderoga Co. (“Dixon Ticonderoga”) (collectively “domestic interested parties”) responded to the notice of institution. On September 6, 2016, the Commission determined that the domestic interested party group response to its notice of institution was adequate. The Commission did not receive a response from any respondent interested party and determined that the respondent interested party group response to the notice of institution was inadequate.

However, the Commission decided to conduct a full review “in light of the time that has transpired since the Commission conducted a full investigation in this matter and certain changes in conditions of competition that have occurred in the U.S. market since the original investigations, including changes in the composition of the domestic and foreign industries.” Chairman Williamson and Commissioners Pinkert and Schmidlein voted to conduct an expedited review. Explanation of Commission Determination on Adequacy (Sept. 9, 2016),

<https://pubapps2.usitc.gov/sunset/caseProfSuppAttmnt/download/11872>.

Musgrave Pencil Co., Inc. (“Musgrave”); and RoseMoon, Inc. (“RoseMoon”) (jointly “combined domestic producers”) and individually from domestic producer Dixon Ticonderoga Co. (“Dixon Ticonderoga”) (collectively “domestic interested parties”). No respondent party responded to the notice of institution or otherwise participated in this review. The Commission canceled the hearing in this review following requests to do so by the domestic interested parties.<sup>11</sup>

*Data/Response Coverage.* U.S. industry data are based on the questionnaire responses of four U.S. producers of cased pencils that are believed to account for nearly all domestic production of cased pencils in 2016.<sup>12</sup> U.S. import data and related information are based on the questionnaire responses of 50 U.S. importers of cased pencils that accounted for 81.8 percent of total U.S. imports, \*\*\* percent of subject U.S. imports, and \*\*\* percent of nonsubject U.S. imports in 2016.<sup>13</sup> Foreign industry data and related information are based on the questionnaire responses of three producers of cased pencils in China, with reported exports to the United States accounting for \*\*\* percent of subject imports in 2016.<sup>14</sup>

## II. Domestic Like Product and Industry

### A. Domestic Like Product

In making its determination under section 751(c) of the Tariff Act, the Commission defines the “domestic like product” and the “industry.”<sup>15</sup> The Tariff Act defines “domestic like product” as “a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation under this subtitle.”<sup>16</sup> The Commission’s practice in five-year reviews is to examine the domestic like product definition from the original investigation and consider whether the record indicates any reason to revisit the prior findings.<sup>17</sup>

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<sup>11</sup> 82 Fed. Reg. 26118 (June 6, 2017); Combined Domestic Producers’ Request Regarding Scheduled Hearing, EDIS Doc. 612748 (May 25, 2017); Dixon Ticonderoga Request for Cancellation of Public Hearing, EDIS Doc. 612630 (May 24, 2017).

<sup>12</sup> Confidential Report, Memorandum INV-PP-094 (July 12, 2017) as revised by Memorandum INV-PP-103 (July 26, 2017) (“CR”) at III-1; Public Report, *Cased Pencils from China*, Inv. No. 731-TA-669 (Fourth Review), USITC Pub. 4715 (Aug. 2017) (“PR”) at III-1.

<sup>13</sup> CR/PR at IV-1.

<sup>14</sup> CR at IV-6, PR at IV-5.

<sup>15</sup> 19 U.S.C. § 1677(4)(A).

<sup>16</sup> 19 U.S.C. § 1677(10); *see, e.g., Cleo Inc. v. United States*, 501 F.3d 1291, 1299 (Fed. Cir. 2007); *NEC Corp. v. Department of Commerce*, 36 F. Supp. 2d 380, 383 (Ct. Int’l Trade 1998); *Nippon Steel Corp. v. United States*, 19 CIT 450, 455 (1995); *Timken Co. v. United States*, 913 F. Supp. 580, 584 (Ct. Int’l Trade 1996); *Torrington Co. v. United States*, 747 F. Supp. 744, 748–49 (Ct. Int’l Trade 1990), *aff’d*, 938 F.2d 1278 (Fed. Cir. 1991); *see also* S. Rep. No. 249, 96<sup>th</sup> Cong., 1<sup>st</sup> Sess. 90–91 (1979).

<sup>17</sup> *See, e.g., Internal Combustion Industrial Forklift Trucks from Japan*, Inv. No. 731-TA-377 (Second Review), USITC Pub. 3831 at 8–9 (Dec. 2005); *Crawfish Tail Meat from China*, Inv. No. 731-TA- (Continued...)

Commerce has defined the imported merchandise within the scope of the order under review as follows:

certain cased pencils of any shape or dimension (except as described below) which are writing and/or drawing instruments that feature cores of graphite or other materials, encased in wood and/or man-made materials, whether or not decorated and whether or not tipped (e.g., with erasers, etc.) in any fashion, and either sharpened or unsharpened. The pencils subject to the order are currently classifiable under subheading 9609.10.00 of the Harmonized Tariff Schedule of the United States ('HTSUS'). Specifically excluded from the scope of the order are mechanical pencils, cosmetic pencils, pens, noncased crayons (wax), pastels, charcoals, chalks, and pencils produced under U.S. patent number 6,217,242, from paper infused with scents by the means covered in the above-referenced patent, thereby having odors distinct from those that may emanate from pencils lacking the scent infusion. Also excluded from the scope of the order are pencils with all of the following physical characteristics: (1) Length: 13.5 or more inches; (2) sheath diameter: not less than one-and-one quarter inches at any point (before sharpening); and (3) core length: Not more than 15 percent of the length of the pencil. In addition, pencils with all of the following physical characteristics are excluded from the scope of the order: Novelty jumbo pencils that are octagonal in shape, approximately ten inches long, one inch in diameter before sharpening, and three-and-one eighth inches circumference, composed of turned wood encasing one-and-one half inches of sharpened lead on one end and a rubber eraser on the other end. Although the HTSUS subheading is provided for convenience and customs purposes, the written description of the scope of the order is dispositive.<sup>18</sup>

## 1. Original Investigation

In the original investigation, the Commission found a single domestic like product consisting of all domestically produced cased pencils, including raw pencils, which are essentially unfinished cased pencils.<sup>19</sup> The Commission explained that "[a]lthough the physical characteristics of raw and unfinished cased pencils differ slightly in that the latter are lacquered and may contain a ferrule and an eraser, ... both items can act as hand-held writing instruments and can perform the same function — writing."<sup>20</sup> Moreover, the Commission

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(...Continued)

752 (Review), USITC Pub. 3614 at 4 (July 2003); *Steel Concrete Reinforcing Bar from Turkey*, Inv. No. 731-TA-745 (Review), USITC Pub. 3577 at 4 (Feb. 2003).

<sup>18</sup> *Certain Cased Pencils from the People's Republic of China: Final Results of Expedited Sunset Review of the Antidumping Duty Order*, 81 Fed. Reg. 69513 (Oct. 6, 2016). Commerce has issued several scope rulings with respect to this order. CR/PR at Table I-3.

<sup>19</sup> Original Determination, USITC Pub. 2837 at I-6.

<sup>20</sup> Original Determination, USITC Pub. 2837 at I-7.

found that all cased pencils shared similar end uses and channels of distribution and utilized common manufacturing facilities and production employees.<sup>21</sup>

## **2. Prior Reviews**

In the first, second, and third five-year reviews, the Commission defined the domestic like product in the same manner that it did in the original investigation. In each review, it stated that no party had argued for a different domestic like product definition and that there was no new information obtained during the respective five-year reviews that suggested a reason for departing from the Commission's original definition of the domestic like product.<sup>22</sup>

## **3. Current Review**

In this fourth five-year review, the domestic interested parties assert that the Commission should define the domestic like product in the same manner as it did in the prior proceedings.<sup>23</sup> There is no indication in the record that the pertinent characteristics of cased pencils have changed since the prior proceedings.<sup>24</sup> We therefore continue to define the domestic like product as all cased pencils, coextensive with Commerce's scope.

### **B. Domestic Industry**

Section 771(4)(A) of the Tariff Act defines the relevant industry as the domestic “producers as a whole of a domestic like product, or those producers whose collective output of a domestic like product constitutes a major proportion of the total domestic production of the product.”<sup>25</sup> In defining the domestic industry, the Commission’s general practice has been to include in the industry producers of all domestic production of the like product, whether toll-produced, captively consumed, or sold in the domestic merchant market.

We must determine whether any producer of the domestic like product should be excluded from the domestic industry pursuant to section 771(4)(B) of the Tariff Act. This provision allows the Commission, if appropriate circumstances exist, to exclude from the domestic industry producers that are related to an exporter or importer of subject merchandise

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<sup>21</sup> Original Determination, USITC Pub. 2837 at I-6.

<sup>22</sup> First Five-Year Review, USITC Pub. 3328 at 5; Second Five-Year Review, USITC Pub. 3820 at 5; Third Five-Year Review, USITC Pub. 4239 at 6.

<sup>23</sup> Combined Domestic Producers’ Prehearing Brief at 3; Dixon Ticonderoga’s Prehearing Brief at 7.

<sup>24</sup> See generally CR at I-18 to I-21, PR at I-16 to I-18.

<sup>25</sup> 19 U.S.C. § 1677(4)(A). The definitions in 19 U.S.C. § 1677 are applicable to the entire subtitle containing the antidumping and countervailing duty laws, including 19 U.S.C. §§ 1675 and 1675a. See 19 U.S.C. § 1677.

or that are themselves importers.<sup>26</sup> Exclusion of such a producer is within the Commission's discretion based upon the facts presented in each investigation.<sup>27</sup>

## 1. Original Investigation

In the original investigation, the Commission found that domestic producer Pentech International, Inc. ("Pentech") was a related party. It concluded that appropriate circumstances existed to exclude Pentech from the domestic industry, which the Commission defined as "comprising the domestic producers of all cased pencils."<sup>28</sup>

## 2. Prior Reviews

In the first five-year review, the Commission found that domestic producer \*\*\* was a related party but that appropriate circumstances did not exist to exclude it from the domestic industry.<sup>29</sup>

In the second five-year review, the Commission found that domestic producer \*\*\* was a related party but that appropriate circumstances did not exist to exclude it from the domestic industry.<sup>30</sup> The Commission also stated that another domestic producer, Dixon Ticonderoga, had an interest in a pencil production facility in China, but observed that the record contained no information on the extent of Dixon Ticonderoga's ownership of the facility in China or

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<sup>26</sup> See *Torrington Co. v. United States*, 790 F. Supp. 1161, 1168 (Ct. Int'l Trade 1992), *aff'd without opinion*, 991 F.2d 809 (Fed. Cir. 1993); *Sandvik AB v. United States*, 721 F. Supp. 1322, 1331-32 (Ct. Int'l Trade 1989), *aff'd mem.*, 904 F.2d 46 (Fed. Cir. 1990); *Empire Plow Co. v. United States*, 675 F. Supp. 1348, 1352 (Ct. Int'l Trade 1987).

<sup>27</sup> The primary factors the Commission has examined in deciding whether appropriate circumstances exist to exclude a related party include the following:

- (1) the percentage of domestic production attributable to the importing producer;
- (2) the reason the U.S. producer has decided to import the product subject to investigation (whether the firm benefits from the LTFV sales or subsidies or whether the firm must import in order to enable it to continue production and compete in the U.S. market);
- (3) whether inclusion or exclusion of the related party will skew the data for the rest of the industry;
- (4) the ratio of import shipments to U.S. production for the imported product; and
- (5) whether the primary interest of the importing producer lies in domestic production or importation. *Changzhou Trina Solar Energy Co. v. USITC*, 100 F. Supp. 3d 1314, 1326-31 (Ct. Int'l Trade 2015); see also *Torrington Co. v. United States*, 790 F. Supp. at 1168.

<sup>28</sup> The Commission excluded Pentech from the industry because the company had benefited from LTFV imports and was shielded from the negative effects of those imports. Original Determination, USITC Pub. 2837 at I-8 to I-9.

<sup>29</sup> Confidential First Review Determination, EDIS Doc. 587570, at 7; First Five-Year Review, USITC Pub. 3328 at 5-6.

<sup>30</sup> Confidential Second Review Determination, EDIS Doc. 587571 at 8; Second Five-Year Review, USITC Pub. 3820 at 6.



whether Dixon Ticonderoga imported subject merchandise. In the absence of further information on Dixon Ticonderoga's ownership and importation interests or any argument that it should be excluded as a related party, the Commission found that appropriate circumstances did not exist to exclude Dixon Ticonderoga from the domestic industry.<sup>31</sup>

In the third five-year review, the Commission found that domestic producer Dixon Ticonderoga was a related party by virtue of its importation of subject merchandise and its ownership of a Chinese exporter of subject merchandise. It concluded that appropriate circumstances existed to exclude Dixon Ticonderoga from the domestic industry as a related party.<sup>32</sup>

### 3. Current Review

In this fourth five-year review, three domestic producers are related parties. During the period since the end of the third five-year review, domestic producers \*\*\* imported subject merchandise, and Dixon Ticonderoga owned a Chinese exporter of subject merchandise.<sup>33</sup>

The combined domestic producers argue that the Commission should not exclude \*\*\* from the domestic industry and take no position on whether to exclude \*\*\*.<sup>34</sup> Dixon Ticonderoga “requests that the Commission reconsider its related-party finding” from the third five-year review and not exclude Dixon Ticonderoga from the domestic industry in the current review, although the company “recognizes that the conditions that the Commission cited as a reason for excluding the firm from the domestic industry in the {third five-year review} continue to exist.”<sup>35</sup>

We consider below whether appropriate circumstances exist to exclude any of the related party producers from the domestic industry.

\*\*\*: \*\*\* was the \*\*\* U.S. producer of cased pencils in 2016, accounting for \*\*\* percent of U.S. production.<sup>36</sup> \*\*\* was a petitioner in the original investigation.<sup>37</sup> \*\*\* and supports

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<sup>31</sup> Second Five-Year Review, USITC Pub. 3820 at 6.

<sup>32</sup> The Commission found that, for the one year in the period of review (2009) for which there were data, Dixon Ticonderoga had been \*\*\* an importer of subject merchandise. Although Dixon Ticonderoga was a petitioner in the original investigation and responded to the notice of institution and provided comments in the third five-year review in support of continuation of the order, the Commission found that the evidence demonstrated that the company's primary focus had shifted to importation. Confidential Third Review Determination, EDIS Doc. 587572 at 10–11; Third Five-Year Review, USITC Pub. 4239 at 8–9.

<sup>33</sup> CR/PR at Tables I-6 and III-7.

<sup>34</sup> Combined Domestic Producers' Prehearing Brief at 4.

<sup>35</sup> Dixon Ticonderoga's Prehearing Brief at 8–9. Dixon Ticonderoga recommends that even if the Commission excludes it from the domestic industry, the Commission should not exclude any other domestic producer. *Id.* at 9.

<sup>36</sup> CR/PR at Table I-5.

<sup>37</sup> Combined Domestic Producers' Prehearing Brief at 5.

continuation of the order in this fourth five-year review.<sup>38</sup> \*\*\* imported subject merchandise in \*\*\*, with such imports representing \*\*\* percent and \*\*\* percent, respectively, of its domestic production in those years.<sup>39</sup> Because the record indicates that \*\*\* primary interest is in domestic production, we find that appropriate circumstances do not exist to exclude \*\*\* from the domestic industry as a related party.

\*\*\*: \*\*\* was the \*\*\* U.S. producer of cased pencils in 2016, accounting for \*\*\* percent of U.S. production.<sup>40</sup> \*\*\* was a petitioner in the original investigation.<sup>41</sup> \*\*\* and supports continuation of the order in this fourth five-year review.<sup>42</sup> \*\*\* imported subject merchandise in \*\*\*, with such imports representing \*\*\* percent, \*\*\* percent, and \*\*\* percent, respectively, of its domestic production in those years.<sup>43</sup> Because the record indicates that \*\*\* primary interest is in domestic production, we find that appropriate circumstances do not exist to exclude \*\*\* from the domestic industry as a related party.

*Dixon Ticonderoga*: Dixon Ticonderoga was the \*\*\* U.S. producer of cased pencils in 2016, accounting for \*\*\* percent of U.S. production.<sup>44</sup> The company was a petitioner in the original investigation, has participated in each of the three prior reviews of the order, and supports continuation of the order in this fourth five-year review.<sup>45</sup> It imported subject merchandise in \*\*\*, with such imports representing \*\*\* percent, \*\*\* percent, and \*\*\* percent, respectively, of its domestic production in those years.<sup>46</sup> The Chinese producer that it owns was an exporter of subject merchandise until July 18, 2013, when Commerce revoked the antidumping duty order with respect to it.<sup>47</sup>

Dixon Ticonderoga's domestic production declined \*\*\* from 2014 to 2016 and in each of those three years was \*\*\* of its domestic production in 2009.<sup>48</sup> Despite the firm's support for continuation of the order in this review, the facts suggest that, as the Commission found in the third review, Dixon Ticonderoga's primary interest is not in domestic production. Therefore, we find that appropriate circumstances exist to exclude Dixon Ticonderoga from the domestic industry as a related party. For these reasons, we define the domestic industry as all producers of the domestic like product except for Dixon Ticonderoga.

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<sup>38</sup> Combined Domestic Producers' Prehearing Brief at 5; CR/PR at Table I-5.

<sup>39</sup> \*\*\* states that it imported subject product because \*\*\*. CR/PR at Table III-7.

<sup>40</sup> CR/PR at Table I-5.

<sup>41</sup> Combined Domestic Producers' Prehearing Brief at 5.

<sup>42</sup> Combined Domestic Producers' Prehearing Brief at 5; CR/PR at Table I-5.

<sup>43</sup> \*\*\* states that it imported subject product because \*\*\*. CR/PR at Table III-7.

<sup>44</sup> CR/PR at Table I-5.

<sup>45</sup> Dixon Ticonderoga's Prehearing Brief at 8; CR/PR at Table I-5.

<sup>46</sup> Dixon Ticonderoga states that it imported subject product because \*\*\*. CR/PR at Table III-7. Dixon Ticonderoga \*\*\*. CR/PR at Table III-8.

<sup>47</sup> 78 Fed. Reg. 42932 (July 18, 2013); 80 Fed. Reg. 19073 (April 9, 2015).

<sup>48</sup> Dixon Ticonderoga's domestic production was \*\*\* gross in 2009, \*\*\* gross in 2014, \*\*\* gross in 2015, and \*\*\* gross in 2016. Confidential Third Review Determination at 10; Third Five-Year Review, USITC Pub. 4239 at 8; CR/PR at Table III-7.

### III. Revocation of the Antidumping Duty Order Would Likely Lead to Continuation or Recurrence of Material Injury Within a Reasonably Foreseeable Time

#### A. Legal Standards

In a five-year review conducted under section 751(c) of the Tariff Act, Commerce will revoke an antidumping or countervailing duty order unless: (1) it makes a determination that dumping or subsidization is likely to continue or recur and (2) the Commission makes a determination that revocation of the antidumping or countervailing duty order “would be likely to lead to continuation or recurrence of material injury within a reasonably foreseeable time.”<sup>49</sup> The Uruguay Round Agreements Act Statement of Administrative Action (SAA) states that “under the likelihood standard, the Commission will engage in a counterfactual analysis; it must decide the likely impact in the reasonably foreseeable future of an important change in the status quo – the revocation or termination of a proceeding and the elimination of its restraining effects on volumes and prices of imports.”<sup>50</sup> Thus, the likelihood standard is prospective in nature.<sup>51</sup> The U.S. Court of International Trade has found that “likely,” as used in the five-year review provisions of the Tariff Act, means “probable,” and the Commission applies that standard in five-year reviews.<sup>52</sup>

The statute states that “the Commission shall consider that the effects of revocation or termination may not be imminent, but may manifest themselves only over a longer period of time.”<sup>53</sup> According to the SAA, a “‘reasonably foreseeable time’ will vary from case-to-case, but

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<sup>49</sup> 19 U.S.C. § 1675a(a).

<sup>50</sup> SAA, H.R. Rep. No. 103-316, vol. I at 883–884 (1994). The SAA states that “{t}he likelihood of injury standard applies regardless of the nature of the Commission’s original determination (material injury, threat of material injury, or material retardation of an industry). Likewise, the standard applies to suspended investigations that were never completed.” *Id.* at 883.

<sup>51</sup> While the SAA states that “a separate determination regarding current material injury is not necessary,” it indicates that “the Commission may consider relevant factors such as current and likely continued depressed shipment levels and current and likely continued {sic} prices for the domestic like product in the U.S. market in making its determination of the likelihood of continuation or recurrence of material injury if the order is revoked.” SAA at 884.

<sup>52</sup> See *NMB Singapore Ltd. v. United States*, 288 F. Supp. 2d 1306, 1352 (Ct. Int’l Trade 2003) (“‘likely’ means probable within the context of 19 U.S.C. § 1675(c) and 19 U.S.C. § 1675a(a)”), *aff’d mem.*, 140 Fed. Appx. 268 (Fed. Cir. 2005); *Nippon Steel Corp. v. United States*, 26 CIT 1416, 1419 (2002) (same); *Usinor Industeel, S.A. v. United States*, 26 CIT 1402, 1404 nn.3, 6 (2002) (“more likely than not” standard is “consistent with the court’s opinion;” “the court has not interpreted ‘likely’ to imply any particular degree of ‘certainty’”); *Indorama Chemicals (Thailand) Ltd. v. United States*, 26 CIT 1059, 1070 (2002) (“standard is based on a likelihood of continuation or recurrence of injury, not a certainty”); *Usinor v. United States*, 26 CIT 767, 794 (2002) (“‘likely’ is tantamount to ‘probable,’ not merely ‘possible’”).

<sup>53</sup> 19 U.S.C. § 1675a(a)(5).

normally will exceed the ‘imminent’ timeframe applicable in a threat of injury analysis in original investigations.”<sup>54</sup>

Although the standard in a five-year review is not the same as the standard applied in an original investigation, it contains some of the same fundamental elements. The statute provides that the Commission is to “consider the likely volume, price effect, and impact of imports of the subject merchandise on the industry if the orders are revoked or the suspended investigation is terminated.”<sup>55</sup> It directs the Commission to take into account its prior injury determination, whether any improvement in the state of the industry is related to the order or the suspension agreement under review, whether the industry is vulnerable to material injury if an order is revoked or a suspension agreement is terminated, and any findings by Commerce regarding duty absorption pursuant to 19 U.S.C. § 1675(a)(4).<sup>56</sup> The statute further provides that the presence or absence of any factor that the Commission is required to consider shall not necessarily give decisive guidance with respect to the Commission’s determination.<sup>57</sup>

In evaluating the likely volume of imports of subject merchandise if an order under review is revoked and/or a suspended investigation is terminated, the Commission is directed to consider whether the likely volume of imports would be significant either in absolute terms or relative to production or consumption in the United States.<sup>58</sup> In doing so, the Commission must consider “all relevant economic factors,” including four enumerated factors: (1) any likely increase in production capacity or existing unused production capacity in the exporting country; (2) existing inventories of the subject merchandise, or likely increases in inventories; (3) the existence of barriers to the importation of the subject merchandise into countries other than the United States; and (4) the potential for product shifting if production facilities in the foreign country, which can be used to produce the subject merchandise, are currently being used to produce other products.<sup>59</sup>

In evaluating the likely price effects of subject imports if an order under review is revoked and/or a suspended investigation is terminated, the Commission is directed to consider whether there is likely to be significant underselling by the subject imports as compared to the domestic like product and whether the subject imports are likely to enter the

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<sup>54</sup> SAA at 887. Among the factors that the Commission should consider in this regard are “the fungibility or differentiation within the product in question, the level of substitutability between the imported and domestic products, the channels of distribution used, the methods of contracting (such as spot sales or long-term contracts), and lead times for delivery of goods, as well as other factors that may only manifest themselves in the longer term, such as planned investment and the shifting of production facilities.” *Id.*

<sup>55</sup> 19 U.S.C. § 1675a(a)(1).

<sup>56</sup> 19 U.S.C. § 1675a(a)(1). Commerce has not made any duty absorptions findings concerning imports of cased pencils from China. CR at I-10 n.24, PR at I-9 n.24.

<sup>57</sup> 19 U.S.C. § 1675a(a)(5). Although the Commission must consider all factors, no one factor is necessarily dispositive. SAA at 886.

<sup>58</sup> 19 U.S.C. § 1675a(a)(2).

<sup>59</sup> 19 U.S.C. § 1675a(a)(2)(A–D).

United States at prices that otherwise would have a significant depressing or suppressing effect on the price of the domestic like product.<sup>60</sup>

In evaluating the likely impact of imports of subject merchandise if an order under review is revoked and/or a suspended investigation is terminated, the Commission is directed to consider all relevant economic factors that are likely to have a bearing on the state of the industry in the United States, including but not limited to the following: (1) likely declines in output, sales, market share, profits, productivity, return on investments, and utilization of capacity; (2) likely negative effects on cash flow, inventories, employment, wages, growth, ability to raise capital, and investment; and (3) likely negative effects on the existing development and production efforts of the industry, including efforts to develop a derivative or more advanced version of the domestic like product.<sup>61</sup> All relevant economic factors are to be considered within the context of the business cycle and the conditions of competition that are distinctive to the industry. As instructed by the statute, we have considered the extent to which any improvement in the state of the domestic industry is related to the order under review and whether the industry is vulnerable to material injury upon revocation.<sup>62</sup>

## **B. Conditions of Competition and the Business Cycle**

In evaluating the likely impact of the subject imports on the domestic industry if an order is revoked, the statute directs the Commission to consider all relevant economic factors “within the context of the business cycle and conditions of competition that are distinctive to the affected industry.”<sup>63</sup> The following conditions of competition, many of which were pertinent in the original investigation and prior reviews, inform our determinations.

### **1. Demand Conditions**

Cased pencils are most commonly used for writing and drawing on paper in home, school, or business settings.<sup>64</sup> As the Commission found in the prior proceedings, demand for cased pencils is influenced by population levels, especially changes in the number of school-age students, and a large portion of pencil purchases occur during midsummer for the back-to-

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<sup>60</sup> See 19 U.S.C. § 1675a(a)(3). The SAA states that “{c}onsistent with its practice in investigations, in considering the likely price effects of imports in the event of revocation and termination, the Commission may rely on circumstantial, as well as direct, evidence of the adverse effects of unfairly traded imports on domestic prices.” SAA at 886.

<sup>61</sup> 19 U.S.C. § 1675a(a)(4).

<sup>62</sup> The SAA states that in assessing whether the domestic industry is vulnerable to injury if the order is revoked, the Commission “considers, in addition to imports, other factors that may be contributing to overall injury. While these factors, in some cases, may account for the injury to the domestic industry, they may also demonstrate that an industry is facing difficulties from a variety of sources and is vulnerable to dumped or subsidized imports.” SAA at 885.

<sup>63</sup> 19 U.S.C. § 1675a(a)(4).

<sup>64</sup> CR at II-8, PR at II-6.

school season.<sup>65</sup> The record indicates that the consolidation and concentration of purchasers observed in the original investigation, resulting in fewer but larger purchasers of cased pencils with greater negotiating power, has continued in each review and persists in the current review.<sup>66</sup>

As in the original investigation and prior reviews, the most commonly sold pencil is the “commodity,” or economy, pencil—the standard yellow No. 2 pencil.<sup>67</sup> U.S. producers manufacture many types of specialty and custom pencils in addition to economy pencils, including colored, golf, decorated, designer, novelty, promotional, advertising, carpenter, and drawing pencils.<sup>68</sup> These specialty pencils tend to command higher prices than economy pencils.<sup>69</sup>

In the original investigation, the Commission found that demand for cased pencils increased 10.1 percent from 1991 to 1993, from \*\*\* gross to \*\*\* gross.<sup>70</sup> Although the Commission characterized the market for cased pencils as mature, it observed in the first review that apparent U.S. consumption increased approximately \*\*\* percent between 1993 and 1998, the final year of the first review period, to \*\*\* gross.<sup>71</sup> For the second review period, apparent U.S. consumption in 2004 declined to \*\*\* gross, but remained above the 1993 quantity.<sup>72</sup> For the third review period, U.S. consumption increased to \*\*\* gross in 2009.<sup>73</sup>

In the current review, three of the four domestic producers reported that, since the end of the third five-year review, demand for cased pencils has fluctuated or increased.<sup>74</sup> Three-quarters of purchasers reported that demand over the same period remained unchanged or increased, with a reported increase in demand for colored pencils related to the adult coloring

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<sup>65</sup> First Five-Year Review, USITC Pub. 3328 at 8; Second Five-Year Review, USITC Pub. 3820 at 9; Third Five-Year Review, USITC Pub. 4239 at 11–13; CR at II-8, PR at II-6. There is some indication in the record that demand increases during the standardized testing season. CR at II-8, PR at II-6.

<sup>66</sup> Original Determination at I-10; First Five-Year Review, USITC Pub. 3328 at 9; Second Five-Year Review, USITC Pub. 3820 at I-7, n.27; Third Five-Year Review, USITC Pub. 4239 at 12; Dixon Ticonderoga’s Prehearing Brief at 17–19.

<sup>67</sup> These pencils have essentially the same color, hardness, diameter, and length and similarly attached ferrules and erasers. CR at I-19, PR at I-17. U.S. producer RoseMoon states that its “yellow” pencil is a commodity pencil because it is sold to the mass market through retail channels, but believes it is not an “economy” pencil based on its price and higher-quality features. Combined Domestic Producers’ Posthearing Brief, responses to questions at 1.

<sup>68</sup> CR at I-19, PR at I-17.

<sup>69</sup> Combined Domestic Producers’ Posthearing Brief at 2.

<sup>70</sup> Original Determination, USITC Pub. 2837 at I-10; Confidential Original Determination Staff Report, Memorandum INV-R-184 (Nov. 23, 1994), EDIS Doc. 587427, at Table B-1.

<sup>71</sup> Confidential First Review Staff Report, Memorandum INV-X-139 (June 22, 2000), EDIS Doc. 587430, at Table I-3; First Five-Year Review, USITC Pub. 3328 at 8, Table I-3.

<sup>72</sup> Confidential Second Review Determination at 12; Second Five-Year Review, USITC Pub. 3820 at 9.

<sup>73</sup> Confidential Third Review Determination at 17; Third Five-Year Review, USITC Pub. 4239 at 13.

<sup>74</sup> CR/PR at Table II-3.

trend.<sup>75</sup> Three of four domestic producers and the majority of importers and purchasers reported that they anticipate future demand for cased pencils to remain the same or increase.<sup>76</sup>

During the period of review, apparent U.S. consumption increased from \*\*\* gross in 2014 to \*\*\* gross in 2015 to \*\*\* gross in 2016, which is the highest level on record.<sup>77</sup> The overall increase in apparent U.S. consumption was \*\*\* percent from 2014 to 2016.<sup>78</sup>

## 2. Supply Conditions

In the original investigation, the Commission found that the market was supplied by 11 U.S. producers (including the eight that responded to the Commission's questionnaires) and imports from subject and nonsubject sources.<sup>79</sup> The Commission stated that the domestic industry recently had undergone restructuring.<sup>80</sup>

In the first five-year review, the Commission observed that consolidation within the domestic industry had continued, with the number of U.S. producers declining to between seven and nine.<sup>81</sup> It also observed that the quantity and market share of nonsubject imports had increased since the original investigation.<sup>82</sup>

In the second five-year review, the domestic interested parties reported that there had been no further industry restructuring since the first five-year review.<sup>83</sup> The Commission stated that when comparing the second review period with the original investigation and first review period, U.S. producers' production and market share continued to decrease while the quantity and market share of subject and nonsubject imports continued to increase.<sup>84</sup>

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<sup>75</sup> CR at II-8, PR at II-6; CR/PR at Table II-3.

<sup>76</sup> CR/PR at Table II-3.

<sup>77</sup> CR/PR at Tables I-1, C-2.

<sup>78</sup> CR/PR at Table C-2.

<sup>79</sup> Original Determination for Thailand, USITC Pub. 2816 at I-9 and n.35, I-10 n.39, I-12.

<sup>80</sup> Original Determination for Thailand, USITC Pub. 2816 at I-9.

<sup>81</sup> First Five-Year Review, USITC Pub. 3328 at 9.

<sup>82</sup> In 1993, the last year of the original investigation, there were 2.0 million gross of nonsubject imports, accounting for 9.3 percent of apparent U.S. consumption. Original Determination, USITC Pub. 2837 at Table B-1. In 1998, the only year during the first five-year review for which data were collected, there were 8.9 million gross of nonsubject imports, accounting for \*\*\* percent of apparent U.S. consumption. Confidential First Review Determination at 11-12.

<sup>83</sup> Second Five-Year Review, USITC Pub. 3820 at 9.

<sup>84</sup> U.S. production decreased from \*\*\* gross in 1993 to \*\*\* gross in 1998 and to \*\*\* gross in 2004. U.S. producers' market share declined from \*\*\* percent in 1993 to \*\*\* percent in 1998 and to \*\*\* percent in 2004. Subject imports were 4.7 million gross in 1993, accounting for \*\*\* percent of apparent consumption; 6.0 million gross in 1998, accounting for \*\*\* percent of apparent consumption; and 9.2 million gross in 2004, accounting for \*\*\* percent of apparent U.S. consumption in 2004. Nonsubject imports were 2.0 million gross in 1993, accounting for \*\*\* percent of apparent consumption; 8.9 million gross in 1998, accounting for \*\*\* percent of apparent consumption; and 9.0 million gross in 2004, accounting for \*\*\* percent of apparent consumption. Confidential Second Review Determination at 12-14.

In the third five-year review, there were eight U.S. firms producing cased pencils following the closure of one firm.<sup>85</sup> The domestic industry's share of apparent U.S. consumption continued to decline, reaching a level in 2009 that was lower than in the original investigation or any prior review, while subject imports' and nonsubject imports' shares of apparent U.S. consumption continued to rise to levels higher than in the original investigation.<sup>86</sup>

In the current review, the U.S. market has been supplied by four domestic producers (Dixon Ticonderoga, General Pencil, Musgrave, and RoseMoon) and imports from subject and nonsubject sources. Since the end of the third review period, the number of domestic producers has declined by half, and the domestic industry's capacity and production has declined by more than half due to the closure of Sanford L.P. ("Sanford") in 2014.<sup>87</sup> From 2009 to 2016, the domestic industry's capacity declined from \*\*\* gross to \*\*\* gross, and production declined from \*\*\* gross to \*\*\* gross.<sup>88</sup> In 2016, the domestic producers' share of apparent U.S. consumption was \*\*\* percent, a level lower than in the original investigation or any prior review and smaller than the market shares of subject imports and nonsubject imports.<sup>89</sup>

U.S. producers state that they have concentrated on supplying specialty pencils (e.g., golf pencils) and custom pencils for promotion and awards because imports from China have dominated the U.S. market segments for low-priced commodity pencils.<sup>90</sup> Individual producers supply particular types of specialty pencils.<sup>91</sup>

Subject imports decreased their presence in the U.S. market during the period of review but increased by quantity and value. Their share of apparent U.S. consumption decreased from \*\*\* percent in 2014 to \*\*\* percent in 2016, but U.S. shipments of subject imports increased

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<sup>85</sup> Third Five-Year Review, USITC Pub. 4239 at 13.

<sup>86</sup> The domestic industry's share of apparent U.S. consumption was \*\*\* percent in 2009. Subject imports' market share was \*\*\* percent in 2009. Nonsubject imports' market share was \*\*\* percent in 2009. CR/PR at Table I-1.

<sup>87</sup> CR at I-5, PR at I-4. Sanford represented \*\*\* percent of domestic capacity and \*\*\* percent of domestic production in 2009. Confidential Third Review Staff Report, Memorandum INV-JJ-037 (April 14, 2011), EDIS Doc. 587432, at Table I-9 ("Confidential Third Review Staff Report").

<sup>88</sup> CR/PR at Table I-1.

<sup>89</sup> CR/PR at Table I-1.

<sup>90</sup> Combined Domestic Producers' Posthearing Brief at 2–3; Dixon Ticonderoga's Posthearing Brief at 7–8, Table 2.

<sup>91</sup> Dixon Ticonderoga states that it produces golf and promotional pencils. Dixon Ticonderoga's Posthearing Brief at Table 2. General Pencil states that it produces colored pencils. Combined Domestic Producers' Posthearing Brief at 2; Combined Domestic Producers' Posthearing Brief, responses to questions at 2. Musgrave states that it produces "designer/decorator" pencils with imprinted graphics intended for use on special occasions or for special purposes, as well as blank pencils sold to imprinters, \*\*\* pencils, golf pencils, and a small quantity of colored pencils. Combined Domestic Producers' Prehearing Brief, Written Statement of Mike Smith at paras. 3, 8; Combined Domestic Producers' Posthearing Brief at 2, 8; Combined Domestic Producers' Posthearing Brief, responses to questions at 2, 4. RoseMoon states that it produces "high-quality commodity" and "designer/decorator" pencils. Combined Domestic Producers' Prehearing Brief, Written Statement of Rebecca Cottrell at para. 3; Combined Domestic Producers' Posthearing Brief, responses to questions at 4.



from 7.9 million gross (\$60.3 million) in 2014 to 8.5 million gross (\$73.5 million) in 2016.<sup>92</sup> U.S. producers also state that, as in the third five-year review, producers in China continue to have the ability to produce smaller volume runs of decorator pencils.<sup>93</sup>

Nonsubject imports were the largest source of cased pencils in the U.S. market during the period of review. Their share of apparent U.S. consumption increased from \*\*\* percent in 2014 to \*\*\* percent in 2016.<sup>94</sup> The largest sources of nonsubject imports in 2016 were Brazil, Vietnam, and Mexico.<sup>95</sup>

### 3. Substitutability and Other Conditions

In the original investigation and each of the prior reviews, the Commission characterized cased pencils as a commodity product and observed the importance of price in purchasing decisions.<sup>96</sup> In the original investigation, two Commissioners characterized the market for cased pencils as price sensitive.<sup>97</sup> Two other Commissioners observed that large, nationwide purchasers were increasingly making their purchasing decisions on the basis of price rather than nonprice factors.<sup>98</sup> In the first review, the Commission characterized the market for cased pencils as price sensitive and found the domestic like product and the subject imports to be highly substitutable.<sup>99</sup> In the second and third reviews, the Commission stated that price was an important factor in purchasing decisions.<sup>100</sup>

In the third review, the Commission observed that domestic producers had concentrated their efforts in the specialty and custom pencil market during the period of review because of large volumes of subject imports in the commodity pencil segment.<sup>101</sup> During

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<sup>92</sup> CR/PR at Table C-2.

<sup>93</sup> Combined Domestic Producers' Posthearing Brief, responses to questions at 2–3; Dixon Ticonderoga's Prehearing Brief at 19.

<sup>94</sup> CR/PR at Table C-2.

<sup>95</sup> CR at IV-2 and n.5, PR at IV-1 to IV-2 and n.5.

<sup>96</sup> The Commission also observed that no new uses for pencils were likely to be discovered that would greatly increase demand for cased pencils. Original Determination for Thailand, USITC Pub. 2816 at I-9; Original Determination, USITC Pub. 2837 at I-10; First Five-Year Review, USITC Pub. 3328 at 8; Second Five-Year Review, USITC Pub. 3820 at 9; Third Five-Year Review, USITC Pub. 4239 at 12–13.

In the original investigation, the Commission detailed that most purchasers reported that there were no significant differences in the types of pencils that are available from all sources and that pencils of a similar type perform a similar function whether imported from subject sources or domestically produced. Original Determination for Thailand, USITC Pub. 2816 at I-13 to I-14.

<sup>97</sup> Original Determination, USITC Pub. 2837 at I-22 (Separate Views of Commissioner Rohr and Commissioner Newquist).

<sup>98</sup> Original Determination, USITC Pub. 2837 at I-17 (Additional Views of Chairman Watson and Commissioner Bragg).

<sup>99</sup> First Five-Year Review, USITC Pub. 3328 at 11.

<sup>100</sup> Second Five-Year Review, USITC Pub. 3820 at 13; Third Five-Year Review, USITC Pub. 4239 at 18.

<sup>101</sup> Third Five-Year Review, USITC Pub. 4239 at 13.

that period, however, internet-based pencil suppliers in China had become more prevalent, allowing these producers to participate more fully in the specialty pencil market.<sup>102</sup>

The record in the current review indicates that there is a high degree of substitutability between domestically produced cased pencils and subject imports.<sup>103</sup> The majority of responding market participants reported that cased pencils were always or frequently interchangeable, regardless of country of origin.<sup>104</sup> The majority of responding purchasers reported that cased pencils from the United States and China were comparable insofar as quality meeting industry standards.<sup>105</sup>

The vast majority of responding purchasers reported that either price or quality was the most important factor in purchasing decisions.<sup>106</sup> Price was most frequently cited as one of the top three factors considered in purchasing decisions, followed by quality.<sup>107</sup> We consequently find that price plays an important role in purchasing decisions.

U.S. producers state that, as in the third five-year review, producers in China have accessed buyers in the U.S. market through internet trading portals.<sup>108</sup> Furthermore, Dixon Ticonderoga noted that the increase in internet-based transactions is particularly evident in the specialty and custom segment of the pencils market.<sup>109</sup>

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<sup>102</sup> Third Five-Year Review, USITC Pub. 4239 at 13.

<sup>103</sup> CR at II-9, PR at II-7.

<sup>104</sup> CR at II-15, PR at II-11; CR/PR at Table II-9.

<sup>105</sup> CR/PR at Table II-8. Majorities or pluralities of purchasers reported that cased pencils from the United States and China were comparable on four of the seven factors that purchasers most frequently considered “very important” when making purchasing decisions: availability, product consistency, quality meets industry standards, and reliability of supply. With respect to the three other factors, U.S.-produced cased pencils were superior on delivery terms and delivery time and inferior on price. CR/PR at Tables II-6, II-8.

<sup>106</sup> CR/PR at Table II-5.

<sup>107</sup> CR/PR at Table II-5.

<sup>108</sup> Combined Domestic Producers’ Posthearing Brief, responses to questions at 2–3; Dixon Ticonderoga’s Prehearing Brief at 19.

<sup>109</sup> Dixon Ticonderoga’s Response to the Notice of Institution at 11.

## C. Likely Volume of Subject Imports

### 1. Original Investigation

In the original investigation, the Commission stated that the volume of subject imports increased rapidly over the period of investigation and that increases in imports of noncommodity, decorated pencils, which the domestic industry traditionally had been able to sell at a higher price, were particularly “marked.”<sup>110</sup> The Commission observed that exports to the U.S. market as a share of Chinese producers’ total shipments had increased over the period of investigation while Chinese producers’ domestic shipments as a share of total shipments had decreased.<sup>111</sup> It found that these trends indicated that subject imports from China would be increasingly directed to the U.S. market and that the rapid increase in subject imports from China posed a threat of material injury to the domestic industry.<sup>112</sup>

### 2. Prior Reviews

Following the imposition of the order in December 1994, the level of subject imports of cased pencils from China fell sharply in 1995 before rising again, such that the volume of subject imports in 1998 exceeded the highest level during the original period of investigation.<sup>113</sup> Thus, notwithstanding the order, the volume of cased pencils from China increased in absolute terms in the first review period to 6.0 million gross in 1998, representing a \*\*\* percent share of the U.S. market, compared with a volume of 4.7 million gross in 1993 (a \*\*\* percent share of the market) during the original period of investigation.<sup>114</sup> In the second review period, subject imports from China increased further, to 9.2 million gross units in 2004, accounting for \*\*\* percent of the U.S. market.<sup>115</sup>

Between 1991 and 1993, capacity in China to produce cased pencils, production, and total shipments increased by \*\*\* percent, \*\*\* percent, and \*\*\* percent, respectively.<sup>116</sup> In the first five-year review, there was limited information on the record concerning the status of the cased pencil industry in China because there were no responses by foreign producers or

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<sup>110</sup> Original Determination, USITC Pub. 2837 at I-16 (Additional Views of Chairman Watson and Commissioner Bragg); Original Determination, USITC Pub. 2837 at I-26 (Additional Views of Vice Chairman Janet A. Nuzum).

<sup>111</sup> Original Determination, USITC Pub. 2837 at I-17 (Additional Views of Chairman Watson and Commissioner Bragg).

<sup>112</sup> Original Determination, USITC Pub. 2837 at I-17 (Additional Views of Chairman Watson and Commissioner Bragg).

<sup>113</sup> First Five-Year Review, USITC Pub. 3328 at 10.

<sup>114</sup> Confidential First Review Staff Report at Table I-3; First Five-Year Review, USITC Pub. 3328 at 10, Table I-3.

<sup>115</sup> Confidential Second Review Determination at 15; Second Five-Year Review, USITC Pub. 3820 at 11.

<sup>116</sup> Confidential First Review Determination at 13; First Five-Year Review, USITC Pub. 3328 at 10.

exporters to the Commission's notice of institution.<sup>117</sup> The Commission observed, however, that the United States was the largest export destination for cased pencils produced in China at the time of the first five-year review determination.<sup>118</sup>

The record in the first five-year review further indicated that the number of cased pencil producers in China had increased since the time of the original investigation.<sup>119</sup> Because of this increase and the absence of any information on the record indicating any reduction in the production capacity of Chinese producers that existed at the time of the original investigation, the Commission concluded that the capacity to produce cased pencils in China had likely risen since the time of the original investigation.<sup>120</sup>

Furthermore, the Commission found that the restraining effect of the order, as evidenced by the sharp drop in the volume of subject imports in the U.S. market immediately after its issuance, would be eliminated if the order were revoked.<sup>121</sup> In light of the Chinese cased pencil industry's capacity increases, the significant increase in its levels of exports since the order, and its historical ability to increase exports rapidly to the U.S. market, the Commission found in the first five-year review that, upon revocation of the order, producers of subject merchandise in China would increase exports to the U.S. market above already high levels.<sup>122</sup> The Commission consequently concluded that the likely volume of subject imports would be significant if the antidumping duty order were revoked.<sup>123</sup>

In the second five-year review, the domestic interested parties identified 19 Chinese producers and 19 Chinese exporters of pencils.<sup>124</sup> According to a private market intelligence report, there were approximately 400 producers of cased pencils in China during 2003.<sup>125</sup> The Commission stated that, given that the level of subject imports at 9.2 million gross in 2004 exceeded the domestic producers' shipments of \*\*\* gross, subject imports' share of the U.S. market already exceeded the market share of the domestic industry and would be likely to

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<sup>117</sup> First Five-Year Review, USITC Pub. 3328 at 10.

<sup>118</sup> First Five-Year Review, USITC Pub. 3328 at 10.

<sup>119</sup> Confidential First Review Determination at 13; First Five-Year Review, USITC Pub. 3328 at 10.

<sup>120</sup> Confidential First Review Determination at 13–14; First Five-Year Review, USITC Pub. 3328 at 10. The Commission found this conclusion to be corroborated by information in the record showing that Chinese exports of cased pencils to all countries had risen considerably since 1993, suggesting that capacity had indeed increased. Confidential First Review Determination at 14; First Five-Year Review, USITC Pub. 3328 at 10.

<sup>121</sup> Confidential First Review Determination at 14; First Five-Year Review, USITC Pub. 3328 at 10.

<sup>122</sup> Confidential First Review Determination at 14; First Five-Year Review, USITC Pub. 3328 at 10–11.

<sup>123</sup> Confidential First Review Determination at 14; First Five-Year Review, USITC Pub. 3328 at 11.

<sup>124</sup> Second Five-Year Review, USITC Pub. 3820 at 12.

<sup>125</sup> Second Five-Year Review, USITC Pub. 3820 at 12.

increase even further if the order were revoked.<sup>126</sup> Accordingly, the Commission found that the likely volume of subject imports would be significant, both in absolute and relative terms.<sup>127</sup>

In the third five-year review, subject imports from China continued to enter the U.S. market in substantial quantities, increasing to 10.5 million gross in 2009, or more than \*\*\* percent of U.S. production in 2009.<sup>128</sup> Subject imports' market share by quantity was \*\*\* percent in 2009, greater than their \*\*\* percent market share in 2004 and \*\*\* the market share from the original investigation.<sup>129</sup> The Commission found that Chinese exporters had been able to increase their exports to the United States even with the antidumping duty order in place.<sup>130</sup>

The Commission had limited information regarding the foreign industry in the third five-year review and no information indicating that the total number of producers in China had decreased from the approximately 400 producers of cased pencils in China reported during the second five-year review.<sup>131</sup> The Commission referenced the domestic producers' assertion that the capacity to produce cased pencils in China was at least 104 million gross in 2010, an increase of 36.8 percent from the 76 million gross capacity reported during the second five-year review,<sup>132</sup> and that the inventories of subject merchandise in 2009 \*\*\* total U.S. consumption that year.<sup>133</sup>

The Commission also referenced information in the record that, in 2009, the industry in China exported a significant percentage (28 percent) of its domestic production of cased pencils and was the world's largest exporter of cased pencils by far, with the U.S. market being its largest export market, accounting for 25.1 percent of Chinese exports.<sup>134</sup> The Commission found that because the average unit values ("AUVs") of Chinese exports to the U.S. market were higher than the AUVs of Chinese exports to any other market, the U.S. market would be an attractive export market for Chinese cased pencil producers, which would provide further incentive for these producers to increase exports to the United States.<sup>135</sup>

The Commission found that, based on the large and increasing presence of subject imports in the U.S. market, the size of the industry in China, and the Chinese industry's total volume of exports and continued focus on the attractive U.S. market, Chinese producers would

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<sup>126</sup> Confidential Second Review Determination at 17; Second Five-Year Review, USITC Pub. 3820 at 12.

<sup>127</sup> Second Five-Year Review, USITC Pub. 3820 at 12.

<sup>128</sup> Confidential Third Review Determination at 20; Third Five-Year Review, USITC Pub. 4239 at 15.

<sup>129</sup> Confidential Third Review Determination at 20–21; Third Five-Year Review, USITC Pub. 4239 at 15.

<sup>130</sup> Third Five-Year Review, USITC Pub. 4239 at 15.

<sup>131</sup> Third Five-Year Review, USITC Pub. 4239 at 15.

<sup>132</sup> Third Five-Year Review, USITC Pub. 4239 at 15.

<sup>133</sup> Domestic producers asserted that the Chinese industry had an inventory of 35 million gross cased pencils, compared to \*\*\* gross total consumption in the U.S. market in 2009. Confidential Third Review Determination at 20–21; Third Five-Year Review, USITC Pub. 4239 at 15.

<sup>134</sup> Third Five-Year Review, USITC Pub. 4239 at 15–16.

<sup>135</sup> Third Five-Year Review, USITC Pub. 4239 at 16.

likely increase their exports to the United States above their already significant level if the antidumping duty order were revoked and that the likely volume of subject imports, both in absolute terms and as a share of the U.S. market, would be significant if the order were revoked.<sup>136</sup>

### 3. Current Review

In the current period of review, subject imports continued to maintain a substantial presence in the U.S market, with subject import levels rising from 7.8 million gross in 2014 to 9.1 million gross in 2015 before declining to 8.5 million gross in 2016.<sup>137</sup> Subject imports accounted for \*\*\* percent of apparent U.S. consumption in 2014, \*\*\* percent in 2015, and \*\*\* percent in 2016.<sup>138</sup>

We find that, in the event of revocation of the antidumping duty order, the volume of subject imports from China is likely to be significant. The record contains data from three producers of cased pencils in China that accounted for \*\*\* percent of subject imports in 2016.<sup>139</sup> These data indicate that the reported capacity of the cased pencils industry in China is substantial and growing. Over the period of review, these three producers reported increases in capacity of \*\*\* gross, to \*\*\* gross, and increases in production of \*\*\* gross, to \*\*\* gross.<sup>140</sup> Reporting subject producers' inventories in China as a share of total shipments increased from \*\*\* percent in 2014 to \*\*\* percent in 2016 and, on a quantity basis, represented \*\*\* percent of U.S. production in 2016.<sup>141</sup>

Although the unused capacity reported in the foreign producers' questionnaires is considerable—in 2016 it amounted to \*\*\* percent of apparent U.S. consumption<sup>142</sup>—the facts available in this review indicate that the excess capacity of the subject industry is substantially larger. The domestic interested parties submitted data from the China Writing Instrument Association indicating that the 34 current subject members of the association's pencil committee, which does not include all subject Chinese producers, had a production capacity of \*\*\* gross in 2011, with an estimated production of \*\*\* gross and excess capacity of \*\*\* gross.<sup>143</sup> The data submitted also indicate that compared to available information in the third

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<sup>136</sup> Third Five-Year Review, USITC Pub. 4239 at 16.

<sup>137</sup> CR/PR at Table C-2.

<sup>138</sup> CR/PR at Table C-2.

<sup>139</sup> CR at IV-6, PR at IV-5. These producers estimated that they accounted for \*\*\* percent of total production in China in 2016. CR at I-10, PR at I-9. \*\*\* reported producing other products on the same machinery that it uses to produce cased pencils. CR at IV-8, PR at IV-6.

<sup>140</sup> CR/PR at Table IV-6. In comparison, the U.S. industry in 2016 reported production capacity of \*\*\* gross and production of \*\*\* gross. CR/PR at Table C-2.

<sup>141</sup> At the end of the current period of review, the three responding Chinese producers had \*\*\* gross in inventory. CR/PR at Tables IV-6, C-2.

<sup>142</sup> CR/PR at Tables I-8, IV-6.

<sup>143</sup> Dixon Ticonderoga's Response to the Notice of Institution at 23 and exh. 6 (most recent data available) (data adjusted to exclude Dixon Ticonderoga's now-nonsubject producer subsidiary in China).

five-year review, the production capacity of the subject industry has increased \*\*\* gross from 2010.<sup>144</sup> This increase in capacity exceeds apparent U.S. consumption in 2016.<sup>145</sup>

The record further indicates that subject producers in China are export oriented. China was the largest global exporter of cased pencils in 2016, accounting for 40.4 percent of global exports.<sup>146</sup> The subject industry in China, therefore, has the ability to increase exports of subject merchandise to the United States rapidly as it did during the original investigation.

In addition, the United States has been and is likely to be an attractive market for the subject producers.<sup>147</sup> Despite the existence of the order, subject imports continued to maintain a presence in the U.S. market during this period of review and in all prior reviews and in 2016 were more than twice the volume in the original investigation.<sup>148</sup> Several importers have indicated that, upon revocation of the order, their purchasing decisions will or might change, leading to a likely increase in the volume of subject imports from China.<sup>149</sup> Furthermore, \*\*\* Chinese producers stated that, upon revocation of the order, they would either \*\*\*.<sup>150</sup> That cased pencils from China are subject to antidumping duty orders in five countries would provide an additional incentive for subject producers to direct additional exports to the United States upon revocation.<sup>151</sup>

Accordingly, based on subject producers' behavior during the original investigation and all prior reviews, subject imports' continued presence in the U.S. market and the attractiveness of the U.S. market, and information available regarding the subject producers' substantial and growing production capacity and export orientation, we find that the likely volume of subject imports, in absolute terms and relative to U.S. consumption, would be significant in the event of revocation.

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<sup>144</sup> Dixon Ticonderoga's Response to the Notice of Institution at 23 and exh. 6; Third Five-Year Review, USITC Pub. 4239 at 15, I-31 to I-32, Table I-10.

<sup>145</sup> Apparent U.S. consumption of cased pencils was \*\*\* gross in 2016. CR/PR at Table I-9.

<sup>146</sup> CR/PR at Table IV-8. Official Chinese statistics indicate that global exports of cased pencils from China increased steadily from 191 million pounds in 2014 to 198 million pounds in 2015 and 219 million pounds in 2016. CR/PR at Table IV-7. The share of responding Chinese producers' total shipments directed to the home market declined from \*\*\* percent in 2014 to \*\*\* percent in 2016, while the share of shipments exported to the United States increased from \*\*\* percent to \*\*\* percent over the same time period. CR/PR at Table IV-6.

<sup>147</sup> Dixon Ticonderoga's Prehearing Brief at 4; Dixon Ticonderoga's Posthearing Brief at 5. Exports to the U.S. market by the responding subject producers increased from \*\*\* gross in 2014 to \*\*\* gross in 2016, or by \*\*\* percent. Their exports to the rest of the world declined from \*\*\* gross to \*\*\* gross during this time frame. CR/PR at Table IV-6.

<sup>148</sup> U.S. shipments of subject imports were 8.5 million gross in 2016, compared to \*\*\* gross in 1993. CR/PR at Table I-I.

<sup>149</sup> CR/PR at Table D-4. For example, \*\*\* stated that it would \*\*\*, \*\*\* stated that it would \*\*\*, \*\*\* stated that it would \*\*\*, \*\*\* stated that it would \*\*\*, \*\*\* stated that it would \*\*\*, and \*\*\* stated variously that \*\*\*. *See id.*

<sup>150</sup> CR/PR at Table D-5 (responses from \*\*\*).

<sup>151</sup> CR at IV-12 to IV-13, PR at IV-8 to IV-9.

## D. Likely Price Effects

### 1. Original Investigation

In the original investigation, the Commission found that the subject imports undersold domestically produced cased pencils consistently and that there was a likelihood the subject imports would have a depressing or suppressing effect on prices for the domestic like product.<sup>152</sup>

### 2. Prior Reviews

In the first five-year review, because pricing information was limited to data on AUVs between 1997 and 1999, the Commission relied on the indication of underselling shown by those data notwithstanding their limitations.<sup>153</sup> The Commission concluded that if the antidumping duty order were revoked, prices for the subject imports would decline significantly.<sup>154</sup> It found that the record suggested that the cased pencils market was price sensitive and that there was a high degree of substitutability between the subject imports and domestic like product.<sup>155</sup> Moreover, the pricing patterns of the subject imports during the original investigation indicated that there was likely to be significant underselling by the subject imports.<sup>156</sup> The Commission observed that, in light of the growing concentration and consolidation of purchasers, which increasingly were comprised of nationwide catalog wholesalers and superstores that made purchasing decisions on the basis of price, increased volumes of low-priced subject imports would likely depress prices for domestically produced cased pencils.<sup>157</sup> Consequently, the Commission found that if the antidumping duty order were revoked, the subject imports would likely have significant price depressing or suppressing effects.<sup>158</sup>

In the second and third five-year reviews, the Commission found that price remained a principal determinant in the sale of cased pencils.<sup>159</sup> Although the Commission acknowledged possible product mix issues, the record of each review indicated that the AUVs of the subject

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<sup>152</sup> Original Determination, USITC Pub. 2837 at I-17 (Additional Views of Chairman Watson and Commissioner Bragg); *id.* at I-23 (Separate Views of Commissioner Rohr and Commissioner Newquist); *id.* at I-27 (Additional Views of Vice Chairman Janet A. Nuzum).

<sup>153</sup> First Five-Year Review, USITC Pub. 3328 at 11.

<sup>154</sup> First Five-Year Review, USITC Pub. 3328 at 11.

<sup>155</sup> First Five-Year Review, USITC Pub. 3328 at 11.

<sup>156</sup> First Five-Year Review, USITC Pub. 3328 at 11–12.

<sup>157</sup> First Five-Year Review, USITC Pub. 3328 at 12.

<sup>158</sup> First Five-Year Review, USITC Pub. 3328 at 12.

<sup>159</sup> Second Five-Year Review, USITC Pub. 3820 at 13; Third Five-Year Review, USITC Pub. 4239 at



imports were considerably lower than the AUVs of the U.S. producers' U.S. shipments.<sup>160</sup> The Commission found in each review that if the order were revoked, the subject imports would likely undersell the U.S. product in order to gain additional market share, forcing domestic producers to lower their prices to avoid further declines in their production and shipment levels.<sup>161</sup> It concluded in each review that if the order were revoked, the likely significant increase in subject import volume at prices that would likely undersell the U.S. product would likely have significant price effects on U.S. producers.<sup>162</sup>

### 3. Current Review

As described above, the record in the current review indicates that there is a high degree of substitutability between subject imports from China and the domestic like product and that price plays an important role in purchasing decisions. In addition, the concentration and consolidation of purchasers, which increasingly are superstores that make purchasing decisions on the basis of price, continued during the current review, most notably reflected in the merger of Office Depot and Office Max in 2013.<sup>163</sup>

The record of this review contains extremely limited pricing comparison data.<sup>164</sup> Although as in all prior reviews we continue to be mindful of possible product mix issues, the record in this review indicates that the AUVs of the subject imports were lower than the AUVs of U.S. shipments of U.S. producers and nonsubject imports in each year for which data were collected.<sup>165</sup> The data are consistent with our findings in the original investigation and all prior

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<sup>160</sup> Second Five-Year Review, USITC Pub. 3820 at 13; Third Five-Year Review, USITC Pub. 4239 at 18.

<sup>161</sup> Second Five-Year Review, USITC Pub. 3820 at 13; Third Five-Year Review, USITC Pub. 4239 at 18.

<sup>162</sup> Second Five-Year Review, USITC Pub. 3820 at 13; Third Five-Year Review, USITC Pub. 4239 at 18. In the third five-year review, the Commission observed that, since the imposition of the order, export AUVs of cased pencils from China to the United States had risen significantly (between 18 and 21 percent) above the average AUVs of Chinese cased pencil exports to the rest of the world. The Commission found that although the order had not restrained all Chinese exports, it appeared to have placed some price discipline on those exports. Third Five-Year Review, USITC Pub. 4239 at 18.

<sup>163</sup> CR/PR at Table III-1.

<sup>164</sup> Pricing data were collected for two products: (1) commodity (economy) pencils – packaged for retail and (2) commodity (economy) pencils – packaged for wholesale. CR at V-4, PR at V-3. With regard to the first product, the available data indicate predominate overselling, but we accord this data limited weight because of the limited number of comparisons (pricing comparisons were possible in only four of the 12 quarters for which data were requested) and very small shipment volumes. CR/PR at Table V-2. With regard to the second product, no member of the domestic industry, as defined in section II.B. above, submitted pricing data. See CR at V-4 n.3, PR at V-3 n.3.

<sup>165</sup> The AUVs for U.S. producers' U.S. shipments were \$\*\*\* in 2014, \$\*\*\* in 2015, and \$\*\*\* in 2016. The AUVs in each of those years for subject imports were \$7.64, \$7.84, and \$8.64 and for nonsubject imports were \$12.75, \$12.74, and \$12.05. CR/PR at Table C-2.

reviews and with other evidence in the record that subject imports are sold or offered for sale at lower prices than the domestic like product.<sup>166</sup>

In view of our finding of a likely significant volume of subject imports, the high substitutability between subject imports and the domestic like product, the importance of price in purchasing decisions, the history of underselling by the subject imports, and the continuing concentration of purchasers' power, we find that, upon revocation of the order, subject producers would likely significantly undersell the domestic like product to gain market share as they did during the original investigation. This underselling would likely result in significant price effects, as domestic producers would be forced either to cut prices or risk losing sales to subject import competition. Indeed, U.S. purchasers indicated in their responses to the Commission's questionnaire that if the order were revoked, they would purchase low-priced cased pencils from China, which would create significant downward pricing pressure on the domestic like product.<sup>167</sup> The record further indicates that subject imports have continued moving into the high-value specialty pencil markets on which the domestic producers have been focusing their operations.<sup>168</sup>

We consequently find that absent the disciplining effects of the order, significant volumes of subject imports from China would likely significantly undersell the domestic like product to gain market share and likely would have significant depressing and/or suppressing effects on prices of the domestic like product.

## **E. Likely Impact**

### **1. Original Investigation**

In the original investigation, the Commission found that the U.S. cased pencil industry was threatened with material injury by reason of the subject imports, based on the domestic industry's declining market share, capacity utilization, and employment and its operating losses throughout the period of investigation.<sup>169</sup> The Commission found that increased volumes of

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<sup>166</sup> Original Determination at I-17; First Five-Year Review at 11; Second Five-Year Review at 13; Third Five-Year Review at 18. In the current review, 19 of 30 purchasers described the prices of the domestic product as inferior to, or higher than, subject imports. CR/PR at Table II-8.

<sup>167</sup> For example, \*\*\* stated that it would \*\*\*; \*\*\* stated that because it \*\*\*; and \*\*\* stated that revocation \*\*\*. CR/PR at Table D-4; \*\*\* Purchaser Questionnaire Response, EDIS Doc. 612303 (May 22, 2017) at III-29.

<sup>168</sup> Dixon Ticonderoga's Response to the Notice of Institution at exh. 12 (showing Chinese producers offering for sale via an internet portal colored pencils, charcoal pencils, and golf pencils that the domestic industry states are lower priced than U.S. products); Combined Domestic Producers' Posthearing Brief, responses to questions at 2 (noting e-commerce sales of smaller production lots of designer pencils from China). The specialty pencil market would likely gain greater attention from producers of cased pencils in China upon revocation of the order, as evidenced by responding subject producer \*\*\*. CR/PR at Table V-6.

<sup>169</sup> Original Determination, USITC Pub. 2837 at I-10 to I-11, I-13.

subject imports would lead to price declines for the domestic like product and would prevent domestic producers from recovering cost increases.<sup>170</sup> As a result, the Commission concluded that the domestic industry's financial performance would likely deteriorate.<sup>171</sup>

## 2. Prior Reviews

In the first five-year review, the Commission stated that the order had a positive effect on the industry's performance.<sup>172</sup> It found that the industry was not vulnerable in light of its current profitability and the increase in AUVs for domestically produced pencils since the original investigation.<sup>173</sup> The Commission then referred to its findings that revocation of the order likely would result in a significant increase in the volume of subject imports at prices significantly lower than those of the domestic like product and that such increased volumes of subject imports would likely depress or suppress the domestic industry's prices significantly.<sup>174</sup> The Commission observed that because a reduction in prices would not stimulate significant additional demand, revocation would likely have a significant impact on the production, shipments, sales, and revenue levels of the domestic industry.<sup>175</sup> These declines in turn would have a direct adverse impact on the industry's employment, profitability, and ability to raise capital and make and maintain necessary capital investments.<sup>176</sup> Accordingly, based on the limited record in that review, the Commission concluded that, if the antidumping duty order were revoked, subject imports would likely have a significant impact on the domestic industry within a reasonably foreseeable time.<sup>177</sup>

In the second five-year review, the Commission noted that the record did not include current financial information on the domestic industry or otherwise permit it to assess whether the industry was vulnerable but that the record did show that the domestic industry's production and U.S. shipments had declined substantially since the first review.<sup>178</sup> The Commission found that subject import volume was likely to be significant if the order were revoked, resulting in likely significant price effects.<sup>179</sup> The Commission concluded that

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<sup>170</sup> Original Determination, USITC Pub. 2837 at I-17 (Additional Views of Chairman Watson and Commissioner Bragg); *id.* at I-27 to I-28 (Additional Views of Vice Chairman Janet A. Nuzum).

<sup>171</sup> Original Determination, USITC Pub. 2837 at I-17 (Additional Views of Chairman Watson and Commissioner Bragg); *id.* at I-27 to I-28 (Additional Views of Vice Chairman Janet A. Nuzum).

<sup>172</sup> First Five-Year Review, USITC Pub. 3328 at 13.

<sup>173</sup> First Five-Year Review, USITC Pub. 3328 at 13.

<sup>174</sup> First Five-Year Review, USITC Pub. 3328 at 13.

<sup>175</sup> First Five-Year Review, USITC Pub. 3328 at 13.

<sup>176</sup> First Five-Year Review, USITC Pub. 3328 at 13.

<sup>177</sup> First Five-Year Review, USITC Pub. 3328 at 13.

<sup>178</sup> Second Five-Year Review, USITC Pub. 3820 at 15. The domestic industry's production decreased from \*\*\* gross in 1998 to \*\*\* gross in 2004, and its U.S. shipments decreased from \*\*\* gross in 1998 to \*\*\* gross in 2004. Confidential Second Review Determination at 21–22; Second Five-Year Review, USITC Pub. 3820 at 15.

<sup>179</sup> Second Five-Year Review, USITC Pub. 3820 at 15.

revocation of the antidumping duty order would be likely to lead to significant declines in output, sales, market share, profits, productivity, return on investments, and utilization of capacity; likely negative effects on cash flow, inventories, employment, wages, growth, ability to raise capital, and investment; and negative effects on the domestic industry's development and production efforts within a reasonably foreseeable time.<sup>180</sup>

In the third five-year review, the information in the record on the domestic industry's condition was limited to one year (2009), which was insufficient for the Commission to make a finding on whether the domestic industry was vulnerable to the continuation or recurrence of material injury in the event of revocation of the order.<sup>181</sup> The data showed that the domestic industry had become smaller since the prior review.<sup>182</sup> In addition, although comparisons with the prior two reviews were not available, the domestic industry's operating income and operating income margins were lower than in the original investigation.<sup>183</sup> The Commission acknowledged that the share of the U.S. market held by nonsubject imports had continued to increase since the prior review but found that a significant portion of the expected increase in subject imports would continue to occur at the expense of the domestic industry given the likelihood of subject import underselling and adverse price effects.<sup>184</sup>

It also found that any lingering effects of the economic downturn in 2009 were not likely to sever the causal nexus between subject imports and their likely significant impact on the domestic industry if the order were revoked and that the likely volume and price effects of the subject imports would likely have had a significant impact on the production, shipments, sales, market share, and revenues of the domestic industry.<sup>185</sup> The Commission concluded that that if the antidumping duty order were revoked, subject imports from China would likely have a significant impact on the domestic industry within a reasonably foreseeable time.<sup>186</sup>

### 3. Current Review

The condition of the domestic industry, which was greatly reduced in size due to the closure of domestic producer Sanford in 2014,<sup>187</sup> generally improved over the period of review. The domestic industry's production and capacity utilization increased slightly during the period of review.<sup>188</sup> The domestic industry's U.S. shipments and inventories increased slightly as

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<sup>180</sup> Second Five-Year Review, USITC Pub. 3820 at 15.

<sup>181</sup> Third Five-Year Review, USITC Pub. 4239 at 20.

<sup>182</sup> Third Five-Year Review, USITC Pub. 4239 at 20.

<sup>183</sup> Confidential Third Review Determination at 29; Third Five-Year Review, USITC Pub. 4239 at 20.

<sup>184</sup> Third Five-Year Review, USITC Pub. 4239 at 20.

<sup>185</sup> Third Five-Year Review, USITC Pub. 4239 at 20.

<sup>186</sup> Third Five-Year Review, USITC Pub. 4239 at 20–21.

<sup>187</sup> CR at I-5, PR at I-4; CR/PR at Table I-1.

<sup>188</sup> Capacity remained steady at \*\*\* gross in each year of the period of review. Production increased from \*\*\* gross in 2014 to \*\*\* gross in 2015, then declined to \*\*\* gross in 2016. Capacity (Continued...)

well.<sup>189</sup> The number of production and related workers (“PRWs”) decreased slightly and productivity remained flat, but hours worked, wages paid, and per unit labor costs increased slightly from 2014 to 2016.<sup>190</sup>

The domestic industry’s financial indicia improved during the period of review. Sales revenues increased as did operating income and operating income as a ratio to net sales.<sup>191</sup> The domestic industry’s total capital expenditures for its operations declined overall from 2014 to 2016.<sup>192</sup>

Due to the domestic industry’s improvements from 2014 to 2016 in production, U.S. shipments, capacity utilization, and profitability, we do not find that the domestic industry is in a vulnerable condition. As discussed above, however, we conclude that revocation of the antidumping duty order on imports of cased pencils from China would likely lead to a significant increase in the volume of subject imports that would likely undersell the domestic like product and significantly suppress or depress prices for the domestic like product. We find that the likely volume and price effects of subject imports would likely have a significant impact on the production, shipments, sales, market share, and revenue of the domestic industry. These reductions would have a direct adverse impact on the domestic industry’s profitability and employment, as well as its ability to raise capital and make and maintain necessary capital investments.

We have also considered the likely role of nonsubject imports in the U.S. market. There is no indication or argument on this record that the presence of nonsubject imports, which increased in volume during the period of review, would prevent cased pencil imports from China from significantly increasing their presence in the U.S. market in the event of revocation of the order, given the large amount of available capacity of subject producers, the export orientation of the subject industry, and the relative attractiveness of the U.S. market. U.S. purchasers indicated in their responses to the Commission’s questionnaire that if the order were revoked, they would purchase low-priced cased pencils from China, which would create

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(...Continued)

utilization increased from \*\*\* percent in 2014 to \*\*\* percent in 2015, then declined to \*\*\* percent in 2016. CR/PR at Table C-2.

<sup>189</sup> The domestic industry’s U.S. shipments increased from \*\*\* gross in 2014 to \*\*\* gross in 2015, then declined to \*\*\* gross in 2016. CR/PR at Table C-2. Ending inventory quantities were \*\*\* gross in 2014, \*\*\* gross in 2015, and \*\*\* gross in 2016. CR/PR at Table C-2.

<sup>190</sup> PRWs increased from \*\*\* in 2014 to \*\*\* in 2015, then decreased to \*\*\* in 2016. Worker productivity (gross per hour) was steady at \*\*\* over the period of review. Total hours worked were \*\*\* hours in 2014, \*\*\* hours in 2015, and \*\*\* hours in 2016. Wages paid decreased from \$\*\*\* in 2014 to \$\*\*\* in 2015, then increased to \$\*\*\* in 2016. Per unit labor costs (dollars per gross) decreased from \$\*\*\* in 2014 to \$\*\*\* in 2015, then increased to \$\*\*\* in 2016. CR/PR at Table C-2.

<sup>191</sup> Revenues from sales were \$\*\*\* in 2014, \$\*\*\* in 2015, and \$\*\*\* in 2016. Operating income was \$\*\*\* in 2014, \$\*\*\* in 2015, and \$\*\*\* in 2016. As a ratio to net sales, operating income was \*\*\* percent in 2014, \*\*\* percent in 2015, and \*\*\* percent in 2016. CR/PR at Table C-2.

<sup>192</sup> The domestic industry’s total capital expenditures totaled \$\*\*\* in 2014, \$\*\*\* in 2015, and \$\*\*\* in 2016. CR/PR at Table C-2. \*\*\* accounted for the majority of reported capital expenditures from 2014 to 2016 and stated that such expenditures reflect \*\*\*. CR at III-21, PR at III-8. \*\*\*. *Id.*

significant downward pricing pressure on the domestic like product.<sup>193</sup> The likely adverse price effects and consequent impact of the likely increased volume of subject imports would be distinct from those of nonsubject imports in the event of revocation.

Thus, we conclude that revocation of the antidumping duty order on subject imports from China would be likely to lead to continuation or recurrence of material injury to the domestic industry within a reasonably foreseeable time.

#### **IV. Conclusion**

For the foregoing reasons, we determine that revocation of the antidumping duty order on cased pencils from China would be likely to lead to continuation or recurrence of material injury to an industry in the United States within a reasonably foreseeable time.

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<sup>193</sup> CR/PR at Tables D-3 and D-4.

## PART I: INTRODUCTION

### BACKGROUND

On June 1, 2016, the U.S. International Trade Commission (“Commission” or “USITC”) gave notice, pursuant to section 751(c) of the Tariff Act of 1930, as amended (“the Act”),<sup>1</sup> that it had instituted a review to determine whether revocation of the antidumping duty order on certain cased pencils from China would likely lead to the continuation or recurrence of material injury to a domestic industry.<sup>2</sup> On September 6, 2016, the Commission determined that it would conduct a full review pursuant to section 751(c)(5) of the Act.<sup>4</sup> The following tabulation presents information relating to the background and schedule of this proceeding:<sup>5</sup>

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<sup>1</sup> 19 U.S.C. 1675(c).

<sup>2</sup> *Cased Pencils from China; Institution of a Five-Year Review*, 81 FR 35059, June 1, 2016. All interested parties were requested to respond to this notice by submitting the information requested by the Commission.

<sup>3</sup> In accordance with section 751(c) of the Act, the U.S. Department of Commerce (“Commerce”) published a notice of initiation of a five-year review of the subject antidumping duty order concurrently with the Commission’s notice of institution. *Initiation of Five-Year (“Sunset”) Review*, 81 FR 34974, June 1, 2016.

<sup>4</sup> Notice of the Commission’s determination to conduct a full review was included with the Commission’s notice of scheduling for the review. See *Cased Pencils From China; Notice of Commission Determination To Conduct a Full Five-Year Review and Scheduling of a Full Five-Year Review*, 82 FR 12467, March 3, 2017. The Commission found that the domestic interested party group response to its notice of institution was adequate and that the respondent interested party group response was inadequate. Notwithstanding, the Commission found that other circumstances warranted conducting a full review.

<sup>5</sup> The Commission’s notice of institution, notice to conduct a full review, scheduling notice, and statement on adequacy are referenced in appendix A and may also be found at the Commission’s web site ([www.usitc.gov](http://www.usitc.gov)). Commissioners’ votes on whether to conduct expedited or full reviews may also be found at the web site. App. B contains the requests filed on behalf of U.S. producers requesting cancellation of the hearing.

Effective date	Action
December 28, 1994	Commerce's antidumping duty order on cased pencils from China (59 FR 66909)
June 1, 2016	Commerce's initiation of five-year review (81 FR 34974)
June 1, 2016	Commission's institution of five-year review (81 FR 35059)
September 6, 2016	Commission's determination to conduct full five-year review (82 FR 12467)
October 6, 2016	Commerce's final results of the expedited five-year review of the antidumping duty order (81 FR 69513)
February 27, 2017	Commission's scheduling of the review (82 FR 12467)
June 15, 2017 (Cancelled)	Scheduled date for the Commission's hearing (the hearing was cancelled pursuant to the Commission's notice of cancellation of hearing for full five-year review (82 FR 26118, June 6, 2017))
July 27, 2017	Commission's vote
August 17, 2017	Commission's determination and views

### The original investigations

The original investigation resulted from a petition filed by counsel on behalf of the Pencil Makers Association ("PMA")<sup>6</sup> on November 10, 1993, alleging that an industry in the United States is materially injured and threatened with material injury by reason of less-than-fair-value ("LTFV") imports of cased pencils from China.<sup>7</sup> Following notification of a final determination by Commerce that imports of cased pencils from China were being sold at LTFV, the Commission determined on December 15, 1994, that a domestic industry was threatened with material injury by reason of LTFV imports of cased pencils from China.<sup>8</sup> Commerce published the antidumping duty order on cased pencils from China on December 28, 1994.<sup>9</sup>

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<sup>6</sup> The PMA was a trade association representing the domestic pencil manufacturing industry. On January 1, 1994, the PMA merged with the Writing Instrument Manufacturers Association ("WIMA") and the former PMA members formed the Pencil Section of the WIMA. *Certain Cased Pencils From the People's Republic of China, Inv. No. 731-TA-669 (Final)*, USITC publication 2837, December 1994, p. II-3; and *Cased Pencils From China, Inv. No. 731-TA-669 (Second Review)*, USITC Publication 3820, November 2005, p. 1.

<sup>7</sup> The petition also included an allegation that imports of cased pencils from Thailand were sold at LTFV. However, on October 5, 1994 the Commission made a final negative determination with respect to imports from Thailand, which were negligible. *Certain Cased Pencils From the People's Republic of China, Inv. No. 731-TA-669 (Final)*, USITC Publication 2837, December 1994, p. II-3.

<sup>8</sup> *Certain Cased Pencils From the People's Republic of China, Inv. No. 731-TA-669 (Final)*, USITC Publication 2837 (December 1994).

<sup>9</sup> *Antidumping Duty Order: Certain Cased Pencils from the People's Republic of China, 59 FR 66909, December 28, 1994.*



### **The first five-year review**

In July 2000, the Commission completed an expedited review of the subject order and determined that revocation of the antidumping duty order on cased pencils from China would be likely to lead to continuation or recurrence of material injury to an industry in the United States within a reasonably foreseeable time.<sup>10</sup> Following affirmative determinations in the first five-year reviews by Commerce and the Commission,<sup>11</sup> Commerce issued a continuation of the antidumping duty order on imports of cased pencils from China, effective August 10, 2000.<sup>12</sup>

### **The second five-year review**

In November 2005, the Commission completed an expedited review of the subject order and determined that revocation of the antidumping duty order on cased pencils from China would be likely to lead to continuation or recurrence of material injury to an industry in the United States within a reasonably foreseeable time.<sup>13</sup> Following affirmative determinations in the second five-year reviews by Commerce and the Commission,<sup>14</sup> Commerce issued a continuation of the antidumping duty order on imports of cased pencils from China, effective December 20, 2005.<sup>15</sup>

### **The third five-year review**

In June 2011, the Commission completed an expedited review of the subject order and determined that revocation of the antidumping duty order on cased pencils from China would be likely to lead to continuation or recurrence of material injury to an industry in the United States within a reasonably foreseeable time.<sup>16</sup> Following affirmative determinations in the third

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<sup>10</sup> *Cased Pencils from China*, Inv. No. 731-TA-669 (Review), USITC Publication 3328 (July 2000).

<sup>11</sup> *Cased Pencils from China*, 65 FR 46495, July 28, 2000; *Certain Cased Pencils from the People's Republic of China: Final Results of Expedited Sunset Review of Antidumping Duty Order*, 65 FR 41431, July 5, 2000.

<sup>12</sup> *Continuation of Antidumping Duty Order: Cased Pencils from the Republic of China*, 65 FR 48960, August 10, 2000.

<sup>13</sup> *Cased Pencils from China*, Inv. No. 731-TA-669 (Second Review), USITC Publication 3820 (November 2005).

<sup>14</sup> *Certain Cased Pencils from the People's Republic of China; Notice of Final Results of Expedited Sunset Review of Antidumping Duty Order*, 70 FR 67427, November 7, 2005; *Cased Pencils from China*, 70 FR 72652, December 6, 2005.

<sup>15</sup> *Notice of Continuation of Antidumping Duty Order on Certain Cased Pencils from the People's Republic of China*, 70 FR 75450, December 20, 2005.

<sup>16</sup> *Cased Pencils from China*, Inv. No. 731-TA-669 (Third Review), USITC Publication 4239 (June 2011).

five-year reviews by Commerce and the Commission,<sup>17</sup> Commerce issued a continuation of the antidumping duty order on imports of cased pencils from China, effective July 12, 2011.<sup>18</sup>

## RELATED INVESTIGATIONS

Cased pencils have not been the subject of any prior related antidumping or countervailing duty investigations in the United States.

## SUMMARY DATA

Table I-1 presents a summary of data from the original investigation, prior five-year reviews, and the current full five-year review. Several events since the last review are relevant for the data presented in this table:

- Sanford L.P., previously the largest domestic producer of cased pencils in the United States, closed its domestic production facility in 2014.<sup>19</sup>
- In 2013, Commerce revoked the antidumping duty order with respect to “Beijing Fila Dixon Stationery Company, Ltd. a/k/a Beijing Dixon Ticonderoga Stationery Company, Ltd., a/k/a Beijing Dixon Stationery Company, Ltd., and Dixon Ticonderoga Company (collectively, Dixon)”<sup>20</sup> and in 2015 affirmed that the revocation of order continues to apply to Beijing Fila Dixon Stationery Co., Ltd. (“Beijing Fila”) as successor in interest.<sup>21</sup>
- The rising popularity over the past few years of adult coloring books has led to increased demand for art products, including colored pencils.<sup>22</sup>

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<sup>17</sup> *Certain Cased Pencils from the People’s Republic of China: Final Results of the Expedited Third Sunset Review of the Antidumping Duty Order*, 76 FR 12323, March 7, 2011; *Cased Pencils from China*, 76 FR 38697, July 1, 2011.

<sup>18</sup> *Notice of Continuation of Antidumping Duty Order on Certain Cased Pencils from the People’s Republic of China*, 76 FR 40880, July 12, 2011.

<sup>19</sup> General Pencil, Musgrave and RoseMoon’s Response to the Notice of Institution, July 1, 2016, p. 3.

<sup>20</sup> *Certain Cased Pencils From the People’s Republic of China: Final Results of Antidumping Duty Administrative Review and Determination To Revoke Order In Part; 2010-2011*, 78 FR 42932, July 18, 2013.

<sup>21</sup> *Certain Cased Pencils From the People’s Republic of China: Final Results of Antidumping Duty Changed Circumstances Review*, 80 FR 19073, April 9, 2015. \*\*\*.

<sup>22</sup> Sarah Halzack, “The big business behind the adult coloring book craze.” Washington Post, March 12, 2016, [https://www.washingtonpost.com/business/economy/the-big-business-behind-the-adult-coloring-book-craze/2016/03/09/ccf241bc-da62-11e5-891a-4ed04f4213e8\\_story.html?utm\\_term=.f4671192ecb1](https://www.washingtonpost.com/business/economy/the-big-business-behind-the-adult-coloring-book-craze/2016/03/09/ccf241bc-da62-11e5-891a-4ed04f4213e8_story.html?utm_term=.f4671192ecb1), accessed May 15, 2017.

**Table I-1**

**Cased pencils: Comparative data from the original investigation, prior reviews, and the current review, 1993-2016**

Item	Original investigation	First Review	Second Review	Third Review	Current Review
	1993	1998	2004	2009	2016
<b>Quantity (1,000 gross)</b>					
U.S. consumption quantity	***	***	***	***	***
<b>Share of quantity (percent)</b>					
Share of U.S. consumption: U.S. producers' share	***	***	***	***	***
U.S. importers' share: China subject <sup>2</sup>	***	***	***	***	***
Nonsubject sources <sup>3</sup>	***	***	***	***	***
All import sources	***	***	***	***	***
<b>Value (1,000 dollars)</b>					
U.S. consumption	(1)	(1)	(1)	(1)	***
<b>Share of value (percent)</b>					
Share of U.S. consumption: U.S. producers' share	(1)	(1)	(1)	(1)	***
U.S. importers' share: China subject	(1)	(1)	(1)	(1)	***
Nonsubject sources	(1)	(1)	(1)	(1)	***
All import sources	(1)	(1)	(1)	(1)	***
<b>Quantity (1,000 gross); Value (1,000 dollars); and Unit Value (dollars per gross)</b>					
Import data for: <sup>4</sup> China subject:					
Quantity	***	***	9,224	10,521	8,500
Value	(1)	(1)	(1)	(1)	73,456
Unit value	(1)	(1)	(1)	(1)	\$8.64
Nonsubject sources:					
Quantity	***	***	9,027	10,904	20,272
Value	(1)	(1)	(1)	(1)	244,266
Unit value	(1)	(1)	(1)	(1)	\$12.05
All import sources:					
Quantity	6,734	14,860	18,251	21,434	28,772
Value	47,605	(1)	(1)	(1)	317,722
Unit value	\$7.07	(1)	(1)	(1)	\$11.04

Table continued on next page.

**Table I-1—Continued**

**Cased pencils: Comparative data from the original investigation, prior reviews, and the current review, 1993-2016**

Item	Original investigation	First Review	Second Review	Third Review	Current Review
	1993	1998	2004	2009	2016
	<b>Quantity (1,000 gross); Value (1,000 dollars); and Unit Value (dollars per gross)</b>				
U.S. industry:					
Capacity (quantity)	***	( <sup>1</sup> )	( <sup>1</sup> )	***	***
Production (quantity)	***	***	***	***	***
Capacity utilization (percent)	***	( <sup>1</sup> )	( <sup>1</sup> )	***	***
U.S. shipments:					
Quantity	***	***	***	***	***
Value	***	***	***	***	***
Unit value	***	***	***	***	***
Ending inventory	***	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	***
Inventories/total shipments	***	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	***
Production workers	***	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	***
Hours worked (1,000)	***	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	***
Wages paid (1,000 dollars)	***	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	***
Hourly wages	***	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	***
Productivity (gross per hour)	***	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	***
Financial data:					
Net sales:					
Quantity	***	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	***
Value	***	( <sup>1</sup> )	( <sup>1</sup> )	***	***
Unit value	***	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	***
Cost of goods sold	***	( <sup>1</sup> )	( <sup>1</sup> )	***	***
Gross profit or (loss)	***	( <sup>1</sup> )	( <sup>1</sup> )	***	***
SG&A expense	***	( <sup>1</sup> )	( <sup>1</sup> )	***	***
Operating income or (loss)	***	( <sup>1</sup> )	( <sup>1</sup> )	***	***
Unit COGS	***	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	***
Unit operating income	***	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	***
COGS/ Sales (percent)	***	( <sup>1</sup> )	( <sup>1</sup> )	***	***
Operating income or (loss)/ Sales (percent)	***	( <sup>1</sup> )	( <sup>1</sup> )	***	***

<sup>1</sup> Not available.

<sup>2</sup> In the original investigation and first review, nonsubject Hong Kong was separately shown and aggregated into subject China. For this review, Hong Kong is nonsubject.

<sup>3</sup> In this review, nonsubject includes imports from Beijing Fila.

<sup>4</sup> Import data in this current review are based on U.S. importers' reported U.S. shipments of imports; in the original investigation, this data was derived from U.S. importers' reported imports, and for the first three reviews such data came from official Commerce statistics.

Source: Office of Investigations memos INV-R-184, INV-X-139, INV-CC-185, and INV-JJ-037 and compiled from data submitted in response to Commission questionnaires.

## STATUTORY CRITERIA AND ORGANIZATION OF THE REPORT

### Statutory criteria

Section 751(c) of the Act requires Commerce and the Commission to conduct a review no later than five years after the issuance of an antidumping or countervailing duty order or the suspension of an investigation to determine whether revocation of the order or termination of the suspended investigation “would be likely to lead to continuation or recurrence of dumping or a countervailable subsidy (as the case may be) and of material injury.”

Section 752(a) of the Act provides that in making its determination of likelihood of continuation or recurrence of material injury—

*(1) IN GENERAL.-- . . . the Commission shall determine whether revocation of an order, or termination of a suspended investigation, would be likely to lead to continuation or recurrence of material injury within a reasonably foreseeable time. The Commission shall consider the likely volume, price effect, and impact of imports of the subject merchandise on the industry if the order is revoked or the suspended investigation is terminated. The Commission shall take into account--*

*(A) its prior injury determinations, including the volume, price effect, and impact of imports of the subject merchandise on the industry before the order was issued or the suspension agreement was accepted,*

*(B) whether any improvement in the state of the industry is related to the order or the suspension agreement,*

*(C) whether the industry is vulnerable to material injury if the order is revoked or the suspension agreement is terminated, and*

*(D) in an antidumping proceeding . . ., (Commerce’s findings) regarding duty absorption . . .*

*(2) VOLUME.--In evaluating the likely volume of imports of the subject merchandise if the order is revoked or the suspended investigation is terminated, the Commission shall consider whether the likely volume of imports of the subject merchandise would be significant if the order is revoked or the suspended investigation is terminated, either in absolute terms or relative to production or consumption in the United States. In so doing, the Commission shall consider all relevant economic factors, including--*

*(A) any likely increase in production capacity or existing unused production capacity in the exporting country,*

*(B) existing inventories of the subject merchandise, or likely increases in inventories,*

*(C) the existence of barriers to the importation of such merchandise into countries other than the United States, and*

*(D) the potential for product-shifting if production facilities in the foreign country, which can be used to produce the subject merchandise, are currently being used to produce other products.*

*(3) PRICE.--In evaluating the likely price effects of imports of the subject merchandise if the order is revoked or the suspended investigation is terminated, the Commission shall consider whether--*

*(A) there is likely to be significant price underselling by imports of the subject merchandise as compared to domestic like products, and*

*(B) imports of the subject merchandise are likely to enter the United States at prices that otherwise would have a significant depressing or suppressing effect on the price of domestic like products.*

*(4) IMPACT ON THE INDUSTRY.--In evaluating the likely impact of imports of the subject merchandise on the industry if the order is revoked or the suspended investigation is terminated, the Commission shall consider all relevant economic factors which are likely to have a bearing on the state of the industry in the United States, including, but not limited to--*

*(A) likely declines in output, sales, market share, profits, productivity, return on investments, and utilization of capacity,*

*(B) likely negative effects on cash flow, inventories, employment, wages, growth, ability to raise capital, and investment, and*

*(C) likely negative effects on the existing development and production efforts of the industry, including efforts to develop a derivative or more advanced version of the domestic like product.*

*The Commission shall evaluate all such relevant economic factors . . . within the context of the business cycle and the conditions of competition that are distinctive to the affected industry.*

Section 752(a)(6) of the Act states further that in making its determination, “the Commission may consider the magnitude of the margin of dumping or the magnitude of the net countervailable subsidy. If a countervailable subsidy is involved, the Commission shall consider information regarding the nature of the countervailable subsidy and whether the subsidy is a subsidy described in Article 3 or 6.1 of the Subsidies Agreement.”

### **Organization of report**

Information obtained during the course of the review that relates to the statutory criteria is presented throughout this report. A summary of trade and financial data for cased pencils as collected in the review is presented in appendix C. U.S. industry data are based on the questionnaire responses of four U.S. producers of cased pencils that are believed to have accounted for nearly all domestic production of cased pencils in 2016. U.S. import data and related information are based on the questionnaire responses of 50 U.S. importers of cased

pencils that are believed to have accounted for \*\*\* percent of the total subject U.S. imports during 2016. Foreign industry data and related information are based on the questionnaire responses of three producers of cased pencils. The producers in China estimated they accounted for \*\*\* percent of total production in China in 2016.<sup>23</sup> Responses by U.S. producers, importers, purchasers, and foreign producers of cased pencils to a series of questions concerning the significance of the existing antidumping and countervailing duty orders and the likely effects of revocation of such orders are presented in appendix D.

## **COMMERCE'S REVIEWS**

### **Administrative reviews<sup>24</sup>**

Commerce has completed 14 administrative reviews of the outstanding antidumping duty order on cased pencils from China.<sup>25</sup> Commerce has also completed two new shipper reviews. The results of the administrative reviews are shown in table I-2.

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<sup>23</sup> See Foreign Producers' Questionnaire responses of responding Chinese producers, question II-7.

<sup>24</sup> Commerce has not made any duty absorptions findings under the antidumping duty order against imports of cased pencils from China.

<sup>25</sup> For previously reviewed or investigated companies not included in an administrative review, the cash deposit rate continues to be the company-specific rate published for the most recent period.

**Table I-2**

**Cased pencils: Administrative reviews of the countervailing/antidumping duty order for China**

<b>Date results published</b>	<b>Period of review</b>	<b>Producer or exporter</b>	<b>Margin (percent)</b>
62 FR 24636 May 6, 1997, as amended, 62 FR 36491, July 8, 1997	1994-1995	China First/China First	0.00
		China First	53.65
		Shanghai FTC	8.31
		Three Star/Guangdong	0.00
		Guangdong	53.65
		PRC-Wide Rate	53.65
63 FR 779 January 7, 1998	1995-1996	China First/China First	0.00
		China First	53.65
		Shanghai FTC	8.31
		Three Star/Guangdong	0.00
		Guangdong	53.65
		PRC-Wide Rate	53.65
64 FR 2171 January 13, 1999	1996-1997	China First/China First	0.00
		China First	53.65
		Shanghai FTC	8.31
		Three Star/Guangdong	0.00
		Guangdong	53.65
		PRC-Wide Rate	53.65
66 FR 37638 July 19, 2001	1998-1999	China First	53.65
		Shanghai FTC	8.31
		Three Star/Guangdong	0.00
		Guangdong	53.65
		PRC-Wide Rate	53.65
67 FR 48612 July 25, 2002, amended final results published at 67 FR 59049 September 19, 2002 and 71 FR 65777 November 9, 2006	1999-2000	China First	6.32
		SFTC	12.98
		Kaiyuan	114.90
		Guangdong	13.91
		PRC-Wide Rate	114.90

Table continued on next page.



**Table I-2—Continued**

**Cased pencils: Administrative reviews of the countervailing/antidumping duty order for China**

<b>Date results published</b>	<b>Period of review</b>	<b>Producer or exporter</b>	<b>Margin (percent)</b>
68 FR 43082 July 21, 2003	2000-2001	CalCedar-Tianjin	0.00
		Rongxin	15.76
		PRC-Wide Rate	114.90
69 FR 29266 May 21, 2004, amended final results published at 71 FR 45767 August 10, 2006	2001-2002	China First/Three Star	16.50
		SFTC	5.63
		Rongxin	4.21
		PRC-Wide Rate	114.90
70 FR 42301 July 22, 2005, as amended 70 FR 51337 August 30, 2005	2002-2003	China First/Three Star	0.15
		SFTC	12.69
		Rongxin	22.63
		PRC-Wide Rate	114.90
71 FR 38366 July 6, 2006	2003-2004	China First/Three Star	26.62
		Shanghai FTC	25.70
		Rongxin	12.37
		PRC-Wide Rate	114.90
72 FR 27074 May 14, 2007	2004-2005	China First	2.66
		Shanghai First Writing Instrument Co., Ltd.	2.66
		Shanghai Great Wall Pencil Co., Ltd./Three Star	2.66
		Dixon	2.66
		Rongxin	2.66
74 FR 33406 July 13, 2009, as amended, 74 FR 45177 September 1, 2009, and 76 FR 4285 January 25, 2011	2006-2007	China First	1.13
		Three Star	3.06
		Rongxin	11.48
		SFTC	1.66
		PRC-Wide Rate	114.90

Table continued on next page.

**Table I-2—Continued**  
**Cased pencils: Administrative reviews of the countervailing/antidumping duty order for China**

75 FR 38980 July 7, 2010	2007-2008	China First	1.00
		Three Star	6.10
		Dixon	3.55
		SFTC	3.55
		Rongxin	3.55
		PRC-Wide Rate	114.90
78 FR 42932 July 18, 2013	2010-2011	Dixon	0.00
80 FR 26897 May 11, 2015	2012-2013	PRC-Wide Rate	114.90
67 FR 11462 March 14, 2002	2000-2001 (New Shipper Review)	Rescinded	
68 FR 62427 November 4, 2003	2001-2002 (New Shipper Review)	Rescinded	

Source: Cited Federal Register notices and compiled from *Issues and Decision Memorandum for the Final Results of the Expedited Five-Year Sunset Review of the Antidumping Duty Order on Certain Cased Pencils from the People's Republic of China*, September 29, 2016, pp. 10-12.

At the time Commerce issued its final results related to this current five-year review, one administrative review and one new shipper review were ongoing. Both have since been completed. On October 27, 2016, Commerce published the final results of a new shipper review related to Wah Yuen Stationery Co., Ltd. and its affiliated producer, Shandong Wah Yuen Stationery Co., Ltd. (collectively, "Wah Yuen" in Commerce's notices related to this review).<sup>26</sup> On December 20, 2016, these final results were amended to correct ministerial errors, such that Wah Yuen was assessed a revised weighted-average dumping margin of 30.55 percent.<sup>27</sup>

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<sup>26</sup> *Certain Cased Pencils From the People's Republic of China: Final Results of Antidumping Duty New Shipper Review; 2014-2015*, 81 FR 74764, October 27, 2016.

<sup>27</sup> *Certain Cased Pencils From the People's Republic of China: Amended Final Results of Antidumping Duty New Shipper Review; 2014-2015*, 81 FR 92784, December 20, 2016.

On May 30, 2017, Commerce published its final results relating to its 2014-2015 administrative review, indicating that Shandong Rongxin Import & Export Co., Ltd., “...has not established its eligibility for a separate rate, and, thus, should be treated as part of the PRC-wide entity.”<sup>28</sup>

### **Changed circumstances reviews**

Commerce has conducted two changed circumstances reviews with respect to cased pencils from China. On July 18, 2012, Commerce initiated a changed circumstances review to determine whether to revoke the antidumping duty order against imports of cased pencils, in part, with respect to novelty drumstick pencils.<sup>29</sup> On August 31, 2012, Commerce published its determination to revoke, in part, the antidumping duty order against imports of cased pencils with respect to novelty drumstick pencils.<sup>30</sup>

As mentioned previously, in another changed circumstances review Commerce revoked the antidumping duty order with respect to “Beijing Fila Dixon Stationery Company, Ltd. a/k/a Beijing Dixon Ticonderoga Stationery Company, Ltd., a/k/a Beijing Dixon Stationery Company, Ltd., and Dixon Ticonderoga Company (collectively, Dixon),” and in 2015 affirmed that the revocation of order continues to apply to Beijing Fila Dixon Stationery Co., Ltd. (“Beijing Fila”) as successor-in-interest.<sup>31</sup>

### **Scope inquiry reviews**

Commerce has conducted 17 scope inquiry reviews with respect to cased pencils from China. Table I-3 presents all scope rulings issued by Commerce since the imposition of the antidumping duty order.

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<sup>28</sup> *Certain Cased Pencils From the People's Republic of China: Final Results of Antidumping Duty Administrative Review; 2014-2015*, 82 FR 24675, May 30, 2017.

<sup>29</sup> *Certain Cased Pencils from the People's Republic of China: Initiation and Preliminary Results of Antidumping Duty Changed Circumstances Review, and Intent to Revoke Order in Part*, 77 FR 42276, July 18, 2012.

<sup>30</sup> The effective date of this determination was June 1, 2011. *Certain Cased Pencils from the People's Republic of China: Final Results of Antidumping Duty Changed Circumstances Review and Determination to Revoke Order, In Part*, 77 FR 53176, August 31, 2012.

<sup>31</sup> *Certain Cased Pencils From the People's Republic of China: Final Results of Antidumping Duty Administrative Review and Determination To Revoke Order In Part; 2010-2011*, 78 FR 42932, July 18, 2013; *Certain Cased Pencils From the People's Republic of China: Final Results of Antidumping Duty Changed Circumstances Review*, 80 FR 19073, April 9, 2015.

**Table I-3  
Cased pencils: Summary of scope rulings issued by Commerce**

Company	Product	Scope Ruling
Inspired Design	"Pedestal Pets" pencil set	Within the scope of order
It's Academic	Compasses with pencil	Outside the scope of order
Paper Magic Group	Children's valentine cards sets with pencils	Outside the scope of order
Walgreen Co.	Three graphite pencils and three cased charcoal drawing pencils in the "Artskills Draw & Sketch Kit"	Within the scope of order
	Remaining items in "Artskills Draw & Sketch Kit" (pencil sharpener, sanding pad, black eraser, kneaded eraser, tortillion)	Outside the scope of order
	"Artskills Stencil Kit"	Outside the scope of order
The Smencil Co.	Pencils made from recycled newspaper	Within the scope of order
Fiscars Brands, Inc.	Compasses	Outside the scope of order
Rich Frog Industries, Inc.	Decorated wooden gift pencils	Within the scope of order
Target Corp.	RoseArt Clip 'N Color	Outside the scope of order
	"Hello Kitty Fashion Totes"	Outside the scope of order
	"Hello Kitty Memory Maker"	Outside the scope of order
	"Crayola the Wave"	Outside the scope of order
Creative Design International Ltd.	"Naturally Pretty" (includes two 3-inch pencils)	Outside the scope of order
Nadel Trading Corp.	Plastic "quasi-mechanical" pencil: the Bencia Pencil	Outside the scope of order
West Texas Lighthouse for the Blind <sup>1</sup>	Orange flexible pencil	Outside the scope of order
Barthco Trade Consultants	Twist crayons	Outside the scope of order

<sup>1</sup> Only scope ruling since third review.

Source: *Cased Pencils from China, Inv. No. 731-TA-669 (Third Review)*, USITC Publication 4239, June 2011, pp. I-13 - I-14; *Issues and Decision Memorandum for the Final Results of the Expedited Five-Year Sunset Review of the Antidumping Duty Order on Certain Cased Pencils from the People's Republic of China*, September 29, 2016, p. 3.

### Five-year review

Commerce has issued the final results of its expedited review with respect to China, determining that revocation of the order "...would be likely to lead to continuation or recurrence of dumping at weighted-average percent margins up to 53.65 percent."<sup>32</sup> Table I-4 presents the dumping margins calculated by Commerce in its original investigations and subsequent reviews.

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<sup>32</sup> *Certain Cased Pencils From the People's Republic of China: Final Results of Expedited Sunset Review of the Antidumping Duty Order*, 81 FR 69513, October 6, 2016.

**Table I-4  
Cased pencils: Commerce's original and five-year review dumping margins for  
producers/exporters in China**

<b>Producer/exporter</b>	<b>Original margin (as amended) (percent)</b>	<b>First five-year review margin (percent)</b>	<b>Second five-year review margin (percent)</b>	<b>Third five-year review margin (percent)</b>
China First	8.60	8.60	( <sup>1</sup> )	8.60
China First/Three Star	( <sup>1</sup> )	( <sup>1</sup> )	8.60	( <sup>1</sup> )
Guangdong/Three Star Stationery	0.00	0.00	( <sup>1</sup> )	( <sup>1</sup> )
Guangdong/Any other manufacturer	53.65	53.65	( <sup>1</sup> )	( <sup>1</sup> )
Guangdong	( <sup>1</sup> )	( <sup>1</sup> )	53.65	53.65
Shanghai Foreign Trade Corp (SFTC)	11.15	11.15	11.15	11.15
Shanghai Lansheng	19.36	19.36	19.36	19.36
Three Star	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	0.00
PRC-Wide Rate	53.65	53.65	53.65	53.65

<sup>1</sup> Specific firm or producer/export combination not specified in source document for this investigation or review.

Source: 64 FR 25275, 65 FR 41431, 70 FR 67427, and 76 FR 12323; derived from Issues and Decision Memorandum for the Final Results of the Expedited Five-Year Sunset Review of the Antidumping Duty Order on Certain Cased Pencils from the People's Republic of China, September 29, 2016, pp. 9 & 13.

## **THE SUBJECT MERCHANDISE**

### **Commerce's scope**

In its most recent review, Commerce defined the subject merchandise as follows:

*Products covered by the order are shipments of certain cased pencils of any shape or dimension (except as described below) which are writing and/or drawing instruments that feature cores of graphite or other materials, encased in wood and/or man-made materials, whether or not decorated and whether or not tipped (e.g., with erasers, etc.) in any fashion, and either sharpened or unsharpened.*

*The pencils subject to the order are currently classifiable under subheading 9609.10.00 of the Harmonized Tariff Schedule of the United States ('HTSUS').*

*Specifically excluded from the scope of the order are mechanical pencils, cosmetic pencils, pens, noncased crayons (wax), pastels, charcoals, chalks, and pencils produced under U.S. patent number 6,217,242, from paper infused with scents by*

*the means covered in the above-referenced patent, thereby having odors distinct from those that may emanate from pencils lacking the scent infusion.*

*Also excluded from the scope of the order are pencils with all of the following physical characteristics: (1) Length: 13.5 or more inches; (2) sheath diameter: not less than one-and-one quarter inches at any point (before sharpening); and (3) core length: Not more than 15 percent of the length of the pencil.*

*In addition, pencils with all of the following physical characteristics are excluded from the scope of the order: Novelty jumbo pencils that are octagonal in shape, approximately ten inches long, one inch in diameter before sharpening, and three-and-one eighth inches circumference, composed of turned wood encasing one-and-one half inches of sharpened lead on one end and a rubber eraser on the other end.<sup>33</sup>*

Although the HTSUS subheading is provided for convenience and customs purposes, the written description of the scope of the order is dispositive.

### **Tariff treatment**

Cased pencils are classifiable in the Harmonized Tariff Schedule of the United States (“HTS”) under subheading 9609.10.00 (“pencils and crayons, with leads encased in a rigid sheath”). This subheading includes lead pencils and colored pencils, but does not include mechanical or cosmetic pencils.<sup>34</sup> The subheading covers a broader category than the scope of this order as it contains items that were explicitly excluded from the order (e.g. certain novelty jumbo pencils). Cased pencils produced in China are dutiable at a column 1-general rate of 14 cents/gross plus 4.3 percent ad valorem. Decisions on the tariff classification and treatment of imported goods are within the authority of U.S. Customs and Border Protection (“Customs”).

## **THE PRODUCT**

### **Description and applications**

As indicated in the scope definition, cased pencils are writing and/or drawing instruments comprised of cores of graphite or other materials, encased in wood and/or man-made materials. The wood is typically covered with several coats of quick drying lacquer (painted) and is tipped with an eraser and a ferrule (the small circular band of aluminum which

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<sup>33</sup> *Certain Cased Pencils From the People's Republic of China: Final Results of Expedited Sunset Review of the Antidumping Duty Order*, 81 FR 69513, October 6, 2016.

<sup>34</sup> Mechanical pencils are covered separately under HTS heading 9608.40.4000 and pencils for cosmetic use are covered under chapter 33 of the HTS.

affixes the eraser to the top of the pencil) to make a finished pencil. Cased pencils of all types are used almost exclusively for writing and drawing on paper or making marks on other objects. Decorated, designer, and novelty pencils are used not only for writing but also for collecting.<sup>35</sup>

As was the case in the original investigation and three prior five-year reviews, the most commonly sold pencil today is the so-called commodity or economy pencil, the standard yellow No. 2 pencil.<sup>36</sup> Virtually all No. 2 pencils sold in the United States have the same color, hardness, diameter, and length, and have similarly attached ferrules and erasers. The domestic interested parties also indicated that Chinese producers manufacture both commodity and specialty products that compete directly with U.S. producers' cased pencils.<sup>37</sup>

In addition to commodity or economy pencils, many different types of specialty and custom pencils are produced in the United States, including colored, golf, decorated, designer, novelty, promotional, advertising, carpenter, and drawing pencils. Dixon Ticonderoga indicated in its response that many of the remaining U.S. pencil producers concentrate on supplying specialty pencils (e.g., golf pencils) and custom pencils for promotion and awards since Chinese imports have dominated the U.S. market segments for low-priced commodity pencils.<sup>38</sup> Although the bulk of reported imports from China during the original investigation was comprised of raw pencils<sup>39</sup> and commodity pencils, the domestic interested parties indicated in the Commission's expedited third review that Chinese producers have developed the ability to produce smaller volume runs of decorator pencils (below 100,000 gross) and have expanded their participation in the pencil "blank" segment.<sup>40</sup> They also indicated that the antidumping

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<sup>35</sup> Decorated pencils have multicolored designs (i.e., cartoon characters) or design-covered foil on the case. Novelty pencils are tipped with an item such as a "troll head."

<sup>36</sup> The numerical graphic scale of designating pencils refers to the hardness of the core, 1 being the softest core (and darkest mark) and 4 the hardest core (and lightest mark). Most pencil manufacturers outside of the U.S. use a different HB scale where a combination of letter and number inform the user of the hardness and blackness of the pencil and its markings. For more information see Pencils.com, "Graphite Grading Scales Explained," <https://pencils.com/hb-graphite-grading-scale/> (accessed May 15, 2017).

Dixon Ticonderoga indicated in their responses to the Commission's notice of institution in this fourth five-year review that there is very little to distinguish the commodity or economy pencil of one producer from another and, therefore, a very large portion of the U.S. pencils market remains the very definition of "commodity." U.S. producer RoseMoon, however, does not feel that the terms "commodity" and "economy" are synonymous in the pencil industry. They state that their "yellow" pencil is a commodity pencil because it is sold to the mass market through retail channels, but sees it as not being "economy" based on their price and higher quality features. For more information, see *Dixon Ticonderoga's Response to the Notice of Institution*, July 1, 2016, pp. 18-19; and *General Pencil, Musgrave and RoseMoon's Post Hearing Briefs*, June 26, 2017, Attachment A, p. 1.

<sup>37</sup> *Dixon Ticonderoga's Response to the Notice of Institution*, July 1, 2016, p. 11; *General Pencil, Musgrave and RoseMoon's Response to the Notice of Institution*, July 1, 2016, p. 6.

<sup>38</sup> *Dixon Ticonderoga's Response to the Notice of Institution*, July 1, 2016, p. 11.

<sup>39</sup> A "raw" pencil has not been lacquered and has not had the eraser and ferrule added.

<sup>40</sup> Pencil blanks are unpainted and undecorated pencils that are used for printing customized messages. The domestic interested parties indicated in their response that companies that finish blanks  
(continued...)

duty order has permitted the domestic industry to remain competitive in these specialty market areas.<sup>41</sup>

In addition, e-commerce provides Chinese producers and exporters with easy access to buyers in the U.S. market through dozens of internet trading portals and hundreds of individual companies that offer bulk products for sale, including cased pencils. The domestic interested parties noted that the increase in internet-based buying and selling is particularly evident in the specialty and custom cased pencils segment of the market, where U.S. production has been concentrated.<sup>42</sup>

### **Manufacturing processes<sup>43</sup>**

The production process and techniques for both domestic and imported cased pencils has remained mostly unchanged since the original investigation. There have been no remarkable technological advances concerning the production process or changes to the product as the industry is technologically mature.<sup>44</sup>

The standard core of a cased pencil is made of graphite, clay, wax, and proprietary chemical mixtures, the specific combination of which determines the pencil's hardness. The pencil's sheath is usually made of wood, typically California incense cedar wood for premium pencils and basswood for value lines of pencils.<sup>45</sup> A groove is cut into the sheath to house the pencil core. Glue is then applied to the surface of the groove and the core is placed in the groove. Another sheath with a similar groove cut into it is then glued on top of the first sheath, making what is called a "sandwich." The sandwich is then clamped under pressure to insure bonding and reduce warping. After the sandwich has bonded, it is trimmed and then milled into separate pencils, typically nine. Three to seven coats of lacquer are applied to the pencils, followed by a clear coat. An eraser is then attached with a crimped ferrule to each pencil.

### **DOMESTIC LIKE PRODUCT ISSUES**

In its original determination and its expedited first, second, and third five-year reviews, the Commission defined the domestic like product as all cased pencils, coextensive with

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(...continued)

have moved away from domestic suppliers in favor of Chinese imports. *Response of General Pencil, Musgrave Pencil, and Sanford*, December 1, 2010, pp. 12 and 13.

<sup>41</sup> *Dixon Ticonderoga's Response to the Notice of Institution, July 1, 2016, p. 11. Response of General Pencil, Musgrave Pencil, and Sanford*, December 1, 2010, pp. 12 and 13.

<sup>42</sup> *Dixon Ticonderoga's Response to the Notice of Institution, July 1, 2016, p. 12.*

<sup>43</sup> Unless otherwise noted, the information in this section is based on *Cased Pencils from China, Inv. No. 731-TA-669 (Third Review)*, USITC Publication 4239, June 11, p. I-16.

<sup>44</sup> *General Pencil, Musgrave and RoseMoon's Response to the Notice of Institution, July 1, 2016, p. 10.*

<sup>45</sup> In the Commission's expedited third review, the domestic interested parties indicated that the largest raw material input in cased pencil production is the wood sheath (or "slats") and that there have been substantial price increases for both cedar and basswood since the second review. See *Cased Pencils from China, Inv. No. 731-TA-669 (Third Review)*, USITC Publication 4239, June 11, p. I-16.



Commerce's scope.<sup>46</sup> In their prehearing briefs, counsel for the domestic interested parties agreed with the definition of the domestic like product set forth in the original investigations and in the first three reviews.<sup>47</sup>

No party requested that the Commission collect data concerning other possible domestic like products in their comments on the Commission's draft questionnaires.<sup>48</sup>

## U.S. MARKET PARTICIPANTS

### U.S. producers

During the original investigations, six firms supplied the Commission with useable information on their U.S. operations with respect to cased pencils.<sup>49</sup> In this current proceeding, the Commission issued U.S. producers' questionnaires to five firms, four of which provided the Commission with information on their product operations—Dixon Ticonderoga, Musgrave, General Pencil, and RoseMoon. These firms are believed to account for nearly all of U.S. production of cased pencils in 2016. Presented in table I-5 is a list of current domestic producers of cased pencils and each company's position on continuation of the order, production locations(s), and share of reported production of cased pencils in 2016.

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<sup>46</sup> *Certain Cased Pencils from China, Inv. No. 731-TA-669 (Final)*, USITC Publication 2837, December 1994, p. I-8; *Cased Pencils from China, Inv. No. 731-TA-669 (Review)*, USITC Publication 3328, July 2000, p. 5; *Cased Pencils from China, Inv. No. 731-TA-669 (Second Review)*, USITC Publication 3820, November 2005, pp. 5 and 6; *Cased Pencils from China, Inv. No. 731-TA-669 (Third Review)*, USITC Publication 4239, June 2011, pp. 4-6.

<sup>47</sup> Dixon Ticonderoga's prehearing brief, p. 7, and General Pencil Co., Inc. ("General Pencil"), Musgrave Pencil Co., Inc. ("Musgrave") and RoseMoon, Inc.'s ("RoseMoon") prehearing brief, p. 3.

<sup>48</sup> See Dixon Ticonderoga's comments on draft questionnaires and General Pencil Co., Inc., Musgrave Pencil Co., Inc. and RoseMoon, Inc., comments on draft questionnaires.

<sup>49</sup> The six U.S. producers that supplied the Commission with usable questionnaire information during the original investigations were: \*\*\*. See *Staff Report on Investigations Nos. 731-TA-669 and 670 (Final): Certain Cased Pencils from the People's Republic of China (China) and Thailand*, INV-R-147, September 28, 1994, pp. I-16—I-17.

**Table I-5**  
**Cased pencils: U.S. producers, positions on order, U.S. production locations, and shares of 2016 reported U.S. production**

Firm	Position on order	Production location(s)	Share of production (percent)
Dixon Ticonderoga	Support	Macon, GA	***
General Pencil	Support	Jersey City, NJ	***
Musgrave	Support	Shelbyville, TN	***
RoseMoon	Support	Lewisburg, TN Livingston, NJ	***
Total			100.0

Source: Compiled from data submitted in response to Commission questionnaires.

As indicated in table I-6, one U.S. producer is related to a foreign producer and exporter of cased pencils in China.<sup>50</sup> In addition, as discussed in greater detail in Part III, three U.S. producers directly import the subject merchandise and two purchase the subject merchandise from U.S. importers or other domestic producers.

**Table I-6**  
**Cased pencils: U.S. producers, related and/or affiliated firms**

\* \* \* \* \*

**U.S. importers**

In the original investigations, 30 U.S. importing firms supplied the Commission with usable information on their operations involving the importation of cased pencils. Of the responding U.S. importers, two were domestic producers: \*\*\* and Pentech International.<sup>51</sup>

In the current proceeding, the Commission issued U.S. importers' questionnaires to 91 firms believed to be importers of cased pencils, as well as to all U.S. producers of cased pencils. Usable questionnaire responses were received from 50 firms, representing \*\*\* percent of U.S. subject imports from China in 2016 and \*\*\* percent of U.S. nonsubject imports in 2016.<sup>52</sup> Table I-7 lists all responding U.S. importers of cased pencils from China and other sources, their locations, and their reported shares of U.S. imports in 2016.

<sup>50</sup> As discussed above, the antidumping duty order has been revoked with respect to this firm.

<sup>51</sup> *Staff Report on Investigations Nos. 731-TA-669 and 670 (Final): Certain Cased Pencils from the People's Republic of China (China) and Thailand*, INV-R-147, September 28, 1994, pp. I-21—I-23.

<sup>52</sup> Based on official Commerce statistics for imports reported under HTS statistical reporting number 9609.10.0000.

**Table I-7**

**Cased pencils: U.S. importers, source(s) of imports, U.S. headquarters, and shares of imports in 2016**

Firm	Headquarters	Share of imports by source (percent)			
		China subject	China nonsubject	All other sources	All import sources
99 Cents	City Of Commerce, CA	***	***	***	***
Amscan	Elmsford, NY	***	***	***	***
Barry-Owen	Los Angeles, CA	***	***	***	***
Big Lots	Columbus, OH	***	***	***	***
C2F	Beaverton, OR	***	***	***	***
California Cedar	Stockton, CA	***	***	***	***
Colart	Piscataway, NJ	***	***	***	***
Crayola	Easton, PA	***	***	***	***
CVS Pharmacy	Woonsocket, RI	***	***	***	***
Design International	La Verne, CA	***	***	***	***
Dixon Ticonderoga	Lake Mary, FL	***	***	***	***
Dolgencorp	Goodlettsville, TN	***	***	***	***
Educational Products	Carrollton, TX	***	***	***	***
Enchante	New York, NY	***	***	***	***
Family Dollar	Matthews, NC	***	***	***	***
Fibro Source	Wayne, PA	***	***	***	***
Gold Bond	Hixson, TN	***	***	***	***
Greater China	Bellevue, WA	***	***	***	***
Greenbrier	Chesapeake, VA	***	***	***	***
Horizon	Warren, NJ	***	***	***	***
Hub Pen	Braintree, MA	***	***	***	***
IKEA	Pratteln, Switzerland,	***	***	***	***
IKEA Indirect	Conshohocken, PA	***	***	***	***
Impex	Westampton, NJ	***	***	***	***
iScholar	Edgewood, NY	***	***	***	***
Lamrite West	Strongsville, OH	***	***	***	***

Table continued on next page.

**Table I-7--Continued**

**Cased pencils: U.S. importers, source(s) of imports, U.S. headquarters, and shares of imports in 2016**

Firm	Headquarters	Share of imports by source (percent)			
		China subject	China nonsubject	All other sources	All import sources
LaRose	Randolph, NJ	***	***	***	***
LG Sourcing	Wilkesboro, NC	***	***	***	***
Michaels	Irving, TX	***	***	***	***
Musgrave	Shelbyville, TN	***	***	***	***
National Pen	San Diego, CA	***	***	***	***
Ocean State Jobbers, Inc.	North Kingstown, RI	***	***	***	***
Office Depot	Boca Raton, FL	***	***	***	***
OOLY	Oceanside, CA	***	***	***	***
Peachtree	Marietta, GA	***	***	***	***
Peter Pauper Press, Inc.	White Plains, NY	***	***	***	***
Pride Spots	Burnham, ME	***	***	***	***
Rhode Island novelty	Fall River, MA	***	***	***	***
Rose Moon	Lewisburg, TN	***	***	***	***
S.P. Richards	Smyrna, GA	***	***	***	***
Sanford LP	Downers Grove, IL	***	***	***	***
Sbar's and AC Moore	Moorestown/Berlin, NJ	***	***	***	***
School Specialty	Greenville, WI	***	***	***	***
Sears	Hoffman Estates, IL	***	***	***	***
Strottman	Irvine, CA	***	***	***	***
Swit	Dublin, CA	***	***	***	***
Target	Minneapolis, MN	***	***	***	***
TNT Deals	Hickory Hills, IL	***	***	***	***
Walgreens	Deerfield, IL	***	***	***	***
Walmart	Bentonville, AR	***	***	***	***
Total		***	***	***	***

Source: Compiled from data submitted in response to Commission questionnaires.

### U.S. purchasers

The Commission received 38 usable questionnaire responses from firms that bought cased pencils from 2011-16. Eighteen responding purchasers are retailers, ten are distributors, seven are school suppliers, two are office supply superstores, and nine are other (e.g. advertisers, manufacturers, and co-ops). Responding U.S. purchasers were located in all regions; the most common region was the Northeast. The largest purchasers of cased pencils are \*\*\*.

## APPARENT U.S. CONSUMPTION

Data concerning apparent U.S. consumption of cased pencils are shown in table I-8 and figure I-1.

**Table I-8**  
**Cased pencils: U.S. shipments of domestic product, U.S. shipments of imports, and apparent U.S. consumption, 2014-16**

Item	Calendar year		
	2014	2015	2016
	<b>Quantity (1,000 gross)</b>		
U.S. producers' U.S. shipments	***	***	***
U.S. importers' U.S. shipments of imports from.--			
China subject	7,895	9,149	8,500
China nonsubject	***	***	***
All other sources	***	***	***
Nonsubject sources	12,975	14,370	20,272
Total U.S. imports	20,870	23,520	28,772
Apparent U.S. consumption	***	***	***
	<b>Value (1,000 dollars)</b>		
U.S. producers' U.S. shipments	***	***	***
U.S. importers' U.S. shipments of imports from.--			
China subject	60,290	71,713	73,456
China nonsubject	***	***	***
All other sources	***	***	***
Nonsubject sources	165,412	183,137	244,266
Total U.S. imports	225,702	254,850	317,722
Apparent U.S. consumption	***	***	***

Source: Compiled from data submitted in response to Commission questionnaires.

**Figure I-1**  
**Cased pencils: Apparent U.S. consumption, 2014-16**

\*   \*   \*   \*   \*   \*   \*

## U.S. MARKET SHARES

U.S. market share data are presented in table I-9.

**Table I-9**  
**Cased pencils: U.S. consumption and market shares, 2014-16**

\* \* \* \* \*

## **PART II: CONDITIONS OF COMPETITION IN THE U.S. MARKET**

### **U.S. MARKET CHARACTERISTICS**

Since the original investigation and the three subsequent reviews, the U.S. cased pencil industry has been significantly consolidated. There were 11 U.S. producers during the original investigation, the largest being Empire, Faber, and Dixon Ticonderoga. In the last review, eight firms were reported to produce cased pencils: Aakron Rule, Dixon Ticonderoga, General Pencil, Harcourt, Musgrave, Panda Pencil, RoseMoon, and Sanford. Currently, only four firms, General Pencil, Musgrave, RoseMoon, and Dixon Ticonderoga, produce cased pencils in the United States. Sanford was the largest producer at the time of the third review (accounting for \*\*\* percent of U.S. production), but closed its U.S. production facilities in 2014.<sup>1</sup>

During the original investigation, the top three U.S. producers (which together accounted for 80.9 percent of U.S. production) focused production on commodity pencils (standard, No. 2 black lead pencils), which was also the most common type of cased pencil that was manufactured in China. However, in the third review, U.S. producers reported that they targeted supplying specialty pencil markets (e.g., golf pencils) and promotional pencils because Chinese cased pencils dominated the commodity pencil market.<sup>2</sup> In this current review, U.S. producers have reported that Chinese producers are penetrating the specialty and custom markets via e-commerce.<sup>3</sup>

Apparent U.S. consumption of cased pencils increased during 2014-16. Overall, apparent U.S. consumption in 2016 was \*\*\* percent higher than in 2014.

### **CHANNELS OF DISTRIBUTION**

U.S. producers sold mainly to distributors, and importers of subject cased pencils sold primarily to retailers and distributors as shown in table II-1. Importers of cased pencils from nonsubject sources in China sold mainly to retailers, and importers of cased pencils from nonsubject countries sold a large share to retailers and distributors.

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<sup>1</sup> Staff Report (Third Review), I-18.

<sup>2</sup> Staff Report (Third Review), I-18.

<sup>3</sup> Adequacy (Fourth Review), I-5.

**Table II-1**

**Cased pencils: U.S. producers' and importers' share of reported U.S. commercial shipments (percent), by sources and channels of distribution, 2014-16**

Item	Calendar year		
	2014	2015	2016
<b>Share of reported shipments (percent)</b>			
<b>U.S. producers' U.S. commercial shipments of cased pencils:</b>			
Distributors	***	***	***
Retailers	***	***	***
End users	***	***	***
<b>U.S. importers' U.S. commercial shipments of cased pencils from subject China:</b>			
Distributors	***	***	***
Retailers	***	***	***
End users	***	***	***
<b>U.S. importers' U.S. commercial shipments of cased pencils from nonsubject China:</b>			
Distributors	***	***	***
Retailers	***	***	***
End users	***	***	***
<b>U.S. importers' U.S. commercial shipments of cased pencils from all other countries:</b>			
Distributors	***	***	***
Retailers	***	***	***
End users	***	***	***

Source: Compiled from data submitted in response to Commission questionnaires.

### GEOGRAPHIC DISTRIBUTION

U.S. producers and importers of Chinese product reported selling cased pencils to all regions in the United States (table II-2). For U.S. producers, \*\*\* percent of sales were within 100 miles of their production facility, \*\*\* percent were between 101 and 1,000 miles, and \*\*\* percent were over 1,000 miles. Importers sold \*\*\* percent within 100 miles of their U.S. point of shipment, \*\*\* percent between 101 and 1,000 miles, and \*\*\* percent over 1,000 miles.

**Table II-2**

**Cased pencils: Geographic market areas in the United States served by U.S. producers and importers**

Region	U.S. producers	Importers
Northeast	4	38
Midwest	4	37
Southeast	4	36
Central Southwest	4	33
Mountain	4	33
Pacific Coast	4	34
Other <sup>1</sup>	3	20
All regions (except Other)	4	32
Reporting firms	4	40

<sup>1</sup> All other U.S. markets, including AK, HI, PR, and VI.

Source: Compiled from data submitted in response to Commission questionnaires.



## SUPPLY AND DEMAND CONSIDERATIONS

### U.S. supply

#### **Domestic production**

Based on available information, U.S. producers of cased pencils have the ability to respond to changes in demand with moderate changes in the quantity of shipments of U.S.-produced cased pencils to the U.S. market. The main contributing factor to this degree of responsiveness of supply is the availability of unused capacity. Factors mitigating responsiveness of supply include limited ability to shift shipments from alternate markets, limited ability to shift production to or from alternate products, and relatively low inventory levels.

#### ***Industry capacity***

Domestic capacity utilization increased slightly over the period of review, from \*\*\* percent in 2014 to \*\*\* percent in 2016, although the trends and capacity utilization rates differed by producer. \*\*\*. The changes in capacity utilization are due to fluctuating production, as capacity remained constant. U.S. production increased by \*\*\* percent from 2014-15, but then fell by \*\*\* percent from 2015-16; from 2014-16 U.S. production increased by \*\*\* percent. The relatively low level of capacity utilization suggests that some U.S. producers may have the ability to increase production of cased pencils in response to an increase in prices. U.S. capacity has declined by \*\*\* percent since the original investigation and by \*\*\* percent since the third review.<sup>4</sup> The decline since the third review is due mostly to the closing of Sanford's operations in 2014.<sup>5</sup>

#### ***Alternative markets***

U.S. producers' exports, as a percentage of total shipments, increased from \*\*\* percent in 2014 to \*\*\* percent in 2016. \*\*\*. This small share of export shipments indicates that U.S. producers may have limited ability to shift shipments between the U.S. market and other markets in response to price changes. All U.S. producers stated that low prices in export markets are a barrier. Two U.S. producers, \*\*\*, stated that it would be difficult to shift their shipments to other markets because their cased pencils are "tailor-made" for each customer, and one U.S. producer stated that lack of brand recognition was a major hurdle.<sup>6</sup>

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<sup>4</sup> Adequacy (Fourth Review), p. C-3. Based on capacity in 1993, 2009, and 2016.

<sup>5</sup> General Pencil, Musgrave, RoseMoon comments on Notice of Institution, p. 3.

<sup>6</sup> Dixon Ticonderoga's posthearing brief, p. 15, and General Pencil, Musgrave, RoseMoon's posthearing brief, Attachment A, p. 2.

### ***Inventory levels***

Relative to total shipments, U.S. producers' inventories decreased from \*\*\* percent in 2014 to \*\*\* percent in 2016. These inventory levels suggest that U.S. producers may have limited ability to respond to changes in demand with changes in the quantity shipped from inventories.<sup>7</sup>

### ***Production alternatives***

None of the responding U.S. producers stated that they could switch production from cased pencils to other products, as their factories only have machinery that produces cased pencils.

### ***Subject imports from China<sup>8</sup>***

Based on available information, producers of cased pencils from China have the ability to respond to changes in demand with moderate changes in the quantity of shipments of cased pencils to the U.S. market. The main contributing factors to this degree of responsiveness of supply are the availability of unused capacity and inventories and the ability to shift shipments from alternate markets. Factors mitigating responsiveness of supply include limited ability to shift production to or from alternate products.

### ***Industry capacity***

Subject Chinese producers' capacity utilization was \*\*\* percent in 2014 and \*\*\* percent 2016. Although the capacity utilization rate was steady, subject Chinese producers increased capacity and production by \*\*\* and \*\*\* percent, respectively, from 2014-16. The relatively moderate level of capacity utilization suggests that Chinese producers may have some ability to increase production of cased pencils in response to an increase in prices.

### ***Alternative markets***

Subject China shipments to markets other than the United States, as a percentage of total shipments, decreased from 2014-16. Total shipments to Chinese domestic markets fell from \*\*\* percent to \*\*\* percent, and shipments to export markets other than the United States declined from \*\*\* percent in 2014 to \*\*\* percent in 2016. Chinese exports indicate that producers may have some ability to shift shipments between the Chinese home market or other markets and the U.S. market in response to price changes.

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<sup>7</sup> Most of the 2016 inventories were held by one producer, \*\*\*.

<sup>8</sup> For data on the number of responding foreign firms and their share of U.S. imports from China, please refer to Part I, "Summary Data and Data Sources."

### ***Inventory levels***

Responding Chinese firms' inventories increased from 2014 to 2016. Relative to total shipments, inventory levels increased from \*\*\* percent in 2014 to \*\*\* percent in 2016. These inventory levels suggest that responding foreign firms may have some ability to respond to changes in demand with changes in the quantity shipped from inventories.

### ***Production alternatives***

Responding foreign producers stated that they could not switch production from cased pencils to other products.

### **Supply constraints**

\*\*\* U.S. producer reported supply constraints. Forty importers and 32 purchasers also reported that there were no supply constraints. Five purchasers reported that there were temporary supply constraints on cased pencils in 2016 due to the rise in demand driven by adult coloring. Eight importers reported supply constraints, three of which attributed it to the colored pencil fad and the rest cited contractual and environmental issues.

### **Nonsubject imports**

Nonsubject imports<sup>9</sup> accounted for 70.0 percent of total U.S. imports in 2016. Sources of nonsubject imports during 2014-16 include Brazil, India, Indonesia, the Philippines, Taiwan, Thailand, and Vietnam.

### **New suppliers**

Three of 37 purchasers indicated that new suppliers entered the U.S. market since January 1, 2014, and five expect additional entrants. Purchasers cited the following new suppliers: \*\*\*.

### **U.S. demand**

Based on available information, the overall demand for cased pencils is likely to experience small changes in response to changes in price. The main contributing factor is the limited range of substitute products.

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<sup>9</sup> Nonsubject imports include nonsubject imports from China and all other sources.

## End uses and cost share

Reported end uses include writing and drawing on paper in home, school, or business settings. Cased pencils are a low-cost item that account for a small percentage of a consumer's budget.

## Business cycles

One of four U.S. producers, 23 of 49 importers, and 19 of 38 purchasers indicated that the market was subject to business cycles or conditions of competition. Specifically, these firms reported that the summer "Back to School" season is when most commodity pencils are sold, and some market participants noted that standardized testing season increases demand.

## Demand trends

Most firms reported mixed responses for changes in U.S. demand since January 1, 2011 (table II-3). Fourteen U.S. purchasers reported that there was no change, and 13 purchasers reported that there was an increase in demand for cased pencils. Many purchasers reported an increase in demand for colored pencils in 2015 and early 2016 due to the adult coloring trend and one cited an increase in the number of school-aged children (see table III-1 for more information on adult coloring).<sup>10</sup> Of the four purchasers that reported a decline in demand, three attributed the decline to increased use of digital technology in schools (e.g., tablets and personal computers). Firms generally expect demand to remain constant over the next two years. Five firms reported that they anticipate the adult coloring trend to decline.

**Table II-3**  
**Cased pencils: Firms' responses regarding U.S. demand**

Item	Increase	No change	Decrease	Fluctuate
<b>Demand in the United States</b>				
U.S. producers	1	1	0	2
Importers	11	16	3	12
Purchasers	13	14	4	5
Foreign producers	1	1	0	2
<b>Anticipated future demand</b>				
U.S. producers	1	2	0	1
Importers	4	19	9	10
Purchasers	8	17	6	5
Foreign producers	0	0	2	1

Source: Compiled from data submitted in response to Commission questionnaires.

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<sup>10</sup> Two U.S. producers produce colored pencils, and they constitute \*\*\* of General Pencil's total production of cased pencils. General Pencil, Musgrave, and RoseMoon's posthearing brief, p. 2.

## Substitute products

Most U.S. producers (4 of 4), importers (38 of 49), and purchasers (25 of 37) reported that there were no substitutes for cased pencils and most did not anticipate any future changes in substitutes. Firms that reported substitutes listed mechanical pencils, pens, crayons, markers, paper-wrapped pencils, and computers/phones.

## SUBSTITUTABILITY ISSUES

The degree of substitution between domestic and imported cased pencils depends upon such factors as relative prices, quality (e.g., grade standards, reliability of supply, defect rates, etc.), and conditions of sale (e.g., price discounts/rebates, lead times between order and delivery dates, payment terms, product services, etc.). Based on available data, staff believes that there is a high degree of substitutability between domestically produced cased pencils and cased pencils imported from subject sources.

## Lead times

Cased pencils are primarily produced-to-order from U.S. producers, while importers typically ship cased pencils from U.S. inventories. U.S. producers reported that \*\*\* percent of their commercial shipments were produced-to-order, with lead times averaging 19 days. The remaining \*\*\* percent of their commercial shipments came from inventories, with lead times averaging 2 days. U.S. importers reported that \*\*\* percent of their commercial shipments were produced-to-order, with lead times averaging 95 days. U.S. inventories accounted for \*\*\* percent of their commercial shipments, with an average lead time of 17 days. Shipments from foreign inventories accounted for \*\*\* percent of commercial shipments, with an average lead time of 90 days.

## Knowledge of country sources

Thirty-one purchasers indicated they had marketing/pricing knowledge of domestic product, 30 of Chinese product, and 22 of product from nonsubject countries.

As shown in table II-4, most purchasers and their customers never or sometimes make purchasing decisions based on the producer or country of origin. Of the eight purchasers that reported that they always make decisions based on the manufacturer, three firms cited quality and price.

**Table II-4**  
**Cased pencils: Purchasing decisions based on producer and country of origin**

Purchaser/Customer Decision	Always	Usually	Sometimes	Never
Purchaser makes decision based on producer	8	6	7	17
Purchaser's customers make decision based on producer	0	3	11	12
Purchaser makes decision based on country	7	3	7	21
Purchaser's customers make decision based on country	0	1	13	11

Source: Compiled from data submitted in response to Commission questionnaires.

## Factors affecting purchasing decisions

The most often cited top three factors firms consider in their purchasing decisions for cased pencils were quality (32 firms), price (36 firms), and availability (12 firms), as shown in table II-5. Quality was the most frequently cited first-most important factor (cited by 19 firms), followed by price (15 firms); price (13 firms) and quality (12 firms) were the most frequently reported second-most important factor; and price was the most frequently reported third-most important factor (8 firms).

**Table II-5**  
**Cased pencils: Ranking of factors used in purchasing decisions as reported by U.S. purchasers, by factor**

Factor	First	Second	Third	Total
Quality	19	12	1	32
Price	15	13	8	35
Availability	1	4	7	12
Design	2	0	3	5
Other <sup>1</sup>	4	8	12	23

<sup>1</sup> Other factors include credit terms, reliability, brand, rebates, capacity, minimum order quantity, ability to meet contract terms, customer service, product line, country of origin, and lead time.

Source: Compiled from data submitted in response to Commission questionnaires.

Sixteen of 37 purchasers reported that they sometimes purchase the lowest-priced product, twelve reported usually, six reported never, and three reported always.

When asked if they purchased cased pencils from one source although a comparable product was available at a lower price from another source, 24 purchasers reported reasons including quality, brand name, vendor relationship, and reliability. Five purchasers reported that certain types of cased pencils were only available from a single source. \*\*\* reported that newspaper cased pencils and carpenter pencils are only available from China, and \*\*\* reported that printed wrapper pencils are not available in the United States.<sup>11</sup> \*\*\* reported that wood quality varies by region.

### Importance of specified purchase factors

Purchasers were asked to rate the importance of 15 factors in their purchasing decisions (table II-6). The factors rated as very important by more than half of responding purchasers were availability (37 purchasers), price, product consistency, reliability of supply (36 each), delivery time (35), quality meets industry standards (31), and delivery terms (24).

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<sup>11</sup> Musgrave produces \*\*\* pencils. General Pencil, Musgrave, and RoseMoon’s posthearing brief, p. 8.

**Table II-6****Cased pencils: Importance of purchase factors, as reported by U.S. purchasers, by factor**

Factor	Very important	Somewhat important	Not important
Availability	37	1	0
Delivery terms	24	13	1
Delivery time	35	3	0
Discounts offered	15	20	3
Extension of credit	6	19	13
Minimum quantity requirements	16	17	5
Packaging	18	15	5
Price	36	2	0
Product consistency	36	2	0
Product range	14	19	5
Quality exceeds industry standards	11	24	3
Quality meets industry standards	31	7	0
Reliability of supply	36	2	0
Technical support/service	8	22	8
U.S. transportation costs	15	12	11

Source: Compiled from data submitted in response to Commission questionnaires.

**Supplier certification**

Twenty-five of 38 responding purchasers require their suppliers to become certified or qualified to sell cased pencils to their firm. Purchasers reported that the time to qualify a new supplier ranged from 5 to 90 days. Three purchasers reported that a foreign supplier had failed in its attempt to qualify product, or had lost its approved status since January 1, 2011. \*\*\* reported that Shanghai Three Star failed to certify and \*\*\* reported that Hindustan failed to certify.

**Changes in purchasing patterns**

Purchasers were asked about changes in their purchasing patterns from different sources since 2011 (table II-7); reasons reported for changes in sourcing included more favorable pricing terms and new novelty designs added by other suppliers. Sixteen of 37 responding purchasers reported that they had changed suppliers since January 1, 2011. Specifically, firms dropped or reduced purchases from \*\*\* because of antidumping duties, reduced product line, quality, and minimum order requirements. Firms added or increased purchases from \*\*\* because of brand recognition, novelty characteristics, quality, and price.

**Table II-7****Cased pencils: Changes in purchase patterns from U.S., subject, and nonsubject countries**

Source of purchases	Did not purchase	Decreased	Increased	Constant	Fluctuated
United States	6	4	6	15	2
China (subject)	6	8	6	11	3
China (nonsubject)	18	3	3	8	0
Other	8	2	9	11	2
Sources Unknown	18	0	0	4	0

Source: Compiled from data submitted in response to Commission questionnaires.

## **Importance of purchasing domestic product**

Most purchasers (25 of 32 firms) reported that none of their purchases were required to be domestically produced. Three purchasers reported that domestic product was required by law (two firms reported it was for 0.1 to 24.9 percent of their purchases, the third reported 75 to 100 percent). Seven purchasers reported that domestic product was required by their customers (for 0.1 to 49.9 percent of their purchases), and four reported other preferences for domestic product. Reasons cited for preferring domestic product included: design and Forest Stewardship Council certification.

## **Comparisons of domestic products, subject imports, and nonsubject imports**

Purchasers were asked a number of questions comparing cased pencils produced in the United States, subject countries, and nonsubject countries. First, purchasers were asked for a country-by-country comparison on the same 15 factors (table II-8) for which they were asked to rate the importance.

Purchasers reported that U.S and Chinese product were comparable on four of the seven “very important” factors that they considered when making purchasing decisions. Price, delivery terms, and delivery time were also very important, and compared with Chinese cased pencils, U.S.-produced cased pencils were superior on delivery terms and delivery time, and inferior on price. Most purchasers (of 20 responding firms) reported that U.S.-produced cased pencils were comparable to nonsubject cased pencils on all factors, except they were superior for delivery time and inferior on price. Most purchasers (of 23 firms) reported that Chinese and nonsubject cased pencils were comparable on all factors.



**Table II-8****Cased pencils: Purchasers' comparisons between U.S.-produced and imported product**

Factor	U.S. vs. China			U.S. vs. nonsubject			China vs. nonsubject		
	S	C	I	S	C	I	S	C	I
Availability	13	15	2	6	13	1	1	22	0
Delivery terms	15	14	1	8	11	1	1	22	0
Delivery time	21	8	1	13	6	1	1	20	2
Discounts offered	2	19	8	0	15	5	3	19	0
Extension of credit	7	20	1	3	16	0	0	18	3
Minimum quantity requirements	13	15	1	7	12	1	1	18	3
Packaging	5	23	2	3	15	2	1	20	2
Price <sup>1</sup>	2	9	19	1	8	11	5	15	3
Product consistency	10	20	0	2	18	0	1	19	3
Product range	8	20	2	2	15	3	1	20	2
Quality exceeds industry standards	15	15	0	3	16	1	1	16	5
Quality meets industry standards	10	20	0	3	17	0	1	20	1
Reliability of supply	11	17	2	4	15	1	1	20	2
Technical support/service	16	13	0	6	14	0	0	18	4
U.S. transportation costs <sup>1</sup>	11	16	2	6	13	0	2	15	5

<sup>1</sup> A rating of superior means that price/U.S. transportation costs is generally lower. For example, if a firm reported "U.S. superior," it meant that the U.S. product was generally priced lower than the imported product.

Note.--S=first listed country's product is superior; C=both countries' products are comparable; I=first list country's product is inferior.

Source: Compiled from data submitted in response to Commission questionnaires.

### Comparison of U.S.-produced and imported cased pencils

In order to determine whether U.S.-produced cased pencils can generally be used in the same applications as imports from China, U.S. producers, importers, and purchasers were asked whether the products can always, frequently, sometimes, or never be used interchangeably. As shown in table II-9, most U.S. producers responded that cased pencils are always interchangeable. Most importers and purchasers reported that cased pencils are either always or frequently interchangeable, regardless of country of origin.

**Table II-9****Cased pencils: Interchangeability between cased pencils produced in the United States and in other countries, by country pair**

Country pair	U.S. producers				U.S. importers				U.S. purchasers			
	A	F	S	N	A	F	S	N	A	F	S	N
U.S. vs. China	2	1	0	0	15	14	4	1	13	11	6	1
U.S. vs. Other	2	1	0	0	15	13	3	1	12	8	3	0
China vs. Other	2	0	0	0	14	14	2	1	10	11	2	1

Note.—A=Always, F=Frequently, S=Sometimes, N=Never.

Source: Compiled from data submitted in response to Commission questionnaires.

As can be seen from table II-10, most (16 of 29) responding purchasers reported that domestically produced product “always” met minimum quality specifications. Most (18 of 28) responding purchasers reported that subject Chinese product “usually” met minimum quality specifications, and 6 of 28 responding purchasers reported that the Chinese cased pencils “always” met minimum quality specifications.

**Table II-10****Cased pencils: Ability to meet minimum quality specifications, by source<sup>1</sup>**

Source	Always	Usually	Sometimes	Rarely or never
United States	16	12	1	0
China (subject)	6	18	4	0
China (nonsubject)	5	7	1	0
Other	7	15	2	0

<sup>1</sup> Purchasers were asked how often domestically produced or imported cased pencils meets minimum quality specifications for their own or their customers’ uses.

Source: Compiled from data submitted in response to Commission questionnaires.

In addition, producers, importers, and purchasers were asked to assess how often differences other than price were significant in sales of cased pencils from the United States, subject, or nonsubject countries. As seen in table II-11, U.S. producers were split between reporting that factors other than price were always, frequently, or sometimes significant. Most importers reported other factors to be sometimes or never important, and purchasers reported they were always or sometimes significant. Some significant factors that were commonly listed by importers and purchasers include quality, lead time, minimum purchase requirements, and product safety testing.

**Table II-11**

**Cased pencils: Perceived importance other than price between cased pencils produced in the United States and in other countries, by country pair**

Country pair	U.S. producers				U.S. importers				U.S. purchasers			
	A	F	S	N	A	F	S	N	A	F	S	N
U.S. vs. China	1	1	1	0	6	3	13	10	11	7	11	3
U.S. vs. Other	1	1	1	0	7	1	12	10	10	3	8	3
China vs. Other	0	1	1	0	4	2	15	9	8	4	11	2

Note.--A = Always, F = Frequently, S = Sometimes, N = Never.

Source: Compiled from data submitted in response to Commission questionnaires.

### ELASTICITY ESTIMATES

This section discusses elasticity estimates; parties were encouraged to comment on these estimates. Dixon Ticonderoga provided comments on staff's estimate of the elasticity of substitution.

#### U.S. supply elasticity

The domestic supply elasticity<sup>12</sup> for cased pencils measures the sensitivity of the quantity supplied by U.S. producers to changes in the U.S. market price of cased pencils. The elasticity of domestic supply depends on several factors including the level of excess capacity, the ease with which producers can alter capacity, producers' ability to shift to production of other products, the existence of inventories, and the availability of alternate markets for U.S.-produced cased pencils. Analysis of these factors above indicates that the U.S. industry is likely to be able to moderately increase or decrease shipments to the U.S. market; an estimate in the range of 3 to 6 is suggested.

#### U.S. demand elasticity

The U.S. demand elasticity for cased pencils measures the sensitivity of the overall quantity demanded to a change in the U.S. market price of cased pencils. This estimate depends on factors discussed above such as the existence, availability, and commercial viability of substitute products. Based on the available information, the aggregate demand for cased pencils is likely to be inelastic; a range of -0.5 to -0.9 is suggested.

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<sup>12</sup> A supply function is not defined in the case of a non-competitive market.

## Substitution elasticity

The elasticity of substitution depends upon the extent of product differentiation between the domestic and imported products.<sup>13</sup> Product differentiation, in turn, depends upon such factors as quality (e.g., construction, appearance, etc.) and conditions of sale (e.g., availability, sales terms/ discounts/ promotions, etc.). Based on available information, the elasticity of substitution between U.S.-produced cased pencils and imported cased pencils is likely to be in the range of 3 to 5.

In their prehearing brief, Dixon Ticonderoga objected to the elasticity of substitution estimate as too inelastic, and stated that the elasticity of substitution should be a range of 4 to 8. They listed the following reasons: subject imports and domestic producers serve all U.S. markets, compete with the same retailers, compete over the Internet, participate in all channels of distribution, and compete in both commodity and specialty markets.<sup>14</sup>

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<sup>13</sup> The substitution elasticity measures the responsiveness of the relative U.S. consumption levels of the subject imports and the domestic like products to changes in their relative prices. This reflects how easily purchasers switch from the U.S. product to the subject product (or vice versa) when prices change.

<sup>14</sup> Dixon Ticonderoga's posthearing brief, p. 25.

## PART III: CONDITION OF THE U.S. INDUSTRY

### OVERVIEW

The information in this section of the report was compiled from responses to the Commission’s questionnaires. Four firms, which accounted for nearly all of U.S. production of cased pencils during 2016, supplied information on their operations in this review on cased pencils.<sup>1</sup> Table III-1 provides an overview of important industry events since 2011.

**Table III-1**  
**Cased pencils: Important industry events since 2011**

Date	Firm	Event
2013	Office Depot and Office Max	In early 2013, Office Depot announced a merger with OfficeMax in an all-stock deal worth around \$1.2 billion. <sup>1</sup>
2014	Sanford L.P.	Firm closed its domestic production facility in 2014. It was previously the largest domestic producer of cased pencils. <sup>2</sup>
2015	Dixon Ticonderoga	Firm reported to be making capital investment of \$1.5 million in 2015 for expansion of its Lake Mary, FL headquarters. <sup>3</sup>
2015—2016	N/A	Rising popularity of adult coloring books has led to increased demand for art products, including colored pencils. <sup>4</sup>

<sup>1</sup> Dixon Ticonderoga’s Response to the Notice of Institution, July 1, 2016, exh. 4. Dixon Ticonderoga argues that this is one example of the increasing concentration of U.S. buyers in the pencil market.

<sup>2</sup> General Pencil, Musgrave and RoseMoon’s Response to the Notice of Institution, July 1, 2016, p. 3.

<sup>3</sup> Matthew Richardson, “Pencil manufacturer expands in Lake Mary, creating jobs.” Orlando Business Journal, July 10, 2015, <http://www.bizjournals.com/orlando/news/2015/07/10/pencil-manufacturer-expands-in-lake-mary-creating.html>, accessed May 15, 2017.

<sup>4</sup> Sarah Halzack, “The big business behind the adult coloring book craze.” Washington Post, March 12, 2016, [https://www.washingtonpost.com/business/economy/the-big-business-behind-the-adult-coloring-book-craze/2016/03/09/ccf241bc-da62-11e5-891a-4ed04f4213e8\\_story.html?utm\\_term=.f4671192ecb1](https://www.washingtonpost.com/business/economy/the-big-business-behind-the-adult-coloring-book-craze/2016/03/09/ccf241bc-da62-11e5-891a-4ed04f4213e8_story.html?utm_term=.f4671192ecb1) accessed May 15, 2017. The article notes that Nielsen reports, “...total sales of colored pencils shot up 26.3 percent in 2015, a sharp increase compared to the previous three years, when growth ranged from 1.3 to 7.2 percent.”

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<sup>1</sup> These responses were provided by Dixon Ticonderoga, General Pencil, Musgrave, and RoseMoon. Estimates of the share of U.S. production accounted for by these responses are based on the responses provided by these firms in their respective *Responses to the Notice of Institution* and from \*\*\*.

## Changes experienced by the industry

Domestic producers were asked to indicate whether their firm had experienced any plant openings, relocations, expansions, acquisitions, consolidations, closures, or prolonged shutdowns because of strikes or equipment failure; curtailment of production because of shortages of materials or other reasons, including revision of labor agreements; or any other change in the character of their operations or organization relating to the production of cased pencils since 2011. One of the four domestic producers providing responses in this review indicated that they had experienced such changes; their response is presented in table III-2.

**Table III-2**  
**Cased pencils: Changes in the character of U.S. operations since January 1, 2011**

\* \* \* \* \*

## Anticipated changes in operations

The Commission asked domestic producers to report anticipated changes in the character of their operations relating to the production of cased pencils. Their responses appear in table III-3.

**Table III-3**  
**Cased pencils: Anticipated changes in the character of U.S. operations**

\* \* \* \* \*

## U.S. PRODUCTION, CAPACITY, AND CAPACITY UTILIZATION

Table III-4 presents U.S. producers' production, capacity, and capacity utilization. No U.S. producer reported producing other products on the machinery they used to make cased pencils. Several domestic producers also noted that, "Given the nature of the product, there is little room for technological advances in the products or production processes."<sup>2</sup>

Responding U.S. producers reported \*\*\* capacity levels from 2014 to 2016. However, both production and capacity utilization peaked in 2015. Production in 2015 was \*\*\* percent higher than in 2014, but then fell \*\*\* percent from 2015 to 2016, with production in that year returning to near 2014 production levels. Similarly, capacity utilization increased \*\*\* percentage points from 2014 to 2015, but then fell \*\*\* percentage points from 2015 to 2016.

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<sup>2</sup> General Pencil, Musgrave and RoseMoon's Response to the Notice of Institution, July 1, 2016, p. 10.

**Table III-4**  
**Cased pencils: U.S. producers' production, capacity, and capacity utilization, 2014-16**

\* \* \* \* \*

**Figure III-1**  
**Cased pencils: U.S. producers' production, capacity, and capacity utilization, 2014-16**

\* \* \* \* \*

### **Constraints on capacity**

The four responding U.S. producers reported constraints in the manufacturing process. \*\*\* were cited as a general concern by three firms. Musgrave stated that, \*\*. RoseMoon identified \*\* as a production constraint, while Dixon Ticonderoga noted the \*\* as a production constraint.

General Pencil cited \*\* as a constraint, specifically \*\*.

### **U.S. PRODUCERS' U.S. SHIPMENTS AND EXPORTS**

Table III-5 presents U.S. producers' U.S. shipments, export shipments, and total shipments. \*\*\* producers, \*\*, reported export shipments from 2014 to 2016, with \*\*. <sup>3</sup>

As in the discussion on production and capacity, data on U.S. producers' shipment quantities show a spike in 2015, while shipment amounts in 2014 and 2016 are more similar to each other. U.S. shipments rose \*\* percent from 2014 to 2015, and fell \*\* percent from 2015 to 2016. U.S. shipments also make up the \*\* of U.S. producers' total shipments, although the share of export shipments rose slightly in 2016. Export shipment quantities rose \*\* percent from 2014 to 2016, albeit from \*\*, and rose from \*\* to \*\* percent of the share of total shipments.

U.S. producers' shipments by value \*\* year over year from 2014 to 2016. The value of U.S. producers' U.S. shipments rose \*\* percent from 2014 to 2016, while the value of producers' export shipments rose \*\* percent from 2014 to 2016, albeit from \*\*. Unit values for U.S. shipments and export shipments \*\* from 2014 to 2015, then increased from 2015 to 2016. U.S. shipment unit values were \*\* percent higher in 2016 than in 2014, while export shipment unit values were \*\* percent higher in 2016 than in 2014.

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<sup>3</sup> \*\*\* producer questionnaire responses, question II-6.

**Table III-5  
Cased pencils: U.S. producers' U.S. shipments, exports shipments, and total shipments, 2014-16**

\* \* \* \* \*

**U.S. PRODUCERS' INVENTORIES**

Table III-6 presents U.S. producers' end-of-period inventories and the ratio of these inventories to U.S. producers' production, U.S. shipments, and total shipments. Inventories fell \*\*\* percent from 2014 to 2016, and the ratio of inventories to U.S. production, U.S. shipments, and total shipments \*\*\* from 2014 to 2016.

**Table III-6  
Cased pencils: U.S. producers' inventories, 2014-16**

\* \* \* \* \*

**U.S. PRODUCERS' IMPORTS AND PURCHASES**

Table III-7 presents data on individual U.S. producers' U.S. production and U.S imports of cased pencils from subject sources. Three producers reported importing cased pencils from subject sources.

\*\*\*. The firm's imports from subject China sources increased \*\*\* percent from 2014 to 2016; its imports from nonsubject China sources increased \*\*\* percent from 2014 to 2016; and its imports from all other nonsubject sources decreased \*\*\* percent in the same period. \*\*\* subject imports as a ratio of its production increased \*\*\* percentage points from 2014 to 2016.<sup>4</sup>

\*\*\* imports from subject sources \*\*\* in total amounts and as a share of their respective production from 2014 to 2016, and \*\*\* reported increases in imports from nonsubject sources from 2014 to 2016.

**Table III-7  
Cased pencils: U.S. producers' U.S. production, imports, and import ratios to U.S. production, 2014-16**

\* \* \* \* \*

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<sup>4</sup> As indicated in Part I and in its U.S. producer's questionnaire response, \*\*\*.



Table III-8 presents data on individual U.S. producers' reported purchases of cased pencils imported from subject sources as well as the ratio of such purchases to U.S. production. \*\*\* reported purchases of cased pencils imported from subject sources.<sup>5</sup>

\*\*\* reported purchases of cased pencils imported from subject China sources and nonsubject non-China sources. Its purchases from subject Chinese imports declined \*\*\* percent from 2014 to 2016.<sup>6</sup>

**Table III-8**  
**Cased pencils: U.S. producers' U.S. production, purchases of imports, and ratios of purchases to U.S. production, 2014-16**

\* \* \* \* \*

\*\*\* also reported purchases, however it only reported purchasing cased pencils from other domestic producers (and was the only producer to report as such). Its purchases increased from \*\*\* gross to \*\*\* gross from 2014 to 2016.<sup>7</sup>

### U.S. EMPLOYMENT, WAGES, AND PRODUCTIVITY

Table III-9 shows U.S. producers' employment-related data. The number of production and related workers ("PRWs") \*\*\* slightly—about \*\*\* percent—from 2014 to 2016. Hourly wages, productivity, and unit labor costs all remained \*\*\* in 2014 and 2016, with a \*\*\* in hourly wages and unit labor costs from 2014 to 2015 and an \*\*\* in productivity from 2014 to 2015.

**Table III-9**  
**Cased pencils: Average number of production and related workers, hours worked, wages paid to such employees, hourly wages, productivity, and unit labor costs, 2014-16**

\* \* \* \* \*

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<sup>5</sup> \*\*\* initially reported purchases of cased pencils imported from subject sources, but later clarified that they only had direct imports to report. See staff telephone interview with \*\*\*.

<sup>6</sup> \*\*\* provided the following reason for their purchases: \*\*\*. See \*\*\* U.S. producer questionnaire response, question II-11.

<sup>7</sup> \*\*\* provided the following reason for their purchases: \*\*\*. See \*\*\* U.S. producer questionnaire response, question II-11.

## FINANCIAL EXPERIENCE OF THE U.S. PRODUCERS

### Introduction

U.S. producers \*\*\* provided usable financial data on their operations on cased pencils.<sup>8</sup> These data are believed to account for the majority of U.S. production of cased pencils in 2016. \*\*\* reported only commercial sales during the period examined, while \*\*\*.<sup>9</sup> These data are included but not shown separately in this section of the report.<sup>10</sup> \*\*\* reported a fiscal year end of December 31. \*\*\* fiscal year end is March 31.

### Operations on Cased Pencils

Income-and-loss data for U.S. producers of cased pencils are presented in table III-10, while selected financial data, by firm, are presented in table III-11. The reported profitability of the U.S. industry improved from 2014 to 2016. The reported aggregate net sales quantity increased by \*\*\* percent during this time, while the aggregate net sales value increased by \*\*\* percent.<sup>11</sup> Operating costs and expenses (cost of goods sold (“COGS”) and selling, general, and administrative (“SG&A”) expenses, combined) declined by \*\*\* percent during this time. As a result of increased revenue and lower operating costs and expenses, operating income improved from 2014 to 2016. Gross and net profitability followed similar trends during this time.

On a per unit basis and as a ratio to net sales, raw material costs generally increased while direct labor, other factory costs, and SG&A expenses generally decreased from 2014 to 2016.

Raw material costs accounted for an average \*\*\* percent of total COGS for the reporting period, while conversion costs (direct labor and other factory costs, combined) accounted for an average \*\*\* percent of total COGS during this time.<sup>12</sup> Although raw material costs increased on an absolute and per unit basis and as a ratio to net sales, larger declines in conversion costs resulted in an overall decline in COGS from 2014 to 2016. SG&A expenses accounted for an average \*\*\* percent of total operating costs and expenses for the reporting period, and modestly increased during this time. However, increased sales volume and revenue resulted in lower per-unit and ratio-to-sales SG&A expenses in 2016 compared to 2014.

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<sup>8</sup> \*\*\* did not provide financial data for this investigation. Based on reported trade data, \*\*\* would account for \*\*\* percent of total net sales quantity from 2014 to 2016.

<sup>9</sup> \*\*\*. Email from \*\*\*, April 24, 2017.

<sup>10</sup> See table III-5 and related text for a break-out of commercial and non-commercial shipments.

<sup>11</sup> Both net sales quantity and value increased from 2014 to 2015, then declined from 2015 to 2016 to levels higher than in 2014.

<sup>12</sup> U.S. producers were asked to provide additional detail on the various raw materials used in the production of cased pencils. \*\*\*. U.S. producers' questionnaire, question III-9b. In contrast, \*\*\*. Ibid., and email from \*\*\*, April 12, 2017.

**Table III-10**  
**Cased pencils: Results of operations of U.S. producers, 2014-2016**

\* \* \* \* \*

**Table III-11**  
**Cased pencils: Selected results of operations of U.S. producers, by firm, 2014-2016**

\* \* \* \* \*

While all responding firms reported positive and generally improving profitability during the reporting period, table VI-2 shows differences in revenue and cost data, particularly the data presented on a per-unit basis and as a ratio to net sales, that affected the overall level of reported profitability for each firm. As a ratio to net sales, the operating and net profitability of \*\*\*.

\*\*\*.<sup>13 14</sup>

As previously stated, \*\*\*.<sup>15</sup>

Lastly, \*\*\*.<sup>16 17 18</sup>

### Variance analysis

The variance analysis presented in table III-12 is based on the data in table III-10.<sup>19</sup> The analysis shows that the increase in operating profitability from 2014 to 2016 is attributable to \*\*\*.

**Table III-12**  
**Cased pencils: Variance analysis on the operations of U.S. producers, 2014-2016**

\* \* \* \* \*

<sup>13</sup> Email from \*\*\*, April 26, 2017.

<sup>14</sup> \*\*\*, May 18, 2017.

<sup>15</sup> \*\*\*. Email from \*\*\*, May 18, 2017.

<sup>16</sup> Email from \*\*\*, May 11, 2017.

<sup>17</sup> In addition, \*\*\*.

<sup>18</sup> \*\*\*, May 17, 2017.

<sup>19</sup> The Commission's variance analysis is calculated in three parts: sales variance, cost of sales variance (COGS variance), and SG&A expense variance. Each part consists of a price variance (in the case of the sales variance) or a cost variance (in the case of the COGS and SG&A expense variance), and a volume variance. The sales or cost variance is calculated as the change in unit price or unit cost/expense times the new volume, while the volume variance is calculated as the change in volume times the old unit price or unit cost. Summarized at the bottom of the table, the price variance is from sales; the cost/expense variance is the sum of those items from COGS and SG&A variances, respectively; and the volume variance is the sum of the volume components of the net sales, COGS, and SG&A expense variances.

## Capital expenditures, total assets, and return on assets

The responding firms' aggregate data on capital expenditures, total assets, and return on assets ("ROA") are shown in table III-13. \*\*\*. \*\*\* reported capital expenditure data. Aggregate capital expenditures declined from 2014 to 2016. \*\*\* accounted for the majority of reported capital expenditures from 2014 to 2016, and stated that such expenditures reflect \*\*\*.<sup>20</sup> \*\*\*.<sup>21</sup> The total assets utilized in the production, warehousing, and sale of cased pencils increased from \$\*\*\* in 2014 to \$\*\*\* in 2016, and the ROA ranged from \*\*\* percent to \*\*\* percent during the period examined.<sup>22</sup>

**Table III-13**

**Cased pencils: Capital expenditures, total assets, and ROA of U.S. producers, 2014-2016**

\* \* \* \* \*

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<sup>20</sup> U.S. producers' questionnaire, question III-13.

<sup>21</sup> Email from \*\*\*, April 12, 2017.

<sup>22</sup> The ROA is calculated as operating income divided by total assets. With respect to a firm's overall operations, the total asset value reflects an aggregation of a number of assets which are generally not product specific. Thus, high-level allocations are generally required in order to report a total asset value for the subject product.

## PART IV: U.S. IMPORTS AND THE FOREIGN INDUSTRIES

### U.S. IMPORTS

#### Overview

The Commission issued questionnaires to 91 firms believed to have imported cased pencils between 2014 and 2016.<sup>1</sup> Fifty firms provided useable data and information in response to the questionnaires, while five firms indicated that they had not imported cased pencils during the period for which data were collected.<sup>2</sup> Based on official Commerce statistics, importers' questionnaire data accounted for 81.8 percent of total U.S. imports during 2016, \*\*\* percent of total subject imports during 2016, and \*\*\* percent of nonsubject imports in 2016.<sup>3</sup>

#### IMPORTS FROM SUBJECT AND NONSUBJECT COUNTRIES

Table IV-1 and figure IV-1 present information on U.S. imports of cased pencils from China and all other sources. Overall, total U.S. imports of cased pencils increased \*\*\* percent from 2014 to 2016. U.S. imports of cased pencils from subject China sources increased \*\*\* percent from 2014 to 2016, while U.S. imports of cased pencils from nonsubject sources increased \*\*\* percent from 2014 to 2016.<sup>4</sup>

Subject China sources accounted for \*\*\* percent of the quantity of total U.S. imports of cased pencils in 2016, a decrease from \*\*\* percent in 2014. Nonsubject sources increased their share of the quantity of total U.S. imports from \*\*\* percent in 2014 to \*\*\* percent in 2016. Countries commonly cited by respondents to the Commission's questionnaire as nonsubject

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<sup>1</sup> The Commission issued questionnaires to those firms identified in responses to the notice of institution, along with firms that, based on data provided by U.S. Customs and Border Protection ("Customs"), may have imported greater than 0.1 percent of total subject imports under HTS statistical reporting number 9609.10.0000 from 2014 to 2016.

<sup>2</sup> Firms certifying that they had not imported cased pencils include \*\*\*. Questionnaires received from \*\*\*, and certain information related to trade data for \*\*\*, were not included in the dataset due to various reporting issues.

<sup>3</sup> Figures based on imports reported under HTS statistical reporting number 9609.10.0000. Questionnaire responses were used as the basis for import data in this report.

In 2015, Commerce confirmed that the revocation of the order given to Beijing Dixon in 2013 continued to apply to Beijing Fila as successor-in-interest. Therefore, questionnaire responses involving imports from this firm were treated as nonsubject. See *Certain Cased Pencils From the People's Republic of China: Final Results of Antidumping Duty Administrative Review and Determination To Revoke Order In Part; 2010-2011*, 78 FR 42932, July 18, 2013, and *Certain Cased Pencils From the People's Republic of China: Final Results of Antidumping Duty Changed Circumstances Review*, 80 FR 19073, April 9, 2015. For the coverage figures related to total subject and total nonsubject imports, \*\*\*.

<sup>4</sup> Beijing Fila is included in nonsubject sources.

sources include Brazil, Vietnam, Indonesia, the Philippines, and Taiwan.<sup>5</sup> U.S. imports from nonsubject China sources (i.e. Beijing Fila) \*\*\* as a share of total U.S. imports from 2014 to 2016, \*\*\* percentage points from 2014 to 2016.

Imports from subject China sources \*\*\* as a ratio to U.S. production from 2014 to 2016, while imports from nonsubject sources \*\*\* as a ratio to U.S. production from 2014 to 2016. Imports from subject China sources \*\*\* as a ratio to U.S. production by \*\*\* percentage points, while imports from nonsubject sources increased as a ratio to U.S. production by \*\*\* percentage points.

**Table IV-1**  
**Cased pencils: U.S. imports by source, 2014-2016**

Item	Calendar year		
	2014	2015	2016
	<b>Quantity (1,000 gross)</b>		
U.S. imports from.-- China subject	9,646	9,103	9,727
China nonsubject	***	***	***
All other sources	***	***	***
Nonsubject	13,966	14,995	22,685
Total U.S. imports	23,612	24,098	32,412
	<b>Value (1,000 dollars)</b>		
U.S. imports from.-- China subject	52,252	51,954	60,197
China nonsubject	***	***	***
All other sources	***	***	***
Nonsubject	121,656	122,336	180,947
Total U.S. imports	173,908	174,290	241,144
	<b>Unit value (dollars per gross)</b>		
U.S. imports from.-- China subject	5	6	6
China nonsubject	***	***	***
All other sources	***	***	***
Nonsubject	9	8	8
Total U.S. imports	7	7	7
	*	*	*

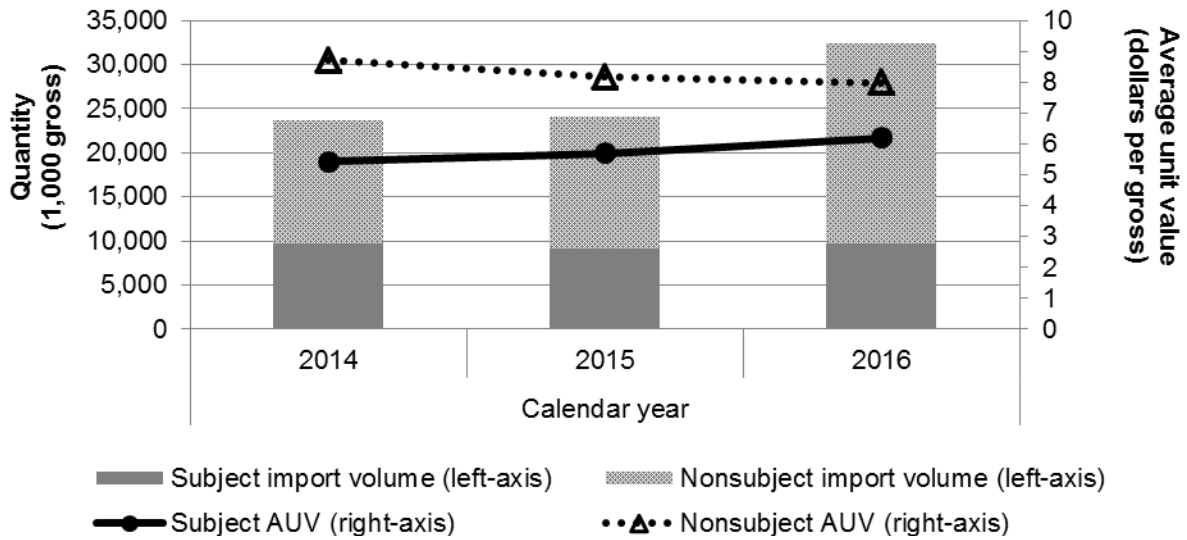
Source: Compiled from data submitted in response to Commission questionnaires.

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<sup>5</sup> According to publicly available Customs data, these countries were the first, second, fourth, fifth, and sixth largest nonsubject sources of imports reported under HTS statistical reporting number 9609.10.0000 in 2016 (the third largest being Mexico).

**Figure IV-1**

**Cased pencils: U.S. import volumes and average unit values, 2014-2016**



Source: Compiled from data submitted in response to Commission questionnaires.

**U.S. IMPORTERS' ARRANGED IMPORTS**

The Commission requested importers to indicate whether they had imported or arranged for the importation of cased pencils from China for delivery after December 31, 2016. Table IV-2 presents these responses. Arranged imports reported for cased pencils from subject China sources were \*\*\* gross for 2017, a figure which represents \*\*\* percent of imports from subject China sources in 2016.

**Table IV-2**  
**Cased pencils: Arranged imports by China sources, January-December 2017**

\* \* \* \* \*

## U.S. IMPORTERS' INVENTORIES

Table IV-3 presents data for inventories of U.S. imports of cased pencils from China and all other sources held in the United States. Inventories of subject China imports held by importers fell 23.7 percent from 2014 to 2016. Most of the inventories of subject China imports were held by \*\*\*, which accounted for about \*\*\* percent of inventories from subject China in 2016.

**Table IV-3**  
**Cased pencils: U.S. importers' end-of-period inventories of imports, by source, 2014-2016**

Item	Calendar year		
	2014	2015	2016
Imports from China subject: Inventories (1,000 gross)	3,568	1,635	2,724
Ratio to U.S. imports (percent)	37.0	18.0	28.0
Ratio to U.S. shipments of imports (percent)	45.2	17.9	32.0
Ratio to total shipments of imports (percent)	45.1	17.8	32.0
Imports from China nonsubject: Inventories (1,000 gross)	***	***	***
Ratio to U.S. imports (percent)	***	***	***
Ratio to U.S. shipments of imports (percent)	***	***	***
Ratio to total shipments of imports (percent)	***	***	***
Imports from all other sources: Inventories (1,000 gross)	***	***	***
Ratio to U.S. imports (percent)	***	***	***
Ratio to U.S. shipments of imports (percent)	***	***	***
Ratio to total shipments of imports (percent)	***	***	***
Imports from nonsubject sources: Inventories (1,000 gross)	2,044	2,054	3,790
Ratio to U.S. imports (percent)	14.6	13.7	16.7
Ratio to U.S. shipments of imports (percent)	15.8	14.3	18.7
Ratio to total shipments of imports (percent)	15.3	13.9	18.2
Imports from all sources: Inventories (1,000)	5,612	3,689	6,514
Ratio to U.S. imports (percent)	23.8	15.3	20.1
Ratio to U.S. shipments of imports (percent)	26.9	15.7	22.6
Ratio to total shipments of imports (percent)	26.4	15.4	22.2

Source: Compiled from data submitted in response to Commission questionnaires.



## THE INDUSTRY IN CHINA

### Overview

The Commission issued questionnaires to 49 firms in China believed to have produced cased pencils between 2014 and 2016. Three firms provided useable data and information in response to the questionnaires: China First Pencil Co., Ltd. (“China First”);<sup>6</sup> Orient International Holding Shanghai Foreign Trade Co. Ltd. (“Orient International”); and Wah Yuen Stationery Co., Ltd. (“Wah Yuen”).<sup>7</sup> Two firms indicated that they had not produced cased pencils in China during the period for which data were collected.<sup>8</sup> Of the three responding firms, \*\*\* reported producing the most pencils in 2016 (\*\*\* gross). Based on a comparison of Chinese firms’ reported U.S. exports in 2016 with official Commerce statistics for total imports from China in 2016, the Chinese firms are believed to account for \*\*\* percent of China’s exports in 2016.<sup>9</sup>

Table IV-4 presents summary information on the producers in China, and table IV-5 presents their reported changes in operations since January 1, 2011. \*\*\* reported plant openings, relocations, and acquisitions, while \*\*\* and \*\*\* both provided updates for revised labor agreements.

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<sup>6</sup> China First was assessed a zero percent weighted-average duty margin by Commerce during the original investigations where it was both exporter and producer, and a 44.66 percent weighted-average dumping margin as an exporter paired with any other manufacturer. In Commerce’s third review, the firm was assessed with an 8.60 percent dumping margin.

<sup>7</sup> As described in part I, on October 27, 2016, Commerce published the final results of a new shipper review related to Wah Yuen Stationery Co., Ltd. and its affiliated producer, Shandong Wah Yuen Stationery Co., Ltd (collectively, “Wah Yuen” in Commerce’s notices related to this review). On December 20, 2016, these final results were amended to correct ministerial errors, such that Wah Yuen was assessed a revised weighted-average dumping margin of 30.55 percent. See 81 FR 74764 and 81 FR 92784.

<sup>8</sup> These firms were \*\*\* and \*\*\*. As the order was revoked with respect to Beijing FILA, the firm is considered nonsubject and thus was not issued a questionnaire.

<sup>9</sup> \*\*\* reports it did not export to the United States in 2016. See Foreign Producers’ Questionnaire responses of China First, Oriental International, and Wah Yuen, question II-8.

**Table IV-4**  
**Cased pencils: China producers summary data, 2016**

Firm	Production (1,000 gross)	Share of reported production (percent)	Exports to the United States (1,000 gross)	Share of reported exports to the United States (percent)	Total shipments (1,000 gross)	Share of firm's total shipments exported to the United States (percent)
China First	***	***	***	***	***	***
Orient International	***	***	***	***	***	***
Wah Yuen	***	***	***	***	***	***
Total	***	***	***	***	***	***

Source: Compiled from data submitted in response to Commission questionnaires.

**Table IV-5**  
**Cased pencils: China producers reported changes in operations since January 1, 2011**

\* \* \* \* \*

**Chinese Producers' operations on cased pencils**

Table IV-6 presents information related to the responding Chinese producers' production, capacity, and shipments. Capacity and production both \*\*\* from 2014 to 2016 (by \*\*\* percent and \*\*\* percent, respectively) and capacity utilization remained \*\*\*. \*\*\* in capacity from 2014 to 2016 were reported by \*\*\*, and \*\*\* reported new plant openings (see table IV-5).<sup>10</sup> The firms reported various constraints on production, including \*\*\*.<sup>11</sup> \*\*\* reported producing other products on the same machinery used to make cased pencils.

Total home market shipments reported by the responding Chinese producers fell \*\*\* percent from 2014 to 2016, while export shipments to the United States increased by \*\*\* percent over the same period.<sup>12</sup> While export shipments to the European Union and other Asian countries \*\*\* from 2014 to 2016, export shipments to all other markets fell \*\*\* percent from 2014 to 2016.<sup>13</sup>

Inventories as a ratio to production and total shipments \*\*\* from 2014 to 2016 (by \*\*\* percentage points, respectively).

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<sup>10</sup> Dixon Ticonderoga uses figures from the China Writing Instrument Association to estimate that China's capacity for the time period covered by this current review was more than \*\*\* gross. Dixon Ticonderoga also estimates that China has at least 22 million gross in excess capacity. See Dixon Ticonderoga's Response to the Notice of Institution, p. 23 and exh. 6.

<sup>11</sup> The firm elaborated in correspondence with Commission staff: \*\*\*.

<sup>12</sup> These home market shipment figures are driven by \*\*\* reported internal consumption figures, which fell from \*\*\* gross in 2014 to \*\*\* gross in 2016. \*\*\* was the only firm to report home market commercial shipments; these shipments increased \*\*\* percent from 2014 to 2016 (\*\*\*).

<sup>13</sup> The responding Chinese producers identified a variety of export markets including \*\*\*.

**Table IV-6**  
**Cased pencils: China capacity, production, shipments, and inventories, 2014-2016**

\* \* \* \* \*

**Exports**

As presented in table IV-7, the leading export markets for cased pencils from China are the United States, Pakistan, the United Kingdom, and the Philippines. During 2016, the United States was the top export market for cased pencils from China, accounting for 17.2 percent, followed by Pakistan, accounting for 5.6 percent.

**Table IV-7:**  
**Cased pencils: Exports from China, 2014-2016**

Destination Market	Calendar year		
	2014	2015	2016
	<b>Quantity (1,000 pounds)</b>		
China's exports to the United States	27,779	29,075	37,624
China's exports to other major destination markets.--			
Pakistan	9,892	12,989	12,353
United Kingdom	7,468	9,268	9,985
Philippines	2,445	4,683	8,746
Indonesia	4,589	4,469	6,685
Thailand	6,838	6,957	6,412
Brazil	7,278	4,368	6,005
Russia	4,867	3,331	5,895
Germany	4,577	4,463	5,073
All other destination markets	115,283	117,904	120,073
Total China exports	191,015	197,510	218,851
	<b>Value (1,000 dollars)</b>		
China's exports to the United States	73,089	77,835	96,263
China's exports to other major destination markets.--			
Pakistan	17,818	25,192	24,284
United Kingdom	17,152	20,772	22,115
Philippines	4,693	10,519	18,742
Indonesia	10,558	10,338	15,162
Thailand	15,074	16,923	15,295
Brazil	10,339	6,161	7,910
Russia	9,358	7,130	11,699
Germany	13,823	14,562	15,227
All other destination markets	263,256	291,947	283,778
Total China exports	435,161	481,379	510,475

Table continued on next page.

**Table IV-7—Continued**  
**Cased pencils: Exports from China, 2014-2016**

Destination Market	Calendar year		
	2014	2015	2016
	<b>Unit value (dollars per pound)</b>		
China's exports to the United States	2.63	2.68	2.56
China's exports to other major destination markets.-- Pakistan	1.80	1.94	1.97
United Kingdom	2.30	2.24	2.21
Philippines	1.92	2.25	2.14
Indonesia	2.30	2.31	2.27
Thailand	2.20	2.43	2.39
Brazil	1.42	1.41	1.32
Russia	1.92	2.14	1.98
Germany	3.02	3.26	3.00
All other destination markets	2.28	2.48	2.36
Total China exports	2.28	2.44	2.33
	<b>Share of quantity (percent)</b>		
China's exports to the United States	14.5	14.7	17.2
China's exports to other major destination markets.-- Pakistan	5.2	6.6	5.6
United Kingdom	3.9	4.7	4.6
Philippines	1.3	2.4	4.0
Indonesia	2.4	2.3	3.1
Thailand	3.6	3.5	2.9
Brazil	3.8	2.2	2.7
Russia	2.5	1.7	2.7
Germany	2.4	2.3	2.3
All other destination markets	60.4	59.7	54.9
Total China exports	100.0	100.0	100.0

Source: Official Chinese exports statistics under HTS subheading 9609.10 as reported by China Customs in the IHS/GTA database, accessed January 4, 2017.

#### **ANTIDUMPING OR COUNTERVAILING DUTY ORDERS IN THIRD-COUNTRY MARKETS**

On October 18, 1994, Mexico imposed a final definitive antidumping duty rate of 451 percent on imports of pencils produced in China.<sup>14</sup> However, in 2008, Mexico and China signed an agreement under which Mexico committed to eliminate its antidumping duty orders on a broad range of Chinese products. Effective October 15, 2008, Mexico's antidumping duty order on pencils imported from China was rescinded and replaced with a transitional duty, which was

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<sup>14</sup> World Trade Organization, Committee on Anti-Dumping Practices, Semi-Annual Report Under Article 16.4 of the Agreement—Mexico, June 20, 1995, [http://www.wto.org/english/tratop\\_e/adp\\_e/adp\\_e.htm](http://www.wto.org/english/tratop_e/adp_e/adp_e.htm). The report uses just the term 'pencils', not 'cased' pencils or a different descriptor.

to be phased out over a three-year period.<sup>15</sup> However, the semiannual report submitted by Mexico to the World Trade Organization on February 28, 2017, indicated that their antidumping duty measures were in force with respect to pencils produced in China, starting in May 2014.<sup>16</sup>

Antidumping duty measures are currently in place in Turkey with respect to “pencils with leads of graphite and crayons encased in a rigid sheath” produced in China. Such duties were originally imposed by Turkey on January 14, 2003, and were extended following a review of the antidumping duty order completed on December 18, 2008. The duty measures are still in force according to Turkey’s semiannual report to the World Trade Organization.<sup>17 18</sup>

The responding Chinese producers reported that antidumping duties have been imposed on Chinese pencils by Brazil, Egypt, Iran, Mexico, and Turkey.

## GLOBAL MARKET

Table IV-8 presents the largest global export sources of cased pencils, by value, during 2014-16. The value of total world exports of cased pencils increased by 13.4 percent from 2014 to 2016. China was the largest exporter, accounting for 40.4 percent of global exports in 2016, followed by Germany (11.4 percent), Brazil (8.2 percent), and Indonesia (6.1 percent). China’s share of the export market has increased from 39.1 percent to 40.4 percent from 2014 to 2016. Over the same period, the U.S. share of total exports has increased from 1.9 percent to 2.1 percent.

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<sup>15</sup> Market Profiles - Mexico, <http://info.hktcdc.com/mktprof/america/mpmex.htm>, retrieved January 24, 2011.

<sup>16</sup> World Trade Organization, Committee on Anti-Dumping Practices, Semi-Annual Report Under Article 16.4 of the Agreement–Mexico, February 28, 2017, [http://www.wto.org/english/tratop\\_e/adp\\_e/adp\\_e.htm](http://www.wto.org/english/tratop_e/adp_e/adp_e.htm).

<sup>17</sup> World Trade Organization, Committee on Anti-Dumping Practices, Semi-Annual Report Under Article 16.4 of the Agreement–Turkey, March 2, 2017, [http://www.wto.org/english/tratop\\_e/adp\\_e/adp\\_e.htm](http://www.wto.org/english/tratop_e/adp_e/adp_e.htm).

<sup>18</sup> Unless updates are provided otherwise, information from the previous two paragraphs is derived from *Cased Pencils from China Investigation No. 731-TA-669 (Third Review)*, USITC Publication 4239, June 2011, p. I-30.

**Table IV-8**  
**Cased pencils: Global exports by major sources, 2014-2016**

Source	Calendar Year		
	2014	2015	2016
	<b>Value (1,000)</b>		
United States	20,852	22,814	26,222
China	435,161	481,379	510,475
All other major exporting countries.--			
Germany	137,585	125,588	144,351
Brazil	77,009	83,865	103,686
Indonesia	77,482	74,231	76,710
Vietnam	44,860	49,845	( <sup>1</sup> )
Czech Republic	49,057	46,069	57,179
Mexico	38,873	41,575	69,561
France	31,300	29,441	31,810
Thailand	25,271	23,694	27,872
India	20,780	23,420	27,215
Taiwan	12,511	15,325	21,332
All other exporting countries.	142,032	140,998	165,747
Total	1,112,772	1,158,244	1,262,161
	<b>Share of value (percent)</b>		
United States	1.9	2.0	2.1
China	39.1	41.6	40.4
All other major exporting countries.--			
Germany	12.4	10.8	11.4
Brazil	6.9	7.2	8.2
Indonesia	7.0	6.4	6.1
Vietnam	4.0	4.3	( <sup>1</sup> )
Czech Republic	4.4	4.0	4.5
Mexico	3.5	3.6	5.5
France	2.8	2.5	2.5
Thailand	2.3	2.0	2.2
India	1.9	2.0	2.2
Taiwan	1.1	1.3	1.7
All other exporting countries.	12.8	12.2	13.1
Total	100.0	100.0	100.0

<sup>1</sup> Vietnamese data for 2016 not available.

Note.—Due to rounding, figures may not add to total shown.

Source: Global Trade Information Services, Inc., Global Trade Atlas, HS subheading 9609.10.

## **PART V: PRICING DATA**

### **FACTORS AFFECTING PRICES**

#### **Raw material costs**

Raw materials accounted for \*\*\* percent of COGS in 2016, up from \*\*\* percent in 2014. The two primary materials used to make cased pencils are the lead (graphite), which represented 5.9 percent of the raw material costs, and the casing material (wood or man-made), which represented 75.5 percent of raw material costs. Other raw materials (e.g., glue) accounted for 18.8 percent of raw material costs.

All four U.S. producers reported that raw material prices have increased from 2011 to 2016, and they all anticipate that trend to continue. One producer reported that wood and core prices have increased. Twenty-two of 40 importers reported that raw material costs had remained constant and 12 reported that they increased. Most importers anticipated no change in future costs. Two Chinese producers noted that Chinese policies that protect trees are likely to reduce the availability of Chinese lumber and to increase its price.

#### **U.S. inland transportation costs**

All four responding U.S. producers and 28 of 38 importers reported that they typically arrange transportation to their customers. Most U.S. producers reported that their U.S. inland transportation costs ranged from 3 to 20 percent while most responding importers reported costs of 1 to 40 percent.<sup>1</sup>

### **PRICING PRACTICES**

#### **Pricing methods**

Three U.S. producers reported using set price lists and one reported using transaction-by-transaction negotiations (table V-1). Among importers, 19 of 47 reported using transaction-by-transaction negotiations and 15 reported using set price lists. In addition, some importers also reported using contracts or other methods (e.g., setting the price based on their competitors' prices).

---

<sup>1</sup> Two importers reported 40 percent and one reported 60 percent.

**Table V-1**

**Cased pencils: U.S. producers' and importers' reported price setting methods, by number of responding firms<sup>1</sup>**

<b>Method</b>	<b>U.S. producers</b>	<b>Importers</b>
<b>Transaction-by-transaction</b>	1	19
<b>Contract</b>	0	9
<b>Set price list</b>	3	15
<b>Other</b>	0	14
<b>Responding firms</b>	4	47

<sup>1</sup> The sum of responses down may not add up to the total number of responding firms as each firm was instructed to check all applicable price setting methods employed.

Source: Compiled from data submitted in response to Commission questionnaires.

U.S. producers reported selling mostly in the spot market (table V-2). Over 95 percent of U.S. producers' sales were on a spot basis in 2016. In contrast, the majority of importers' sales in 2016 were on an annual contract basis.

**Table V-2**

**Cased pencils: U.S. producers' and importers' shares of U.S. commercial shipments by type of sale, 2016**

<b>Type of sale</b>	<b>U.S. producers</b>	<b>Importers</b>
<b>Long-term contracts</b>	0.0	0.8
<b>Annual contracts</b>	0.0	73.6
<b>Short-term contracts</b>	4.1	4.2
<b>Spot sales</b>	95.9	21.4
<b>Total</b>	100.0	100.0

Note.--Because of rounding, figures may not add to the totals shown.

Source: Compiled from data submitted in response to Commission questionnaires.

Three purchasers reported that they purchase product daily, fourteen purchase weekly, and nine purchase monthly. Thirty-five of 37 responding purchasers reported that they did not expect their purchasing patterns to change in the next two years. Fourteen of 38 purchasers contact only one supplier before making a purchase, and most of the remaining purchasers contact up to six suppliers, although two purchasers reported contacting up to ten suppliers.

### **Sales terms and discounts**

All four U.S. producers and most importers (27 of 39) typically quote prices on an f.o.b. basis. Three U.S. producers offer quantity discounts, and one offers annual volume discounts. Half (22 of 44) of importers do not offer discounts. Three U.S. producers and 22 importers reported sales terms of net 30 days.



## Price leadership

Eleven purchasers reported that Dixon Ticonderoga was a price leader because it is the only brand with customer loyalty (mostly in schools). Crayola and major retailers were also mentioned as price leaders due to their market share.

## PRICE DATA

The Commission requested U.S. producers and importers to provide quarterly data for the total quantity and f.o.b. value of the following cased pencil products shipped to unrelated U.S. customers during 2014-16.<sup>2</sup>

**Product 1.**—Commodity (economy) pencils – packaged for retail.

**Product 2.**—Commodity (economy) pencils – packaged for wholesale.

Two U.S. producers<sup>3</sup> and ten importers<sup>4</sup> provided usable pricing data for sales of the requested products, although not all firms reported pricing for all products for all quarters.<sup>5</sup>

Pricing data reported by these firms accounted for 10.8 percent of U.S. producers' commercial shipments of cased pencils and 46.6 percent of U.S. commercial shipments of subject imports from China in 2016.

Price data for products 1-2 are presented in tables V-2 to V-3 and figures V-1 to V-2.

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<sup>2</sup> Domestic interested parties \*\*\* agreed that these were appropriate pricing products for the questionnaire. Dixon Ticonderoga's comments on draft questionnaires, p. 2, and General Pencil, Musgrave, and RoseMoon's comments on draft questionnaires, p. 2.

<sup>3</sup> \*\*\* do not sell commodity pencils. \*\*\*.

<sup>4</sup> Some importer pricing data reported by \*\*\* could not be used because the data were not U.S. commercial shipments, the product did not fit the given specifications, or the data do not match the pricing product definitions.

<sup>5</sup> Per-unit pricing data are calculated from total quantity and total value data provided by U.S. producers and importers. The precision and variation of these figures may be affected by rounding, limited quantities, and producer or importer estimates.

**Table V-2**

**Cased pencils: Weighted-average f.o.b. prices and quantities of domestic and imported product <sup>1</sup> and margins of underselling/(overselling), by quarters, January 2014-December 2016**

Period	United States		China		
	Price (per gross)	Quantity (thousand gross)	Price (per gross)	Quantity (thousand gross)	Margin (percent)
<b>2014:</b>					
Jan.-Mar.	---	***	***	***	---
Apr.-June	---	***	***	***	---
July-Sept.	---	***	***	***	---
Oct.-Dec.	---	***	***	***	---
<b>2015:</b>					
Jan.-Mar.	***	***	***	***	***
Apr.-June	***	***	***	***	***
July-Sept.	***	***	***	***	***
Oct.-Dec.	***	***	***	***	***
<b>2016:</b>					
Jan.-Mar.	---	***	***	***	---
Apr.-June	---	***	***	***	---
Jul.-Sep.	---	***	***	***	---
Oct.-Dec.	---	***	***	***	---

<sup>1</sup> Product 1: Commodity (economy) pencils – packaged for retail.

Source: Compiled from data submitted in response to Commission questionnaires.

**Table V-3**

**Cased pencils: Weighted-average f.o.b. prices and quantities of domestic and imported product 2<sup>1</sup> and margins of underselling/(overselling), by quarters, January 2014-December 2016**

Period	United States <sup>2</sup>		China		
	Price (per gross)	Quantity (thousand gross)	Price (per gross)	Quantity (thousand gross)	Margin (percent)
<b>2014:</b>					
Jan.-Mar.	***	***	***	***	***
Apr.-June	***	***	***	***	***
July-Sept.	***	***	***	***	***
Oct.-Dec.	***	***	***	***	***
<b>2015:</b>					
Jan.-Mar.	***	***	***	***	***
Apr.-June	***	***	***	***	***
July-Sept.	***	***	***	***	***
Oct.-Dec.	***	***	***	***	***
<b>2016:</b>					
Jan.-Mar.	***	***	***	***	***
Apr.-June	***	***	***	***	***
Jul.-Sep.	***	***	***	***	***
Oct.-Dec.	***	***	***	***	***

<sup>1</sup> Product 2: Commodity (economy) pencils – packaged for wholesale. Pricing data for some importers who sold the pencils with special eraser toppers or sharpeners were not used.

<sup>2</sup> Data reported for domestic product 2 is for standard No. 2 pencils \*\*\*.

Source: Compiled from data submitted in response to Commission questionnaires.

**Figure V-1**

**Cased pencils: Weighted-average prices and quantities of domestic and imported product 1, by quarters, January 2014-December 2016**

\* \* \* \* \*

**Figure V-2**

**Cased pencils: Weighted-average prices and quantities of domestic and imported product 2, by quarters, January 2014-December 2016**

\* \* \* \* \*

### Price trends

Table V-4 summarizes the price trends, by country and by product. As shown in the table, the price of Chinese product 1 decreased by \*\*\* percent from 2014-16. Import prices for product 2 increased by \*\*\* percent, and the price for U.S. product 2 increased by \*\*\* percent.

**Table V-4**

**Cased pencils: Summary of weighted-average f.o.b. prices for products 1-2 from the United States and China**

Item	Number of quarters	Low price (per gross)	High price (per gross)	Change in price <sup>1</sup> (percent)
<b>Product 1</b>				
United States	***	***	***	---
China	***	***	***	***
<b>Product 2</b>				
United States	***	***	***	***
China	***	***	***	***

<sup>1</sup> Percentage change from the first quarter in which data were available to the last quarter in which price data were available.

Source: Compiled from data submitted in response to Commission questionnaires.

### Price comparisons

As shown in table V-5, prices for cased pencils imported from China were below those for U.S.-produced product 1 in \*\*\* instances; the margin was \*\*\* percent, and were above those for U.S. cased pencils in three quarters, by margins of \*\*\* to \*\*\* percent. Prices for Chinese product 2 were lower than U.S.-produced product 2 in \*\*\*; margins of underselling ranged from \*\*\* to \*\*\* percent.<sup>6</sup>

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<sup>6</sup> Data for domestic product 2 were for pencils with \*\*\*.

**Table V-5**

**Cased pencils: Instances of underselling/overselling and the range and average of margins, by product, January 2014-December 2016**

China	Underselling				
	Number of quarters	Quantity <sup>1</sup> (1,000 gross)	Average margin (percent)	Margin range (percent)	
				Min	Max
Product 1	***	***	***	***	***
Product 2	***	***	***	***	***
Total	13	***	***	***	***
China	(Overselling)				
	Number of quarters	Quantity <sup>1</sup> (1,000 gross)	Average margin (percent)	Margin range (percent)	
				Min	Max
Product 1	***	***	***	***	***
Product 2	***	***	---	---	---
Total	3	***	***	***	***

<sup>1</sup> In the original investigations, subject imports from China were priced lower than domestic product in 41 of 42 comparisons, with underselling margins ranging from 9.0 to 60.1 percent. *Cased Pencils from China, Inv. Nos. 731-TA-669 (Final)*, USITC Publication 2837, December 1994, p. I-94.

Source: Compiled from data submitted in response to Commission questionnaires.

**Purchasers' perceptions of relative price trends**

Purchasers were asked how the prices of cased pencils from the United States had changed relative to the prices of cased pencils from China since 2011. Eleven purchasers reported no change in prices, and fourteen reported that U.S.-produced cased pencils are now relatively more expensive. Seven purchasers reported that prices for domestic and Chinese products changed by the same amount.



**APPENDIX A**

***FEDERAL REGISTER NOTICES***





The Commission makes available notices relevant to its investigations and reviews on its website, [www.usitc.gov](http://www.usitc.gov). In addition, the following tabulation presents, in chronological order, *Federal Register* notices issued by the Commission and Commerce during the current proceeding.

Citation	Title	Link
81 FR 34974 June 1, 2016	<i>Initiation of Five-Year (“Sunset”) Review</i>	<a href="https://www.gpo.gov/fdsys/pkg/FR-2016-06-01/pdf/2016-12905.pdf">https://www.gpo.gov/fdsys/pkg/FR-2016-06-01/pdf/2016-12905.pdf</a>
81 FR 35059 June 1, 2016	<i>Cased Pencils from China; Institution of a Five-Year Review</i>	<a href="https://www.gpo.gov/fdsys/pkg/FR-2016-06-01/pdf/2016-12433.pdf">https://www.gpo.gov/fdsys/pkg/FR-2016-06-01/pdf/2016-12433.pdf</a>
81 FR 69513 October 6, 2016	<i>Certain Cased Pencils From the People's Republic of China: Final Results of Expedited Sunset Review of the Antidumping Duty Order</i>	<a href="https://www.gpo.gov/fdsys/pkg/FR-2016-10-06/pdf/2016-24248.pdf">https://www.gpo.gov/fdsys/pkg/FR-2016-10-06/pdf/2016-24248.pdf</a>
82 FR 12467 March 3, 2017	<i>Cased Pencils From China; Notice of Commission Determination To Conduct a Full Five-Year Review and Scheduling of a Full Five-Year Review</i>	<a href="https://www.gpo.gov/fdsys/pkg/FR-2017-03-03/pdf/2017-04146.pdf">https://www.gpo.gov/fdsys/pkg/FR-2017-03-03/pdf/2017-04146.pdf</a>
82 FR 26118 June 6, 2017	<i>Cased Pencils From China; Cancellation of Hearing for Full Five-Year Review</i>	<a href="https://www.gpo.gov/fdsys/pkg/FR-2017-06-06/pdf/2017-11615.pdf">https://www.gpo.gov/fdsys/pkg/FR-2017-06-06/pdf/2017-11615.pdf</a>
<p>Note.—The press release announcing the Commission’s determinations concerning adequacy and the conduct of a full or expedited review can be found at <a href="https://usitc.gov/press_room/news_release/2016/er0906ll651.htm">https://usitc.gov/press_room/news_release/2016/er0906ll651.htm</a>. A summary of the Commission’s votes concerning adequacy and the conduct of a full or expedited review can be found at <a href="https://pubapps2.usitc.gov/sunset/caseProfSuppAttmnt/download/11871">https://pubapps2.usitc.gov/sunset/caseProfSuppAttmnt/download/11871</a>. The Commission’s explanation of its determinations can be found at <a href="https://pubapps2.usitc.gov/sunset/caseProfSuppAttmnt/download/11872">https://pubapps2.usitc.gov/sunset/caseProfSuppAttmnt/download/11872</a>.</p>		



**APPENDIX B**

**REQUESTS TO APPEAR AT HEARING AND REQUESTS FOR CONSIDERATION OF  
CANCELLATION OF HEARING**





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May 24, 2017

**Total Pages: 3**  
**Inv. No. 731-TA-669 (Fourth Review)**

**PUBLIC DOCUMENT**

**VIA ELECTRONIC FILING (EDIS System)**

The Honorable Lisa R. Barton  
Secretary  
U.S. International Trade Commission  
500 E Street, SW  
Washington, DC 20436

**Re: Inv. No. 731-TA-669 (Fourth Review), Certain Cased Pencils from the People's Republic of China: Request for cancellation of public hearing**

Dear Madam Secretary:

On behalf of Dixon Ticonderoga Company, I hereby request that the Commission cancel the public hearing currently scheduled for June 15, 2017 in the above-referenced investigation. I request cancellation for the following reasons: (1) Respondent parties declined to participate in this investigation. (2) Testimony at a hearing would merely reiterate points made in existing filings submitted to the Commission. (3) Avoiding the time and cost associated with a hearing will allow the parties and the Commission to conserve scarce resources.

However, should the Commission decide to hold the hearing, Dixon Ticonderoga Company intends to fully participate.

Thank you for your consideration.

Very truly yours,



---

Felicia L. Nowels  
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106 E. College Ave., Suite 1200  
Tallahassee, FL 32301  
Ph. (850) 224-9634  
Felicia.nowels@akerman.com

---

**PUBLIC CERTIFICATE OF SERVICE**

I hereby certify that a copy of the attached submission has been served via first-class mail, postage prepaid, on May 24, 2017, on the following persons:

*Counsel for Musgrave Pencil Co., Inc., General Pencil Co., Inc., and RoseMoon, Inc.:*

George W. Thompson  
Thompson & Associates, PLLC  
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---

Sheryl D. Rosen





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1250 Connecticut Avenue, NW, Suite 200

Washington, DC 20036

202.261.6585

May 25, 2017

Inv. No. 731-TA-669

§751(c) Sunset Review (Fourth Review)

Cased Pencils (People's Republic of China)

**PUBLIC DOCUMENT**

## **BY ELECTRONIC TRANSMISSION (EDIS)**

Hon. Lisa R. Barton

Secretary

U.S. International Trade Commission

500 E Street, S.W.

Washington, DC 20436

**Re: Inv. No. 731-TA-669, Section 751(c) Five-Year Sunset Review of the Antidumping Duty Order Against Cased Pencils from the People's Republic of China; Domestic Producers' Request Regarding Scheduled Hearing**

Dear Madame Secretary:

This letter is submitted on behalf of General Pencil Co., Inc., Musgrave Pencil Co., Inc. and RoseMoon, Inc., domestic producers of cased pencils (collectively, "the domestic producers"). For the reasons set forth below, these companies request that the Commission consider cancellation of the hearing in this review.

The schedule in this full review was set forth in the *Notice of Commission Determination to Conduct a Full Five-Year Review and Scheduling of a Full Five-Year Review*, 82 Fed. Reg. 12467 (March 3, 2017). It provided that parties that had not previously entered appearances in the review had 45 days in which to do so. The domestic producers, along with Dixon Ticonderoga Company, another domestic interested party, had previously entered appearances.

## THOMPSON & ASSOCIATES, PLLC

Hon. Lisa R. Barton  
May 25, 2017  
Page 2

No other interested party has done so. Accordingly, no respondents (importers, exporters or manufacturers) have participated in this review thus far, and the deadline for them to do so has now passed.

The March 3, 2017 *Notice* also provided for a hearing to be held on June 15, 2017. The domestic producers fully intend to appear at the hearing if it does take place, just as they have participated in every other step of this review.

Since there are and will not be any respondents participating, however, the domestic producers believe that holding a hearing in this circumstance would likely be superfluous. There will be no exchange of opposing views between parties. While a hearing does offer the Commissioners and staff assigned to an investigation with the opportunity to question witnesses and seek additional information, its value is diminished when only one side is present. Moreover, the domestic producers anticipate that their factual and legal arguments can be suitably presented in written testimony and the pre- and post-hearing briefs, and that any questions from the Commission can be posed in writing and responded to within the schedule set for post-hearing briefs.

For those reasons, the domestic producers believe that holding a hearing in this circumstance would impose a burden on the agency without a concomitant benefit.<sup>1</sup> Accordingly, they request that the Commission cancel the scheduled hearing in this review.

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<sup>1</sup> As a participant in numerous Title VII hearings, both as an attorney in the Commission's Office of General Counsel and in private practice, undersigned counsel is well aware of time and resource demands that the hearing process places on the agency and participating parties.

**THOMPSON & ASSOCIATES, PLLC**

Hon. Lisa R. Barton

May 25, 2017

Page 3

The Commission has taken this action in identical previous circumstances. In *Certain Tissue Paper Products from China; Cancellation of Hearing for Full Five-Year Review*, 81 Fed. Reg. 22632 (April 18, 2016), it cancelled the scheduled hearing based on the absence of respondent parties in the review and the domestic parties' stated willingness to submit written testimony and respond to Commission questions. As noted above, the domestic producers in this review have made the same commitment.

Please let me know whether you have any questions about this request.

Respectfully submitted,

/s/

George W. Thompson

**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing Letter (Public Document) was served upon the following party via the methods indicated below at the following addresses on this 25th day of May, 2017:

**BY FIRST CLASS UNITED STATES MAIL, POSTAGE PREPAID AND E-MAIL**  
**(felicia.nowels@akerman.com):**

Felicia L. Nowels, Esq.  
Akerman LLP  
106 E. College Ave. Suite 1200  
Tallahassee, FL 32301

/s/ George W. Thompson  
George W. Thompson

**APPENDIX C**  
**SUMMARY DATA**

Table C-1: Product: Summary data concerning the U.S. market ..... C-3

Table C-2: Product: Summary data concerning the U.S. market excluding the U.S. producer  
\*\*\* ..... C-5

All U.S. producers

**Table C-1**  
**Cased Pencils: Summary data concerning the U.S. market, 2014-16**

(Quantity=1,000 gross; Value=1,000 dollars; Unit values, unit labor costs, and unit expenses=dollars per gross; Period changes=percent--exceptions noted)

	Reported data			Period changes		
	Calendar year			Calendar year		
	2014	2015	2016	2014-16	2014-15	2015-16
<b>U.S. consumption quantity:</b>						
Amount.....	***	***	***	***	***	***
Producers' share (fn1).....	***	***	***	***	***	***
<b>Importers' share (fn1):</b>						
China subject.....	***	***	***	***	***	***
China nonsubject.....	***	***	***	***	***	***
All other sources.....	***	***	***	***	***	***
Nonsubject sources.....	***	***	***	***	***	***
Total imports.....	***	***	***	***	***	***
<b>U.S. consumption value:</b>						
Amount.....	***	***	***	***	***	***
Producers' share (fn1).....	***	***	***	***	***	***
<b>Importers' share (fn1):</b>						
China subject.....	***	***	***	***	***	***
China nonsubject.....	***	***	***	***	***	***
All other sources.....	***	***	***	***	***	***
Nonsubject sources.....	***	***	***	***	***	***
Total imports.....	***	***	***	***	***	***
<b>U.S. importers' U.S. shipments of Imports from:</b>						
<b>China subject:</b>						
Quantity.....	7,895	9,149	8,500	7.7	15.9	(7.1)
Value.....	60,290	71,713	73,456	21.8	18.9	2.4
Unit value.....	\$7.64	\$7.84	\$8.64	13.2	2.6	10.3
Ending inventory quantity.....	3,568	1,635	2,724	(23.7)	(54.2)	66.6
<b>China nonsubject:</b>						
Quantity.....	***	***	***	***	***	***
Value.....	***	***	***	***	***	***
Unit value.....	***	***	***	***	***	***
Ending inventory quantity.....	***	***	***	***	***	***
<b>All other sources:</b>						
Quantity.....	***	***	***	***	***	***
Value.....	***	***	***	***	***	***
Unit value.....	***	***	***	***	***	***
Ending inventory quantity.....	***	***	***	***	***	***
<b>Nonsubject sources</b>						
Quantity.....	12,975	14,370	20,272	56.2	10.8	41.1
Value.....	165,412	183,137	244,266	47.7	10.7	33.4
Unit value.....	\$12.75	\$12.74	\$12.05	(5.5)	(0.0)	(5.4)
Ending inventory quantity.....	2,044	2,054	3,790	85.4	0.5	84.5
<b>Total imports:</b>						
Quantity.....	20,870	23,520	28,772	37.9	12.7	22.3
Value.....	225,702	254,850	317,722	40.8	12.9	24.7
Unit value.....	\$10.81	\$10.84	\$11.04	2.1	0.2	1.9
Ending inventory quantity.....	5,612	3,689	6,514	16.1	(34.3)	76.6

Table continued on next page.

Table C-1--Continued  
 Cased Pencils: Summary data concerning the U.S. market, 2014-16

(Quantity=1,000 gross; Value=1,000 dollars; Unit values, unit labor costs, and unit expenses=dollars per gross; Period changes=percent--exceptions noted)

	Reported data			Period changes		
	2014	2015	2016	2014-16	2014-15	2015-16
U.S. producers:						
Average capacity quantity.....	***	***	***	***	***	***
Production quantity.....	***	***	***	***	***	***
Capacity utilization (fn1).....	***	***	***	***	***	***
U.S. shipments:						
Quantity.....	***	***	***	***	***	***
Value.....	***	***	***	***	***	***
Unit value.....	***	***	***	***	***	***
Export shipments:						
Quantity.....	***	***	***	***	***	***
Value.....	***	***	***	***	***	***
Unit value.....	***	***	***	***	***	***
Ending inventory quantity.....	***	***	***	***	***	***
Inventories/total shipments (fn1).....	***	***	***	***	***	***
Production workers.....	***	***	***	***	***	***
Hours worked (1,000s).....	***	***	***	***	***	***
Wages paid (\$1,000).....	***	***	***	***	***	***
Hourly wages.....	***	***	***	***	***	***
Productivity (gross per hour).....	***	***	***	***	***	***
Unit labor costs.....	***	***	***	***	***	***
Net Sales:						
Quantity.....	***	***	***	***	***	***
Value.....	***	***	***	***	***	***
Unit value.....	***	***	***	***	***	***
Cost of goods sold (COGS).....	***	***	***	***	***	***
Gross profit of (loss).....	***	***	***	***	***	***
SG&A expenses.....	***	***	***	***	***	***
Operating income or (loss).....	***	***	***	***	***	***
Net income.....	***	***	***	***	***	***
Capital expenditures.....	***	***	***	***	***	***
Unit COGS.....	***	***	***	***	***	***
Unit SG&A expenses.....	***	***	***	***	***	***
Unit operating income or (loss).....	***	***	***	***	***	***
Unit net income.....	***	***	***	***	***	***
COGS/sales (fn1).....	***	***	***	***	***	***
Operating income or (loss)/sales (fn1).....	***	***	***	***	***	***
Net income/sales (fn1).....	***	***	***	***	***	***

Notes:

fn1.--Reported data are in percent and period changes are in percentage points.

fn2.--Undefined.

Source: Compiled from data submitted in response to Commission questionnaires.



Related party exclusion

Table C-2

Cased Pencils: Summary data concerning the U.S. market excluding the U.S. producer \*\*\*, 2014-16

(Quantity=1,000 gross; Value=1,000 dollars; Unit values, unit labor costs, and unit expenses=dollars per gross; Period changes=percent--exceptions noted)

	Reported data			Period changes		
	2014	2015	2016	2014-16	2014-15	2015-16
<b>U.S. consumption quantity:</b>						
Amount.....	***	***	***	***	***	***
<b>Producers' share (fn1):</b>						
Included producer.....	***	***	***	***	***	***
Excluded producer.....	***	***	***	***	***	***
All U.S. producers.....	***	***	***	***	***	***
<b>Importers' share (fn1):</b>						
China subject.....	***	***	***	***	***	***
China nonsubject.....	***	***	***	***	***	***
All other sources.....	***	***	***	***	***	***
Nonsubject sources.....	***	***	***	***	***	***
Total imports.....	***	***	***	***	***	***
<b>U.S. consumption value:</b>						
Amount.....	***	***	***	***	***	***
<b>Producers' share (fn1):</b>						
Included producer.....	***	***	***	***	***	***
Excluded producer.....	***	***	***	***	***	***
All U.S. producers.....	***	***	***	***	***	***
<b>Importers' share (fn1):</b>						
China subject.....	***	***	***	***	***	***
China nonsubject.....	***	***	***	***	***	***
All other sources.....	***	***	***	***	***	***
Nonsubject sources.....	***	***	***	***	***	***
Total imports.....	***	***	***	***	***	***
<b>U.S. importers' U.S. shipments of Imports from:</b>						
<b>China subject:</b>						
Quantity.....	7,895	9,149	8,500	7.7	15.9	(7.1)
Value.....	60,290	71,713	73,456	21.8	18.9	2.4
Unit value.....	\$7.64	\$7.84	\$8.64	13.2	2.6	10.3
Ending inventory quantity.....	3,568	1,635	2,724	(23.7)	(54.2)	66.6
<b>China nonsubject:</b>						
Quantity.....	***	***	***	***	***	***
Value.....	***	***	***	***	***	***
Unit value.....	***	***	***	***	***	***
Ending inventory quantity.....	***	***	***	***	***	***
<b>All other sources:</b>						
Quantity.....	***	***	***	***	***	***
Value.....	***	***	***	***	***	***
Unit value.....	***	***	***	***	***	***
Ending inventory quantity.....	***	***	***	***	***	***
<b>Nonsubject sources</b>						
Quantity.....	12,975	14,370	20,272	56.2	10.8	41.1
Value.....	165,412	183,137	244,266	47.7	10.7	33.4
Unit value.....	\$12.75	\$12.74	\$12.05	(5.5)	(0.0)	(5.4)
Ending inventory quantity.....	2,044	2,054	3,790	85.4	0.5	84.5
<b>Total imports:</b>						
Quantity.....	20,870	23,520	28,772	37.9	12.7	22.3
Value.....	225,702	254,850	317,722	40.8	12.9	24.7
Unit value.....	\$10.81	\$10.84	\$11.04	2.1	0.2	1.9
Ending inventory quantity.....	5,612	3,689	6,514	16.1	(34.3)	76.6

Table continued on next page.

Table C-2--Continued

Cased Pencils: Summary data concerning the U.S. market excluding the U.S. producer \*\*\*, 2014-16

(Quantity=1,000 gross; Value=1,000 dollars; Unit values, unit labor costs, and unit expenses=dollars per gross; Period changes=percent--exceptions noted)

	Reported data			Period changes		
	Calendar year			Calendar year		
	2014	2015	2016	2014-16	2014-15	2015-16
U.S. producers:						
Average capacity quantity.....	***	***	***	***	***	***
Production quantity.....	***	***	***	***	***	***
Capacity utilization (fn1).....	***	***	***	***	***	***
U.S. shipments:						
Quantity.....	***	***	***	***	***	***
Value.....	***	***	***	***	***	***
Unit value.....	***	***	***	***	***	***
Export shipments:						
Quantity.....	***	***	***	***	***	***
Value.....	***	***	***	***	***	***
Unit value.....	***	***	***	***	***	***
Ending inventory quantity.....	***	***	***	***	***	***
Inventories/total shipments (fn1).....	***	***	***	***	***	***
Production workers.....	***	***	***	***	***	***
Hours worked (1,000s).....	***	***	***	***	***	***
Wages paid (\$1,000).....	***	***	***	***	***	***
Hourly wages.....	***	***	***	***	***	***
Productivity (gross per hour).....	***	***	***	***	***	***
Unit labor costs.....	***	***	***	***	***	***
Net Sales:						
Quantity.....	***	***	***	***	***	***
Value.....	***	***	***	***	***	***
Unit value.....	***	***	***	***	***	***
Cost of goods sold (COGS).....	***	***	***	***	***	***
Gross profit of (loss).....	***	***	***	***	***	***
SG&A expenses.....	***	***	***	***	***	***
Operating income or (loss).....	***	***	***	***	***	***
Net income.....	***	***	***	***	***	***
Capital expenditures.....	***	***	***	***	***	***
Unit COGS.....	***	***	***	***	***	***
Unit SG&A expenses.....	***	***	***	***	***	***
Unit operating income or (loss).....	***	***	***	***	***	***
Unit net income.....	***	***	***	***	***	***
COGS/sales (fn1).....	***	***	***	***	***	***
Operating income or (loss)/sales (fn1).....	***	***	***	***	***	***
Net income/sales (fn1).....	***	***	***	***	***	***

Notes:

fn1.--Reported data are in percent and period changes are in percentage points.

fn2.--Undefined.

Source: Compiled from data submitted in response to Commission questionnaires.

**APPENDIX D**

**COMMENTS ON THE EFFECTS OF THE ORDERS AND THE LIKELY EFFECTS OF  
REVOCATION**



**Table D-1**

**Cased Pencils: U.S. producers' responses to the effect of the orders**

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**Table D-2**

**Cased pencils: U.S. producers' responses to likely effect of revocation of the orders**

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**Table D-3**

**Cased pencils: U.S. importers' responses to the effect of the orders**

\* \* \* \* \*

**Table D-4**

**Cased Pencils: U.S. importers' responses to the impact of revocation of the orders**

\* \* \* \* \*

**Table D-5**

**Cased pencils: Foreign producers' responses to the effect of the orders**

\* \* \* \* \*

**Table D-6**

**Cased pencils: Foreign producers' responses to the impact of revocation of the orders**

\* \* \* \* \*

