



**Australian Government**  
**Australian Customs and**  
**Border Protection Service**

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**R E P O R T**

**INVESTIGATION INTO THE ALLEGED DUMPING OF  
ALUMINIUM ROAD WHEELS**

**EXPORTED FROM**

**THE PEOPLE'S REPUBLIC OF CHINA**

**VISIT REPORT - AUSTRALIAN INDUSTRY**

**ARROWCREST PTY LTD**

**THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED  
THEREIN WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY  
NOT REFLECT THE FINAL POSITION OF CUSTOMS AND BORDER  
PROTECTION**

**November 2011**

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**2 ABBREVIATIONS AND SHORTENED FORMS**

Arrowcrest	Arrowcrest Group Pty Ltd
ROH Automotive	ROH Automotive
ROH Wheels Australia	ROH Wheels Australia
China	People's Republic of China
LME	London Metal Exchange
LTi	long term incentives
ARW	Aluminium Road Wheels
SG&A expenses	selling, general and administration expenses
the Minister	Minister for Home Affairs
GUC	Goods under consideration
Toyota	Toyota Motor Corporation Australia Ltd
HSV	Holden Special Vehicles
Ford	Ford Motor Company
Holden	General Motors Holden

### 3 BACKGROUND

#### 3.1 The application

On 11 August 2011, Arrowcrest Group Pty Ltd (Arrowcrest) lodged an application requesting that the Minister for Home Affairs (the Minister) publish a dumping and countervailing duty notice in respect of aluminium road wheels<sup>1</sup> exported to Australia from the People's Republic of China (China).

The applicants subsequently provided further information in support of their application. As a result, Customs and Border Protection restarted the 20 day period for considering the application.

The investigation was initiated on 7 November 2011. Public notification of initiation of the investigation was made in *The Australian* on 7 November 2011. Australian Customs Dumping Notice No. 2011/54 provides further details of this investigation and is available at [www.customs.gov.au](http://www.customs.gov.au).

There have been no previous anti-dumping investigations involving aluminium road wheels.

#### 3.2 Purpose of visit

We explained to Arrowcrest that the purpose of our visit was to:

- obtain general information about the Australian market for aluminium road wheels;
- gain a greater understanding of the company's manufacturing, marketing, sales and distribution processes;
- verify information provided in the application relating to the company;
- obtain additional financial data to assist in the analysis of the claimed injury to the Australian industry;
- give the company the opportunity to provide any further comments or raise any further issues it believed relevant to the investigation; and
- discuss and gather data relevant to establishing an unsuppressed selling price.

#### 3.3 Contact details

Company:	Arrowcrest Group Pty Ltd
ABN	71007521280
Address:	34 Burleigh Avenue, Woodville North, South Australia, 5012
Telephone:	(08) 8468 4111
Fax:	(08) 8468 4101
Email:	bill.davidson@roh.com.au
Date of visit	7 to 11 November 2011

<sup>1</sup> Refer to the full description of the goods in section 5.1 of this report.

The following people were present at various stages of the interview.

Arrowcrest	Bill Davidson, Samantha Chua, Navin Prasad, John Maslen, Camillo Luciano
John O'Connor & Associates Pty Ltd	John O'Connor
Customs and Border Protection	Joanne Reid, Customs Director, Operations 2 David Turner, Customs Manager, Operations 2 Nicole Platt, Customs Manager, Operations 2

### 3.4 Investigation process and timeframes

We advised the company of the investigation process and timeframes as follows:

- the investigation period is 1 July 2010 to 30 June 2011;
- Customs and Border Protection will examine the Australian market from 1 July 2006 for the purpose of analysing the condition of the Australian industry;
- a preliminary affirmative determination may be made no earlier than 6 January 2012 - provisional measures may be imposed at the time of the preliminary affirmative determination or at any time after the preliminary affirmative determination has been made, but Customs and Border Protection would not make such a determination until it was satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice;
- a statement of essential facts will be placed on the public record by 27 February 2012 or such later date as the Minister allows - the statement of essential facts will set out the material findings of fact on which Customs and Border Protection intends to base its recommendations to the Minister and will invite interested parties to respond, within 20 days, to the issues raised (submissions received in response to the statement of essential facts will be considered when compiling the report and recommendations to the Minister);
- Customs and Border Protection's report to the Minister is due no later than 10 April 2012 - should the Minister approve an extension to the statement of essential facts this would mean that the due date of the final report would also be extended - all interested parties would be notified and an Australian Customs Dumping Notice (ACDN) would be issued should an extension be requested and approved.

We explained to Arrowcrest that we would prepare a report of our visit. The report will be provided to the company to review its factual accuracy and to identify those parts of the report it considered confidential. Following consultation about confidentiality, we would prepare a non-confidential version of the report for the public record.

#### 4 COMPANY BACKGROUND

The name of the company is Arrowcrest Group Pty Ltd ("Arrowcrest"). Arrowcrest is a private, proprietary limited company with the following trading divisions:

- ROH Automotive – steel and alloy wheel manufacturer located in South Australia and distributor of wheels to the original equipment market;
- ROH Wheels Australia – steel and alloy wheel distributor to the after-market sector – headquarters in South Australia; and
- ROH Automotive Products Philippines Incorporated – steel wheel manufacturer located in Metro Manila, Philippines and exporter of 4WD steel wheels to ROH Wheels Australia;

Arrowcrest also has an interest in John Shearer (Holdings) Pty Ltd which consists of the following group of companies:

- John Shearer Limited – agricultural machinery manufacturer located in South Australia;
- Kockums Industries (Australia) Pty Ltd – road-tanker manufacturer located in Victoria;
- Brownbuilt – steel shelving manufacturer with manufacturing operations in South Australia, Victoria and New South Wales;
- Flocast Australia Pty Ltd – continuous and centrifugally cast metal bars and bushes located in Victoria.

Arrowcrest stated that it focuses on selling aluminium road wheels to the domestic market. It exports small quantities of aluminium road wheels, but in 2010-11 exports accounted for less than 0.01% of the sales volume of the goods under consideration (GUC).

A summary of the total operating results for the Arrowcrest group for the month of September 2011 was provided (**confidential attachment INDUSTRY 3**) showing the contribution of each separate business to the Arrowcrest group sales and profit. Aluminium road wheels account for around 42% of Arrowcrest's total revenue.

Arrowcrest's financial year is July to June. Arrowcrest utilises CBA 2000 as its financial and management accounting system. CBA 2000 is a bespoke system that has been modified in-house to better suit Arrowcrest's requirements. Arrowcrest has been using CBA 2000 since 2000. Arrowcrest uses a stand alone system for production scheduling.

Arrowcrest uses standard absorption costing method in its accounting process. The accounts are audited by Ernst & Young.

**5 THE GOODS****5.1 The goods**

The GUC are aluminium road wheels for passenger motor vehicles, including wheels used for caravans and trailers, in diameters ranging from 13 inches to 22 inches.

For clarification, the goods include finished or semi-finished aluminium road wheels whether un-painted, painted, chrome plated, forged or with tyres and exclude aluminium wheels for go-carts and All-Terrain Vehicles.

**Tariff classification**

The GUC are classified to tariff sub-heading 8708.70.91 (statistical code 78) in Schedule 3 of the *Customs Tariff Act 1995*.

Customs and Border Protection's Trade Services Branch confirmed that the GUC are correctly classified to this tariff sub-heading.

**5.2 Like goods**

Arrowcrest submitted that:

- the physical characteristics of imported and locally produced aluminium road wheels are similar;
- the imported and locally produced aluminium road wheels are commercially alike as they are sold through the same distribution channels to common end users;
- the imported and locally produced aluminium road wheels are functionally alike as they have the same end-uses; and
- the imported and locally produced aluminium road wheels are manufactured in a similar manner.

Arrowcrest submitted that the primary raw material in the manufacture of aluminium road wheels is aluminium alloy. Arrowcrest submitted:

- Chinese manufacturers use A356 and A356.2 which is equivalent to the alloy used by Arrowcrest: CC601T6; and
- Chinese manufacturers buy bulk pre-alloy whereas Arrowcrest purchases primary aluminium and alloys on-site.

Arrowcrest also submitted that aluminium road wheels are subject to generic tests to guarantee quality. The tests are:

- Cornering test;
- Radial fatigue test; and
- Curb impact test.

Arrowcrest claimed that the number of returns of Chinese after-market aluminium road wheels indicates that Chinese wheels may not be subject to the same quality tests as Australian manufactured aluminium road wheels.

## **6 THE AUSTRALIAN INDUSTRY**

### **6.1 Introduction**

Arrowcrest stated that it accounts for the majority of the Australian production of aluminium road wheels. The application identified two aftermarket manufacturers of aluminium road wheels in Australia – Performance Wheels (Performance) and Mullins Wheels (Mullins), both located in South Australia. Arrowcrest submitted that Performance declined to participate in this application, and Mullins is believed to have ceased its manufacturing in 2009/2010 and is now importing aluminium road wheels from China.

### **6.2 Aluminium road wheel production process**

We were taken on a tour of Arrowcrest's aluminium road wheel manufacturing facility and observed the following production processes:

- Pure aluminium ingot is purchased and then melted on site. Alloying materials are then added;
- The molten alloy is then cleaned (fluxed) and degassed;
- Each batch of aluminium alloy is then subjected to spectrometry testing to ascertain metallurgy;
- Stream of molten alloy aluminium is laundered into a holding pot located underneath each low pressure die-casting machine, where it is kept molten;
- Die-casting in low pressure dies occurs to form the 'as-cast' wheel;
- Wheels are then hand fettled to remove any unwanted cosmetic marks from the die-casting process;
- The sprue is removed in a robot drilling cell, which are then sold as scrap as they contain steel and cannot be recycled back into the molten aluminium;
- The 'as-cast' wheels are loaded onto heat treatment trolleys and heat treated to achieve a specific mechanical hardness;
- Each wheel is then machined in a robot cell. This process includes 9 operations including leak testing and wheel balances test;
- Wheels are then loaded onto a paint line for cleaning and surface treatment;
- Robots apply powder coat primer paint, then colour coating and a final clear coating. Each coat is baked before moving onto the next stage;
- An additional step may be included for remachining a painted wheel, followed by washing and clear-coat painting to create a bright machined finish on the front face of the wheel;
- Each wheel is manually inspected following painting; and
- Wheels are then packed for original equipment market sale, bulk on pallets without cartons. After-market sale items are packed into individual cartons with nuts, decals and wheel caps.



Arrowcrest stated that during the investigation period 95% of its production of aluminium road wheels was done by the low pressure die-casting method and the other 5%, for low volume items, was done by gravity casting. Arrowcrest closed its gravity casting line in September 2011.

### **6.3 Capacity, employment and annual turnover**

Arrowcrest stated that production capacity depends upon the size of wheel being manufactured at any one time. It estimated capacity for production of 16 inch diameter wheels was around 880,000 wheels based on a 5 day working week or around 1.2 million wheels based on a 7 day working week. The estimated capacity for the production of 18 inch diameter wheels is around 800,000 based on a 5 day working week or 1.1 million wheels based on a 7 day working week. These figures are based on the assumption that the plant is operating at full capacity. Calculations showing the basis for the production capacity were provided by Arrowcrest. **(confidential attachment INDUSTRY 1)**

At present, due to the lack of demand, the plant is not operating at full capacity. Previously the plant operated on a 7 day working week due to the constant level of demand for its product, however this has been reduced to the current 5 day working week. Arrowcrest indicated that should demand for the product increase sufficiently, it was able to increase its maximum capacity output to meet any increase beyond its current levels.

Arrowcrest has room on its manufacturing site to increase staff numbers and equipment as required to meet whatever production demand was placed upon it.

Arrowcrest stated that it currently has about 127 employees involved in production of ARWs. This number has reduced from 147 employees in September 2011 due to the cutting of the afternoon shift of contractors because of delays in Toyota's latest product release. Of the 127 employees engaged in the production of its ARWs, 26 (or 20%) are contractors. Arrowcrest increases its workforce approximately 4 weeks before increases in production are required to meet existing contractual orders. Arrowcrest provided a monthly summary of personnel figures for the months August 2011 to October 2011. **(confidential attachment INDUSTRY 2)**

**7 AUSTRALIAN MARKET****7.1 Market sectors**

There are two major distribution channels for aluminium road wheels: the original equipment market (OEM) sector and the wholesale after-market (AM) sector.

Arrowcrest has two divisions - ROH Automotive and ROH Wheels Australia. ROH Automotive has two profit centres within it - Steel Products and Light Metal (aluminium road wheels). The Light Metal division manufactures Arrowcrest's aluminium road wheels for:

- Direct distribution to Arrowcrest's original equipment market customers including Toyota Motor Corporation Australia Ltd (Toyota) and Holden Special Vehicles (HSV); and
- Transfer to ROH Wheels Australia for distribution to after-market customers.

ROH Wheels Australia operates five branch warehouses, one in each capital city, excluding Tasmania and the Northern Territory, from which it wholesales Arrowcrest's after-market aluminium road wheels to the tyre retail industry.

Arrowcrest advised that the Australian industry and imports from China, and other countries, compete for sales to the original equipment market and wholesale after-market sectors of the Australian aluminium road wheel market.

**7.1.1 Original Equipment Market sector**

Arrowcrest stated that the Australian original equipment market sector consists of the three Australian passenger motor vehicle manufacturers: Toyota, General Motors Holden (Holden) and Ford Motor Company (Ford), together with their performance brands Holden Special Vehicles (HSV) and Ford Performance Vehicles (FPV). Toyota's performance brand (TRD) was discontinued in 2009.

Arrowcrest stated that ROH Automotive currently supplies original equipment market aluminium road wheels to Toyota and to HSV.

Arrowcrest claimed that Holden and Ford are importing their original equipment market aluminium road wheels from China and possibly from Thailand.

Arrowcrest stated that the sales process in the original equipment market sector is driven by the motor vehicle manufacturers i.e.

- The design of the aluminium road wheel may be predetermined by the motor vehicle manufacturer (specifically the outer appearance) or alternatively the aluminium road wheel manufacturer may be given design freedom and can develop an aluminium road wheel to suit the vehicle. Generally the motor vehicle manufacturer will collaborate with the aluminium road wheel manufacturer to develop a new design; and
- it is usual for a wheel production contract to be awarded up to two years prior to the production phase of a new model vehicle. The typical life-cycle of a model is between two and five years; and

- competition between Australian wheel manufacturers and Chinese imports is essentially price driven. Arrowcrest advised that it has been required to compete with dumped and subsidised prices for aluminium road wheels from China in a bid to secure long term contracts with the Australian original equipment markets.

### **7.1.2 Aftermarket sector**

Arrowcrest advised that:

- locally produced and imported after-market aluminium road wheels compete at the same levels of trade and the predominant source of imported aluminium road wheels is China;
- aluminium road wheels sold into the after-market sector of the market are essentially designed by the aluminium road wheel manufacturers, at times in collaboration with their customers;
- The various distribution channels in the Australian aftermarket are via wheel importers, tyre wholesalers, tyre retailers, PMV Customer Service Divisions and retailers of motor vehicles, and manufacturers of trailer vehicles; and
- in the after-market sector price is the determining factor in the consumer's purchasing decision. The after-market sector is over serviced by imported brands with importers competing with importers that are driving prices down.

Arrowcrest advised that most major after-market retailers establish what is termed "preferred supplier" arrangements with ARW suppliers. This results in the supplier's name being included in the retailer's catalogue, and may involve the provision of rebates, marketing funds and other incentives. Once a preferred supplier relationship is established, price negotiations may only take place once a year.

## **7.2 Market size**

Aluminium road wheels are used in passenger motor vehicles and trailer vehicles including caravans and trailers.

There exist no natural seasonal fluctuations in demand for aluminium road wheels.

Arrowcrest claimed that 2003 was the turning point in the Australian market when imports from China began to increase significantly.

Arrowcrest stated that in the last 5 to 6 years the number of retail stores selling after-market wheels has doubled.

## **7.3 Distribution arrangements**

Arrowcrest advised that it:

- distributes directly to its Aftermarket customers on a Just-In-Time basis using national couriers. Stock is couriered to customers and large supplier chains as requested within several hours of the request being made. Retailers generally request stock as they receive customer orders;

- only distributes bulk orders to its customers for special promotional events run by individual retailers. Arrowcrest advised that retailers no longer keep large supplies of stock on their own premises;
- holds up to two days stock on site for its OEM customers;
- Is not always able to recover freight costs from its Aftermarket customers.

Arrowcrest provided copies of invoices on the day of the verification visit showing freight being charged as a separate item in sales where it was able to recover freight costs from the customer. We cross referenced these invoices to Appendix A4 and confirmed that the cost of freight was not included in Appendix A4. (**confidential attachment SALES 1**). We also traced freight invoices from TOLL, the carrier, back to the customer invoice to confirm the totals.

**8 SALES****8.1 Introduction**

Arrowcrest provided a line by line sales listing for all models under consideration for the period 1 April 2010 to 30 June 2011 in the form of Appendix A4 to the application. At the visit we sought to reconcile this information for the period to source documents to establish its relevance and accuracy and to audited financial accounts to establish its completeness.

**8.1.1 Pricing****Sales price**

When setting the price of their products, Arrowcrest takes into consideration the following factors:

- Weight of the wheel and the amount of aluminium contained in it;
- The extra processes required for each design, for example extra machining work; and
- Level of demand for the product.

In relation to sales to the original equipment market, price changes are based on the cost model agreed at the outset of the contract.

Arrowcrest stated that there is a high degree of price transparency in the OEM market between suppliers and customers. For example, Toyota requests copies of Arrowcrest's management accounts and analyses its costs in detail during the course of agreeing to a contract for a particular model.

Arrowcrest stated that when Mullins Wheels and Performance Wheels were also significant members of the Australian industry, the Australian industry was the price setter in the market. Now the market is over-served by imports, the importers have become the price setters.

**After-market sales**

Arrowcrest advised:


- Sales to the after-market are negotiated over the phone 70% of the time. Sales staff are provided with a price list which they use as a guide only. Sales staff have the flexibility to negotiate prices directly with customers. Customers call to confirm price and stock availability;
- it does not currently have any established volume discount arrangements with any of its customers;
- it generally deals in low volume transactions;
- tyre stores no longer hold their own stock on hand. They operate by pre-selling the product and then ordering it in from the manufacturer or importer; and

- Sales recorded in Appendix A4 as cash sales are to customers that do not have an account with Arrowcrest. An example of the recording of these sales are shown in **confidential attachment SALES 11**

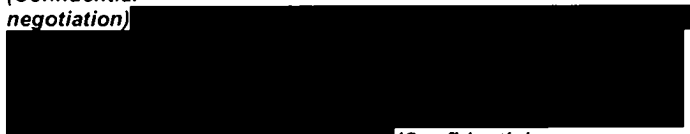
**Original equipment market sales**

Arrowcrest advised that sales to the original equipment market are contract based:

- Sales to Toyota:
  - Arrowcrest's contract negotiations with Toyota are linked to the roll out of new models of the Camry and Aurion;

- 

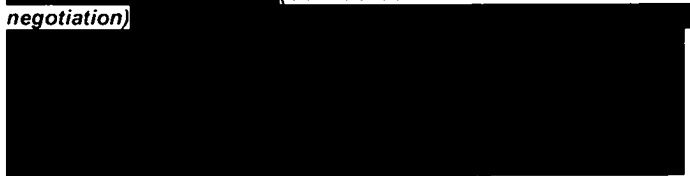
(Confidential  
negotiation)



(Confidential  
negotiation)



(Confidential  
negotiation)



(Confidential  
negotiation)



(Confidential negotiation) Arrowcrest carries a minimum of 2 days stock for Toyota.

- Sales to HSV:

- 

[REDACTED] (Confidential negotiation)

[REDACTED] (Confidential negotiation)

[REDACTED] (Confidential negotiation) Arrowcrest provided copies of email correspondence between itself and HSV regarding price quotes for particular models and subsequent price adjustments due to volume reductions by HSV (confidential attachment SALES 4)

The price to all other customers is based either on the cost of manufacture including consideration of the spot rate for primary aluminium or, more commonly, on a price that is negotiated typically having regard to a Chinese import price.

#### 8.1.2 Rebates and discounts

Arrowcrest advised that they do not provide discounts or rebates for bulk orders or early payment. Arrowcrest submitted that it has four aftermarket customers who claim a rebate each month upon payment of their invoice. They are as follows:

[REDACTED]	[REDACTED] %
[REDACTED]	[REDACTED] %
[REDACTED]	[REDACTED] %
[REDACTED]	[REDACTED] %

We were provided copies of monthly invoice totals and traced payments received by each of the above groups, to confirm the total of rebates obtained by each of these customers, through to Arrowcrest's bank statements (confidential attachment SALES 5).

#### 8.1.3 Ordering, invoicing and delivery arrangements

Arrowcrest has warehousing facilities and sales staff in the following states:

	No. of sales staff
South Australia	2
Victoria	1
NSW	1
Queensland	2
Western Australia	2

Sales staff are responsible for managing the warehouses and dispatching orders.

Arrowcrest uses transport companies to freight its products all over Australia.

Arrowcrest explained that aftermarket sales are made to individual stores who place separate orders with Arrowcrest. The goods are delivered to the customer, shipped within hours of the order being placed. Either the purchasing store or the group's head office would be invoiced for the goods. Most accounts were paid monthly by their larger customers.

Arrowcrest noted that it has been forced to cut its aftermarket staffing levels in a bid to survive and the loss of its business to ARWs imported from China has occurred since 2003 at a time when Arrowcrest maintained much higher staffing levels in its aftermarket branches.

#### 8.1.4 Freight

Arrowcrest submitted during the visit that:

- [REDACTED] (terms of sale) [REDACTED] (terms of sale) [REDACTED] Sales to after-market customers have in the past included freight with no attempt made by Arrowcrest to recover freight costs. Due to the general decrease in the selling price of wheels, sales staff are now trying to recover freight costs in the price. Arrowcrest stated that all metro sales are at a delivered price whereas country sales are ex-works.

Arrowcrest stated that freight is not a significant component of the price; it averages around \$[REDACTED] to \$[REDACTED] for a set of wheels.

The data provided in Appendix A4 are all ex-works prices. Arrowcrest provided evidence of this by selecting two invoices for customers that were known to have freight charged to them, and demonstrating that the freight charge was not included in the Appendix A4 price. (**confidential attachment SALES 1**)

## 8.2 Verification of domestic sales

### 8.2.1 Verification to financial accounts (completeness)

We sought to verify the Appendix 4 data to the financial accounts to check for completeness. We firstly sought to reconcile the Appendix 4 data to Arrowcrest's management accounts. Arrowcrest has separate profit centres for the manufacture of ARWs and sale to the original equipment market (Light Metals) and the sale and distribution of ARWs to the after-market (Wheels Australia). Arrowcrest stated that it prepares monthly financial reports. These reports include a profit and loss statement for each profit centre, which included monthly and year to date figures for the current financial year. A copy of this report for the period July 2010 to June 2011 was provided by Arrowcrest (**confidential attachment SALES 6**).

Arrowcrest provided a printout of its 2011 sales figures broken down by production type (**confidential attachment SALES 7**). The year to date total on this report was cross checked to the management account figure provided on confidential attachment SALES 6. The minor difference in the total year to date figures were explained by Arrowcrest to be due to the inclusion of cap sales and trim sales in the total figure.



Arrowcrest provided a printout of ROH Wheels Australia Sales by stock group for the 2011 financial year (**confidential attachment SALES 8**). Workings detailing adjustments to the ledger figure were provided.

Arrowcrest advised that its 2010-11 audited financial report had not been finalised but would be provided as soon as it was signed off by the auditors. The auditors however provided copies of the profit and loss statements prepared for the Light Metals and Wheels Australia profit centres that they stated were relied on by the auditors during the audit process (**confidential attachment SALES 9**). We checked that the profit and loss statements supplied by the auditors were the same as those included in the monthly financial reports referred to above. We were therefore satisfied that the internal profit and loss statements for 2010-11 were reliable.

We reconciled sales revenue for 2010-11 in Appendix A4 and Appendix A6 with the management accounts. We are satisfied that the sales data is complete.

Confidential attachment SALES 7 is a break down of sales by production category for the month of June 2011 and year to date totals, this was cross matched to Management Accounts by month print out for 2011 at confidential attachment SALES 6.

### 8.2.2 Verification to source documents (relevance and accuracy)

Prior to the visit we selected the following transactions from Appendix A4 for verification to source documents.

#### ROH Automotive

Invoice No.	Invoice Date
92590	07/04/2010
95278	01/03/2011
92587	06/04/2010
94837	14/12/2010
92609	12/04/2010
92999	14/05/2010

#### ROH Wheels Australia

360151	31/05/2010
358455	01/04/2010
361082	30/06/2010
361082	30/06/2010
366356	13/12/2010
245874	21/12/2010

For these sales Arrowcrest provided the purchase order where applicable, invoice, remittance advice and corresponding bank statement showing payment (**confidential attachment SALES 10**). We found that the invoices listed the prices exclusive of any rebates claimed by the 4 larger aftermarket customers.

We found that invoice 361082 included two lines on the one order that displayed in Appendix A4 as two separate entries. All invoices provided confirmed the quantity and value as being correct. Additional invoices from the Appendix A4 were selected to examine freight costs and we confirmed that any freight costs being passed on to the consumer were not included in the figures provided in Appendix A4 of the application (**confidential attachment SALES 1**).

We also found that some transactions in Appendix A4 had negative volumes or no invoice value. Arrowcrest explained that negative volumes and values related to returns or cancelled orders. We obtained copies of invoice number 245874 (**confidential attachment SALES 10**) which provided an example of a negative amount recorded in Appendix A4 due to a cancelled order and cross referenced this to the corresponding original invoice and order. Several of the invoices obtained in the list above also showed lines recording zero dollar figures but positive values in volumes of items sold. Arrowcrest explained that these were usually for the supply of Caps and Nuts in addition to their order at no charge to the customer.

We also found a number of transactions listed for large negative or positive values. However, we found that these transactions reconciled with another either positive or negative transaction and we therefore concluded that these were invoicing errors that were subsequently corrected.

Total sales figures recorded in Appendix A4 were cross checked to Appendix A6 to confirm the continuity of information provided by Arrowcrest. An immaterial variance (<0.01%) was detected between the volume and value totals for the period April 2010 to March 2011. This variance was explored at the verification visit. Arrowcrest explained that there had been some minor amendments to some figures in Appendix A6 since it had initially been provided.

We are satisfied that the sales data is reasonably relevant, reliable and accurate.

### 8.3 Conclusion

We have verified the sales data contained in the application to source documents and to draft financial statements and are satisfied that the data is accurate, relevant and complete.

## **9 COST TO MAKE AND SELL**

We explained to Arrowcrest that we needed to be satisfied that the data submitted in the application was complete, relevant and accurate. We also explained that the company would have to demonstrate that the data could be verified and traced to financial statements and to source documents.

### **9.1 Costing methodology**

Arrowcrest manufactures different models of aluminium road wheels, each with different material requirements. The basic manufacturing process remains the same for each model created. There are additional processes required for different cosmetic finishes of the product, however the initial casting process is the same for all models.

Arrowcrest provided a detailed profit and loss statement printed from their accounting system for the month ended 30 June 2011, this included figures for the month of June 2011 and the financial year to date. (**confidential attachment COSTS 4**). Arrowcrest provided us with a worksheet showing how it had included each of the costs from the profit and loss statement in Appendix A6 (**confidential attachment COSTS 7**).

Arrowcrest stated that it is not possible to provide a separate cost to manufacture for each diameter of wheel from its management accounts, but it does maintain standard cost bills of materials for each of its product part numbers. The amount of aluminium used in each size is not the only impact on cost. For example, larger wheels take longer to cast and because of their volume they also take longer to paint because less wheels can fit on the paint line, compared to smaller wheels.

### **9.2 Production volumes**

Production volumes are recorded as 'achievements' daily over the course of the manufacturing process. As each wheel moves through the different stages of production, it is recorded in CBA and moved through the accounting system until it is finally recorded upon completion at total cost with materials being drawn down from inventory stocks. We observed the process of recording of a day's achievements during the visit.

Arrowcrest provided examples of the recording process and showed how all items were counted and tracked over the entire production process. A copy of an example of the bill of materials for a product is provided at **confidential attachment COSTS 1**.

There is a constant turnover of materials with deliveries of primary aluminium being received twice a week. Arrowcrest provided a general ledger print out of the material usage variance account for the month of June 2011. (**confidential attachment COSTS 7**). We cross checked amounts by reviewing purchase documents for the preceding two months being April and May 2011.

A report detailing production figures for each model was provided for the period April 2011 to June 2011 (**confidential attachment COSTS 3**). Random figures on this

report were cross checked to the CBA accounting system which matched figures provided in Appendix A6.

### 9.3 Verification of cost to make and sell

#### 9.3.1 Verification to financial accounts (completeness)

Arrowcrest advised that its 2010-11 audited financial reports had not been finalised. As discussed at section 8.2.1 above we received correspondence from Arrowcrest's auditors to satisfy us that the management accounts could be relied on for the purpose of verification.

#### Raw materials

Aluminium makes up around 48% of the total cost to make ARWs. We focussed our verification on verifying the raw material costs in Appendix A6.

Arrowcrest explained that the 'Cost of Sales' account in the management accounts is comprised of a number of different accounts. Within this account direct labour and overheads are readily identifiable, but raw material costs are made up of a number of entries to capture standard costs, material issued to production, variances etc. Arrowcrest calculated the raw material costs in Appendix A6 by deducting from the total cost of sales the separable costs for direct labour and overheads. Adjustments were then made for scrap sales and scrap losses. All adjustments to stock figures are recorded through the one material variance account in the CBA system.

We approached the verification by understanding and verifying the standard costs, and then analysing the variances (which have their own ledger accounts). To assist in this process Arrowcrest provided a Cost of Sales general ledger printout for the month of June 2011 (**confidential attachment COST 5**). Figures within the report were selected and traced through the accounting system and original entries to confirm the accuracy of the report.

Arrowcrest maintains a bill of materials account for each model which identifies the quantities of the various raw materials and the various production processes involved in the creation of each product. Examples of the bill of materials for two different types of finishes were provided to demonstrate the different costs involved in differing processes (**confidential attachment COSTS 1**).

The standard cost of primary aluminium in the bill of materials is updated in the CBA accounting system each time a new aluminium price contract is negotiated [REDACTED]. This process involves obtaining a quote from ALCOA (the primary aluminium supplier) and an indicative hedge rate from the NAB [REDACTED] [process of price negotiation]. Arrowcrest then enters the contracted price of primary aluminium plus a margin (which was 4.6% in the September to October 2011 contract period to cover variances) as the standard cost in the bill of materials.

Arrowcrest explained it signs a tonnage commitment (forward contract) with ALCOA up to a maximum of [REDACTED] MT [REDACTED] [terms of contract with ALCOA]. ALCOA invoices Arrowcrest for each delivery based on LME

on the date of delivery. At the end of the month ALCOA charges Arrowcrest for the total volume of primary aluminium delivered based on the average LME over the month. Examples of month end invoicing and interim delivery invoices were provided by Arrowcrest. (**confidential attachment COSTS 2**).

Arrowcrest provided a copy of the correspondence and calculations of aluminium prices [REDACTED] over the last 12 months, including provision of hedging rates from the NAB and price quotes from ALCOA (**confidential attachment SALES 2**). We verified the standard aluminium cost in the Bill of Materials in September 2011 [REDACTED].

#### *Material price variance*

Arrowcrest explained that once the standard price for aluminium had been set [REDACTED] [basis of aluminium price] it is entered into the accounting system and remains at that set value until the next aluminium contract price is negotiated. Arrowcrest provided copies of bill of material standard general ledger printouts for numerous models recorded in the system showing the standard cost of aluminium remained constant for each model in accordance with the most recently recorded aluminium contract price [REDACTED]. (**confidential attachment COSTS 8**).

Variances in the actual cost of non-contracted aluminium are recorded in the accounting system as the material is used and drawn down against inventory.

[REDACTED] [Explanation of variances]

[REDACTED] [Explanation of variances] price variances for non-contract tonnages arise due to US dollar exchange rate and LME changes over the course of the month.

When calculating the total cost of non-contracted aluminium for the month, ALCOA (the supplier of aluminium) applies the average LME price for the month against the total volume of materials purchased for the month and invoices Arrowcrest accordingly. Copies of invoices for the month showing this process were provided to Customs (**confidential attachment COSTS 2**). At the time of delivery during the month ALCOA provides a delivery receipt confirming the quantity provided and an estimate of cost based on the daily price but do not finalise invoicing until month end.

This process results in variances arising from the standard cost of materials versus the average spot buy price for the month and variances caused by fluctuations in exchange rates.

Arrowcrest provided general ledger printouts of the material price variance account for the month of June 2011 together with supporting documentation showing calculations of variance due to exchange rates and paint prices. (**confidential attachment COSTS 6**)

We traced the material price variance recorded in the profit and loss statement to the general ledger (**confidential attachment COSTS 6**). We asked Arrowcrest to

provide supporting documentation for the amounts recorded in the material price variance account for the month of June 2011. They provided detailed workings of their calculation of the price variance for the month of June 2011. These calculations took into consideration the stock value recorded in the inventory system, total purchases of raw aluminium for the month and variances due to exchange rates.

In verifying the purchase price variance it was apparent that the material price variance for non-contracted tonnages is based on total purchases during the month rather than on material used. Because Arrowcrest has a short lead time on the purchase and usage of aluminium such that purchases during a month closely align with usage, we considered this methodology resulted in a reasonable reflection of the actual cost of aluminium used.

Arrowcrest provided source document evidence of the credit received from PPG Industries for adjustments for May deliveries which was not received by Arrowcrest until August 2011. The amount of this credit was recorded as a provision for paint price credit in June 2011. (**confidential attachment COSTS 19**).

#### *Material usage variance*

Primary aluminium and paint are the two main ingredients in the production of an aluminium road wheel. A monthly stocktake of primary aluminium and paint is done to update stock holdings in the CBA system to ensure accurate recording.

Arrowcrest explained that all stock adjustments are captured in the stock clearing account as they occur. This account is analysed at the end of each month to determine what the adjustments relate to.

We traced material usage variance recorded in the profit and loss statement for ROHA (Light Metal) division for June 2011 to the general ledger (**confidential attachment COSTS 7**). Arrowcrest advised that entries to this account usually arise by general journal entry, which arises from fluctuations recorded by the weekly stocktake. Arrowcrest provided a working paper showing the breakdown of the amount for June 2011 (**confidential attachment COSTS 20**).

Arrowcrest advised that usage of swarf is not recorded in the Bill of Materials. This means that each month an adjustment has to be made to reduce the quantity of primary aluminium used by the amount of recycled material used. This process was reflected in **confidential attachment COSTS 20**. Arrowcrest provided a worksheet summarising the calculation of aluminium ingot usage variance for the month of June 2011. (**confidential attachment COSTS 16**) The worksheet shows favourable pure aluminium ingot usage in June 2011. The balancing figure is wastage. Arrowcrest holds transfer dockets completed by the melt shop operators to verify the tonnages recorded in the calculation.

#### *Overall conclusion – raw materials*

As a cross check of the reasonableness of the raw material costs included in Appendix A6, we calculated the cost of material used by using the formula opening stock, plus purchases, less closing stock. These figures were verified by sighting the values for each quarter of the investigation period in the accounting system. The

resulting value of material used during the investigation period closely approximated the total costs recorded in Appendix A6, taking into account that paint was not included in this calculation. We were satisfied that Appendix A6 reasonably reflected the cost of raw material.

#### **Other direct costs**

We traced direct labour and variable overheads from Appendix A6 to the work sheets, and therefore the management accounts.

Arrowcrest provided a summary of the management personnel and the division of labour between the ROH Automotive, ROH Wheels Australia and ROH Steel (**confidential attachment COSTS 9**). A company phone list was also provided showing all permanent staff and the sections of the business they are recorded against (**confidential attachment COSTS 10**). We were satisfied that the allocations were reasonable.

#### **Selling, General & Administrative costs**

##### *ROH Light Metal*

Arrowcrest allocated water, gas and electricity expenses between the ARW and steel wheel divisions based on actual usage percentages calculated for each of the manufacturing areas of the plant from meter readings taken by their engineers. Arrowcrest provided copies of gas bills from AGL for the periods April to June 2011 and the corresponding meter usage readings and percentage calculations for each division (**confidential attachment COSTS 11**). Electricity bills from TRU Energy for the April to June 2011 period were also provided together with meter readings and percentage calculations (**confidential attachment COSTS 12**). A copy of the water bill from SA Water was provided for the period 30 March 2011 to 30 June 2011 together with a spreadsheet of water readings and percentage calculations (**confidential attachment COSTS 13**). We verified that the electricity and gas charged to the Light Metal division for the April to June 2011 period was based on the percentage allocations shown in **confidential attachments COSTS 11 and COSTS 12**.

Whilst consumable utilities allocations are based on actual use percentages calculated by the business the allocation of rates and taxes is set by the Arrowcrest board. Arrowcrest provided a copy of a memorandum dated 11 February 2009 providing for the percentage split of rates and taxes going forward. (**confidential attachment COSTS 14**).

Insurance is allocated based on the insurable plant and equipment of the respective Light Metal and steel wheel divisions.

We reconciled the total Light Metal SG&A expenses from Appendix 6 to the Light Metal management accounts for the year ended 30 June 2011.

Arrowcrest stated that certain expenses in the profit and loss statement have been excluded from Appendix 6. These expenses are:

[REDACTED]  
(R&D offsets); and

[REDACTED] (Inter-company offsets). Arrowcrest stated that the reason for their exclusion is that they are items of revenue and expense not related to the production and sale of ARWs. After discussion of these items with Arrowcrest we agree that the items should be excluded from the cost to make and sell ARWs.

#### *ROH Wheels Australia*

The Appendix A6 costs for Wheels Australia comprise only SG&A amounts as the wheels it sells to the after-market are 'purchased' from Light Metals. The transfer price is for internal management reporting only and the sale and purchase has been ignored for the purpose of determining and verifying Arrowcrest's revenue and costs.

Arrowcrest provided a quarterly profit and loss account from CBA 2000 (**confidential attachment COSTS 17**). Because the Wheels Australia profit centre performs some activities not related to ARWs, for example sales of steel wheels, an allocation of the profit and loss account was required. A worksheet linking the amounts from the profit and loss account to the amounts recorded in Appendix A6 (**confidential attachment COSTS 18**).

Arrowcrest explained how each of the items was allocated between ARWs and other items. The allocation was broadly based on the percentage contribution that each area made to the total gross profit of Wheels Australia.

During the verification we discovered an error in the allocation of depreciation expense that resulted in an over-allocation of depreciation to ARWs. Arrowcrest corrected the allocation worksheet and provided an updated Appendix A6. (**confidential attachment COSTS 21**).

Following the revision we were satisfied that the expenses from Wheels Australia had been appropriately allocated, and the amounts in Appendix A6 reasonably reflect the cost to manufacture ARWs.

#### **Corporate Charge**

Arrowcrest's corporate overheads are allocated to each division of Arrowcrest monthly. The corporate overheads comprise the general manager's and other management salaries, costs for the financial controller's services, chairman's costs together with other general administration costs such as banking, legal and insurance. Some charges are capable of being directly allocated, such as the general manager's salary. Other expenses are allocated based on a number of measures, but are broadly revenue based.

Arrowcrest provided a detailed profit and loss statement for the month ended 30 June 2010 and 30 June 2011 providing a year to date figure for corporate charges together with a worksheet showing the allocation of the total corporate charge to each of the production groups (**confidential attachment COSTS 15**). We compared the annual



corporate charge from this statement to the corporate charge included in Appendix A6 and found that they matched.

### **9.3.2 Verification to source documents (relevance and accuracy)**

In preparing Appendix A6, Arrowcrest calculated costs using the bill of materials adjusted for labour and overheads.

#### **Aluminium**

Arrowcrest receives shipments of primary aluminium twice a week.

ALCOA delivers primary aluminium twice a week to Arrowcrest's manufacturing facility. ALCOA invoices Arrowcrest for all non-contracted deliveries made in the preceding month based on average LME price for aluminium multiplied by the actual quantity delivered. Invoices are in USD.

Arrowcrest stated that it has hedge contracts with its bank when negotiating its aluminium price and tonnage contracts with Toyota and setting the standard cost within its accounting system.

As discussed above, during the course of verifying the completeness of raw material costs we obtained copies of invoices for aluminium purchases and hedge agreements and traced these through to the financial system to verify accuracy.

#### **Other materials**

Arrowcrest manufactures its own aluminium alloy. It purchases the raw aluminium and then adds the required components to create the alloy for manufacturing purposes.

#### **Labour, overheads and SG&A expenses**

As discussed above, during the course of verifying the completeness of SG&A expenses we obtained copies of invoices for electricity and gas and verified the accuracy of these expenses as recorded in the financial system.

Given the relatively low value of these items in proportion to the direct costs, and that we did not identify any areas during the verification that caused us to doubt the accuracy of costs, we have accepted the accuracy of these costs as reported in Appendix A6.

## **9.4 Conclusion**

We have verified the cost data provided in Appendix A6. We are satisfied the data is complete, accurate and reliable and only includes costs in respect of domestic sales of the aluminium road wheels the subject of the investigation goods.

## 10 ECONOMIC CONDITION OF THE INDUSTRY

### 10.1 The applicant's injury claims

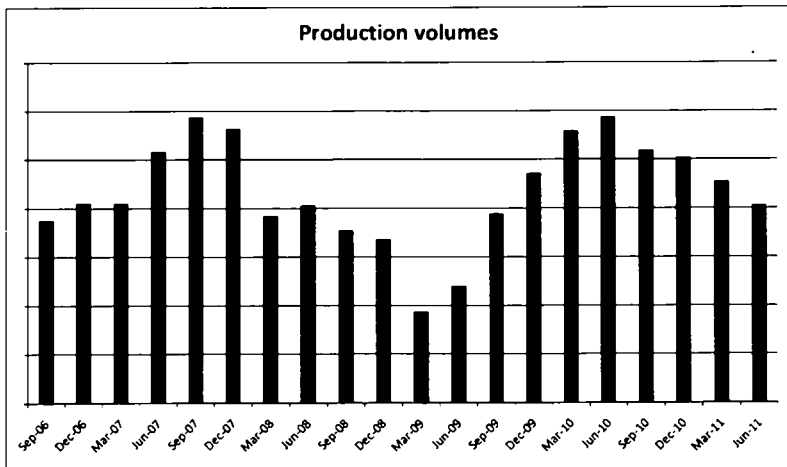
The applicant claims that the Australian industry has suffered material injury caused by aluminium road wheels exported to Australia from China at dumped and subsidised prices through:

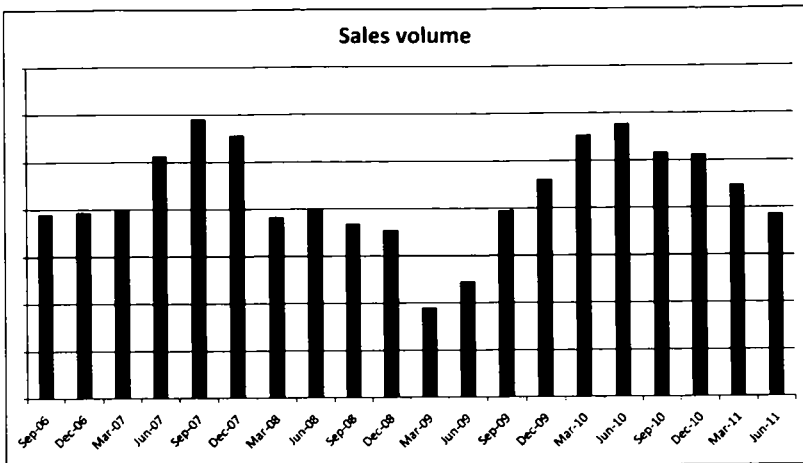
- lost sales volumes;
- lost market share;
- lost revenues;
- price depression;
- price suppression;
- price undercutting;
- lost profits and profitability;
- reduced return on investment;
- reduced employment; and
- reduced re-investment in the industry..

Arrowcrest claims that material injury commenced from around 2003.

### 10.2 Volume effects

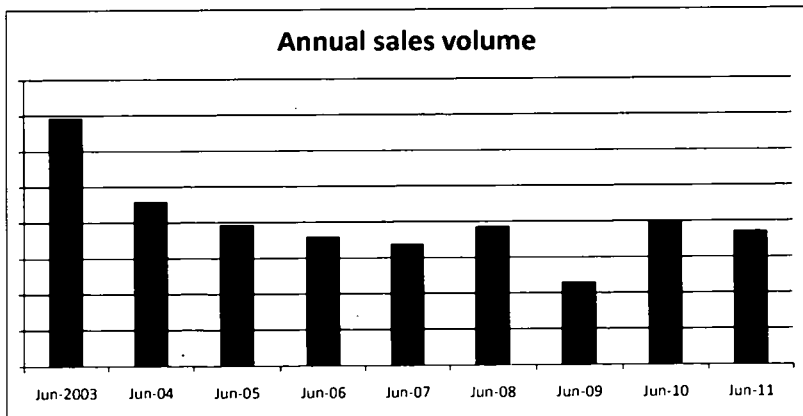
The following charts illustrate Arrowcrest's quarterly production and sales volumes during the injury analysis period.





The charts illustrate that Arrowcrest's production and sales have followed a similar trend during the injury analysis period. Arrowcrest experienced a downturn in production and sales in the 18 month period to March 2009, which coincided with the global financial crisis. The situation improved to June 2010, before decreasing in the 12 months to June 2011.

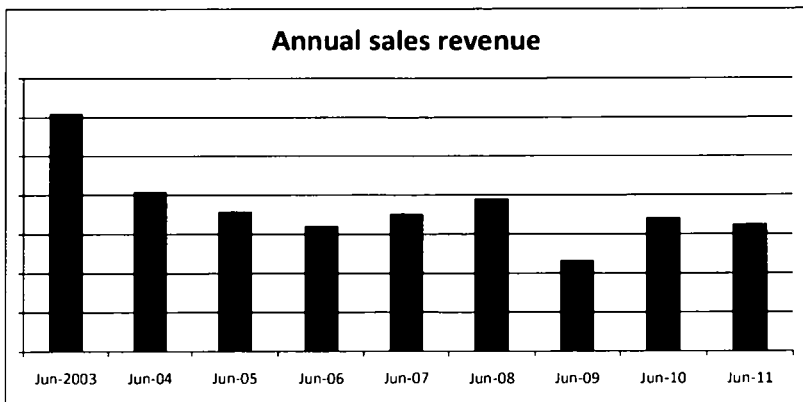
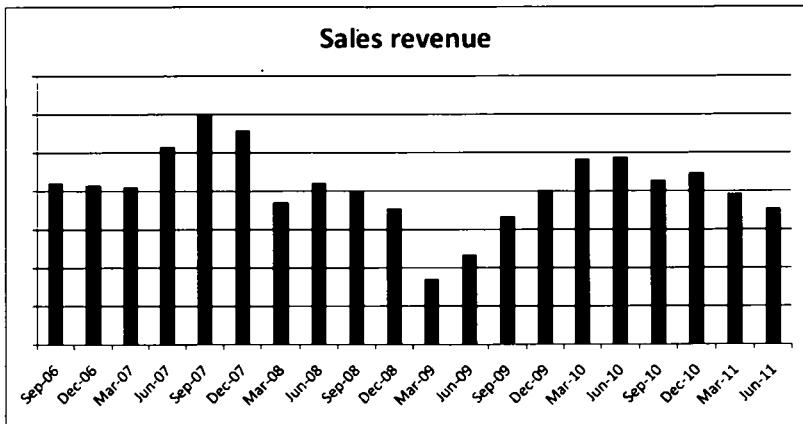
The following chart of annual sales volume since 2003 shows that Arrowcrest experienced a significant decline in sales after 2003, the time at which it claims Chinese imports entered the market in large volumes. Other than the decline in 2009, Arrowcrest's sales volume has remained fairly stable since 2005.



Arrowcrest provided data that separately showed the volumes for the OEM and aftermarket segments. As discussed at section 11.2.4 below, the sales volume in the aftermarket segment has reduced more sharply than the OEM segment, with a 90% reduction in volumes since 2003, and a 16.5% reduction in 2011 alone off an already reduced base.

### 10.3 Revenue effects

Arrowcrest claims it has lost 47% of its production and sales volumes since 2003. The following charts show quarterly sales revenue during the injury analysis period, and annual revenue since 2003.



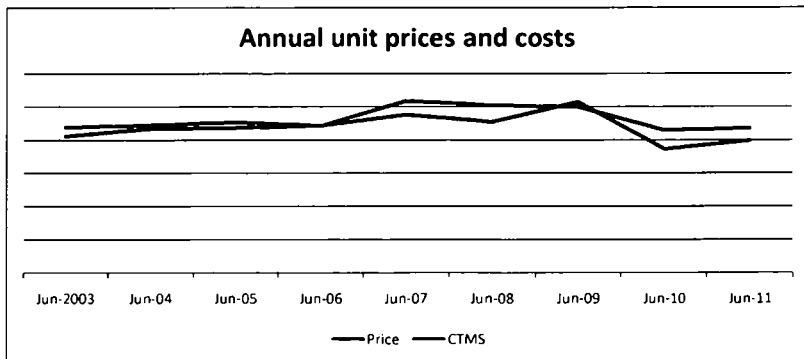
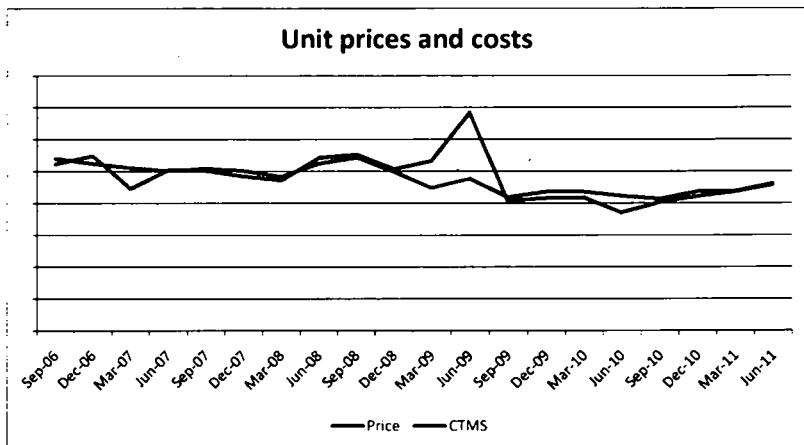
The above charts illustrate a similar trend to volumes – a significant decline between 2003 and 2004, another decline during the period of the global financial crisis, and

decreasing revenue in the 12 months to June 2011. Arrowcrest claims it has lost 47% of its sales revenues since 2003.

#### 10.4 Price effects

Price depression occurs when a company, for some reason, lowers its prices. Price suppression occurs when price increases for the applicant's product, which otherwise would have occurred, have been prevented. An indicator of price suppression may be the margin between revenues and costs.

The following charts illustrate Arrowcrest's quarterly average unit prices and costs during the injury analysis period, and annual unit prices and costs during the period since 2003.

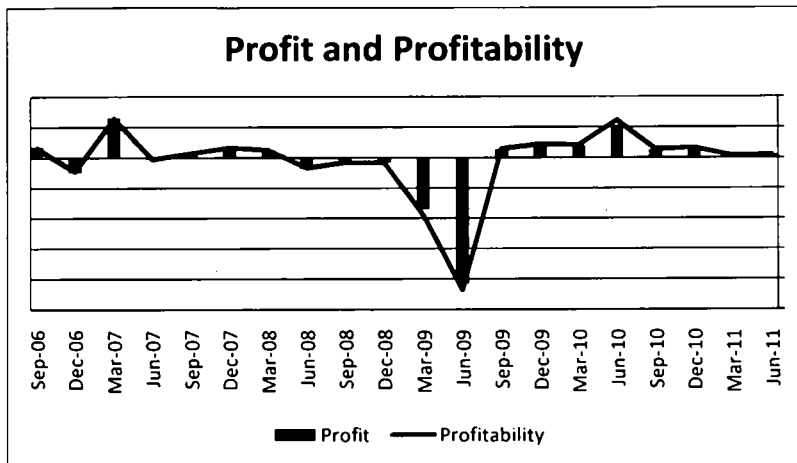


The annual graph shows that despite costs increasing during the period 2007 to 2009, Arrowcrest's price decreased from 2007 to 2011. Arrowcrest advised that commencing from around 2009 it introduced cost saving measures and efficiencies aimed at reducing the impact of the rising raw material costs and falling prices. This has resulted in unit prices above unit costs in the years 2010 and 2011.

The quarterly graph illustrates that the margin of price over cost has been mostly negative or minimal throughout the injury analysis period.

### 10.5 Profit and profitability effects

The following chart illustrates Arrowcrest's quarterly profit and profitability on ARWs during the injury analysis period.



The chart shows the significant decline in the performance of the ARW business during 2009. Profit and profitability spiked in the June 2010 quarter but decreased in 2011.

Arrowcrest claims it has lost 62% of its profits since 2003, which it says is directly attributable to imports of ARWs from China at dumped and subsidised prices.

### 10.6 Summary of major injury indicators

Arrowcrest claims that it has suffered injury from 2003, which it attributed to dumped and subsidised imports from China. It has since undertaken a number of measures to reduce costs including reducing the size of its workforce. This has assisted in reducing the losses but due to the downward trend in price throughout the injury analysis period the ARW business is operating at breakeven point.

Based on a preliminary analysis Arrowcrest has suffered injury in the form of lost revenue, price depression, price suppression, loss of profit and reduced profitability.

## 10.7 Other injury factors

### Assets

There has been only a minor decrease in the value of assets used in the production of ARWs.

### Capital investment

In order to provide the price concessions given to Toyota for its new model contract, capital investment in the production of ARWs has increased in 2011. (See also part 11.1.1 of this report)

Arrowcrest provided a summary of all capital expenditure activities from 2003 to 2011. (**confidential attachment INJURY 1**). This report showed a high level of capital investment in 2003 with reduced capital expenditure in the following years. Capital expenditure peaked again in 2006 due to the investment in Robotics for the paint system then again in 2011 as explained above.

### Research and development

Arrowcrest's investment in research and development related to production of ARWs has not changed.

### Return on investment

Arrowcrest's return on investment in relation to ARWs has decreased by almost 50% in 2011.

### Capacity

Arrowcrest stated that they could meet any level of demand as they had the ability to increase their maximum capacity if demand required it. The plant is currently not operating at full capacity and has not done so for some time. For approximately 20 years the business operated 7 days per week. This has been decreased to 5 days per week given the slump in demand since 2003. Arrowcrest advised that there are currently 3 machines that are idle due to the loss of Ford and Holden volumes.

Based on current maximum capacity figures provided to us at the verification visit, assuming a 5 day working week, producing an 18" diameter wheel, Arrowcrest's level of actual unit output has been just above 50% for the 2011 financial year. This figure would be less if the maximum capacity figures for a smaller diameter wheel was used as the basis for comparison.

### Employment

In 2003, Arrowcrest employed around 267 personnel in its ARW business, the majority of who were employed in South Australia.

Arrowcrest estimates that it has lost around 49% of its workforce, including in its interstate sales branches, due to the influx of ARWs imported from China at dumped and subsidised prices.

Arrowcrest currently employs 147 personnel in its ARW business, 121 manufacturing staff on a full time basis and 26 on a contractual basis only. Staff levels were further reduced in October 2011 and will remain at the current level until the need arises for extra staff to be put on to meet future orders from Toyota.

**Productivity**

There has been little change in productivity, due to the contractual nature of employment as discussed above.

**Stocks**

There has been no change to stock on hand as Arrowcrest generally produces to order.

**Cash flow measures**

Accounts receivable balance, receivables turnover and inventory turnover have remained stable.

**Wages**

Total and average wages have remained stable during 2011.

**Summary of other injury factors**

The other factors support the view that Arrowcrest has suffered price and profit injury. The capacity data also supports a view that Arrowcrest has suffered a loss in volume, even though the chart at section 10.2 above appears to show that volumes have remained steady for some years.



**11 CAUSATION**

Arrowcrest claimed that low prices of allegedly dumped and subsidised aluminium road wheels from China caused the injury it has suffered. Arrowcrest provided the following summary of its relationship with each of its key customers to demonstrate the injury caused.

**11.1 OEM market****11.1.1 Toyota**

During contract negotiations with Toyota in 2009, Arrowcrest presented Toyota with a quote for the cost of the required model.

[REDACTED]

(Confidential negotiations)

[REDACTED] (Confidential negotiations) Arrowcrest was granted the contract via letter dated January 2010. Correspondence reflecting this issue is at confidential attachment CAUSATION 1.

[REDACTED]

(Confidential negotiations)

[REDACTED]

(Confidential negotiations)

[REDACTED] (Confidential negotiations) We asked Arrowcrest why Toyota would not have chosen the Chinese model and it provided the following possible reasons:

- Toyota's stated objective is to support local component manufacturing in Australia, [REDACTED]

(Confidential negotiations)

- [REDACTED]

[REDACTED] (confidential negotiations); Toyota maintains long-term relationships with its suppliers. This is evidenced by the advice provided by Toyota to Arrowcrest on methods to achieve efficiencies and cost savings, which Arrowcrest has implemented;

- Toyota may perceive that Arrowcrest's technology is superior to the Chinese manufacturers;
- Desire to achieve a minimum percentage of local content; and

#### 11.1.2

[REDACTED] (confidential negotiations). HSV

When HSV approached Arrowcrest in May 2011 to quote for the new 2014 model, HSV advised Arrowcrest that it was targeting 30% - 40% price reduction off its current ARW prices from Arrowcrest. Arrowcrest believes that the price targets result from a comparison of available prices for ARWs from China.

Also during the May 2011 meeting, HSV advised Arrowcrest that it would source a forged ARW from Taiwan/China for a limited release "Black" edition in September 2011.

On 21 June 2011, HSV advised Arrowcrest that for a period of up to 12 months, commencing from September 2011, HSV would cease purchasing its high volume 'P511' wheels from Arrowcrest, in favour of the imported forged ARW from China/Taiwan. Arrowcrest provided a spreadsheet showing HSV OEM alloy wheel volumes by month for the 2011 calendar year to date to show the effect of HSV's decision to cease purchasing P511 wheels from Arrowcrest (**confidential attachment INJURY 2**).

As a result of the resourcing decision, volumes sold to HSV have reduced by around 42%. Arrowcrest also provided a sales report for HSV for the twelve month period December 2010 to November 2011. (**confidential attachment CAUSATION 2**).

Confidential attachment CAUSATION 2 shows that for the two models that Arrowcrest believes are now being sourced from China or Taiwan, Arrowcrest's sales to HSV were [REDACTED] units in the 12 months December 2010 to November 2011.

Arrowcrest recently wrote to HSV and advised that it would be required to increase its unit price to account for the fall in volumes. HSV reluctantly agreed to the price increase. Copies of this correspondence are at **confidential attachment SALES 4**.

#### 11.1.3 Suzuki

Arrowcrest met with Suzuki in 2009 and provided a quote for the new Suzuki Swift wheel of around \$[REDACTED] per wheel. Suzuki subsequently advised Arrowcrest that it had decided to contract supply to YHI, (YHI is a Singapore registered company with manufacturing facilities located in China.) for a price \$40 - \$50 less than the price

offered by Arrowcrest. Documents supporting this are at **confidential attachment CAUSATION 9**.

Arrowcrest's sales to Suzuki in 2008 reflected the growth in demand for ARWs (**confidential attachment CAUSATION 3**). Following the global financial crisis, Arrowcrest lost the majority of Suzuki's business to YHI Australia. Arrowcrest believes YHI Australia import their ARWs from YHI's Chinese manufacturing plants.

#### 11.1.4 Ford and Ford Performance

Arrowcrest historically supplied Ford with steel wheels and ARWs. In 2002 Ford attempted to take the steel wheel business away from Arrowcrest. The matter was taken to the Federal Court and Arrowcrest was awarded damages.

Tristar Steering (a member of the Arrowcrest Group) provided steering racks for Ford and Holden. Issues arose negotiating prices for the steering racks. Subsequently Ford removed the ARW business over a disagreement over a price increase for steering racks. Ford is no longer a customer of Arrowcrest.

Arrowcrest has never supplied ARWs to Ford Performance.

#### 11.1.5 Holden

Arrowcrest advised it had supplied Holden with ARWs and steel wheels for many years. Arrowcrest provided Holden with a quote for steel wheels in 2001 but as directed by GM Global Purchasing in Detroit, Holden awarded the business to Korea. Shortly thereafter Holden's ARW business was awarded to a Chinese supplier. Arrowcrest attempted to regain some business recently with a quote for the Holden Cruze wheels but was unsuccessful.

#### 11.1.6 Summary – OEM market

Arrowcrest provided spreadsheet summaries and graphs showing the volume and sales value of supplies made to Toyota, Holden, Mitsubishi, HSV and Suzuki for the periods FY 2006 to FY 2011. (**confidential attachment CAUSATION 3**).

Whilst sales volume and value to Toyota have increased over that time reflecting the growth for ARW volumes in the Australian market generally, all other figures to every other car manufacturer show a decline down to zero in most cases for the same period.

Arrowcrest advised that the growth in Australian OEM demand for ARWs is driven by import competition from imported vehicle brands where ARWs instead of steel wheels are supplied as standard equipment as opposed to an optional extra. For example, in 2008/09 Holden elected to cease fitment of steel wheels to its Commodore passenger range. This range is now fitted exclusively with ARWs.

[REDACTED] (*Confidential change in mix from steel wheels to ARWs*).

Despite the closure of Mitsubishi's Australian manufacturing operations in 2008/09, Australian OEM demand for ARWs has increased since 2006. However Arrowcrest

believes that it has been unable to capitalise on this growth and has been unsuccessful in its recent quotations to supply ARWs to Holden because of dumped and subsidised imports from China.

Section 10.4 of this report (Price Effects) shows that unit prices have not followed costs consistently across the injury analysis period. For three separate periods, prices remained stable or increased during significant variations in the unit cost to make and sell. Given that the cost of aluminium is the major cost input to produce the product, this suggests that factors other than costs affected Arrowcrest's price-setting decisions.

## **11.2 Aftermarket**

### **11.2.1 Beaurepaires**

Arrowcrest was a preferred supplier to Beaurepaires from around 1996. In 2006-07, Beaurepaires requested a [REDACTED] rebate and extended payment terms and returns policy. Arrowcrest declined due to the narrowing margins it was already experiencing but understands that importers were prepared to supply on these terms.

### **11.2.2 Bob Jane**

Arrowcrest stated that volumes sold to Bob Jane started decreasing from around 2002-03. In June 2006 Bob Jane disclosed to Arrowcrest its purchase prices for ARWs it sourced from China. Evidence is attached to the application at Confidential Attachment B-2.1.2.

In 2008 Bob Jane requested a rebate of [REDACTED] but Arrowcrest said it could not supply on those terms. In August 2011, Arrowcrest suggested to Bob Jane that it might withdraw its existing [REDACTED] rebate to Bob Jane on the basis that it was receiving no advertising support and suggested that a rebate might be payable if volumes and advertising support were forthcoming. (**confidential attachment CAUSATION 5**).

### **11.2.3 Bridgestone**

Arrowcrest recently agreed to a [REDACTED] rebate to support Bridgestone's marketing campaigns but only in return for Bridgestone increasing its sales of Arrowcrest's product.

### **11.2.4 Summary – Aftermarket**

Arrowcrest provided a summary spreadsheet and graph analysis showing volume and sales value trends to Bob Jane, Bridgestone, Beaurepaires and Tyrepower for the financial years 2003 to 2011. (**confidential attachment CAUSATION 6**). The figures show a significant downward trend for all four customers. Since 2003, aftermarket sales volumes to Bob Jane have declined by 93%, to Bridgestone by 89%, to Beaurepaires by 95% and to Tyrepower by 77%.

Arrowcrest contends that prior to the rapid growth in imports from China from 2003, it adequately competed with imports from various countries and it is only the alleged dumped and subsidised imports from China that have caused them to lose the majority of their business, their workforce and their future prospects. Arrowcrest's

aftermarket ARW business has contracted from [REDACTED] turnover in 2003 to [REDACTED] turnover in 2011.

In November 2005 Arrowcrest received a comparison of Arrowcrest FOB prices with available Chinese FOB prices from one of its distributors. (**confidential attachment CAUSATION 8**). Arrowcrest advised that at the time the FOB prices for ARWs from China were 30-50% below Arrowcrest's FOB prices which in turn were already discounted by 12-45% to allow for sea freight to the distributor and a dealer margin. The distributor had sent Arrowcrest the comparison to provide explanation for their reduction in purchases from Arrowcrest and their decision to source more ARWs from China.

A summary showing the Australian wholesale price variations over the period FY 2006 to FY 2011 has been provided by Arrowcrest. (**confidential attachment CAUSATION 4**). Arrowcrest maintain that their wholesale prices have contracted between 11% and 39% since 2006. Arrowcrest advised this contraction in pricing is as a direct result of the volumes of ARWs imported from China.

Arrowcrest also provided a summary showing the average ARW prices per financial year from 2003 to 2011 for ROH Wheels Australia. (**confidential attachment CAUSATION 7**). Over the period reviewed there have been minor decreases in the average prices to the four customers. Arrowcrest advised that it has been able to maintain its average selling prices to Bob Jane and Beaurepaires, but in refusing to pay [REDACTED] and [REDACTED] month-end rebates respectively, it has lost sales volumes to both chains.

Arrowcrest has worked with Bridgestone and Tyrepower by offering lower prices which is reflected in the decrease in average price, in a bid to retain their business and a share of the Australian market. Arrowcrest pays a [REDACTED] month-end rebate to both of these chains.

### 11.3 Summary

Arrowcrest claims that the above demonstrates the pressure it has faced in recent years due to competition from dumped and subsidised Chinese imports. Arrowcrest has experienced both loss of volume and price depression and suppression due to the expectation that it will compete with Chinese prices. Arrowcrest expects that this injury will continue, and worsen, in the future.

**12 UNSUPPRESSED SELLING PRICE**

Unsuppressed selling price and non-injurious price issues are examined at an early stage of an investigation and, where possible and appropriate, preliminary examinations are made during the application consideration period for the purpose of assessing injury and causal link and therefore the appearance of reasonable grounds for the publication of a dumping duty notice.

Customs and Border Protection generally derives the non-injurious price by first establishing a price at which the applicant might reasonably sell its product in a market unaffected by dumping. This price is referred to as the unsuppressed selling price.

Customs and Border Protection's preferred approach to establishing unsuppressed selling prices observes the following hierarchy:

- industry selling prices at a time unaffected by dumping;
- constructed industry prices – industry cost to make and sell plus profit; or
- selling prices of un-dumped imports.

Having calculated the unsuppressed selling price, Customs and Border Protection then calculates a non-injurious price by deducting the costs incurred in getting the goods from the export free on board point (or another point if appropriate) to the relevant level of trade in Australia. The deductions normally include overseas freight, insurance, into-store costs and amounts for importer expenses and profit.

Arrowcrest advised that it would make a separate submission on the appropriate basis for a non-injurious price.

**13 ATTACHMENTS**

Confidential attachment INDUSTRY 1	Capacity calculations 16" and 18" ARWs
Confidential attachment INDUSTRY 2	Internal employment record August – October 2011
Confidential attachment INDUSTRY 3	Arrowcrest Group Pty Ltd operating results for the month of September 2011
Confidential attachment SALES 1	Invoices showing separate freight charge
Confidential attachment SALES 2	Contract with Toyota and ALCOA for aluminium price for the period January 2011 to December 2011
Confidential attachment SALES 3	Email from Toyota providing forecast order figures dated 14/10/11
Confidential attachment SALES 4	Email correspondence with HSV re price quotes and volume adjustments
Confidential attachment SALES 5	Invoices and remittances showing rebates taken by customers
Confidential attachment SALES 6	Detailed Management Accounts by month for the 2011 financial year
Confidential attachment SALES 7	2011 sales figures broken down by production type
Confidential attachment SALES 8	2011 ROH Wheels Australia sales figures breakdown, sales per general ledger less adjustments, sales by stock group
Confidential attachment SALES 9	Email from Ernest and Young confirming use of reports provided by Arrowcrest in the 2011 statements to be audited
Confidential attachment SALES 10	Source documents for invoice numbers selected by Customs for verification per the agenda
Confidential attachment SALES 11	ROH Wheels Australia detailed sales April 2010 to June 2010
Confidential attachment COSTS 1	Bill of Materials comparing machine faced finished to painted finish model
Confidential attachment COSTS 2	Monthly invoices from ALCOA
Confidential attachment COSTS 3	Total production listing by model for the period April – June 2011
Confidential attachment COSTS 4	Detailed profit and loss for the month ended 30/6/11 ROH Automotive
Confidential attachment COSTS 5	Cost of Sales general ledger printout with corresponding support document
Confidential attachment COSTS 6	Material price variance general ledger report for June 2011 and summary of calculations
Confidential attachment COSTS 7	Material price variance general ledger report for June 2011
Confidential attachment COSTS 8	Bill of materials showing standard aluminium price set for each model
Confidential attachment COSTS 9	Management personnel staff summary as at November 2011
Confidential attachment COSTS 10	ROH phone list
Confidential attachment COSTS 11	AGL gas bills for the period April 2011 to June 2011 and spreadsheet allocation calculations
Confidential attachment COSTS 12	Electricity allocation calculation spreadsheet and TRU Energy bills for the period April 2011 to June 2011
Confidential attachment COSTS 13	SA Water bill and meter calculations
Confidential attachment COSTS 14	Memorandum dated 11 February 2009 allocating rates percentages
Confidential attachment COSTS 15	Corporate division detailed profit and loss statement for the month ended 30 June 2010 and 30 June 2011
Confidential attachment COSTS 16	Material usage variance calculation worksheet for June 2011
Confidential attachment COSTS 17	Quarterly profit and loss statement from CBA 2000

Confidential attachment COSTS 18	Worksheet linking the amounts from the profit and loss account to the amounts recorded in Appendix A6
Confidential attachment COSTS 19	June 2011 provision for paint price credit supporting document
Confidential attachment COSTS 20	Material usage variance working paper showing the breakdown of the amount for June 2011
Confidential attachment COSTS 21	Corrected depreciation allocation worksheet and amended A6 spreadsheets
Confidential attachment INJURY 1	Capital Investment summary 2003 to 2011
Confidential attachment INJURY 2	HSV OEM alloy wheel monthly volumes for the period January 2011 to November 2011.
Confidential attachment CAUSATION 1	Toyota contract negotiation correspondence dated January 2010
Confidential attachment CAUSATION 2	Sales report for HSV for the twelve month period December 2010 to November 2011
Confidential attachment CAUSATION 3	Summary spreadsheet and graphs showing OEM volumes and sales value 2006 to 2011
Confidential attachment CAUSATION 4	ARW Australian wholesale price trends 2006 to 2011
Confidential attachment CAUSATION 5	Bob Jane correspondence regarding rebates and withdrawal as preferred supplier
Confidential attachment CAUSATION 6	ROH Wheels Australia sales volumes and values analysis for the period 2003 to 2011
Confidential attachment CAUSATION 7	ROH Wheels Australia Average ARW price summary for the years 2003 to 2011
Confidential attachment CAUSATION 8	China ARW FOB price comparison to Australian ARW FOB price in November 2005
Confidential attachment CAUSATION 9	Correspondence with Suzuki re their decision to source products from China
Confidential attachment CAUSATION 10	Bob Jane request price reduction in line with China prices