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### Executive Summary

Versus is a 100% Australian owned and operated company specialising in the sale of alloy wheels to the Australian automotive aftermarket ("AM"). Versus offers alloy wheels ranging in size from 16" to 24" and invests significantly in ensuring that it offers the latest fashion in designs, styles and finishes particularly through the use of cutting edge manufacturing technology.

The following are Versus' key reasons for seeking the termination of the dumping investigation in relation to ARWs and the amendment of the 'goods under consideration' in respect of same:

- The goods currently under consideration by Customs and Border Protection include goods not sufficiently alike to those manufactured by the Australian Industry
- There is a lack of material injury (claimed to have been suffered by the applicant) attributable to alleged dumping. Rather, injury has arisen from other factors such as the failure to invest in product design and new technology, differences in manufacturing processes and the Global Financial Crisis ("GFC")

Versus has also outlined below some general issues it considers may arise as a result of the approach taken by Arrowcrest in making its application.

We submit that once these facts are verified the current investigation should be terminated. Regardless of whether the investigation is terminated, we submit that the goods under consideration should be narrowed to properly reflect the categories of goods for which the Australian Industry produces like goods.

### Background

In accordance with the application and Australian Customs Dumping Notice ("ACDN") 2011/54, the goods the subject of Customs and Border Protection's investigation ("**the goods under consideration**") are ARWs for passenger motor vehicles, including wheels used for caravans and trailers, in diameters ranging from 13" to 22". These goods include finished or semi-finished ARWs whether unpainted, painted, chrome plated, forged or with tyres and exclude aluminium wheels for go-carts and All-Terrain Vehicles. These ARWs are sold in Australia through two main distribution channels being the AM and Original Equipment Manufacturer ("OEM") market.

Versus and Primal both currently source wheels from the same Chinese manufacturing facility through separate buying agents. Versus' wheels are sourced from four separate facilities whereas Primal



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sources its wheels from only one. Versus is aware that Primal has recently lodged Part A of an importer questionnaire.

Versus only services the AM market for ARWs for passenger motor vehicles. Based on Versus' market knowledge, it is estimated that the Australian AM accounts for the sale of approximately 360,000 ARWs annually. This figure does not include ARWs sold to the OEM market or trailer or caravan wheels. During the investigation period<sup>1</sup> (the year ending 30 June 2010) Versus sold a total of 10,169 ARWs.

As outlined in more detail below, the goods which Primal purchases from China for sale in Australia are totally distinct from those products purchased by Versus. Versus and Primal are not to any material extent participants or competitors in the same market. Primal's distribution channel is supplying the industry for Australian OEM Caravan Chassis Manufacturers. These in turn supply the Australian Caravan Manufacturing industry. Primal's customers represent 80% of this industry. Therefore this industry controls the standards that their suppliers must conform and adhere to.

It is our client's understanding that there are only two Australian manufacturers which service the Australian ARW market for passenger motor vehicles through either the AM or OEM channel. These companies are Arrowcrest and Performance Wheels ("**Performance**"). Performance is not a party to Arrowcrest's application. We note that Mullins Wheels Pty Ltd ("**Mullins**") was previously a participant in the Australian ARW market and maintained local manufacturing facilities. Mullins has since left the market to pursue opportunities to manufacture ARWs in China. It is our client's belief that this choice was based on the opportunity to access better manufacturing technology and efficiency and not the existence of alleged dumping. Our client understands that Mullins will be lodging a submission to this effect as part of this ongoing investigation.

### **General Notes on the Application**

#### *Investigation Period*

Versus is concerned that the information provided by Arrowcrest does not permit Customs and Border Protection (or other interested parties) to make an informed assessment of the causal link between the alleged dumping and subsidisation and the alleged material injury suffered by Australian Industry. These concerns arise as a result of Arrowcrest's assertion that material injury from dumped imports commenced as early as FY03 and Customs and Border Protection's decision to extend the injury investigation period beyond the common three year period.

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<sup>1</sup> As defined in s269T of the *Customs Act 1901*



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An industry may be injured from a number of sources including dumped imports. However, in determining whether the injury suffered is material injury for the purposes of dumping, regard must be had to the specific effect of dumped imports. In other words, there must be an established causal link between the dumped imports and injury suffered otherwise it is not material injury as defined by the Customs Act 1901 and the Antidumping Agreement.

To isolate the effects of variables other than dumping, Customs and Border Protection will typically study information on underlying factors and market conditions for a period of three years prior to the investigation period. This period is called the injury investigation period and in this case covers the period from 1 July 2006 to 30 June 2011. The role of this period is to allow the CEO to assess whether there is a sufficient causality between dumping and any injury being experienced in the domestic market.

We note that in accordance with Customs and Border Protection's Dumping and Subsidy Manual, any events happening outside the investigation period are usually not taken into account when forming an assessment as to dumping<sup>2</sup>. Instead, the extension of the injury investigation period to cover the preceding three years generally allows Customs and Border Protection to make an assessment of any extraneous factors which may have contributed to any injury suffered by Australian Industry and to provide Customs and Border Protection with a benchmark with which to compare the investigation period in order to assess what impact the alleged dumping may have had.

We recognise that Section 269T (2AD) of the *Customs Act 1901* ("**Customs Act**") does state

*"The fact that an investigation period is specified to start at a particular time does not imply that the Minister may not examine periods before that time for the purpose of determining whether material injury has been caused to an Australian industry or to an industry of a third country."*

In our opinion, Section 269T(2AD) is not at all inconsistent with the requirement to make a finding of material injury having specific regard to the impact of dumped imports, as this provision deals with the question of non-attribution. In other words as the application itself provides, it is necessary to have regard to all injury factors over the 'injury investigation period' in order to determine if there are any other underlying injury factors arising during the investigation period which are not related to the effect of dumped imports.

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<sup>2</sup> Dumping Manual page 10



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This point was made in the Report by the Trade Measures Review Office in Certain Clear Float Glass from the People's Republic of China, Indonesia and Thailand dated 21 March 2011 when, after referring to the provisions of section 269T(2AD), they stated:

*"60. It is therefore within the discretion of Customs and Border Protection to base their analysis of whether material injury was caused by dumping on trends since June 2006. It would seem reasonable to analyse whether certain trends were caused by dumping by reference to a period in which there was no dumping, taking into account in that analysis any factors that might otherwise affect prices." (emphasis added)*

Further, the Dumping Manual states

*"Generally, Customs and Border Protection will examine causation factors coinciding with the injury analysis period. All available evidence will be examined in establishing whether a causal link between the dumped/subsidised imports and the injury to the Australian industry exists. This includes the effect of injury factors set out in the relevant articles in the Agreements (and generally reflected in s. 269TAE of the Act)."*

In this case, at A- 8, the applicants have, under the heading "Estimate the date when material injury from dumped imports commenced", stated that "material injury commenced from FY2003". If this date is to be taken at face value then Customs and Border Protection and other interested parties are not in a position to examine the market free from dumping in order to make an informed decision as to what injury suffered by the Australian Industry can fairly be causally linked to dumped imports. This significantly impedes Customs and Border Protection's ability to separate injury caused by dumped imports from injury caused by other contributing factors (e.g. GFC) which occurred during the injury investigation period. Our client contends that in only providing evidence relating to a period in which it has suffered from alleged dumping Arrowcrest has significantly distorted its assessment of material injury and the perceived causal link with exports of ARWs.

Versus also has concerns regarding Customs and Border Protection's decision to extend the injury investigation period beyond the common three years prior to the commencement of the investigation period. This is particularly the case where Customs and Border Protection allows Arrowcrest to utilise injury allegedly suffered during the injury investigation period as evidence of dumping. We consider that this extended period may further exacerbate the supposed magnitude of the alleged injury particularly where the injury investigation period is extended into the period pre-GFC and further impede the ability of Customs and Border Protection to accurately apportion any injury suffered to the myriad of possible non-dumping causes.



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*Normal Value Calculation*

Without having access to the confidential calculations provided as part of the application we are concerned that the constructed normal value provided by Arrowcrest does not properly reflect the cost to make and sell ARWs in China. Primarily, we are concerned that Arrowcrest's calculation of a constructed normal value is predicated on misconceptions regarding the commercial realities of and techniques employed in the manufacturing of ARWs in China.

As stated in Arrowcrest's application, there are two predominant methods for casting ARWs: gravity die-casting ("GDC") and low-pressure die-casting ("LPDC"). Arrowcrest has stated that it uses LPDC to produce around 95% of its ARWs and submitted that LPDC is the predominant method for ARW production in China. Moreover, Arrowcrest has seemingly calculated all constructed normal values for imported goods on that the goods were cast using LPDC.

Versus contends in fact that approximately 80% of the ARWs it purchases from China are manufactured using the GDC method. Primal in turn acknowledges that 100% of the wheels they produce are manufactured using GDC. This method of casting is significantly cheaper than the LPDC method favoured by Arrowcrest however this has seemingly not been recognised in the constructed normal values presented. Moreover, Versus states that for all Chinese manufacturers of ARWs, GDC is the preferred and majority method for manufacturing AM wheels while LPDC is the preferred and majority method for OEM manufacturing.

Our client estimates based on industry knowledge that the machines used to manufacture wheels using the LPDC method cost approximately US\$250,000 with each of these machines being imported into China (or Australia). By contrast, the machines used in GDC are manufactured locally in China and cost only around US\$50,000. In addition, the cost of manufacturing a mould for use with a LPDC machine is approximately 1.5 times the cost of manufacturing an equivalent mould for use with GDC. Amortising this cost on a per unit basis presents a stark contrast in respect of the cost to make and sell ARWs.

It is Versus' contention that the reason Arrowcrest employs the more expensive LPDC method in manufacturing 95% of its ARWs is due to the fact that this is a requirement of the OEM market. Typically, the GDC method of casting ARWs results in an excess of waste material which is able to be scrapped and then recycled for use in future manufacturing. The AM market for ARWs will typically allow a ratio of new material to recycled material of up to 60:40. By contrast, the OEM market will typically require in excess of 90% new material and so the more accurate (less wastage) LPDC method is required.



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In only servicing the AM passenger motor vehicle market, Versus is not subject to this requirement and therefore is in a position to take advantage of the cost savings available through GDC. As discussed, this will have the effect of lowering the cost to make and sell ARWs in China compared with the cost to make and sell the goods manufactured in Australia by Arrowcrest. Effectively, Arrowcrest has priced itself out of the market for AM ARWs based solely on its choice of technology in responding to its predominant customer, the OEM market.

Generally speaking, we consider that Arrowcrest appear to have adopted a fairly inconsistent and unsupported approach to constructing normal values. We look forward to the opportunity to make further submissions in respect of the proper normal value to be used in calculating any prospective dumping margins if and when this is suitable, particularly once relevant Chinese exporters have had the opportunity to complete exporter questionnaires and provide evidence of the true cost to make and sell ARWs in China.

#### The Goods Under Consideration

In respect of the goods under consideration, we refer to our acknowledgement above that Versus is related to Primal Alloy Wheels and Tyres which operates in the Australian market for caravan wheels. We also note, as stated above, that the products sold in Australia by Versus and Primal are commercially distinct, with Versus' wheels designed specifically for use with passenger motor vehicles whereas Primal's products are only for use with caravans. Our submission in respect of the goods under consideration is made on behalf of Primal.

We do note though, as discussed further below, that it is not clear based on information available to our client the extent to which Arrowcrest manufactures like goods (ARWs for passenger motor vehicles) in Australia. We note that Arrowcrest's 2010-11 catalogue describes its ARWs as being made in Australia despite our client being able to present evidence of ARWs currently available for sale with 'made in Phil' markings. We consider this to be an area worthy of further scrutiny from Customs and Border Protection as part of this ongoing investigation.

Subsection 269TC(1) of the Customs Act requires that the CEO must reject an application for a dumping duty notice and/or a countervailing duty notice if, inter alia, he is not satisfied that there is, or is likely to be established, an Australian Industry in respect of like goods. Subsection 269T(1) like goods as:

*"goods that are identical in all respects to the goods under consideration or that, although not alike in all respects to the goods under consideration, have characteristics closely resembling those of the goods under consideration."*



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Where two goods are not alike in all respects, Customs and Border Protection will assess whether they have characteristics closely resembling each other in terms of physical, commercial, functional and production likeness<sup>3</sup>.

Our client submits that Arrowcrest does not manufacture wheels specifically for use with caravans in Australia. We further submit that aluminium wheels manufactured specifically for use with caravans are not sufficiently alike to those goods produced by Arrowcrest, being ARWs for use with passenger motor vehicles, to justify their inclusion in the goods under consideration in this investigation. The caravan wheel industry in Australia, particularly the OEM segment, is defined by particular industry standards and a failure to attain these standards means passenger motor vehicle wheels are generally unable to be sold to the industry.

It is our client's submission that the manufacture of ARWs for use specifically with caravans requires the employment of specific processes and technologies which distinguish these wheels from those used in passenger motor vehicles. These wheels are required to meet unique standards at the specific request of Australian customers, particularly in the OEM market, and are not available from Australian Industry.

Among other distinguishing factors, we note that caravan wheels are commonly finished with powder-based clearcoat paint with a high tolerance to alkaline and salt. This particular finish is applied to ensure wheel longevity bearing in mind the variety of conditions generally associated with caravanning and boating activities including extended or frequent exposure to water. It is our client's understanding that Australian Industry is only able to offer a liquid-based clearcoat finish with substantially less resilient qualities.

Moreover, caravan wheels are typically equipped with a steel insert for the wheel nut seat in order to protect the aluminium seat from wear and corrosion during caravanning and boating activities. It is our client's submission that vibrations from poorly tightened or maintained wheel nuts are particularly difficult to notice when towing. These steel inserts protect the aluminium nut seat from damage caused by the steel thread. This dramatically decreases the potential for stud shear and wheel loss which is more prevalent in towing activities than in passenger vehicles.

In addition, caravan wheels are subject to different industry standards and expectations than ARWs for use with passenger motor vehicles on account of caravan load carrying capacities. Typically, ARWs designed specifically for use with caravans are load rated to particularly high standards and often

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<sup>3</sup> Dumping Manual page 7



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tested against globally recognised industry standards which exceed Australian testing standards. We understand that this is often a pre-requisite of participants in the Australian OEM market.

Finally, we note that the caravan manufacturers who operate in the Australian OEM market generally have specific requirements in relation to wheel offset, width and pitch circle diameter (PCD) which pertain to the industry standards associated with OEM caravan wheel fitment.

On the basis of the above, we request that Customs and Border Protection revise the wording of the goods under consideration as part of the investigation to remove the specific reference to caravan wheels. We make this submission on the basis that wheels manufactured specifically for use with caravans are not sufficiently alike, in terms of physical, production, commercial and functional likeness, to ARWs manufactured for use with passenger motor vehicles.

#### Material Injury

In order to make a determination that the alleged dumped import caused material injury, a dumping administration is required to have regard to any other factors that may have caused injury to a domestic industry so that injury from these sources is not attributed to the impact of dumped imports.

Section 269TAE(2A) sets out a non-exhaustive list of factors that the Minister must consider in coming to a view on whether there exist other factors that cause injury to an industry other than the goods the subject of the dumping application. This section reflects the provisions of Article 3.5 of the anti dumping agreement which has been considered by the Appellate Body in *United States – Anti-Dumping Measures on Certain Hot-Rolled Steel Products from Japan AB-2001-2*. The appellant body relevantly stated:

*223. ... If the injurious effects of the dumped imports are not appropriately separated and distinguished from the injurious effects of the other factors, the authorities will be unable to conclude that the injury they ascribe to dumped imports is actually caused by those imports, rather than by the other factors. Thus, in the absence of such separation and distinction of the different injurious effects, the investigating authorities would have no rational basis to conclude that the dumped imports are indeed causing the injury which, under the Anti-Dumping Agreement, justifies the imposition of anti-dumping duties...*

It is Versus' submission that material injury allegedly suffered by Arrowcrest and the Australian Industry more generally is entirely attributable to commercial and market factors autonomous of dumping most of which have not been acknowledged in Arrowcrest's submission. We note that A-9, 6, of the application Arrowcrest has noted only the GFC and the closing of the Mitsubishi Motors'





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Australian manufacturing operation as possible factors other than dumped imports which may have caused injury to the industry.

In this regard, we note that according to figures provided by Arrowcrest in the application at A-4, 6, '*indexed table of market share*', Arrowcrest accounted for 100% of the Australian-manufactured market for ARWs in FY10 and upwards of 95% of this same market in FY11. Based on these figures, it can be established that any material injury suffered by Arrowcrest will result in a nearly equal material injury to the Australian Industry on the whole. For this reason we have focussed predominantly on Arrowcrest in outlining some of the key non-dumping injurious factors below.

#### ***External Factors***

##### ***Global Financial Crisis***

Arrowcrest made only passing reference to the global economic slowdown which occurred during and subsequent to 2008 when asked to identify factors other than the dumped imports which may have caused injury to the industry. We consider that in making this disclosure, Arrowcrest has failed to properly account for the impact of the GFC on the all facets of the Australian ARW industry.

In support of this position, we refer to the tables provided by Arrowcrest at A-4, 6 of the application. The data provided in the '*indexed table of sales quantities*' table indicates that ROH ARW sales for FY09 were over 33% lower than sales achieved in FY08. Despite this reduction in sales, Arrowcrest's market share contracted by only 12.5% for the same period.

In addition, the figures presented in this table call into question Arrowcrest's assertion that "ABS data shows that Chinese ARW exports, due to the dumping and subsidisation, have recovered at a much faster rate than ROH's volumes or market share, following the end of the economic downturn". In this regard, we note that the market share of imports from China has increased by only 1.81% relative to the existing market share of 55% since FY09. In contrast, total Australian industry sales have experienced an increase in market share of 61.90% for the same period.

##### ***Automotive Competitiveness and Investment Scheme***

The Automotive Competitiveness and Investment Scheme ("ACIS") was introduced on 1 January 2001 as the Australian Government's primary assistance measure for the automotive industry. ACIS provided for the issuance of ACIS Duty Credits to registered participants from the automotive industry as an incentive for investment in new plant and equipment and research and development. These



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credits were then able to be applied to future import transactions to offset duty liability or alternatively to be traded between importers.

This scheme ended on 31 December 2010 (during the investigation period) with participants only allowed a further twelve months in which to apply current ACIS Credit balances against duty payable on eligible imports. We consider it likely that all Australian Industry participants involved in the manufacture of ARWs would have been entitled to, and registered for, ACIS Duty Credits and that the subsequent end of this Scheme is likely to have affected profitability achieved through trading these credits.

#### *Tariff reductions*

As you are aware, in recent years Australia has adopted a clear policy of trade liberalisation including general tariff reductions and the implementation of several Free Trade Agreements ("FTAs").

Since 2005, the general rate of duty for passenger motor vehicles and their parts and accessories has reduced significantly from a maximum rate of 15% in 2005 to 5% from 1 January 2010. In addition, Australia has a range FTAs in place with many of the countries identified in the application as having ARW manufacturing facilities including Singapore, Thailand and the United States.

These changes have the effect of making imported goods a more attractive option for Australian consumers and are highly likely to impact the profitability of inefficient Australian manufacturers.

#### *Other*

We also refer you to the IBISWorld Industry Report C2733 *"Non-Ferrous Metal Casting in Australia"* published in September 2010. This report provides some analysis of the performance of Arrowcrest covering the period 2004-05 to 2009-10. According to this report, *'the automotive sector has been faced with recessive domestic conditions even prior to the onset of the recession'*. It goes on to refer specifically to the 2008-09 period in which it states that *'passenger motor vehicle production contracted by 17.6% with revenue within the motor vehicle manufacturing industry falling by 9% for the same period'*. The report goes on to say that *'this significantly affected ROH Wheels due to anaemic demand for non-ferrous metal casts used in the production of wheels, gearboxes, steering and suspension parts, motor accessories and clutches'*.

#### *Internal Failures*

In general terms, it is our client's submission that Arrowcrest has fundamentally misrepresented the Australian AM market for ARWs in stating that 'price is the determining factor in the consumer's



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purchasing decision'. It is our client's submission that the aftermarket ARW business is primarily driven by ever evolving trends and fashions. In this sense, ARWs are considered to be more accurately characterised as a consumer product rather than simply an automotive part defined primarily by its function. Our client submits that the aftermarket ARW business in Australia closely follows global trends from Europe, Asia and the USA and that to be successful in this market one must follow these markets carefully and be willing to adapt. We have outlined below what our client considers to be some key factors resulting from Arrowcrest's misconception which have resulted in injury to Australian Industry.

*Failure to adapt to design trends*

It is our client's submission that Arrowcrest has failed for an extended period of time to update its ARW design offerings in line with developments in design, fashion and technology. In support of this submission, we have attached a copy of ROH's ARW catalogue from 2007 and 2010-11 which clearly demonstrates the extent to which their product offering has not changed (refer **Attachment B**). Moreover, we have attached a list of the wheel designs included in ROH's 2010-11 catalogue with the date the design was registered with IP Australia (**Attachment C**). This information demonstrates that ROH have not registered a new wheel design since November 2007. By contrast, aside from a small selection of highly popular models Versus updates its product offering on at least a quarterly basis to ensure it keeps up with new trends in design.

As part of this effort to ensure their catalogue of offerings remains current, Versus (as well as other Australian importers) is a regular attendee at major trade fairs and exhibits which are frequently used as a launch pad for new designs by major international market participants. It is our client's submission that Arrowcrest has made no attempt in recent times to participate in these events in any meaningful manner and that this failure is a contributing factor to their inability to remain in touch with the market and with current trends.

To provide further support for our position in this regard, Versus has provided a list of manufacturing techniques and processes which Arrowcrest and Australian manufacturers generally are not in a position to provide. These techniques and processes are at the forefront of global trends and fashions and form the core of Versus' market and sales strategy.

- *Diamond lip technology* which employs high end computer numerical control ("CNC") machining equipment and diamond tooling only available offshore
- *Physical Vapour Deposition (aka PVD, Vacuum Chrome, Sputtering)* which is a speciality paint finish which imitates chrome without the associated environmental impact



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- *Clearcoat colouring* which has been hugely popular in the international market for some time involves tinting the final clearcoat to create coloured highlights
- *Stainless steel lip* which is a popular fashion accent for ARWs and is easily replaceable if damaged
- *Plastic wheel attachments* which are fixed to the front of the wheel to enable consumers to coordinate their wheels with the colour of their car as a low cost alternative to painting
- *Machined accent ring* which a precision CNC machining technique at the forefront of global trends
- *Staggered wheels* where the front and rear wheels are of different sizes

In addition, we refer to the VFACTS National Report on New Vehicle Sales of June 2011 (refer **Attachment D**) which outlines that during the investigation period light and small vehicles have increased their share of the Australian market by 1.4% against a drop in share of 2.3% for medium and large vehicles. According to the 2010-11 catalogue included at Attachment B, Arrowcrest is only marketing a single four-stud pattern wheel to this market significantly hampering its access to market share.

Finally, as recognised in their application, Arrowcrest do not generally produce wheels in the 20"-22" size range. It is our client's submission that the popularity of these wheels has increased significantly in recent years and that Arrowcrest's failure to recognise this and accommodate this market has impeded their popularity.

*Failed Philippines Venture and overreliance on outdated steel technology*

We note that in the application Arrowcrest acknowledge that 'between 2006 and 2009 ROH did import painted and chrome plated ARWs from its overseas division located in the Philippines (ROHP)'. Arrowcrest indicate in their application that this facility was shut down in 2009. It is our client's submission that Arrowcrest's decision to invest in this venture has contributed significantly to the injury it has suffered in the past several years.

Firstly, our client considers it likely that this venture would have required a significant investment of capital for a project that would ultimately prove unsuccessful. While Arrowcrest appear to attribute this failure to the inability to compete in the US market with dumped Chinese ARWs, our client's market intelligence indicates that the poor quality and reliability of the Philippines-manufactured goods was the key factor in the demise of this facility.

In addition, it is our client's submission that this facility is evidence that Arrowcrest was predominantly focussed on its export business potentially to the detriment of its local sales. This was particularly damaging as it occurred at a time when the market trend for caravan and trailer wheels,



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particularly in the OEM segment was transitioning towards alloy wheels instead of steel wheels to add value and margin. Arrowcrest seemingly failed to recognise this trend as quickly as other market participants and instead invested a significant amount of time and financial resources in a failed offshore venture.

In addition the difficulties mentioned above in relation to Arrowcrest's failed Philippines venture, we note that there appears to be some market confusion surrounding the current status of this facility. We refer to IBISWorld Industry Report C2819 *"Automotive Parts and Accessories Manufacturing in Australia"* published in August 2011 which states in respect of the Arrowcrest Group Pty Ltd that 'the company also has operations in the Philippines'. IBISWorld Company Report *"Arrowcrest Group Pty Ltd"* of 30 June 2010 also states that 'Arrowcrest Groups operations are based in Australia and the Philippines'. Our client is aware that some Australian distributors are still stocking ROH wheels marked 'made in Phil' (refer **Attachment E**) and consider that this is further evidence of Arrowcrest's failure to provide the market with new and innovative designs on a regular basis. We again refer to the 2010-11 catalogue at Attachment B which specifically advertises the ROH brand as 'Australian Made' despite the existence of these wheels.

*Overreliance on the OEM segment to support revenue growth*

It is our client's submission that Arrowcrest has historically focussed their attention on the OEM segment which has contracted significantly in the recent past. As noted in IBISWorld Industry Report C2819 *"Automotive Parts and Accessories Manufacturing in Australia"*, 'Arrowcrest Group's revenue fell by 3.2% annually to \$236 million, **mainly due to falling demand from original equipment manufacturers**. This represented a slower rate of decline compared to the industry as a whole' (*emphasis added*).

As acknowledged in the application, Australia's OEM segment consists of the three Australian passenger motor vehicle manufacturers Toyota, Holden and Ford together with their performance brands Holden Special Vehicles and Ford Performance Vehicles. This market has recently diminished significant as previous participant Mitsubishi Motors ceased its Australian manufacturing activities along with Toyota Racing Development ("TRD"), Toyota's performance brand. We are aware that Arrowcrest provided ARWs to Mitsubishi and our client believes they may also have provided ARWs to TRD. Although Arrowcrest has recognised the closure of Mitsubishi in the figures it has provided as part of the application our client contends that it has not fully accounted for the likely impact of this loss. For example, our client considers the market exposure of the ROH brands is likely to have diminished with the closure of Mitsubishi's operation. This has the potential to significantly impact the popularity and market share of these products in an industry where market exposure is of



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significant importance. Moreover, it is a significant possibility that the marginal value of producing a single ARW is likely to have increased with the fall in overall production of ROH products.

Further, in 2006 Holden released the VE model Commodore which represented a \$1 billion investment in Australian manufacturing. This was the first time that an Australian manufactured vehicle was released with OE (Original Equipment) 20" ARWs direct from the factory as load and rolling diameter restrictions had previously impeded this development. This wheel was manufactured by Arrowcrest as OE.

Since 2006, the VE model commodore has consistently been the Australian vehicle most commonly fitted with aftermarket ARWs. In fact, this vehicle represents over 70% of Versus' ARW sales. Despite this, for the period 2006-2010 ROH had only a single 20" wheel design capable of being fit to this vehicle with a second model released in late 2010 and no new models since. During the same period, Versus has sold upwards of 40 different models in 20" capable of being fitted to this vehicle. This again highlights Arrowcrests failure to commit to the AM industry while still being significantly involved at OEM level.

Finally, our client submits that the ARW market is generally driven by fashion and design and that as a result the market is increasingly being dominated by the AM segment. This is because consumers want to have a unique identity not generally afforded by the OEM segment which applies the same design to all vehicles of a certain model. This has resulted in significant detriment to Arrowcrest who have maintained their reliance on the OEM segment.

*Failure to take advantage of growing distribution channels within the AM segment*

Our client also considers that Arrowcrest has failed to take advantage of the significant growth of independent resellers as a key distribution channel in the AM segment. In our client's experience, independent resellers are typically more willing to satisfy consumer custom-fit demands than large chain distributors and this has led to a significant increase in the popularity of this distribution channel.

Moreover, our client's market intelligence indicates that ARW suppliers willing to deal directly with distributors and retailers are redefining the classic industry model which frequently included the payment of rebates at a corporate head office level. As a small business Versus has always dealt directly with its distributors and was well positioned to take advantage of this trend. By contrast, Arrowcrest may have had significant issues adapting to such a decentralised model particularly in terms of cash collection and inventory management.



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Our client considers that Arrowcrest has not adapted to this market trend and is therefore hampering its own ability to increase market share. Our client's industry intelligence indicates that Arrowcrest take a very passive approach to sales and marketing and generally neglects to work with its distributors to increase the popularity of its products. Versus and its competitors are constantly making connections with distributors in an attempt to increase their market share and Versus considers this to be a key element of its growth strategy.

### **Conclusion**

In conclusion, Versus submits that Customs and Border Protection should revise the goods under consideration to exclude wheels for caravans on the basis that like goods are not manufactured in Australia. Moreover, Versus contends that the material injury alleged to have been suffered by the Australian Industry is entirely attributable to non-dumping causes including the GFC, the cessation of ACIS, the contraction of the Australian OEM market for ARWs and Arrowcrest's failure to effectively market and distribute contemporary ARW designs in line with continuously evolving market trends. For these reasons, we submit that Customs and Border Protection's current investigation should be terminated without the imposition of any dumping or countervailing duties.

Please find enclosed Versus' response to Part B and Part C of the importer questionnaire as requested. We look forward to the opportunity to participate further in this investigation once all initial submissions have been lodged.