

ARROWCREST GROUP

Public File Version

21 February 2012

Ms. Joanne Reid
Director, Operations 2
International Trade Remedies Branch
Australian Customs and Border Protection Service
Customs House
5 Constitution Avenue
CANBERRA ACT 2601

Dear Joanne,

Reference : Arrowcrest response to Ford submission.

I refer to the submission on behalf of Ford Motor Company of Australia Limited ("Ford"), public file reference 2011/036851-04.

1. Introduction.

Arrowcrest's application is in respect of both OEM and AM ARWs which Arrowcrest manufactures.

3.2 Ford sourcing requirements.

Whereas for many years the Australian ARW industry competed fairly with ARWs exported from Indonesia, Japan, Malaysia and Taiwan (for example), Arrowcrest has provided evidence that the Australian ARW industry cannot compete fairly with dumped and subsidized ARWs from China.

Prior to Ford terminating its supply contracts with Arrowcrest (for which Arrowcrest was awarded damages), there was no threat to Arrowcrest's capability to supply ARWs to Ford that would cause Ford to jeopardize its own production.

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4. Impact of aluminium pricing on aluminium wheels.

Arrowcrest rejects the assertion that Ford has not seen evidence that prices for ARWs wheels are significantly cheaper in China than in other parts of the world.

For example, Arrowcrest understands that Ford had sourced Australian-made OEM ARWs for several years from Mullins Wheels for short-run use on its Falcon and Territory models. Apparently, Ford advised Mullins to stop supplying its more expensive Australian-made OEM ARWs and, instead, directed Mullins to import a range of ARWs from China on Ford's behalf, again for short run factory fitment. Arrowcrest understands that this instruction (which Mullins rejected at the time), was driven solely by the price for ARWs from China.

Mullins continues to supply Ford with a range of AM ARWs which Mullins now sources from China.

5. Design and testing process.

Whilst manufacturers of AM ARWs might not engage directly with Ford's engineers, extensive testing and modifications are required to ensure that AM ARWs meet all of the likely target vehicle applications, including vehicles manufactured by Ford.

When AM ARWs are developed there are three primary tests conducted to validate the product – cornering fatigue, radial fatigue and impact. These are the same three primary tests that Ford and indeed all car manufacturers conduct when selecting and developing ARWs.

Arrowcrest's OEM and AM ARWs meet and exceed Ford specifications for ARWs and are fully tested to comply (as a minimum) with Australian Standard AS1638 for road wheels.

6. Characteristics of the final product.

Whilst it is permissible that some suppliers of OEM and AM ARWs might not be capable of meeting Ford's exact specifications, the essential physical and technical characteristics for ARWs are globally generic. Additionally, diecast ARWs use the same material (AC601/A356.2 aluminium alloy) and are produced using globally generic processes.

Whilst Ford claims that "important technical and quality distinctions between OEM and AM wheels makes clear that these two products are not interchangeable", Ford has for many years sold AM ARWs through its Australian dealerships as a profit-boosting dealer option. Ford continues to provide full new-car warranty for its vehicles fitted with AM ARWs from China, supplied to Ford by Mullins Wheels.

It is typical however that a car manufacturer, including Ford, may not provide new car warranty where "non-genuine" parts are fitted.

6.1. Quality

As noted in Ford's submission, its material of choice for ARWs is A356-T6 modified, which is the material used for production of both OEM and AM ARWs globally and Arrowcrest has shown Customs that chemical, mechanical, heat treatment (and therefore micro-structure) requirements are identical.

Arrowcrest produces its ARW products, regardless of OEM or AM application, to meet each of the requirements listed by Ford, including paint quality and Arrowcrest's OEM and AM ARWs are produced using the same equipment, processes and materials.

6.2. Physical and chemical differences.

Whilst Ford might provide its own written specifications to suppliers, including paint performance, the processes for development and production of ARWs are globally generic. The physical and chemical properties for OEM and AM ARWs must be essentially the same, regardless of country of origin, or else they would be literally falling off Ford's vehicles.

7. Cost of manufacturing.

Arrowcrest agrees with Ford that the process of development and manufacture of OEM ARWs can be more expensive than the path to market for AM ARWs, but this is not necessarily due to differences in the materials used.

AM wheels must satisfy similar customer expectations, including performance and quality. As many AM ARWs are fitted to performance enhanced vehicles, for example, AM ARWs typically meet and can often exceed factory OEM specifications.

8. Lack of interchangeability.

Ford can and has used AM ARWs for industrial assembly. For example, Ford has sourced ARWs manufactured by Arrowcrest's aftermarket division (ROH Wheels Australia), which have been branded "Tickford" and fitted to new vehicles at Ford's Broadmeadows car plant.

Arrowcrest also notes that Ford is not alone in sourcing AM ARWs for its dealers to fit to new vehicles whilst retaining full new-car warranties.

Aftermarket ARWs offered through Ford dealerships typically command higher prices than OEM wheels. In these circumstances it is highly unlikely that Ford would promote its OEM wheels as having superior quality or material content.

9.1 "Like goods".

The essential characteristics (size, bolt pattern, offset, brake clearance and mechanical strength), are such that AM ARWs can be readily interchanged with OEM ARWs. If this were not the case then the retail tyre industry, as well as car manufacturers, would not be supplying and fitting all kinds of AM ARWs to all kinds of new and used motor vehicles.

In the aftermarket, price is a determinative issue in the same way that competition for OEM contracts is also price motivated.

As noted at (6) above, Ford has purchased the cheapest "suitable" AM ARWs from China, (displacing Mullins' Australian-made AM ARWs), for fitment at Ford dealerships to the new vehicles Ford produces.

Arrowcrest also notes that, from time to time, it continues to supply AM ARWs to Ford, i.e. "Tickford" branded ARWs - albeit now as spare parts.

Certainly it has been the case in Australia that a consumer need not go to the aftermarket and can instead purchase AM ARWs from Ford dealers for a new Ford vehicle - sufficiently so as to conclude irrefutably that OEM and AM ARWs are indeed like goods.

9.2 Injury Period and Investigation period.

Arrowcrest has provided evidence of its declining performance as well as the decline in imports from other countries, versus the indicative 738% increase in imports of ARWs from China over the period 2003 to date.

Arrowcrest has provided Customs with sufficient background and current data to verify that ARWs from China are exported at dumped and subsidized prices to the long term detriment of the Australian industry, including at Mullins Wheels.

9.4 Consideration of Issues by Customs in the Consideration Report.

(a) Volume effects.

Arrowcrest has also provided evidence that shows that it has continued to lose sales, market share and volumes during the investigation period.

In its industry visit report dated November 2011, Customs notes that "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."

Arrowcrest has also provided evidence of price suppression and price undercutting during the investigation period (that has contributed to a loss of sales volume), wholly attributable to ARWs from China at dumped and subsidized prices.

Arrowcrest contends that a 6% decline in volumes of dumped and subsidized ARWs from China during the investigation period is attributable to import volumes specifically of OEM ARWs for Ford and, to a lesser extent for Holden. The claim on behalf of Ford that there is no volume impact in the investigation period is not supported by Customs' findings.

(b) Price effects.

During the investigation period, Arrowcrest has experienced a slight price increase in its OEM ARWs as a result of a similar recovery in LME prices for aluminum following the global financial crisis.

However, Arrowcrest has been unable to recover any cost increases in the aftermarket and indeed its aftermarket prices have continued to fall in response to continued price undercutting by importers of ARWs from China.

As noted in Customs industry visit report, "despite costs increasing during the period 2007 to 2009, Arrowcrest's price decreased from 2007 to 2011", and "the quarterly graph illustrates that the margin of price over cost has been mostly negative or minimal throughout the injury analysis period".

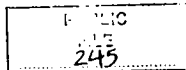
Arrowcrest notes that it has provided both oral and written evidence in relation to its injury indicators for the investigation period, including :

- Price suppression;
- Loss of business;
- Further injury in its aftermarket business in the form of further lost sales and price suppression;
- Loss of OEM ARW business.

Customs has concluded that, "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."

With regard to other injury factors, Customs report states that "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..."

Customs' conclusions on injury to Arrowcrest in the form of lost sales volumes, price suppression and reduced profits and profitability support Arrowcrest's claims made in its application.



9.6 Causal link.

The decision by Ford to terminate its contracts with Arrowcrest pre-dates 2003. The loss of Ford's business is not included in Arrowcrest's injury claims.

Since the global financial crisis, sales of locally produced large passenger vehicles have declined but this has been offset to some extent by increased sales of locally produced mid-size cars and SUV vehicles.

The current downturn in production of large cars in Australia does not in itself account for Arrowcrest's losses which are substantially caused by exports of ARWs from China at dumped and subsidized prices.

10. Conclusion.

Arrowcrest submits :

- The goods imported from Dicastal in China to supply Ford (and Holden) are like goods to those manufactured by Arrowcrest;
- Arrowcrest's application for measures is in respect of both OEM and AM ARWs that are like goods; and
- Arrowcrest has provided evidence of material injury which Customs has verified.

Whilst there is a current downturn in demand for large passenger vehicles of the kind produced by Ford, overall the Australian market for ARWS has continued to grow since 2003, including during the period following the global financial crisis. However despite this growth and recovery, Arrowcrest's sales volumes and market share have continued to decline whilst exports to Australia at dumped and subsidized prices from China have increased.

Yours sincerely,

Bill Davidson
General Manager