



Australian Government
Australian Customs and
Border Protection Service

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INVESTIGATION INTO THE ALLEGED DUMPING AND SUBSIDISATION OF ALUMINIUM ROAD WHEELS

EXPORTED FROM

THE PEOPLE'S REPUBLIC OF CHINA

IMPORTER VISIT REPORT

PRIMAL ALLOY WHEELS AND TYRES 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**

March 2012

ARWs – Importer Visit Report: Primal Alloy Wheels and Tyres

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2 BACKGROUND AND PURPOSE

2.1 Background to the current investigation

On 26 September 2011, Arrowcrest Group Pty Ltd (Arrowcrest) lodged an application requesting that the Minister for Home Affairs (the Minister) publish a dumping duty notice in respect of aluminium road wheels (ARWs) exported to Australia from The People's Republic of China (China) and a countervailing duty notice in respect of ARWs exported to Australia from China.

The application alleges that ARWs have been exported to Australia from China at prices lower than their normal value, that ARWs exported to Australia from China have received countervailable subsidies, and that this dumping and subsidisation have caused material injury to the Australian industry producing ARWs.

Following consideration of the application, the Australian Customs and Border Protection Service (Customs and Border Protection) decided not to reject the application. Public notification of initiation of the investigation was made in *The Australian* newspaper on 7 November 2011. Australian Customs Dumping Notice (ACDN) No. 2011/54 provides further details of this investigation and is available at www.customs.gov.au.

ACDN No. 2012/06 was published on 24 February 2012 notifying interested parties that the Minister had agreed to extend the deadline for the publication of the Statement of Essential Facts by 8 weeks to 27 April 2012. Therefore recommendations to the Minister must now be made in a report due on or before 11 June 2012.

The investigation period is 1 July 2010 to 30 June 2011. Customs and Border Protection will examine exports to Australia of the goods during that period to determine whether dumping has occurred. Customs and Border Protection will examine details of the Australian market from 1 July 2006 for injury analysis.

Prior to initiation of the investigation, Primal Alloy Wheels and Tyres Pty Ltd (Primal) was identified in Customs and Border Protection's import database (import database) as an importer of ARWs from China in the investigation period. Consequently, Primal was invited to participate in the investigation, and was provided with an Importer Questionnaire to complete.

Primal completed the Importer Questionnaire, providing details regarding the company, overseas supplier information, imports and expenses, sales and forward orders. A copy of Parts A, B and C of its questionnaire response is at **confidential attachment 1**.

2.2 Purpose of meeting

The purpose of this visit was to:

- confirm that Primal is the importer of ARWs as identified in the import database and obtain information to assist in establishing the identity of its suppliers/exporter(s) of ARWs;

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- verify information on imports of ARWs to assist in the determination of export prices;
- establish whether the purchases of ARWs by Primal were in arms length transactions;
- establish post-exportation costs incurred by Primal in importing ARWs;
- identify Primal sales and customers and verify sale volumes, selling prices and selling costs;
- consider how Primal's supplier's export prices may be determined¹; and
- provide the company with an opportunity to discuss any issues it believed relevant to the investigation.

2.3 Meeting

2.3.1 Introduction

At the meeting, Customs and Border Protection provided Primal a general outline of the investigation process and key dates. In particular, we advised Primal that a Preliminary Affirmative Determination (PAD) may be made at any time from 6 January 2012 and advised that the implementation of a PAD would enable Customs and Border Protection to implement provisional anti-dumping and/or countervailing measures (in the form of securities) for the remainder of the investigation and until the Minister had made a decision on whether to impose definitive measures. Primal was advised that the timing for the statement of essential facts (SEF) had been extended by the Minister and is now due on 27 April 2012 and therefore the final Report to the Minister is now due on 11 June 2012.

Primal was also advised generally that:

- we would prepare a confidential report on the visit and, before finalisation of the report, Primal would be given the opportunity to review the report for its accuracy;
- Customs and Border Protection is required to maintain a Public Record of the investigation containing non-confidential copies of all reports, submissions, correspondence and other documents relevant to the case; and
- a non-confidential version of this visit report would be prepared in consultation with Primal and placed on the Public Record.

¹ under s. 269TAB of the *Customs Act 1901*

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2.3.2 Meeting Details

COMPANY	Primal Alloy Wheels & Tyres Pty Ltd
ABN	ABN 49 141 486 357
ADDRESS	5 Fabio Court Campbellfield Victoria
TEL NO	(03) 9357 1425
FAX NO	(03) 9357 4269
DATE	31 January 2012
PRESENT	
Primal	John Urch Brett Rourke XXXX
Customs and Border Protection	Sanjay Sharma, Operations 2 David Turner, Operations 2

Prior to the meeting, Customs and Border Protection forwarded an agenda to Primal which also identified a selection of domestic sales and importation transactions for verification. A copy of the agenda is at **confidential attachment 2**.

Primal co-operated fully during the visit making relevant staff available and providing copies of requested documents as necessary.

2.4 Documents provided by Primal

As part of the Importer Questionnaire, Customs provided Primal with a copy of an import list download from its import database and selected 5 shipments from this list for further examination and verification (**confidential attachment 3**). Primal provided in Part B to its Importer Questionnaire response a completed importer transaction form. The importer transaction form includes information on the import, shipment and post importation costs through to sale of that shipment to Primal's Australian customers.

Primal provided all commercial documents to verify the goods and post importation costs for the selected transactions at the meeting (**confidential attachment 4**).

At the verification visit, Primal also provided supporting documentation (invoices and proof of payment) for 5 sales transactions we randomly selected from the sales report provided in Part C to the Importer Questionnaire response (**confidential attachment 5**).

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3 THE GOODS

3.1 Description

The goods the subject of the application (the goods) are:

Aluminium Road Wheels for passenger motor vehicles in diameters ranging from 13 inches to 22 inches.

For clarification, the goods include:

- wheels used for caravans and trailers;
- finished or semi-finished ARWs;
- whether unpainted, painted or chrome plated;
- forged and cast ARWs; and
- ARWs with or without tyres.

The goods exclude:

- aluminium wheels for go-carts and All-Terrain Vehicles.

3.2 Tariff classification

The goods are classified to tariff subheading 8708.70.91 (statistical code 78) in Schedule 3 to the Customs Tariff Act 1995.

Customs and Border Protection Trade Services Branch confirmed that the goods are correctly classified to this sub-heading.

The rate of duty for goods exported to Australia from China is 5%.

3.3 Primal's imports

Primal advised that during the investigation period it imported ~~XXXX~~ and ~~XXXX~~ inch ~~XXXX~~ ARWs from China for the caravan chassis industry.

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4 COMPANY DETAILS

4.1 Commercial operations

4.1.1 Organisational structure of company

Primal is a privately owned Australian company located in Melbourne, Victoria. The business was established in January 2010.

4.1.2 Functions of the company

Primal's sole business is to import and sell ARWs and tyres to the caravan chassis manufacturing industry.

4.1.3 Product range

Primal sells ~~XXXX~~ inch ARW's in ~~XXXX~~ finishes.

4.2 Like goods

Primal believes that the ARWs manufactured in Australia are not like goods to the goods it imports. On 21 December 2011, Price Waterhouse Coopers (PWC) on behalf of Primal made a submission to Customs and Border Protection which included a claim that ARWs manufactured in Australia are not sufficiently alike ARWs manufactured specifically for the caravan industry importer by Primal for the following reasons:

- Caravan wheels require specific processes and technologies which distinguish these wheels from the wheels designed for passenger motor vehicles (PMV);
- Caravan wheels are commonly manufactured with powder-based clear coat paint with a high tolerance to alkaline and salt. This particular finish is applied to ensure wheel longevity. While Australian Industry wheels are liquid based clear coat finish with substantially less resilient qualities;
- Caravan wheels are typically equipped with steel inserts to protect the aluminium wheel nut seat from wear and corrosion during caravanning and boating activities; and
- caravan wheels are subject to different industry standards and expectations than ARWs used for PMVs in relation to load carrying capacities. Caravan wheels have specific requirements in relation to wheel offset, width and pitch circular diameter (PCD) which pertain to the industry standards associated with OEM caravan wheel fitment.

4.3 Accounting

Primal stated that its financial year runs from 1 July to 30 June. Primal advised that it runs a computerised accounting system called "~~XXXX~~".

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Primal advised that it operates one profit centre.

4.4 Purchasing the Goods

We noted that the import database records the supplier of ARWs to Primal as 'XXXX'. Primal explained that XXXX purchases the ARWs from XXXX) and sells the goods to Primal while the goods are on the water. XXXX who in turn invoices Primal for the goods.

Primal advised the shipments are sent directly from the Chinese supplier to Primal or a customer in Australia.

4.5 Relationship with the suppliers of the goods

During the investigation period, XXXX was the sole supplier of ARWs to Primal XXXX.

Primal stated that it has no relationship with XXXX other than a normal commercial relationship. Primal also advised that it does not receive any discounts or rebates from XXXX.

We did not find any evidence of rebates or discounts provided by XXXX and there appears to be no relationship between Primal, XXXX beyond their commercial dealings.

4.6 Relationships with customers

Primal's customers during the investigation period were:

- XXXX and
- XXXX.

Primal advised that XXXX purchased approximately 75 percent of It's goods in the investigation period, XXXX purchased about 20% and the remaining 5% was purchased by XXXX. Primal advised that it does not provide any commission or rebates to its customers.

5 IMPORTS**5.1 General**

As stated previously, during the investigation period Primal purchased ARWs from XXXX.

Primal purchased ARWs in container loads for sale to caravan chassis manufacturers in Victoria. Primal supplies container loads of ARWs directly to one of its customers. In regard to the other customers, Primal purchases tyres separately and has them fitted to the wheels before supplying them those customers as a package deal.

5.2 Ordering process

Primal advised that:

- It does not have a contract with XXXX;
- It keeps about two months stock and orders as required. Primal considers the market trends and stock levels before placing an order with XXXX;
- the order cycle is 3 to 4 months. Due to manufacturing scheduling, Primal has a base period of 60 day delay before manufacturing will commence. Typically this period tends to be considerably longer with some orders now in excess of 180 days old;
- When the order is filled, XXXX arranges for the goods to be shipped to Australia in 20 foot containers (each container holds about 650 wheels);
- XXXX sells the goods to Primal on the water;
- it operates from a price list which is updated 12 monthly. However there may be variations to the listed price due to:
 - currency fluctuations; and
 - fluctuations in the LME aluminium price. XXXX reviews LME prices quarterly and tries to pass on in the form of price adjustments to its customers. XXXX also monitors LME pricing to ensure the adjusted price accords with its agreed terms with XXXX;
- terms of sale are XXXX;
- XXXX invoices XXXX Primal;
- Freight forwarding, customs clearance and into store transport services are provided by XXXX. The goods are released to Primal by XXXX once they

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receive a telex from the supplier stating payment has been made by XXXX;
and

- Payment is made in US dollars converted at the exchange rate effective on day of payment.

5.3 Volume of trade

During the investigation period Primal imported XXXX ARW's with the following breakdown per quarter.

Jul – Sep 2010	Oct – Dec 2010	Jan – Mar 2011	Apr- Jun 2011
XXXX	XXXX	XXXX	XXXX

5.4 Forward orders

Primal provided a detailed list of forward orders at the verification visit (**confidential attachment 7**). We were advised that the forward orders were sizeable to compensate for the scheduled delivery times.

Primal provided the table below as part of its Importer Questionnaire response.

XXXX

We observed that the quantity of forward orders appears to be consistent with current levels of trade.

5.5 Verification of imports

Prior to the visit we requested all commercial documents be provided for the 5 selected shipments.

Primal provided bundles of source documents in respect of each of the following selected shipments by the Customs entry number (**confidential attachment 4**).

XXXX

These source documents included the following information:

- commercial invoice;
- bill of lading;
- customs entry;
- invoice for import and clearance charges and cartage charges;
- invoice for Customs duty;
- evidence of foreign exchange rate used; and
- evidence of payment.

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We compared the quantity and value data for the 5 transactions provided by Primal in Part B to its Importer Questionnaire response (Importer Transaction Form) with the data contained within the import database. We noted that shipments 3 and 4 have two containers of goods whereas the Importer Transaction Form shows volume data for only one container for each shipment but value data for the two containers. Primal provided all the source documents and these volumes were adjusted to reflect the correct values.

We are satisfied overall that the total number of pieces and total prices for the shipments selected reasonably corresponds with the suppliers' invoices and is reasonably accurate.

We consider the source documents provided were acceptable for verification purposes and where the source document costs did not match the importer transaction form, we considered the discrepancies were immaterial.

5.5.1 Supplier invoice details

All supplier invoices were quoted in USD and paid using the exchange rate on the date of payment. The volume and supplier details for each of the selected shipments on the importer transaction form reconciled with the supplier invoices provided. All shipments have been identified as FOB in the importer transaction form.

The terms of payment for each transaction identified in the importer transaction form were confirmed by Primal.

We are satisfied that the invoice values in the importer transaction form are accurate.

5.5.2 Shipment costs

Primal provided details of shipment costs. Primal advised that no marine insurance was paid on shipments during the investigation period.

Primal also advised that ocean freight was paid in USD converted using the exchange rate at the date of payment.

We calculated average ocean freight as \$XXXX per ARW and insurance as \$XXXX per ARW based on the selected shipments (**confidential appendix 1**).

We are satisfied that the cost of ocean freight is accurate.

5.5.3 Australian Importation costs

Primal provided values for Customs broker fees, port service charges and delivery in the importer transaction form.

We were able to verify the source documents that reconciled with the values listed for the majority of the Australian importation costs.

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We note that the values reconcile with the post order calculations provided by Primal and therefore we are generally satisfied that the Australian importation costs are accurate.

We included customs duty values based on the Customs clearance documentation provided.

We calculated weighted average importation costs as \$XXXX per ARW based on the verified data in the importer transaction form (**confidential appendix 1**).

5.5.4 Proof of payment of imports

Primal also provided proof of payment documentation for all selected transactions (**confidential attachment 7**). This included receipts and bank statements.

We are satisfied that payment was made for the imports.

5.6 Average post exportation costs

Below are the Australian dollar weighted average import costs per piece during the investigation period based on the verified data in the importer transaction form:

	AUD/Tonne
Shipment costs (freight and insurance)	XXXX
Australian importation costs (Customs duty, Customs broker fees, port service charges and delivery)	XXXX

5.7 Export prices for selected shipments

Subject to further inquiries with XXXX, the export price is the invoiced price between XXXX.

Primal has provided invoiced prices between XXXX and Primal. These prices may be used to calculate export prices if invoiced prices cannot be used (**confidential attachment 8**).

The weighted average Australian dollar FOB prices between Versus Wheels and Primal are shown below.

Wheel size (inch)	Export Price (AUD)
XXXX	XXXX
XXXX	XXXX

6 SALES**6.1 Australian market**

Primal supplies caravan chassis manufacturers with ~~XXXX~~ inch ARWs who in turn supply the Australian caravan manufacturing industry. Primal stated it supplies about ~~XXXX~~% of the caravan manufacturing industry.

Primal claims that market conditions over the past six months have improved and sales have been on a steady increase with caravan sales growing at around 4% per annum over the last few years. Primal explained that demand for the caravan ARWs is not cyclical.

Primal advised that:

- the caravan industry is controlled by industry standards;
- its relationship with its customer's is very important. There are no legal contracts and all sales deals are done by word of mouth and trust; and
- strong product knowledge is also critical in forecasting consumer demand and market trends.

6.2 Selling Prices

Primal claims that price changes are in general not an issue with its customers. Consistent quality and relationships are generally considered to be more important by its customers.

Primal advised that it does not provide discounts or rebates off its invoiced prices and sometimes absorbs price increases due to exchange rate fluctuations to maintain its relationship with customers.

Primal explained that the invoiced price to customers who purchase a tyre and wheel package does not differentiate between the selling price of the tyres and the wheels, however the prices are recorded separately in its computer system.

6.3 Distribution and selling system

Primal stated that sales to one customer are made in container loads and transported to the customers' premises directly from the wharf. Sales to its other customers are made from stock.

Primal stated that all sales by containers are ~~XXXX~~ payment terms. Other customer's have ~~XXXX~~ day credit terms. There are no freight costs added to the price for sales made from stock as Primal's customers are located nearby.

6.4 Date of sale

We advised Primal that Customs and Border Protection usually regards the invoice date as the date of sale (i.e. the date that best represents when the material terms of the sale have been established) unless there is clear evidence to indicate that another date is appropriate.

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6.5 Sales verification

Primal provided a sales listing in Part C of its Importer Questionnaire response.

We randomly selected five sales (based on the invoice number) from the sales listing prior to the visit and asked Primal to provide copies of relevant source documents at the meeting. Primal provided invoices and proof of payment (in the form of bank statement extracts and remittance advice) for the five selected sales (**confidential attachment 5**).

XXXXWe reconciled the invoice details (value, quantity, invoice date and terms of payment) for the above to Primal's sales listing.

Based on verification of this sample of documents, we are satisfied that the details recorded in Primal's sales listing are accurate.

Primal provided a copy of its financial statements for 2010/11 at the verification visit (**confidential attachment 9**). Primal advised that the sales revenue figure in the financial statements included the sales revenue from the sale of wheels and tyres. Primal provided a sales revenue figure for the sale of tyres from its system. When the sales revenue generated from the sale of tyres was added to total sales revenue recorded in the sales listing for ARWs, there was a discrepancy in the data.

Primal explained that the discrepancy was due to timing differences. We are satisfied that the discrepancy was not significant and therefore the details recorded in Primal's sales listing are complete.

6.6 Selling, general and administrative costs

Primal provided selling, general and administrative (SG&A) cost calculations in the importer transaction form based on a calculated rate of XXXX% of revenue.

Based on Primal's 2011 financial statements, we calculated that the total SG&A expenses were XXXX% when measured as a percentage of revenue.

Primal advised that SG&A included the interest charges, credit insurance and miscellaneous costs of sales identified in the post order calculation for each shipment and any other costs not specifically identified in the importer transaction form.

6.6.1 Profitability of sales

We calculated Primal's profitability of the 5 selected shipments in the importer transaction form. We calculated the following average gross profit margins for each shipment based on an estimated rate for SG&A of XXXX%.

All sales were calculated as profitable by Primal, with an average gross profit of XXXX%.

XXXXWe noted that in the 2011 financial statements, Primal's overall profit before income tax was XXXX%.

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The profit results support an overall finding that the transactions between Primal and its suppliers of ARWs are arms length.

Our calculations of importer profit are contained in **confidential appendix 2**.

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7 WHO IS THE IMPORTER AND EXPORTER

7.1 Who is the importer?

We have reviewed the documents provided by Primal in respect of the selected shipments. We note that:

- Primal negotiates directly with XXXX;
- the consignee on the bill of lading is XXXX;
- XXXX is named as the buyer on supplier invoices;
- XXXX sells the goods on the water to Primal at XXXX;
- Primal arranges ocean freight, customs clearance, logistics and storage of the goods in Australia;
- Primal is the maintains ownership of the goods from the time of export until they are delivered to its customers; and
- Primal bears the risk of its customers defaulting on payment.

We consider Primal to be the beneficial owner of the goods at the time of importation, and therefore the importer.

7.2 Who is the exporter?

Customs and Border Protection will generally identify the exporter as:

- a principal in the transaction located in the country of export from where the goods were shipped who gave up responsibility by knowingly placing the goods in the hands of a carrier, courier, forwarding company, or their own vehicle for delivery to Australia; or
- a principal will be a person in the country of export who owns, or who has previously owned, the goods but need not be the owner at the time the goods were shipped.

It is common for traders and other intermediaries to play a role in the exportation of the goods. These parties will typically provide services such as arranging transportation, conducting price negotiations, arrange contacts with the producer, etc.

In such cases, the trader typically acts as an intermediary who, although one of the principals, is essentially a facilitator in the sale and shipment of the goods on behalf of the manufacturer. Typically the manufacturer as a principal who knowingly sent the goods for export to any destination will be the exporter.

Therefore, depending on the facts, Customs and Border Protection considers that only in rare circumstances would an intermediary be found to be the exporter. Typically this will occur where the manufacturer has no knowledge that the goods are destined for export to any country and the essential role of the intermediary is that of a distributor rather than a trader.

Subject to further inquiries with XXXX, we consider that:

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- ~~XXX~~ knowingly places the goods on a vessel for delivery to Australia;
- ~~XXX~~ acts as an intermediary who essentially facilitates the sale of ARWs between the manufacturer and the importer; and therefore
- ~~XXX~~ is the exporter of the goods.

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8 ARMS LENGTH

In determining export prices under s. 269TAB(1)(a) and normal values under s. 269TAC(1), the Act requires that the relevant sales are arms length transactions. S.269TAA outlines the circumstances in which the price paid or payable shall not be treated as arms length. These are where:

- there is any consideration payable for in respect of the goods other than price;
- the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; and
- in the opinion of the Minister, the buyer, or an associate of the buyer, will, directly or indirectly, be reimbursed, be compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.

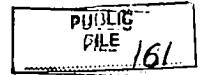
Primal stated that it does not receive any reimbursement, rebates or other support from its suppliers in respect of the goods. Primal advised that the invoice price was the price actually paid.

We reviewed the documentation for the selected shipments and did not find any evidence, in respect of the purchase of ARWs, that:

- there is any consideration payable for or in respect of the goods other than price;
- the price was influenced by a commercial or other relationship between Primal or an associate of Primal, and its suppliers or an associate of the supplier; and/or
- Primal or an associate of Primal was directly or indirectly reimbursed, compensated or otherwise received a benefit for or in respect of the whole or any part of the price.

We are satisfied that import transactions between Primal and its suppliers are at arms length in terms of s. 269TAA.

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9 GENERAL COMMENTS

PWC made a submission on behalf of Primal contesting that caravan wheels are not the like goods and that caravan wheels should be excluded from the goods under consideration (**confidential attachment 10**).

Primal claims that the applicant does not manufacture caravan wheels. ARW's manufactured specifically for the use with caravans are not sufficiently alike to those goods produced by the applicant Arrowcrest.

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10 RECOMMENDATIONS

10.1 Export prices

We are of the opinion that the goods imported by Primal and exported by ~~XXXX~~ are:

- Goods that have been exported to Australia otherwise than by the importer, Primal;
- Goods that have been purchased by the importer from an intermediary, ~~XXXX~~; and
- the purchases of the goods by the importer were sold in arms length transactions.

Subject to further inquiries with ~~XXXX~~, we recommend that the export price for ARWs imported by Primal be established under s.269TAB(1)(c) of the Act, - the price the Minister determines having regard to all the circumstances of the exportation.

David Turner
Operations 2

Sanjay Sharma
Operations 2

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11 ATTACHMENTS AND APPENDICES

Attachments	
confidential attachment 1	Primal's response to the Importer Questionnaire (RIQ) (Parts A, B & C)
confidential attachment 2	Visit agenda
confidential attachment 3	Import List (CRE download with selected shipments)
confidential attachment 4	Supporting documents for 5 selected shipments
confidential attachment 5	Source documents for 5 selected sales
confidential attachment 6	Primal's flow chart diagram – distribution
confidential attachment 7	List of forward orders
Confidential attachment 8	Invoiced prices between XXXX and Primal
confidential attachment 9	Financial statements and Tax Returns for the year ending 30 June 2011
confidential attachment 10	PWC submission
Appendices	
confidential appendix 1	Working –Importation costs
confidential appendix 2	Working – Profit calculations