

ARROWCREST
GROUP

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29 March 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 general comments made during the importer visit to Premoso Pty. Ltd., T/A HSV, on 7 March 2012.

I refer to the importer visit report posted on Customs' website this week.

Cast Flow Forming process.

Cast flow forming and forging processes do not allow for greater flexibility in styling.

In the cast flow forming process, the blank is cast by the conventional LPDC method but with an abbreviated rim section. The abbreviated rim section is machined following casting and then flow-formed to produce the rear rim section of the wheel.

In other words, in the cast flow forming process the front-face styling is diecast in the conventional LPDC manner and there are no advantages in terms of front face styling available from this process. The flow-forming process does not act on the front-face of the diecast blank.

The cast flow forming method can reduce the thickness of the rear rim section of the wheel, however a thinner rear rim section would still need to provide the necessary strength to meet GM's test criteria, including radial fatigue and 90 degree impact testing.

If the rear rim section could be reduced as described above, the weight saving attributable to this section of the wheel could be around XXXkg in the case of a 20" HSV ARW, or XX%.

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HSV is aware that Arrowcrest has been (confidential business strategy), as referenced in the following email :

Sent: Saturday, 24 September 2011 10:24 AM

To: Sharpe, Chris; Smit, Andries

Subject: Indicative MY14 front wheel prices - ROH Wheels.

Chris and Andries,

Please see attached our indicative prices for the MY14 wheels as-cast and flow-formed, and where applicable, forged.

The basic assumptions at this stage are :

- 1. 1:1 forex to the US dollar for imported tooling, imported forged blanks and imported wheel caps.*
- 2. PPAP finish weights as indicated*
- 3. (Confidential business strategy)*

(Confidential business strategy)

Please also see attached front and rear views for the Clubsport, Senator and Option wheels which our drawing office has created from your current design data.

I look forward to discussing our indicative quotation with you.

Regards,

Bill Davidson

General Manager

ROH Automotive

Direct 08 8468 4111

Picture 1 – Cast flow formed blank showing front face styling from LPDC method.

(Confidential business technology).

Forging process.

Unlike the LPDC method, forged wheels are typically produced from a solid billet of aluminium. The billet is pre-heated and then subjected to around 8,000 tonnes force in a forging press. The resulting "cup" is then machined in numerically-controlled milling machines to produce the front-face styling and the remainder of the conventional rim shape.

In the forging method, the solid aluminium billet can be pre-formed to approximate a style however the milling process cannot achieve designs that include compound or multiple radii. For this reason the forging method cannot provide the same level of styling flexibility as the LPDC method wherein the molten aluminium "copies" the complex pattern of the casting die.

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For an example of the forging process, please see http://www.youtube.com/watch?v=ArmX02_R7Y0.

To differentiate its products from the GM-Holden underbodies on which HSV builds its vehicles, HSV's proposal to adopt forged wheels is clearly intended to promote performance enhancement via weight saving rather than by complex design. However the performance of HSV's vehicles is already such that a forged wheel option is a marketing ploy and not an essential requirement.

HSV has confirmed to Arrowcrest that it seeks a forged wheel option in response to GM-Holden who already offers a low volume forged wheel in its dealer accessory program and who recently promoted a forged wheel as standard fitment on a discontinued "Redline" vehicle promotion.

For model year 14, (MY14), HSV has re-thought its styles to adopt a conventional design that shaves weight. The conventional design is the standard practice for ARWs globally including at Arrowcrest.

Arrowcrest could already be supplying HSV with lightweight LPDC ARWs, had HSV not insisted on its current un-conventional designs.

Reciprocating mass.

The reference to reciprocating mass is not straightforward as it is not possible to reduce the weight of a 20" ARW by 26kg. For example, Arrowcrest's 20" AM ARWs typically weigh only XXXkg.

During and following Arrowcrest's quotations for HSV's current range of ARWs, Arrowcrest challenged HSV about the excessive and unnecessary weight of their designs. For example, HSV's current 20" ARWs weigh in at XXkg to XXkg, (2 of each per vehicle).

At that time and during subsequent meetings with HSV, Arrowcrest offered to redesign the wheels to reduce the mass. However HSV insisted that their designs were not negotiable and that Arrowcrest was to proceed despite the extremely heavy weights of the HSV designs.

Arrowcrest raised the question of their design weights with HSV in relation to the current VE model ARWs, with specific regard to [a] wheel cost, [b] unsprung vehicle mass, [c] reciprocating mass and [d] the inherent risk to Arrowcrest and HSV personnel from handling excessively heavy designs.

Coincidentally, HSV had received complaints from customers that, in the event of a flat tyre, their wheels were too heavy to safely lift in and out of the boot.

Arrowcrest can and does produce lightweight ARWs of the size and fitment necessary to suit HSV's styling and performance criteria and Arrowcrest can meet or exceed the relevant GM Best Practice Engineering Guidelines. For example, Arrowcrest's other OEM customer has performance criteria that exceed HSV's.

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Meeting GM Best Practice Guidelines.

Arrowcrest acknowledges HSV's perceived need for ARWs produced by the cast flow formed and forging methods, however, as noted, Arrowcrest can and does produce 20" ARWs that are lighter than the HSV designed wheels and Arrowcrest's ARWs exceed GM's engineering performance targets.

Arrowcrest's ARWs meet all of HSV's current strength and performance tests with the tyre profiles HSV uses and Arrowcrest has not been advised by HSV of any changes to those tests.

We draw Custom's attention to the following email received from HSV on Monday 26 September 2011 :

On Mon, Sep 26, 2011 at 2:50 PM, Smit, Andries <Andries.Smit@hsv.com.au> wrote:

Please find attached the Tech Review Presentation we would like to conduct for the MY14 Forged Option Wheel. This is a condensed version of the Tech Review as ROH is a well-known supplier to H.S.V. and we only want to discuss items which are of possible concern to us.

Can you please complete the document with the information requested. We were considering holding the teleconference for the Tech Review on Wednesday 28-Sep-2011.

Please advise if this timing suits ROH so that I can proceed to send out meeting invites.

*Kind Regards,
Andries Smit
Buyer*

HSV sourcing small quantities of Cast Flow Formed and Forged ARWs.

HSV did not begin sourcing small quantities of cast flow formed and forged ARWs two years ago, of its own accord.

Instead, GM-Holden shifted the responsibility for sourcing its Holden range of "HSVi" dealer option ARWs to HSV and the product range included low volume LPDC, cast flow formed and forged wheels imported from China and from Arrowcrest.

Arrowcrest understands that the shift was intended to gain marketing credence for the "HSVi" program by folding it into the successful HSV operation.

Prior to September 2011, HSV had not fitted a cast flow formed or forged ARW to any of its HSV vehicles.

General.

As noted, Arrowcrest does not agree that LPDC wheels cannot meet GM's world wide engineering standards without excessive weight targets.

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Furthermore, Arrowcrest estimates that the majority of ARWs fitted to GM-Holden's vehicles are produced by the LPDC method, including those fitted to their performance enhanced models.

Price.

(Confidential business negotiations).

HSV has never requested a breakdown of its costs in its quotations and Arrowcrest can provide copies of its quotations and HSV's acceptances in support of this fact. Conversely, Arrowcrest can and would provide breakdowns (XXXXXXXXXXXXXXXXXX), if so requested.

Arrowcrest notes that in markets outside of China, prices for forged ARWs can be around six-times higher than conventional LPDC ARWs. For this reason, Arrowcrest considers that if ARWs at dumped and subsidized prices from China were not available to HSV, forged ARWs would not present sufficient styling or weight saving advantages to offset their otherwise prohibitive cost.

Australian manufactured ARWs.

For MY14, Arrowcrest was given the opportunity to quote on all released programs, including two forged wheels.

HSV agreed with Arrowcrest's proposal to XXXXXXXXXXXXXXXXXXXX two forged blanks XX. HSV had in fact agreed to pursue this solution with Arrowcrest in 2008, when the idea of using a forged wheel was first raised. In 2008, HSV had suggested XXXXX or XXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX and had encouraged the idea XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX.

Arrowcrest advised HSV of its proposal to XXXXXXXXXX forged blanks XXXXXXXXXX and HSV agreed to this approach, subject to price and styling.

As noted, Arrowcrest advised HSV that it was investigating XXXXXXXXXXXXXXX with a view to being production capable in time to meet HSV's new model release. (Confidential business strategy.)

Arrowcrest was not advised of any concerns over Arrowcrest's ability to meet GM Corp's specifications. There is no correspondence supporting this contention and Arrowcrest has a long history of working with HSV's engineering department to refine and improve HSV's own designs. Furthermore, Arrowcrest supplies ARWs to XXXXXXXXXX whose specifications for ARWs are more stringent than GM's.

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Whilst developing the proposals XXXXXXXXXXXXXXXX, HSV's Styling group did express concern about radii and shape that would affect styling. Arrowcrest was working XXXXXXXXXXXXXXXX to achieve the necessary changes. Arrowcrest notes that this "to-ing and fro-ing" is an inherent part of the process when developing workable outcomes from designs originated by HSV, regardless of the ultimate production method. Designed spoke thickness, radii and draft angles, (for example), typically require modification, and often several iterations, to achieve a final design that can be produced economically.

As noted, Arrowcrest did not offer styles to HSV. All styling originates from HSV and Arrowcrest was, (as usual), engaged in a process of negotiation with the Styling group to achieve a final design that could be mass-produced.

HSV price increase.

The styling of HSV's extremely popular "P511" ARW has been copied by several Chinese manufacturers to the extent that the exclusivity of this unique HSV design has been lost, in turn undermining HSV's marketing strategy for uniquely styled, limited release performance-enhanced vehicles.

ROH had supplied 100% of HSV's ARW requirements for the past 20-odd years, but rather than approaching ROH to supply a new design for September 2012 release, HSV advised Arrowcrest on 21 June 2011 that, for a period of up to 12 months commencing from September 2011, HSV would cease purchasing its' high volume 20 inch "P511" ARWs from Arrowcrest and instead would import ARWs from China/Taiwan.

(Arrowcrest could easily XXXXXXXXXXXXXXXX achieve a new style, XXXXXXXX XXXXXXXX XXXXXXXX XXXXXXXX and HSV Engineering is aware of this capability.)

During the meeting at Arrowcrest on 21 June 2011, HSV advised that the "P511" ARW would be re-released as a standard fitment in the third quarter of the 2012 calendar year.

At that meeting, HSV also advised Arrowcrest that for the new MY14 ARWs it expected a 30% to 40% price reduction from Arrowcrest, which placed the target price well within reach of dumped and subsidized prices for ARWs from China.

HSV subsequently called forward the release date for one of the MY14 ARWs from China/Taiwan to coincide with the end of the 12 month "P511" sabbatical. Arrowcrest concluded that HSV did not in fact intend to re-release the "P511" ARW despite the earlier representation from HSV's purchasing department. It was at this time that Arrowcrest approached HSV for volume recovery.

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MY14 quotation.

Arrowcrest did provide HSV with indicative quotations for its MY14 program. Please see the confidential price offer attached to this submission.

HSV advised Arrowcrest that its indicative prices for the forged wheels was on target.

Defect rates.

Over the past 20-odd years, HSV and Arrowcrest worked together to introduce new styles, larger wheels and new paint finishes.

Arrowcrest does not agree that it has a high rate of defects compared to other suppliers, (no other data exists), and Arrowcrest routinely receives requests from HSV to rework (repair) ARWs damaged in HSV's own processes.

Arrowcrest communicates with HSV's procurement personnel on a daily basis. Arrowcrest has not been notified by HSV of any high quantities of defects or dissatisfaction. The defects that have returned are predominately very minor cosmetic defects and none are related to mechanical performance or safety.

Defects returned by HSV over the 14 months to February 2012, for example, represent XXXX% of total wheels delivered and some returns were arguably within established acceptance limits.

Confidence.

Arrowcrest rejects the notion that it would be unable to meet new higher standards set for new programs. Standards for Arrowcrest's other OEM customer exceed GM's specifications and Arrowcrest has not been advised by HSV of any new standards that it would be required to meet.

Given our long and otherwise close relationship with HSV, Arrowcrest would certainly leave no stone unturned to meet HSV's requirements and has done so in the past. For example, the current ARWs fitted as standard to HSV's Clubsport, Senator and GTS models were tooled and in production at Arrowcrest within four months. Late engineering release by HSV required that Arrowcrest meet a deadline that was five months shorter than the usual timeframe required to tool, test and approve OEM components for production release. Arrowcrest has proven that it can fast track tooling and development in support of HSV's short leadtimes.

Arrowcrest contends that HSV has seen where GM-Holden sources its ARWs and, following changes in its junior management structure, HSV has elected to source its ARWs from China/Taiwan at dumped and subsidized prices. Arrowcrest further contends that this strategy pre-dates the steps taken by Arrowcrest to recover its costs on 50% lower volumes.

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Conclusion.

For the reasons outlined above, Arrowcrest does not agree that dumping and/or countervailing duties on Cast Flow Formed and Forged wheels would have no impact on the Australian LPDC ARW industry.

Continuing dumping and subsidization of ARWs from China means that the Australian industry will struggle to afford the investment in technologies, i.e. cast flow forming, that it recognizes are the future direction for ARW development globally. However, if ARWs at dumped and subsidized prices from China were not available to HSV, forged ARWs would not present sufficient styling or weight saving advantages to offset their otherwise prohibitive cost.

We note that Arrowcrest recently assisted both GM-Holden and HSV in their successful pursuit of some counterfeit ARWs from China and Arrowcrest played a significant role in that pursuit. GM-Holden's legal and engineering departments relied on Arrowcrest to test the counterfeit ARWs to subsequently bring a case for recovery of damages. For these reasons we again refute the statements made in relation to Arrowcrest's capabilities.

Yours Sincerely,



Bill Davidson
General Manager