



16 April 2012

Ms Joanne Reid  
Director, International Trade Measures Branch  
Australian Customs and Border Protection Service  
Customs House  
5 Constitution Avenue  
Canberra ACT 2600

Dear Ms Reid,

### **ALUMINIUM ROAD WHEELS FROM CHINA**

Our submission of 21 February 2012 on behalf of Mullins Wheels Pty Ltd ("Mullins") demonstrates that Arrowcrest Group Pty Ltd ("Arrowcrest") did not experience material injury in respect of its aluminium road wheels ("ARWs") operations during the investigation period ("IP"), ie 1 July 2010 to 30 June 2011. This submission was largely based on information provided in Arrowcrest's application, Initiation Report No. 181 and Customs' Visit Report re Arrowcrest.

While largely irrelevant to the question of whether injury experienced by Arrowcrest during the injury analysis period, ie from 1 July 2006, was caused by dumped and/or subsidised exports of ARWs from China, this submission demonstrates that such injury was primarily caused by factors other than dumped and/or subsidised exports of ARWs from China. As Customs is well aware, injuries caused by other factors are to be distinguished and separated from injury caused by dumped and/or subsidised exports in ascertaining whether the injury caused by dumped and/or subsidised exports is material.

We note from Issues Paper 2012/181 that Customs will separately analyse original equipment manufacturer ("OEM") and after market ("AM") sectors in the injury/causation analysis. In this context, it is of important note that the AM represents a small proportion of Arrowcrest's total ARW operations (est.5%).

According to Customs' visit report re Arrowcrest ("the visit report"), other than a decline in 2009 largely due to the global financial crisis ("GFC"), Arrowcrest's sales volume has remained fairly stable since 2005 (sec.10.2). Consequently, Customs' summary of major injury indicators did not include volume injury (sec.10.6) and therefore the following discussion is in relation to injury in the primary forms of lost revenue, price depression, price suppression and reduced profit/profitability.

While Customs' preliminary analysis in sec.10.6 of the visit report finds that Arrowcrest has suffered injury in the form of lost revenue, it appears from sec.10.3 of the visit report that with the exception of a significant decline in 2009 (largely GFC related), Arrowcrest's sales revenue was quite stable during the injury analysis period. It is of note that Toyota's motor vehicle production decreased by 32% in 2009 and Mitsubishi Australia ceased motor vehicle production in 2008. It is clear that Arrowcrest's decline in sales revenue in 2009, which

recovered to 2006 levels in 2010 and 2011, was caused by factors other than exports from China.

Toyota's large downturn in motor vehicle production from 2008 will have brought significant price pressure on Arrowcrest's sales to Toyota from that time. Consequently, Arrowcrest's price decrease from 2007 to 2011 reported in sec.10.4 of the visit report would have been largely due to this factor and must not be attributed to exports from China. It is of note in this regard that sec.10.7 of the visit report refers to "price concessions given to Toyota for its new model contract".

Similarly the price suppression experienced by Arrowcrest in 2010 and 2011 because of the impact on unit costs of its 2009 introduction of cost saving measures and efficiencies on the advice of Toyota, as reported in secs.10.4 and 11.1.1 of the visit report, must not be attributed to exports from China. Arrowcrest would also have experienced increased unit costs because of sales/production downturns due to Mitsubishi Australia's closure and Toyota's large downturn in motor vehicle production from 2008, and any resulting price suppression must not be attributed to exports from China.

The profit and profitability chart in sec.10.5 of the visit report demonstrates that apart from a significant decline in 2009 and a spike in the June 2010 quarter, Arrowcrest's profit and profitability have been quite stable during the injury analysis period. The significant decline in 2009 would have been brought by the GFC, Toyota's large downturn in motor vehicle production and the closure of Mitsubishi Australia, and must not be attributed to exports from China.

In sec.10.7 of the visit report it is reported that Arrowcrest currently has 3 machines that are idle due to the loss of Ford and Holden volumes. The loss of the Ford and Holden business occurred before the injury analysis period and was not because of exports from China. It is also reported in the said section of the visit report that Arrowcrest's production capacity utilisation was just above 50% for FY 2011. This is largely because of the loss of Ford and Holden business, the closure of Mitsubishi Australia and the downturn in Toyota's motor vehicle production, none of which are attributable to exports from China. That its capacity utilisation was just 50% in FY 2011 would have contributed to Arrowcrest's decrease in profit and profitability in FY 2011, which also must not be attributed to exports from China.

Our submission of 21 February 2012 notes that the following factors other than exports from China have caused injury to Arrowcrest in the AM sector:

- Arrowcrest's introduction of insufficient new designs into a market in which purchase decisions are primarily driven by wheel style;
- Arrowcrest's insufficient commitment of resources to sales and marketing in a market which demands a high level of these activities;
- The CFC's effect on the automotive industry and market; and
- The significant appreciation of the AUD against the USD.

Injuries caused to Arrowcrest by these other factors must not be attributed to exports from China.

While it is not relevant to the question of whether Arrowcrest has experienced material injury by reason of dumped and/or subsidised exports from China, the loss of sales to major OEM end-user customers Ford, Holden and HSV would have had a significant negative impact on Arrowcrest's economic performance in many respects. We therefore note hereunder the comments of these OEM end-users, provided to Customs in written submissions and/or during Customs' visits, concerning factors other than exports from China which have caused injury to Arrowcrest:

**Ford**

- The closure of Mitsubishi Australia;
- The GFC;
- The commercial dispute causing Ford's decision to not purchase from Arrowcrest;
- The general decline in passenger motor vehicle production in Australia;
- Toyota's significant reduction in motor vehicle production since 2008; and
- Factors other than price are taken into account in choosing a supplier, viz quality, capacity and engineering capability.

**GM Holden**

- The GFC;
- Arrowcrest's inability to increase production to the required level;
- Appreciation of the AUD against the USD;
- No comprehensive re-investment in processes and production by Arrowcrest;
- Increased imports from other than China;
- Arrowcrest's below standard quality;
- Decline in sales of new vehicles;
- Tariff reductions;
- Arrowcrest's dispute with Ford;
- Arrowcrest's failure to properly invest in its business;
- Reliability of supply (quality and quantity) is a major factor in choosing a supplier;
- Arrowcrest has participated in Holden's tender process and its lack of success is not based solely on pricing; and

- The drop off in locally manufactured vehicles.

#### HSV

- Arrowcrest can produce only from the LPDC process when the market requires the Cast Flow Forming and Forging process which allow for greater flexibility in wheel styling and improved strength with reduced weight;
- Many wheels produced by the LPDC process do not meet GM's Best Practice Guidelines and engineering performance targets;
- About 2 years ago HSV began sourcing forged wheels;
- Concerns over Arrowcrest's ability to meet GM's specifications;
- Concerns about the styles offered by Arrowcrest;
- Arrowcrest's relatively high rate of defects;
- A lack of confidence that Arrowcrest would be able to meet the higher standards set for new programs; and
- A sudden 25% price increase, effective immediately on all future orders or no further deliveries, led HSV to reconsider its supply strategies and to broaden its supplier base.

In addition to Mullins above identification of factors other than exports from China which have caused injury to Arrowcrest's AM operations, Versus and PDW Australia, the only other sellers of ARWs for passenger motor vehicles into the AM market who have participated in this investigation (except manufacturers Arrowcrest and Dragway) have identified the following other factors which have caused injury to Arrowcrest's AM operations:

#### Versus

- The GFC;
- The 31 December 2010 end of the Automotive Competitiveness and Investment scheme;
- Tariff reductions;
- The contraction of passenger motor vehicle production;
- Arrowcrest's failure to adapt to design trends in a market primarily driven by fashion and design;
- Arrowcrest's failed Philippines venture and overreliance on outdated steel technology;
- Arrowcrest's overreliance on the OEM sector and consequent neglect of the AM sector;
- Arrowcrest's failure to take advantage of the significant growth of independent resellers;

- Arrowcrest's very passive approach to sales and marketing, selling, distribution when customer service is vital, as customers are not loyal to a style;
- Arrowcrest's general neglect of working with its distributors to increase the popularity of its wheels;
- ARW styles need to be contemporary – Arrowcrest has not changed its product range for a number of years and its range of styles is too small to capture attention;
- Arrowcrest has not invested sufficiently in modern machinery to allow them to make the range of styles that customers demand; and
- Arrowcrest employs the LPDC manufacturing method which is more expensive than the gravity die-casting (GDC) method used in the production of Chinese ARWs for the AM.

#### **PDW Australia**

- Imports from countries other than China;
- Arrowcrest is not active in the Australian market;
- Arrowcrest has downscaled its distribution channels and reduced staff levels so low that they are unable to provide adequate customer service;
- Marketing catalogues are not released by Arrowcrest at regular intervals;
- Arrowcrest is not adequately promoting itself;
- Arrowcrest's refusal to align themselves with certain corporations;
- Arrowcrest has not released enough new styles nor kept up with market trends; and
- Arrowcrest lost focus on the Australian market when it moved part of its operations to the Philippines.

It is very clear from the submissions and/or comments provided during Customs' visits of all OEM end-users and all members of the AM sector who have participated in this investigation (other than Arrowcrest and Dragway), that there are many factors other than exports from China that have caused injury to the sole applicant on behalf of the Australian industry, Arrowcrest, in both OEM and AM sectors during the injury analysis period. And when injuries caused by these many other factors are distinguished and separated from the injury caused by exports from China, as they are required to be by Australian anti-dumping law and WTO jurisprudence, the injury experienced by the Australian industry by reason of exports from China is negligible.

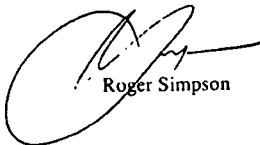
In summary, it is demonstrated by the above, our previous submissions and those of others that –

- Arrowcrest did not experience material injury during the IP; and

- injury experienced by Arrowcrest during the injury analysis period was primarily due to factors other than exports from China and the injury caused by exports from China is negligible.

Consequently, this investigation should be promptly terminated vide ss269TDA (13) and (14) of the Customs Act.

Yours sincerely,



Roger Simpson