

ARROWCREST  
GROUP

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16 April 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 Roger D. Simpson & Associates letter to Customs dated 28 March 2012, regarding the HSV visit report.**

I refer to the letter from Roger D. Simpson & Associates (Simpson) dated 28 March 2012.

Arrowcrest submits that just because Simpson asserts something, this does not make it true or correct. This applies to Simpson's comments about injury experienced by Arrowcrest during the investigation and injury periods.

• **Arrowcrest experienced no material injury during the IP.**

1. In its application Arrowcrest provided details of injury losses at HSV coming to pass from September 2010;
2. Contrary to Simpson's assertions, Customs determined that Arrowcrest had suffered injury during the investigation period in the form of lost sales volumes, price depression, price suppression, reduced profits and profitability. Additionally, Arrowcrest had experienced injury in the form of a reduced return on investment, reduced capacity utilization, and reduced employment.
3. In any event the threat of material injury existed in the months leading up to the materialized loss in September 2010, of 50% of HSV's business, including imports from China at dumped and subsidized prices.

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9. 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.
- **Many of the wheels HSV is now sourcing need to be produced using the Cast Flow Forming and Forging processes to meet GM Best Practice Guidelines and engineering performance targets;**
    1. 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;
    2. Prior to September 2011, HSV had not fitted a cast flow formed or forged ARW to any of its HSV vehicles;
    3. Nowhere in the HSV visit report does HSV suggest that it had any predetermination that it "needs" the existing HSVi wheels to be produced using cast flow forming or forging methods. HSV merely inherited some Holden wheels and any suggestion of "need" is disingenuous;
    4. HSV has confirmed to Arrowcrest that it seeks a forged wheel option in response to GM-Holden who offered a low volume forged wheel on a discontinued "Redline" vehicle promotion;
    5. Arrowcrest advised HSV of its proposal to outsource forged blanks from India and HSV agreed to this approach, subject to price and styling;
    6. Arrowcrest also advised HSV that it was XXXXXXXXXXXXXXXXXXXXXXXXXX with a view to being production capable in time to meet HSV's new model release. (Confidential business strategy.)
  - **HSV stated that about two years ago it found it could not achieve GM engineering standards with LPDC wheels. HSV found that when measured against GM's worldwide engineering standards LPDC wheels do not pass load rating targets without exceeding weight targets. HSV therefore began sourcing forged wheels which meet GM's best practice at acceptable mass targets. HSV began offering forged wheels as an optional accessory on its range of HSV vehicles;**
    1. Arrowcrest acknowledges HSV Marketing'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;
    2. 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.
    3. As noted, Arrowcrest does not agree that LPDC wheels cannot meet GM's world-wide engineering standards without excessive weight targets;
    4. Furthermore, Arrowcrest understands 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;

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5. 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;
  6. Arrowcrest has not seen any evidence from HSV that LPDC wheels do not pass load ratings without exceeding weight targets. But we have raised the question of HSV 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;
  7. For example, Arrowcrest's 20" AM ARWs typically weigh only XXXkg, whereas HSV's current 20" ARWs weigh in at XXkg to XXkg, (2 of each per vehicle).
- **Engineering group expressed concerns over Arrowcrest's ability to meet GM Corp's specification;**
    1. Arrowcrest rejects the notion that it would be unable to meet new higher standards set for new programs. Arrowcrest has not been advised by HSV of any new standards that it would be required to meet and specifications for Arrowcrest's other OEM customer exceed GM's specifications;
    2. Despite the contrary suggestion, for MY14 Arrowcrest was given the opportunity to quote on all released programs, including two forged wheels;
    3. HSV agreed with Arrowcrest's proposal to XXXXXXXXXXXXXXXXXXXX two forged blanks XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX. HSV had in fact agreed to pursue this solution with Arrowcrest in 2008, when the idea of using a forged wheel was first raised;
    4. As noted in HSV's email to Arrowcrest dated 26 September 2011, (a copy was provided in Arrowcrest's 29 March-12 response to the HSV visit report), "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.";
    5. 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 XXXXXXXXXXXX whose specifications for ARWs are more stringent than GM's.
  - **The Styling group also has concerns about the styles being offered by Arrowcrest;**
    1. 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;
    2. Whilst developing the proposals for the forged blanks, HSV's Styling group did express concern about radii and shape that would affect styling. Arrowcrest was working with the Indian supplier to achieve the necessary changes. Arrowcrest notes that this "to-ing and fro-ing" is an inherent

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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.

- **ARWs supplied by Arrowcrest have a high rate of defects compared to other suppliers;**
  1. Over the past 20-odd years, HSV and Arrowcrest have worked together to introduce new styles, larger wheels and new paint finishes;
  2. Arrowcrest does not agree that it has a high rate of defects compared to other wheel suppliers, (no other data exists), and Arrowcrest routinely receives requests from HSV to rework (repair) ARWs damaged in HSV's own processes;
  3. 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;
  4. Defects returned by HSV over the 14 months to February 2012, for example, represent XXXXX% of total wheels delivered and some returns were arguably within established acceptance limits.
- **HSV advised it is moving towards 100% cast flow form and forged wheels due to technical requirements and marketing direction. HSV did not have the confidence that Arrowcrest would be able to meet the new higher standards set for new programs;**
  1. 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;
  2. For MY14, Arrowcrest was given the opportunity to quote on all released programs, including two forged wheels;
  3. HSV agreed with Arrowcrest's proposal to XXXXXXXX XXXXXXXXXX XXXXXXXXXXXXXXXX XXXXXXXXXXXX XXXXXXXXXXXX XXXXXXXXXXXX. HSV had in fact agreed to pursue this solution with Arrowcrest in 2008, when the idea of using a forged wheel was first raised;
  4. As noted in HSV's email to Arrowcrest dated 26 September 2011, (a copy was provided in Arrowcrest's 29 March-12 response to the HSV visit report), "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.";
  5. 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 XXXXXX whose specifications for ARWs are more stringent than GM's.

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- ***HSV claimed that imposing dumping and/or countervailing duties on Cast Flow Formed and Forged wheels would do nothing to protect the Australian LPDC ARW industry and only penalize Original Equipment manufacturers of PMVs who require this technology to meet engineering and performance requirements;***
  1. 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;
  2. Continuing dumping and subsidization of ARWs from China means that the Australian industry will be unable to afford the investment in technologies, i.e. cast flow forming, that it recognizes are the future direction for ARW development globally;
  3. Conversely, 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;
  4. Arrowcrest notes that it 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;
  5. The importance of securing the future of the ARW industry in Australia is clear.
- ***HSV said it offers all ARW suppliers material cost Escalation/De-escalation against LME Aluminium market pricing. HSC stated that this offer has not been taken up by Arrowcrest;***

(Confidential business negotiations).
- ***HSV said that through the sourcing process it requests all suppliers to provide their quotation in a standardized price breakdown format to allow HSV to understand the cost drivers to develop more cost effective designs and supply chain solutions with its suppliers. HSV stated that Arrowcrest does not provide a breakdown of its costs in its quotation;***
  1. 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 was still being considered as a potential supplier until it notified HSV of a price increase of 25% effective immediately on all future orders or no further deliveries.***
  1. 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;

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2. Arrowcrest could easily change a bottom core to achieve a new style, at a fraction of the cost of all-new tooling and HSV Engineering is aware of this capability;
3. 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;
4. 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;
5. 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.

We conclude therefore that the injuries sustained in relation to HSV's business are entirely relevant to Customs' determination of AD and CVD remedies for the Australian industry producing ARWs.

Yours Sincerely,

  
Bill Davidson  
General Manager