



ARROWCREST GROUP

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10 May 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 Zhejiang Shuguang Industrial Co. Ltd exporter visit report.

We refer to the exporter visit report for Zhejiang Shuguang Industrial Co. Ltd and its subsidiary company PDW International Co., Ltd ("PDW") placed on the public file after the release of SEF No. 181.

Arrowcrest has identified a number of matters that materially impact the preliminary dumping margin determined for PDW. These matters require urgent attention by Customs and Border Protection (Customs) to remedy the determined margin.

1. Material cost

At P. 30 Customs states *"the unit price for waste is substantially below the cost of raw material purchased and the re-used material at almost a zero value."* Arrowcrest understands that the re-used material is rejected wheels and swarf. Swarf and the weight of the scrapped wheels used in the production of ARWs are recoverable items that have a value similar to the value of the alloyed material initially used to produce the ARW casting. The value of the swarf and scrapped wheels is not recorded at an "almost zero value" as is reflected in the PDW report. The typical weight of a finished ARW will comprise 70-75 per cent of "new" alloy and 25-30 per cent of re-used swarf and scrap wheels.

It is industry practice that the swarf and the weight of the scrapped wheels used in the production of ARWs carry a recovered metal value, consistent with the cost of the initial raw materials. For example, Arrowcrest is aware that:

- Toyota Australia values ARW swarf at 72.2 per cent of the total alloy cost including the cost of transformation;
- Suppliers of ARWs to Europe value swarf at 98 per cent of the total alloy cost including the cost of transformation;

Page 1 of 3

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- Suppliers of ARWs to Toyota Thailand value swarf at 100 per cent of the total alloy cost including the cost of transformation.

It is therefore evident that PDW's attempt to value swarf and scrapped wheels at "no value" is inconsistent with industry practice and represents a direct attempt to understate PDW's actual production costs for ARWs – estimated by Arrowcrest to be approximately 25-30 per cent.

Arrowcrest requests Customs to reject the "almost zero value" attributed to swarf and reject wheels for PDW and replace the values with amounts consistent with industry practice (including consideration of amounts verified at other Chinese ARW manufacturers).

2. Subsidy received by PDW

Customs identified a tax benefit made available to PDW that involved a 40 per cent deduction of an amount incurred in respect of a high-tech investment, following an application made by PDW in 2006. It was claimed by PDW that the benefit received in 2010 only covered half of the investigation period.

It is noted that a requirement of the program involves that *"before the deduction can be realized the tax payable must be an increase over the prior year based on increasing revenues"*.

Arrowcrest anticipates that as the program has a validity covering a five-year period, PDW would have received a benefit in 2011 for the 2007 year. Was Customs provided with information as to the benefit received in 2011?

3. Level of profit on large diameter wheels

Arrowcrest notes that Customs determined that PDW had sales of 15 models that were not in the ordinary course of trade. Further, it is stated that PDW sells more "xx" inch wheels in China than any other size wheel. Arrowcrest anticipates that the high volume sales referred to are in fact small diameter wheels (i.e. less than 17" diameter) and that domestic over-supply and competition for these smaller sizes results in prices that are at cost or at a loss (and therefore not in the ordinary course of trade).

The wheels exported to Australia by PDW that suit the Ford and Holden models are in 17", 18", 19", 20" and 22" range. As these models are not as common in China and hence the domestic sales are likely to be small or absent, Customs will in some instances determine normal values for these size ranges based on PDW's costs plus a margin (under s.269TAC(2)(c)). Where this is the case, Arrowcrest submits that it is unreasonable to apply a level of profit that may apply on domestic sales for smaller diameter wheels to the costs for the larger diameter wheels exported to Australia.

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Arrowcrest observes that PDW's comments support this position¹:

"...pricing of AM ARWs in the Chinese market has a relatively lower ceiling than the Australian market as a result of the high level of domestic competition.....As a result of this PDW must adopt a more competitive pricing strategy in relation to the domestic sales of ARWs, than it otherwise would selling the same product in the Australian market."

Arrowcrest requests that Customs apply a level of profit to PDW's normal values determined under s.269TAC(2)(c) for the larger diameter wheels that is reflective of the more specialized nature and lower volume turnover than the low-margin associated with small diameter wheels.

4. Conclusion

Arrowcrest does not consider that Customs has correctly valued swarf and reject wheels in PDW's cost of production. The correct value for these products is more closely aligned with the original cost of the alloy. An "almost" zero value for swarf and reject wheels substantially understates the true cost of production associated with ARWs produced by PDW. Customs is requested to review and rectify this oversight.

PDW's claim that it was not aware of any benefits it received from the government of China has been established by Customs as false. Arrowcrest requests that Customs examine whether the deduction associated with the high-tech investment for the 2007 year was received in 2011.

Arrowcrest is concerned that the level of profit applied to PDW's normal values determined under s.269TAC(2)(c) is understated as it is clear that the profit achieved on the domestic sales of high-volume, small diameter wheels would distort the profit applied to higher-margin, larger diameter wheels. Customs is requested to apply a level of profit that reflects the level of profit achieved on domestic sales of larger diameter wheels.

If you have any questions concerning this letter please contact me.

Yours sincerely,



Bill Davidson
General Manager

¹ PDW Visit Report, P 20.