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ARROWCREST GROUP

17 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 SEF No. 181 – ARWs from the People's Republic of China.

We make the following submission in response to SEF No. 181.

1. Executive Summary

Arrowcrest endorses Customs and Border Protection's ("Customs") preliminary findings contained in Statement of Essential Facts No. 181 ("SEF 181") that the dumping and subsidisation of Aluminium Road Wheels ("ARWs") exported from the People's Republic of China ("China") have caused material injury to the Australian industry manufacturing like goods. Customs has indicated that the delegate of the CEO proposes to recommend to the Minister that:

1. A dumping duty notice be published in respect of ARWs exported to Australia from China by all exporters, other than Zhejiang Shuguang Industrial Co. Ltd (also known as "PDW"); and
2. A countervailing duty notice be published in respect of ARWs exported to Australia from China by all exporters.

Following its review of SEF 181 Arrowcrest would like to make a number of representations concerning the preliminary determinations of dumping and subsidisation, material injury to the Australian industry and proposed measures to be applied to future exports of ARWs to Australia from China.

Further, Arrowcrest considers it appropriate to comment on the preliminary finding that a market situation applies to ARWs in China and the appropriate benchmark to be included in normal values determined for Chinese ARW exporters under s.269TAC(2)(c).

In determining the level of measures to apply to certain Chinese exporters of ARWs to Australia, Arrowcrest requests the Delegate of the CEO to consider:

- That the normal value determined for PDW is understated due to PDW's misleading advice concerning the value of swarf and reject wheels. Arrowcrest considers that PDW's normal value is understated by up to 25-30 per cent;
- The measures to be applied to Ningbo Pilotdoer Wheel Co Ltd ("Pilotdoer") be no less than those for non-cooperating exporters to prevent circumvention of measures by its associated entity Wuhu Pilotdoer Wheel Co Ltd (Wuhu), also known as Wuhu Baode Wheel Co Ltd;
- Measures for CITIC Dicastal Wheel Manufacturing Co Ltd (CITIC), to be no less than the measures for non-cooperating exporters to prevent circumvention of measures by Baoding Lizhong Group (Baoding), another State Invested Enterprise ("SIE") ARW manufacturer;

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- The normal value for Zhejiang Jinfei Kaida Wheel Co Ltd ("JK") is understated and this raises the prospect of diversion of ARW exports to Australia via JK by other Chinese State-owned enterprises; and
- The adjustments to normal values for Zhejiang Yueling Co Ltd (Yueling) should also include a positive adjustment for export credit on ARWs export sales to Australia.

Arrowcrest is also concerned that Customs has not taken full account of the Government of China ("GOC") influence on <u>all</u> Chinese manufacturing costs for ARWs. Specifically, Arrowcrest included in its application assertions that the GOC influenced electricity prices in China, further reducing the Chinese ARW's manufacturing costs. Arrowcrest is seeking Customs to examine the impact of government influence on Chinese electricity prices that deliver a benefit to Chinese manufacturers (including ARW manufacturers).

1. Like Goods

In its application for anti-dumping and countervailing measures against ARWs exported from China, Arrowcrest indicated that the Australian ARW market comprised two market segments, OEM (original equipment manufacture) and AM (aftermarket). Arrowcrest responded to Issues Paper No. 181, reinforcing that ARWs sold into both segments of the market were like goods and that this position was also confirmed in the recent EU investigation[1] where it was confirmed ARWs "*are considered to form one single product concerned*".

Arrowcrest welcomes Customs' assessment that there is a single market in Australia for ARWs that comprises two market segments. Customs also confirmed that the ARWs produced by the Australian industry are like goods to the goods exported from China.

Section 3.6 of SEF 181 outlines claims of interested parties that Arrowcrest does not, or cannot supply certain models of ARWs that fall within the description of the goods under consideration ("GUC"). Arrowcrest has responded to claims about its production of ARWs and specifically has addressed the issue that its locally produced 20" wheel can be substituted for imported 22" wheels. Customs' preliminary finding on like goods confirms that Arrowcrest has supplied sufficient evidence in this regard.

Arrowcrest submits that the claims of the interested parties that Arrowcrest does not (or cannot) supply certain models of ARW, or that local supply is not available on agreeable terms have <u>not</u> been sufficiently demonstrated to detract from Customs' preliminary finding so that Customs' analysis of material injury caused by the imported models should be altered.

2. Normal values

(i) PDW

By submission of 10 May 2012, Arrowcrest has provided a submission to Customs concerning the determination of PDW's normal value. Briefly, Arrowcrest submits 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.

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[1] Regulation (EU) No. 964/2010of 25 October 2010 imposing a definitive anti-dumping duty on exports of ARWs from P R China.

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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).

This recommended change in PDW's normal value will alter Customs' assessment that PDW's export prices to Australia during the investigation period were less than 2 per cent. It is Arrowcrest's view that once swarf and reject wheels are valued in accordance with industry practice (refer to values of these goods referenced in Arrowcrest's 10 May 2012 submission), the dumping margins for PDWs will be assessed in accordance with all other Chinese ARW exporters of the GUC to Australia.

Arrowcrest believes PDW's <u>actual</u> dumping margin once full account of swarf and reject wheels at commercial values has been considered and, before taking account of a benchmark price for aluminium alloy, is above negligible levels.

Arrowcrest is further concerned by the level of profit applied to PDW's normal vales determined under s.269TAC(2)(c). It is Arrowcrest's view that the profit applied is understated as it is clear that the profit used is that achieved on the domestic sales of high-volume, small diameter wheels would distort the profit applied to higher-margin, larger diameter wheels. ARWs exported by PDW to Australia are predominantly 17", 18", 19", 20" and 22" in diameter, specifically to suit GM-Holden's Commodore and Ford's Falcon models. As these diameter 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. Arrowcrest observes that PDW's comments support this position[2]:

> "..*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 Customs to 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 Australian industry's NIP for larger diameter ARWS and not the low-margin associated with PDW's domestic sales of small diameter wheels.

(ii) Pilotdoer

Customs was unable to determine normal values for ARWs exported to Australia by Pilotdoer. Section 13 of the Pilotdoer Exporter Visit Report ("Report") indicates:

> "*There were many inconsistencies in the supporting evidence provided by Pilotdoer at the verification visit. Several figures provided by the company in the exporter questionnaire response were unable to be substantiated. Whilst the company did try to cooperate with the provision of certain information, detailed reports and supporting documentation were not produced for several categories of costs.*
>
> *We [Customs] provided the company with further opportunities following our return to Australia to provide the outstanding information, but ultimately it was unable to do so.*"

[2] PDW Visit Report, P.20.

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SEF 181 indicates that Pilotdoer's normal values were determined "*in accordance with s.269TAC(2)(c) using Pilotdoer's weighted average cost to make and sell (revised for raw material cost uplift), by wheel diameter, and an amount of profit*".

Pilotdoer's Report states:

> "*....we are not satisfied that the cost of raw materials and labor submitted by Pilotdoer in the CTMS spreadsheets provided with the exporter questionnaire reasonably represent the actual cost to make and sell the various types of aluminium road wheels during the investigation period.*"

Arrowcrest disagrees with the determination of normal value for Pilotdoer. As clearly indicated in Pilotdoer's Report "*Due to the discrepancy for machine finishing rates in the Month of March 2011, and the inability of the company to demonstrate how actual costs are reflected in the monthly accounts, we [Customs] cannot be satisfied that the labor cost included in Pilotdoer's CTMS is complete and accurate*" Customs was not satisfied that components of Pilotdoer's costs could be verified. This resulted in an overall conclusion that Pilotdoer's CTMS could not be relied upon. Normal values for Pilotdoer, therefore, cannot be determined under s.269TAC(2)(c) using unreliable costs.

Arrowcrest also observes from the Pilotdoer Report:

- Pilotdoer understated its profit by 13% to 15%;
- Customs was unable to match the price of aluminium purchases provided in its export questionnaire response with aluminium invoices;
- Pilotdoer purchased aluminium from Wuhu Baode Wheel Co. Ltd (associated entity) which it did not pay for and were not arm's length transactions and failed to provide a complete listing of aluminium purchases from its financial records to verify the completeness of the purchase information provided;
- Pilotdoer allocated manufacturing costs on the basis of sales revenue generated – not on the basis of absorption costing;
- Pilotdoer pays piece-work wages payable two months in arrears and does not record actual wages in its CTMS;
- Customs was unable to match depreciation in its response to manufacturing overheads breakdown; and
- Pilotdoer operated at a loss.

Taking full account of Customs' inability to verify Pilotdoer's costs to its audited accounts, and Pilotdoer's inability to demonstrate actual costs incurred, information provided by Pilotdoer must be considered "unreliable" for normal value purposes.

Normal values for Pilotdoer can only be determined under s.269TAC(6) based upon other information.

Arrowcrest submits that normal values for Pilotdoer **must** reflect the normal values determined for non-cooperative exporters of the GUC.

A further matter of concern with Pilotdoer is the identified relationship that Customs identified with its second supplier of aluminium alloy, Wuhu Pilotdoer Wheel Co. Ltd ("Wuhu"). Wuhu is clearly involved in the manufacture of ARWs. Arrowcrest submits that due to Pilotdoer's inability to adequately satisfy Customs that its CTM&S reflects the costs reported in its audited accounts, normal values for Pilotdoer cannot be established at a level below that of the non-cooperative exporters.

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The concept of a "cooperative" exporter is one that fully complies with the Customs' visit and can adequately substantiate that its costs for the GUC can be substantiated in its audited accounts. This was not the case for Pilotdoer and its normal values must reflect those of the non-cooperative exporters in this investigation.

(iii) CITIC Dicastal

The CITIC Dicastal Exporter Visit Report indicates that Customs has determined normal values for the exporter under s.269TAC(2)(c) with an adjustment for the benchmark raw material cost. The dumping margin determined for CITIC Dicastal is 9.1 per cent.

The CITIC Dicastal Report has the names of companies associated with CITIC Dicastal retracted so that the information remains confidential to CITIC Dicastal[3]. Arrowcrest also understands that Baoding supplies Mullins Wheels in Australia with four wheel drive ARWs. Arrowcrest notes that in the EU investigation, the investigating authorities were concerned with the possible exportation of ARWs from China by CITIC Dicastal on behalf of other government-owned SIE entities.

As the CITIC Dicastal margin is lower than that for Chinese non-cooperating ARW exporters, Arrowcrest is similarly concerned that CITIC Dicastal may act as a conduit to the Australian ARW market for other SIE ARW manufacturers that have a higher applicable interim duty amount.

In the EU inquiry, the investigating authorities were concerned that Baoding Lizhong Group ("Baoding") – another SIE ARW manufacturer – could export ARWs on behalf of CITIC Dicastal as both are State Owned Enterprises:

> *"State interference in CITIC Dicastal and Baoding is such that it permits circumvention of measures if individual exporters are given different rates of duty in particular having regard to the fact that these two groups have two common joint ventures producing the product concerned."*[4]
>
> *"As regards CITIC Dicastal, it is a State-owned company directly controlled by the State (the majority of its shares belong to the State). The State interference is such that it permits circumvention of measures if it obtains a different rate of duty. In other words, production of other State-controlled companies could be re-directed through CITIC Dicastal. Concerning the other argument put forward by CITIC Dicastal, the fact that it supplies exclusively car makers in the OEM market does not prevent it from supplying to other clients in the future."*[5]

Arrowcrest is similarly concerned that Baoding could supply ARWs to Australia via CITIC Dicastal at export prices below those determined for non-cooperative Chinese ARW exporters.

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[3] CITIC Dicastal Exporter Visit Report, P. 5 & P.10.

[4] Page L117/69, *Commission Regulation (EU) No. 404/2010 of 10 May 2010 imposing a provisional anti-dumping duty on imports of certain aluminium wheels originating in the People's Republic of China.*

[5] Page L282/6, *Council Implementing Regulation (EU) No 964/2010 of 25 October 2010 imposing a definitive anti-dumping duty and collecting definitively the provisional duty imposed on imports of certain aluminium road wheels originating in the People's Republic of China.*

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Arrowcrest requests that the interim duties for CITIC Dicastal be determined at the same level as Chinese non-cooperative ARW exporters to prevent the circumvention of measures on future ARW exports to Australia by Chinese SIEs (including Baoding).

In a further issue of concern on the CITIC Dicastal Report, Arrowcrest questions the level of profit proposed for CITIC Dicastal's normal values determined under s.269TAC(2)(c). It is noted that the level of profit reflects the low margins associated with CITIC's domestic sales, thereby impacting normal values assessed for CITIC Dicastal, namely:

- sales of low margin 14" and 15" ARWs have distorted normal value calculations for 16" through 19" that CITIC Dicastal exports in large volumes to Australia;
- CITIC Dicastal's unrecoverable sales "*represent a substantial quantity*" (CITIC Dicastal report paragraph 4, page 38) and its profit amounts for its recoverable domestic sales are unreasonable;
- the volume of non-recoverable sales was greater than 20% (paragraph 2, page 38.)
- the effect of selling through affiliated distributors would be to lower normal values (paragraph 2, page 33);
- weighted average prices for OEM end users and distributors were lower than sales to other customers (paragraph 7, page 33).

Further, in paragraph 3 on page 53, Customs determined that CITIC Dicastal's prices for 16" to 19" ARWs undercut the Australian industry's prices by "*20% in the smaller sizes and up to 65% on the larger sizes.*" These comments demonstrate that the low level of profit applied to CITIC Dicastal's s.269TAC(2)(c) normal values for the 16" to 19" wheels is lower than it otherwise should be as it is based on the high volume-low margin domestic sales by CITIC Dicastal that is not evident on domestic sales of 16" to 19" ARWs.

Arrowcrest requests Customs to revise the level of profit applied to CITIC Dicastal's s.269TAC(2)(c) normal values for 16" to 19" ARWs exported to Australia to reflect higher levels of profit achieved in the Chinese domestic market on these models.

(iv) Jinfei Kaida

Arrowcrest requests Customs to review Zhejiang Jinfei Kaida Wheel Co., Ltd's ("Jinfei Kaida") normal values to ensure that manufacturing cost allocation is calculated by weight (not quantity) to properly capture the correct material content, processing and overhead costs for each incremental size of ARWs exported to Australia. The allocation of costs by the quantity of wheels produced (or sold) understates Jinfei Kaida's CTMS.

Material content and manufacturing processing times for ARWs increase with each increase in ARW diameter. A 20" ARW will take longer to cast, heat-treat, machine and paint than a 14" ARW. Arrowcrest has provided Customs with ARW cast weights, processing times and finished weights in its normal value calculator (and in its bill of materials data) to show that as diameter increases:

- aluminium content by weight increases;
- the longer the processing time necessary to cool and solidify the greater volume of molten aluminium inside the casting die;
- a lesser number of ARWs can be processed through heat treatment and painting processes (size constrains the quantity of wheels that can be concurrently processed); and
- the greater mass and volume of metal on the casting requires longer machining cycles to remove the unwanted as-cast material to produce the finished ARW.

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It therefore follows that overhead cost content, utility and wage costs per ARW also increase as the size of the ARW increases.

Whilst total costs disclosed by Jinfei Kaida may match Jinfei Kaida's income statements, the allocation of cost by quantity of wheels is incorrect as follows:

- the allocation of aluminium cost is incorrect, noteably

  "(i)n order to calculate the (aluminium) values on the CTMS spreadsheet for each size and finish, the company filtered the cost allocation spreadsheet and divided the total cost by the total volume to obtain a per wheel rate for raw material" (paragraph 4, page 21)

- wage allocation by quantity of wheels (paragraph 3, page 22) is incorrect; and
- overhead and utility cost allocation should be by weight not quantity (paragraph 1, page 23).

Manufacturing cost allocation must be calculated by weight to capture the correct material content, processing and overhead costs for each incremental increase in the size of ARWs exported to Australia.

Arrowcrest is also concerned that certain other verified costs that may be incorrect. For example, Jinfei Kaida does not pay its costs of domestic freight – it is paid by Jinfei Kaida's parent company and should not be allowed as a negative adjustment to normal value (paragraph 2, page 27).

Arrowcrest further questions why Jinfei Kaida's normal value was not adjusted upwards to account for handling, loading and ancillary expense, and bank and currency expenses as per other ARW exporters.

It is requested that Customs re-visit the allocation of costs by weight (not volume) and the adjustments to Jinfei Kaida's normal values.

(v) Yueling

Customs' normal value investigation for Zhejiang Yueling Co., Ltd ("Yueling") is based on 14" ARWs whose sales volumes to Australia (and in Australia) are in reality "de minimus".

As noted by PDW domestic competition is such that "*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.*" The larger the diameter, the higher the selling price and available margin.

As a result of this Yueling must adopt a more competitive pricing strategy in relation to the domestic sales of ARWs than it otherwise would be selling the same product in the Australian market."

Arrowcrest contends that normal values for Yueling based on profit margins for 14" ARWs (possibly representing also the majority of Yueling's sales), are not comparable to profit margins for ARWs sized 17" to 22", and Customs is requested to revise profits for Yueling to reflect greater returns on larger diameter wheels.

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3. Subsidisation

Benefits to ARW exporters

Arrowcrest welcomes Customs' conclusions on subsidy programs applied by the GOC to benefit ARW exporters of the GUC to Australia. Customs has conducted earlier investigations into aluminium extrusions (Report No. 148) and certain hollow structural sections (Report No. 177) and has established the existence of government programs that provide benefits to entities in China in the manufacturing sector.

Customs has confirmed that certain of these benefits – including aluminium alloy at less than adequate remuneration – assist Chinese ARW manufacturers and lower the cost of manufacture in China to levels lower than they otherwise would be (without the GOC influence).

Electricity

Report 181 does not indicate whether Customs investigated subsidised prices for electricity in China. In its application, Arrowcrest provided Customs with electricity costs quoted by the Changshu City Commerce Bureau in relation to available subsidy programs for FIE's in Changshu Province. [6]

Arrowcrest was also able to obtain prices for electricity in certain Industrial zones[7] in China, where ARW exporters of the GUC are located, notably:

- Qinhuangdao Economic & Technical Development Zone, Hebei – where CITIC Dicastal is located;
- Dongnan Development Zone, Changshu City, Jiangsu – where Futek is located;
- China-Singapore Suzhou Industrial Park, Suzhou, Jiangsu – YHI Suzhou is located here;
- Jishigang Industrial Park, Yin Zhou District, Ningbo City, Zhejiang – Ningbo Yongqi Aluminum Wheel is located here; and
- Shanghai Xinzhuang Industrial Zone – YHI Shanghai is located here.

Arrowcrest also provided Customs with the following evidence of subsidised electricity for China's manufacturing industries :

- 2009 Report to Congress of the U.S.-China Economic and Security Review Commission, November 2009 [8] :

  "China's subsidies still include free land and discounted electricity."

- Alliance for American Manufacturing, *"Shedding light on energy subsidies in China: An analysis of China's Steel Industry from 2000-2007"*, Usha C. V. Haley Ph.D., January 8, 2008[9]:

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[6] Arrowcrest application Part C, Non-Confidential Attachment C-1.1.21, *New investment in Changshu City and Jiangsu province.*

[7] See attached.

[8] Arrowcrest application Part C, page 12.

[9] Ibid pages 29, 73 and 74.

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"In 2007, energy subsidies to Chinese steel are estimated at approximately $15.7 billion, showing a 3,800% increase since 2000; similarly, in 2007, Chinese production of steel and Chinese global steel exports are estimated to grow by 289% and 1,276% from 2000. Statistical analysis shows that energy subsidies have a very strong correlation with Chinese steel exports and US steel imports from China. In 2006, when Beijing announced its nationwide campaign to raise electricity prices to energy-consuming industries, officials in the Ningxia province worked to evade the requirements. Fearing the impact on the local economy, the provincial govemment brokered a special deal for the Qingtongxia Aluminum Group which accounts for 20% of the province's industrial consumption and 10% of its GDP. Provincial officials removed the company from the national electricity grid and supplied electricity directly to it, exempting it from expensive fees. Consequently, Qingtongxia continued to get its electricity at the lowest price available.

The GOC has encouraged investment in industries where China does not have a comparative advantage. For example, it is apparent from various industry and non-industry sources that the cost of electricity (a major input into aluminium production) in China is comparatively high in global terms and is subsidised across many Chinese industry sectors, thereby ensuring that Chinese manufacturers are more than globally competitive. The cost of production for Chinese manufacturers in sectors where the GOC has intervened is lower than it would otherwise be in the rest-of-the-world, resulting in artificially low selling prices for both domestic and export sales."

Arrowcrest considers that sufficient information is available in the public arena demonstrating that the GOC controls the price of electricity in China and that the domestic price for electricity is lower than it otherwise should be.

The cost of energy in the manufacture of ARWs is not insignificant and represents a major cost input in production of ARWs.

Arrowcrest provided Customs with its FY11 OEM and AM sales volumes and kilograms of aluminium sold by email dated 19 March 2012. In FY11 Arrowcrest invoiced XXX kilograms of ARWs to the OEM sector and XXX kilograms of ARWs to the AM sector. Arrowcrest's consumption of electricity to produce ARWs FY11 was XXXkWh, or xxxkWh per kilogram of aluminium sold.

Arrowcrest's operates 30KV transformers in its ARW factory. (The equivalent required supply in China would be 20-35KV.)

Arrowcrest submits that the processes and machinery required to produce ARWs in China are alike to the processes and machinery required to produce ARWs in Australia and the consumption of electricity per kilogram of finished weight sold would also be similar. Arrowcrest has researched available finished weights for ARWs exported from China to Australia which it provided to Customs in the form of attachments to Chinese ARW price lists and summarized in Arrowcrest's normal value calculator. The average electricity consumption per ARW is shown in the following table and excludes any electricity consumption arising from external production of the raw material aluminium.

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Table 1 : Electricity content by size of ARW exported from China.

ARW size	Average finished weight (kg)	Electricity content per kg (kWh)	Electricity content per ARW (kWh)
14"	6.4	xxxxxx	xxxxxx
15"	8.2	xxxxxx	xxxxxx
16"	9.4	xxxxxx	xxxxxx
17"	9.8	xxxxxx	xxxxxx
18"	12.4	xxxxxx	xxxxxx
19"	13.0	xxxxxx	xxxxxx
20"	14.4	xxxxxx	xxxxxx
22"	18.1	xxxxxx	xxxxxx

Arrowcrest requests that Customs examine the impact of GOC control on electricity prices in China and assess whether the Chinese ARW manufacturers costs in aggregate should be considered unreliable and normal values be assessed on the basis of market selling prices from a surrogate country.

4. Material injury

Customs examined material injury to the Australian industry in both segments of the ARW market (i.e. OEM and AM). Customs' analysis confirmed that Arrowcrest (that accounted for in excess of 90 per cent of locally-produced sales by the Australian industry) had suffered material injury as follows:

- price suppression;
- lost sales volume;
- lost revenue;
- lost profits and profitability;
- reduced capacity utilization;
- reduced employment; and
- reduced return on investment.

Customs' detailed examination of the material injury analysis is contained in Section 8 of SEF 181. Although Customs recognizes that Arrowcrest indicated that injury from the dumped and subsidized exports commenced in 2003, Customs did not review data earlier than 2006 as it "is reluctant to place much weight on trends observed prior to 2006 given the lack of relevant sales and cost information available for the earlier period". Arrowcrest would like to clarify that it can provide data prior to 2006 for verification, as this information is readily available, should it be required to support the findings in SEF 181.

5. Have dumping and subsidization caused material injury

Section 9 of SEF 181 details Customs' consideration as to whether the dumping and subsidization of Chinese ARWs exported to Australia has caused material injury to the Australian industry. This analysis identified the following:

- The margins of dumping ranged from de-minimus to 32.9 per cent;
- The margins of subsidization ranged from de-minimus to 58.8 per cent;
- The proportion of the exports to Australia during the investigation period found to be dumped accounted for in excess of 90 per cent of total exports;
- The proportion of exports represented by dumped imports from non-cooperative exporters was around 65 per cent of total exports;

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- ARW exports from China accounted for just under 50 per cent of the Australian market in the investigation period;
- The Australian industry experienced price undercutting in every size ARW by one or more importers, in both the OEM and AM market segments by between 21 per cent and 45 per cent - the price undercutting was *significant* and persistent;
- But for the dumping and subsidization impacting prices, the Australian industry "*would have been more competitive and it would not have lost volume, and could also have regained some volume*".

In assessing whether the material injury experienced by the Australian industry could have been caused by other factors, Customs examined:

- Changes in the Australian market for passenger motor vehicles;
- Claims of poor service, or other non-price factors;
- The volume and pricing of imports from other sources; and
- Whether certain models of ARW were unavailable from the Australian industry.

Customs concluded "*that the other possible causes of injury did not detract from its assessment that dumping and subsidization, of itself, has caused material injury to the Australian industry.*"

Arrowcrest agrees with this conclusion and reinforces the finding that the dumped and subsidized Chinese ARW exports from China at prices that undercut the Australian industry's selling prices by between 21 and 45 per cent were the principal cause of material injury during the investigation period.

6. Non-Injurious Price

The determination of an appropriate Unsuppressed Selling Price ("USP") for the Australian industry is critical to ensuring that the Australian industry does not experience further material injury from dumping and subsidization due to understated USP. Similarly, an overstated USP would afford the Australian industry with greater protection from injurious imports than is required to remove the injury.

Arrowcrest provided Customs with information to determine Unsuppressed Selling Prices ("USP") for the OEM and AM market segments. Arrowcrest also recommended an appropriate level of profit to apply to its 2010/11 CTM&S ARWs in each segment, based upon returns that Arrowcrest demonstrated it had achieved on domestic sales of ARWs.

SEF 181 indicates that Customs has elected not to use the level of profit achieved by Arrowcrest and has instead applied a "*level of profit that represents the level of profit necessary to achieve the minimum return on investment*". Arrowcrest does not consider that this level of profit provides for a return that enables Arrowcrest to re-invest in ongoing ARW production in Australia. The referred "*minimum return on investment*" was for the particular contracted sales volume and did not reflect a return that is adequately representative of the whole of Arrowcrest's ARW operation.

Arrowcrest respectfully requests that Customs utilize the level of profit achieved by Arrowcrest on actual sales of ARWs for inclusion in the USP (and NIP) calculations. The level of profit proposed in SEF 181 is considered to be injurious to Arrowcrest and is not sustainable over the longer term.

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7. Conclusions & Recommendations

The preliminary recommendations contained in SEF 181 to recommend to the Minister that exports of ARWs to Australia from China at dumped and subsidized prices have caused material injury to the Australian industry manufacturing ARWs are welcomed. Proposed measures are necessary to remove the injurious effects of dumping and subsidization and to ensure that Chinese exports are priced fairly.

Arrowcrest requests that Customs re-assess certain matters in respect of the determination of dumping margins for certain Chinese ARW exporters, including:

- Normal values for PDW are under-stated as they include no values for swarf and reject wheels that is inconsistent (and therefore unacceptable) with industry practice, and the level of profit on large diameter wheels is also understated;
- Pilotdoer's normal value must reflect the level of non cooperative Chinese exporters as Customs could not verify Pilotdoer's costs, and hence normal values cannot be determined under s.269TAC(2)(c);
- CITIC Dicastal's dumping margin should reflect the levels of non-cooperating exporters to minimize circumvention of measures. Further, the level of profit included in CITIC Dicastal's normal values for larger diameter wheels is understated as it is based on high volume, small diameter domestic sales (and should be uplifted);
- Jinfei Kaida's manufacturing costs included in normal value assessments have been determined on the basis of allocations across units and not by weight, thereby resulting in artificially low unit CTM&S;
- Yueling's normal values for large diameter wheels are also influenced by the profit verified by Customs on domestic sales of small diameter wheels, requiring an upward adjustment.

Arrowcrest also seeks Customs to assess the extent of government control exercised by the GOC on electricity prices, which are a significant cost-input in the manufacture of ARWs.

Finally, the level of profit proposed by Customs to be included in USPs for the Australian industry is less than is required to remove the injurious affects of dumping and subsidization. Arrowcrest requests that Customs recommend that the Minister apply the level of profit achieved by it on domestic sales of certain ARWs as recommended in its communication to Customs of 14 March 2012.

Yours sincerely,

Bill Davidson

Bill Davidson
General Manager

Price of Electricity - Arrowcrest research in China, 7 May 2010.

Unit Price:RMB/KWH

1 Qinhuangdao Economic and Technological Development Zone, Hebei (QETDZ)
CITIC Dicastal are located here.

Voltage	Peak Rush Hour	Rush Hour	Nomal Time	Valley
1-10KV	0.7671	0.6934	0.4862	0.2933
35-110KV	0.7431	0.6758	0.4712	0.2821
110-220KV	0.7271	0.6652	0.4612	0.2716
220KV and above	0.7191	0.6571	0.4562	0.2686

Data source: website of QETDZ

2 Dongnan Development Zone, Changshu City, Jiangsu
Futek are located here.

Voltage	Rush Hour	Nomal Time	Valley
1-10KV	1.003	0.602	0.281
20-35KV	0.993	0.596	0.279
35-110KV	0.798	0.587	0.276
110V	0.953	0.572	0.271
220KV	0.928	0.557	0.266

Data source: The Investment Promotion Bureau, Mr. Yao Cheng provided

3 China-Singapore Suzhou Industrial Park, Suzhou, Jiangsu (SIP)
YHI Suzhou are located here.

Voltage	Nomal Time
1-10KV	0.633
20-35KV	0.627
35-110KV	0.618
110-220KV	0.603
220KV and above	0.588

Data source: The document of National Development and Reform Commission of 2009

4 Jishigang Industrial Park, Yin Zhou District, Ningbo City, Zhejiang
Ningbo Yongqi Aluminium Wheel are located here.

Voltage	Peak Rush Hour	Rush Hour	Valley
1-10KV	1.081	0.899	0.415
20-35KV	1.056	0.876	0.399
35-110KV	1.043	0.864	0.391
110-220KV	1.010	0.835	0.371
220KV and above	1.000	0.827	0.367

Peak rush hour:19:00--21:00;
Rush hour:8:00--11:00, 13:00--19:00,21:00--22:00;
Valley:11:00--13:00, 22:00--8:00
Data source: The document of National Development and Reform Commission of 2009

5 Shanghai Xinzhuang Industrial Zone
YHI Shanghai are located here.

Voltage	Rush Hour	Nomal	Valley
<1KV	1.168	0.74	0.274
10KV	1.138	0.71	0.268
35KV	1.010	0.835	0.371

110KV and above	1.000	0.827	0.367

Rush hour:8:00-11:00,13:00-15:00,18:00-21:00;
Normal:6:00-8:00,11:00-13:00,15:00-18:00,21:00-22:00
Valley:22:00--6:00
Data source: The document of National Development and Reform Commission of 2009

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II. Infrastructure Cost:

*

1) Charge for Electricity Power : (50 HZ)

①Basic Fee: RMB 28 yuan / KVA / month;

②Consumption Price: (Unit: RMB/KWH)

Category	1KV-10KV	20-35KV	35KV-110KV	110KV
Big Industry	0.633	0.627	0.618	0.603

□Flexible charge rate applicable to different period of time each day:

Peak Hours (08:00AM-12:00AM, 17:00-21:00) : 150% of standard price;

Ordinary Time (12:00AM-17:00, 21:00-24:00): standard price;

Valley Hours (00:00-08:00AM) : 50% of standard price

2) Charge for Water : RMB 3.10/ ton for industrial use

3) Sewage Treatment:

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