



ARROWCREST
GROUP

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24 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 reply to Roger D. Simpson & Associates responses on behalf of Mullins Wheels to SEF 181, dated 14 May 2012 and 17 May 2012.

I refer to the SEF181 responses from Roger D. Simpson & Associates (Simpson) on behalf of Mullins Wheels (Mullins) dated 14 May 2012 and 17 May 2012.

Arrowcrest notes that it has also responded to earlier submissions from Simpson in its letters dated 28 February, 18 April, 19 April and 23 April 2012.

1. AM injury.

Simpson attempts to demonstrate that Customs' SEF 181 is misguided insofar as :

1. the AM segment is immaterial to the Australian industry comprising Arrowcrest, Performance Wheels and Dragway Engineering and formerly Mullins Wheels;
2. AM injury is negligible and insignificant and should therefore be discarded;
3. dumped and subsidized prices are a coincidence having no bearing on the demand for ARWs from China into Australia (or apparently into Europe);
4. the volume of dumped and subsidised exports from China have also had no bearing whatsoever on the Australian industry's capacity utilization, employment and return on investment; and
5. injury to the Australian industry is attributable to a temporary decline in Toyota Australia's local production volumes.

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2. AM injury indicators.

In this further response to Simpson, Arrowcrest resubmits a comparison of its A6 data with the import clearance data for China available from the Australian Bureau of Statistics.

- Customs has identified 116 exporters of ARWs from China to 179 ARW importers in Australia, excluding CITIC Dicastal's OEM shipments to GM-Holden and Ford. The number of exporters and importers is significant.
- Table 1 clearly shows that, excluding the GFC and the subsequent re-stocking period, Arrowcrest recorded the following year-on-year losses :

	Revenue	Volume
FY2006 to FY2007	-41%	-44%
FY2007 to FY2008	-23%	-22%
FY2010 to FY2011	-12%	-10%

Table 1. Indexed KPI's for Arrowcrest's AM ARWs and imports from China, FY2006~FY2011.

	Arrowcrest		China	
	Revenue	Volume	Volume	Price
FY06	100	100	100	100
FY07	59	56	123	107
FY08	46	44	168	88
FY09	31	30	176	99
FY10	27	26	183	82
FY11	24	23	177	73
FY06~FY11 change	-76%	-77%	+77%	-27%

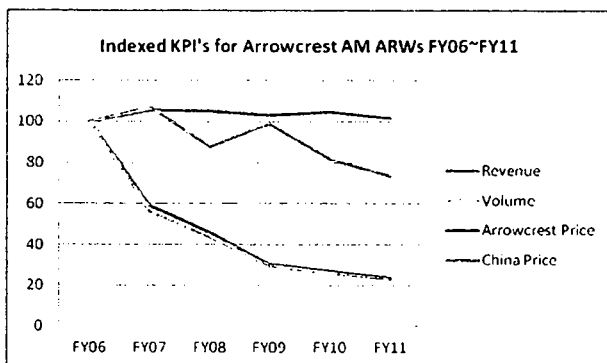
Since 2006, Arrowcrest has lost 76%~77% of its AM sales revenues and volumes.

Over the same period export volumes from China increased 77% whilst export prices fell 27% and the level of price undercutting increased.

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- Customs has determined that the level of price undercutting is significant and this conclusion is supported by the evidence of price lists for ARWs from China which Arrowcrest provided in its application. Arrowcrest has shown that the export prices from China have been the overriding cause of the shift in demand away from Australian-made ARWs manufactured by Arrowcrest, Dragway, Performance and (formerly) Mullins Wheels.

Chart 1. Indexed KPI's for Arrowcrest's AM ARWs and imports from China, FY2006~FY2011.



- The injury suffered by Arrowcrest as a result of ARWs from China at dumped and subsidized prices is summarized as follows :

AM sales turnover.

- In 2003 Arrowcrest's AM division recorded AM ARW sales worth \$million which by 2006 had been reduced to \$million. By 2011 Arrowcrest's AM sales turnover had eroded to \$million, or 23% of its 2006 result. Over the same timeframe volumes from China (including OEM ARWs) increased from around 84,000 pieces in 2003, to 352,000 pieces in 2006 and to 623,000 pieces in 2011 – an increase of 742% from 2003 or 177% from 2006.

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AM volumes

- o Similarly, in 2003 Arrowcrest recorded AM sales volumes of around pieces which by 2006 had shrunk to pieces and by 2011 to pieces, or 23% of its 2006 result. Whereas the value of exports from China increased from around \$8.5 million in 2003 to \$25 million in 2006, and to \$33 million in 2011 – an increase of 387% from 2003 or 130% from 2006.

AM capacity utilization

- o It is self evident that Arrowcrest's AM capacity utilization would follow the same trend as its sales volumes (Customs has verified Arrowcrest's stock levels), declining by 85% since 2003, or 77% since 2006.

AM employment – commercial, sales, marketing and distribution

- o In 2003 Arrowcrest employed 29 personnel engaged in commercial and sales activities in its AM division. By 2006 this number had contracted to 19 personnel – a loss of 34%. By 2011 Arrowcrest's AM commercial and sales employment had shrunk to just 8 personnel – a loss of 72% on 2003 levels, or 58% of its 2006 commercial and sales workforce.
- o Table 2 shows the decline in Arrowcrest's employment of personnel engaged in the sales and distribution of ARWs nationally.

Table 2. Arrowcrest AM employment trends.

	Arrowcrest AM revenue	Arrowcrest AM volume	China volume	China price	Arrowcrest AM commercial & sales employment
FY06	100	100	100	100	100
FY07	59	56	123	107	100
FY08	46	44	168	88	74
FY09	31	30	176	99	42
FY10	27	26	183	82	37
FY11	24	23	177	73	42
FY06~FY11 change	-76%	-77%	+77%	-27%	-58%

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AM recovery of overheads and unit cost.

- o Simpson suggests at page 2 that "any increase in average unit costs because of Arrowcrest's loss of sales in the AM segment would have been negligible".
- o It is however perfectly sensible to conclude that the loss of 76% of its sales revenues since 2006 would severely impair Arrowcrest's recovery of its fixed and non-variable costs such that its unit cost of goods manufactured would have increased accordingly as these costs were absorbed over correspondingly lower available volumes.

3. The GFC period – FY2007 to FY2009.

During the GFC period, exports from China increased whilst export prices from China and volumes for Arrowcrest decreased. The level of price undercutting was significant.

Between FY2007 and FY2008 export clearances from China increased by around 158,000 pieces or 36.5%, whilst Arrowcrest's AM volumes fell by pieces or 22%. Over the same period statistical prices from China fell by 18% whilst prices from Arrowcrest remained unchanged.

FY2009 volumes from China increased over FY2008 by around 28,000 pieces or 4.8%, whilst Arrowcrest's volumes fell by a further pieces or 32%.

It is clear that throughout the GFC exporters from China were able to secure increased volumes whilst volumes and market share for Arrowcrest declined. If the GFC is meant to account for all of the losses at Arrowcrest as Simpson suggests, how can it be that exports from China were not similarly affected ?

Arrowcrest contends that the impetus of additional price undercutting during the GFC period, by ARWs from China at already dumped and subsidized prices, secured a further unfair advantage in the form of increased export volumes. It follows that Arrowcrest's losses during the GFC period cannot be wholly attributable to the effects of the GFC.

It is also apparent that there is ample scope for export prices to change quickly and substantially and that export volumes from China at dumped and subsidized prices will continue to cause and threaten to cause injury to the Australian industry under any circumstances.

4. Significance of the AM segment.

Even without data from Dragway, Performance and (formerly) Mullins, it is clearly apparent that the Australian AM segment has been and continues to remain of significant importance to the Australian industry, to its suppliers and to the local economies in which Australian manufacturers of ARWs subsist against ARWs from China at dumped and subsidized prices.

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Arrowcrest's AM segment clearly assists its activities in the OEM segment. The AM segment provides overhead recoveries that otherwise would be borne entirely by the price sensitive and lower margin OEM segment.

5. Causal link in the AM segment.

It is clear that injury in the AM segment cannot be linked to the OEM segment.

It is also perfectly clear that the rise in export volumes from China has occurred at the same time as export prices from China have fallen (having nothing to do with the US dollar exchange rate) and the combined effect of the price and volume for ARWs from China has been such as to cause a significant shift in purchasing patterns away from Australian-made AM ARWs towards AM ARWs imported from China at dumped and subsidized prices.

On the other hand it is completely misleading for Simpson to suggest that the Australian industry has forgotten how to design, develop, manufacture and sell AM ARWs (and in doing so to have caused its own injury). It is however fair to conclude that the Australian industry's ability to routinely invest in tooling for new styles has been severely impaired by its loss of volumes to the extent that, in the present circumstances, recovery of tooling costs is a constraint that did not exist prior to 2006.

The Australian industry's employment in the AM segment is similarly impaired by the volumes of dumped and subsidized prices of ARWs from China. Arrowcrest, Dragway and Performance have each provided evidence and commentary to this effect and it is also clear that Mullins abandoned its local employment in South Australia in 2007/08 when it ceased Australian production in favor of importing its ARWs from China.

Simpson has not provided any alternative explanation for why Mullins, having recently reinvested substantially in its Salisbury, South Australia production facility, would simply shut it down. It is clear that the advantage afforded to Mullins by ARWs from China at dumped and subsidized prices has been such as to cause Mullins to walk away from the local industry.

6. Conclusion on the AM segment.

Customs has determined that ARWs from China have been exported at dumped and subsidized prices and the extent of dumping (up to 32.9%) and subsidization (up to 58.8%) is significant.

Customs has also verified that the Australian industry producing ARWs has suffered injury as a result of the volumes and prices for ARWs from China in each of the five years from 2006 to 2011.

The AM segment accounted for \$million or 17% of Arrowcrest's turnover in 2003, and \$million or 20% in 2006. Arrowcrest has lost 77% of its AM turnover, volumes and capacity utilization since 2006, as a result of which it has been forced to cut its commercial and sales employment by 58%.

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The value of the AM segment is significant to Arrowcrest and whilst the AM segment currently contributes only 6% of Arrowcrest's current turnover, this segment accounts for 100% of Dragway's ARW business and 100% of Performance's ARW business.

Simpson's repeated suggestion that the AM segment is insignificant, negligible or immaterial to the Australian industry is plainly disingenuous. It is also entirely unacceptable to presuppose that it is all too late for the Australian industry and therefore the industry should simply pack it in and relinquish a fair return to a level playing field.

Simpson is incorrect in asserting that the business lost in the AM is immaterial (as evidenced by Arrowcrest above). Accordingly, Arrowcrest requests Customs to reject Simpson's baseless claims.

7. Non-price factors.

Simpson's 17 May submission criticizes Arrowcrest's loss of employment (and all that loss entails) and its impaired ability to roll-out new styles in the AM segment, as if to suggest that there is some bottomless pit to sustain its AM activities despite losing 76~77% of its sales volumes and revenues since 2006 due to the presence of ARWs from China at dumped and subsidized prices.

Simpson's 17 May submission is misleading in that it suggests that Customs has conceded that non-price factors could have an effect on Arrowcrest's performance. SEF181 draws no such conclusion. Rather, SEF181 rightly acknowledges that counter-claims relating to non-price factors are not supported by enough evidence. In other words, such claims are hearsay intended to persuade Customs that dumped and subsidized ARWs from China have had no effect on the Australian industry including at the former Australian manufacturer Mullins Wheels.

Simpson's 17 May submission also suggests that Arrowcrest's sales volumes in the AM segment would be negatively affected by insufficient styles, relying on a comparison of a selection of importer's available styles in 18" passenger and 16" 4x4 sizes, including Mullins assortment of ten 18" styles and seven 16" styles.

The first observation to make here is that the number of available styles for each importer is not in itself an indication that any are successful and this simplistic analysis provides no evidence that an importer with a greater number of available styles will outsell his rivals. In other words, the quantity of available styles is no indication of success.

Arrowcrest has maintained an available range of styles across various sizes and fitments (including styles that have won Australian Design awards), as shown in Table 3.

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Table 3. Arrowcrest's available styles and sizes.

	Passenger			4x4		
	Available styles	Available sizes	Number of sizes & styles available	Available styles	Available sizes	Number of sizes & styles available
2003	16	38	38	5	9	9
2004	17	39	39	6	10	10
2005	17	39	39	6	10	10
2006	17	46	46	6	11	11
2007	19	39	39	5	9	9
2008	20	39	39	7	11	11
2009	18	38	38	6	12	12
2010	17	35	35	6	13	13
2011	17	35	35	6	13	13

There has been no decrease in the number of available styles and sizes since 2006 - or for that matter since 2003. It is interesting to note that Mullins' current National Sales Manager worked in a similar role at Arrowcrest over the period 2003 to 2006 and was able to secure sales in the order of \$million to \$million per annum with then available 21-23 styles.

Customs has verified that Arrowcrest has suffered injury in the form of lost volumes and reduced employment at a time when ARWs from China have been exported at dumped and subsidized prices and Arrowcrest has resubmitted evidence of those injuries in this latest submission.

It is self evident that the injuries sustained as a result of dumped and subsidized ARWs from China would not be confined simply to a loss of volumes and staff and Arrowcrest's capability in terms of service delivery and communication would likewise be impaired.

As a result of the prices and volumes of dumped and subsidized ARWs from China, Arrowcrest's AM sales turnover and AM sales volumes have contracted by 72% since 2003. In 2003, Arrowcrest employed 29 personnel in its AM commercial and sales activities and sold AM ARWs. At a conservative average cost of say \$ per employee, the 2003 employment cost would have been \$ per ARW. Simpson however suggests that Arrowcrest has caused its own injuries by starving itself of personnel. Whilst Simpson offers no clues as to what an adequate number of employees might be, the implication seems to be that Arrowcrest should not have reduced its AM commercial and sales staff and on that basis should have found the wherewithal (from somewhere) to recover an equivalent 2011 employment cost of \$ per ARW. The suggestion is preposterous.

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Similarly, Simpson implies that Arrowcrest has failed to release new styles ("insufficient ARW style releases by Arrowcrest"), but provides no evidence of the quantum of style releases required to ensure success.

Arrowcrest does say however that its ability to release new styles has been impaired by the loss of sales volumes arising as a result of dumped and subsidized prices for ARWs from China. The average cost of a LPDC die is around A\$ excluding commissioning costs and gauges. In 2003, Arrowcrest sold ARWs from 47 dies. If the cost of 47 dies was amortised over say three years, the die cost per wheel in 2003 would have been \$ per wheel. In 2011, on a volume of AM ARWs that cost would be \$ per wheel. It is plainly evident that Arrowcrest's ability to release new styles is severely impaired by the volume of ARWs from China at dumped and subsidized prices.

Arrowcrest notes that it has released new styles in each year from 2003 as follows :

Table 4. New style and die releases by Arrowcrest for AM ARWs.

	Passenger		4x4		Total	
	New styles	New dies	New styles	New dies	New styles	New dies
2004/5	3	4	1	4	4	8
2006	7	22	1	2	8	24
2007	7	9	1	1	8	10
2008	3	4	2	3	5	7
2009	1	2	1	1	2	3
2010/11			1	1	1	1
Total	21	41	7	12	28	53

In a market saturated with ARWs from China at dumped and subsidized prices, Arrowcrest has nonetheless reinvested in 28 new styles and 53 new dies worth around \$million over the seven years to 2011. In the current circumstances it is highly unlikely that Arrowcrest will fully recover its investment.

With regard to Simpson's 17 May submission it is clear that Simpson is again casting baseless aspersions intended to convince Customs that SEF181 has ignored these non-price factors. However the facts presented by Arrowcrest both here and in its application speak for themselves. The Australian industry has continued to do whatever it can to survive the volumes of ARWs from China at dumped and subsidized prices, in the absence of which the performance of the Australian industry would not have been affected by an impaired ability to provide gainful employment or release new styles. The "ROH" brand remains highly regarded to this day and Arrowcrest has maintained a regular advertising program throughout this difficult period.

Copies of Arrowcrest's AM brochures are enclosed herewith.

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8. Price undercutting.

Customs has determined that dumped and subsidized prices for ARWs from China substantially undercut prices for Arrowcrest's ARWs in both the AM and OEM segments including in quotations for supply to Toyota, Suzuki and GM-Holden : *"the magnitude of dumping and subsidies provided for exporters to offer significantly more competitive prices than would otherwise have been the case."*

Simpson's submission does not attempt to address the question of price undercutting and instead suggests that the "key" injury indicators are price suppression, lost sales volume and lost profit and profitability.

It is however plainly evident that in any market price is a determining factor (and all things being equal is the deciding factor) and the extent of price undercutting by ARWs from China at dumped and subsidized prices is the cause of both the observable volumes from China and the subsequent injuries to the Australian industry.

It is in the AM segment that price undercutting is most readily observable however Arrowcrest has also provided Customs with hard evidence of contracts lost during the investigation period (GM-Holden and Suzuki) and the price suppression (Toyota's new model), arising during the investigation period as a result of the price undercutting.

Arrowcrest contends that there is sufficient evidence available to conclude that price undercutting by ARWs exported from China at dumped and subsidized prices is the root cause of injury to the Australian industry in both the AM and OEM segments.

9. Price suppression.

As noted above and in its application, Arrowcrest suffered price suppression in its tender for Toyota's new model. As a result of being benchmarked against a price from China that undercut Arrowcrest's price by %, Arrowcrest gave price concessions to Toyota that it would not have ordinarily given. These concessions resulted in prices for new wheels that are below the prices of the wheels they have replaced. On quoted volumes these concessions were worth \$million per annum or \$million over the five year contract term, which Arrowcrest subsequently secured. As Toyota accounts for around 85% of Arrowcrest's ARW business, the effects of this price suppression are considered to be significant and substantial.

As noted by Customs in SEF181, *"the direct comparability of suppliers (in the AM) provides major customers with considerable leverage over the Australian industry"*. Arrowcrest has provided ample evidence to show that the prices it achieves for its AM wheels are routinely suppressed such that Arrowcrest does not achieve its published list prices. It is clear from a comparison of Arrowcrest's prices with available prices for AM ARWs from China that the level of price undercutting is substantial. It is the level of price undercutting that caused the price suppression thereby injuring the Australian industry.

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10. Loss of volumes to Toyota.

Despite Simpson's suggestion to the contrary, Arrowcrest has not attributed the decline in Toyota's volumes to the volumes of ARWs exported to Australia from China at dumped and subsidized prices.

Arrowcrest has been very careful to provide specific evidence of injury and injury indicators arising in the AM and OEM sectors and has likewise been very careful to ensure that the separation of that evidence from the effects of Toyota's volumes, the GFC and the closure of Mitsubishi is completely transparent and traceable.

Customs has verified and confirmed each of Arrowcrest's injury indicators. Any inference that Customs' investigation team is unable to sort fact from fiction is disingenuous.

11. HSV, Ford and GM-Holden.

Arrowcrest notes that Simpson continues to fail to provide any evidence to support unfounded suggestions that it is unlikely that Arrowcrest will resume supply to these customers in the foreseeable future for a number of non-price related reasons eg quality and reliability. There are thousands of vehicles in use on Australian roads every day that are fitted with Arrowcrest's OEM and AM ARWs. Those vehicles comprise all shapes and sizes, brands and models and, in the bigger picture, there are more Arrowcrest ARWs in service on Australian roads today than ARWs from any exporter from China including possibly CITIC.

GM-Holden asked Arrowcrest to quote to supply ARWs for Cruze. Holden's response by email dated 8 June 2011 (to indicative prices from Arrowcrest) did not raise any concerns about quality or reliability, rather Holden simply stated that *"ROH price for alloy wheels is around 37% hire (sic) than our expectations based on international market prices."*

Similarly and contrary to Simpson's wrongful claims, Arrowcrest has never disagreed with HSV's reasons for its preference for wheels produced by other than the processes employed by Arrowcrest and HSV had as early as 2008 supported the notion of Arrowcrest outsourcing a part of the production process so as to supply forged ARWs to HSV. The so-called concerns with Arrowcrest's styles are misleading because all of the styles originate with HSV. HSV did however raise concerns over radii and blended radii on a forged wheel proposal from a potential tier-2 supplier which Arrowcrest considers to be a usual outcome when transferring an HSV design concept to hard tooling. Arrowcrest can certainly provide evidence of what is typically involved in bringing an HSV design to production.

Simpson repeats a claim relating to quality made by the new buyer at HSV in defense of his decision to arbitrarily strip Arrowcrest of 50% of its volumes to HSV in favour of importing ARWs from China. As noted in an earlier submission, the buyer provided no evidence to support his claim and there is nothing in Arrowcrest's records of correspondence with HSV that supports this claim.

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12. Concluding remarks.

Arrowcrest has provided here and in its application specific evidence that clearly separates its injuries arising from volumes of ARWs exported from China at dumped and subsidized prices, from its OEM business with Toyota.

Customs has determined that Arrowcrest has suffered injury as a result of those exports in the form of price undercutting, price suppression, impairment in non-price factors, loss of employment, loss of capacity utilization, loss of sales volumes and turnover, lost profits and profitability and reduced return on investment.

Simpson however seeks to convince Customs that such injuries are variously insignificant, immaterial and unrelated to the volumes of ARWs from China at dumped and subsidized prices (or those injuries are self-inflicted), none of which is supported by any evidence.

Accordingly, Arrowcrest requests Customs to reject the claims made in submissions on behalf of Mullins Wheels dated 14 and 17 May 2012.

Yours sincerely,

Bill Davidson

Bill Davidson
General Manager