

**ECONOMIC DEVELOPMENT AND INFRASTRUCTURE COMMITTEE**

**Inquiry into Mandatory Ethanol and Biofuels Targets in Victoria**

Melbourne — 27 August 2007

Members

Hon. C. Campbell  
Mr P. Crisp  
Mr D. Davis

Chair: Hon. C. Campbell  
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Witness

Mr L. Watkins, Senior Manager, Strategic Solutions, Bendigo Bank.

**Necessary corrections to be notified to  
executive officer of Committee**

**The CHAIR** — I welcome Leigh Watkins to the public hearings of the Economic Development and Infrastructure Committee's Inquiry into Mandatory Ethanol and Biofuels Targets in Victoria. All evidence taken at this hearing is protected by parliamentary privilege, comments made outside the hearing are not afforded such privilege. Mr Watkins, could you please give your name, the name and address of the organisation you are representing and your position within that organisation.

**Mr WATKINS** — I am the Senior Manager in Strategic Solutions with Bendigo Bank, and I am representing Bendigo Bank here. Thank you for the opportunity to present some of the work that we have been doing in our own quiet little way around biofuels resulting from some of our activities in our communities. Our head office is located in Bendigo at the new 5-star, environmentally sustainable building in Bendigo, the Bendigo Centre, Bath Lane, Bendigo. I look after a range of activities within the bank — just to give you a little bit of background on our work — even though my title is Senior Manager, Strategic Solutions, I am also CEO of our community energy initiative, which is our further evolution, if you like, of a community bank strategy. How much of a scene do I need to set for you to understand how a community bank model works and all that sort of stuff — perhaps before we go into the biodiesel things? I take it you have all heard of it?

**The CHAIR** — Yes, and we were presented with documentation for stages 1, 2, 3, 4 and 5.

**Mr WATKINS** — That is the explanation document I sent to you. That is fine. What we are doing in the biofuel area is really only a further solution that we are trying to help communities with in terms of developing sustainability in their various areas. While community bank addressed the replacement, or the reinstatement if you like, of services that were lost out of communities and therefore helped their sustainability because it returned banking services, it also retained capital in that community by creating a locally owned enterprise that people put money in and then banked with, and it kept money going around. I am sure you have all seen the grants programs so that community banks are now putting back into their community. The essence of that model was that there would always be this social dividend as well as a dividend back to the individual shareholder. We had what we like to term as a commercially sustainable model that was also cooperatively driven — so picking up a lot of the sentiments of the old cooperative structures, but in a proper commercial framework that had a local board of directors and local capital involved in it.

When we came to look at biofuels, the drive for this came from two areas. One I had looked into previously, probably about three years ago, and found some of the embryonic producers that were around, through my role with community energy where we had been looking into other sorts of energy opportunities and aggregation opportunities around energy, and now that we had a full contestable market for electricity, it seemed to me that we would apply the same skills in that market that we had done in telecommunications. You would be aware that the community telco model was the next evolution, if you like, of community banking. We have looked to do similar sorts of things in the energy space.

Coming at this, I had already had a look at some of the Australian producers of biodiesel around, just try to find out what was going on. I had had a look at quite a few consultants who were coming into the country wanting to sell people kits of equipment. In fact we had a few of them battering on the doors of some of our community banks, trying to sell them \$100 000 worth of equipment to make 10 000 litres of biodiesel a month and trying to convince them that this was a great way to go. We had a look at quite a few of those, saw the Australian producers and actually started to develop a little bit of a relationship with one called Australian Biodiesel Group, which was up in Sydney at that stage. It had built its own Australian plant that had a continuous flow process, which I thought was much better than the typical batch processes we had seen a lot of people doing. They were willing to work with us in the community sort of model that we wanted to take forward.

Not much happened with that for a little while because we were really unable to achieve any aggregation, if you like, to buy some fuel and get it out to users and to make that part of it work. We tried through some of the local councils, particularly around central Victoria, with the Central Victorian Greenhouse Alliance, which I represent our bank on, or our company on, and I am also a director of that organisation now. The councils were variously wanting to do it, but could not quite get themselves organised enough to be able to make that happen. It was about May last year when we actually started down this path and made some deliveries happen, but it was all because one of our communities came to us and said, 'How do we get some of this stuff? How do we get using it and start trying to get something happening in our area?'. That was, coincidentally enough, Rupanyup and Minyip, where our first community bank was, so it was actually the chairman of the community bank board who came to us and asked 'What do you know about it, and how do we get some of this going and make it happen?', and if it had not been for

Max actually doing that and giving us the opportunity to get going on this we probably would not have been able to get to where we are today.

### Overheads shown.

**Mr WATKINS** — Slide 1 — 5 Steps to fuel sustainability. Where we are today is that we have delivered something like over a million and a half litres of biodiesel now into two trial community user groups — around Rupanyup–Minyip and Elmore and Lockington, and around that area as far out to Colbinabbin and around Serpentine and that sort of area — and we have started off with these trial user groups but started to build the numbers involved in that to get us to a point where we can get the community pledging their support first, and raising some capital and their consumption of fuel. Like a lot of the approaches we have seen in this whole renewable fuels area, people tend to jump to the last step there, no. 5 — ‘We want the fuel place. We want the biodiesel plant in our community. We are going to try to get that’. They are all focusing on that. But really you need to step back from it a little bit and say, ‘We need to have a staged approach to that’. That is a very big investment for a start — maybe \$20 million or \$30 million. It is quite a big elephant, so there is a need to work out how to take a few bites at it to get there.

Our approach was to set up this trial user group. We started with only six farmers in the Wimmera, and all of them are bulk users, basically. The only way we have been able to make this happen is by working with bulk users — that is, people who have, say, 4000–5000 storage on their property — and we were able to then make deliveries happen to those people. We are not talking about going to the stage of you and me filling up our cars at service stations. In fact, we were quite careful to stay away from that sort of activity and to stay well off the radar of some very big and powerful companies involved in this whole area. We did not want to upset them and be seen to be competing on price and other sorts of things. We did not want *A Current Affair* stories and all those sorts of things happening about this. We wanted to be able to get out there and prove to the users that this was a reasonable alternative fuel, that it works, and that, yes, there are a few issues in changing over to it, but we could make repeatability of supply — once they changed away from their existing suppliers, we could keep supplying them and they could keep using it — and really there was no difference in the changeover, once they went onto a biodiesel blend, from using petrodiesel. It was really a matter of solving that first issue of how to get local users and get them all comfortable to the point then where we could take this further. I will just skip on a little bit with this now for you.

Slide 2 — Trial of biofuel viability. What we did was put together this trial user group, as I said. What that involved was us playing a role in terms of actually going out and being able to buy the petrodiesel, be able to buy the biodiesel from a refinery, pick it up from the two terminal gates — which is the only way you can get access to it these days — and also get it into a truck and get the truck rolling up the highway and then get it out to the end users. Myself and another gentleman who works with me, Callum, played a very hands-on role in that, to the point that we organised the milk run at the very end there, where it went out to the users. We met the truck driver, often at 6.00 a.m., and went around and delivered to the 10 people that we were doing on that day — 13 was our worst run, I think, around Elmore one time. We really got in there and made that part of it happen. All of the logistics chain is set up to work with the incumbent suppliers. In trying to step away from incumbent supply we realised we had to be able to prove that we could roll a truck into town ourselves and do it ourselves. We could never go off to an independent distributor — and there are some of them around that we know of, and I will tell you about that in a minute — and say, ‘Hey, can you help us deliver this fuel?’, because they would have said, ‘You’re only working with a bunch of farmers who are after cheap fuel. Go away’. By proving that we could roll the truck into town, manage the price and do all that sort of stuff, we built confidence with those end users and now we have quite a deal of uptake.

You can see the sorts of things that we had to cope with. We had to actually get access to wholesale buying arrangements for the petro. We were lucky that we found an independent wholesaler who has some trucks coming out of Melbourne and gave us access to terminal gate for petrodiesel and actually at the below-terminal-gate price. He is in the wholesale part of the market. I am sure you are all aware of the terminal gate and how that works: anyone can rock up and buy it at that price, but we know that there are people who were buying at prices that sit below that, because they deal in volume — usually 100 million litres and above. So we access that. When we delivered the first load to our end users, price was not the driver in this; it was really the renewable fuel. If we could make it a bit cheaper, that was good. The way it went into the region, it was about 8 cents a litre cheaper. That then started to drive some competition out there that previously had not been there. People were ringing around. Now we are at the point where usually our trial users do not even bother doing that, because they know that the price is

pretty good, and we have tried to maintain it just a little bit below petro. Everything has come down somewhat, and usually the price they get quoted is that they will match whatever you are paying for the bio blend. That had a nice little effect. If you think about it in terms of economic output, from the first B-double load that we put into Minyip there was something like \$4500, and it did not leave that community, because of that slightly better scenario. When you hear various things such as there is no money to be made in fuel distribution and what have you, you can see that there is probably a different story in that. We were certainly able to prove that. We have kept that going today and have moved on a little bit in what we have been doing. That was the way we got this going in the early stages. As I said, now our user group has expanded out to about 80 and includes councils. We have Yarriambiack shire involved, using some of the biodiesel blends. Loddon shire has just come on. They are using some of the blends and also pledging their support to the activity that the community steering group is now doing.

Slide 3 — Local storage and distribution: We realised that there was an opportunity to establish a really good little local enterprise around this as a first stage. That sat around that local storage and distribution, because every one of these communities has lost its fuel storage. In fact all the major areas around regional Australia, particularly in Victoria, have lost their bulk storage. There are no longer any tanks that store fuel. It all comes up the highway on B-doubles, and of course, if the truck does not roll, then people can be in danger of running out. We have seen similar circumstances to that when the ships did not come in on time. There were 50 trucks lined up at the terminal one day when we were waiting to fill up. There are a whole lot of these issues around just-in-time supply that are very important from a security point of view for the community. When your local farmer is there wanting to get his crop off, he needs to know that he can get fuel and he is not going to be manipulated on price and supply and he has it. For them there is a very good reason for having local storage. We know that around that little square that you can see on this slide there is a good little model in that for them as well. If they are able to aggregate 4 million litres worth of fuel usage out of that community — and we are wanting them to raise \$500 000 — that would put back in place those local tanks: a tank farm with two 55 000-litre tanks and a couple of others for the other fuels and a local truck running around doing that.

We can still organise the wholesale part of it, but now we have put back a whole little economic activity in that community that sits around that fuel distribution. For us, things have moved on a lot further even. Because we were able to prove what we could do in the early stages, we now have an independent wholesale distributor who came on board with us, saw the advantage in working with us — that is Atlas Fuels, based out of Horsham. Atlas is providing some of that wholesale component for us already and will help us build the local storage facilities there. We are working with the community to aggregate that amount of usage — the 4 million litres I spoke about — and also to raise the \$500 000 that will put that in. Both of those communities are working down that process. It is exactly the same process we used to put our community bank structures in. It will have its own board of directors, its own local distribution of profits and social return and what have you, the same sort of model, but that is the first stage that will get them up and going.

**The CHAIR** — I am going to have to cut across you. Can you direct any comments you want to make —

**Mr WATKINS** — To your issues?

**The CHAIR** — Items that we have to address. I would hope that everybody has read the documentation that has been provided by you for us.

**Mr WATKINS** — Okay. If you have read that, you probably see how we see the story going on.

**The CHAIR** — Yes.

**Mr WATKINS** — All of this was the foundation stone for then getting onto doing other things. The other things were where the local farmers see the opportunity to start growing the oil seed now, whether that is canola that they currently grow or some of the mustard seeds and other things that are going to work in this now dry environment that we are facing. They see the opportunity to have control over, effectively, the oil well that is sitting in their paddock. If we use this community structure in the same way with local production, crushing locally and a few other things happening there, there is a whole lot more economic activity that can be driven out of that, as well as starting to build a path to sustainability on this renewable fuel.

Slide 5 — Bi-product processing: If you jump to stage 4 you see there is a whole lot of bi-product stuff that can come out of this. It can go into stock feed production and other things that are happening in the concentrated nature of agriculture these days. Ultimately we see it joining up like this, where we would have the opportunity to create

this sort of a structure, whether it is regionally or in one town — you might have some elements of it spread around. The ethanol production, for example, we know is going on in Swan Hill. That is just there to show the linkage. You would see local primary production of the oil seed crops being crushed locally, whether that biodiesel plant is in the local area or somewhere else. The logistics work nicely by backloading the oil on the empty trucks coming up and down the highway, so you can make a few things work there. You are also then able to export some of it into other markets.

We have just started to have some discussions with our Altona community bank down here that want to start distributing the biodiesel around their community. They do not need a storage distribution facility, they just need a truck. Those sorts of things are now starting to emerge. In fact, when I leave here today I am going on a plane over to WA because we are talking to Western Australian community banks in the same sort of vein. That is a bit of a snapshot of the background.

Now to your terms of reference, and what is particularly important in all of this. If you have read the documentation and have now seen a little bit of that story — I know it is only a very brief snapshot — I would strongly advocate that you do not consider mandating levels of blend. We know that the whole regime is around the delivery of blends, but key to this is the excise regime, and having a blend of the fuel that meets the excise regime criteria. That means that, when you put your biodiesel in with your petrodiesel, it still passes the petrodiesel standard. That is what we have worked hard on doing.

We started off with B20 blends. When that rule changed mid-last year we had to go away from that and come back to B15, B5 even, and then nothing, just petro, to our trial users to keep them going until we found a supplier who could give us a blend at a B20 level that still passed petrodiesel standard. We have had the interaction with the tax department, and they are happy on this too. We have got an audit trail on all of this, so that we can backtrack, and they know there is complete visibility around the end users and they are not impinged in claiming their 38.9 cents rebate or their 18.9 on-road rebate. So there are no issues from their point of view and also no issues from a warranty point of view, because for all intents and purposes you are putting in petrodiesel, and even though the Australian engine manufacturers or their arms out here have been a bit behind their European and American counterparts, they are starting to now say yes, they will allow or they will recommend — all that sort of language. But, really, their documentation all talks about meeting a standard, and that is the Australian petrodiesel standard. If you can create a blend that still meets that at 20 per cent, then you have got something that is really making a good impact from an environmental and health point of view as well as helping you to build this whole sustainable regional model that we are working towards.

If you go ahead and mandate, when you go back to step 1 — and you saw that logistics chain — all you do is play to the strengths of the people who are very good at that part of it right now. I think you know who I am talking about there. They have got that part of it down nicely; they have been able to work a strategy that has all the trucks running around nicely. They are very good at that. If you mandate certain levels it just plays to their strength. They will go to the producers around here — or even import it we have heard — where they can get biodiesel blends from all sorts of other countries, blends made out of palm oil and all sorts of things that we all realise are probably not the best input to it, and then mix it in at their terminals and control the whole thing again. We see the opportunity for these communities to get involved and play a role in putting infrastructure back in their local area, and that creates local activity. That cannot be done if we leave it up to — —

**Mr DAVIS** — To get clarification, in effect you are saying that mandating would actually be counterproductive in that sense?

**Mr WATKINS** — Exactly. Mandating for your own fleet might be a good idea, but all I would say on that regard is, just look to see how you can then use your buying capability to buy locally. This is the argument we have had with the councils, where they have been just buying it from terminal gate, basically, and getting trucks coming up the road to them. We said to them, ‘Look, if you aggregated your demand now with this community initiative’ — and most councils in the rural areas are up around 1 million litres — ‘that is a substantial amount that would help underpin the local business’. That is all you have to do. Inside of putting your bio over there, now put it here locally. It is the same price — in fact, it might be a little bit cheaper — but now you are underpinning economic activity in the local area and building a stepping stone to maybe something that could provide a whole renewable model around this.

**The CHAIR** — If you take that a bit further, what would you say about us recommending certain things for regional local councils?

**Mr WATKINS** — That they look to see wherever they can aggregate their demand with local initiatives that underpin the use of biodiesel for other users within the community. It is that aggregation of demand that then gives us enough business volume, because it is all about volume in this game; it is not about having it at service stations so that people can fill up their cars. You need to be dealing in large quantities; it has to be trucked. That only works when you are dealing in B-double loads to the best. When you have the ability to deal at that level, you can then get the right price on everything and make it work.

**The CHAIR** — Is there anything else you want to say in relation to our terms of reference?

**Mr WATKINS** — To your terms of reference, one of them was around what to do to improve economic development in regional areas. Certainly we see this model as doing exactly that. We are at early stages of it yet. Our two communities are Rupanyup and Minyip, which have raised about \$370 000 and have about 3½ million litres pledged. They need to get a little bit more to get to their target. Once they have done that we will put that local storage and distribution business in place and have that running out of there. The Yarriambiack shire pledged 200 000 litres initially; now it has upped that to its full 800 000. It has started to see that this will get going in the area and that the local facility will meet all of their needs. The fuels are working well for everybody. There are no issues in the changeover; we manage that part of it quite well.

**The CHAIR** — What is the radius to local?

**Mr WATKINS** — Around about 45, 50 kilometres. In fact, that marries up nicely with the production side of it because when you look at these two broadacre farming communities, within a 90-kilometre diameter circle around Rupanyup-Minyip, let us say, there is enough oilseed grown now that would feed into, say, a 40 million-litre biodiesel plant. There is the production there to underpin that right now. If they did nothing else in their current rotational cropping regime, then it would work.

**The CHAIR** — Thank you. Have you finished?

**Mr WATKINS** — Yes, I have finished.

**The CHAIR** — I would like us to have the opportunity to ask probably four questions.

**Mr DAVIS** — I think I understand it from the way you have laid this out, but let me get this clear. It seems to me that later if you have got some production locally, or near local, one of the issues is the world price for some of the imports into that production and movements and fluctuations.

**Mr WATKINS** — Yes; we did not get to talk about that part of it.

**Mr DAVIS** — In a sense we are price takers in this business in this country.

**Mr WATKINS** — Yes, exactly.

**Mr DAVIS** — To a significant extent the world price for canola, or whatever it is, is not necessarily fundamentally controlled by us. In effect, you are trying to have the distribution, storage and all of that, and I can see how that would work with inputs and you meeting the petrodiesel standards.

**Mr WATKINS** — Yes.

**Mr DAVIS** — But then if you put in your production, you are actually dependent on local inputs into that production, and it seems then you are dependent on the swings in the world price.

**Mr WATKINS** — On the surface you may well think that — —

**Mr DAVIS** — That is actually why I would think that.

**Mr WATKINS** — What is actually happening though — and I will use these figures although they are not quite up to date at the moment — is that when you look at the production of the oilseed, farmers are being

quoted \$420 a tonne if it has 42 per cent oil content right now. That is delivered at port so they have to take out of that their trucking costs and storage costs and other sorts of things, so they only get about \$310 in their hand.

**Mr DAVIS** — Going back to some earlier inputs, what you are saying is that depending on world price, say, for the transport section of the cost?

**Mr WATKINS** — No, what I was getting to is that at the moment they have to pay all of that. Out of the amount of money they are getting quoted per tonne, they have to pay all of those costs. What we see happening with this is that if you can deliver them at \$420 locally, suddenly they are perhaps \$100 better off to begin with. It is typical of this whole area. They want the maximum price for everything they grow and they want to pay nothing for their fuel, but it is about getting some stability and predictability.

**Mr DAVIS** — But if the world price was \$700 they would sell at the local area — —

**Mr WATKINS** — They may sell, yes.

**Mr DAVIS** — And you would have to purchase it at a — —

**Mr WATKINS** — They would buy other things. You cannot afford to be locked into one feedstock. We have seen a lot of people saying, 'It has got to be canola; make it from canola', and all that sort of stuff, but you need a variety of feedstocks. In the summer it makes sense to put some tallow in there. We did not get into all the issues around the coal filter plug point stuff that you have to manage, the same as with diesel now, but that modifies what you have got to put into the blend, and the producer has got to be careful of that. You have to make sure that the fuel that is going out there is not going to wax up people's filters and have things stop. Yes, it is about having a variety, but it is about time of year too. You have to have more canola in it, perhaps, or other forms of oilseed in there for the winter and less tallow.

**Mr DAVIS** — How do you hedge against those price fluctuations for your inputs though? You hedge in part by having a diverse group of suppliers — and I am just trying to understand this — but that still does not fully cover you against the price fluctuations that may occur.

**Mr WATKINS** — Yes, but then it is about saying to the farmer, 'We can give you predictability on prices'.

**Mr DAVIS** — Okay. You sign up contracts long term.

**Mr WATKINS** — Yes, that is right. That means they then know. At the moment these crops are fairly heavy input costs for them, so they take a lot of input. They grow it because of its rotational benefit, not necessarily because they get a great price for it. Now there is a better reason to put it in there, and there might be a whole raft of other oilseed crops that we start to hear about, even some of the high-acid content rapeseeds that have been sitting on the shelf for a while. They are not suitable for the food chain because they are 50 per cent oilseed. This year the Birchip Cropping Group is doing some trials with those as a precursor to this sort of work.

**Mr DAVIS** — To diversify your supply?

**Mr WATKINS** — Exactly, and they work better in the lower rainfall. There are the mustard seeds and all sorts of other things. I am not an expert in any of that sort of area, so we will wait and see what develops, but there are plenty of opportunities for them to diversify, and get better production output too.

**The CHAIR** — Mr Watkins, we are running out of time and there are a number of questions we would like clarified. We are going to try to whip through these fairly quickly, and if you could give us the key points the research officers can follow up for more background data.

**Mr WATKINS** — Okay.

**Mr CRISP** — The two ventures you have going at this stage — so we can get some time lines in that stage process — how long have they been at it, and where are they up to?

**Mr WATKINS** — We started deliveries back in May last year and we formally launched the pledging process, which mirrors what we do with our community bank, back in July in Rupanyup, and then it was later — I

think in about October — in Elmore and Lockington. It is fair to say that the drought has had a major impact on our ability and those two steering committees ability to get their pledges up and running, and I think we will probably have to wait until early next year before the farmers see some cheques coming back in when they can actually put in some capital. We will just manage that process. It is not unusual for a community bank to take 18 months to three years sometimes to get up and get all of its capital and pledged business. We are mindful of that, and we are not going to rush it. We want to make sure that we get that stage of it right.

**Mr CRISP** — That leads me to the second part of this question. We have got a commonwealth biofuels production grant that we scale back after 2011. With some of these community delays, what are your thoughts on that 2011, 2015? Will that wind back get in the way of other communities coming down this path? Because of the long lead times, is that an impediment?

**Mr WATKINS** — It may well be. I am not familiar enough with it to see the impacts just yet, to answer you succinctly now, but the other issue that we face in all of this is where peak oil is going to be at and what price per barrel we are going to see on crude. We saw it come back. Now, it is sneaking back up again. Who knows where we are really at in that whole cycle, but as it keeps going up, it makes this sort of activity even more and more attractive. Below \$60 a Tapis price per barrel, it is probably not that viable, but certainly above that, yes, it really works.

**The CHAIR** — To the first question Mr Crisp asked, you outlined Rupanyup and Elmore. Is there any intention to expand the program elsewhere in Victoria?

**Mr WATKINS** — Yes. Willaura-Lake Bolac is another one of our community banking communities; the Altona community bank, which has three branches down through there, seeing the opportunity to aggregate some demand for all of the Werribee farmers down in that area who have big pumping requirements and what-have-you, so they are very focused on the community health benefits, and also with the Hobsons Bay Council. They have a joint council relationship with the Buloke shire and we are starting a similar sort of venture out of Charlton that will spread through the Buloke area as well. So it might be some of the Hobsons Bay demand, if you like, helping to underpin that. We will see how that works out. Those are the communities in Victoria. In New South Wales we are just about to start with Lockhart and, as I said, I am off to Western Australia this week to talk to our community bank communities over there.

**The CHAIR** — You gave us some figures regarding central Victoria and the economic benefits to that local community as a result of your initiatives. Could you run through those figures? Are there any more figures other than the ones you have given us for the Wimmera?

**Mr WATKINS** — Given that we have now probably delivered into that community around 1 million litres, we say that there has been significant retention of capital within the community because of the competition that is now being driven and also the improved environmental outcomes as a result of 20 per cent blends being used there. We know that CSIRO has proved that there is something like a 16 per cent reduction of CO<sub>2</sub> emissions well-to-wheel analysis compared to a litre of biodiesel or B20 compared to a litre of petrodiesel, so we do see the opportunity to then be able to go back to those end users and buy that credit off them at some stage and be able to then sell that into the carbon market.

**The CHAIR** — Do you have dollar figures for any — —

**Mr WATKINS** — None of that yet. Until we see a decent price for carbon, we will not know.

**The CHAIR** — They are the key points. Thank you very much, Mr Watkins. We appreciate your presentation.

**Mr WATKINS** — I know that was a bit of a gallop through.

**The CHAIR** — We have your contact details, so there will be items that will be followed up. Hansard will be providing you with transcript. You are free to correct any typographical errors that may occur.

**Witness withdrew.**