

# TRANSCRIPT

## ECONOMIC DEVELOPMENT AND INFRASTRUCTURE COMMITTEE

### Inquiry into local economic development initiatives in Victoria

Traralgon — 24 April 2013

#### Members

Mr N. Burgess  
Mr B. Carroll  
Mr M. Foley

Mrs C. Fyffe  
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Chair: Mr N. Burgess  
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Executive Officer: Mr S. Coley  
Research Officer: Dr K. Butler

#### Witness

Mr R. Bertoli, General Manager (sworn), Hydro Australia.

**The CHAIR** — Welcome to the public hearings of the joint party Economic Development and Infrastructure Committee's Inquiry into local economic development initiatives in Victoria. Evidence that you give today is covered by parliamentary privilege, but anything you say outside this meeting will not have the same privilege. The transcript of today's proceedings will become a matter of public record. I ask you to state your full name and whether you are appearing on behalf of an organisation and if so the role that you play within that organisation.

**Mr BERTOLI** — My full name is Ross Andrew Bertoli. I am General Manager of Hydro Australia, which I am representing here today.

**The CHAIR** — I now invite you to make an oral presentation.

**Overheads shown.**

**Mr BERTOLI** — I have the first slide up on the screen. I just want to give you a bit of background as to where we came from, which leads into where we are heading as a company and organisation in the Valley and some of the reasons why we are there.

Our company specialises in engineering. We are an engineering company, but our specialty is heavy industrial pumps, so we work on pumps that turn at 5000 rpm and use a lot of energy. In fact the pumping industry worldwide accounts for 20 per cent of the world's energy — that is, 20 per cent of the world's energy goes into the pump industry for motors that drive pumps, so it is a big industry.

Work we do is across a range of industries: power, pulp and paper, steel, oil and gas, and the municipalities, the local councils.

**The CHAIR** — So you consume 20 per cent of all energy?

**Mr BERTOLI** — We do not, but worldwide pumps consume 20 per cent of the world's energy, and that is something on record with the Hydraulic Institute.

**The CHAIR** — So if we just get rid of all the pumps, we are laughing really, are we not?

**Mr FOLEY** — But then society grinds to a very quick stop.

**Mr BERTOLI** — That is right.

**The CHAIR** — It does.

**Mr BERTOLI** — Everywhere that fluid needs to be moved from point A to point B there is a pump that drives it.

**The CHAIR** — Of course. Thank you.

**Mr BERTOLI** — Regarding this place shown on the slide — the Loy Yang power station — you would have seen it earlier on today, I would have thought.

**The CHAIR** — Yes.

**Mr BERTOLI** — And this is where our company actually came to be. I do not want to bore you with too many of the technical details, but they run a boiler feed pump, which is their most critical pump in the station.

Back in 1993 when they privatised the power industry the station lost a lot of key people, so they went back and used the traditional repairers of these pumps. In those days the pumps would cost \$100 000 to overhaul. So they overhauled the pump, it went back into service, and eight months later it failed. This happened on about four occasions. Then the engineering manager at Loy Yang got in touch with the people who own Hydro in Chicago and said, 'What can you do about this?' They had a long conversation. It ended up with the gentleman from Chicago telling me that he thought, 'Well, that will be the end of that', and I think a month later Loy Yang put one of those pumps on a plane and flew it to Chicago. The cost of just flying it over there was astronomical, but that is how desperate they were.

That pump was overhauled in Chicago in 1996. I was working for another company then that was sort of feeding off the privatisation inasmuch as we were in the old SECV's workshops in Yallourn that were taken over by Skilled Engineering. When we saw that the pump was going over to Chicago, I thought, 'We have to go over and have a look at why this potential workload of ours is leaving our shores.' I went over, met with all the people at Hydro, and initially I thought I would be able to pinch all their ideas and bring them back. It did not work that way. They were just far and above better than anything I had ever seen before in the pump industry, and I had worked in it for 20 years previously.

The nature of the conversations turned to let us bring the technology back to Australia instead of sending the work over to the United States. We came over here in 1997 and found this old building which was part of the SECV works area in Yallourn. We refurbished it and we operated from here probably for the first six or seven years of our company's working life. While we were here we were fairly limited in the amount of money we could turn over. We were turning about a quarter of a million dollars a month in that workshop, and that was due mainly to the size of the facility. The company that owned the facility wanted to sell about seven years later, so we had to get out.

We had to find somewhere else to stay. Driving through Morwell one day we saw a factory, went in and had a talk to the owner and told him what our situation was. He said, 'Would you like me to give you a quote to put up a workshop?' I said we needed land and he said they could subdivide the block that they were on and build there, which they did. So we put Hydro Australia there.

This slide shows the internals of our shop. It is 14 000 square feet. We think in engineering terms it is a beautiful shop. I mean, the type of work that we do requires a clean facility. We are working in very defined tolerances all the time, and our people who work and operate in there are very proud of it.

I will just go through the next couple of slides very quickly. This one shows just some of our equipment that we have invested in and put in this facility. This was all done because when we first set up the operation the people from Chicago said, 'Why don't we set up in Melbourne? It is closer to the centre.' We said 'No.' My desire was to set up in the Latrobe Valley. I was born and bred here and saw the impact that the privatisation had had on the Valley. A lot of people lost their jobs. It was never going to get back to that stage again, but whatever we could do by way of putting up a business here would be the way to go. So we set up here with an aim to employ Latrobe Valley people.

When we first started in 1997 we had two employees. We had an annual turnover of \$230 000. The building was leased, our labour was all contracted, and our equipment was leased. Now we employ 36 people locally, so that is 36 Latrobe Valley people, and we have a turnover of \$5.5 million. That was prior to the announcement of the carbon tax. We own the building our labour is all permanent labour, and we own all our own equipment.

The next slide just gives you an idea of some of the people we work with. These are all blue-chip clients and they are from all around Australia. The ones that are highlighted in red are the local ones here, and I suppose to a certain degree they are the ones we are most worried about regarding what is going to happen in the future. We cannot just pick up our workshop and move it to another area.

All the other ones are from Western Australia, South Australia, Tasmania, Queensland and New South Wales. With all this work, we send our people to the site, then they come back and the pump comes back to our facility here in the Latrobe Valley, where we do all the repairs.

I will go to some of the challenges we have had. The first one obviously was the carbon tax. In the ensuing weeks after they announced the carbon tax, about a third of our workload stopped. For example, we had some works in the facility from BlueScope Steel, about \$800 000 worth of work. Two weeks later that was all gone, so that left the facility, and we really struggled to keep our nose in front.

We finally got over the hump a little bit and came up with a contract for closure, which again impacted upon four of the facilities we worked with: Hazelwood, Energy Bricks, TRUenergy, Collinsville and Playford. We had to go through this process while they were deciding what to do with that, and I went with the Latrobe City in a delegation to Canberra where we talked to Ministers Crean, Combet and Ferguson with regard to the impact it was having not only on our business, but on the Latrobe Valley in general.

The next thing was when the Government came out and announced an election on 14 September. Now we will have eight months when everybody that we do business with will be sitting back to see what comes out of the election so they know which way to go, and all that does is have an impact on our workloads. We have seen work cancelled again, outages put off, and all because of this uncertainty about what is going on.

Some of the other challenges that we are going to have include skilled labour availability. We used to have a fantastic apprenticeship scheme down here in the Latrobe Valley, which I came through in 1970. I started in the January, and there were 180 of us who started an apprenticeship. In June that year there were another 180. Now it is very rare that you see numbers of apprenticeships down in the Valley. My worry for my business, apart from the major ones which are the three, is where we are going to get labour from in the future. That obviously depends on union demands and the rising costs of staying in the Valley. These are all things that industries like mine have to go through. We had a union organiser in two weeks ago preparing us for the next round of EBA negotiations, which unfortunately will all flow downhill. They negotiate agreements with the power stations, and they believe they can impose those on us as well. We are either going to have a massive fight or we are going to get through this, hopefully a bit more easily than we think. I would think we are probably going to have a massive fight.

In relation to costs, everything is going up. Electricity costs are going up, water costs are going up, and all these things impact upon the way we operate our business.

The last slide shows the biggest challenge for us, and that is staying in the Valley, because if one of the major stations that we saw before decides at some stage or another that they are going to close their doors and not be around, we would seriously have to think about where we are going to be located. Would it be still here in the Valley or do we move somewhere else? We want to stay in the Valley. As I said, we just cannot pick up the workshop and move 35 people to do that; it is impossible to do. Those are some of the challenges we have.

What is working well? There have been some positive things for us. With the downturn in work we have had to look at the diversifying a little bit. We cannot really diversify by taking away the pump business and putting in an olive grove. We are an engineering company, and we are like a chain of engineering companies around the world now that operate under the Hydro banner. We have to stick pretty close to what we do, and that is pumps. We really cannot go outside our core business, but through the Latrobe Valley road map and then the Latrobe Valley Industry and Infrastructure Fund we have applied for some funding to help us buy some on-site machining and welding equipment, which is gear that we can take to other states to do operations with and also take overseas. It is another arm of our business that we can start to market now.

That has been a really good process to go through. Surprisingly enough it was a relatively simple process. We put in our application, we were interviewed on a couple of occasions, there were questions asked, but very quickly we had approval; we had the Deputy Premier down in the workshop presenting the cheque and we purchased the gear some two months later. That was a very good process to work within, when compared to some of them we have seen.

One of the things that is of real interest is that we are looking to move into Asia. I looked at the Federal Government's Asian century policy, and they have just released the first round of funding. I thought, 'Okay, this will be great for our company. It will assist us to further move into Asia.' When we investigated, what it is telling us is that you have to be part of a member organisation. I approached the Latrobe City Council to see if we were able to get into that sort of a role where we might grab a group of like-minded companies in the Valley. We have not been able to do that, and the first round of funding closes this Friday. That is something which should have been easy for us but which was really difficult.

This slide shows the new equipment that we bought. Again, I do not want to bore you with the facts, but it is the biggest piece of on-site machining equipment in Australia now. We are going to market that heavily right around the country and into South-East Asia, particularly in the power and mining industries but also in the shipbuilding industry.

**Mr FOLEY** — What does it do?

**Mr BERTOLI** — Effectively, we can go to a mine, and you know the buckets that operate on the dredgers?

**Mr FOLEY** — Yes.

**Mr BERTOLI** — They usually have to bore those where the pins go through. We can go to the site now and take those off and do it in situ, so you do not have to remove the — —

**The CHAIR** — It is mobile.

**Mr BERTOLI** — It is mobile, exactly. As I said, a lot of our work is in the power industry with major pumps. These boiler feed pumps usually sit inside a barrel, and when you remove them after 10 years' service you will find erosion or corrosion in there. Then you either have to cut out the barrel, which is a high-risk probability, or you go in with a portable machine, prep it, re-weld it and re-machine it all in situ. They are the services we can offer now, and that is what we are offering from here in the Valley.

**The CHAIR** — That is unique, is it?

**Mr BERTOLI** — No, these machines are all around the world, but the one we have is the biggest in Australia. There are a couple of other companies that do that sort of activity, but not to the size that we are intending to focus on.

In relation to overseas growth, prior to the carbon tax our business was kicking along nicely. We looked at expanding into Vietnam. We saw it as being a really attractive market. When I say expanding, it is not sending work from here to be done over there because of the cheaper rates, but to set up a facility over there and again export our services into the region. On quite a few trips over there none of our competitors were operating from there: they were operating from Spain, Singapore or distances away, and the people we were talking with in the Vietnamese industry were looking for people who would come in and show them what needed to be done and teach them and train them. Our intention was to set up. We had land organised, we had a plan for a workshop and then, as I said, the carbon tax came in, our business here took a downturn and the focus went off Vietnam and onto rectifying the ship here in Australia, which we have done, so to speak, now.

There are still a lot of challenges, but we are now looking at Vietnam again. We were over there at a refinery two weeks ago, and this is one of the suggestions I have. This is really interesting. What they offer to companies to set up in the regions is amazing. I think it is probably a long bow to draw to do that here, but there are some things I think we can take and see what they do to offer companies to set up in a different regions over in Vietnam. We are still looking for — —

**Mr FOLEY** — Just to stop you there, when you say that it is widely understood that Vietnam and other regimes in developing nations talk about a requirement for you to partner as a joint venture, what does that require of you as an Australian-based operation to give up in terms of your Australian operations?

**Mr BERTOLI** — Prior to January this year you could not have majority ownership of a company in Malaysia or Vietnam. The law changed in January and you can now do that. We go into each of these ventures with one proviso — that we have majority ownership of that venture. That is because information that we are going to be transplanting into the company has been developed by our company over the past 40 years.

**Mr FOLEY** — So it is your IP that is particularly valuable?

**Mr BERTOLI** — Exactly.

**The CHAIR** — You do not want to be giving it to a company that you do not have control of.

**Mr BERTOLI** — That is exactly right and, as I say, up until this year those were the regulations. In Vietnam we can put up a workshop and we can own a workshop, but we cannot own the land it is on. They will give you a 67-year lease, which will see me out, I would think — if we get over there. But that is the way they operate. I think there are some things they do over there that we have to embrace as well when we are going over there to work. They have a very strong work ethic, obviously rates are a lot lower than they are here to get work done, but it is all economies of scale. They are dealing with that market over there and we are dealing within this market here.

That was the key proviso for us — that we do not want to give up our IP; that is really important, and we have seen it happen before and got burnt once or twice. The president of the company will not let that happen again. Anything that I am charged with — if we are going into Malaysia or Vietnam — it has got to be at least a majority ownership. Then we look to moving some of our people from here to each of those operations for a

12-month period, so there would be engineers and supervisors to train and supervise work being done during that first 12 months with the aim that after a period of time we pull back and the local organisation runs it under the guise of Hydro Vietnam, Hydro Malaysia.

**Mr FOLEY** — And that is good for the Valley-based business?

**Mr BERTOLI** — Well, it is not really going to have any impact upon the Valley-based business. It is just going to mean that they will come under the auspices of Hydro Australia. So it is just going to make us a bigger organisation, so to speak, and hopefully we will have money coming into Australia from those operations as well.

**Mr FOLEY** — Which is good.

**Mr BERTOLI** — Yes.

**Mr FOLEY** — And it raises your reputation and your standing.

**Mr BERTOLI** — It does, it raises our reputation worldwide. South-East Asia is a fertile market now. The company we are dealing with in Malaysia — and we are going over there next week to sign a JV with them — were very big in the oil and gas industry. They had two sides of their business: one was marine, where they had 15 boats, so they would go out and service the rigs; the other side was engineering services. They have now sold off the marine side and have kept the engineering services and we are going to go into a joint venture with them to offer high-quality pump services throughout Malaysia.

The chart of what is working and what is not working — I think one of the problems we have had — and I do not think Donna will be offended by this — is connecting with local industry. There are a lot of industries here in the Latrobe Valley, and when I spoke to Donna in regard to the Federal Government's Asia policy, it was not something that was commonly known throughout the region, and they are things that we should be tapping into. They do a very good job of keeping us informed, but as I say, there are a lot of industries and a few people to go around. As I said, you can only see so many people in a day.

Getting information to business: there are lots of different formats in which you can do that now, whether it is email or video or whatever. We also represent here in Australia two Japanese companies — big pump companies. They always tell me one face-to-face meeting is better than eight telephone calls, and that is what I think as well. We just cannot unfortunately get that time with the people in Latrobe City Council.

So if we go to the next slide, 'Suggestions', this is the economic zone, and I read up a bit more on this a couple of weeks ago. If you can go to the next slide, these are some of the incentives that this Dung Quat valley — where we are looking to set up in Vietnam — are offering for companies from outside of the region and outside of the country:

Import duties on materials, raw materials, semifinished products —

which we would have to take in —

which cannot be made domestically at standard quality shall be exempted for the first five production years.

So there are all these little — well, not little things, but things that add up and make it really attractive to get organisations and companies to work there. I am not saying we can do that here in the Valley, but the Valley has been the poor sister for a long, long time in Victoria. I keep on going back to the carbon tax because it alarms me, it really does. I remember seeing an article in *The Australian* that said, 'Six thousand jobs will be created with the carbon tax', and at the bottom in fine print was, 'Unfortunately 600 will go in the Latrobe Valley.' That is what it is like down here, that is what we feel like: that we are the poor sister or the poor relation and we do not really get heard all that well. Another incentive is:

Corporate income tax ... rate of 10 per cent shall be applied for the first 15 years ...

Something like that is what they are offering because they want to get people into these regions. This refinery, which is Binh Son refinery, supplies I think 40 per cent of oil and gas for Vietnam now. They wanted to build that in a different region, but the Vietnamese Government said, 'Why not move it to one of the regions that is economically not well off and put it in there?', and that is what they did, and that was the attraction for doing it.

So again, I am not sure if that is relevant to what we are doing here in the Valley, but we need something to attract industry down here because without industry we are just not going to have a valley. I am really afraid of the power industry. We sit on a seam of coal that we have been mining for 45, 50 years and have only scratched the surface on, and when I asked the minister about that the response I got was, 'We will export it to China and Vietnam and countries like that', which to me is just a no-brainer. It is just crazy.

That is pretty much what I have got to say. I am quite open to answer any questions for you.

**Mr SHAW** — Just on that last one, what were you saying then to the energy minister? Can you just run that — —

**The CHAIR** — Which minister?

**Mr BERTOLI** — It was Martin Ferguson. The day the carbon tax was announced I sent emails to as many politicians as I could. Not too many responded; a couple did. Minister Ferguson responded that he was in the region and I could have 30 minutes for a chat with him, which I did. I went and I outlined my fears for what was going to happen, and that was pretty much it.

I remember going to Monash University and hearing Minister Crean talk about the impact and telling us that it was not going to have the same sort of impact in Victoria as privatisation did, but from my perspective and my company's perspective and a lot of the companies that I deal with and that we pass work down the chain to, it impacted on us straightaway. You can sort of accept it if your business is not doing well, but when you have not got a lot of control over what is happening and the decisions that are being made that impact on it, that is a worry.

**The CHAIR** — I take this opportunity to acknowledge that the Member for Morwell, Russell Northe, has just entered the room. How are you, Russell? Good to have you here with us.

**Mr BERTOLI** — Hi Russell.

**Mr NORTHE** — Ross.

**Mr BERTOLI** — I should say that Russell has been very supportive of my company as well.

**Mr FOLEY** — I should hope so.

**Mr NORTHE** — You have to say that in my presence.

**Mr BERTOLI** — No, I do not; I would say it anywhere, and I do.

**The CHAIR** — Questions?

**Mr CARROLL** — Thanks, Ross, for your presentation, and congratulations on your success — from 1998, I think it was. You spoke about looking to Asia and expanding, and about how essentially one face-to-face meeting is so much better than eight conversations over the phone. I know the National Broadband Network is being rolled out in Morwell. Have you thought how that may affect your business? You have got quite a good website and a good online presence, but have you had any engagement with NBN Co and how they could assist you?

**Mr BERTOLI** — No, not at all. To be honest, what we have actually set up in our facility here in Morwell is videoconferencing, so instead of having to go to the states, we have got videoconferencing set up there; we have got it all around Australia already. It is as clear as looking across the room at you guys.

**Mr CARROLL** — Yes.

**Mr BERTOLI** — I remember 12 or 13 years ago when we first started the business and we were using these processes. You would sit there and talk, and then all of a sudden it was static, and then the next thing you knew we would be on the phone shouting. This is crystal clear, and it is done via what we have now available to us. I have not really engaged with anyone in regard to the broadband network.

**Mr CARROLL** — As a supplementary question, you mentioned skilled labour in your points about skilled labour and getting hold of it. You are probably in a unique position; you have got the skills minister as your local member. Have you had some discussions with him about that and, more broadly, about Gippsland TAFE? Do you have a relationship with them or any other training providers in the region.

**Mr BERTOLI** — Yes, we do; we have relationships with all of them. We have a relationship with Monash, but the key for us is where the next group of tradespeople is going to come from. In the last 12 months, if you had seen what has happened down here, the local supplier of apprentices has basically taken apprentices out of the field because they cannot position them anywhere, and we cannot get people to take them on. We are only a small company, but we have a minimum of two apprentices all the time; that is the way we operate. If you look at our workforce now, all of our shop floor guys have basically come through as apprentices and then worked with us as a tradesman. Some have gone on to be salesmen and some have gone into engineering.

We do talk to the Minister. Half the problem is getting kids to stay in the region, and if there is no work for them here, they are going to go to the city. I have suffered myself. My son left yesterday to go to WA; that is where he has gone to get work. He finished his apprenticeship three years ago. All he was getting here was outage and shutdown work. Over there he has got a guarantee at least of getting some long-term work that is going to pay him reasonably well. My other son is down in Melbourne studying because there is no work here for him. The concern for us is how to keep them here.

**Mr FOLEY** — So what does Monash's decision to up and leave the Valley do? What is the role of industry and local economic development strategies — which this inquiry is all about — in trying to make sure that the practical delivery of skills development can be maintained in some way, shape or form, given that, for all its many virtues, Ballarat is a different kind of institution?

**Mr BERTOLI** — I go back quite a few years ago to when Monash got rid of what was their engineering program. Effectively that was in place to service the power industry down here in the Latrobe Valley. When that disappeared, you could see the writing on the wall for what was going to happen here. All of the kids here used to go to Monash, do their engineering degree, come back and work in the power industry or the paper industry or go off to work in the oil and gas industry. Now that is not available to them, so they have got to go down to Melbourne to get an engineering degree. That is a problem for us.

The other problem is generating programs so that kids coming out of their schooling can look at the trades as a base. If you go back five or six years ago, none of the kids would even look at an apprenticeship because the sexy industries were IT and all of those. I can remember sitting at meetings with people, and somebody would say to my wife, who runs an information technology company, 'What do you do?', and she would tell them. I would be asked, 'What do you do?', and I would say I was in engineering. That is not sexy enough. This is what we want to talk about.

There were no programs in place in the schools to get these kids to look at the trades. I am still worried that a lot of the kids look at an apprenticeship and think, 'I am going to be a fitter all my life.' That is actually not the case, because you can go into sales, you can go into marketing, you can go into management, you can go into engineering, you can go into field service — there is a whole range of different things you can do as a tradesman now; you are not locked into one area.

**Mr FOLEY** — Just point them at me and at my cousin, who is a plumber, and I will tell them who is the more successful; there is no two ways about it. It is a real problem — young people's skills in that high-tech regional arrangement.

**Mr BERTOLI** — Yes.

**Mr FOLEY** — Just one last question: how would you see the scale of what you are doing in building the business and the many other businesses that we have heard about and having a role in delivering some of those skills, particularly with the younger people?

**Mr BERTOLI** — We would be open to helping out in any way we could. When I look at my workforce and the age they are now, it is not going to be that long down the track before we are going to be looking for new people to come in. Anyone we can develop who is going to be available to the workforce here in the Valley will make it all the better for us, but the problem is going to be getting people to invest down here in industry so that

there is employment for these guys here as well. We cannot take on 10 or 15 apprentices — two is probably the maximum for us; maybe three — but other employment has to be generated for there to be work for them.

**Mr SHAW** — Thanks, Ross. You mentioned a number of items that affect businesses — unions, carbon tax and the like, and they do affect businesses. You mentioned that your turnover was about \$5.5 million, 35 employees, but then that was prior to the carbon tax?

**Mr BERTOLI** — That was after the carbon tax.

**Mr SHAW** — So that was afterwards?

**Mr BERTOLI** — Prior to the carbon tax we were budgeting for a year of around \$7.5 million. We had 35 people. We made a commitment that we were not going to lay off, and we did not. We got through all of last year without laying off anyone. In fact we took on some people, and that was again through the auspices of the Latrobe Valley Industry and Infrastructure Fund. Being able to get that on-site machining equipment meant that we could hire another salesman, a marketing person, and take on somebody in a full-time role looking after that.

We got through the year. I am not going to paint a pretty picture; it was a bad year — we suffered badly — but we did not lay off anyone. The reasons for that are no. 1 our commitment to our people, but no. 2 is you just cannot replace these people. If we were to lay off two or three fitters, a week later they would be working somewhere else. I think I say rightly that our people are the best of the lot, so the best of the best will get picked up very quickly; they have got really high skill sets and can do a range of different things.

**Mr SHAW** — Thanks.

**The CHAIR** — Ross, thank you very much for your time and certainly for the information you have provided us with today. I think it has been enlightening. It was very interesting not only to see a case study of a business that is working hard, expanding and facing challenges but also to hear about the opportunities that exist. On behalf of the Committee, thank you very much for being here today.

**Mr BERTOLI** — Thank you.

**The CHAIR** — Within two weeks you will receive a transcript of the day's proceedings. Feel free to point out anything you think might be a grammatical error, but there can be no changes to the substance of the document.

**Mr BERTOLI** — No trouble. Thanks very much. Thanks for your time.

**The CHAIR** — Thank you very much for your time. We appreciate it.

**Witness withdrew.**