



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

**HOUSE OF
REPRESENTATIVES**

STANDING COMMITTEE ON COMMUNICATIONS,
INFORMATION TECHNOLOGY AND THE ARTS

**Reference: Future opportunities for Australia's film, animation, special effects and
electronic games industries**

WEDNESDAY, 15 OCTOBER 2003

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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS

Wednesday, 15 October 2003

Members: Mr Pyne (*Chair*), Mr Hatton (*Deputy Chair*), Mr Baldwin, Mr Ciobo, Ms Grierson, Mr Johnson, Mr Pearce, Mr Sercombe, Mr Tanner and Mr Ticehurst.

Members in attendance: Mr Baldwin, Mr Ciobo, Mr Hatton, Mr Pearce and Mr Tanner

Terms of reference for the inquiry:

To inquire into and report on:

- (a) the current size and scale of Australia's film, animation, special effects and electronic games industries;
- (b) the economic, social and cultural benefits of these industries;
- (c) future opportunities for further growth of these industries, including through the application of advanced digital technologies, online interactivity and broadband;
- (d) the current and likely future infrastructure needs of these industries, including access to bandwidth;
- (e) the skills required to facilitate future growth in these industries and the capacity of the education and training system to meet these demands;
- (f) the effectiveness of the existing linkages between these industries and the wider cultural and information technology sectors;
- (g) how Australia's capabilities in these industries, including in education and training, can be best leveraged to maximise export and investment opportunities; and
- (h) whether any changes should be made to existing government support programs to ensure they are aligned with the future opportunities and trends in these industries.

WITNESSES

KENNEDY, Mr David, General Manager, Strategy Branch, National Office for the Information Economy..... 1

SALMOND, Dr Paul Douglas, Manager, Film Industry Section, Film and Digital Content Branch, Department of Communications, Information Technology and the Arts..... 1

SUTTON, Mr Michael James, General Manager, ICT Innovation, Department of Communications, Information Technology and the Arts 1

WRIGHT, Ms Christabel, Manager, Digital Content, Department of Communications, Information Technology and the Arts..... 1

YOUNG, Mr Peter, General Manager, Film and Digital Content, Department of Communications, Information Technology and the Arts 1

Committee met at 9.18 a.m.

KENNEDY, Mr David, General Manager, Strategy Branch, National Office for the Information Economy

SALMOND, Dr Paul Douglas, Manager, Film Industry Section, Film and Digital Content Branch, Department of Communications, Information Technology and the Arts

SUTTON, Mr Michael James, General Manager, ICT Innovation, Department of Communications, Information Technology and the Arts

WRIGHT, Ms Christabel, Manager, Digital Content, Department of Communications, Information Technology and the Arts

YOUNG, Mr Peter, General Manager, Film and Digital Content, Department of Communications, Information Technology and the Arts

ACTING CHAIR (Mr Hatton)—I declare open this public meeting of the House of Representatives Standing Committee on Communications, Information Technology and the Arts inquiry into the future opportunities for Australia's film, animation, special effects and electronic games industries. So far the committee has heard from individuals and peak industry groups. Consistent themes have emerged. The committee has been told that Australia's creative industries enjoy enormous opportunities. The committee has also been told that these opportunities will be realised only so long as Australia's creative industries are supported by policies and programs that foster their development and promote their viability. The committee has heard that these policies and programs must continually evolve to ensure that Australia's creative industries remain internationally competitive, attract international investment and remain in the vanguard of the world's creative endeavours. The individuals and peak organisations that have contributed to the inquiry have proposed similar policy and program prescriptions.

The committee now wishes to hear how policy makers and program designers see Australia's creative industries and their prospects. At this hearing, we will hear from the key Commonwealth department whose responsibilities include developing and implementing film, animation, special effects and electronic games policies and devising appropriate support programs. I am acting as chair in the absence of the previous chair, who has been promoted to other duties.

I welcome representatives from the Department of Communications, Information Technology and the Arts. Although the committee does not require you to give evidence under oath, I should advise you that the hearing is a formal proceeding of the parliament. I remind you, as I remind all witnesses, that the giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. I interpose that it is lucky that question time does not have the same rules. I also remind you that the committee prefers all evidence to be given in public. At any stage, however, you may request that your evidence be given in camera, and the committee will then consider your request. Do you wish to make some brief introductory remarks before the committee puts questions to you?

Mr Young—The department provided a submission to the committee which outlined a factual analysis of current support from the Commonwealth government to the industries that are the subject of this inquiry. We are obviously happy to answer any questions you may have on that submission or issues which may have arisen during the course of your hearings to date.

ACTING CHAIR—So you do not want to speak any further to that submission?

Mr Young—That is right.

Mr PEARCE—Thank you all very much for taking the time to come along today. I guess I would appreciate some sort of overview largely about how the department interfaces with this particular industry. How do you go about working with industry players? Is there a process in place? How does the department actually work with most of the funding bodies? In your submission, you talk about the Film Finance Corporation and the Australian Film Commission et cetera. What sort of processes are involved in working with them? What sort of feedback mechanisms are in place for you people in the department to find out what is happening in the industry? What are the key drivers? Who are the movers and shakers in the industry? Can somebody give us a broad-brush view of how the department works with the industry.

Mr Young—The fact that there are several representatives of the department here today suggests that a number of areas of the department do have quite considerable liaison with and policy advisory roles in relation to the industries that are the subject of this inquiry. I will speak firstly on behalf of the film and digital content area. My colleagues can then elaborate in relation to ICT innovation or the general matters relating to NOIE and its engagement with the industry as a whole.

The branch that I am responsible for coordinates policy advice to the minister on matters relating to the film and digital content sectors. In doing so, it has a very close working relationship with the various agencies which have been set up to, in particular, deliver programs of direct support to the industry. But the film and digital content branch also administers some forms of indirect support, particularly through the 10B and 10BA schemes and the refundable tax offset that applies for offshore funded feature films to come into Australia. So our responsibility is in helping the agencies in their dealings with government and in relation, for instance, to budget matters and advising the minister on matters relating to the film industry generally. We have a very close consultative relationship with all the agencies in that regard.

At a private hearing with the committee back in about March or April, the Australian Film Commission gave a comprehensive overview of how they engaged. So we are in very close contact with all the agencies involved in order to try to assemble the whole picture so that government can be better informed about how the sector is working. That is not to say that the agencies do not have their own very important roles in that regard as well; they certainly do.

On the digital content side, our main area of engagement has probably been through the creative industries cluster study, which I think has been in progress for two years now. That work is now in stage 3. We will probably be talking a bit about the progress of that study as the morning proceeds. That has involved the department and NOIE in extensive engagement with the wider digital content industries in perhaps education, media and the games sector, for

instance, in examining some of the factors that are characteristic of that sector and looking at possible ways in which that industry's future can be better secured.

ACTING CHAIR—In relation to your submission, you thought that would be finished in September. Do you now have a timeframe when you think it will be finalised?

Mr Young—The third stage is quite close to completion now. One of the more important outcomes of that work has been some research undertaken by Terry Cutler as part of stage 3 of that study. It might assist if I ask David to speak to those findings as that particular aspect of the work was commissioned by NOIE. There are a couple of other studies which are close to finalisation. It is probably only a matter of a few weeks away, isn't it?

Ms Wright—Yes. We are expecting the last one this week, so we should be close to finishing the research very shortly. It is then a matter of drafting the strategy, which is the intended result.

Mr PEARCE—I do not know whether this is more appropriate to ask of NOIE. In relation to the committee's terms of reference and when we are looking at the games industry, the film industry et cetera, does the department or NOIE or any group within the department do any benchmarking of Australia's performance in those various areas internationally? Do we have any sort of position on how we rate ourselves on an international basis?

Mr Kennedy—One of the outputs of the creative industries cluster study of which we have just received a final version is a study by Dr Terry Cutler and the Queensland University of Technology on the innovations system for the content sector. That report contains some statistics drawn from ABS collections about this sector, including its contribution to GDP, its rate of growth relative to the growth of the overall economy and so forth. We have only just received the final version of that report, but we would be very happy to provide it to the committee.

Mr PEARCE—Yes, if you would.

ACTING CHAIR—That would be excellent, and the other aspects of this study as well because it is central to what we have been looking at.

Mr Kennedy—In fact, all the results of that study are being published on both the NOIE and DCITA web sites as they become available.

ACTING CHAIR—Excellent.

Mr PEARCE—In terms of the support which the Australian government gives these various sectors, do you have a comment on how that rates with other like countries? Are we an aggressive supporter of these industries in international terms, in your view, or is there any evidence that we are not up to scratch compared with other like nations? Do you have any comment to make in that regard?

Mr Young—I think on the cultural side the support has been quite strong by international standards, bearing in mind always that it is very difficult to compare international levels of support in countries which have quite diverse characteristics. Compared, for instance, with the United States, in terms of direct support, we are obviously way, way above because support in

the US operates either through the market itself or mostly through philanthropic concessions. In those areas, it is very hard to actually compare like with like. But having said that, from the Australian point of view, even that support is really quite significant on an international standard. I think our submission provides quite an extensive list of possible government programs that can be of support to the other sectors.

Mr PEARCE—That was in one of the appendices?

Mr Young—That was in the appendix. It certainly shows a very, very broad range of possible opportunities for this industry. One of the questions, of course, is the extent to which they avail themselves of these programs.

Mr PEARCE—That was my next question. How well educated is the industry about the government's support programs, in your view?

Mr Young—My view in some cases is that it is a characteristic—I am sure my colleagues will help me out if need be—of small, evolving enterprises that they are more inclined to look for programs that they immediately feel they can slot into rather than seeing how those programs can actually be of genuine assistance to furthering their business ends. If a program does not exist that they obviously see themselves as coming under straight away, they would rather not look at whether that program can help their business as to how the program should change or whether there should be a new program to support it. When you are running a business of this size and you are only getting off the ground, with strategic planning and looking around for opportunities from government as well, trying to locate sources of investment and marketing opportunities, I am not sure that the former aspect of it is as high in their minds compared with the basic necessities, I suppose, of getting up and running. So my short answer is perhaps there is scope for this sector to better look at the programs, to understand them better and to see how those programs can be of more assistance to them.

Mr PEARCE—Therefore, is it right for me to assume that you would agree that there is scope for the government or, by way of the committee, scope for a recommendation as to how the government can use some sort of educational marketing program to promote to the industry the broad range of programs available? I think there has been some evidence of that in some of the submissions and some of the chats we have had. In reality, I think the government offers a terrific array of potential funding opportunities but I do not think everybody in the industry is fully aware of them. So you would obviously agree that there could be some more work done in terms of the government promoting its programs?

Mr Young—I would certainly say that is the case in many other areas where the government has been quite active in trying to crystallise the range of programs that are available through things like the *Rural Book* or making enterprises in regional areas aware of the sort of diversity that is there. To what extent that can be done for this particular sector, I am not 100 per cent sure, but it is certainly a concept you could think about.

Mr BALDWIN—My questions revolve predominantly around finance and affordability. First, what proactive policy development have you done in interaction with the electronic gaming industry? Do not rush me with an answer.

Mr Young—I am just wondering who will start. We have certainly had quite a reasonable amount of contact with the games industry as the cluster study has been getting under way. We had a meeting with them only yesterday to talk through some of their proposals in relation to their sector. Some of them have probably been reflected in their submission to you. I think they have been quite active in participating in some of the consultations that we have been organising. They are certainly not backwards in coming forward at the moment.

Mr BALDWIN—The reason I ask is that it has been brought to our attention that games released at the same time as a movie can actually outweigh the box office receipts. For a long time, governments and in general the community discounted the value of the electronic gaming industry. They have also put to us the question of the 12.5 per cent refundable tax offset. Have you looked at anything in your policy in that regard? When I look at the appreciation in the Australian dollar of around 30 per cent over the last couple of years, it has had a fairly severe effect not only on the gaming industry but on the film industry. Do you have any comments on that?

Mr Young—I think the case the games industry has been making is that both from an economic and, in some aspects, almost from a creative point of view there is a gradual convergence of the games and the film worlds in the overall entertainment market. It is certainly interesting to see—I suspect people with teenage children will understand this point quite strongly—what has taken kids out of the lounge room and into their bedrooms. Where games were seen as an alternative or a complement to the film production business, in some cases the film is almost starting to become a spin-off of the game rather than the other way around. So their case is based on, I think, that convergence of audience. With the refundable tax offset which applies to offshore funded feature films, the main debate we are certainly aware of is about the extension of that to television series and to bundled mini-series. To my knowledge, there has not been any particular call to have the offset extended beyond that sector at this stage.

Mr BALDWIN—Have you done a costing of the implications of extending that to television features?

Mr Young—We have certainly done some analysis. As you say, there are so many external factors regarding the presence of the offset that we think would probably impact on whether these productions have come to Australia. One of the more significant of those is the exchange rate, with the dollar at, I think, 68c—

Mr BALDWIN—It was 69c this morning.

Mr Young—or 69c this morning. It was down in the low 50s. That is virtually a 30 per cent change. In that circumstance and with other issues such as security concerns and the like and high-profile stars perhaps not wanting to travel overseas for extended periods, determining to what extent an offset alone would reverse that trend is not an easy exercise.

Mr BALDWIN—Have you put together a package of information regarding the plus factors of filming or producing in Australia, given the appreciation of the Australian dollar, which would help balance out the financial weight? That would be looking at perhaps the skill base, the scenery opportunities and the creative talents here. Have you put anything together like that for our film industry to help go and sell into offshore markets?

Mr Young—Yes, we have. That has actually been carried out by AusFILM, which is Commonwealth funded and was set up, I suppose, as a complement to the offset in order to go and market Australia as a location to offshore producers. They are very active, particularly in the United States but also looking at other markets, in promoting the benefits of doing business in Australia—the high level of skills here; of course, the scenic attractions; and the cost structures of the Australian industry compared with the American industry and the like. They are very forthright in promoting those benefits offshore. In addition to that, we have actually sent departmental officials to talk to studio producers to answer their questions about how the scheme works. These producers will look at this scheme and compare it with schemes in other countries which are not exactly alike. We are trying to realise the benefits of those.

Mr BALDWIN—That is my next question. Have you been monitoring the policies of our competitor nations? In our discussions with various producers and directors, they have talked about emerging competition from India and Fiji and other countries. Are you monitoring their policy development and incentives being provided to provide a competitive matrix of what we offer so that they can go armed with a set of tools to say they might have a certain arrangement but ours is better because of X, Y and Z?

Mr Young—Yes, we are. The department actually commissioned a study in about June which compared the Australian benefit through the offset with the arrangements that apply in Canada. The conclusion of that was that, when you factor in all the cost elements and where the benefits actually apply, Australia came out as a 7½ per cent cheaper country in which to make the same film than Canada. That is an illustration. Canada is often seen as one of the major competitors, especially for US based productions.

Mr BALDWIN—Looking into your crystal ball, where do you see our film and electronic games industry in a five- and 10-year forward plan? The reason I ask is that you are the policy shapers.

Mr Young—What will always be strong about the Australian sector is the uniquely Australian characteristics that make Australian culture so widely known. This is a country that we think punches above its weight and will continue to do so in a creative sense. I think there will be much more skills transference between these sectors to the extent that we might even see it as one big industry now, the audiovisual entertainment market. There will be feature films. There will have to be a greater engagement in alternative platforms, such as broadband. There will be a very strong educational focus on a lot of content production because it is an area where Australia has a lot to sell on the world stage. But Mr Baldwin, you are asking a major question there.

Mr BALDWIN—Your other colleagues might like to comment on where they see it in five or 10 years.

Mr Sutton—I come from the general ICT industry. Certainly the games sector as opposed to the film sector is something which we identify as a highly prospective sector from the perspective of Australia's broader ICT industry. It is extremely innovative and it is confronting a lot of broadly similar issues, like access to finance for very early stage companies and the like. One of the big issues we see, and the difficulty Peter has adverted to in answering the question, is just not knowing where the technology is going and what consumers will actually be wanting in five or 10 years. So there is the issue of convergence. When the Sony PlayStation 3 comes

out, will it set the standard? Will everything that games developers will need to do have to work in with that standard and fit in with international publishing companies and the like? Those technology questions on the development of the sector are very difficult to answer or predict.

Mr BALDWIN—This week we saw the release of the Xbox Live program. In discussions with the Games Developers Association yesterday, they were talking about the PS3 platform that will come on in two years, which is a live and interactive program. Through your network and intelligence gathering for policy development, you must be aware of what people are looking at in five to 10 years time. Technology is being developed now which will emerge in two, five or 10 years—maybe not 10 years, but in the next two to five years. I am asking about proactive policy development and looking forward so that we can stay at least up with the game, not necessarily ahead of the game. What position or direction do you think we should take to be in there with a chance in capturing some of this international expenditure on development or filming to make sure that we are at the competitive edge?

Mr Kennedy—To some extent, I am relying on the report I mentioned earlier on innovation in the content sector. Some of the findings of that report are consistent with earlier research which the committee already has available to it. One of the major problems in the sector in Australia is the issue of scale. It is exacerbated by significant fragmentation within the sector. Exacerbating that is the persistence of some old industry silo thinking around film being different from games being different from animation and so on. One of the things that has emerged from the research over the last two years has been that we are seeing, because of digital technology, a convergence in production practice across all of those sectors. So in fact there is an opportunity here for the industry and the sector as a whole to develop a much more collaborative and consolidated approach to its own development in this country. I do not think we are at that stage yet.

I still think there are some legacy mindsets about ‘I am in film’ or ‘I am in games’ in a lot of cases that are holding back collaboration that could be very profitably pursued. In fact, the sector has not yet figured out how to use that commonality of technology and production practice to get some real critical mass and some synergies going within the sector. If they successfully achieve that, they could achieve great things. But if they fail to achieve that, of course a lot of the problems they are facing now will persist.

Mr BALDWIN—Is there any talk of technology beyond digital, DVD or indeed new platforms, such as beyond high-definition television? With these things we talk about now, we will see them in five to 10 years.

Mr Kennedy—There is always talk of such things, of course.

Mr BALDWIN—That is why I am asking. Six or seven years ago, there was no such thing as a DVD.

Mr Kennedy—Exactly.

Mr BALDWIN—A CD was the latest thing on the market. What discussions are there now about future technology and direction so that we can actually plan to be in there ready to go,

whether it is in our skills training, understanding or capturing technology as a part of our platforms?

Mr Kennedy—I think one of the issues that would need to be looked at there would be the issue of R&D in this area. While there is significant, by international standards, funding for the production of digital content in this country, it would be fair to say that the digital content industries are not particularly well addressed by innovation policy. That is not because digital content is being singled out. It is a general problem about what is the best innovation policy setting for a service economy, which is what we are now.

A lot of the innovation policies we have in place at the moment—I am certainly not singling out Australia here; this is common around the world—emerged from an industrial economy which was focused on primary and manufacturing production. We still do not really fully understand how to do innovation policy for a service economy. I think that is probably reflected in the way that the digital content is addressed in innovation policy. It is a factor. We have the data to suggest that funding for innovation to the digital content sector is underweight relative to its economic contribution. There are probably many reasons for that; there would be no one reason. But it does open up the question of what an innovation policy for this sector would really look like. The big question is: should we be thinking about innovation in the film sector and innovation in the games sector separately, or should we actually have a more coherent strategy for the entire sector?

ACTING CHAIR—It might be unusual at this point, but I may be able to assist. It is an indication of the problem you have as policy makers but also the difficulty for people coming from the other end in the industry or generally as consumers. The next big thing will be next year in terms of a platform approach. It will be DivX. It will be version MPEG-4. That has only developed since 1998, but DivX players will be available that will be able to play MPEG to DVDs. MPEG-4 DivX has become a new standard. It is a greater level of compression. It will allow currently streaming video at 760 kilobits a second. They think that can get that down to 384. That creates a completely new approach because it means that one full 4.7 gig DVD can be compressed onto a CD. It also means in terms of streaming video technology there are lots more opportunities than there were in the past and there will be new industries created. But it creates an extreme difficulty for the department because these things happen relatively very quickly. There have been a vast number of people who have come up with iterations of MPEG-4, but most of that has had a licensing problem, whereas DivX has got out of that.

Mr BALDWIN—The next question is directed to Christabel Wright. You are on the digital side. Is that correct?

Ms Wright—That is right.

Mr BALDWIN—We visited the Fox studios and saw part of *Star Wars* being filmed. It is being filmed direct to digital. Everything will be done digitally and then when they need to, they will take a film off the digital. I understand that a lot of that technology has been driven by Lucas in what he has required and they have matched the technology to what he wants. Is there interaction with our departments among those people who are driving the requests for technology so that we can understand it and then look at providing opportunities for them to do more of the *Star Wars* type thing or whatever the next generation of this is in Australia?

Ms Wright—I am afraid my particular area is actually more outside the film industry. I might have to refer you again to Peter on that particular point.

Mr Young—I suppose the thing about *Star Wars* is that it is a likely beneficiary of the tax offset. That would address the problem in relation to that particular production or future ones of a similar scale, such as the second and third *Matrix* films.

Mr BALDWIN—It was disappointing with the *Star Wars* film, though, that no post-production was actually being done in Australia. The filming was being shot here and then everything is being packaged up and taken back to his studios in the US for post-production. I think that is where we lose out when we provide the tax offsets for people to do their filming here. We only need to look at the latest *Matrix*. The post-production was predominantly in Australia for *Matrix 1*. For *Matrix 2*, there was a little bit. As I understand it, very little post production of *Matrix 3* was done in Australia. Whilst we pick up the filming, we are not picking up the extra benefit, which is where the real skills base and technology driver are located.

Mr Young—It is interesting for me to hear that. Because they have not actually approached us yet, we have not seen the details of where the expenditure has been incurred. But when they do, it will be certainly worth looking at.

Mr BALDWIN—I will not quote accurate figures. I think for *Matrix 1*, 70 per cent of post-production was done in Australia. With *Matrix 3*, less than five per cent of post-production was done in Australia. The budget for post-production is increasing to the extent where I believe post-production costs are now equal to actual film costs.

Mr Young—It is. For a production of this size, unless there is \$50 million of Australian expenditure, it would not qualify for the offset. I am not sure how \$50 million could be spent only on filming for the shoot period. Assuming it is a couple of hundred million dollars, which I am sure it is, there would be a \$50 million threshold on Australian expenditure there.

Mr BALDWIN—But I believe our driver is to get more of that post-production work here because the employment base, the technology and creative drive and the skills base are far greater than just those involved in the direct filming?

Mr Young—Absolutely. The post-production costs are often one of the highest components of the films.

Mr BALDWIN—It is going that way now. Post-production is matching the actual all-up other film costs. I believe that the driver and want for the audience to have greater and more spectacular visual effects will probably see that increase over the next five to 10 years to 70 or 80 per cent of costs. Basically, you will probably have a couple of people walk on and present their faces. They will be digitally mapped. It will be, 'See you later. We'll do the rest on the computers.' I think I have used up enough time. I should let others speak.

ACTING CHAIR—Mr Ciobo had to go to the Main Committee to speak. He has asked me to ask a question on his behalf. Given that there is a new distribution method over the Internet, which has a great deal going for it, what is your view of the implications of that for local content? The preface to this is that we have seen what happens to local content when there is a

government decision to change the rules. American ads can now play directly in Australia without any reworking of the sound and without trying to localise and without having people from the Australian film industry involved. They can just whip it straight in. Do you have an answer to that question?

Mr Young—I should firstly say that in relation to advertising there is still an 80 per cent requirement for locally produced ads, so offshore produced ads still represent a minority component of advertising on Australian screens.

Mr BALDWIN—I want to talk about the free trade agreement and the perceived threat to the film and the gaming industry within Australia. What are your views on that?

Mr Young—The government's position on the free trade agreement remains that the outcomes of the agreement will not jeopardise Australia's ability to meet its social and cultural objectives. It is clear that local content has been a major issue in relation to that agreement and will continue to be an issue across emerging platforms.

ACTING CHAIR—Thank you very much. I am being called to the Main Committee to speak. It is a busy place around here. We may have to meet again in relation to following up those studies that are coming to fruition now. For today, I would like to thank you very much for participating and for appearing here today. If the committee needs to follow up any matters with you, it will come back to ask you for more information as and when necessary. We may look at coming back when those reports are completely finalised and we have enough time to try to bring everything together.

Mr Young—Thank you very much.

Resolved (on motion by **Mr Baldwin**):

That this committee authorises publication of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 10.01 a.m.