

20 January 2003

Janet Whiteside
Chief Advisor
Market Structure Group
Commerce Commission
PO Box 2351
Wellington, New Zealand

Dear Ms Whiteside,

Changes to NEEG Modelling Results

Following the submission of NEEG's report dated 8 December 2002 we have identified a number of required changes to the models on which our analysis relies, which alter the results presented in our report.

First, there is an error in the Qantas fleet composition for year 3 of the counterfactual. One A333 aircraft was included instead of one 763 aircraft.

Second, [CONFIDENTIAL].

Third, in our calculation of scheduling benefits we incorrectly included some flights that the airlines do not propose to operate under the Alliance.

Fourth, base case average fares were incorrectly input as average Air NZ fares rather than the weighted average for Qantas and Air NZ.

Fifth, we have received updated tourism expenditure information which we believe should be included in the model.

Sixth, we did not deduct the additional promotion expenditure by Qantas Holidays involved with the additional tourists that we include in our analysis. This amount is \$NZ [CONFIDENTIAL] per year and should be deducted from the tourism benefits.

We have now corrected the models for each of the above changes and the revised summary results are presented in the table below. While the revised net benefit results are slightly lower than those presented in our report of 8 December 2002, the changes in no way alter the conclusions set out in our report. We will address each of these changes in our presentation on 21 January.

Summary of net benefit estimates, \$NZ million ¹

	Benefits						Detriments		Net benefit		
	<i>Cost Savings</i>	<i>Scheduling</i>	<i>New direct</i>	<i>Tourism</i>	<i>E&M</i>	<i>Freight</i>	<i>Dead-weight loss</i>	<i>Net Transfer</i>	<i>Total</i>	<i>NZ</i>	<i>Australia</i>
1	\$6	\$22	\$0	\$100	\$39	\$2	\$78	-\$14	\$105	\$58	\$47
2	\$154	\$9	\$14	\$221	\$37	\$0	\$28	\$1	\$406	\$274	\$132
3	\$289	\$4	\$16	\$217	\$35	\$5	\$49	-\$19	\$536	\$337	\$199
4	\$272	\$4	\$15	\$203	\$33	\$5	\$48	-\$27	\$510	\$310	\$200
5	\$257	\$3	\$15	\$189	\$31	\$5	\$47	-\$26	\$478	\$290	\$188
Total	\$978	\$41	\$60	\$931	\$174	\$15	\$250	-\$84	\$2,035	\$1,270	\$765

Sincerely,



Henry Ergas

Managing Director

¹ Discrepancies in figures due solely to rounding issues.