

## ORAL ANSWER TO QUESTION

### JET FUEL – PRICE INCREASE

**The Leader of the Opposition (Mr P. Bérenger)** (*By Private Notice*) asked the Deputy Prime Minister, Minister of Tourism, Leisure and External Communications whether in regard to the increase in fuel prices and of its impact on the finances of Air Mauritius Ltd., he will –

- (a) for the benefit of the House, obtain from Air Mauritius Ltd., information as to –
  - (i) its profit or loss for period October 2007 to March 2008, indicating the estimated profit or loss for the year 2008;
  - (ii) the present level of its financial reserves, and
  - (iii) the percentage of its operational cost that is accounted for by fuel, and
- (b) state if Government is considering either to reduce the duties and tax on jet fuel to bring down the price thereof or any other measure to help the company.

**The Deputy Prime Minister, Minister of Tourism, Leisure and External Communications (Mr X. L. Duval):** Mr Speaker, Sir, in his Private Notice Question, the hon. Leader of the Opposition has asked a number of commercially sensitive information relating to Air Mauritius Ltd. The House will realise that Air Mauritius is a listed company, with over 16,000 shareholders, and Government is only of these shareholders.

Mr Speaker, Sir, the House would appreciate that it is not the usual practice to reply to PQ's concerning the commercial operations of such listed companies. However, as I did on Tuesday last, in reply to PQ No. B/645, I am pleased to provide the required information to the House in view of the important role in the Mauritian economy of Air Mauritius Ltd. and the serious nature of the situation. But, at the same time, I would like to

make an appeal to Members of the House to act as usual, in a responsible manner in the way questions are asked.

Mr Speaker, Sir, as I had stated on Tuesday last, the aviation industry is undergoing an unprecedented crisis as a result of the rate and pace of the increase in the price of crude oil. Between July 2007 and May 2008, the price of crude oil has gone up from US\$ 70 to US\$ 136 per barrel. And the trend is forecast to maintain its upward trend in the months to come.

Against this background, the International Air Transport Association (IATA), at its Annual Meeting in Istanbul recently, revised its industry financial forecasts for 2008 significantly downwards to a loss of US\$ 2.3 billion. This is a swing of US\$ 6.8 billion from the previously forecast industry profit of US\$ 4.5 billion that was announced in March and based on an average oil price of US\$ 86 per barrel.

Mr Speaker, Sir, the House is fully aware of the critical role played by the national airline, since its inception, in the development of our economy, in particular, the tourism industry. Since July 2005, Government has adopted a more flexible but cautious approach of its air access in support of its objective to substantially increase the number of tourists coming to Mauritius. With this policy of air access liberalisation, Air Mauritius has had to adapt itself to pace the onslaught of the changing paradigm. The company has continued to grow, and this is evidenced by the positive and excellent financial performance of the company during the last 12 months, that is, up to 30 March 2008. In this regard, I am pleased to inform the House that Air Mauritius has exceeded its financial targets for the year, that is, it has achieved profits of 16 m. euros for the financial year ended 31 March 2008.

According to the last published Annual Report for the year ending March 2007, the reserves of the company were as follows –

- |                      |                |
|----------------------|----------------|
| a) Share premium     | Euros 18.9 m.  |
| b) Retained earnings | Euros 129.2 m. |
| c) Other reserves    | Euros 1.5 m.   |

Mr Speaker, Sir, however, the crude oil crisis is now affecting the future operations of the air transportation industry worldwide, and Air Mauritius like all other airlines, is not shielded from the effects of such crisis. The national carrier has on its part acted quickly and decisively to adjust its operations in order to cope with the changed fuel cost profile. In this scenario, I am informed by Air Mauritius that fuel would account for approximately 45% of its operational costs, for the Financial Year 2007/2008.

This same cost until recently was about 15% of the operational costs of the company.

I am also informed that Air Mauritius has already initiated a series of measures to mitigate the impact of the rising fuel costs on its overall financial performance and business operations. Most of these measures were already spelt out in my response to PQ No. B/654 on Tuesday last. With your permission, I wish to reiterate some of these measures.

- A critical review of all routes across the network to adjust frequencies and seat capacity in line with demand.
- The removal and cancellation of weak flights where costs have become too large to justify continued services at the frequencies previously operated.
- The operation of flights in combination with other complementary points in order to better serve the markets in the changed operating environment.
- Review of costs structures in all areas, to achieve efficiencies and reductions in line with projected revenues for the year and the implementation of a fuel management program in the flight operations department. This program is aimed at saving fuel through better flight planning, and flying procedures on taxi, take off, cruise, and landing practices.

Mr Speaker Sir, I have been reassured that, with the measures being implemented at present, the outlook for the company remains positive and the company has forecast to post a profit of some €4 m. for the financial year ending 31 March 2009.

As regards the last part of the question, I wish to inform the House that there are no customs duties and no other taxes on aviation fuel. VAT is zero rated.

Lastly, Mr Speaker, as a responsible Government, we are monitoring the situation and we will certainly take the right steps at the right time when necessary.

**Mr Bérenger:** Mr Speaker, Sir, of course, I share the concern of the hon. Deputy Prime Minister. He referred to the Director-General of IATA. He is aware that only three days ago, the Director-General of IATA noted that, over the last six months, 24 airline companies had gone bankrupt. Will he agree with me that the situation is made still more difficult for Air Mauritius? Because we are concerned not only with this huge increase in jet fuel cost, but also by the fallout of the weakened economy in the United States and in the European Union even more. Will he agree with me?

**Mr X. L. Duval:** Yes, Mr Speaker, Sir, the Leader of the Opposition is quite right. There are two factors affecting Air Mauritius. One is the high price of fuel, and the second one is the potential effect on the difficult economic condition in our main markets, which will affect the tourism flow into Mauritius. These two issues were taken into account. What Air Mauritius has done is to look at the forecast for the future flights that it has, and has actually cancelled about 80 flights where it thought that the load factor on these flights would not come up to what was required.

**Mr Bérenger:** Mr Speaker, Sir, the figures made public by Air Mauritius recently point to a profit of Rs86 m. for the period April-September 2007. That is why I asked whether the figures are available for the next period, that is, October 2007 to March 2008. From what I heard, I have not been provided with that figure. Is there any reason for that?

**Mr X. L. Duval:** Mr Speaker, Sir, the year end figures have been given. The difference is the profit for the first six months plus the year end adjustments. It has not been published because Air Mauritius is a listed company. In fact, today, Air Mauritius will issue a statement for the Stock Exchange to cover what is being said in this House. As it is a listed company, it has to respect the disclosure of information. That is why it has not provided the information, but it will hold its Annual General Meeting in two weeks' time. But, it will be corrected at the Stock Exchange later on today.

**Mr Bérenger:** Mr Speaker, Sir, the tone of my question, of course, makes it clear that I wish well to Air Mauritius. It's the national carrier and bears the name of the country. But, I am a bit worried by the figure which I have heard in terms of profits for the financial year ending March 2009, from what I gathered. I trust that Air Mauritius will not *pécher par excès d'optimisme*. I hope they are proved right. But, I am worried when I see the figures, for example, for the industry, as a whole, worldwide. IATA made figures public, which were referred to. But the latest, three days ago, showed that, for the industry worldwide, instead of making a US\$5.6 billion profit for calendar 2008, it would be making a US\$2.3 billion loss in calendar year 2008. The figures which the hon. Deputy Prime Minister quoted were made when jet fuel was at US\$86 a barrel. Since then, it has gone up, and this explains this drastic prevision for the industry worldwide, from a targeted profit of US\$5.6 billion to a loss of US\$2.3 billion in calendar year 2008. As I said, I wish Air Mauritius well, and I hope they are proved right. But, I am a bit worried by the optimism which the figure put forward by the hon. Deputy Prime Minister, as provided by Air Mauritius, shows.

**Mr X. L. Duval:** Mr Speaker, Sir, I am aware of the change in trend and forecast made by IATA. In fact, I quoted that in my former reply. Let's look at the situation. Had things remained the same, Air Mauritius was expecting a profit of about €20 m. for this financial year ending March 2009. With the changed situation and had it not taken any decision, it would probably have made a loss of about €11 m. With the recent changes that it has made, with the cut in flights, and the combination of a number of flights on destinations and regions, it is expecting a profit of €4 m. First, there was a profit estimate of €20 m.; then, it was going to be €11 m. loss, and now we are going to end up with €4 m. profit. Obviously, I am not the accountant of Air Mauritius, and I am told that they have taken into account the situation as it now stands with a small increase in the price of jet fuel. If the situation continues to worsen, and also knowing that 41% of the cost of fuel by Air Mauritius is hedged, nevertheless I think the accountants have done what they could and provided for this profit. But, obviously, the situation is very, very difficult.

**Mr Bérenger:** Mr Speaker, Sir, I thank the hon. Deputy Prime Minister for informing me that the figure of €4 m. profit is based on a small – from what I heard – increase in the price of jet fuel. I hope that things turn out like that. Will the hon. Deputy Prime Minister agree with me that most serious analysts tend to guess that the price will keep on going much more than a small increase?

**Mr X. L. Duval:** Mr Speaker, Sir, as I mentioned, there is a substantial amount of hedging. The hedging is over one year. In fact, they have hedged quite a bit on the fuel cost at the lower price than the current price. I think it is about less than US\$100 per barrel. That, obviously, has an effect on the actual cost. The full actual cost is not reflected in the financial year on Air Mauritius. That's one thing that has to be borne in mind. The second thing, of course, is that we are keeping the whole situation under review.

**Mr Bérenger:** Mr Speaker, Sir, Air Mauritius itself has been quite transparent in the press, and I congratulate them for that. They pointed out that only two years ago, fuel cost represented 15% of operational costs. Now, I am rather disturbed by the figure which has just been put forward, namely that it has risen to 45% of operational costs. From what I read in IATA publications, the world average is 40%. So, it would seem that Air Mauritius is on the high side, and that efforts should be carried out there to bring down that proportion of total operation costs that goes to fuel cost. I am given to understand from IATA documents that if a company goes for really fuel efficient planes, either buying or leasing, savings of up to 30% on fuel cost can be achieved. Can I ask the hon. Deputy Prime Minister whether anything is being considered? I know that Air Mauritius cannot buy new planes. But, taking into consideration possible leasing arrangements and the fleet that Air Mauritius has, does the hon. Deputy Prime Minister think that efforts can bear fruit in that area?

**Mr X. L. Duval:** Mr Speaker, Sir, the figure of 45% can be looked at in two ways. One is total costs are low and, therefore, the fuel cost is high in relation to other costs that Air Mauritius has. For instance, we all know about costs of aircrew are much lower than in Europe. As it is a relative figure, that will reflect on the other percentages of fuel cost. Secondly, I am told that fuel cost is a reflection of the way the aircraft is operated. In fact, you can operate the aircraft in a more efficient way when you go up and down, whatever the technical term is. The cost of fuel reflects on the type of aircraft that is bought. This is a medium term to long term solution, as to looking at what is the possibility. I must say that, at least, for my part, there is no interference in the purchasing or the running of the airline. It is up to the management, which we trust and which we have appointed to look at the best ways to operate the airline.

**Mr Bérenger:** Mr Speaker, Sir, I wish Air Mauritius well in all their efforts to cut down costs and run the companies and the planes as efficiently as possible. I understand that British Airways has already recently increased its fuel surcharge on long haul flights. Can I know where things stand as far as Air Mauritius is concerned?

**Mr X. L. Duval:** Air Mauritius has a policy of putting a fuel surcharge. I must say that the fuel surcharge does not usually cover the whole cost of the increase. There is a bit of loss; this is reflected in the financial loss that was forecasted, because not all of it can be commercially passed on to the client. But the practice at Air Mauritius is to review the fuel surcharge every 28 days. In fact, whenever there is a rise the fuel surcharge will reflect that increase or decrease.

**Mr Bérenger:** Mr Speaker, Sir, the situation is so serious that after, as I said, not less than 24 airline companies have gone bankrupt over the last six months. In India, several of the companies are directly threatened and that has brought the Government of India to step in to try and help them. In India taxes on aviation, on jet fuel, were, according to what I understand, quite high by international standards and they have been allowed to half duties on jet fuel, therefore, bringing down the prices and helping directly the airline companies. At this stage, has Air Mauritius, apart from the measures which they are taking themselves, approached Government for any support now or possibly in the future?

**Mr X. L. Duval:** Mr Speaker, Sir, as far as the decisions of Air Mauritius are concerned, I must say that over the years now, since the election, at least, Air Mauritius has substantially benefited from the increase in tourism - 15% increase in tourist arrivals last year. Knowing that Air Mauritius carries about 55% to 60% of the traffic coming to Mauritius, that has had a major impact. Also to the credit of the management, I must say that management has taken a number of measures that have impacted very positively on the profits. One that probably I should mention is on the repairs and maintenance side where they have saved millions of euros by reorganising that sector. The other issue which will give rise to substantial saving is a reconfiguration of the airlines from a three-class to a two-class, this alone will account for about Rs5 m. saving. On the repairs and maintenance, there will be a saving of about €11 m. and the reconfiguration of the aircraft will be €5 m. saving. These are just a few things that I have mentioned, obviously there are a lot of things that they do - I don't know all of them and it is not my role to know it - that they are doing to cut cost and to keep things very tight. The message that Government has to give to Air Mauritius and to all the Air Mauritius staff is that they have got to run their airline as tight as possible and you have got to offer the best possible service and beat any other competitor. That is the message. Nobody's job is protected for ever, neither now in the Civil Service as we can see. So, this is the message that Government has got to convey. As for the taxes, Mr Speaker, Sir, I am advised that there are no taxes whatsoever on jet fuel and Air Mauritius has not requested Government for any financial help, as far as I am aware.

**Mr Bérenger:** One last question from my part, Mr Speaker, Sir. The hon. Deputy Prime Minister and Minister of Tourism has just told us that Mauritius has benefited from the improved situation as far as tourist arrival is concerned. I read in the press that Air Mauritius has reassured the country that whatever new arrangements they are making - rescheduling flights and combining flights and so on - will not affect tourists inflow into Mauritius. Can I ask the hon. Minister of Tourism whether the economic slow down, especially in Europe - we know that France is by far our biggest market - has already or is expected to impact on the number of tourists coming into Mauritius?

**Mr X. L. Duval:** Mr Speaker, Sir, effectively I have got two hats to wear and this is the problem at the moment. Firstly, I must say that we have not interfered at all in the decision of Air Mauritius to restructure its flights programme. There has been no interference at all by Government in that issue. The second issue is that Air Mauritius will still provide 1% more capacity than it did last year. So, there is a small amount of growth. Obviously, the situation is worrying. The latest figure that we have is that we are still positive for the month of May; it is going reasonably well for the month of June. We have an increase in the Budget, as the House knows, for the MTPA and I understand that, if necessary, we will be granting more increase because we have to be much more active than before in some of the traditional markets which we used to take for granted. That's one issue. After my recent trip to Australia we are planning to look at China, India, Russia in much more detail than before. We are going to be active on different markets to be able to try and make the difference. A third thing, of course, is that people will probably travel short haul. This is why South African market is so buoyant at the moment and so important. We are looking at the short haul market. The situation is difficult. I don't know how it will evolve, but some of the markets as Germany and Italy are performing negatively compared to last year. This is worrying for us but, obviously, we don't control the world and we have to react to what is happening and we are reacting with the additional budget that has been provided.

**Mr Bodha:** In view of the fact that the situation is really of great concern, there was one comment by the President of the Aviation Consulting Company, the Boyd Company, who said: "There is not a single airplane designed with 100 dollars the barrel of jet fuel." Some companies have come with the additional surcharges like 15 dollars for the first luggage in the United States, there is long haul levy. Can the Deputy Prime Minister give us an idea how fares are going to evolve in the coming weeks?

**Mr X. L. Duval:** Obviously it will depend on the cost of fuel. As I said, every 28 days Air Mauritius reactualises the fuel surcharge, but the fuel surcharge does not usually cover the full cost of the additional cost. So, it will be a reflection. We know that it is 45% of the operational cost and we know that not all of it is passed on to the customer; it will be a pro rata of whatever the costs are.

**Mr Bundhoo:** Mr Speaker, Sir, in view of the forthcoming difficulties that we have with regard to our traditional markets in Europe and the fact that Europe itself might be going through difficulties by providing tourists to Mauritius and Air Mauritius being a carrier of almost 55% of tourists from Europe to Mauritius, can I ask the hon. Deputy Prime Minister, as Minister of Tourism, what effort can he do in order to increase the visibility of Mauritius concerning the synergy with Air Mauritius and the Government of Mauritius in order to increase the percentage of tourists travelling by Air Mauritius to Mauritius?

**Mr X. L. Duval:** Mr Speaker, Sir, I must say that when we first came, there was a very bad feeling between Air Mauritius – it is no secret - and the hotel industry and the tour operators. We have been able with the previous management and this management to get things better going. We usually work together as we did in Australia where, in fact, the Managing Director of Air Mauritius was there as well as all the main tour operators. I feel now that there is a good support by the industry to Air Mauritius. This is going quite well. So, let us touch wood on this issue. The second issue which we should not forget also is that we are currently appointing a firm for the branding of Mauritius. This is going to help us and the whole country, but also the tourism industry in increasing its visibility. The increased budget and hopefully a lot of increased effort and goodwill on the part of Air Mauritius, the tourism industry and the tour operators are all in the same boat, as we did...

*(Interruptions)*

...for the chikungunya. If we went through chikungunya, hopefully, we will go through this problem, Mr Speaker, Sir, in the same vein.

**Mr Jhugroo:** Will the Deputy Prime Minister inform the House which route is the most profitable and which ones are not?

**Mr X.L. Duval:** Firstly, Mr Speaker, Sir, I am not sure I have all the information. Secondly, it would be too much of a commercial information to give to the House.

**Mr Bodha:** Mr Speaker, Sir, may I ask the Deputy Prime Minister about the code sharing and the partnership. We appreciate that the best partnership is going to be struck with all the other airlines to have the best

load factor. May I ask the Deputy Prime Minister whether we are considering to review some of the code sharing agreements we have with Air India, Air Seychelles, South African Airways?

**Mr X.L. Duval:** I am not sure there is a commercial agreement with Air Seychelles, I do not think there is any more. Having said that, I am not, as Minister of Civil Aviation, involved in the decision of Air Mauritius to do any code sharing. I am not able to give the information nor would I take any responsibility to do this.

**Mr Bundhoo:** Mr Speaker, Sir. the hon. Deputy Prime Minister earlier mentioned about profits for this year and for the forthcoming year. May I ask the hon. Deputy Prime Minister how does this profit and loss compare with similar size aircrafts as Air Mauritius and also how does it compare with the previous two years?

**Mr X.L. Duval:** Mr Speaker, Sir, I do not have all the figures at hand. But had things not moved so disastrously on fuel, I think Air Mauritius would have made record profits of about E20 million. We had a problem with chikungunya where and there was a small loss of about E5 m. All I can say is that for the year ending March 2008, it is one of the best ever years that Air Mauritius has had.

*(Interruptions)*

Good management, cost cutting and increase in tourism have helped.

**Mr Bodha:** My last question, Mr Speaker, Sir. The Deputy Prime Minister said that 80 flights are going to be cancelled or rescheduled. Can we have an idea of the routes which are going to be affected?

**Mr X.L. Duval:** 80 flights and the percentage contraction is 3%. These are the bigger airplanes that are being cancelled. We are talking about 3% cut at this stage, which is reasonable by the industry standard. The American airlines have cut by 12%, Quantas by 5%. 3% is reasonable. I must say that most of the routes are concerned by the cut, that is, Europe, Australia, India, South Africa. What they do is that they look at a specific flight and see what is the forward position. If it is not performing to the established averages, then the flight is taken away.

**Mr Speaker:** Time is over!

**MOTION**

**SUSPENSION OF S.O. 10 (2)**

**The Ag. Prime Minister:** Mr Speaker, Sir, I move that all the business on today's Order Paper be exempted from the provisions of paragraph (2) of Standing Order 10.

**The Deputy Prime Minister, Minister of Tourism, Leisure & External Communications (Mr X.L Duval) rose and seconded.**