

Carbon tax on airline tickets: counterproductive, according to Air France-KLM boss



## I Letter from the Air France-KLM Director

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## Monday's Press Review

### > Carbon tax on airline tickets: counter-productive, according to the Air France-KLM boss

(source AFP) 17 January - Air France-KLM boss Ben Smith said on Friday that imposing a carbon tax on airline tickets could prove counter-productive, hampering efforts by airlines to equip themselves with more fuel-efficient aircraft that reduce CO2 emissions.

**"Renewing our fleet is a quick and effective way to reduce our carbon footprint,"** Smith said, admitting that he has recently been under intense pressure - including from his company's 88,000 employees - to adopt cleaner business practices.

"These taxes hamper our ability to make these investments," he said at a meeting with the Anglo-American Press Association in Paris.

**The CEO of Air France-KLM renewed his criticism of the French tax on airline tickets** announced last year to raise funds for cleaner modes of transport. **This funding should, in any case, be invested in research into new, less polluting equipment.**

"If we don't make money, we won't be able to buy new planes," he said. Mr. Smith, a Canadian national, is the first foreigner to take over the leadership of the Franco-Dutch airline group in 2018, with the goal of turning the group around. (...) On Friday, he said he expected further savings from the synergies resulting from the merger of the activities of the French airline Air France and its Dutch ally KLM, more than 15 years

after their merger in 2004.

After merging maintenance operations, sales and IT, **fleet management is one of the areas where savings can still be made.**

**"We have a group fleet management department and teams dedicated to fleet management in both companies. Are they working as effectively or cooperatively as possible? I would say no,"** said Smith.

The group has also decided to exchange Boeing 787 and Airbus A350 aircraft between Air France and KLM, and intends to better coordinate future fleet renewal plans. (...)

***My comment:** European governments are considering the introduction of a carbon tax on air transport.*

*The airlines are asking that the proceeds of this possible tax be used to develop biofuel production. Will they be heard?*

*More generally, the fight against global warming deserves a global approach, considering each sector of activity.*

*In a recent article, which you can find on my website (under Sustainable Development), Hugues Ferreboeuf wrote :*

*With the deployment of 5G, the energy consumption of mobile operators would be multiplied by 2.5 to 3 in the next 5 years. There is nothing anecdotal about this impact, since it would represent approximately 10 additional TWh, i.e. a 2% increase in France's electricity consumption.*

*Is it worth the risk?*

## **> Air France and Transavia win most of Aigle Azur's traffic rights**

(source La Tribune) 17 January - Air France did not need to take over Aigle Azur, which disappeared in September, to recover its main strengths. **Having obtained more than 30% of its take-off and landing slots at Orly, the Air France group is the big winner in the redistribution of its authorizations for flights to third countries (traffic rights).** Especially on the juicy Franco-Algerian market.

According to sources close to the Secretary of State for Transport, Jean-Baptiste Djebbari, **Transavia, the low-cost subsidiary of Air France, has obtained most of the rights between Paris and Algiers and has been designated for Paris and Oran, already operated by**

**Air France.** It also obtains the rights to exploit Paris-Constantine, Paris-Sétif, Paris-Tlemcen. That's not all. Transavia also gets flights to Lyon for Béjaïa, Constantine and Oran. Outside Algeria, Transavia also obtained most of the rights to Beirut. Already present on the routes served by Aigle Azur, Air France has obtained authorizations in Marseille, Nice and Toulouse to serve Algiers (and Oran in addition to Toulouse).

**For its part, ASL Airlines has obtained the rights to the Paris-Annaba route and increased frequencies to Algiers, as well as** flights from regional cities (Lyon-Alger, Lille-Alger and Lille-Oran). Given what the Air France group has obtained, it is far from certain that these rights fully meet management's expectations. (...)

ASL Airlines was also hoping to be designated on the Paris-Oran route alongside Air France, and Transavia was chosen. On this route, only two French companies are allowed. (...)

The Spanish low-cost airline **Volotea, for its part, has obtained flights from certain regional cities:** Lyon-Sétif and Bordeaux Algiers and all Algerian cities from Marseille with the exception of Algiers. In long haul, **French Bee has obtained authorizations to serve San Paulo.** Air France has also received additional flights to Rio de Janeiro and San Paulo.

**Others had nothing, such as Ryanair and Easyjet,** who had made many requests. However, the **fact that they applied with companies established abroad, when they had establishments in France, eliminated them.** This distribution was in fact reserved for companies established in France. (...) With its bases in France, Easyjet meets these criteria, but the application for traffic rights has been established in the name of Easyjet Uk. (...)

***My comment:*** To serve Algeria from Orly, an airline must not only have slots at Orly, but also traffic rights.

*Airport slots are simple rights to take off or land each day at a given time. They are assigned by a coordinator who distributes them to the companies and monitors how they are used. In France, the Cohor, the association for the coordination of schedules, which brings together most of the major airlines and airports, is in charge of this mission. It was Cohor which, last December, redistributed the available slots following the bankruptcy of Aigle Azur.*

*Traffic rights are commercial rights that define flight frequencies, service and stopover points, code-sharing possibilities... These rights are historically defined in bilateral agreements between States.*

## > **Flying citizen needs push to reduce (Le citoyen volant doit être poussé à réduire)**

(source NRC Handelsblad translated with deepl com) January 18 - **Flight discomfort and weather damage are increasing. But that doesn't lead to less flying.** What's the right thing to do? (...)

**For the first time in 2019, the Dutch went on holiday more often by plane than by car.** The share of holidays by plane (over 10 million) was 45 per cent, the share of holidays by car (almost 10 million) was 44 per cent. The number of train vacations was only 4%, but increased by 27% to 837,000.

Comments from Marieke Politiek, director of the market research firm: "There is a **lot of attention to sustainability in society, but we don't see it in behaviour.** A case of cognitive dissonance, like other irresponsible temptations. (...)

Aviation, which is currently responsible for only 2.5% of global CO2 emissions, is expected to be the biggest polluter in 20 years' time. By 2037, the number of passengers will have doubled to 8.2 billion. And where other sectors are reducing their emissions, aviation is focusing mainly on CO2 offsetting. But **what is the responsibility of every citizen?** (...)

**Left-wing politicians, environmental organisations and even KLM advocate taking the train for journeys of up to 750 kilometres.** NS International has already sold 13% more tickets in 2019. And the firm is trying to speed up the train from Amsterdam to Berlin. (...) From the end of March, the Eurostar will travel directly to London. (...)

Europe has failed to build a high-speed cross-border network in recent decades. (...) **Anyone who wants to get consumers off the plane and onto the train will have to bridge the gap between the two means of transportation.**

First of all, the price difference. There is a growing **demand for a "fair price" for airline tickets: a price without tax exemptions** and taking into account social costs. Expensive tickets can create a dichotomy: those who continue to fly and those who return to the car. (...)

**KLM, Schiphol and other parts of the aviation industry are saying:** we do not need to fly less, we need to fly differently. **Technological developments will offer a solution.**

Sounds good, **but it's not progressing fast enough**. Each new type of aircraft is 15 to 20% more economical than its predecessor. An aircraft lasts 15 to 20 years, which represents 1% per year. The growth in passenger numbers is 4 to 5% per year. **Innovation cannot keep up with growth**. The same is true for the other solutions we are working hard on: sustainable fuel, electric flight. For the next ten to twenty years, they offer no hope.

The citizen does not want to reduce, the sector cannot reduce. It comes down to the third player: **the government**.

It **must choose** between three strategies to guide the behaviour of citizens: **prohibit, seduce or discourage**. **The last two include grants and sanctions**. (...)

If the government wants to limit the climatic damage caused by flights, it **needs to give passengers some guidance**, making alternatives to flights more attractive and **discouraging the Maldives with fees**. It's no different. The citizen needs a boost.

Society pays attention to sustainability, but this is not reflected in our behaviour. (...)

***My comment:** The environmental pressure on airlines and airports is much greater in the Netherlands than in France.*

*Airlines' requests to increase the number of movements allowed at Schiphol and the opening of the new Lelystad airport have been vigorously debated for several years.*

*For the time being, the Dutch government has favoured the status quo, while promising new taxes on airline tickets in 2021.*

### > **KLM purchases two new Embraer full-flight simulators**

(source Luchtvaartnieuws translated with deepL com) January 17 - **KLM has purchased two new Embraer simulators**. They are used to train pilots of the Embraer 175 and 190 KLM Cityhopper and the new Embraer 195-E2, which will join the fleet in 2021.

The first simulator, for the Embraer 195-E2, will be delivered at the end of this year. The other machine will be delivered mid 2021. **This will allow KLM Cityhopper to prepare its drivers in time for the arrival**

**of the Embraer 195-E2.** KLM's Cityhopper

pilots are currently being trained at CAE in Hoofddorp, but for the next three years, the training is to be transferred to KLM in Schiphol East. KLM expects to realize significant savings by "internalizing simulator training".

***My comment:** At the end of last year, KLM ordered 35 Embraer E195-E2s, including 14 options.*

### > **KLM buys aircraft and slots from bankrupt partner Jet Airways**

(source NU.nl translated with deepl.com) 17 January - (...) Jet Airways went bankrupt last year. Until then, it was a partner of Air France and KLM; together they operated flights between Schiphol Airport and various airports in India, among others.

In April last year, a creditor of Schiphol had a Jet Airways aircraft detained. (...) **KLM will now acquire all the assets that Jet Airways owned in the Netherlands, including the Boeing 777-300ER and the slots at Schiphol.** Jet Airways operated four flights a day to and from Schiphol. (...)

We are acquiring all of Jet's activities in the Netherlands. Office space and marketing activities, for example, but also the corresponding time slots," explains the spokesman. (...)

The Boeing 777 which KLM also wants to buy has been at Schiphol for a very long time without any maintenance having been carried out on it. KLM: **"We think it's a good plane. We need to test it and then we'll see what we can do with it. Whether we integrate it into the fleet or sell it".**

KLM does not want to say how much it pays for the assets of Jet Airways. (...)

***My comment:** In the context of saturation at Schiphol airport, it would be good news if KLM managed to recover the slots released by Jet Airways.*

*The decision of the Dutch slot coordinator is expected shortly.*

### > **Delta Airlines: an exceptional year 2019**

(source Business Travel ) January 16 - Delta's Ed Bastian CEO called 2019 the best year in the history of the U.S. airline...

**Delta saw its revenues jump 7.5% in 2019** to \$47 billion. At the same

time, **its profits soared to \$6.2 billion, a 30% increase.**

**Its 90,000 employees shared \$1.6 billion, or \$18,000 in profit-sharing per person! (...)**

**Paradoxically, the company has benefited from the problems of other American companies operating B737 MAX aircraft.** The grounding of the aircraft following two crashes and design problems caused organisational problems for many of its American competitors such as United or American Airlines. However, Delta does not own a B737 Max and has therefore been able to take market shares from its competitors.

**The year 2019 was also important for Delta in terms of development** as it took a 10% stake in Korean Air and a 20% stake in Latam. However, it had to sell its 20% stake in the Brazilian company Gol. (...)

***My comment:** Among the topics of satisfaction for Delta Airlines is the number of days with "zero cancellations": 281 days, an improvement of 12% compared to 2018.*

*It should also be noted that Delta Airlines took delivery of 88 new aircraft, including Airbus A220-100 and A330-900neo.*

### > **Lufthansa Group: 145.19 million passengers in 2019**

(source Air Journal) 14 January - (...) **In 2019, the airlines Lufthansa, Swiss, Austrian Airlines, Brussels Airlines and the low-cost Eurowings carried a total of 145.190 million passengers** on around 1.2 million flights, with a **seat load factor of 82.5%** (+1.0 percentage point). These two figures "exceed the previous year's record", according to the press release from the German group.

The network airlines (Lufthansa, Swiss and Austrian) all recorded an increase in passenger numbers in 2019, particularly at the hubs at the airports of Zurich (+5.7%), Vienna (+5.1%) and Munich (+2.5%). The number of passengers at the Frankfurt hub increased by 0.4% in 2019. Cargo capacity was 6.3% higher last year than in 2018, with revenue tonne-kilometre traffic down 2.1%, resulting in a 5.3 point decline in the load factor of the group's cargo aircraft to 61.4%. (...)

**On the "point-to-point traffic" represented by Brussels Airlines, Eurowings and Germanwings**, the group carried a total of 38.212 million passengers, a result down 0.2% compared to 2018. **At 82.2%, load factor for the Eurowings Group airlines rose by 1.0%, with SKO capacity at -1.3% and RPK traffic at -0.2%.**

The Star Alliance group has lost its leading European position to the low-cost Ryanair, which for 2019 will carry 152.4 million passengers (including the passengers of its subsidiary Lauda).

**My comment:** Lufthansa Group traffic grew by 2.3% last year. This growth is lower than that of the Air France-KLM group (2.7%) and the IAG group (4.7%).

The Lufthansa group's margin for growth is nevertheless greater than that of the Air France-KLM group, with load factors of 82.5% and 88.4% respectively.

### > **Flybe discusses a loan with the government and defends its rescue**

(source Le Figaro with AFP) 17 January - The airline company Flybe admitted on Friday that it had received a fiscal boost from the government of Boris Johnson, and is discussing a loan with him, but defends itself from being given preferential treatment with its highly controversial rescue.

(...) **Flybe admits that it has obtained (...) a deferment of payment of a £10 million tax liability.** (...) The British press has so far reported that the regional airline has benefited from a deferral of payment of more than 100 million pounds. (...)

At the same time, **managing director Mark Anderson reveals that his group is discussing a loan with the government, while assuring that it is not state aid.** (...) "The government will not lend us money if it does not think there is a credible plan," he said. A loan with the same characteristics as that provided by a financial institution might not contravene State aid rules.

These comments come as the government's announcement on Tuesday evening of the **Flybe rescue has sparked the displeasure of several competing airlines.** (...)

**The Government (...) justified its choice to rescue Flybe by the importance of the airline in domestic services and in the economic life of many regions.** According to the BBC, the owner of Flybe, the Connect Airways consortium, consisting of Virgin Atlantic, the investment company Stobart and the Cyrus fund, has agreed to invest £30 million. **"The reality (...) is that we were in worse shape than the shareholders thought,"** admits the Flybe boss.

**My comment:** The aid to Flybe is a result of promises made during the election campaign at the end of 2019. The British Prime Minister had

*pledged to safeguard the services to Scotland and Ireland.*

*Ryanair and IAG have indicated their intention to challenge the legality of the aid.*

### > **Etihad rejoin Worldwide By Easyjet**

(source Business Travel) 15 January - This means that **Etihad customers can now book tickets via the EasyJet website for connections to 68 European cities and Abu Dhabi via ten European airports served by Etihad** (Amsterdam, Athens, Barcelona, Paris CDG, Rome, Geneva, Madrid, Manchester, Milan Malpensa and Zurich).

Worldwide by EasyJet was launched worldwide in 2017 with the airlines Norwegian and Westjet. Corsair, La Compagnie, Loganair, Singapore Airlines and its low-cost subsidiary Scoot, Air Transat, Virgin Atlantic, Emirates and Cathay Pacific have since joined the movement. Under the Worldwide by EasyJet program, **connecting passengers are subject to minimum connecting times**. If a passenger misses their connecting flight, they are transferred to the next available flight.

**The new agreement with EasyJet marks Etihad's first use of the New Distribution Capability (NDC) platform**, which provides technical capabilities for new partnerships that were previously impossible. (...)

***My comment:** For Worldwide by EasyJet, the minimum correspondence time is 2h30. It is far superior to what the major companies offer in their hubs.*

*This is one of the reasons why this offer is still not very popular with customers.*

### > **The 737 MAX crisis masks the sharp drop in long-haul orders**

(source Les Échos) January 20 - What if the Boeing 737 MAX crisis is hiding another one? The question arises when we look at the commercial performance of Airbus and Boeing in 2019. (...)

**The decline in long-haul orders is (...) spectacular**. In total, **Boeing and Airbus booked 237 orders for long-haul aircraft last year, excluding cancellations, compared with 380 in 2018 and 394 in 2017**. Airbus, which now markets only two long-haul families (A330 and A350) compared with four for Boeing (747, 767, 777 and 787), has managed to outperform its American rival - with a total of 109 long-haul orders (109 A330s and 32 A350s) compared with 96 for Boeing (226

aircraft in 2018).

But for the first time in ten years, Airbus' order book, like Boeing's, shrank in 2019, due to more deliveries than new orders. (...) In total, **the A330 and A350 families nevertheless retain more than five years of production in their order books.**

**The situation is even more tense for Boeing, whose long-haul backlog represents three to four years of production.** (...) Several of its models - the 747, the 767 and the classic 777 - are coming to the end of their lives and the only new model (the 777X) ended the year with four fewer orders, with more cancellations than new contracts. As for the 787, Boeing's new cash cow, orders were half as many as deliveries in 2019. In the

face of this long-haul slump, **the commercial directors of Airbus and Boeing want to reassure themselves.** According to Boeing's Ihssane Mounir, the bulk of the wave of renewal of long-haul fleets "will not arrive before 2020-2021, with the release of the oldest 777s, but also A380s and 747s". "This phase is expected to involve some 1,400 aircraft. (...)

But when it comes to aeronautics, forecasts don't always come true. (...) **Several factors could indeed invalidate these forecasts**, such as a further postponement of the 777X calendar, tensions in the Gulf or between the United States and China. **The most important is the fall in oil prices, which has convinced several airlines to delay the renewal of their fleets.** According to IBA statistics, this has resulted in a sharp decline in long-haul aircraft retirements in 2019.

This lack of airline appetite for new aircraft has already resulted in an increase in aircraft stocks available from aircraft leasing companies, reaching a record level of 434 long-haul aircraft at the end of December. Added to this was the increase in airline bankruptcies (27 in 2019), which put more than 400 aircraft back on the market. (...)

**This oversupply of recent aircraft for rent has led to a general decline in rental rates of 5% to 30% on almost all long-haul models.** (...)

### > **Vinci Airports will adjust its fees according to the pollution of aircraft**

(source La Tribune) 16 January - As of this year, **the airport subsidiary of the Vinci group will propose in all the airports under its management to invoice the fees to the airlines according to the noise and CO2 emissions of the aircraft.** (...)

Already in place at the noise level in Nantes for two years, this bonus-malus system for CO2 would be introduced gradually to allow airlines to adapt their fleets and position modern aircraft at airports managed by

Vinci. Such a system will in particular be proposed during the negotiation with the State of the next economic regulation contract (CRE) for Lyon airport. (...)

In its proposal for an economic regulation contract (CRE4) for the period 2021-2026, **its rival ADP also proposed such a system.** (...)

## ***Stock exchange press review***

### **> Air France-KLM falls, Davy sees restructuring weighing on the short term**

(source Reuters) January 20 - - **Air France-KLM posted the biggest drop in the Paris SBF 120 index on Monday after a recommendation downgrade by Davy Research.** (...) The share lost 3.8% to 9.52 euros at 11:44 am. (...)

In a note on the European airline sector, Davy lowers its advice on Air France-KLM to "neutral" versus "outperformance", with a target price of 10 euros.

**"We have reduced Air France-KLM to 'neutral' on the basis of limited benefits from the short-term restructuring plan"**, the note states.

According to Davy, restructuring costs could also weigh on Lufthansa, on which the intermediary remains 'neutral'.

Overall, Davy believes that the European airline sector is on an upward trajectory, both structurally and cyclically. The decline in the risk of a hard Brexit in recent months has supported the sector's valuations, adds the intermediary, of which IAG and Ryanair are the two preferred airlines in Europe and which maintains an 'outperformance' recommendation on each.

**In the wake of Air France-KLM's decline, IAG, the parent company of British Airways and Iberia, lost 1.67% and Lufthansa lost 1.7%.** (...)

## ***End of the press review***

### **> Follow-up to the referendum on the privatisation of Aéroports de Paris**

The consultation procedure on the privatisation of the ADP group has been open since 13 June and will run until March 2020. It requires the signatures of 4.7 million voters to lead to a referendum on a shared

initiative (RIP).

On the Internet, the consultation can be signed on the site [referendum.interieur.gouv.fr](http://referendum.interieur.gouv.fr)

By 20 January, the consultation had collected 1,073,000 signatures, i.e. 22.75% of the signatures required.

### > **My comment on the Air France-KLM share price evolution**

**The Air France-KLM share is at 9.438 euros at the close of trading on Monday 20 January. It is down -4.78%.** It suffers the backlash of Davy's recommendation downgrade (see above).

**The average (the consensus) of analysts for the AF-KLM share is 11.20 euros.**

**The barrel of Brent oil (North Sea) is down sharply from \$5 to \$64.**

**This indicative information in no way constitutes an invitation to sell or a solicitation to buy Air France-KLM shares.**

You can react to this press review or provide me with any information or thoughts that will help me better carry out my duties as a director of the Air France-KLM Group.

**You can ask me, by return, any question relating to the Air France-KLM group or employee shareholding...**

I'll see you soon.

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**| François Robardet**

**Air France-KLM director representing employee shareholders PS and PNCYou**

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This press review deals with subjects related to Air France-KLM shareholding.

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