

A €4 billion eco-tax: the black scenario haunting French air transport



I Letter from the Director Air France-KLM

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Monday's Press Review

> 4 billion eco-tax: the black scenario that haunts French air transport

(source La Tribune) 7 September - A wind of panic among all the players in French air transport but also foreign companies based in France. **Already at the bottom of the hole because of the impact of Covid-19 on their activity, all fear the implementation of a fiscal shock of unprecedented scale on air transport with the law on the subjects of the citizens' convention for the climate** planned for November. The calendar is indeed accelerating. A bill must be tabled by the end of September and the text that will be voted on at the end of the parliamentary debate will apply from 2021.

According to our information, **the Directorate General of Civil Aviation (DGAC)** brought together on Thursday 3 September the heads of the various professional associations such as the Board Airlines Representatives (BAR), the National Federation of Merchant Aviation (FNAM), the Union of Autonomous Companies (SCARA), the Union of French Airports (UAF), but also Anne Rigail, the Managing Director of Air France, to **present to them the impact study she had carried out on the seven proposals of the citizens' convention on aviation. They came away stunned.**

The proposal, which aims to considerably increase the eco-tax on air passengers, would lead to an increase in taxation on the sector of

almost 4 billion euros based on passenger traffic recorded in 2019. While the **tax currently ranges from €1.5 in economy class for a domestic and intra-EU flight to €18 in business class** on a flight outside the EU, **the citizens' convention recommends increasing it to €30 in economy class and €180 in business class on flights of less than 2,000 kilometres, and to €60 in economy class and €400 in business class on flights over 2,000 kilometres.** Private jets would be even more affected: 360 euros for flights of less than 2,000 kilometres and 1,200 euros for longer flights.

In the end, again based on 2019 traffic, the **revenue from this tax would amount to 4.2 billion euros, compared to 440 million euros in 2020**, taking into account the increase planned at the beginning of the year. As a reminder, while the eco-tax decided last year actually resulted in an increase in the Solidarity tax (Chirac tax) to finance health programmes in developing countries, **the amounts recommended by the citizens' convention would be added to the existing taxation, already among the highest in Europe. Such a level of tax would reduce traffic by 14 to 19% and cause the loss of 120,000 to 150,000 jobs, according to the impact study (...).**

Such an explosion of taxation on air transport would not be without consequences on the air connectivity of the territories. Even more than before the crisis, foreign low-cost airlines are choosing to position their planes on the most profitable routes and favour airports with the lowest passenger costs. Already considered as expensive compared to many European neighbours, **French airports risk being the great forgotten ones of the recovery.** This is why air transport players are calling for a reduction in taxes, which are now among the highest in Europe.

"There is a risk of massive destruction of air connectivity for France. Air accessibility is one of the major criteria for companies when they set up in the regions. If this diminishes or becomes non-existent, there is a risk of relocation", explains Thomas Juin, the president of the Union of French Airports.

The citizens' convention recommends six other measures, including organising the end of air traffic on domestic flights by the end of 2025 "only on routes where there is a low-carbon alternative in less than 4 hours". In other words, to go beyond the 2.5-hour threshold decided by the government. Emmanuel Macron has already given his opinion on this subject. During the interview on 14 July, he explained that the plane was relevant on the routes provided by the train in more than 2h30.

"When you have the train that takes 3, 4, 5, 6 hours, is the domestic flight, the plane line justified? Yes because you need to go to Brive. We need to continue to develop industry in Toulouse, in Pau. We need to continue to go to cities that are county capitals, themselves

metropolises, where industry has begun to develop. We're not going to say, from one day to the next, "we no longer make aeroplanes". So we have to do it there too with common sense," the head of state declared.

The Citizens' Climate Convention also recommends banning the construction of new airports and the expansion of existing ones, taxing leisure aviation more, promoting the idea of a European eco-contribution, ensuring that emissions that cannot be eliminated are fully offset by carbon sinks, and finally supporting research and development of a biofuel industry for aircraft.

Faced with the accelerated timetable, air transport professionals will soon be heard by members of the citizens' convention accompanied by members of certain ministries.

Even if the bill does not take up all the recommendations of the citizens' convention and even if the level of possible new taxes were to be far below the proposal of the citizens' convention, some fear that they are unavoidable for political reasons.

***My comment:** The Citizens' Climate Convention has made seven proposals to reduce CO2 emissions from air transport. One of them, the enhanced eco-kilometre charge, has generated a great deal of reaction since the above article appeared.*

Some of the reactions call for comment.

*Did the members of the Citizens' Climate Convention work alone?
No. For this work, the Citizen's Climate Convention has had the support of a Governance Committee, technical and legal experts and professionals in collective participation and deliberation. Three guarantors ensured the neutrality and sincerity of the debates.*

*Is the aim of this Convention to reduce the number of flights?
No. The objective described in the Convention's report is to "reduce CO2 emissions caused by air transport. The aviation sector today accounts for a moderate share of emissions. In the short term, the impact on emissions will therefore be relatively moderate; but in the medium and long term, these measures will help to prevent emissions from the aviation sector from increasing too rapidly, with a significant effect on emissions".*

Of the seven measures proposed, only one aims to reduce the number of domestic flights of less than four hours. This proposal is one of the few to have been rejected by the President of the Republic.

Is eco-tax a new tax?

No, it is a modification of an existing tax, the article above clearly details

it. The enhanced eco-kilometre charge has been modelled on the Air Passenger Duty which has existed in the UK for over ten years.

Will this tax distort competition?

Yes, it is much higher than any similar tax on major European airlines, whether in the UK, Germany or the Netherlands. Moreover, it would be in addition to taxes that exist in France but do not exist in other European countries.

Will this tax be used to reduce CO2 emissions from air transport?

No. As it is presented, it will not be used to finance the search for an alternative fuel to paraffin, even though projects exist: third-generation fuels, use of hydrogen. These projects, if completed, would make it possible to reduce the CO2 emissions caused by air transport to zero within fifteen years or so.

Have airlines taken action, will they continue to take action to reduce their CO2 footprint?

Yes. The article below is a timely reminder of this.

Do French air transport professionals refuse any taxation?

No. They demand that the efforts required from airlines to fight global warming be decided and harmonised at European level. They are asking that this eco-tax be used to finance projects to reduce airlines' CO2 emissions. They also ask that the implementation of this tax should only take place once the airlines have returned to financial equilibrium.

> The air transport flight plan to be "zero emission" by 2035

(source Les Echos) 11 September - Although the main measures recommended by the "citizens' convention", such as the €4.2 billion super eco-tax, are deemed potentially "catastrophic" by **air transport professionals in France**, they are **already well on the way to reducing greenhouse gases**. While waiting for the arrival, around 2035, of the first "zero-emission" planes, which are not at all utopian, as Airbus boss Guillaume Faury reaffirmed at a meeting of the International Civil Aviation Organisation on Tuesday.

Air France is the best illustration of this. Like all European airlines, the French airline has already been participating since 2012 in the European programme to offset CO2 emissions. The airline is also one of the first voluntary participants in the global CORSIA programme, which also has to finance carbon offsetting projects.

In 2020, Air France has also undertaken to offset 100% of the CO2

emissions of its domestic flights, i.e. around 500 daily flights before the crisis, **and to reduce the CO2 emissions of its domestic network by 50% by 2025, through the** modernisation of its fleet and the closure of routes - including Orly-Bordeaux.

However, on long-haul services, which account for two-thirds of emissions, the levers available to remain competitive against international competitors not subject to the same constraints are still limited to two. Namely the purchase of new aircraft such as the A350 and the 787, offering around 20 to 25% fuel consumption savings compared with the previous generation, and the addition of biofuel to traditional paraffin. And both require major investments.

The use of certain biofuels diluted at 50% in current aircraft could reduce greenhouse gas emissions by up to 80%. Without technical changes. Air France already uses some on its flights from San Francisco. But the only problem is that there is no bio-kerosene production site in France and only one in Europe. Moreover, these biofuels are still four to five times more expensive to produce than conventional "jet fuel A1".

The French government has certainly announced a "road map" with the objective of reaching 2% biofuels in 2025, 5% in 2030 and 50% in 2050. But the calls for projects have not yet been launched. And the potential candidates for biofuel production, like Total, first want to know the legislative framework which will frame these objectives and the public aid likely to accompany the investments.

Hence the support of the companies for the only proposal of the citizens' convention, which they believe holds up: the development of a biofuel industry in France. "We would even be in favour of more ambitious objectives, with an accelerated implementation, explains a representative of the sector. But above all, we would like the proceeds of the eco-tax to go to finance the biofuel industry and the ecological transition of air transport, and not to modernize the rail network. Because the more money the state takes from air transport, the less the companies will be able to afford to buy new planes and invest in biofuels.

My comment: Last week I also mentioned the efforts made by Air France in recent years:

Between 2005 and 2018, Air France has reduced its net CO2 emissions by 7%, in a context of increasing traffic.

> Hoekstra: KLM personnel do not escape sacrifice (Hoekstra: le personnel de KLM n'échappera pas au sacrifice).

(source Het Financieele Dagblad translated with DeepL) 14 September -

If KLM wants to survive the Covid-19 crisis, the personnel will not escape the sacrifice. This is what Minister Wopke Hoekstra (Finance) said yesterday in the television programme Buitenhof. When you see the circumstances in which this company and the sector find themselves, you will have to do everything in your power to survive this phase.

The airline company will receive €3.4 billion in loans and guarantees from the government to get through the crisis. One condition is that KLM's costs will be considerably reduced. The company is also receiving several million in wage subsidies.

At the end of last month the unions and KLM began negotiations on cost reductions to guide the company through the Covid-19 crisis. **KLM is due to present a restructuring plan by 1 October. Mr Hoekstra said KLM's intentions were not yet clear. The Minister has not yet seen the plan,** he told Buitenhof.

In the meantime there is a lot of discussion about how to distribute the efforts. The unions and the lower house of parliament believe that staff earning up to 1.5 times the average should be saved as much as possible. Last month KLM decided to unilaterally postpone a pay increase. The FNV union is threatening to take the matter to court.

If the current crisis continues until the end of next year it is not clear whether Air France-KLM will survive. It is not automatic", according to the minister. That is why he also urged the company to "set a new course".

Hoekstra stated in the Buitenhof that an additional sacrifice by KLM would not be an exception in Europe. British Airways is cutting thousands of jobs. At German aviation giant Lufthansa, pilots are handing over their salaries.

My comment: *The words of the Dutch Finance Minister, Mr Hoekstra, caused a stir in France.*

This emotion was caused by different translations of his words, as shown by the headline of a Reuters dispatch: "The future of Air France-KLM is threatened if the company does not reduce its costs".

The above article helps to better understand the meaning of Mr. Hoekstra's statement. The Dutch finance minister draws the attention of KLM unions to the need for KLM employees to contribute to the restructuring plan, which should be finalised by the end of September.

> KLM: tensions and uncertainties surrounding the rescue plan

(source Les Echos) 14 September - **Things are not progressing at the same pace in France and the Netherlands.** While Air France has already started to use the 7 billion euros of credit made available to it by the French government and the banks, its partner KLM is still waiting for the 3.4 billion euros promised by its government. The **release of the funds, on which the survival of the Dutch company depends, remains conditional on the implementation of a cost-cutting plan, which is theoretically due to be presented to the Dutch government on 1 October** but which is still the subject of difficult negotiations between the unions, management and the public authorities. The tensions are illustrated by the latest statements by Finance Minister Wopke Hoekstra this Sunday that the survival of Air France-KLM "is not automatic" and will depend on its ability to "restore its competitiveness" through cost-cutting measures.

In its main lines, this savings plan foresees a significant reduction in the workforce, which could go up to 5,000 jobs out of the 33,000 employees of the KLM group (including Transavia), **accompanied by salary cuts.** It is on this second point that the negotiations seem to have stalled. For although everyone agrees on the need for KLM to reduce its size and expenditure, the distribution of efforts as it seems envisaged divides the unions. **"36,500 per year - will not be affected by the pay cuts,** explains a good expert on the subject . **But for the others, the pay cut would be 10% up to twice the median wage and 20% from three times the median wage.**

This method of distribution, imposed by a vote of the Dutch deputies, suits the unions for the lowest paid categories of ground staff (ground staff in stopovers, maintenance, cargo and cabin crew), but it obviously does not suit the best paid categories, particularly pilots. Several unions, including the pilots' union VNV, have even decided to appeal to the European Commission against the conditions imposed on the KLM rescue plan.

We're not asking for cuts in pay for the low paid, but **we don't want to be the only ones to bear the brunt of KLM's recovery," explains one pilot.** Everyone has to participate in the effort in some form or another.

In addition to this, Greenpeace Holland has filed another appeal, this time against the government's aid plan for KLM, which it considers to be contrary to the Netherlands' commitments to reduce greenhouse gas emissions. Like Air France, KLM has committed to reducing its CO2 emissions, but also its night flights to Amsterdam-Schiphol, which will be reduced from 32,000 to 25,000 per year, in accordance with the demands of local residents' associations.

But **Greenpeace is** not satisfied. The association, **which recently distinguished itself by defending the most radical proposals of the**

"citizens' convention" in France, is in fact campaigning for a "reduction of air traffic by one third on a European scale by 2040" as well as for a pure and simple ban on short-haul flights that feed international flights from Amsterdam-Schiphol. In other words, **the death of the KLM hub.**

The debate on the future of KLM is obviously amplified by the proximity of the general elections in the Netherlands in March 2021, the outcome of which is very uncertain. The current coalition government has already lost its absolute majority in the upper house and has to cope with the push of both the nationalist right and the environmentalist left. There is no doubt that the handling of the KLM dossier will weigh in the balance.

***My comment:** In addition to detailing the major efforts required of KLM employees, this article highlights the willingness of the Greenpeace association to drastically reduce flights in the Netherlands and France.*

Lufthansa may cut more jobs than expected > Lufthansa may cut more jobs than expected

(source Boursier com) 11 September - **Lufthansa could reduce its fleet further than previously expected.** A new alarming signal for the airline sector. According to the indiscretions obtained by Bloomberg, the German national airline is considering taking out of service all of its A380, A340 and Boeing 747-400 aircraft as well as several narrow-body aircraft that supply long-haul routes. In total, the fleet reduction would thus exceed the 100 aircraft reduction so far revealed by Lufthansa, after deduction of new deliveries.

This major change could result in the loss of additional jobs, while Lufthansa is currently counting on the elimination of 22,000 full-time positions to adapt to the new environment. The German group has so far stated that it aims to put around 300 aircraft in reserve next year, 200 in 2022, while its fleet of 760 aircraft will have to be reduced by around 100 from 2023 onwards.

"The current paradigm, as also illustrated by Air France KLM or IAG, seems to be to get rid of unwanted aircraft immediately," says Stephen Furlong, an analyst at Davy. **"Whatever the further reduction in the fleet, Lufthansa must also rethink its business model by moving away from business travel,** connecting flights and large aircraft". While no final decision has been made, Lufthansa may decide to keep a handful of its younger A340-600s, which would allow it to retain some capacity on its busiest routes.

Harry Hohmeister, a member of the Lufthansa board of directors,

said a fortnight ago that demand had not picked up as hoped and that large-scale job cuts would be "inevitable", although the company denied reports that it could cut up to 40,000 jobs.

Like its competitors, the carrier suffered heavy losses in the second quarter. Over the period, it posted an adjusted operating loss of €1.7 billion, with revenue falling sharply by 80% to €1.9 billion. It also obtained state aid of 9 billion euros to help it through the worst crisis in its history.

***My comment:** Business customers are still not coming back to aircraft; bad news for the airlines, which make most of their profits in this customer segment.*

> **Alitalia: EU validates €199.45m state aid**

(source TourMaG) 11 September - **The European Commission has found the Italian State aid of €199.45 million to Alitalia to compensate for losses linked to the coronavirus pandemic to be compatible.**

The aid will take the form of a direct grant.

Margrethe Vestager, Executive Vice President for Competition Policy, said: "This measure will allow Italy to compensate Alitalia for the damage directly caused by the travel restrictions necessary to contain the spread of the coronavirus. (...)

At the same time, **our investigations into past aid measures from which Alitalia has benefited are ongoing** and we are in contact with the Italian authorities regarding their plans and compliance with EU rules.

> **easyJet revises its ambitions downwards, the share price falls**

(source Boursier com) 8 September - **easyJet**, which was hoping to fly with around 40% of its pre-crisis capacity in the fourth quarter [of its fiscal year ending at the end of September], is revising its ambitions downwards. The low-cost airline cites declining customer confidence in planning their travel due to evolving government restrictions across Europe and quarantine measures in the UK. The UK carrier **now plans to operate with less than 40% of its planned capacity so far for the three months to the end of September.**

"**Given** the many changes in government restrictions since the third quarter results were reported, the **lack of visibility and the continuing level of uncertainty**, it would not be appropriate to maintain financial

forecasts for the fiscal years 2020 and 2021 for the time being. **easyJet will also continue to review its liquidity on a regular basis to assess any further funding opportunities,**" the group said.

Johan Lundgren, Chief Executive Officer of easyJet, says: "It is difficult to estimate the impact of the pandemic and associated government policies on the industry as a whole. **We again call on the government to provide sector-specific support for aviation, which should take the form of a comprehensive package of measures including the abolition of the Air Passenger Duty tax for at least 12 months,** the reduction of air traffic control charges and the maintenance of the exemption from the slot rules. These measures will promote the retention of skills in the sector, which would support employment and promote connectivity".

Following these announcements, the stock is under pressure in London, down by almost 4%.

***My comment:** The low-cost company easyJet faces the same difficulties as traditional companies. Prospects for a return to financial equilibrium are slipping away.*

EasyJet is notably asking for the suspension of the Air Passenger Duty in 2021, the tax that inspired the work of the Citizens' Climate Convention.

> Increase in regional contribution to Tours airport: environmentalists denounce a gift to Ryanair

(source France Bleu Touraine) 12 September - The ecologist elected representatives are opposed to the increase in the contribution of the Centre-Val-de-Loire Region to Tours airport. The increase was decided at the standing committee of the Centre-Val-de-Loire Regional Council on Friday morning. **The Region's 2020 financial contribution to the Syndicat Mixte pour l'Aménagement et le Développement de l'Aéroport International de Tours-Val de Loire will be increased to €1.273 million, i.e. €283,000 more than the amount provided for when the original 2020 budget was adopted.**

An inadmissible decision according to the environmentalist group which denounces the policy of the president of the region François Bonneau. "Knowing that many Ryanair flights have been cancelled this year because of the Covid-19 pandemic, logically one would have rather envisaged that the 2020 budget of the Airport Mixed Syndicate and thus indirectly the contribution of the Region be revised downwards" they judge.

They speak of a hasty decision that was not made in consultation with the Indre-et-Loire department and the Metropolis of Tours. All the more so since, according to them, **"nobody seems to be comfortable anymore with the fact that the flights of Tours airport are assured by the company Ryanair thanks to public financing"**.

***My comment:** The awareness of the elected representatives concerning the subsidies to Ryanair was eagerly awaited by the French airline companies.*

These subsidies allow the (very) low cost company to offer fares lower than the price of airport taxes.

> Airbus wants to draw inspiration from the V-flight of wild geese to reduce fuel consumption

(source 20 Minutes with agencies) 10 September - The **flight of airliners in formation inspired by wild geese could save 5 to 10% of fuel, according to Airbus**. The aircraft manufacturer announced this Wednesday the signature of an agreement with airline companies and air traffic organisations to demonstrate its operational feasibility.

"Birds like wild geese fly in a V-shaped formation in order to preserve their energy. There is a kind of lift offered by the lead bird to those who follow," explained Jean-Brice Dumont, director of engineering at Airbus, during an online conference of the International Civil Aviation Organization (ICAO). Each aircraft engine produces a vortex in its wake containing an updraft that could benefit a following aircraft to reduce the thrust of its engines and thus reduce its consumption.

In 2016, a test flight with an A350 flying three kilometres behind an A380 "demonstrated an instantaneous saving of more than 10% on fuel consumption", Jean-Brice Dumont said. The operational feasibility of this project, called fello'fly, has yet to be proven.

Airbus has therefore signed an agreement with the airlines Frenchbee and SAS Scandinavian Airlines, as well as with air traffic organisations (DSNA in France, Nats in the United Kingdom and Eurocontrol) **to study ways of organising flights so as to be able to create these aircraft formations**, the European aircraft manufacturer announced in a press release.

"At the same time, Airbus will continue to work on technical solutions to assist the pilot to ensure that the aircraft remains safely positioned," added the engineering director. Test flights with two A350s are scheduled to take place throughout the year, according to the aircraft manufacturer, which expects to enter service in the middle of the

decade.

My comment: *The aviation world is competing in ingenuity to reduce aircraft consumption and thus the production of greenhouse gases. After the V-shaped aircraft studied by KLM, here is now the flight of V-shaped formation aircraft.*

Stock market press review ...

> Shaken by the pandemic, IAG (British Airways) raises €2.7bn

(source Reuters) 10 September - **IAG**, the parent company of the airline British Airways, **announced Thursday a capital increase of 2.74 billion euros**, launched at a strong discount, in order to strengthen its financial situation which has deteriorated with the coronavirus crisis (...). IAG, whose shares were trading at 3.3% at the end of the morning on the London Stock Exchange, said in a press release that its main shareholder **Qatar Airways Group, which holds a 25.1% stake, had undertaken to subscribe to this operation in proportion to its shareholding.**

The funds obtained will be used to reduce the group's debt and to cope with the collapse in air traffic, IAG said. The parent company of British Airways stresses that the outlook for the rest of the year and for 2021 has deteriorated since the announcement in July of this capital increase.

IAG expects its capacity from September to December to be 60% below the levels recorded in 2019. In its previous estimate, the group expected a decrease of only 46%. For 2021, the decline is now expected to be 27%, compared to -24% previously expected.

My comment: *IAG's capacity forecasts for the end of the year point to a worsening situation: at the beginning of the summer, no company had envisaged such a low level of activity.*

End of the press review

> My comment on the evolution of the Air France-KLM

share price

The Air France-KLM share was at 3.668 euros at the close of trading on Monday 14 September. It is down -4.05% over one week.

Before the coronavirus epidemic, the Air France-KLM share was 9.93 euros.

The average (the consensus) of analysts for the AF-KLM share is 3.24 euros. The highest target price is 5 euros, the lowest is 1 euro. You can find the details of the analysts' consensus on my blog. I no longer take into account the opinions of analysts prior to the start of the health crisis.

The barrel of Brent oil (North Sea) is down significantly from \$3 to \$39. This is its lowest price since June 1st. At the beginning of the coronavirus epidemic, it was at \$69.

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 enable me to better carry out my duties as a director of the Air France-KLM group.

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

See you soon.

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| François Robardet

Director Air France-KLM representing employee shareholders PNC and PS.

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

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