

AF-KLM, TOTAL, ADP and AIRBUS join forces to decarbonize air transport



I Letter from the Director of Air France-KLM

François Robardet Representative of employees and former employees PS and PNC shareholders

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Editorial

Dear Readers,

The Annual General Meeting of Air France-KLM will be held on Wednesday, May 26, 2021 without the physical presence of shareholders or other persons entitled to attend. It will be broadcast live via webcast on the Group's website.

I would like to thank all the shareholders who have sent me their proxies. I will vote in accordance with the instructions given in my [Flash n°85](#).

In addition, I am publishing at the end of this letter the third and fourth infographics on the climate impact of aviation. They provide new answers to the questions raised by aviation detractors.

Let's continue to respect the barrier measures.

*Enjoy your reading
François*

Monday's Press Review

AIR FRANCE-KLM, TOTAL, ADP and AIRBUS join forces to decarbonize air transport

((source AOF) May 18 - **Air France-KLM, Total, ADP Group and Airbus have joined forces to make the first long-haul flight using sustainable aviation fuel, or SAF, produced in France.** Air France Flight 342 took off at 3:40 p.m. Tuesday from Terminal 2E at Paris-Charles de Gaulle Airport to Montreal, Canada, carrying for the first time in its tanks sustainable aviation fuel produced by Total at its French plants.

The flight reflects the four groups' shared goal of decarbonizing air transport and **developing a French production chain for sustainable aviation fuels**, which is a prerequisite for their widespread use in French airports. **"Biofuels can be incorporated without any changes** to the logistical infrastructure for storage and distribution, or to the aircraft or engines," the groups explain.

Their gradual worldwide use should make it possible to significantly reduce CO2 emissions from air transport, in line with the United Nations Sustainable Development Goals.

Was flight AF 342 Paris-Montreal really the "first" long-haul flight using biofuel?

((source RTBF) May 19 - The operation was a great success, many media and websites talked about it, especially in France and Canada (...). Enough to arouse, at least, a little curiosity.

In the tanks of the Air France Airbus A350 that took off from Paris to Montreal on May 18 at 3:40 p.m., there was not only kerosene, the traditional aviation fuel: **there was also 16% of "sustainable aviation fuel", produced**, according to the press release, **from used cooking oil**. In the language of aviation, it is called SAF, for "sustainable aviation fuel". This addition of 16% of biofuel in the plane's tanks has avoided the emission of 20 tons of CO2.

In their joint press release entitled "**Air France-KLM, Total, ADP Group and Airbus** mobilize for the decarbonization of air transport and carry out the first long-haul flight with sustainable aviation fuel (SAF) produced in France", the four French groups **explain that "this flight concretizes the common ambition** of the four groups to decarbonize air transport and **to develop a French production sector for sustainable aviation fuels**, an essential prerequisite for the generalization of their use in French airports".

However, the airline industry has been interested in "greener" fuels,

including hydrogen, for several years.

(...)

The experience of biofuel in the air is far from new, the first tests date back to 2008, 2009 for passenger flights, and all tests have shown that the use of such a fuel has no impact on the reliability of operations. It should be noted that this "sustainable aviation fuel" can be incorporated into aircraft fuel tanks without any modifications to the logistical infrastructure for storage and distribution, or to the aircraft or engines.

Nearly 40 airlines, including KLM, SAS, Lufthansa, United Airlines, American Airlines, Quantas and Cathay Pacific, use it regularly today. They can be found in airports such as Oslo, Stockholm, Munich and London on this side of the Atlantic, but also in Los Angeles, San Francisco, Chicago, Toronto, Montreal and Brisbane in Australia. And as stated in a file produced by the ICAO (International Civil Aviation Organization), the Dutch company **KLM made its first flights with biofuel in 2012 to Brazil before introducing a weekly flight between Amsterdam and New York in 2013.**

(...)

Three questions to Waldo Cerdan, aviation expert

Beyond communication, what does this long-haul flight really represent?

"That it is possible to fly a plane with something other than kerosene and thus reduce the carbon footprint of air transport. But even if the direction is good, we have to admit that it remains marginal. The problem is that there is not really one solution, or rather one type of fuel that could be produced and used by the entire world fleet, or even the European one.

Is "sustainable jet fuel" THE solution?

"No. First of all, it is important to know that the "sustainable" character of a fuel does not depend on its nature or the origin of the fuel, but on the use that is made of it, or rather on the source, which must necessarily be renewable. Fuel produced from biomass, which by nature is renewable, can only be considered sustainable if the withdrawals to produce it do not exceed the capacity of the ecosystem to renew itself. Of course, the development of alternative fuels must be encouraged, but the whole question, from the point of view of a possible global solution, depends on the energy we are prepared to allocate to air travel, knowing that resources are not infinite. Therefore, to say that a fuel is sustainable means nothing, which excludes it de facto as THE solution".

From 2030, the European Union will impose a 5% "sustainable aviation fuel" (SAF). Is this realistic and feasible?

"It all depends on the priority that will be given to air transport compared

to other industrial sectors. Europe's potential for producing alternative fuels with a lower carbon footprint, because it is never zero, is lower than the overall energy needs. Knowing that air traffic growth is, on average (excluding "Covid"), 5% per year and that Europe aims to reduce GHG emissions in air transport by 50% compared to 2005 levels, we understand that this obligation to use 5% SAF in 2050 only gives the direction of the base camp located at the foot of Everest; we still have to climb it.

The thorny issue of competition with airlines based outside Europe has not yet been resolved. No doubt there will be new battles ahead.

***My comment:** By operating an intercontinental flight with French sustainable aviation fuel, the four French groups (Air France-KLM, Total, ADP Group and Airbus) are showing the government that they are ready to make a greater commitment to the fight against global warming.*

To secure the investments needed to develop a French sustainable aviation fuel industry, the industry expects the government to set significant usage targets.

> Brussel had staatssteun aan KLM niet mogen toestaan (Brussels should not have authorized the granting of state aid to KLM)

((Volkskrant source translated with DeepL) May 19 - **The European Commission should not have approved the 3.4 billion aid that the Dutch government gave to KLM last year** to deal with the coronary crisis. **Brussels must again give reasons for its decision**, the European Union court in Luxembourg ruled.

KLM does not have to return the state aid immediately. The European judge is showing leniency because of the negative effects of the pandemic on the Dutch economy and air traffic. A bankruptcy of KLM would have caused even more damage to the Netherlands, which was hit hard by the pandemic. That is why the cancellation was suspended.

The procedure against the European Commission was initiated by Ryanair. The Irish low-cost airline believes that the government aid granted to KLM distorts competition. Ryanair has initiated a series of proceedings against aid programs for national airlines, such as Lufthansa, Finnair and TAP Portugal.

In February, the Irish lost in Luxembourg because the court gave its blessing to Brussels' approval of aid to Air France and SAS.

One of the reasons why the European Court ruled differently on the state aid granted to KLM and that granted to Air France is related to the structure of the group to which the two airlines belong.

The contested decision does not contain any information on the composition of the shareholding of Air France and KLM, nor on the functional, economic or organic links between the holding company Air France-KLM and its subsidiaries, whereas it appears from that decision that the holding company is involved in the granting and management of both the aid to KLM and that to Air France," the court said.

The court noted that the European Commission did not address the possible existence of a mechanism that would prevent aid granted to Air France through the holding company Air France-KLM from benefiting KLM and vice versa through this holding company.

During the hearing, Brussels did not prove either that KLM would be prevented from benefiting from the French aid to Air France.

***My comment:** The position of the European Union court is based on a simple principle: during a health crisis, state aid can only benefit a company based in the country that provides the support.*

The European Commission was able to argue the case for the aid granted to Air France. It should have no difficulty in quickly using the same arguments for the aid granted to KLM.

Singapore Airlines suffers its worst ever annual loss

((AFP source) May 19 - **Singapore Airlines** (SIA) reported Wednesday the worst annual net loss in its history, after being wiped out like its competitors by the consequences of the Covid-19 pandemic.

In its 2020/21 financial year (ended March 31), "the most difficult in its history", the Singaporean company **has sunk significantly into the red, suffering a net loss of 2.7 billion euros** (4.3 billion Singaporean dollars), compared to -130 million euros in the previous year.

Worldwide, the virus has plunged the airline industry into a historic crisis, with many planes grounded due to government-ordered travel restrictions. The group's turnover has been divided by almost four, from almost 9.9 billion euros in 2019/20 to 2.3 billion in 2020/21.

(...)

Although experts expected the carrier to make a loss, Singapore Airlines' annual results are "appalling", judged airline industry analyst Shukor Yusof of Endau Analytics. He said Singapore Airlines is a barometer for the industry. **"These results suggest that we could**

see the collapse of airlines with less solid backs," he added.

> EasyJet ready to operate 90% of its fleet despite doubts about summer

((Reuters source) May 20 - EasyJet, which widened its losses in the first half of the year, is ready to increase its flight slots for the summer season.

(...)

"We have the capacity to adapt quickly to operate 90 percent of our current fleet during the summer period to meet demand," group Chief Executive Johan Lundgren was quoted as saying in the results statement.

As the summer season approaches, the sector is pleading for a relaxation of restrictions. In particular, it wants the British government to waive quarantine measures for travelers vaccinated or coming from destinations considered low risk.

The UK's "green list" of countries not subject to restrictions is due to be reviewed in the coming weeks, but the government has already warned that the Indian variant, which is considered more contagious, could further slow the pace of the reopening of transport.

In the six months to March 31, easyJet posted a pre-tax loss of 701 million pounds (811 million euros) compared with a loss of 193 million in the same period a year ago. Revenues fell by 90% to 240 million pounds, with the company carrying only 4.1 million passengers in the period.

EasyJet, which said it was on track to save 500 million pounds this year, did not provide a firm capacity forecast for its fourth fiscal quarter, which runs from July to September, because of uncertainties related to the summer season.

(...)

My comment: *The business recovery forecasts issued by the airlines must be examined with caution.*

For the past few weeks, airlines have been communicating on the number of destinations offered or the number of aircraft available, not on the number of flights planned.

This does not indicate the number of passengers who will fly on these planes, nor the potential turnover.

> Reunion Region's challenge: Air Austral

((source LINFO Réunion) May 20 - **Since the health crisis, Air Austral**

has twice requested financial support from the Region, which has injected more than 150 million euros into its "subsidiary" over the past decade. Faced with increasingly fierce competition, the regional airline is wondering about its future in long-haul flights.

(...)

If some of these costs are covered by the State within the framework of long-term partial activity, the **airline, which is majority owned by the Reunion Region** (via a semi-public company, Sematra) is particularly exposed. Not only has it been deprived of revenue due to the virtual absence of traffic, but it **is also facing increasingly fierce competition from French airlines**, which are trying to catch up on all their closed routes in overseas France.

Air Austral is facing competition from Corsair in Mayotte, while Air France is reconnecting Reunion to its Roissy hub, two of its favourite destinations. These offensives are leading it to question the relevance of its presence on long-haul routes.

In May 2020, Air Austral applied for the State-guaranteed loan mechanism, which enabled it to raise €120 million in loans. Of this amount, €30 million came from a shareholder loan from Sematra. More recently, last March, a new €60 million extension was requested, shared 50/50 between the State and Sematra.

This is the fourth time since 2012 that the Region has been asked to refinance Air Austral. Over the last decade, the regional authority has injected more than €150 million into its "subsidiary" which employs 950 people and has a turnover of around €400 million.

***My comment:** State aid is intended to keep airlines alive during the health crisis.*

But when flights resume, as long as activity has not returned to a level close to 100%, competition will be more important than in 2019.

This is when the weakest airlines are likely to disappear.

Europe to open to vaccinated tourists

((source Libération and AFP) May 19 - An international vaccination pass. **European states will be able to welcome non-European tourists if they have received the necessary doses of anti-Covid vaccines** authorized on the continent. With the summer tourist season approaching, the ambassadors of the 27 Member States approved this recommendation proposed by the European Commission on Wednesday, which is not, however, binding on the States.

The European Union is trying to coordinate its external border measures, given their impact on free movement within the bloc.

The EU closed its external borders in March 2020 for "non-essential" travel and from June established a regularly reviewed shortlist of third countries whose residents - vaccinated or not - can enter the Union. The representatives of the Member States also agreed to relax the criterion of the rate of incidence of the virus used to draw up this list. The rate is raised from 25 to 75 cases per 100,000 inhabitants over the last 14 days. It should be noted that several European countries, including France, are still well above this threshold.

Currently, residents of seven countries (Australia, New Zealand, Rwanda, Singapore, South Korea, Thailand and Israel) can come to Europe. This list is expected to grow significantly as a result. China could be included if it allows Europeans to travel to its territory.

At the same time, the Member States have agreed to set up a coordinated emergency mechanism to rapidly suspend arrivals from a third country in the event of a deterioration in the health situation due to the appearance of variants.

The harmonization of the European sanitary pass, on the other hand, is taking longer to be put in place. Negotiations between MEPs and Member States on the European health certificate have still not resulted in an agreement. A third session of discussions ended on Tuesday evening without success. **Time is running out to implement this harmonized system, which aims to facilitate travel in the EU for the summer.**

This European health pass is intended for people who can prove that they have been vaccinated against Covid-19, tested negative or are immune to infection. **One of the points of debate concerns free testing, a measure that some Member States are opposed to because of the cost to their public finances.**

MEPs therefore proposed to use European funding, the "emergency aid instrument", and to devote a "substantial sum" to ensure that tests are accessible to citizens free of charge, according to a European Parliament press release. This instrument has already been used in the context of the pandemic to purchase vaccines, among others.

Another point of discussion: should the health pass allow to get rid of a quarantine at the borders? Member States do not want to give up this national competence, particularly in the event of the appearance of a variant.

A new session of negotiations is scheduled for Thursday on this European certificate. The situation is becoming urgent, as several countries have already started to implement their own health passes.

The European health certificate is on the agenda of the summit of heads of state and government scheduled for Monday and Tuesday in Brussels. A possible agreement will then have to be formally approved by the Parliament, whose plenary session is scheduled for June 7-10 in Strasbourg.

Member states have threatened to introduce the certificate through a simple, non-binding recommendation. Unlike the proposed legislation, this would not require parliamentary approval.

My comment: *The European Commission is trying to set up two different "health passes" :*

- . one for passengers traveling within Europe.*
- . one for passengers arriving from outside the European Union.*

The conditions for travel within Europe should be less restrictive than for other passengers.

Paris airports boss worried about "waiting time apocalypse" this summer

((source AFP) May 18 - The boss of the manager of Paris airports said Tuesday of a possible "apocalypse of waiting time" at the descent of planes this summer, given the multiplication of controls due to the health situation. **"What concerns me most is the management of the multiplicity of controls, tests and double control of the border police,"** said Augustin de Romanet, CEO of the Group Aéroports de Paris (ADP), questioned at a press conference devoted to renewable fuels for aviation.

(...)

If waiting times for formalities on arrival are currently bearable, the summer rush would make them unmanageable given the constraints that have piled up since the beginning of the Covid-19 crisis, according to ADP.

"We have an addition of controls that are imposed on passengers because of the health situation, first police control with passports, then mandatory PCR test for people who come from scarlet countries (the most at risk, editor's note), then second passage before the police," said Augustin de Romanet. "Today, what is at the top of my list of concerns is the discussion with the Ministry of the Interior to prevent this summer from being an apocalypse of waiting times for passengers," he insisted.

My comment: *To facilitate controls, digital health passes are being tested; Air France is experimenting with the AOK pass; IATA (International Air Transport Association) has developed and launched its "Travel Pass".*

Despite these tools, the duration of passenger checks on departure and arrival of flights will be significant.

The EU will target aviation in the revision of the fossil fuel tax.

((source Financial Times translated with DeepL) May 20 - **The European Union is moving closer to agreement on an aviation tax, as part of a broad reform of fossil fuel taxes** aimed at achieving ambitious emissions targets.

EU finance ministers meeting in Lisbon on Saturday expressed broad support for upcoming proposals for an EU tax on jet fuel, officials told the Financial Times. In previous years, Brussels has struggled to extend its fuel tax rules to sectors such as aviation and shipping, but **the cause has been revived by the European Union's commitment to cut carbon emissions by 55 percent over the next decade and reach zero by 2050.**

The aviation sector, which has been hit hard by the pandemic, has already expressed concerns about the proposed EU tax on jet fuel. In July, the European Commission will propose a major overhaul of its energy taxation directive, which sets minimum tax rates for fossil fuels and has not been updated in nearly 20 years. Agreement on the changes has been stalled by the need for unanimous agreement from all 27 member states.

Brussels has indicated that it will extend the taxation rules to sectors such as aviation and shipping, which have so far been exempt from the system. However, EU finance ministers were less supportive of extending the directive to shipping, with countries on Europe's geographic periphery expressing concerns about the plan, officials said.

Revising the energy tax directive will be one of the most politically sensitive parts of the Brussels green deal agenda, as each country effectively has a veto over tax policy. Valdis Dombrovskis, EU vice-president for the economy, said the directive was "outdated" and that ministers had expressed the "right political momentum to make changes".

(...)

Some EU countries have taken the initiative to end tax exemptions for jet fuel, with the Netherlands promising to introduce a national aviation tax in the absence of a European agreement.

The Brussels reform will also seek to remove exemptions granted by many member states to sectors such as agriculture, the coal industry and diesel. The Commission is also considering a stricter system in which minimum fuel taxes would gradually increase over a 10-year period, an official said.

Energy taxes are one of the main regulatory tools Brussels has to help reduce emissions by making high-emitting technologies more expensive for consumers and businesses. **The other major carbon pricing initiative that the Commission wants to reform is the EU Emissions Trading Scheme (ETS)**, which Brussels is also considering extending to shipping, aviation and cars.

During the **discussion, some finance ministers raised concerns about imposing a double burden on ships and airlines** by including them in the ETS and revising energy taxation rules, diplomats familiar with the discussion said.

The Commission also presented ministers with its initial plan to introduce a border carbon tax that will tax imports into the EU according to their carbon footprint. The measure, which will be published in July, has raised concerns from countries such as Russia and Ukraine. Brussels has argued that the tax is necessary to protect the competitiveness of European industry and prevent companies from being harmed by foreign firms that are not bound by emissions targets. Dombrovskis said the border levy would only be introduced "gradually", with **its initial scope limited to high-emission imports such as cement, steel and fertilizers**. "We are confident that we will reach a consensus on a proposal for a carbon-targeted border adjustment that is gradual over time," he said.

***My comment:** In the fight against global warming, the taxation of fossil fuels is one of the possible solutions.*

But to be really effective, this measure will have to be complemented by provisions encouraging manufacturers to turn to other types of fuel, such as hydrogen.

Above all, these measures must apply to the entire industry worldwide, so as not to distort competition.

Bonus of the week

Sustainable alternative fuels reduce CO2 emissions by 80%.

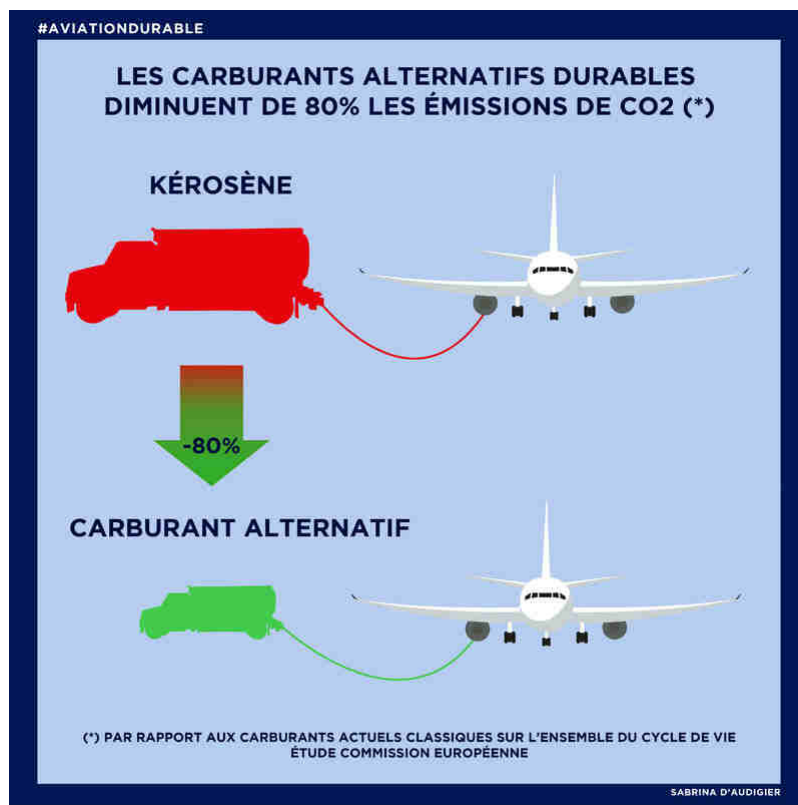
((source #aviationdurable) May 11 - **Alternative Sustainable Fuels (ASF)** can improve the climate impact of air travel by up to 80% compared to a traditional fuel.

SAF must not compete with nature (no palm oil...) **or food** (no corn, beet...), unlike road "biofuels".

The SAF are derived from agricultural residues or used oils, and **the new generations will be produced from plant waste** (tree leaves, algae....) **or from the direct capture of atmospheric CO2**.

Aircraft are now able to run on a mixture containing 50% SAF, and work is being done to validate its use at 100%.

In Europe, 10% of the fuel could be sustainable by 2030, creating also a job sector in all territories.



My comment: *Initially, sustainable alternative fuels will be made from residues or waste.*

The most efficient long-term solution seems to be the production of synthetic fuel from CO2 in the atmosphere. This technique is currently

being tested in plants in Switzerland and Norway.

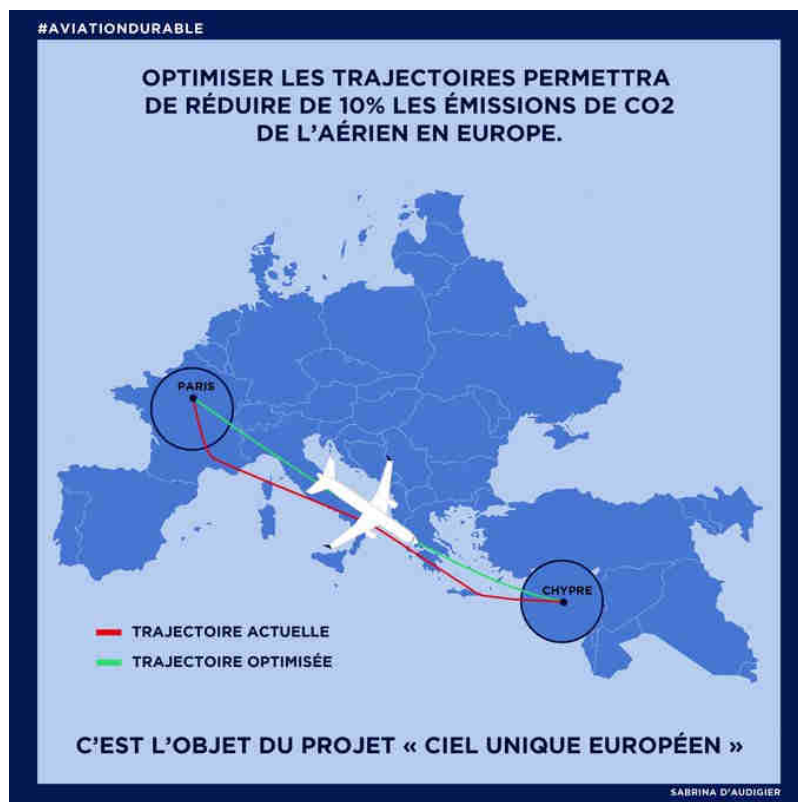
Optimizing trajectories will reduce CO2 emissions from air travel in Europe by 10%.

((source #aviationdurable) May 4 - **European airspace is complex and fragmented**: each country has its own air traffic control system and does not allow for direct and optimized long-distance flights because historical waypoints remain the norm.

The distance flown by aircraft is therefore unnecessarily extended by an average of 42 kilometers, resulting in increased flight time, fuel consumption and CO2 emissions.

The current "Single European Sky" project aims to reduce the sector's emissions by 10% by better organizing air traffic in Europe to make it more efficient:

- modernization of air navigation systems,
- better coordination of European services,
- better use of tools and data to optimize trajectories.



My comment: *The "Single European Sky" project was initiated in 2004.*

It is based in particular on the SESAR program, which aims to ensure

the modernization of traffic management systems and operational procedures.

The research and development phase of SESAR is scheduled to end in 2024.

A similar project, NextGen, is being conducted in the United States. It could be deployed around 2025.

These projects aim to manage continental traffic more efficiently. The current systems are close to saturation. They also have difficulty managing weather events.

End of the press review

> Advice for employees and former employees who are shareholders

The annual statements from Natixis and/or Société Générale must be sent to you by e-mail or by post.

You will find on my [website](#) the access modalities to the managers' websites.

To avoid forgetting to change your contact information each time you change your postal address, **I advise you to enter a personal e-mail address**. It will be used for all correspondence with the management organizations.

Keep all the documents related to your Air France-KLM shares in one place: all the letters you receive from the different managers, Natixis, Société Générale, your personal financial institution if you bought your shares through it.

> My comments on the Air France-KLM share price trend

Air France-KLM shares closed at **4.488 euros** on Monday 24 May. It is down -2.03% over a week.

Since the announcement of the recapitalization the share price has fallen by 15.5%.

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

euros.

The average (consensus) analyst price for AF-KLM shares is 3.27 euros. The highest price target is 5 euros, the lowest 1 euro. You can find the details of the analysts' consensus on my blog. I do not take into account the opinions of analysts prior to the beginning of the health crisis.

Brent crude oil (North Sea) is down slightly by \$1 to \$68 per barrel. It is above its pre-pandemic level.

This information is not intended to be a solicitation to buy or sell Air France-KLM shares.

You can react to this press review or send me 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 to employee share ownership...

See you soon.

To find the last press reviews of Monday, it is [here](#)

If you like this press review, please pass it on.

New readers will be able to receive it by [giving me](#) the email address of their choice.

| François Robardet

**Director of Air France-KLM representing the employees and former employees shareholders of PNC and PS.
You can find me on my twitter account @FrRobardet**

When I was elected, I received the support of the CFDT and the UNPNC. This press review deals with subjects related to the Air France-KLM shareholding.

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