

AF-KLM introduces a fare surcharge to finance green fuels



I Letter from the Director of Air France-KLM

François Robardet

Representative of the employees and former employees shareholders PS and PNC

N°842, January 10, 2022

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Special Editorial Election of the representative of the employees and former employees PS/PNC shareholders of Air France-KLM

Dear readers, employees or former employees shareholders

The vote to renew your representative on the Air France-KLM Board of Directors begins this Friday. I am standing for election with Nicolas Foretz as my replacement.

You can already consult [our profession of faith](#).

*Those of you who hold : -
directly own Air France KLM shares from the ORS or ESA operations,
managed in registered form by Société Générale,
- or hold shares in one or more mutual funds specific to the Air France group (Concorde, Majoractions, Aeropelican)*

must have received their voting material.

*If you have not received your voting material, please call 0800 10 12 30.
If you are abroad, the number is +33 (0)4 74 64 56 49.*

Attention: beforehand, think of checking on the Natixis or Société Générale website if you still own shares in the Concorde, Majoractions, Aeropelican funds. Take the opportunity to check if you have requested the sending by mail or via the Post Office.

You will find on my website the contacts of [Natixis](#) and [Société Générale](#).

*Thank you for your trust and support.
François and Nicolas*

Monday's Press Review

> Air France-KLM introduces a fare supplement to finance green fuels

(source Les Echos) January 10 - Reducing CO2 emissions from air transport has a cost, which Air France-KLM passengers will have to start paying.

(...)

The amount of this "contribution" depends on the booking class and the distance traveled. For Air France and KLM, it will range from 1 to 4 euros in economy class and from 1 to 12 euros in business class and will be indicated on the ticket. For Transavia, on the other hand, it will be directly integrated into the fare. "In addition, as of January 13, customers who wish to do so will be able to voluntarily contribute to the purchase of additional sustainable aviation fuel," the company said.

Air France-KLM is the first airline group to introduce a "sustainable fuel" surcharge. But it will probably not be the only one. Since the beginning of the year, French regulations have required airlines to use an average of 1% "sustainable" fuels for flights departing from France, then 2% in 2025 and 5% in 2030.

These new fuels, produced from used oils or agricultural and forestry residues, can theoretically reduce the net CO2 emissions of a flight by 75% to 80%, since the CO2 released during their combustion has been captured by the plants used in their manufacture. They can be mixed with conventional kerosene up to 50% today, without requiring the slightest modification to current aircraft. As such, **these non-fossil fuel biofuels are considered to be the best available means of significantly reducing the environmental impact of air transport, without waiting for the aircraft of the future.**

A draft European regulation, which will probably be ratified in the coming months, **plans to make their incorporation mandatory on all flights departing from an airport in the European Union, at a rate of 2% from 2025**, 6% in 2030, 20% in 2035, 32% in 2040 and 63% in 2050. This is part of the "Fit for 55" plan, which aims to reduce greenhouse gas emissions in Europe by 55% by 2030 and to achieve a zero balance by 2050.

For Air France alone, 1% biofuels would reduce its CO2 emissions by about 30,000 tons per year, or the equivalent of 550 flights from Paris to New York. And this is only the first step. As production increases, Air France-KLM plans to increase to 5 percent by 2030 and up to 63 percent by 2050.

However, **these biofuels have one major drawback**. In addition to the fact that they are not yet sufficiently produced to meet the needs of air transport, **they are currently four to eight times more expensive than kerosene**. For France alone, the incorporation of 2% biofuels would represent an annual additional cost of 240 to 280 million euros, according to Ben Smith, the country's director general. This would further damage the group's accounts.

(...)

My comment: *Between 2005 and 2019, Air France has reduced its CO2 emissions by 6%, despite the increase in traffic. The next step is to achieve a 15% reduction in CO2 emissions by 2030 compared to 2005.*

The other airlines in the Air France-KLM group have the same objective.

To achieve this, the most obvious action is fleet renewal. Each new generation of aircraft saves 15 to 20% of kerosene, thus reducing CO2 emissions in the same proportion.

Other solutions are being studied or implemented. You will find a dozen of them in [my letter 835](#) on sustainable aviation.

The companies of the Air France-KLM group also aim to achieve zero net emissions by 2050. Do we have the means to achieve this?

To date, the answer is no. But all hope is not lost.

Sustainable fuel suppliers have launched investment programs to produce more sustainable fuels.

Researchers are also trying to develop technologies to capture CO2

from the atmosphere and turn it into synthetic kerosene.

> **Recapitalization of Air France-KLM: the conditions that must be met to trigger it**

(source La Tribune) January 8 - **Finding the right window to launch the recapitalization. This is the challenge for Air France-KLM in the coming months.**

(...)

Since the end of December, Air France-KLM has set the target for its recapitalization on an ideal goal of six billion euros, according to Les Echos (...). According to an analyst, it is likely that the final amount is (...) with a need of about four billion euros of new money to which will be added the transformation of the shareholder loan of one billion euros granted by the Dutch state to KLM in quasi-equity (mechanism already used by Air France during the recapitalization of 2020).

This contribution should enable the group to face a complicated situation, with more than 10 billion euros in net losses accumulated over the last two years and a large negative equity of 3.8 billion euros as of September 30. And this for a share capital of 643 million euros. The amount of shareholders' equity having become less than half of its share capital, the group has legally until 2023 to turn things around.

Several observers agree that raising an amount of new money of around four billion euros will not be possible in one go, as reported in La Tribune in December. L

(...)

As for the end of 2021, the group could go fast if the conditions are met, in particular a rise in the stock price. Last year, the minimum was set at 5 euros per share according to a good connoisseur of the company. It is now slightly above 4.2 euros, with an increase of about 6% over one month. So we still have to climb a few steps to get there.

(...)

Among the potential participants in the round table, the French State seems unavoidable. (...) The Dutch government might be tempted to follow to avoid further dilution. (...) The participation of China Eastern Airlines is also uncertain. (...) An investment by Delta Airlines seems unlikely.

A part of the capital increase could also be pre-placed with several institutional investors. At the end of last year, Air France-KLM carried out intensive work with investment funds, and even family offices, located in France, the Netherlands and the United Kingdom. Finally, if it

wants to reach two billion euros, the group will also have to address the markets.

As an analyst notes, **Air France-KLM will have to convince investors to follow, especially "long only" institutional investors** (who bet on long-term growth of the share value).

(...)

If it wants to open the door to the capital markets like Lufthansa, Air France-KLM will have to significantly improve its visibility despite the uncertainties that are still very present in the air transport sector.

(...) **There are nevertheless grounds for hope**, with a winter that has not been as harsh as expected just a few weeks ago: there have been **no waves of cancellations**, and Air France has managed to maintain an offer in December and January of around 80% of the 2019 level, and even 90% on the United States during the holidays. **Overseas has not collapsed so far** - even if the period ahead proves more complicated with a sharp slowdown in bookings at the end of 2021 - **and Africa remains solid**.

(...)

***My comment:** The Air France-KLM group regularly communicates on its recapitalization needs.*

The only comment I can make at this stage is obvious: a high share price will facilitate the recapitalization operations.

> **The new Alitalia faces headwinds as it takes off**

(source Les Echos) January 7 - **The clouds have still not cleared in the Italian sky.** While ITA Airways, the successor to the national historic carrier, started operations on October 15, as a new wave of the Covid-19 pandemic began to swell, **the new year began with the liquidation of Air Italy. The former Meridiana, 51 percent owned by Prince Aga Khan and 49 percent by Qatar Airways, saw its 1,322 employees receive their pink slips this week.** Launched in February 2018, the airline, which was accumulating hundreds of millions of euros in losses, will not have benefited from the difficulties of Alitalia.

If, for ITA, the European Commission demanded a clean break with the bankrupt national airline, this injunction has only been partially respected. Thus, 83% of the Milan airport slots and 43% of the Roman slots were retained. But the new company has undergone a serious slimming down, with a significant reduction of the fleet and of the payroll. **ITA has 2,141 employees, far from the 10,500 employees of Alitalia.** "At least 1,000 more people will be hired in 2022," promises ITA, which has 52 aircraft, half the fleet of the former company.

The president of ITA Airways, Alfredo Altavilla, expects "this year to embark more than 13 million passengers, a goal that is, however, suspended on the evolution of the health crisis. At the end of 2021, the number of passengers transiting the Italian skies has contracted by 65% compared to 2019. **Faced with competition from low-cost airlines, which dominate the market for short and medium-haul flights, ITA wants to give priority to the more profitable long-haul flights.**

However, due to a lack of resources, there will be only one intercontinental flight until next spring, to New York. **In order to strengthen itself, the young company is looking for a partner likely to enter its capital before mid-2022, which would perhaps allow it to reach the goals set by its industrial plan.** It aims at profitability by the second quarter of 2023 and a turnover of 3.3 billion euros in 2025. Andrea Giuricin, professor of transport economics at the University of Milan-Bicocca, is dubious about the fact that Lufthansa is often cited as a possible supporter. "That's what the Italian government is hoping for, but **what interest will the German company have in taking over a company that has just been born and is already in crisis?** According to him, "it is obvious that ITA is losing tens of millions of euros and that it is too small for its ambitions.

ITA can only hope that the Italian government will intervene," says the economics professor. It has begun to do so by granting the company more favorable conditions for its labor contracts compared to those of low-cost carriers. "But this will not be enough," fears the academic.

My comment: *The story of the first Italian airline is a never-ending soap opera.*

A few weeks after signing cooperation agreements with Air France-KLM, the CEO of ITA Airways has declared his love for Lufthansa. The German company is ready to take a 15% to 40% stake in ITA Airways.

However, the new company is struggling to take off. But it has something to attract: it has kept many slots in Milan, a city where business customers are numerous, unlike Rome.

> TAP Air Portugal: Europe gives the green light to the €71.4 million aid from the Portuguese government

(source Tourmag) January 5 - **The European Commission has judged that the Portuguese state aid of €71.4 million to TAP Air Portugal is proportionate**, i.e. that it covers the operating and profitability losses

linked to the health crisis.

According to a press release, "The Commission considers that the coronavirus pandemic is an extraordinary event due to its exceptional and unforeseeable nature and its major repercussions on the economy. Therefore, it is justified that Member States take exceptional measures to compensate for the damage directly linked to the pandemic.

(...)

> **A350 painting: Qatar Airways wants 556 million euros**

(source Air Journal) January 7 - **Qatar Airways is seeking \$618 million in damages from Airbus for grounding its A350s affected by a paint problem**, plus \$4 million for each additional day of downtime.

The aircraft manufacturer "refutes in full" these claims.

(...)

Following the grounding of 21 Airbus A350-900 and -1000, "ordered" by the Qatar Civil Aviation Authority (QCAA) last August, Qatar Airways claims damages of 618 million dollars (546 million euros), plus 4 million dollars per day of additional grounding. And it is asking the courts to prohibit all A350 deliveries until the problem is fixed.

(...)

The QCAA, which had remained silent until then (...) is said to have told Qatar Airways that the deterioration of the aircraft was "disturbing, even alarming", stating that it was "deeply concerned" that the safety of flights could be compromised.

When asked (...), an **Airbus**

spokesman **said the company "totally refutes" the allegations made by Qatar Airways, repeating that it is only a cosmetic problem that does not justify the grounding or the refusal of deliveries.**

The aircraft manufacturer had itself decided to resort to arbitration in early December, denouncing "the current lack of knowledge of the non-structural surface degradation of its A350 fleet by one of its customers".

Airbus points out that the European regulator EASA did not judge the damage as a threat to flight safety, and accused the plaintiff of refusing short-term corrective measures accepted by other customers.

A paint problem had indeed been noted by Finnair as early as 2016, followed since by Cathay Pacific, Etihad Airways, Lufthansa and Air France (as part of the maintenance of Air Caraïbes aircraft). In particular, the German airline has sent three A350s back for repainting, free of charge under warranty, but none of them have grounded the affected aircraft.

(...)

It should be remembered that Qatar Airways has an additional 23 A350-1000s on its order book, as well as 50 A321neo aircraft (including ten

A321LRs) to be delivered from this year onwards, which have not been involved in the dispute until now.

My comment: *No civil aviation authority has ordered the grounding of the A350s concerned.*

In this case, it seems that the CEO of Qatar Airways, which like others has grounded aircraft during the health crisis, is trying to make Airbus pay for it.

Nothing ventured, nothing gained.

> **We explain the controversy about "ghost flights" without passengers in the European airline sector**

(source Franceinfo) January 9 - **Is the European sky doomed to be crossed by planes without passengers?** The controversy surrounding this environmentally absurd practice has not waned since the words of the CEO of German airline Lufthansa in late December. **"Due to the low demand in January, we would have reduced even more flights, but we have to make 18,000 more unnecessary flights this winter,"** **Carsten Spohr** told the Frankfurter Allgemeine Sonntagszeitung (in German) shortly before Christmas.

This announcement scandalized many Internet users (...). But the indignation quickly spread to political leaders, with Green MEP Karima Delli going so far as to ask the European Commission to intervene to prevent airlines from carrying out such "ghost flights".

In her letter, the Green MEP, who is also chairwoman of the European Parliament's Transport and Tourism Committee, denounces the **"use it or lose it" rule that governs the use of airline slots at airports.**

Clearly, Air France, Lufthansa, Iberia, Ryanair, etc. have precise time slots to take off and land their planes in the different airports of the Old Continent. **Before the Covid-19 crisis, it was imperative for a company to use at least 80% of these slots, otherwise they would be redistributed to the competition.**

Due to the drastic drop in passenger numbers caused by the health crisis, **the European authorities suspended the "use it or lose it" rule in March 2020** in order not to penalize airlines too much. Faced with the resumption of traffic in 2021, the **European Commission decided in March to set the threshold for the use of slots at 50%**, triggering the anger of airlines who still consider it too high, in times of pandemic.

To justify the "18,000 unnecessary flights" of Lufthansa, the CEO of the German giant puts forward the rigidity of the European Commission's

rules in a situation of low demand.

(...)

Is the European Union guilty of imposing "ghost flights" on companies? Not true, says Brussels: "The objective of slot reduction in the EU is precisely to ensure that airlines can keep their historical slots without having to fly empty when health restrictions prevent passengers from traveling," the European Commission defended itself to Le Parisien on Friday, January 7.

(...)

In addition, with a view to returning to the situation prior to the pandemic (the famous initial threshold of 80%), **the European Commission agreed on December 15 to gradually raise this threshold from 50% to 64%, between March and October 2022. Negotiations will open in the coming weeks for the next period, from October 2022. "This is why Lufthansa is making itself heard,"** analyzes Jean-Baptiste Djebarri on Twitter. With the uncertainty generated by the Omicron variant, the tug of war between airlines, public authorities and airports is far from over in the battle for slots.

My comment: Some readers wrote to me to express their anger following the remarks of the CEO of Lufthansa.

This article should reassure them: Neither Lufthansa, nor any other airline in Europe will have to take off empty planes to keep their precious slots.

> **Bordeaux does not give up to re-establish an air shuttle to Orly**

(source La Tribune) January 6 - Previous letters from Bordeaux's economic and political leaders in 2020 had remained unanswered. The motion voted by the metropolitan elected officials in 2021 had no more effect. But the complaint filed last September by the Union of French Airports (UAF) and, above all, the recent decision by the European Commission to open an investigation to examine the legality of abolishing French air routes when there is a rail alternative within 2.5 hours has rekindled some hopes in Gironde.

Patrick Seguin, the re-elected president of the CCI Bordeaux Gironde, intends to convince the presidents (PS) of the New Aquitaine Region and Bordeaux Metropole, Alain Rousset and Alain Anziani, but also the ecologist mayor of Bordeaux, Pierre Hurmic, **to send a new joint letter to the Élysée, Matignon and the Minister of Transport.**

"I hope that this letter will bring everyone together and that we can send

it by the end of January. There is **a local consensus to ask for the return of four daily round trips, instead of the ten rotations that existed before the Covid**. I recall that the Bordeaux-Orly shuttle was 556,000 passengers per year in 2019," said the head of the Gironde Chamber of Commerce and Industry on Wednesday, January 5, determined to have more influence on political decisions.

If he should not have too much trouble convincing Alain Rousset and Alain Anziani, both supporters of a partial return of the shuttle, it will be more complicated on the **side of the Bordeaux city hall. When contacted by La Tribune, the ecologist Pierre Hurmic did not confirm that he was associated with this approach, assuring us that he was sticking to his position of asking for the re-establishment of a single, or even two, daily round trips.**

For his part, Patrick Seguin (...) assures that "three airlines in addition to Air France are in line to recover the slots freed by the end of the shuttle and which have not yet been reallocated.

In reality, these slots do not have to be reallocated. As they are not attached to a particular route, the French company has been able to keep them and reallocate them to other destinations or transfer them to its low-cost subsidiary Transavia. And if some companies could position themselves on this route, they would still have to have facilities at both Bordeaux and Orly airports, which are already very busy. The low-cost company easyJet is in this situation.

And if this new letter does not seem able to change the position of the State, constant since the spring of 2020, **the authors also hope to take advantage of the political context counting on the fact that a new tenant at the Elysee Palace and / or a new head of government could arbitrate differently after the elections of the spring**. For the time being, the ball is in the court of Brussels, which has assured us that it wants to move forward quickly on this sensitive issue.

As a reminder, the provision of the Climate Law which abolishes French air routes as soon as there is a rail alternative in less than 2.5 hours (excluding connecting traffic) should come into force in March 2022, but airlines have already stopped some of their flights, such as Orly-Bordeaux or Orly-Nantes. The law essentially concerns four routes: Orly-Lyon, Orly-Nantes, Lyon-Marseille, and the most important one Orly-Bordeaux. Bordeaux Metropole estimates that the aeronautical industry accounts for 35,000 jobs in its territory. **But with the arrival of the LGV in 2017, putting Bordeaux at 2 hours from Paris, the Air France shuttle was already in financial difficulties before the Covid crisis.**

My comment: *The approach of the elected officials of Bordeaux is akin to a rearguard action.*

You only have to look at what happened to the Orly - Strasbourg and Orly - Lyon connections before the introduction of the Climate Law to understand.

From Strasbourg, when Air France stopped its flights to Paris, no airline company tried to take over the route, which was not profitable.

In Lyon, where Air France had sharply reduced the number of flights to Orly, no other airline tried to take over.

In each case, the presence of a TGV link made the operation unviable.

Beyond the constraints imposed by the Climate Law, the reopening of a link between Bordeaux and Orly would not be a profitable operation for an airline.

And there is no question of subsidizing it as part of a public service obligation (PSO).

Indeed, the route on which public service obligations are imposed must be a regular route between two airports in the European Union, considered "vital for the economic and social development of the region served by the airport"; it is either a route that contributes to the opening up of a peripheral or developing region, or a route with low traffic.

This would not be the case for the Bordeaux - Orly line.

End of the press review

> Advice for employees and former employees who are shareholders

You will find on my [navigaction](#) site the modalities of access to the managers' sites.

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 **4.290 euros** on Monday 10 January. **For the third week in a row, it is up strongly by +5.67%.**

Before the coronavirus epidemic, Air France-KLM shares were at 9.93 euros.

The analysts' average (consensus) for AF-KLM shares has risen to 3.45 euros. The analyst Citi, who had set a target price of 1 euro, has just raised it to 4.20 euros.

The highest price target is now 5.50 euros, the lowest 1.30 euros.

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 **up \$3 this week to \$81.**

At the end of October 2020, it was at a low of \$37.

At \$86 on October 25, Brent had reached a level not seen since 2014, supported by supply disruptions and underlying demand.

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](#)

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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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