

AF-KLM invests for the first time in a biorefinery

I Letter from François Robardet

At the forefront of more responsible European aviation, we bring people together to build the world of tomorrow

(Air France-KLM Group raison d'être).



former Director Air France-KLM

Representative of current and former employee shareholders PS and PNC

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Editorial

Dear readers,

This week sees the start of the process of opening up Air France-KLM's capital to current and former employees.

You will find more information at the end of this newsletter, in the Good to know section.

*Please note that **this information does not constitute an invitation to sell or a solicitation to buy Air France-KLM shares.***

Monday's Press Review

> Air France-KLM invests for the first time in a biorefinery

(source Les Échos) November 10 - **Air France-KLM takes another step forward in its efforts to decarbonize its business.** For the first time, the airline group is preparing to invest several million dollars in a refinery in the United States.

Air France-KLM has decided to participate financially in the construction of the first biorefinery of the American start-up DG Fuels, with which it had already signed, a year ago, a purchase commitment for the supply of 600,000 tonnes of sustainable aviation fuel (CAD) over the period 2027-2036.

This first investment by Air France-KLM in biofuel production remains modest, however: of the order of \$4.7 million, intended to finance the project's final feasibility studies, before the final decision expected in early 2024. Added to this is an option to purchase 75,000 tonnes of CAD per year, starting in 2029, in addition to the 600,000 tonnes over ten years signed in September 2022.

Air France-KLM's objective is not to generate a new source of revenue, but to have sufficient sustainable aviation fuel to meet its environmental commitments.

Air France and KLM have pledged to use at least 10% CAD by 2030, which is more than the 6% stipulated by the new European regulations for the same date. But so far, Air France has only managed to secure 4.5% of this 10% CAD, from three main suppliers: Finland's Neste (for 1 million tonnes), TotalEnergies (for 0.8 million tonnes) and DG Fuels, for 0.6 million tonnes, over a ten-year period.

Hence the importance for Air France-KLM of seeing DG Fuels' project through to a successful conclusion. The young American company has set itself the target of inaugurating a first production site in Louisiana in 2026, with an initial capacity of 454 million liters of CAD per year, or around 364,000 tonnes of aviation fuel. This is

more than TotalEnergies

' annual DAC production target for France by 2024-2025.

What's more, the DG Fuels manufacturing process is interesting in that it uses a raw material other than the vegetable oils and animal fats used by almost all CAD producers today, and for which there are limited quantities available.

DG Fuels has developed a new process, for which it holds the patent, which combines the use of green hydrogen, produced from solar or wind power, and wood cellulose, derived from forest industry and agricultural waste. This type of CAD, part of the new family of synthetic fuels, would not only consume less biomass, but also emit less CO₂ during the production cycle.

DG Fuels' project also has the advantage of being able to benefit from the tax incentives introduced by the US government to encourage the production of sustainable aviation fuels.

Washington has set itself the goal of producing more than 11 billion liters of CAD in the United States by 2030, compared with around 598 million liters today. To achieve this, CAD producers benefit from a tax credit of up to \$1.75 per gallon (3.78 liters), enabling airlines to pay significantly less for their biofuels in the USA. In 2022, a tonne of CAD cost around \$2,000 in the USA and 5,000 euros in France.

All these advantages explain Air France-KLM's interest in DG Fuels, and have also attracted the attention of Airbus. Last September, the aircraft manufacturer announced a partnership with the American start-up DG Fuels, under which Airbus undertook to purchase part of its aviation fuel production for the benefit of its customers.

Since then, other major international investors have joined the project, including two Japanese investment funds, enabling DG Fuels to demonstrate its confidence in its ability to complete the financing of this project, estimated at over 4 billion dollars.

My comment: It's hard to make sense of the plethora of figures in this article, with different units:

- *liters or tons of fuel,*
- *of annual production,*
- *production for periods of several years.*

Nevertheless, I recommend reading it, as it provides a good summary of the subject of sustainable aviation fuel supply.

To get a clearer picture, it's worth remembering that :

- *the Air France-KLM group consumes around ten million tonnes of kerosene every year,*
- *the target of 10% sustainable aviation fuels by 2030 represents one million tonnes,*
- *Air France-KLM has secured the purchase of around 400,000 tonnes a year by this deadline.*

- *With one caveat: some of the contracts are memorandums of understanding (MOUs).*

Good to know: An MOU is either non-binding, or binding only for certain non-substantive elements.

An MOU generally establishes the objectives of the collaboration, and defines the roles and responsibilities of the parties, the scope of the project and its expected results, with the aim of facilitating further negotiations towards a more comprehensive binding agreement.

> **U.S. retaliates against slot constraints at Schiphol**

(source ch-aviation, translated with DeepL) November 6 - **The U.S. Department of Transportation has hit back at the Dutch government's decision to restrict slots at Amsterdam Schiphol** by ordering Dutch carriers KLM Royal Dutch Airlines, Martinair (Netherlands) and TUI fly (Netherlands) to submit the schedules of all their services to and from the U.S. for review within seven days.

The November 2 order follows what the Ministry of Transport **described as "illegal experimental regulations"** implemented by the Dutch government when Airport Coordination Netherlands (ACNL), on the same date, reduced or denied slots at Schiphol for the IATA summer 2024 season (end of March to October 2024). As a result, Airlines for America (A4A) member carriers lost 339 historic slots at Schiphol, while airlines without historic slot allocations, such as JetBlue Airways (B6, New York JFK), were denied full slots for the 2024 summer season. The Ministry of Transport's order formally approves the complaint filed jointly by A4A members and JetBlue against the Dutch government's controversial plan to cap capacity in order to reduce noise and emissions at the European hub. **This experimental program could come into force next year, subject to approval by the Dutch cabinet and the European Commission, which is currently assessing whether it complies with the balanced approach required by EU regulations.**

Following the ANCL decision, the Ministry of Transport stated: "The Ministry believes that, because the Netherlands has not followed the balanced approach, **the Phase 1 capacity reduction measures** undertaken at AMS constitute unjustifiable and unreasonable activities under the International Air Transportation Fair Competitive Practices Act (IATFCPA), and **are in violation of the Air Transport Agreement between the United States and the European Union.**

(...)

The Ministry of Transport, the Dutch government and the European Commission will consult on the matter on November 13. In the absence of significant progress, Washington has warned that it stands ready to impose other appropriate measures.

(...) For

its part, Delta Airlines (DL, Atlanta Hartsfield Jackson) has confirmed to ch-aviation

that it has initiated legal proceedings against ACNL's decision, which it considers contrary to national, European and international regulations. "(...) **We believe it is possible to balance sustainability priorities with passengers' desire to travel and connect with people around the world** - something we have demonstrated through a vigorous commitment to help decarbonize our operations and reduce noise," said a spokeswoman. (..
.)

KLM finds itself in the crosshairs of its own government's controversial plan, and also risks sanctions from the Netherlands' various "open skies" partners. The Dutch national airline is leading an industry-wide campaign against the Dutch plan, supported by the International Air Transport Association (IATA), among others. KLM, JetBlue, A4A and other carriers and groups are jointly party to proceedings before the Dutch Supreme Court aimed at ending the scheme.

A KLM spokesman said the company was disappointed by the number of slots allocated for the summer schedule. "This represents around 17 fewer flights (legs) per day than before the Covid crisis. **KLM is concentrating on the appeal in cassation to show that the procedure followed does not comply with laws and regulations.** In addition, the EU's Balanced Approach procedure is currently underway, under which KLM is demonstrating, with its "cleaner, quieter, more efficient" plan, that it is possible to reduce noise pollution without drastically reducing flight movements.

***My comment:** The tug-of-war between Schiphol's user airlines and the Dutch government takes a new turn.*

The US government is considering reducing the number of slots allocated to KLM at New York airports. The figure of 1,000 cuts is circulating.

This would be a major blow for the Dutch airline, for which the routes concerned are among the most profitable.

> The MRO market will exceed 134.07 billion dollars by 2030

(source Air & Cosmos) November 7 - According to The Insight Partners, the **global aircraft maintenance, repair and overhaul (MRO) market is expected to grow from US\$91.15 billion in 2022 to US\$134.07 billion in 2030**, at a compound annual growth rate of 4.9% from 2022 to 2030. Key players in the aircraft MRO market studied in this analysis include AAR, Barnes Group Inc, Collins Aerospace, Delta TechOps, FL Technics, UAB, GE Aviation, Lufthansa Technik, Rolls-Royce plc, Singapore Technologies Engineering Ltd, and Turkish Technic Inc. In 2023, ST Engineering announced that its Commercial Aerospace business had won multi-year contracts to supply Japan Airlines with its Maintenance-By-the-Hour (MBH) solutions, reinforcing a long-standing relationship with the airline in integrated MRO support.

The growing presence of MRO service providers in emerging economies is driving growth in the aircraft MRO market. Emerging economies, such as those in Asia-Pacific, are strongly focused on extending MRO services to commercial as well as military aircraft companies. Major aircraft MRO players in Asia-Pacific include Guangzhou Aircraft Maintenance Engineering Co, Ltd (GAMECO), China; MTU Maintenance; and ExecuJet Haite Aviation Services China Co, Ltd.

Significant spending on aviation infrastructure, economic growth and increasing passenger numbers are driving the adoption of aircraft maintenance services. In addition, the growing number of middle-class travellers, especially in Asia-Pacific countries such as China, Singapore and India, is the main factor contributing to air traffic growth, which in turn increases the need for aircraft maintenance services in the region.

(...)

My comment: Air France Industries KLM Engineering & Maintenance (AFI KLM E&M) is not included in the scope of the study.

But rest assured: with a workforce of over 12,800, AFI KLM E&M is a major player, supporting nearly 3,000 aircraft operated by 200 major airlines.

> **ITA-Lufthansa: The ITA-Alitalia toxic link**

(source Avionews, translated with DeepL) November 10 - **Brussels' assessment of the negotiations between the Ministry of Economy and Finance (MEF) and the German aeronautics group Lufthansa concerning the privatization of Italy's national airline ITA Airways is at a standstill.** Brussels continues to request new documents to determine whether the bid threatens free competition in the European market. It may be that relations between ITA and Alitalia are casting a negative shadow over this operation.

The slowdown is also due to the fact that Margrethe Vestager has left the Commission's helm to Didier Reynders, for a pro-tempore post, but that the files are in fact in the hands of French Director General Olivier Guersent. A situation which lengthens deadlines and multiplies the possibilities of political manoeuvring behind the scenes: France is in fact hostile to concessions on air transport to Germany.

That said, **the German group has not formally notified the European Commission of the agreement signed in June with the MEF.** Why not? The pact provides for several stages: the sale of 41% of the Italian company (325 million euros), then an option to go up to 100% with a total outlay of 829 million euros. From the outset, Lufthansa knew that Brussels would ask it to reduce its long-haul flights and give up certain airport slots in order to ensure free competition in European air transport.

According to some industry experts, **Lufthansa CEO Carsten Spohr would not be interested in concluding the agreement, whatever the conditions demanded**

by Brussels. However, his firm stance is not solely linked to the abandonment of airport slots and profitable long-haul flights. In fact, the Germans are unwilling to pay out of their own pockets for the rehiring of over 1,000 former Alitalia employees who have taken legal action against ITA Airways, demanding to be rehired by the new national airline.

The Alitalia-ITA relationship is like a toxic bond that stands in the way of privatization. If the European Competition Commission does not rule, Lufthansa could pull out at any time. **That's why, in recent months, the Meloni government has asked the Aponte family, which runs the Mediterranean Shipping Company (Msc) group specializing in transport and logistics, for a possible "commitment in the national interest".**

***My comment:** Lufthansa has set one condition for its takeover of ITA Airways: that there be no link between ITA Airways and the defunct Alitalia.*

The reason: to prevent ITA Airways from having to take on former Alitalia employees.

Over the past two years, 1,147 former Alitalia employees have taken legal action in Rome or Milan against Alitalia, which dismissed them.

Initially, Rome's Labour Court ordered that 250 of them be reinstated by ITA Airways.

If all 1,147 employees were to be rehired, the cost to Lufthansa would be between €100 and €200 million, on top of the €325 million it was prepared to pay to acquire the Italian airline.

The Alitalia soap opera is not about to end.

> **More Bretons on board? Volotea to take over Finistère's skies**

(source Le Figaro) November 10 - There seems to be no stopping Volotea.

Founded just ten years ago, Spain's Volotea, which this year became the leading airline in the French domestic market in terms of routes - overtaking behemoths Air France-KLM and EasyJet - is **clearly showing its ambitions with the announcement of its twentieth base in Europe, and its ninth in France.**

Having just celebrated 10 years of operations in the Brittany region, and confirming its position as the leading airline at Aéroport Brest Bretagne, the Spanish carrier is promising to add nearly 400,000 seats and 13 new European routes by 2024.

Forgoing long-haul routes, the low-cost airline has preferred to focus on so-called "transversal" routes, linking provincial towns without passing through Paris airports. And it's working: **France is its biggest market, with almost 6 million seats.**

(...)

Since its arrival in Brest in 2013, the airline has carried over 660,000 passengers

and has significantly increased its capacity, with nearly 126,000 seats on offer by 2023. Its average load factor of 95% testifies to the relevance of its routes and the confidence of passengers.

(...)

For the time being, nothing seems to be stopping Volotea, whose ambition is to open 800 new European routes by 2028. Its accounts are in the black - the company is forecasting sales of close to 700 million euros this year - and this should help it to achieve its goal. **However, it is not immune to criticism.**

Rapid expansion raises the question of its ecological impact in a context of growing awareness of environmental issues. **Will the company's commitment to sustainability be enough to offset its growing carbon footprint? And if so, at what cost to passengers?**

***My comment:** Beyond the case of Volotea, it's the development forecasts of European low-cost airlines that are of particular concern.*

In the short term, they expect to grow much faster than their long-haul counterparts, while decarbonization options are more focused on the medium to long term.

Is this acceptable?

> **Virgin Atlantic on track for historic first 100% SAF transatlantic flight**

(source Air & Cosmos) November 8 - **"Flight100". This is the name of the 100% SAF transatlantic flight that Virgin Atlantic plans to operate between London-Heathrow and New York JFK on November 28.** For this historic flight, the British company has just obtained a green light from the UK Civil Aviation Authority. This is a major step forward for the flight, but Virgin Atlantic will now have to obtain overflight clearances from the US Federal Aviation Administration (FAA), the Irish Aviation Authority and Transport Canada.

For the time being, the authorized limit for biofuel on commercial airliners is 50%, which means it has to be blended with conventional fuel. SAF (sustainable aviation fuel) is capable of reducing greenhouse gas emissions by 70-80% compared with fossil kerosene, over its entire life cycle.

Authorization from the Civil Aviation Authority follows a program of technical reviews by the regulator, who analyzed various aspects of the flight project, including a ground test with Rolls Royce running a Trent 1000 engine on 100% SAF. The preparation of the flight, led by Virgin Atlantic, mobilizes a consortium of companies including Boeing, Rolls-Royce, and BP in particular, which aims to reinforce SAF as a real alternative to fossil fuel.

The Civil Aviation Authority has been working very closely with the companies in the consortium, and will continue to work with the airline industry to learn more about the performance and impact of FAS.

(...)

My comment: We're talking here about the first transatlantic flight.

But in recent years, flights using 100% sustainable aviation fuel (SAF) have already been operated, notably by Airbus with an A380 (in 2021).

To understand the importance of these 100% SAG tests, it's worth remembering that SAG and kerosene have a number of differences.

=== Sources: Safran and Nicolas Jeuland

DACs produced from hydrotreated esters and fatty acids, mainly derived from used cooking oils, are unique in that they contain virtually no sulfur or aromatics.

Safran Aerosystems

teams have carried out tests. "Biofuels have the particularity of being free of aromatics, which contribute to sealing, and also free of sulfur, which is a natural lubricant.

This is a positive point, since sulphur and aromatics are the main vectors of non-volatile particle emissions that cause condensation trails.

On the negative side, aromatics tend to swell certain joints in fuel systems. It is therefore important to ensure that their absence does not cause these seals to shrink, which could lead to leaks, for example. The same applies to sulfur, which contributes to engine and fuel pump lubrication.

As a result, certain pump parts and seals need to be adapted.

The aim of the tests is to check that the modifications made to use 100% CAD are effective and sufficient.

> **Denmark also wants to introduce a flight tax**

(source ANP) November 9 - **Denmark is also planning to introduce an aviation tax from 2025.** The revenues, which will gradually increase once introduced, are intended to help aviation switch to cleaner fuels, according to the government. Part of the revenue will also go to Denmark's smaller airports, which are expected to suffer as a result of the tax on airline tickets.

When it is introduced in 2025, the average charge will be DKK 70 (€9), but by

2030 it should rise to DKK 100 (€13) on average. **This tax should then generate annual revenue of €160 million.**

The tax on intra-European flights will be around €8 in 2030. **On medium-haul flights, the Danes will then levy a tax of 32 euros, while long-haul flights to destinations such as Bangkok will bring in 52 euros for the taxman.**

Announcing the plans, Climate Minister Lars Aagaard referred to similar taxes in other European countries. The Netherlands has also been applying a flight tax to all passengers departing from a Dutch airport since 2021. This tax rose sharply at the beginning of the year, from just under 8 euros to over 26 euros.

My comment: Denmark is neither the first nor the last country to introduce an "ecological" tax on flights.

For a list of taxes of this type already introduced, please refer to my [letter n°929](#).

End of press review

> **Air France-KLM share price trend**

Air France-KLM shares closed at **12.158 euros** on Monday November 13. It is up this week by **+3.16%**.

In two weeks, the Air France-KLM share price has risen by more than 11%.

It was 12.53 euros on January 2, 2023, and 17.77 euros on June 19, 2023.

The analysts' 12-month average (consensus) for AF-KLM shares is 18.16 euros (it was 15.0 euros at the beginning of January). The highest price target is 23.00 euros, the lowest 11.0 euros. I only take into account analysts' opinions subsequent to the May 2022 capital increase.

You can find details of the analyst consensus on my blog.

No comment

> **Fuel price trends this week**

The price of a barrel of Jet Fuel in Europe is down -\$8 to \$113. It was \$94 at the end of June, and \$79 before the outbreak of war in Ukraine.

Brent crude oil (North Sea) is down -\$4 to \$82.

From mid-February 2022 to the end of July 2022, it was yo-yoing between \$100 and \$120. Since then, it has oscillated between \$75 and \$99.

My comment: *The spread between Jet Fuel in Europe and Brent crude has fallen this week, from \$35 to \$29 a barrel.*

It was around \$15 before the conflict in Ukraine. In 2022, at the start of the Ukrainian conflict, the spread was close to \$50.

Good to know

> Advice for current and former employee shareholders

You'll find [details of how to access the managers' websites](#) on my [navigation](#) site.

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

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

My comment: *If you have shares in one of the funds managed by Natixis Interépargne, remember to log in to your account manager once a year, to avoid it being considered inactive.*

Please note: After 5 years of inactivity, Natixis Interépargne will send a letter/email to those concerned asking them to log in to their account or to call Natixis Interépargne in order to reactivate their PEE account.

After 10 years of inactivity, your account is transferred to the Caisse des Dépôts et Consignations.

To unblock your PEE, click [here](#).

> FCPE management

When you invest in one of Air France's FCPE funds, you obtain shares in these funds. You do not hold shares directly.

It's the supervisory boards, which you elected in July 2021 for a five-year term, that manage the funds and make the decisions.

The Aeroactions, Majoractions and Concorde funds only hold Air France shares.

The Horizon Épargne Actions (HEA), Horizon Épargne Mixte (HEM) and Horizon Épargne Taux (HET) funds manage portfolios of various equities.

My comment: *If you'd like to find out more about how the various Air France FCPEs are managed, please [visit the Air France-KLM Employee Share Ownership section of my website](#).*

> Air France-KLM, the employee shareholding operation gets underway

Air France-KLM has announced its intention to launch 'Partners for the future', an employee shareholding operation offered to around 75,000 eligible employees in 20 countries, to strengthen the link between the Group and its employees.

Around 95% of the airline's workforce is eligible to participate. The proposed shares will be issued as part of a capital increase, involving a maximum of 3% of Air France-KLM's share capital.

According to the indicative timetable, the decision setting the subscription price will be taken on November 7, the subscription period will run from November 13 to 24, and the capital increase will take place on December 21, 2023.

My comment: *Employees of the Air France-KLM group in some twenty countries are eligible.*

In France, retirees and early retirees still holding assets in the PEE/PEG on the last day of the subscription period can subscribe, but do not benefit from the matching contribution.

You can find all the information you need on the [dedicated website](#).

My comments: *If you wish to participate in the operation, the key point is the 5-year lock-in period.*

The first rule is to invest only money you won't need in the next 5 years.

The second rule is to accept a possible loss.

And don't forget that advisors don't pay.

Details

This information does not constitute a solicitation to buy or sell Air France-KLM shares.

Please feel free to react to this press review, or to send me any information or thoughts that will help me better carry out my role as a director of the Air France-KLM Group.

By return, you can ask me any questions you may have about the Air France-KLM group or employee share ownership...

See you soon.

For the latest Monday press reviews, [click here](#).

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| François Robardet

former Director of Air France-KLM.

You can find me on my twitter account @FrRobardet

At the time of our election, Nicolas and I received the support of the CFDT and the UNPNC.

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

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