

The government is considering a further increase in airline ticket taxes



## I Letter from François Robardet

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### **Editorial**

*Dear readers,*

*I would like to remind you that the Annual General Meeting of Air France-KLM will be held on Wednesday June 5, 2024 at 2:30 pm at the Hilton Hotel in Roissy. It will be webcast live on the Group's website.*

*All documents relating to the Annual General Meeting are available on the Air France-KLM Group website, on the Shareholders page, under Annual General Meeting. These include the resolutions that will be put to the vote of shareholders.*

***As in previous years, I invite those of you who are Air France-KLM shareholders to give me your proxy.***

***You will find the procedure in my [Flash n°102](#).***

*Thank you for your confidence and loyalty.*

*Happy reading  
François*

## Monday's Press Review

### > The government is considering a further increase in airline ticket taxes

(source Les Echos) May 23, 2024 - Airlines and members of the French government don't exactly speak the same language. While industry representatives spend their time alerting public authorities to the loss of competitiveness of French air transport, each congress of the Fédération nationale de l'aviation (Fnam) is an opportunity to announce, more or less clearly, a new tax increase on airline tickets.

The latest edition was no exception to the rule. In the midst of a presentation by the General Secretariat for Ecological Planning (SGPE), participants were surprised to learn that **government departments were considering a further increase in the so-called solidarity tax (TSBA), formerly known as the "Chirac tax"**, which would make air fares in France even more expensive.

International flights not taxed enough?

According to Frédéric Jobert

, deputy secretary of the SGPE, the **aim would be to close the tax gap "in euros per tonne of CO2" between domestic flights, intra-European flights and long-haul flights**, which are partly exempt from French and European taxation. The difference between domestic and international flights is already one to four (146 euros per tonne for the former versus 34 euros for the latter), and could rise to one to five by 2025, and as much as one to seven by 2030, in view of a revision of European energy taxation. "Frédéric Jobert explains:

"When you add up all the different systems, the level of implicit taxation is de facto much lower internationally, and we have no qualms about closing this gap. The question is rather which tool to use. That's what we're currently working on. It seems to me that the TSBA would be the most appropriate tool, but we will continue to discuss this with you over the coming weeks.

A measure in preparation for the PLF 2025

According to sources close to the matter, **discussions are already well advanced and could lead to a sharp increase in the TSBA on long-haul flights in 2025, currently set at 63.07 euros per flight in premium class and 7.51 euros in economy class**. Some have even suggested doubling the rate for business class. But we'll have to wait for the presentation of the 2025 Finance Bill to find out precisely, as the government has already partially backtracked on the issue of airline ticket taxation in 2023.

The government's line on air transport remains difficult to follow. As Transport Minister Patrice Vergriete

reiterated on Thursday, he has clearly distanced himself from the temptation to reduce CO2 emissions by going down-market. "We accept the development of air transport", he reaffirmed. **The Transport Minister also assured us that he had no plans for a new tax on air travel.**

A policy of "demand control"

However, the executive has not given up on regulating access to air transport through what **the deputy secretary of the SGPE calls "demand control"**, which basically consists of raising the price of air tickets via fiscal leverage. But without making air travel a mode of transport reserved for the most affluent social categories, and without exacerbating the competitive deficit of French airlines vis-à-vis their international competitors, Frédéric Jobert points out.

French airlines are concerned about this, however, as their market share in France, down to 38%, has fallen by 1 percentage point a year over the past 20 years. Between the additional costs of sustainable aviation fuels and taxes, the price differential between, say, a Nice-Singapore flight via Roissy-CDG and a major extra-European hub, such as Istanbul or Doha, can already reach several hundred euros. But the **TSBA cost differential also benefits other major European hubs not subject to this specifically French tax.**

We're already having trouble integrating European environmental constraints into our business model, in the face of competitors outside Europe who don't have the same constraints," points out Air France CEO Anne Rigail. Any Franco-French measure aimed at reducing traffic or adding taxes seems to me dangerous for the French flag".

**My comment:** *The increase in the Taxe de Solidarité sur les Billets d'Avion (TSBA) comes on top of environmental regulations. It will further weaken the French flag.*

*Air France will bear the full brunt of the increase in the TSBA, which will apply mainly to almost all the airline's long-haul flights.*

*Other airlines operating from Roissy Charles de Gaulle, notably those from the Gulf, will be little affected.*

*They will be able to choose not to apply it to the passengers concerned, by spreading the cost over all the passengers using their routes.*

*So how are we to interpret the signals sent out by the French public authorities?*

*The Minister of Transport declares that he is "committed to the development of air transport". Is he referring to French, European or global air transport?*

*For his part, the Deputy Secretary General for Ecological Planning states that he does not want to "exacerbate the competitive deficit of French airlines vis-à-vis their international competitors".*

*Yet this is the obvious consequence of this measure for Air France.*

## > What Lufthansa still has to do before buying ITA...

(source Mistertravel) May 23, 2024 - According to the Italian daily Corriere della Sera, **before taking over ITA Airways, the German group Lufthansa has to make further concessions to the European competition authorities**, whose hot topics are slots on the Milan-Linate routes and the Italian carrier's routes to North America. The European Commission's demands

The

deadline granted by the EU to the German aerospace group to make rectifications to the file expired yesterday, Tuesday May 21. So far, Lufthansa and ITA Airways are prepared to cede 11 to 12% of their respective slots at Milan-Linate airport. On the other hand, **the competition authorities require a percentage of 30% of take-off and landing slots.**

In all, the European Commission initially considered 39 routes to be problematic. A solution has now been found for 22 of these routes, but not yet for the other 17.

Twelve are short-haul routes from Milan-Linate/Rome-Fiumicino to Central Europe, and five are long-haul

routes from Rome-Fiumicino to North America.

A problem of distance and alliances.

..

But it's **above all the long-haul routes that pose a problem for the Lufthansa group.** Although the German airline does not offer flights from Italy to North America itself, its Star Alliance partners United Airlines and Air Canada do offer flights to and from Italy. For the time being, **ITA is not ready to stop its transatlantic routes, nor will Lufthansa withdraw from the alliance.**

**A possible solution... at a loss!**

The solution could be as follows: For a few years, Lufthansa would forego all revenues from the future joint venture's Italian routes, and in particular from ITA Airways' flights to North America.

**In this case, Lufthansa would lose around 205 million euros by acquiring ITA,** based on the Germans' planned entry into the Italian airline with a total initial 41% stake.

***My comment: The interest of this new article on the Lufthansa project is to provide more figures.***

*We can draw two conclusions from it:*

*- Lufthansa's proposal falls far short of the European Commission's requirements,*

*- the issue of dominance on long-haul routes from Italy has not been resolved.*

*Unless Lufthansa is given further time to amend its proposal, it will be left with the*

*"loss-making" solution described in the article.*

*Will Lufthansa be ready to take up this strategic challenge?*

## > **Ryanair profits boosted by higher customer numbers and fares**

(source AFP) May 21, 2024 - **Irish airline Ryanair announced on Monday a net annual profit up by more than a third**, boosted by higher passenger numbers and fares, despite rising fuel costs.

The company was able to count on **"a record first half-year** and strong Easter traffic at the end of March", said company CEO Michael O'Leary in a statement, although he warned that prices were likely to be lower than expected in the current quarter.

Net income rose by 34% to 1.92 billion euros for the 2023/2024 financial year ended March.

Annual sales rose by 25% to 13.44 billion euros, driven by a 9% increase in traffic to 183.7 million passengers, while the average fare rose by 21% to 49.80 euros, Ryanair said.

Ryanair, which in November inaugurated the first regular dividend in its history, with **400 million euros distributed to shareholders for the year**, **also** announced on Monday **a share buyback of 700 million euros**.

But **the company warns that it expects a "modest increase" in its costs per seat for the year ahead**, with fares lower than expected at the start of its first quarter.

(...) "

Competitive advantage"

The company saw its operating costs rise by a quarter in its 2023/24 financial year, mainly due to a 32% increase in fuel costs, but also to "higher personnel costs (...) and Boeing delivery delays", Ryanair pointed out.

Nevertheless, **costs per seat remain under control**, the company asserted, pointing to a "growing competitive advantage" over its European rivals.

Ryanair expects to increase its traffic by 8% in the current financial year, to between 198 and 200 million passengers. The company is aiming for 300 million passengers by 2034.

**"Boeing delivery delays will be a huge problem for Ryanair"**, according to **Olly Anibaba, analyst at Third Bridge**, who expects **the company to receive only half of the promised aircraft** "which could reduce passenger volume by 5 to 10 million" over the year.

In addition, the dispute between Ryanair and online travel agencies "led to a drop in passenger traffic and a 5% reduction in revenues" over the past year, according to the analyst, for whom "the resolution of this problem" should be positive for the company.

Ryanair had seen its net profit fall by 93% year-on-year in the third quarter, suffering in particular from the fact that several online travel agencies, such as Booking.com, Kiwi and Kayak, had stopped selling its tickets in December.

The airline had long denounced the practices of these companies, claiming that many sites sold its tickets at higher prices, charged hidden surcharges and passed

on false contact and payment information to the airline.

Ryanair hailed this as "welcome" news, which nevertheless had a negative impact on its results. **Since January, Ryanair has normalized its relations with several of these operators, by signing agreements authorizing the sale of its flights.**

**My comment:** *The Irish low-cost airline's results are excellent.*

*Despite this, Ryanair has taken the decision to close its Bordeaux base, continues to seek subsidies from local authorities and continues to exert strong pressure on airports to reduce charges.*

*Ryanair's annual profit for 2023-2024 exceeds 1.9 billion euros.*

*This is not anecdotal. If next year's profit exceeds 2 billion euros, CEO Michael O'Leary will receive a contractual bonus equal to 100 million euros, i.e. 20 times the annual remuneration of the CEO of Air France-KLM!!!!*

*Note: Ryanair's financial year runs from April 1 to March 31, not the calendar year.*

## > **Airbus: the go-ahead approaches for the A321 XLR, the aircraft that's set to change the long-haul game**

(source Les Echos) May 24, 2024 - **Airbus** can already chill the champagne, as it **will soon have some big news to celebrate**. Namely, the **certification of a new aircraft model particularly eagerly awaited by airlines: the A321 XLR**.

After more than 5 years in the making, the **latest addition to the A320 family is set to receive the green light from the European Aviation Safety Agency (EASA) next month**, the final step before the first deliveries and the start of what promises to be a particularly promising commercial career.

EASA Director Florian Guillermet himself announced on Thursday, at the aviation federation's congress, that the A321 XLR would be certified "before the summer".

Multi-tasking aircraft

The aircraft has completed all flight and ground tests, and has met the requirements of the EASA and the American FAA, which should validate its European certification shortly.

All that remains for the Airbus teams is to complete the technical documentation. The first airline to put it on line should be Iberia, which is expecting its first aircraft by the end of the summer.

On paper, the A321 XLR is simply a derivative of the A321, the largest model in Airbus's wide range of single-aisle jets. But as Florian Guillermet himself points out, this aircraft is likely to be a "game-changer, in terms of connectivity and air transport economics".

**With the A321 XLR, Airbus offers the first "two-in-one" aircraft, capable of**

**operating both medium- and long-haul flights**, with the same level of comfort as a long-haul widebody. This is thanks to a range that is unrivalled for a single-aisle aircraft, even by Boeing. It can cover up to 8,700 kilometers non-stop - the equivalent of 11 hours' flying time - with up to 220 passengers on board in two-class configuration.

This means non-stop flights to most of Europe and South America from New York, and to most of North America, Africa and Asia from Europe. And all this at a **much lower cost per seat and fuel consumption than a wide-body aircraft**.

Iberia thus plans to serve Boston and Washington from Madrid, two routes on which it currently uses an A330. This will not only **cut fuel consumption by around 30%, but also open up new direct routes to secondary cities with traffic flows too low to be served directly by a wide-body aircraft**. And with the added bonus of being able to use the aircraft on intra-European routes according to seasonality.

Technical tour de force

To achieve this tour de force, **Airbus engineers had to adapt an additional central fuel tank in the belly of the aircraft**. This required modifications to the landing gear, wing flaps and flight control computer system. But it also required a great deal of innovation to guarantee safety.

At the request of EASA and the FAA, the aircraft manufacturer even had to revise its copy, which delayed the program by a year, by adding a sort of "liner" to the fuselage, to guarantee the absence of risk of flashover in the event of a belly landing, with resistance to a fall speed of up to 7.6 meters per second.

Second line

These efforts have already begun to pay off. With over **500 units ordered by some twenty customers by the end of 2023**, the A321 XLR is already Airbus' biggest sales success before it enters service. Such is its success that it has even justified the installation of a second dedicated assembly line in Toulouse, in addition to the one in Hamburg.

This is where Airbus will face its next challenge: mass production and delivery without further delay of an aircraft as complex as a long-hauler.

***My comment:*** Like its little brother, the Airbus A321LR, the A321XLR has undeniable advantages:

*- a shorter take-off and landing distance than twin-aisle aircraft, giving it access to many more airports than them, airports that are better positioned for passengers and less expensive,*

*- the possibility of using the aircraft on long-haul flights for summer programs and medium-haul flights for winter programs,*

*- for passengers, a 6-seat economy class cabin, more comfortable than the 10 seats on twin-aisle aircraft.*

*But this new aircraft also has its drawbacks:*

*- cruising speed, mach 0.79 versus mach 0.85 for the Airbus A350 and Boeing B787: that's 20 to 30 minutes more flight time on a 9-hour trip*

*- the difference in range of around 1,000 km between the A321 LR and XLR requires the addition of a fuel tank. As the maximum takeoff weight remains the same, the maximum number of passengers will inevitably be reduced,*

*- the risk of cannibalization for major airlines if they operate point-to-point routes to/from secondary airports instead of serving their hub,*

*- for A321 XLR flights of over 9.30 hours, the requirement for a three-pilot crew, which necessitates a crew rest area, as well as substantial storage space for catering.*

*This aircraft should find its market on a point-to-point basis, to serve medium-sized cities without using the hubs of major airlines. It could also be used as a single-class aircraft for leisure customers on a tight budget.*

*The choice between LR and XLR models will be a tricky one. The XLR can cover 1,000 kilometers more than the LR. To make it profitable, airlines will have to position it on routes not feasible with LR but only with XLR. These routes are very limited in number.*

*For the moment, the Air France-KLM group has ordered A321 NEOs, without specifying the exact model. Slot constraints at Schiphol and Orly mean that the A321 LR is preferred, as it carries more passengers than the A321 XLR.*

## **End of press review**

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

**Air France-KLM shares** closed at **10.560 euros** on Friday May 24. It is **up this week by +0.38%**.

Like other companies in the airline sector, Air France KLM has had to cope with flight disruptions due to Iran's attacks on Israel.

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

**The average (consensus) 12-month analyst price for AF-KLM shares is 15.09 euros** (it was 15.0 euros at the beginning of January 2023). The highest price target is 23.00 euros, the lowest 9 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.

**My comment:** For the past month and a half, the Air France-KLM share price has been hovering between 9.50 and 10 euros.

*First-quarter results did not worry investors, and the share price has risen by almost 9% in two weeks.*

### > **Fuel price trends this** week

**The price of a barrel of Jet Fuel in Europe is stable at \$104.** It was \$94 at the end of June, and \$79 before the outbreak of war in Ukraine.

**Brent** (North Sea)  
**oil is up \$1 a barrel to \$84.**

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

*The Jet Fuel spread in Europe and Brent crude oil is down slightly this week, to \$20. It has been two months since the spread returned to a level of \$25 or less.*

### > **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.](#)

## **Details**

**This information does not constitute 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 to keep you better informed.

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

See you soon.

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## **| François Robardet**

**Represented Air France-KLM's employee and former employee PS and PNC shareholders.**

**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 linked to Air France-KLM shareholding.

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