

Air France-KLM increases its agreement with TotalEnergies to purchase more sustainable aviation fuel



I Letter from François Robardet

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

(Raison d'être of the Air France-KLM group)

for employees and former employees

PS and PNC shareholders of Air France-KLM

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Editorial

Dear readers,

You will find two dossiers this week.

The first focuses on the taxes and charges to which airlines are subject.

The second focuses on the Draghi report, which was published last week, but whose commentary was missing from the broadcast version.

*Enjoy your reading
François*

Monday's Press Review

> Air France-KLM increases its agreement with TotalEnergies to purchase more sustainable aviation fuel

(source Boursier) September 23, 2024 - **TotalEnergies and Air France-KLM have signed an agreement for the energy giant to supply up to 1.5 million tonnes of more sustainable aviation fuel (SAF) to the Group's airlines over a 10-year period**, until 2035. This is one of the largest SAF purchase contracts signed by Air France-KLM to date. **By 2022 and 2023, Air France-KLM was the world's leading**

user of more sustainable aviation fuel, with 17% and 16% of global production respectively.

This contract follows a Memorandum of Understanding signed in 2022, which at the time covered the supply of 800,000 tonnes of SAF by TotalEnergies. By re-evaluating this agreement today, the two groups are reaffirming their ambition to limit the climatic impact of air transport as quickly as possible by reducing CO2 emissions.

By 2030, Air France-KLM aims to reduce its CO2 emissions per passenger/km by 30% compared with 2019, thanks to fleet renewal, operational measures such as eco-piloting, and the incorporation of at least 10% more sustainable aviation fuel on all its flights. These ambitious targets go beyond regulatory obligations.

The SAF supplied to Air France-KLM will be produced from waste and residues from the circular economy, processed in biorefineries and by co-processing in TotalEnergies' French and European refineries. It will be used to power Air France-KLM Group flights departing from France, the Netherlands and other European countries. The development of SAF is at the heart of TotalEnergies' transition strategy to meet the demands of the airline industry.

Air France-KLM has implemented a strict procurement policy, buying only second-generation biofuels that do not compete with the food or feed chain, and are RSB or ISCC certified for sustainability. SAF enables a reduction of at least 75%, and up to 90%, in CO2 emissions over the entire fuel life cycle, compared with their fossil equivalent.

***My comment:** Air France-KLM is truly the world leader when it comes to pre-purchasing and using sustainable aviation fuels that do not compete with the food chain.*

I would also remind you that between 2005 and 2019, Air France reduced its CO2 emissions by 6%, despite the increase in traffic.

Today, the Air France-KLM group can calmly envisage exceeding the decarbonization targets set for 2030.

The main question concerns the period after 2030. Without strong support from European governments, it will be difficult for European airlines to meet their 2040 targets.

> Air France launches free high-speed Wi-Fi on board all its aircraft

(source Air France) September 26, 2024 - **Air France is revolutionizing its in-flight Wi-Fi offering**, a major step in its move upmarket. **Starting in 2025, the airline will gradually offer ultra-high-speed connectivity** for a "home-like" experience. This new **service, totally free of charge in all travel cabins**, will be accessible by

logging into your Flying Blue* account. Eventually, it will be available on all the company's aircraft, replacing the current offer.

To launch this exceptional service, Air France has chosen Starlink, the world leader in connectivity. Relying on the world's largest constellation of satellites using low-Earth orbit, Starlink offers very high-speed Internet access covering the whole planet, including the most isolated areas**. The user experience is stable, fast and secure.

During the flight, it will be easy to keep in touch with loved ones, follow all the world's news live, play networked video games and, of course, watch TV, films and series via streaming.

The service will be accessible from smartphones, digital tablets and laptops.

Everyone will be able to connect several devices at the same time

(...)

Starting with the summer 2025 season, Air France will gradually equip all its aircraft with this cutting-edge technology, including its regional fleet. During this transitional period, the airline will continue to offer connectivity on board aircraft not yet equipped: a free "messages" pass for Flying Blue members and a paying offer covering other uses.

My comment: *Air France is not the first airline to offer free internet on board.*

Turkish Airlines (with state-owned satellite company Turksat), Hawaiian Airlines and United Airlines (with Starlink) have recently announced that they are doing the same.

One question remains unanswered: will telephone communications be allowed, at the risk of disturbing the peace and quiet of other passengers?

> Air traffic continues to decline on Paris-province routes

(source Les Échos) September 25, 2024 - **For France's major domestic routes, there really has been a before and after to Covid.** While **air traffic** has almost returned to its pre-pandemic level, **traffic on the main domestic routes between Paris and the regional metropolises remains 30% below its 2019 level.** For the past two years, traffic on these major "radial routes", which still accounted for 16.3 million passengers in 2019, has even been declining. This is against the backdrop of the announced disappearance of Air France's Orly shuttle service in summer 2026 and EasyJet's decision to close its Toulouse base on September 10.

From 12.58 million passengers in 2022 to 12.3 million in 2023, airline traffic between Paris and the regions continued its slow slide this summer. At the end of August, the "radial" routes totalled 7.8 million passengers since January, compared with 8.25 million over the same period in 2023 and 8.31 million in 2022. Over the same period, the most important route, Paris-Nice, increased from 1.93 million passengers at the end of August 2022 to 1.8 million at the end of August 2023. In second place, Paris-Toulouse followed the same trend, with 1.3 million cumulative passengers from

January to the end of August, compared with 1.43 million a year earlier and 1.51 million in August 2022.

The upturn in business travel in September failed to halt the decline. **On Orly-Toulouse, once Europe's biggest domestic route and one of Air France's most profitable, supply was further reduced by 5% compared with September 2023, and EasyJet's by 3.9%**, for a total of 165,723 seats and 1,000 flights over the month, compared with 173,898 seats and 1,068 flights in September 2023, according to data collected by Cirium.

Even including departures from Roissy-CDG, where Air France has increased capacity, **the number of flights between Paris and Toulouse fell by 6% this month, compared with September 2023. It also remains 26% below that of September 2019, with 528 fewer flights over the month.**

The decline is even more marked on Paris-Marseille (...). Compared with September 2019, Marseille lost 26% of its flights to Paris and 32% of seats, according to Cirium. However, **the decline in air traffic between Paris and Marseille did not wait for Covid, since it began with the inauguration of the TGV line in June 2001. Since then, Air France has lost half its Paris traffic (CDG and Orly) and 73% of its Orly capacity.**

Even the Paris-Nice route, which has been relatively unaffected by TGV competition, has seen its capacity fall since September 2023, with 5.8% fewer flights and 12,900 fewer seats (3.9%). However, **unlike Toulouse and Marseille, Nice has managed to return to its 2019 level, thanks to the sharp increase in EasyJet's offer in the wake of the pandemic**, which more than offset the drop in Air France's offer. The orange airline took advantage of Air France's withdrawal from Orly to increase its offer to Nice by 54% compared with 2019. However, it had to cut back by 3% between September 2023 and 2024. **There are several explanations for the decline of air travel on Paris-province routes. The main one is, of course, competition from the TGV, reinforced after corporate social responsibility (CSR) measures**, which clearly favor rail over air for domestic journeys, in order to reduce their carbon footprint. According to a study by consulting firm Qonto, train travel now accounts for 70% of all business trips.

Another trend is the development of videoconferencing during confinements.

Figures are lacking, but Air France director Anne Rigail points out that daytime return trips, which used to do the Shuttle's business, have fallen by 60% since 2019. A decline she attributes to videoconferencing and telecommuting.

But we can also point the finger at the rise in airfares coming out of Covid, much higher on domestic routes than international. According to the monthly index of the French Civil Aviation Authority, the average price of a domestic flight has risen by a cumulative 13.1% since the start of the year, compared with a 1.3% increase on international medium-haul routes and a 1.9% drop on long-haul routes. In 2023, the increase was already 18.8%, compared with 5% on average for SNCF. These price

risers are linked to general inflation, as well as to all kinds of taxes levied on air travel. On a Paris-Nice flight, these account for 40% of the ticket price. And they've all gone up. Enough to make you prefer the train.

My comment: I've found the estimates of projected traffic losses as a function of TGV journey times.

They date from 2008. The post-Covid effects encourage us to increase them.

De Paris vers	Temps de parcours TGV	Parts de marché TGV
Lyon	1h55	90%
Nantes	2h00	90%
Strasbourg	2h20	70%
Marseille	3h00	65%
Bordeaux	3h00	65%
Mulhouse	3h10	60%
Montpellier	3h20	60%
Toulon	4h45	68%
Toulouse	5h00	25%
Nice	5h35	30%

The 2024 traffic decline in France needs to be put into perspective.

At the beginning of the year, the new 4Flight air traffic control system was tested at the Athis-Mons CRNA (Centre en Route de la Navigation), which covers the approaches to CDG and Orly.

During this test period, the DGAC asked all airlines to reduce their flight schedules, to give controllers time to familiarize themselves with the new system and experiment with it in complete safety.

This reduction partly explains the drop in airline activity in France.

Note:

The new 4Flight control tool should improve air traffic control efficiency in several ways:

. Improved flight safety: precise trajectory forecasts in all phases of flight, improved aircraft separation management- .

*.
Better optimization of aircraft routes: contribution to reducing carbon footprint.*

. *Improved control sector management capacity: reduced air traffic control delays.*

In June 2022, the 4-FLIGHT system went live at the Reims en-route control center (CRNA Est), the program's pilot site, followed by the Aix-en-Provence center (CRNA Sud-Est) in December 2022.

To my knowledge, the Athis-Mons en route control center (CRNA Nord) is scheduled to switch over to the new system in November 2024.

By 2026, 4-FLIGHT will be deployed at the Brest (CRNA Ouest) and Bordeaux (CRNA Sud Ouest) en route control centers.

> **Bordeaux, Pau, Biarritz: Transavia adjusts its South-West strategy**

(source Les Échos) September 24, 2024 - Paris-Orly, Lyon, Marseille, Nantes then Montpellier: **since its launch in France in 2017, Transavia has never really invested in the south-western quarter of France**, even though it operates a handful of routes from Biarritz and Pau and, most recently, from Bordeaux. **But the departure of rival Ryanair, which will cease all operations in Gironde in a few weeks' time, has reshuffled the cards.** "We'd been talking to Bordeaux airport for some time, but this was obviously a trigger. When 25% of the market is gone, it's an opportunity that had to be seized very quickly! And that's exactly what we did, by speeding up our usual schedules," confirms Nicolas Hénin, Transavia's Deputy Managing Director.

The head of Air France KLM's low-cost subsidiary was in Bordeaux on September 23 to confirm the opening of six new routes for winter 2024 and summer 2025 (Seville, Porto, Agadir, Marrakech, Marseille and Istanbul), in addition to the route to Dakar launched last year. The first four are destinations abandoned by Ryanair. Transavia will also be basing a plane in Bordeaux from December 12, but without any employees for the time being.

The news is understandably very welcome at Bordeaux Mérignac airport, which was already struggling to regain its pre-Covid traffic levels before Ryanair's departure. "With Transavia's new offer, we'll be approaching a 40% recovery in Ryanair traffic," says Simon Dreschel, Chairman of the airport's Management Board.

(...) The

mood is much less enthusiastic in Pau, where Transavia will cease to serve Paris Orly from October 27. The Air France KLM subsidiary, which now operates just one daily evening rotation between Béarn and the capital, is suspending this route for at least winter 2024 and summer 2025. "Despite our efforts and the maintenance of two daily rotations for over a year, the Pau-Orly route was our worst in terms of profitability. We won't return to Pau until the situation with Tarbes changes," explains Nicolas Hénin.

He is referring to the fierce competition between the two airports, which are only 50 km apart. Tarbes Pyrénées benefits from a public service obligation (PSO) for the route to Paris Orly, which is subsidized to the tune of 4.5 million euros by the Occitan local authorities (3 million) and the State (1.5 million). This will enable Spanish low-cost carrier Volotea to offer unbeatable fares and schedules. A decision denounced and contested by elected officials in Palais.

Finally, on the Basque coast, stability prevails: **Transavia maintains its two routes from Biarritz to Marseille and Orly.**

My comment: *Old-timers will remember that Air France created an Iberian gateway in Bordeaux in... October 2000.*

The idea was to develop an interconnecting hub between five cities in Spain and Portugal, and several French regional metropolises.

Inspired by the Lyon hub, the project did not achieve the desired results and was quickly abandoned.

Transavia's strategy for Bordeaux is more modest. The 2025 results will show whether it is a winner.

> **Airbus lifts a corner of the veil on its reorganization project**

(source Les Echos) September 26, 2024 - No redundancy plan, no downsizing, but confirmation of a **freeze on "white-collar" hirings and a further tightening of the screws on expenses and subcontractors, combined with the launch of a comprehensive review of ways to optimize industrial organization. These are the broad outlines of the Lead performance improvement project for Airbus** commercial aircraft, presented to employee representatives at a European Works Council meeting on Thursday.

(...)

According to eyewitness accounts, Christian Scherer began by describing the situation at the company, which "emerged victorious from the Covid war, but tired", as it faces "the biggest increase in production rates in its history". **These difficulties are many and varied**, ranging from recurrent delays in the delivery of essential equipment such as engines, landing gear and aircraft seats, to technical and even legal problems.

The CEO of Airbus Aircraft then reiterated **the priority of the Lead plan, which remains to reach the target of 770 aircraft deliveries in 2024, compared with 735 in 2023.** This target was revised downwards last June, from the initial 800 deliveries, due to delays in deliveries by its suppliers, notably engine-makers CFM (Safran and GE) and Pratt & Whitney.

With 447 aircraft delivered to the end of August since the start of the year, compared with 433 over the same period in 2023, and 483 scheduled for the end of September

according to a Reuters projection, the outcome remains uncertain. Hence the need to send a strong message internally, but also externally to subcontractors, even if the Airbus boss didn't really explain how this target of at least 770 deliveries could be secured.

Phase 1 of the Lead plan, piloted by Airbus Group Purchasing Director Franck Martin, **is accompanied by immediate cost-cutting measures**, designed to at least partially offset the increase in costs amplified by production delays and the loss of revenue due to the 30 fewer deliveries.

These "cash protection" measures, in the words of one staff representative, have already resulted in a 20% cut in travel expenses this summer and in spending on events, as well as the reconsideration of low-priority projects out of the 5,500 or so in progress at Airbus. But again, nothing revolutionary, in the words of one union representative.

The main thrust of the Lead plan, however, extends well beyond the end of the year, towards a three-year horizon. It aims to secure the continued ramp-up of production to the target of 75 single-aisle aircraft per month, which was shifted last June from 2026 to 2027. To achieve this, Christian Scherer and Franck Martin are aiming for an in-depth reorganization of industrial operations.

The general idea is to move towards greater simplification in all corporate functions, not just production. According to in-house surveys, Airbus employees are the first to complain that the current organization is cumbersome and hampers productivity.

To achieve this more efficient organization, which is still in gestation, **Airbus management will not be calling in a consultancy firm, but expects each of the company's managers to put forward their own proposals for simplification.**

Around twenty modules will be affected by this overhaul, which aims to refocus the aircraft manufacturer and its employees on the functions essential to production.

This refocusing would also be accompanied by the encouragement of internal mobility, in order to redirect personnel towards functions in tension, particularly among white-collar workers. "We've done a lot of hiring in recent years, but not always where it's most needed," comments one unionist. As for blue-collar workers, many of whom have joined the company in the last two years - Airbus has hired 13,000 people in 2023 alone - a training effort will be devoted to them. Like the aeronautics industry as a whole, Airbus has lost a lot of skills with the retirement of a large number of employees. This is no small factor in the company's current difficulties.

In the medium term, the aim is to bring the workforce back into line with 2019 levels, while production remains well below pre-pandemic levels. By 2019, Airbus had delivered 863 aircraft, with fewer staff. A rebalancing on which the Group's profitability depends, but which must take place without reducing headcount, since the ultimate objective is indeed to deliver 75 single-aisle aircraft per month by 2027, in order to be able to clear a plethoric order book.

(...)

My comment: As presented in the article, Airbus' Lead project consists of an "in-depth reorganization of industrial operations", with no reduction in headcount.

One of the cost-cutting measures is aimed at reducing travel costs. At a time when Air France is struggling to return to its pre-Covid level of activity, this is bad news.

But Airbus has other issues to deal with.

Foremost among them is access to raw materials.

The low availability of raw materials is one of the reasons for the shortage of aircraft spare parts.

On this subject, at the Paris Air Forum last June, the Airbus representative explained that, to avoid disruptions in production lines, Airbus buys critical raw materials and then distributes them to each of its suppliers.

He mentioned steel, aluminum... and titanium. For the record, over 200 grades of steel are needed to manufacture an Airbus.

For more information on raw materials requirements, I invite you to listen or listen again to the [conference "Energy versus raw materials: is the transition really possible?" by Olivier Vidal, researcher at the CNRS in Grenoble.](#)

> Tax on freeways and major airports validated by Constitutional Council

(source Les Echos) September 12, 2024 - It's good news for Michel Barnier, which hasn't happened often since his appointment. On Thursday [September 12], **the French Constitutional Council validated the long-distance transport infrastructure tax adopted a year ago and due to come into force in 2024.** The measure targets both freeway companies and certain airport operators, with sales above 120 million and profitability above 10%. **It represents around 450 million euros a year for the former and 150 million euros for the latter [airport managers]** - a total of 600 million euros that the State is devoting to the ecological transition of transport, and in particular to the rail network.

Since its inception, this new tax has been the subject of howls from companies subject to it. Initially, Bercy had set its sights on the juicy profits of the freeway companies and hoped to reduce the duration of their concessions, but the Conseil d'Etat (French Council of State) brutally dashed these hopes. The government then turned to the tax route, taking care not to target freeway companies alone, as their contracts would have authorized them to pass on the amount of the tax in their toll

rates.

In the Finance Bill, the executive had thus extended the spectrum of companies concerned to "long-distance transport infrastructures", catching in its net the major airports (Roissy Orly, Nice, Lyon, Marseille and Toulouse) - collateral victims of the maneuver.

The companies concerned had warned that they would take the matter to court, denouncing the difference in treatment and "unconstitutional" levy levels. **The "sages" of the Palais Royal have just dismissed them**, methodically refuting all their grievances. According to their ruling, **the new tax constitutes neither a breach of equality nor an excessive burden. On the contrary, the government's criteria for determining tax liability are deemed to be "objective and rational in relation to the aim pursued". Move along, there's nothing to see!**

"This tax, which will only apply in France, will only weaken French airports in the face of their European competitors, and limit our ability to invest, modernize and decarbonize," laments Thomas Juin, President of the French Airports Union. As early as next year, airport managers could decide to make up for lost ground by increasing the amount of charges levied on airlines, who in turn could pass on the burden in ticket prices. (..
.)

My comment: *As the financial results stand, only Roissy, Orly and Lyon airports are affected,*

The ADP group, which manages the three main Paris airports, Paris-Charles de Gaulle, Paris-Orly and Paris-Le Bourget, has announced that it will pass on "around 75%" of the increased costs associated with this tax from 2024, via an increase "over two to three years" in the charges payable by airlines.

For Air France, this would represent several tens of millions of euros in additional taxes.

But this is nothing compared to the latest government announcements. Bercy is reportedly considering an increase of around one billion euros for the next budget, including a doubling of the solidarity tax on airline tickets (TBSA).

Read more in my next newsletter.

Taxation of air transport in France

> Air transport taxation in France

(source FNAM) September 19, 2024 - In a note widely circulated to the media, the

NGO Transport&Environnement (T&E) calls for an increase in air transport taxation in France, on the grounds that "France would be far behind its European neighbors in terms of aeronautical taxation".

This statement comes as a surprise, given that twenty out of twenty-seven European Union countries have no national tax at all applying to air transport, and that French air transport is subject to both the European environmental measures of the FITFor55 package and a specific national tax among the highest in Europe.

In this respect, **it should be remembered that the tax and regulatory framework to which French air transport is subject**, notably for environmental reasons, is already particularly extensive. It includes :

- A "solidarity" tax (tariff) (TSBA) on airline tickets, which in part ("ecocontribution") feeds the budget of the Agence de Financement des Infrastructures de Transport de France (AFITF),
- A "civil aviation" tax (TAC) on airline tickets to finance the operating budget of the civil aviation administration,
- A "security and safety" tax (T2S) on airline tickets to finance the safety and security of air transport in France,
- A tax on the operation of long-distance transport infrastructures (TITLD) paid by the main French airports and billed to airlines in the form of airport charges,
- A tax on airborne noise pollution (TNSA) levied on France's main airfields. Proceeds from this tax are used to finance aid to local residents,
- A tax on public air and sea transport to and from Corsica (TEP) to finance the Corsican regional authority,
- Value-added tax (VAT) at a reduced rate of 10% applicable to metropolitan air transport (as for other modes of transport).

In addition to these taxes, of which **only the TSBA is taken into account by the NGO T&E in its study**, airlines operating flights to and from France are subject to the following measures introduced under French or EU regulations:

- Compulsory offsetting of metropolitan flights' CO2 emissions under Article 147 of the French Climate and Resilience Act.
- Inclusion of air transport in the European Emissions Trading Scheme (ETS) for all intra-European flights.
- The inclusion since January 1, 2021 of international flights from France in the International Civil Aviation Organization's (ICAO) CORSIA mechanism for offsetting international CO2 emissions.
- The introduction, as of January 1, 2025, of a mandate for the incorporation of sustainable aviation fuels (CAD), replacing the existing French mandate (January 1, 2022) and providing for 2% incorporation in 2025 and 20% in 2035.

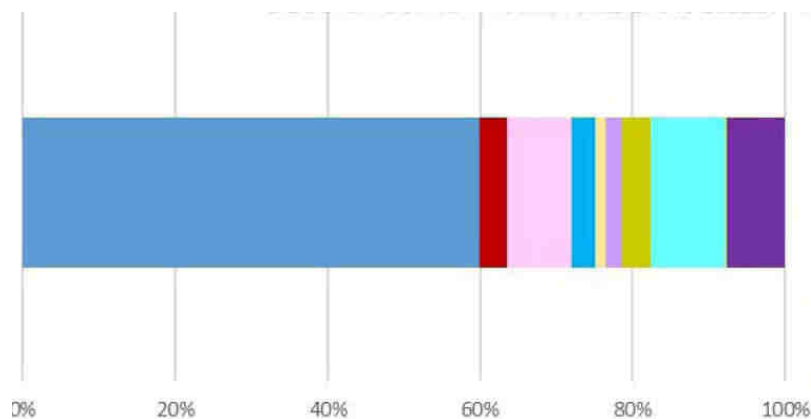
Finally, discussions are underway at European level (minimum relevant perimeter) with a view to introducing a kerosene tax for intra-European flights (revision of the

energy taxation directive).

The diagram below provides a breakdown of the cost of an airline ticket, enabling us to better assess the weight of taxes and charges on a flight.

Breakdown of a one-way ticket between Paris (CDG) and Nice (NCE)
Amount incl. tax: 130 Euros (average fare)

Décomposition d'un billet en aller simple entre Paris (CDG) et Nice (NCE)
Montant TTC : 130 Euros (tarif moyen)



■ RECETTE - 77,74 €

■ REDEVANCE AEROPORT - AVION - 4,81 €

■ REDEVANCE AEROPORT - PASSAGERS - 11,02 €

■ REDEVANCE DE NAVIGATION ROUTE - 4,04 €

■ REDEVANCE DE NAVIGATION TERMINALE - 1,87 €

■ TARIF DE SOLIDARITE DE LA TTAP - 2,63 €

■ TARIF DE L'AVIATION CIVILE DE LA TTAP - 4,93 €

■ TARIF DE SURETE ET DE SECURITE DE LA TTAP - 12,7 €

■ TNSA - 0,42 €

My comment: Yes, airlines in France are already heavily taxed.

However, some manage to get around the system.

You all have in mind the negative tax-free ticket I published in my [letter n°807](#), or tickets at derisory prices, sometimes lower than the amount of taxes.

Passager	Aller	
François Robardet	Tarif	-19,86€
	Taxes/Frais	28,61€
	Frais de dossier:	0,25€
		TOTAL 9,00€

You'll notice that no details of taxes are given, even though they are compulsory according to the European regulation below:

European Regulation (EC) no. 1008/2008 of September 24, 2008

Extract from Article 23

"Passenger tariffs and freight rates offered to the public shall state the conditions applicable when they are offered or published in any form, including on the Internet, for air services departing from an airport located in the territory of a Member State to which the Treaty applies. The final price to be paid is specified at all times and includes the applicable passenger fare or cargo fare as well as all applicable taxes, fees, surcharges and duties which are unavoidable and foreseeable at the date of publication. In addition to the indication of the final price, at least the following elements are specified: (

- passenger tariff or freight tariff; (
- taxes; (
- airport charges; and (
- other charges, surcharges or fees, such as those related to security or fuel. (.. .) "

Ryanair goes one step further. According to a simulation carried out last week, the Irish airline does not charge passengers government taxes!!!!

Détail du prix

Vols

Paris Beauvais à **Alicante**

ven 4 oct. • 11:25 - 13:35 • FR 9035

1 x Tarif adulte Basic* **60,11 €**

Aucun bagage enregistré

1 x Petit sac (40cm x 20cm x 25cm) **Inclus**

** Non-remboursable. Modification soumise à des frais de gestion*

Vous ne payez pas les taxes gouvernementales

Passagers 

Mr cxc csd

Total à payer 60,11 €

How is this possible? Who pays these taxes?

As the Cour des Comptes explained in its October 2023 report, contracts with these airlines "provide for financial assistance per passenger to be paid by the airport".

The Cour des Comptes has repeatedly denounced the relationship between Ryanair and local authorities, but to no avail.

Draghi report on the future of European competitiveness: erratum

> The future of European air transport

(source Damien Gaudin, LinkedIn) September 22, 2024 - On September 9, Mario Draghi, former President of the European Central Bank, submitted his report on Europe's competitiveness to Ursula Von Der Leyen, President of the European Commission.

The report highlights the urgent need to invest hundreds of billions of euros a year to keep pace with the USA and China.

The 328-page document covers all sectors.

Transport is a priority sector for the EU's transition to a net-zero emissions economy.

Turning now to air transport, the positive points raised are as follows:

- The EU's ambitious plans to decarbonize the transport sector offer unique opportunities for the EU to be at the forefront of decarbonization solutions.
- EU airports are hosting green hydrogen demonstrators and developing proofs of concept for modular sustainable aviation fuel (SAF) blending facilities.
- Europe holds more than half of the market share in civil aircraft construction.

But the report points to the following problems:

- The construction of infrastructure (including airports) presents investors with high risks and too long a payback period: this discourages private investment.
- At EU airports, ever-increasing demand, congestion and inefficient use of existing airport capacity have led to major bottlenecks.
- IT solutions are inadequate: interoperability and harmonized deployment of innovative digital solutions are limited. Air traffic control systems lack synchronization. Finally, there are no real solutions for intermodal transport.
- **The EU's decarbonization targets are putting pressure on transport sectors, particularly those that are difficult to reduce, including air transport.**
- **There is a risk that activities will be shifted to Europe's neighboring countries, or be more profitable there, unless a level playing field can be found through the International Civil Aviation Organization.**
- Even if most of the technological patents are European, production capacity for Sustainable Aviation Fuels remains largely insufficient.
- **The European Union needs to start building a supply chain for alternative fuels, otherwise the costs of meeting its targets will be too high.**

The report highlights several points raised by airlines, the Fédération Nationale de l'Aviation Marchande, IATA, A4E (Airlines For Europe) and many other stakeholders: this awareness is essential if we are to develop a European development policy on solid foundations.

There is, however, one point to note. The TEN-T (Trans-European Transport Network) project aims to "plan and develop a coherent, efficient, multimodal and high-quality transport infrastructure throughout the EU". In other words, to promote more efficient and environmentally-friendly transport of people and goods.

In the medium term, the plan is to link major cities and airports by rail, usually at high speed. With the disappearance of certain domestic routes, the long-term question is whether hubs can continue to be supplied by air, and what will become of the model for medium-haul flights within the European Union. In the meantime, digital solutions and acquired experience will enable intermodal transport to be much more efficient and developed than it is today.

In view of these observations, the report also puts forward a series of objectives and proposals that could be of interest to the air transport sector:

- **The EU should adopt a framework conducive to risk-sharing between the public and private sectors, notably through public-private partnerships backed by solid guarantees.**
- The European Investment Bank should extend its support to transport projects aligned with the European Union's strategic priorities.
- Improve cross-border collaboration in air traffic control.
- Launch dedicated European innovation projects leveraging public-private partnerships and cross-border cooperation to produce fuel-efficient, zero-emission aircraft.
- **Reduce the risks associated with investments in sustainable, low-carbon renewable fuels**, via arrangements based on contracts for difference and auctions as a service similar to those designed for the Hydrogen Bank.
- Launch dedicated sectoral calls under the Innovation Fund for the initial deployment of decarbonization solutions, e.g. for eSAF (electro Sustainable Aviation Fuel).
- To guarantee the production of sustainable fuels, the European Union must guarantee the necessary raw materials, coordinate demand aggregation and joint purchasing.
- Adapting job profiles to the ecological and digital transition.

My comment: *The summary below, by Damien Gaudin, unfortunately disappeared in the previous letter.*

You can find the link to the Draghi report on [the home page of my blog](#).

Comment from Damien Gaudin: *The report's proposals are a step in the right*

direction. However, there are regulatory obligations to be met under the ReFuelEU program, with 6% mandatory FAS incorporation by 2030 and 20% by 2035, which could upset the financial balances of European airlines.

The report highlights European innovation capabilities and patents for FAS production. To date, it seems that the production of sufficient quantities of FAS through a solid value chain is more crucial than research.

Public/private partnerships and the support of the European Investment Bank are to be welcomed. Several oil groups, such as BP and Shell, have abandoned projects to produce sustainable fuels because of the high risks and insufficient return on investment in a rapidly evolving market.

A new EU economic policy on SAF could improve the situation. However, the year 2030 and the ReFuelEU obligations are fast approaching. The Draghi report proposes ideas, the European Commission must draw up strategies, and the European Parliament must adopt and vote on them. Next, public/private partnerships must be forged and production units built to produce SAF in sufficient quantities. Can all these steps be completed in time for airlines? To date, this is highly uncertain.

Finally, mention should be made of the US Inflation Reduction Act, which provides a tax credit for airlines using fuels that reduce greenhouse gas emissions. It is regrettable that a similar proposal is not mentioned in the report. Let's hope that the stakeholders campaigning for the interests of French and European air transport will be able to take up the subject and quickly meet the new European Transport Commissioner, the Greek Apostolos Tzitzikostas, whose name was made official this week.

Stock market press review

> Air France KLM takes off after JP Morgan buys its stock

(source AOF) September 25, 2024 - **Air France KLM (+7.20% to 9.02 euros) tops the SBF120 index. JP Morgan has upgraded its recommendation on the stock** from Underweight to Overweight, with a price target raised from 8 to 12 euros. In a note on European airlines, the broker predicts "an inflexion in earnings momentum in 2025", noting that the share price is currently "historically low". **"The sector's risk-earnings ratio now looks positive in our view, which could lead to a continuation of seasonal outperformance in the fourth quarter,"** he points out. "The sector has started to rebound over the past month, but is still significantly underperforming the market due to concerns over weaker demand as prices have started to normalize for the first time since the pandemic," JP Morgan

details.

Underlying prices (excluding the Olympic Games) look resilient, and market capacity growth on its lines "looks manageable through to winter", the broker judges. He believes that these factors, combined with lower fuel prices and the annualization of 600 million euros of exceptional items penalizing the fourth quarter of 2024, create the conditions for margins to improve next year. Its Ebit forecast for 2025 is now 12% higher than the Bloomberg consensus.

My comment: JP Morgan's opinion seems very positive.

Caution is called for. The analyst's price target (€12) is barely above consensus (€10.70).

Note that while Air France-KLM's net income for the first half of 2024 was negative (-314 million euros), it included an exceptional payment to the Caisse de Retraite du Personnel Navigant d'Air France (CRPN) of 610 m€.

During Covid, the CRPN had agreed to a deferral of contribution payments by Air France.

End of press review

> Air France-KLM share price trend

Air France-KLM shares closed at **9.32 euros** on Friday September 27. It is **up sharply this week (+5.57%), following an 8.24% rise the previous week.**

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 10.70 euros (it was 15.0 euros at the beginning of January 2023). The highest price target is 17.50 euros, the lowest 8 euros.

I only take into account analysts' opinions after July 1, 2023.

You can find [details of the analyst consensus](#) on my blog.

My comment: Air France-KLM's share price is up +14% in two weeks.

> Fuel price trends this week

The price of a barrel of Jet Fuel in Europe is down (-\$2) to \$87. It was \$94 at the

end of June 2023, and \$79 before the outbreak of war in Ukraine.

Brent crude oil (North Sea) is down (-\$3) to \$72 per barrel.

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 new comment: The price of a barrel of Jet Fuel in Europe is falling steadily from \$120 to \$87. This is its lowest price since May 2022 (when I began publishing this indicator).

*Since the beginning of the year, the price of a barrel of oil had been relatively stable (between \$80 and \$90). It **has now fallen to its lowest level since September 2021 (\$72).***

The spread between Jet Fuel in Europe and Brent crude has followed the same trajectory as Jet Fuel, approaching its pre-Ukraine level.

> **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 Partners for the Future, 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 and on LinkedIn.

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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