Tax on airline tickets: the French government wants to raise a billion euros

Letter from François Robardet

Air transport in France, Europe and the rest of the world

N°985, October 9, 2024

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I share the Air France-KLM group's raison d'être:

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

Editorial

Dear readers,

As I mentioned at the beginning of the week, I'm now retired, but I'm continuing to feed my navigaction blog.

You'll find this newsletter there, which I'll be happy to publish regularly, with a little novelty: the table of contents at the beginning of the letter.

I also plan to contact you in the coming weeks.

My aim is to ask you to send me your personal anecdotes and to compile a collection of them.

It would be offered for sale, with all profits going to the Air France Foundation.

I'll get back to you as soon as the project is more advanced.

In the meantime, here's a letter focusing on the government's plan to overtax air travel in France, to the tune of 1 billion euros a year.

Happy reading

François

My press review with commentary

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> Tax on airline tickets: the French government wants to raise a billion euros

(source Les Échos) October 1, 2024 - If you're planning a plane trip to a distant destination from France in 2025, don't delay buying your tickets. Air transport is one of the main victims of Bercy's plans to bail out the state coffers. According to our information, **the Ministry of the Economy and Finance is planning to levy an additional billion euros on air transport**, through a hefty increase in the so-called solidarity tax (TSBA) on airline tickets, in the 2025 Finance Bill.

This solidarity tax, borne exclusively by airlines, has been raised and misappropriated many times since it was created in 2006 by Jacques Chirac to finance the fight against AIDS in Africa. In 2019, the Borne government added an "eco-tax" to finance the renovation of the rail network. **The TSBA is one of ten taxes and fees levied on air travel in France, representing up to 40% of the ticket price.**
But **the increase in the TSBA planned today by Bercy is unprecedented, since it would be equivalent to a near-tripling of the revenue from this tax, which currently stands at 460 million euros a year**. With a particular focus on "high-contribution" customers and far-flung destinations.
According to the various versions of the project, all aimed at achieving the additional billion euro target, **the TSBA could rise from 63.07 euros for a long-haul flight in business class, to 200 euros for a flight of over 5,000 km** and 100 euros for a journey of 5,000 km and 1,000 km. In "economy" class, the tax would rise from 7.51 euros for a long-haul flight, to 60 euros for a flight over 5,000 km and 42 euros for a flight between 5,000 and 1,000 km.

As for intra-European flights of less than 1,000 km, as well as those to the French overseas departments, their fate has yet to be decided. Initially, the government planned to spare them a further increase in the TSBA, given that taxes and charges already account for 40% of the price of a domestic flight, compared with 17% for a Paris-New York flight. But he was considering doubling VAT on domestic flights from 10% to 20%. According to the latest news, he finally decided not to touch the VAT. However, an increase in the tax on intra-European flights is under consideration, with the idea of also making low-cost airlines pay.

A new version of the TSBA is also planned for business aviation. According to our information, it could reach 3,000 euros per passenger for a long-haul flight in a private jet (and 1,500 euros for the same trip of over 5,000 km in a turboprop with a propeller, even though this does not exist). It will be added to the fuel tax increase scheduled for 2023.

It's enough to please the left and the ecologists, for whom business aviation has become one of their favorite targets, while at the same time passing off a new increase in taxes as a measure of "tax justice". **The previous government had already paved the way last spring**, with a study by the Secrétariat général à la planification écologique (SGPE), which advocated aligning the taxation of long-haul flights with that of medium-haul flights, in the name of the fight against CO2 emissions.

However, **this new tax increase will further exacerbate the competitive deficit of French air transport**. Over the past twenty years, the French flag has already lost one percentage point of its market share in France, down to 38%. Because while the TSBA applies to all flights departing from France, it penalizes French airlines**, and Air France in particular**.

A spokesman for the company points out that the **Air France group is "the biggest contributor to this tax, with more than 140 million euros collected in 2023 for Air France and Transavia",** i.e. more than 30% of the total amount. "The project under study, which represents a non-progressive doubling of TSBA revenues, is unprecedented. Its financial weight could not be borne by the airlines alone, and would necessarily lead to an increase in the price of air tickets", stresses Air France.

The higher the tax burden on flights departing from France, the greater the risk that a growing number of passengers will take their long-haul flights abroad. Which, in terms of CO2 emissions, is possibly even worse. The temptation is particularly strong for passengers from the provinces, who have to take a connecting flight to catch a long-haul flight. Because of taxes, the price difference between Paris-Nice via Roissy-Charles-de-Gaulle and another major intercontinental hub, such as London-Heathrow or Istanbul, can already reach several hundred euros.

In addition to the risk of traffic leakage to other major hubs, there is also the risk of France losing its appeal as a destination for international tourists. Rather than entering Europe via Paris, Chinese or South American tourists may find it more advantageous to arrive via London, Frankfurt, Amsterdam, Rome or Madrid. **This already seems to be the case,** if we compare the growth in air traffic, which is higher in Spain and Italy than in France, which have chosen to reduce taxes on air transport to encourage increased tourism. A choice also recently followed by

Sweden.
In the case of Air France, the increase in the TSBA is all the more worrying in that it would come on top of other cost increases in 2025. **France is among the European countries where air transport will be the most heavily taxed in 2023," says Air France. Taxes paid and collected by Air France-KLM reached 3 billion**". **This figure is set to rise further in 2025, with the new tax on major** airports, as well as the possible increase in corporate income tax for companies with sales in excess of one billion euros, from 25% to 33.5%. **Other charges specific to air transport are also expected next year, such as the increase in civil aviation charges to finance air traffic control reform** and the end of free emissions permits, the cost of which for Air France will rise from 100 million euros in 2023 to 300 million by 2030. And let's not forget the additional billion euros represented by the target of 10% sustainable aviation fuels by 2030. All this will inevitably be reflected in the price of airline tickets, and will do nothing to boost the competitiveness of Air France, whose shares lost nearly 7% on the Paris Bourse on Tuesday.

My comment: *This article deals with the increase in the solidarity tax on airline tickets (TSBA).*

Nine countries apply this tax on airline tickets: Cameroon, Chile, the Republic of Congo, France, Madagascar, Mali, Mauritius, Niger and South Korea.

In France, the proceeds are allocated to the Fonds de solidarité pour le développement, up to a ceiling of €210 million. The balance is allocated to the air traffic control and operation budget (BACEA) of the French Civil Aviation Authority (DGAC).

The increase - a tripling of Air France's budget, i.e. an additional €300 million - is considerable. It will necessarily impact the Air France Group's results:
. either by reducing demand if the tax increase is passed on in ticket prices,
. or by worsening results if Air France decides to maintain ticket prices.

The proceeds of the tax increase are intended to offset part of the French government's deficit. It will reduce the Air France Group's capacity to decarbonize.

Over the past two years, Air France-KLM Group companies have been the world's biggest users of sustainable aviation fuels.

Moreover, this tax is in addition to the freeway and airport tax introduced at the beginning of 2024; this tax is borne by France's biggest airports (Roissy, Orly and Lyon, see my letter n°984). Low-cost airlines are de facto unaffected, as they mainly use less busy airports.

One might think that the contribution requested from Air France is justified, given the help it received from the French government to get through the Covid-19 crisis.

Not so. When Air France reimbursed the French state, the French airline paid copious interest (over 600 million euros). I invite you to (re)read the Les Echos article "Le sauvetage d'Air France s'est transformé en jackpot pour l'État français" in my letter n°936.

The consequences of the increase in the TSBA (solidarity tax on airline tickets) on the Air France-KLM share price were immediate. I invite you to refer to the stock market press review later in this letter.

> Airlines panic at the prospect of higher aviation taxes in France

(source Journal de l'Aviation) October 3, 2024 - New French Prime Minister Michel Barnier was eagerly awaited for his general policy speech to the French National Assembly on October 1. And not just by French politicians. Various air transport organizations, whether French, European or international, have already warned the French government of the impact any increase in taxation would have on the sector, reacting to the revelation by the newspaper Les Echos of a plan to increase the solidarity tax on airline tickets (often referred to as the Chirac tax).
(...)
Pascal de Izaguirre, President of FNAM and Corsair, warned that this "unprecedented increase" would jeopardize the sector, and could only be replicated on ticket prices. At a time when the French flag has already been losing one point of market share a year for over twenty years, it would introduce a new distortion of competition to the detriment of French airlines. "We've just learned that we're going to be taxed without any progression and without any impact study. We have our backs against the wall. It's a big deal for the French airline industry," he says.
As for the **UAF (French Airports Union)**, it "**deplores the fact that, at a time when many European countries are reducing their taxes on air travel, France has decided to do the opposite** by increasing these taxes, to the detriment of the connectivity of its territories".
The same is true of **IATA (the International Air Transport Association**), whose Director General Willie Walsh **calls the decision "disastrous".** "We can't tax ourselves to achieve prosperity. [...] The proposal smacks of panic and lack of joined-up thinking", he asserts. He points out that the countries with the highest aviation taxes took the longest to recover from the health crisis, and that France still has fewer passengers and less connectivity in 2024 than in 2019. Any increase would put a strain on airlines' ability to finance their decarbonization, and would also weigh more heavily on French companies than their competitors. "The only answer to France's deficit is to develop its economy and broaden the tax base, not tax the productive sectors of the economy to the point of immobilization," he says.
Industry groups **A4E (Airlines for Europe) and ACI EUROPE (Airports Council International) have expressed their "dismay"** and agree with Willie Walsh that, if this decision has been taken, it has not been based on a "thorough analysis of the economic impact". Like the UAF, they point out that several countries (Austria,

Ireland, the Netherlands and Sweden) have reversed the decision, noting the negative impact on their economies. Olivier Jankovec, Managing Director of ACI Europe, points out that "every 10% increase in direct connectivity leads to a 0.5% increase in GDP per capita. **The French government would de facto be choosing fast money at the expense of sustainable economic competitiveness**."
It should be noted that the idea of increasing the solidarity tax had already been raised by Patrice Vergriete in the spring, during his short stint at the head of the Ministry of Transport.

My comment: *The above article shows that all the air transport associations (in France, Europe or worldwide) are lined up to defend the French apvillon.*

> Air France-KLM cuts costs in the Netherlands

(source La Tribune) October 3, 2024 - It was expected: struggling since the traffic upturn, **KLM has decided to launch a savings plan to "structurally improve operational and financial performance".** The Dutch airline, a subsidiary of the Air France-KLM group, is implementing a series of measures to increase revenues and reduce costs, which will affect human resources management, investments and even the outsourcing of certain activities. **The stated aim is to achieve a short-term improvement in operating income of 450 million euros.**
"It's painful for every KLM employee, but it's necessary, and we have to do it now," concedes KLM CEO Marjan Rintel in a press release. The fact is, **since the takeover, the Dutch airline has been faced with a difficult equation. Despite full aircraft, it is struggling to redeploy its full capacity and make its flights profitable in the face of soaring costs.**

"Like many other airlines, KLM is suffering from high costs and a shortage of staff and equipment", explains the company's CEO.
Before Covid, KLM boasted that it was the most efficient airline in the group, while Air France was racking up losses. By 2023, however, KLM's operating margin had deteriorated to below that of its sister company, which was growing fast at the time. Air France has since collapsed, but KLM has not done much better. In the first half of 2024, it too went into the red, with an operating loss of 31 million euros, despite an increase in both capacity and revenue. **Despite a rather interesting spring, the company decided to take action**.

Final measures are currently being negotiated with the works council and trade unions. KLM management has nevertheless communicated its proposals. In terms of human resources, the company is aiming to increase labor productivity by at least 5% by 2025. To achieve this, it intends to rely on "automation, mechanization and reduced absenteeism". This goes hand in hand with measures to tackle the shortage of pilots and technicians, which has affected its recovery since the health crisis, with the aim of continuing to increase capacity and reduce flight cancellations. KLM is also announcing organizational simplification measures to increase synergies.

"We will do everything in our power to maintain our network and the services offered to our customers, and to protect jobs throughout our company", assures Marjan Rintel.

On the investment front, a number of postponements are expected, such as the creation of new headquarters, engineering and maintenance buildings. Efforts on the fleet and on-board services will be "maintained as far as possible", **bearing in mind that the company is committed to a billion-dollar investment plan to renew its aircraft** - which this strategic plan should help to perpetuate. New services should boost revenues by around 100 million euros a year.
The final option on the table is "to study the possibility of outsourcing, divesting or abandoning activities that do not contribute directly to flight operations". This option has already been taken up by the Group, with the creation of operating subsidiaries to manage a pool of spare engines, and more recently for the Flying Blue program.

My comment: *While KLM has long been the locomotive of the Air France-KLM Group, this has no longer been the case since 2023.*

The decline in activity at Schiphol, encouraged by the previous Dutch government, prevented KLM from turning the page on Covid.

The final measures will be announced shortly.

In my opinion, it is essential that they do not jeopardize KLM's fleet renewal strategy, a necessary step to reduce CO2 and NOx emissions, as well as noise pollution around Schiphol.

> The shocking conclusions of the report on air traffic control reform

(source Les Echos) October 3, 2024 **- Five months after the agreement reached, not without difficulty, on the proposed reform of air traffic control in France,** the fog maintained by the previous government around this agreement is beginning to dissipate. In a report presented this Wednesday to the Senate Finance Committee, Senator Vincent Capo-Canellas has revealed for the first time the cost of this protocol, based on an estimate of the expected benefits for airlines and their passengers.

The various "compensation" measures granted to air traffic controllers in return for the unprecedented reorganization effort are expected to increase personnel costs at the Direction Générale de l'Aviation Civile (DGAC) "by around 100 million euros a year, starting in 2027", out of a total of 1,259 million in 2023. This compares with the 80 million euro increase agreed over the last three protocols, from 2010 to 2019, including 47.5 million for the previous 2016-2019 protocol.

Between 2004 and 2016, France was responsible for 96% of strike delays in Europe.

An effort deemed necessary to remedy the "mediocre performance" of air navigation services, compared with the European average. France handles around 30% of European air traffic, but is also responsible for 35% of air navigation service delays," recalls the rapporteur. In 2023, it was still the biggest contributor to delays, accounting for 37%, compared with 26% for Germany."
On average, a minute's delay would represent a cost of 100 euros for the airlines, whose fees entirely finance air navigation services. "**In 2023, Air France-KLM suffered 815,000 minutes of delay due to air traffic control, 75% of which were attributable to the DSNA**, representing a loss of around 80 million euros for the company," reads the report.

This underperformance has several causes. The best known is the repetition of strikes. "Between 2004 and 2016, France was responsible for 96% of strike-related delays in Europe", says the report, which points out that a day's strike generates a loss of around 14 million euros for airlines and 3 to 5 million for the DGAC. However, the issue of recurring strikes has already been addressed by the introduction of mandatory individual declarations, which were passed at the end of 2023 at the suggestion of the same Senator Capo-Canellas.

What remains to be addressed is the main cause of the delays. Namely, the lack of productivity on the part of French air traffic controllers. With 0.88 flights controlled per hour, their performance is well below that of the most efficient centers, such as Maastricht (2.02 flights/hour), as well as their Portuguese (1.24), Hungarian (1.12), British (1.06), German (0.95), Spanish (0.95) and Italian (0.91) counterparts.

This productivity gap is largely due to delays in modernizing the IT tools used by controllers, many of whom still have to work with computer systems dating back to the 1970s. But also, to a large extent, to "an overly rigid organization of work [...] which prevents sufficient controllers from being positioned when traffic is heaviest". "We haven't reformed or modernized fast enough", says Vincent Capo-Canellas.

In theory, the new protocol should remedy this, by speeding up equipment modernization and introducing greater flexibility into air traffic controller management. Starting with a review of the "one day out of two" rule, already successfully tested in a few centers. This would have increased the number of control positions open during peak periods by 10% to 20%.
Combined with the closure of some thirty control centers and towers by 2035, and the abolition of "clairances" - absences not counted as days off - this new work organization could boost productivity by 10% to 20%. This would reduce delays by a million minutes a year, and would be enough to offset the additional cost of 100 million euros. The installation of time clocks in all DSNA centers as of next year, which is not included in the protocol measures, would be enough in itself to increase

the effective working time from 24 hours a week to the 32 hours stipulated in the texts.

But the measures must actually be applied, and the expected gains must be achieved. Senator Capo-Canellas admits to having his doubts, given the track record of previous protocols.

Hence his proposal, adopted by the Senate Finance Committee, **to go beyond this reform, by separating the air navigation services (DSNA) from the other DGAC departments, as is already the case in most European countries**. A special commission would be set up for this purpose. Autonomizing the DSNA would cut red tape and enable a more refined social dialogue closer to the controllers' concerns," he explains. It's in both their interests and those of the DGAC.
It remains to be seen whether the DGAC management, the unions and the current government will have the necessary motivation to tackle such a structural reform, when the current protocol has yet to be implemented. Both the DGAC and the main air traffic controllers' union, SNCTA, are refusing to comment for the time being.

My comment: *The memorandum of understanding in question here dates back to April 2024.*

It enabled air traffic controllers to lift a strike warning, denouncing the lack of accompanying measures, particularly in terms of wages, as part of the overhaul of French air traffic control.

For more details on the overhaul of French air traffic control, see the article "Air traffic continues to decline on Paris-province routes"
in my previous newsletter n°984.

In my commentary, I gave details of the new 4Flight control tool, designed to improve air traffic control efficiency.

Stock market press review

> Air France-KLM, the SBF 120's biggest decliner at the close of business on Tuesday, October 1, 2024

(source AOF) October 1, 2024 **- The airline's second consecutive session in the red was due to the sharp rise in oil prices and heightened tensions in the Middle East**. The second explains the first. The stock has lost nearly 38% since January 1.

> Air-France-KLM, the SBF 120's biggest decliner at the close of

Wednesday, October 2, 2024

(source AOF) October 2, 2024 - The airline sector remained under pressure in Europe due to higher oil prices as a result of the worsening geopolitical situation. In France, **Air-France-KLM is also under threat of an increase in the sector tax by the executive branch.**

My comment: *Air France-KLM's share price fell two days in a row (-6.78% then -5.52%), following the announcement of tax increases in France and rising tensions in the Middle East.*

Other airlines (IAG, Lufthansa, easyJet, Ryanair) also saw their share prices fall, but not to the same extent. They will be little affected by the increase in the solidarity tax on airline tickets (TSBA).

End of press review

> Air France-KLM share price trend

Air France-KLM shares closed at **8.224 euros** on Friday October 4. It is **down sharply this week (-11.76%).**

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 new comment: *Air France-KLM's share price is down sharply this week (-11.76%). For explanations, see the commentary above in the stock market press review.*

> Fuel price trends this week

The price of a barrel of Jet Fuel in Europe is up (+$8) to $95. It was $94 at the end of June 2023, and $79 before the outbreak of war in Ukraine.

Brent crude oil (North Sea) is **up (+$6) to $78 a 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 worsening situation in the Middle East has had a strong upward impact on the price of oil and its derivatives.*

Employees and former employees of Air France-KLM and its subsidiaries

> FCPE management

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

It is 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 letter or send me any information or thoughts that will help me to keep you better informed.

If you have any questions about the airline business or Air France-KLM employee shareholding, please send them to me.

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.

This press review covers the airline industry worldwide and topics related to Air France-KLM shareholding.

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