

Airline tax: the government makes a few changes, but still aims to raise a billion euros



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)

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

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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.](#)

Monday's letter

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> **Air tax: the government makes a few changes, but still aims to raise a billion euros**

(source Les Échos) October 21, 2024 - Despite protests from air transport trade organizations, **the government** persists. On Saturday, it **unveiled an amendment** to the 2025 Finance Bill, **aimed at tripling the proceeds of the so-called "solidarity" tax (TSBA) on airline tickets.** The amount of the "penalty" has not changed: the aim is still to collect a further billion euros from next year, on top of the 460 million euros already collected each year under the TSBA, on all flights

departing from France.

Of this billion, **850 million will come from scheduled airlines**, with a greater effort required from passengers departing for distant destinations (at least 5,500 km), **and 150 million from business aviation, for which a special fare** of up to 3,000 euros per passenger **has been created**. However, while the objective remains unchanged, the fare structure for long-haul flights has been significantly reduced compared with the preliminary plans.

For passengers in classes "with additional services", such as First and Business, the maximum amount of the tax is finally set at 120 euros on flights of at least 5,500 km, instead of the 200 to 300 euros initially envisaged, and at 80 euros instead of 100 for routes of 1,000 to 5,500 km. For economy-class passengers on long-haul flights, the tax has been raised to 40 euros for flights of 5,500 km or more, instead of the 60 euros previously envisaged, and to 15 euros instead of 42 euros for intermediate distances, from 1,000 km to less than 5,500 km.

The increase is nonetheless massive, compared with the current rates of 67.03 euros for all long-haul flights in business class and 7.51 euros in economy class. Nevertheless, **the government seems to have listened attentively to the fears of Air France and all the other players in the French air transport industry**, regarding the risk of seeing part of the long-haul clientele turning away from airports, in favor of foreign border airports or other major international hubs.

(...)

But if **the government's** hand isn't as heavy as expected on long-haul, **it will make up for it by substantially raising levies on all short- and medium-haul flights**, both domestic and intra-European, which make up the majority of traffic at French airports. For all these flights, on which the total amount of taxes and charges already represents 40% of the ticket price, the TSBA will rise from 20.27 to 30 euros in business class, and from 2.63 to 9 euros in economy class. **This increase will probably not go unnoticed by customers of low-cost airlines, whose average ticket price is around 50 euros.**

However, these last-minute changes are far from calming fears for the competitiveness of air transport in France. In an open letter to the government, **all the trade unions, including the SNPL pilots' union, warned of "a mortal risk for employment in France"**. "With no impact study, no consultation and no time limit, this tax, whose purpose is purely budgetary, is a real suicide for the industry", they assert, vaguely hinting at the threat of a strike. The UAF airport association, for its part, refers to a "massive destruction of air links, particularly at regional airports".

The weight of these surcharges will remain massive. **For the Air France group alone**, which is already the biggest contributor to the TSBA at over 140 million euros a year, the **increase would translate into additional costs of over 270 million euros, 150 of which will probably not be passed on to passengers.**

The increase will also make France the European country where air travel is the most heavily taxed. With all that this implies in terms of loss of attractiveness, given that 20 of the EU's 27 member states apply no specific tax on airline tickets, and that France is already the only country where taxes account for a majority of airlines' landing and takeoff costs. Enough to make you want to look elsewhere.

My comment: Here are the current amounts of the so-called solidarity tax.

Entrée en vigueur	vols vers la France, l'UE, l'EEE ou la Suisse		Vols vers les autres pays	
	Classe économique	Classe affaires et 1ère classe	Classe économique	Classe affaires et 1ère classe
1er juillet 2006	1,00 €	10,00 €	4,00 €	4,00 €
1er avril 2014	1,13 €	11,27 €	4,51 €	45,07 €
1er janvier 2020				
fonds de solidarité	1,13 €	11,27 €	4,51 €	45,07 €
éco-contribution	1,50 €	9,00 €	3,00 €	18,00 €
Taxe de solidarité				
1er janv 2020	2,63 €	20,27 €	7,51 €	63,07 €

Since January 1, 2020, an eco-contribution has been added to the solidarity tax.

The beneficiary of this tax is the Agence de financement des infrastructures de transport de France (AFITF), a public administrative body set up by the French government to contribute to the financing of rail, road, port and river infrastructure projects, and to the development of public transport projects in France.

Proposition du gouvernement				
Entrée en vigueur	Destination finale européenne		Vols vers les autres pays	
	Classe économique	Classe avec services additionnels	Classe économique	Classe avec services additionnels
1er janvier 2025 ?	9,50 €	30,00 €		
1er janvier 2025 ?		Destination finale < 5500 km	15,00 €	80,00 €
		Destination finale lointaine > 5500 km	40,00 €	120,00 €

The government's plan has evolved over the last few days.

The biggest increases now concern business aviation (from €600 to €3,000 per passenger, depending on destination) and short-haul flights.

Flights to French overseas departments and territories and Corsica will be treated as European flights.

Given the market shares of the various airlines in the short-haul segment, Transavia France would be the hardest hit.

Could this call into question its development?

It all depends on how customers react to the rise in ticket prices. It will be substantial: for a Mediterranean destination, this tax will represent up to 20% of the ticket price.

What I find most shocking about this proposal is the double standard applied to air and sea transport.

The tax increase for maritime transport is limited to two years and degressive, whereas it is permanent for air transport, without being dedicated to the decarbonization of airlines.

Finally, and most importantly for employees: if, as the journalist implies, 150 million euros will be borne by the Air France group, this will have an impact on employees' income, at the very least by reducing their profit-sharing and incentive bonuses.

> **Transavia Netherlands CEO expresses concern for the future**

(source Luchtvaartnieuws) October 21, 2024 - **Transavia [Netherlands] celebrated its 59th birthday on Monday. The airline is ambitiously approaching 60, but CEO Marcel de Nooijer has concerns about the future.** "Our success is closely linked to a consistent and transparent government policy."

Since 1965, Transavia [Netherlands] has operated charter and scheduled flights, with Schiphol as its home base. In addition, the airline is a major user of Rotterdam-The Hague airport and Eindhoven airport. Flights also began two years ago at Brussels airport, although schedules there will be reduced next summer.

(...)

"Although the government's revised package of measures is a step forward, **the extreme fare differentiation worries us, as does the possible restriction of night flights at Schiphol.** These measures could have a major impact on our operations. The ability to move these flights early in the morning or late at night is very limited. Alternatives, such as purchasing additional aircraft or cancelling flights, are not realistic options without significant consequences," says De Nooijer.

"Foreign competitors arriving at Schiphol early in the morning then enjoy a competitive advantage. For Transavia [Netherlands], whose home base is the Netherlands, these measures would lead to higher ticket prices and reduced margins for fleet renewal. It is important that we maintain our position as a Dutch company, where we can continue to operate at lower cost and in a more sustainable way."

(...)

With a possible night-time closure, the Netherlands would be the only EU country without 24-hour access. This will have a negative impact on accessibility.

De Nooijer continues to advocate accelerating sustainability in the aviation sector. "That's why we advocate that revenues from EU ETS and airline taxes be used to support airline sustainability. This not only keeps ticket prices affordable, but also ensures that we can continue our sustainable growth from Schiphol, Rotterdam and Eindhoven. So everyone can continue to enjoy their annual flying vacations, family visits abroad and discovering new destinations.

According to De Nooijer, **Transavia's future lies in innovation, "but this is only possible with the right preconditions and political choices.** We remain committed to a healthy, more sustainable airline industry in which air travel remains accessible to all.

***My comment:** In the Netherlands, as in France, national airlines are the most exposed to government decisions.*

It's high time the two countries worked together to harmonize taxation policy within the European Union.

Failure to do so would give a clear advantage to airlines based in several countries (easyJet, Ryanair, Volotea, Wizz Air, etc.).

> **La Réunion: a new pilot for Air Austral**

(source Les Echos) October 21, 2024 - After betting on a company veteran, Joseph Bréma, to turn around the company's finances in 2022, **Air Austral's shareholders went looking for a successor among the competition.** Hugues Marchessaux, CEO of Air Caraïbes Atlantique until a few months ago, took up his post as Chairman of the Management Board of the Reunion-based airline in October. As soon as he arrived, he made a point of highlighting his track record with airlines in times of crisis: with Corsair in 2010 at the time of a restructuring plan, and last year with Air Caraïbes Atlantique (Dubreuil Group, which also owns French Bee, which is experiencing strong growth on the Paris-La Réunion route).

Hugues Marchessaux arrives in the Tropic of Capricorn in a tense climate.

After accepting a collective performance agreement a few months ago, Air Austral's Economic and Social Committee decided last month to exercise its economic alert right to find out more about the state of the company.

Air Austral is going through one of the most difficult phases in its history, which began in 1990. Although the company ended the 2023-2024 financial year with a sharp rise in sales, to 440 million euros, **its management did not disclose its operating deficit, which was only described as "significant". Last year, it was close to 59 million euros.**

After benefiting from over 100 million euros in public debt relief last year, the company obtained a conciliation protocol from the commercial court a few weeks ago, giving it several months to negotiate a repayment schedule for the hundred or so million it still owes. Air Austral's shareholders, a private consortium led by Deleflie, the majority shareholder, and the regional council recently agreed to provide a further 15 million euros in fresh money. "This will enable us to get through the low point in our cash flow at the beginning of 2025," comments Hugues Marchessaux. **The new Chairman of the Management Board now wants to focus on lowering "excessively high production costs" and "working on revenues"**, particularly those of the medium-haul business, which is still loss-making despite some closures of secondary routes. Hugues Marchessaux is optimistic, forecasting a return to breakeven in 2025, before returning to profitability in 2026.

Second only to Air France on the Paris-La Réunion route, Air Austral has been penalized in recent years by high aircraft return costs and, like many other airlines, by the failure of its Airbus A220s - one of which is still idle, awaiting new engines.

My comment: Air Austral's situation is increasingly delicate. Its debts are mounting year on year.

It seems likely that employees will once again be called upon to make efforts.

> **A 4th hangar for Tarmac Aerosave in Teruel**

(source Air & Cosmos) October 14, 2024 - **On October 8, 2024, Tarmac Aerosave inaugurated its 7th maintenance hangar, the 4th at its Teruel site in Spain.** Built in the record time of 9 months, its dimensions make it **the largest metal-textile hangar in the world.** With over 8,000 square meters, it can accommodate a jumbo jet (A380) or four single-aisle aircraft simultaneously. Tarmac Aerosave has invested 15 million euros in this new infrastructure.

A year after inaugurating its third hangar, this 4th hangar is Tarmac Aerosave's 7th, and was inaugurated on October 8, 2024. Tarmac Aerosave's maintenance offering now comprises four hangars in Teruel, two in Tarbes and one in Toulouse. At 95 meters long, 85 meters wide and 34 meters high, this metal-textile structure is the largest of its kind in the world. Designed to accommodate the Airbus A380 and up to four A320s, it covers 8,000 square meters, of which 7,700 square meters are dedicated exclusively to aircraft maintenance.

(...)

The hangar is distinguished by its temporary but highly efficient nature. This flexibility makes it possible to meet the increased demand for aircraft maintenance due to growing air traffic. The structure is fully recyclable at the end of its life. With an accumulation of orders and long-term maintenance contracts, the 1st hangar at Teruel, capable of accommodating two A380s, is fully booked for the next

two years. This new facility will relieve pressure and enable the company to maintain a high quality of service, while creating numerous jobs. 50 jobs will be created in Teruel. Tarmac Aerosave currently employs over 230 people in Teruel, out of a total workforce of 530, making it Teruel airport's largest employer. With this new hangar, Tarmac Aerosave not only increases its capacity, but also consolidates its position as a key player in aircraft maintenance, storage and recycling.

My comment: *The recycling and reuse of parts and materials from aircraft dismantling represents an environmental, economic and strategic challenge, at a time when supply chain difficulties are lengthening delivery times for new parts.*

Tarmac Aerosave has been at the forefront of this field for many years, even winning over Airbus.

Last year, Airbus and Tarmac Aerosave set up a joint venture with the city of Chengdu to open China's first aircraft lifecycle services center, offering solutions for maintenance, storage, dismantling and recycling (source: Air Journal).

> **Boeing nears agreement to end Seattle strike**

(source Journal de l'Aviation) October 21, 2024 - Industrial operations at the American aircraft manufacturer may be returning to a degree of normalcy in the Seattle area. **Boeing and the machinists' union (IAM) have reached a tentative agreement to end the strike by nearly 33,000 employees that has paralyzed production of the 737 MAX, 767 and 777 programs for the past five weeks.**

The union said on Saturday that the proposal merited consideration by its members, with a ratification vote scheduled for this Wednesday, October 23, the same day as the presentation of the US aerospace group's quarterly results.

The preliminary agreement includes a 35% pay rise over the next four years, higher annual bonuses and a larger contribution to the company's funded pension scheme.

Prior to the outbreak of the labor dispute, Boeing had proposed wage increases of 25% and then 30% as a way out of the crisis, but these offers were rejected by the majority as falling far short of the trajectories set out in previous agreements. Acting U.S. Secretary of Labor Julie Su played a decisive role in the negotiations between Boeing management and the powerful union, as the Biden administration showed itself to be rather worried about the fate of the Seattle industrial giant, two weeks before the U.S. presidential elections.

According to Bank of America, **the strike is costing the American aircraft manufacturer almost \$50 million a day.** Boeing CEO

Kelly Ortberg recently announced a series of measures aimed at stemming the company's current financial hemorrhage, including a 10% reduction in its worldwide workforce following delays in some of its programs.

Boeing has also just secured a new \$10 billion credit line, and intends to raise a further \$25 billion through equity and debt issues, to relieve its cash position.

***My comment:** Boeing's cash position is at an all-time low. It's time for the American manufacturer to put an end to this strike.*

Investors should be on board to revive Boeing. Its order book is full, and no competitor can afford to take its place.

All that remains is to solve the manufacturing problems on its three main models: the B737 Max, the B787 and the B777.

This will undoubtedly be the most difficult task for its new CEO.

Stock market press review

> Air France KLM: altitude recovery ahead of financial statements

(source Boursier) October 18, 2024 - While the oil sector corrected course this week with the sharp drop in black gold prices, the transport sector, on the other hand, logically regained some height, with Air France KLM returning this Friday morning to the 9 euro mark, giving a weekly rebound of almost 7%.

Among the latest brokers' opinions, **HSBC is keeping the stock, with an adjusted target price of 8.50 euros, while AlphaValue is 'accumulating' the stock, with a target price of 9.58 euros.** At the same time, analysts continue to review the dossier in the wake of the government's announcement of a new tax on air travel in France. **Morgan Stanley, for its part, is maintaining its 'market weighting' recommendation, with an adjusted target of 9.40 euros.**

The French Ministry of Finance intends to levy an additional €1 billion on the sector through a hefty increase in the so-called solidarity tax on airline tickets, in its 2025 Finance Bill. The financial burden of such a tax increase "cannot be borne by the airlines alone, and will necessarily lead to an increase in air ticket prices", said an Air France spokesman.

According to Antoine Fraysse-Soulier, head of market analysis at eToro, "one of the sectors most impacted by the government's tax announcements will be air transport... Indeed, to replenish government coffers, Bercy intends to double the solidarity tax on airline tickets (TSBA). Known as the "Chirac tax" when it was created in 2006, it brought in 460 million euros for the State last year. It is one of the ten taxes and fees levied on air transport in France, the total amount of which

represents up to 40% of the price of a ticket" commented the analyst. For its part, ING Bank is maintaining its 'hold' recommendation, but with its target raised to 9.50 euros.

The Group will publish its Q3 accounts on November 7.

My comment: *The share price has performed well over the past two weeks.*

Nevertheless, analysts are cautious. They are awaiting the publication of Air France-KLM's quarterly results on November 7.

End of press review

> Air France-KLM share price trend

Air France-KLM shares closed at **9.096 euros** on Friday, October 18. Over the week, it is **up sharply (+7.34%), following a rise of +3.04% the previous week.**

It stood at 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 10.77 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: *The share price has recovered to its pre-tax hike level.*

Investors are awaiting the publication of quarterly results on November 7.

> Fuel price trends this week

The price of a barrel of Jet Fuel in Europe is down (-\$7) 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 (-\$6) to \$73 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 price of a barrel of Jet Fuel in Europe had fallen to its lowest level since May 2022: \$87.*

> **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...

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| François Robardet

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