

Over 1,000 billion in sales and more than 5 billion passengers expected by 2025



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

N°995, December 16, 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 tomorrow's world.

Monday's letter

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My comment on the next two articles: *Despite delivery delays at Boeing, despite difficulties in the supply chain, despite difficulties in hiring aircraft technicians, airlines should have a better year in 2025 than in 2024.*

I'd like to draw your attention to a rarely mentioned indicator: net profit generated per

passenger.

It varies from \$1 to \$23 per passenger, depending on the airline. By way of comparison, it was \$10 per passenger for Air France-KLM in 2023.

However, we need to be cautious about the 2025 outlook for European airlines.

They will continue to be penalized if conflicts persist. The war in Ukraine has led to the closure of 20% of European airspace and a ban on Siberian overflights, lengthening flights between Europe and Asia.

The real bad news in 2024 is the stagnation in aircraft fuel efficiency. This is due to delays in aircraft deliveries and the low availability of sustainable aviation fuels (discussed below).

> Over 1,000 billion in sales and more than 5 billion passengers expected by 2025

(source Journal de l'Aviation) December 10, 2024

Read the article:

Air transport could reach two highly symbolic milestones in 2025. According to estimates by the International Air Transport Association (IATA), **airlines could exceed \$1,000 billion in sales next year, and carry more than 5 billion passengers**. These are unprecedented levels for the industry. On the other hand, **margins will remain slim**, and supply chain difficulties are likely to persist, with adverse consequences for performance.

IATA member airlines are relatively optimistic about 2025. With potential sales of \$1,007 billion, up 4.4% on 2024, net income is estimated at \$36.6 billion, up 16.2%. **However, IATA has the usual reservations: expenses will rise in tandem with revenues, reaching around \$940 billion, leaving a net margin of 3.6%**. According to the association's most telling indicator, airlines will make a profit of \$7 on each ticket. This is still a precarious balance, better than in 2024 (when they should make a profit of \$6.4 per ticket), but still lower than in 2023 (\$7.9 per ticket).

"This profit will be hard won by airlines who will benefit from lower oil prices while maintaining load factors above 83%, tightly controlling costs, investing in decarbonization and managing the return to more normal growth levels after the extraordinary recovery due to the pandemic. All these efforts will help mitigate the negative effects on profitability that are beyond their control, namely persistent supply chain challenges, infrastructure deficiencies, onerous regulations and increasing tax burdens," comments Willie Walsh, IATA's Director General.

One of the key challenges facing the airline industry in 2024 has been supply chain disruptions. "These problems are a source of frustration for all airlines, as they have a triple impact on revenues, costs and environmental performance. Load factors are at record levels, and there's no doubt that if we had more aircraft, they could be deployed cost-effectively, compromising our revenues," explains Willie Walsh.

IATA conducted a specific study to examine the impact of these problems on air travel this year. It revealed that the average age of the global fleet had risen to 14.8 years, compared with an average of 13.6 years over the period 1990-2024, as delivery delays forced airlines to delay the retirement of their older aircraft.

At the same time, **the rate of grounded aircraft has reached 14% of the global fleet, representing around 5,000 aircraft (compared with 1,600 aircraft in 2018).** Of these, 700 are grounded due to the need to carry out engine inspections. The situation is unlikely to improve by 2025.

IATA also expects 1,254 new aircraft to be delivered this year, 30% fewer than initially forecast. This number is set to rise to around 1,800 aircraft in 2025, which is close to the levels achieved in 2018, but still well below the forecast level of 2,293 aircraft.

While airlines are working hard to improve the fuel efficiency of their fleets, this remained stable between 2023 and 2024 at 0.23 L of fuel per 100 available tonne-kilometres (ATK), whereas it had been falling steadily by 1.5% to 2% each year previously.

Finally, **the shortage of aircraft is driving up prices on the leasing market: they have risen by 20% to 30% for single-aisle aircraft.**

(...)

> Qatar Airways, Emirates... Middle Eastern airlines, champions of profitability

(source La Tribune) December 11, 2024

Read the article:

After a successful 2023, air transport profitability declined in 2024. This is one of the findings of estimates presented on Tuesday December 10 by the International Air Transport Association (IATA). But **behind the big figures are clear differences from one region to another.** While North American **airlines** generate by far the highest volume of profits, **Middle Eastern airlines are** also by far **the most**

profitable. Quite a revenge for a region that had plunged into the red even before the health crisis.

The two mature markets of **Europe and North America naturally dominate the debate**, accounting for more than half the world's traffic (calculated in terms of passengers per kilometer carried). **Of the \$31.5 billion in net profits expected for the air transport sector as a whole, airlines in these two regions will generate \$10 billion and \$12 billion respectively.** With the expected improvement in the sector's economic performance, these figures are set to rise by a further two billion dollars in 2025 for each continent.

Even so, Middle Eastern airlines appear to be far more profitable. Led by champions such as Emirates and Qatar Airways - which recently announced record results - they have accumulated net profits of over 5 billion, despite accounting for less than 10% of global traffic. This is far more than Asia-Pacific airlines, which are gradually returning to their pre-Covid traffic levels, and have three times as much traffic.

The difference is even more striking when these figures are expressed in terms of passenger numbers. **At \$8 per passenger for European airlines and \$10 per passenger for North American airlines, this is above the industry average (\$6.4). But this is far from what Middle Eastern operators achieve, with no less than \$23 in net profits generated per passenger.** And this is set to continue in 2025, according to IATA forecasts.

(...)

The three regions below the industry average are **Latin America, Asia-Pacific and Africa, which generate just one dollar of profit per passenger,**" says Marie Owen Thomsen, IATA's Chief Economist.

According to Willie Walsh, IATA's Director General, this is due in particular to the large share of premium traffic generated by Gulf carriers, in particular Emirates, Qatar Airways and Etihad. He also mentions the contribution of cargo, with strong growth in capacity, driven in particular by trade with Europe.

(...)

"We have observed that airlines in the Middle East are benefiting from certain geopolitical problems. For example, the closure of Russian airspace probably benefited the Middle East, with some traffic passing through this region. Similarly, **the lack of direct activity between the United States and China benefits the Middle East's main connecting hubs**", analyzes Willie Walsh, citing the hubs of Dubai (United Arab Emirates) and Doha (Qatar).

> **Global production of sustainable aviation fuels is not growing fast**

enough

(source Les Echos) December 10, 2024

My comment: The Air France-KLM Group clearly stands out for its commitment to the incorporation of sustainable aviation fuels (SAF), and seems well placed to achieve its objectives by 2030.

However, the global situation is far more worrying.

If global air transport is unlikely to meet its 2030 targets, it is virtually impossible for it to achieve 70% incorporation of sustainable aviation fuels by 2050.

In France, the necessary resources, notably biomass and decarbonized electricity, are likely to be largely insufficient to meet demand.

The Académie de l'Air et de l'Espace's report, entitled *Le transport aérien décarboné en 2050 : une question d'énergie* (available on my blog), highlights these challenges:

Biomass: Although central to the production of sustainable aviation fuels, it will be limited in the long term and will face massive competition from other sectors (electric power, heating, land transport, agriculture, industry, shipping, biogas).

Decarbonized electricity: Future needs are colossal.

In 2023, France produced 320 TWh thanks to its 56 nuclear reactors.

By 2050, to meet the needs of all of society's uses, production of 1,100 TWh will be required, including 107 TWh specifically for sustainable aviation fuels.

To translate these figures :

In 2050, this would represent a total of around 175 nuclear reactors, including 19 for the French aviation sector alone.

In solar equivalent terms, we'd need 4,000 km² of photovoltaic panels, including 430 km² for the French aviation sector alone.

One last figure: the surface area of France's 10 main airports is just 100 km².

These projections show that the "invisible hand of the market" will not be enough.

Political trade-offs will be essential to prioritize resources for sectors with few alternatives, such as aviation, to the detriment of other uses where more efficient solutions, such as direct electrification, could be favored.

My comment on my comment above: The same question arises for French air transport as for all the uses of French society:

How can we meet the European Union's goal of carbon neutrality by 2050?

China has answered this question in part, by pushing back its carbon neutrality target to 2060.

Read the article:

The decarbonization of air transport is in danger of running out of fuel. Despite an increasing number of projects, the production of sustainable aviation fuels, on which the goal of carbon-neutral air travel by 2050 largely depends, is not increasing fast enough to meet the needs of airlines.

According to the latest estimate from the International Air Transport Association (IATA), the quantity of sustainable aviation fuels (SAF) produced worldwide reached 1 million tonnes in 2024 (1.3 billion liters), double that of 2023. However, this doubling of production is well below the forecast of 1.5 million tonnes for 2024. Several producers in the USA and Europe have revised their targets downwards, much to the dismay of the airlines association.

Volumes of sustainable aviation fuels are increasing, but at a disappointingly slow pace, laments IATA Director General Willie Walsh. Governments are sending mixed signals to oil companies by continuing to subsidize oil and gas production, and investors still seem reluctant to invest in new fuels", he laments.

Faced with this situation, the companies seem largely powerless. Assuming no further postponements **in 2025, sustainable aviation fuel production is set to double again, according to IATA, to 2.1 million tonnes** (2.7 billion liters). However, **these 2.1 million tonnes will still represent only 0.7% of total kerosene consumption in air transport**, and only 13% of global biofuel production, which is still largely oriented towards road transport.

At the current rate of progress, the 6% target for sustainable fuels in 2030, set out in European regulations, will not be reached at global level. At that date, kerosene of fossil origin will still account for at least 95% of airline consumption. It's only from 2045 onwards that sustainable aviation fuels will begin to gain the upper hand. But only if the necessary investments have been made.

And yet, the efforts required seem totally disproportionate. At present, only around twenty sites in the USA and Europe produce sustainable aviation fuels. **IATA has identified 220 production site projects in 37 countries**, 158 of which should be operational by 2030. But according to its forecasts, **a minimum of 3,090 production sites will be needed to reach the 2050 target, in the best-case scenario.**

This would represent a total investment of at least \$3.9 trillion over twenty-five years for fuel producers alone, plus an additional \$4.7 trillion for airlines, linked to the additional costs of these fuels, future hydrogen-powered aircraft and the costs of the Corsia international offset and CO2 capture system.

Mission impossible? Not if governments do what's necessary, says IATA. 3,900 billion dollars is less than half the investment already made in solar and wind power development," points out the association's managing director. A large part of the necessary funds could already be found by redirecting the subsidies paid to oil companies for oil and gas production."

> **Boeing relaunches production of its 737 Max after record low deliveries in November**

(source Agefi) December 14, 2024

My comment: *On the brink of collapse, Boeing nevertheless managed to raise \$21 billion at the end of October.*

Part of this money will be used to relaunch production of its flagship models, the B737 MAX and B787.

Read the article:

Boeing announced on Tuesday that it had restarted production of its best-selling 737 Max model, almost three months after the start of a strike that brought its main U.S. plants to a standstill.

Over the past month, the group has also received 50 net orders and **delivered 13 aircraft**, including nine 737s assembled before the strike began.

The 737 delivery figure, identical to October's, is the lowest since 2021 during the health crisis.

(...)

Production of the 777 and 767 models is also expected to resume shortly, said the American aircraft manufacturer.

> Boeing aims to pull the 787 program out of the doldrums

(source Journal de l'Aviation) December 16, 2024

My comment: As APNA points out in its latest publication, "Boeing continues its program of relocating production to less unionized states".

Read the article:

Boeing's 787 long-haul family may be on the road to recovery. The American aircraft manufacturer has pledged to invest heavily in South Carolina, with a billion-dollar expansion project for its 787 program operations.

This decision is aimed at increasing the production rate of the midsize jumbo family, with the ambitious goal of returning to 10 units per month by 2026, as delivery delays continue to mount on the program.

The investment, which is expected to create around 500 new jobs over five years, will be particularly focused on the North Charleston site. Existing facilities will benefit from major upgrades to support current production targets, as well as possible future increases "driven by market demand".

Boeing moved to South Carolina in 2009, and currently employs over 7,800 people in North Charleston and Orangeburg.

These South Carolina sites now handle all production of Boeing's 787, the American aircraft manufacturer having repatriated its 787-8 and 787-9 programs, whose final assembly was still handled in Everett until March 2021. Since then, the 787 family has experienced major quality problems, limiting the number of aircraft delivered. The program has also been affected more generally by supply-chain problems.

As a reminder, **Boeing delivered only two 787s in November**, even though the program was not directly affected by the strike by machinists in the Seattle area. For the first 11 months of the year, the American aircraft manufacturer only managed to deliver 42 Dreamliners, an average of less than four per month, still short of its target of 5 per month.

Boeing had delivered 158 787s in 2019 (its record), just before the start of the pandemic. Production exceeded 12 aircraft per month in 2016, 2017, 2018 and 2019, with the target set at the time to reach 14 per month by the end of the decade.

> Airbus acquires two Daher plants to speed up A320 production

(source Les Echos) December 13, 2024

My comment: *In times of crisis, the multiplication of subcontractors shows its limits.*

After centralizing the purchase of raw materials (aluminum, titanium and, more recently, steel, see my [letter n°984](#)), Airbus is reintegrating certain strategic activities.

Last week it was Spirit AeroSystems, this week it's the turn of two Daher sites.

Read the article:

Airbus Atlantic, the manufacturer's subsidiary dedicated to its aerostructures activities, **has decided to reintegrate some of its production facilities in order to accelerate** production, in view of its copious order backlog and its difficulties in meeting deadlines. **The group is currently in discussions with Daher, one of its equipment suppliers**, with a view to acquiring two of its industrial sites in the Loire-Atlantique region, namely Carquefou and Malville, near Nantes. The final signature is due to take place at the end of the social process scheduled for the first half of 2025.

These two plants, which employ 160 people and 90 temporary staff, manually assemble aluminum alloy panels. These panels are used in the manufacture, at Airbus Atlantic's Nantes plant, of the central wing boxes, the keystone structure of the aircraft, supporting most of the aircraft's forces.

"The aim of these discussions is to secure production flows for the A320 family's central wing box in a context of high production rate increases. They also aim to optimize the industrial layout to gain in operational efficiency", confirms Airbus Atlantic, judging that **control of the A320 program supply chain is "absolutely key"**. The aircraft manufacturer has set itself the target of increasing the production rate of these single-aisle jets to 75 aircraft per month by 2027, compared with less than 60 today.

(...)

This reintegration is symptomatic of the fragility of the supply chain. Cash flow is still limited by the repayment of loans taken out during the Covid crisis, and the company is struggling to invest, recruit and train to keep pace.

(...)

> Lufthansa calls for suspension of EU-Qatar flight agreement

(source: Bloomberg) December 10, 2024

My comment: *Lufthansa, like most of the European airlines united within A4E (Airlines for Europe), is constantly denouncing an agreement that only benefits Qatar and its national airline, to the detriment of all European airlines.*

The European Commission's lack of reaction is despairing.

Read the article:

Deutsche **Lufthansa AG has asked the European Union to suspend its bilateral air agreement with Qatar, citing allegations of corruption against the Gulf state** which also owns Qatar Airways.

Karl-Ludwig Kley, Chairman of Lufthansa, has written to Ursula von der Leyen, President of the European Commission, requesting the suspension of the 2021 agreement, which allows unlimited flights between any EU airport and Qatar. The letter follows the investigation into the so-called Qatargate affair, in which European Parliament officials were allegedly bribed by the state.

"In light of the serious allegations of corruption, the EU-Qatar air transport agreement must be suspended immediately," wrote Mr. Kley and his co-chair Christine Behle in the letter, a copy of which was made available to Bloomberg News.

A Qatar Airways spokesman declined to comment on Lufthansa's letter.

The intervention by Lufthansa's supervisory board executives comes after Qatar Airways added flights between Hamburg and Doha, giving the Gulf carrier a fifth city pair in Europe's largest economy. The new service, which began in July, allows travelers from northern Germany to reach Asia and other Middle Eastern destinations via Doha, bypassing Lufthansa's hubs in Munich and Frankfurt.
(...)

End of press review

> Air share price trend

Air France-KLM shares closed at **8.014 euros** on Friday December 13. Over the week, it is **up (+5.41%)**.

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 10.66 euros (it was 15.0 euros at the beginning of January 2023). The highest price target is 17.50 euros, the lowest 7.10 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 adoption of the motion of censure had the effect of cancelling the increase in the solidarity tax due to come into effect on January 1, 2025.*

Investors took this into account, with the share price up 9% in two weeks.

> **Fuel price trends this**

The price of a barrel of Jet Fuel in Europe is up (+\$6) to \$91. 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 (+\$3) to \$74 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 comment: *Over the past month, oil prices have shown little change. It is at a two-year low.*

> **Corporate Mutual Funds**

When you invest in one of Air France'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 our website at](#) .*

Details

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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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