Letter from François Robardet

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

N°998, January 6, 2025

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Editorial

Dear readers,

Allow me to wish you all the best for 2025.

It will be marked by the Salon International de l'Air et de l'Espace, better known as the Paris Air Show, from June 16 to 22, 2025.

We'll be taking a close look at advances in sustainable aviation.

copyright Air France

The year 2025 promises to be a tricky one for the air transport industry.

Annual results will be heavily influenced by factors external to the airlines:

- *In France, although the tax on airline tickets was abandoned after the government resigned at the end of 2024, it is set to be reintroduced in the end.*
- *In the Netherlands, flight restrictions at Schiphol are likely to be greater than expected.*
- *The shortage of spare parts is expected to persist for at least two years.*
- *Problems with the Pratt & Whitney engines will take over a year to resolve.*

The key word for 2025 could well be "resilience".

François

Monday's letter

Contents :

> Air transport: in 2025, it's going to tax!

(source TourMaG) January 6, 2025

My comment: *If there's one point on which I agree with the new Minister of the Economy and Finance, it's that the ecological transition will mean paying more for certain basic services.*

This applies to all sectors of the economy, including aviation.

I'm convinced that our leaders are aware of this.

Read the article:

Envisaged, decried, anticipated, revised, voted on, contested, evacuated, reimbursed**, the increase in the Solidarity Tax on Airline Tickets (TSBA) is no**

longer topical since the budget has not been voted on.
(...)
But tax increases at the start of the new year are out of the question, and the political calendar has conveniently coincided with the Christmas-New Year holiday.

However, the debt wall is still there, as is the imperative need for a new budget, and the hunt for billions is set to resume soon enough.

Against this backdrop**, when Parliament resumes its work on the budget in a few days' time, the issue of increasing the TSBA is bound to come up again fairly quickly**, and the two organizations representing the interests of the French flag are still voicing their opposition to the increase.

The Syndicat des Compagnies Aériennes Autonomes (SCARA) again issued a press release on December 19 to reiterate its opposition to an increase in the tax on airline tickets, which is "discriminatory... and unfair to the populations of the French overseas territories and Corsica...".

The FNAM also sounded the same note, in a December 18 press release calling on the new government "to abandon this recessionary project, given the catalytic role played by air transport, a sector of excellence, for the French economy".

Nonetheless, **the FNAM Chairman has few illusions: "The subject will be put back on the table,"** he declared in an interview with Radio Classique a few days ago.
(...)
Éric Lombard, the new Minister of the Economy, Finance and Industrial and Digital Sovereignty, will be inviting all the political parties represented in Parliament to engage in dialogue and promote the adoption of a budget.

"We need to find a compromise," he declared. A man of the left, he could be inclined to satisfy the ecologists, especially as he **had declared in 2022** at the time of the release of his book "Au cœur de la finance utile" (Éditions de l'Observatoire) **that the ecological transition "would require paying more for certain basic services".**

At the Ministry of Transport, things are different. The new Minister, Philippe Tabarot, a right-wing senator from "Les Républicains", has a bad reputation with environmentalists, notoriously since a spat with IPCC scientists at a Senate hearing in 2021, when he **spoke of "the danger of degrowth and deprivation of freedom", during an exchange on the challenges of reducing greenhouse gases.**

Will he influence the debates to moderate or even bury the planned increases?

Finally, the position of Prime Minister François Bayrou, to whom the final arbitration will fall, will be of interest. Deprived of its service to Paris Orly, the inhabitants of his beloved town of Pau are counting on him to put pressure on the Air France - KLM group to re-establish the service, which was discontinued by Transavia because it was unprofitable.
(...)
With or without government taxes, **ticket prices are likely to rise in the years to come, as environmental legislation** leads to ever-increasing costs.

These include the EU Emissions Trading Scheme (EU ETS), and the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).
(...)

> Wizz Air announces that 40 aircraft will remain grounded until fiscal 2026 due to engine problems

(source Reuters) December 31, 2024

My comment: *The list of failures and problems on Pratt & Whitney's PW1000 GTF engines is long.*

It concerns Airbus 320neo, Airbus A220-300, Airbus A220-100 and some Embraer E2 aircraft.

According to Les Echos newspaper:
"To the breakdowns and premature wear problems of the early years were added delays in deliveries of new engines and spare parts. As a result, "the complete overhaul of an engine, which usually takes between 60 and 90 days, can now take a whole year", deplored Air Baltic's General Manager recently, citing the case of an aircraft that was immobilized "for 386 days".

Air France, which has ordered 60 A220s, experienced this last year, with 5 of its 36 A220s unavailable.

For Pratt & Whitney, the bill looks set to be a hefty one. In 2025 and 2026, the manufacturer expects to ground 350 aircraft a year on average, for 250 to 300 days, in order to carry out the necessary repairs on defective engines.

Read the article:

Wizz Air announced on Tuesday **that** it had signed a new support agreement with Pratt & Whitney, a defense and aerospace company owned by RTX, **due to engine problems**, adding **that it expected 40 of its aircraft to remain grounded until fiscal 2026.**

The Hungarian low-cost airline said Pratt & Whitney will provide commercial support, including operational assistance and a compensation package for direct costs related to grounded aircraft, until the end of 2026.

Budapest-headquartered Wizz Air, which operates an all-Airbus fleet, faced additional challenges after **Pratt & Whitney declared in 2023 that more than 1,000 engines needed to be removed from Airbus aircraft and checked for microscopic cracks**.

In September 2023, Wizz Air had estimated a potential capacity reduction of 10% in the second half of fiscal 2024, due to Pratt & Whitney's turboprop inspection.

In November this year, it posted a larger-than-expected fall in first-half profits, citing ongoing engine inspection issues that grounded its Airbus aircraft and the impact of conflict in the Middle East.

Wizz Air also stated that it expects to return to growth by taking delivery of 50 new Airbus A321NEO aircraft and increasing capacity by around 20% during 2026.

> Boeing: the FAA maintains its watchful eye

(source La Tribune) January 3, 2025

My comment: *The findings are damning for both Boeing and the U.S. Federal Aviation Administration (FAA). The FAA chief's statements are unequivocal.*

It remains to be seen whether his successor will be as firm.

According to Aerospatium magazine :

Michael Whitaker was roundly criticized last September by SpaceX boss and Donald Trump supporter Elon Musk, who called for his resignation following the FAA's decision to fine the launch company $630,000 for violating launch license requirements.

He had carried out two launches without waiting for the changes he had requested *from the regulator to be taken into account.*

In general, the billionaire, who is due to take over the reins of the new DoGE (Department of Government Efficiency), is keen to take advantage of the budget-cutting mandate he will be given to reduce the regulator's resources and prerogatives.

He criticizes the regulator for regularly imposing deadlines for consultation with the relevant stakeholders - as required by law - every time he tried to circumvent safety and environmental regulations to speed up flight testing of his Starship.

Read the article:

One year after the Alaska Airlines incident, **the U.S. Civil Aviation Authority (FAA) will maintain its enhanced oversight of Boeing for an extended period, the agency's outgoing chief, Mike Whitaker, said** in a statement **on Friday, January 3.** "We have conducted an unprecedented number of unannounced audits; and we are conducting monthly check-ins with Boeing executives to monitor progress. Our enhanced oversight is here to stay," warned Mike Whitaker.

"This is not a one-year project. **What's needed is a fundamental cultural change at Boeing, focused on safety and quality before profits**," added the FAA boss. This will require sustained effort and commitment on Boeing's part, as well as unwavering oversight on our part."

At the same time, on Friday the American manufacturer published an overview of the actions it has taken over the past year to improve quality in its factories. In particular, the group has "significantly reduced defects in the assembly of the 737 fuselage at Spirit AeroSystems by increasing inspection points on construction sites", it claims. The aircraft manufacturer also explains that it has stepped up training for its mechanics and quality inspectors.
(...)
Mike Whitaker acknowledged that previous surveillance was too passive.

The FAA also capped production of the 737 aircraft at 38 units per month, a pace the manufacturer did not actually reach in 2024 due to the slowdown of its assembly line to implement new safety and compliance measures. The incident and ensuing crisis for Boeing led to the departure of its then CEO, Dave Calhoun.

In addition to production quality problems, the **aircraft manufacturer suffered a strike in 2024 that lasted over 50 days** and paralyzed two crucial factories. **In mid-October, it announced its intention to reduce its global workforce by 10%. At the end of 2023, it employed nearly 171,000 people**.

As a reminder, **Mike Whitaker announced last month that he planned to step down on January 20, the date of President-elect Donald Trump's inauguration**. Sean Duffy, Donald Trump's nominee to head the Department of Transportation, told Reuters that he wanted to ensure that "we have safe airplanes coming out of Boeing".

> 765 aircraft delivered: Airbus just misses its target

(source La Tribune) January 3, 2025

My comment: *The number of Airbus deliveries in 2024 remains well below that of 2019 (765 vs. 860).*

This notable difference reflects the persistent difficulties encountered by the spare parts supply chain, an issue I have regularly addressed in my letters.

Read the article:

Airbus has narrowly missed its 2024 delivery target, provisionally delivering more than 765 aircraft to airlines and lessors, industry sources said citing preliminary data. The European manufacturer had forecast "around 770" deliveries in 2024. **But some deliveries have had to be postponed** as part of complex negotiations between airlines, aircraft manufacturers and seat suppliers, **leaving the 770-delivery target out of reach**, the sources said.

Airbus declined to comment ahead of the official announcement on January 9. All the more so as the data, which are subject to a routine audit, may be modified at the last minute.

The aircraft manufacturer theoretically delivered more than 122 aircraft in December, bringing the total for the year to just over 765, the sources added. But it would have had to deliver no less than 127 aircraft in one month to reach its target. By the end of November, it had already delivered 643 aircraft since January, 20 more than the previous year. The company had already recorded its best performance of the year in November, with 84 aircraft. This performance was dethroned in December.

Airbus had nevertheless prepared the ground for missing its delivery target, telling analysts that a shortfall of less than 20 aircraft would not be considered significant, and therefore not serious enough to warrant a further profit warning. As a reminder, Airbus derives most of its operating profits and cash flow from commercial aircraft deliveries. These results confirm the Group's recovery since the start of the summer, following a low point in August and September, with around 50 aircraft delivered per month. Airbus will present its forecasts for 2025 and full results on February 20.

Even so, **Airbus remains far from its pre-Covid levels**. Starting with 2019, a record year in which it produced over 860 aircraft. All the more so since, for 2024, the manufacturer revised its target downwards in July due to supply problems, and avoided a second profit warning after reaching an agreement on additional engine deliveries in November with CFM, a joint venture owned by GE Aerospace and Safran.

> Crash in South Korea: Boeing 737-800 inspection to focus on landing gear

(source AFP) January 1, 2025

My comment: *The images of the Jeju Air plane crash are terrifying.*

It is too early to know the exact reasons for this accident.

According to initial observations, one of the engines ingested birds, causing smoke emissions, and then the landing gear failed to extend.

Read the article:

South Korea announced on Wednesday, January 1, that a full inspection of all Boeing 737-800 aircraft operated by the country's airlines was focusing "primarily" on the landing gear, following the crash of an aircraft of the same model that killed 179 people in Muan on December 29.

The current examinations "are focusing mainly on the landing gear, which did not deploy properly in this case", said the director general in charge of aviation safety policy, Yoo Kyeong-soo.

South Korea had announced on December 30 a "complete inspection" of all Boeing 737-800s used by the country's airlines. On Wednesday, the country also announced that it would be sending one of the black boxes from the crashed Boeing 737-800 to the United States.

As it was impossible to extract the information contained in "the damaged flight data recorder on South Korean soil, it was decided today **to transport it to the United States for analysis in collaboration" with American**

investigators, explained Joo Jong-wan, vice-minister in charge of aviation, during a briefing.

On Sunday morning, this Boeing belonging to the South Korean low-cost carrier Jeju Air, en route from Bangkok, landed on its belly at Muan (south-west), striking a concrete wall at the end of the runway. Under the weight of the impact, the plane bent in two and burst into flames. In all, 179 of the 181 passengers died, with only a stewardess and a steward surviving the disaster, the worst air accident South Korea has ever seen on its territory.

> An e-fuel plant to be built at Fos-sur-Mer

(source Les Echos) December 31, 2024

My comment: *Once again, we need to be cautious but optimistic.*

The article simply mentions the first stage, the study phase. This could lead in 2027 to a decision to launch the operation.

The prospect of this plant producing e-fuel in 2030 is therefore uncertain.

Read the article:

A "calm" **public consultation process is underway in Fos-sur-Mer** (Bouches-du-Rhône) and neighboring towns **to decide on the future of the NeoCarb project** in the industrial port zone. "This plant will help to decarbonize maritime and aeronautical transport locally. The general public is very supportive," asserts Jérôme Giraud, the project's managing director. The momentum is so strong that its promoter, Elyse Energy, a young pioneer in the production of low-carbon molecules, has just announced the raising of 120 million euros to launch the administrative examination of this project, supervised by a team of 80 people.

The operation was carried out with its two historical partners, Hy24, the leading private asset manager focused on the hydrogen economy, and Mirova, an affiliate of Natixis Investment Managers dedicated to sustainable investment, who have already contributed 30 million euros in an initial round in 2023. They are joined by two new investors: the Dutch pension fund PGGM and Bpifrance. As in the Pays de la Loire region, where the company is carrying out a similar project, the final investment decision, for an amount of around 1.5 billion euros, will be taken in 2027 at the end of the new study phase. If the decision is positive, it should create 600 jobs on a 51-hectare site equipped with shipping docks.

Decarbonizing ports
The NeoCarb plant is designed to address the sustainable fuels market. **According to its business plan, it will include a powerful electrolysis unit (350 MW) capable of producing 40,000 tonnes of hydrogen per year. Mixed with carbon from the region's industrial processes, this raw material will be used to manufacture around 200,000 tonnes of e-methanol**.

A quarter of this will cover the local needs of a dozen ferries. However, the cost of this fuel, which is likely to be three times higher than conventional fuel, will make it difficult to go beyond this. "We intend to use it for maneuvering in and out of ports," says Jérôme Giraud.

The remainder will be refined to produce alcohol-to-jet e-kerosene for air transport. Another Elyse Energy plant, located near Lyon in the "chemical valley", will supply a further 75,000 to 100,000 tonnes per year of synthetic fuel. "This will be enough to cover local needs in 2030," continues the manager. He has already established contacts with several airlines, including Air France, which will be obliged by European regulations to use this type of sustainable fuel, initially blended with fossil kerosene.

No fewer than 45 e-fuel production projects for aircraft have been identified in the European Economic Area, according to a study by Transport & Environnement. **If confirmed, they would provide the aviation sector with enough synthetic fuel to meet the EU's first mandate for this type of fuel in 2030**, i.e. 1.2% of the fuel supplied to EU airports. This share should then gradually increase to 35% by 2050, according to the ReFuelEU Aviation Directive.

Stock market press review

> 2024 was a mixed year for European aviation investors

(source Luchtvaartnieuws) December 31, 2024 January 2025

***My comment:** Investors in Lufthansa and Air France-KLM will have to be very patient if they want to recoup their investment.*

Read the article:

The year 2024 was not the best for those investing in European airlines, but the differences between them were significant. Investors in Air France-KLM (-

39%) and Lufthansa Group (-20%) suffered heavy losses. By contrast, shares in IAG, the parent company of British Airways and Iberia, among others, almost doubled in value (+93%).

Both Air France-KLM and the Lufthansa Group are facing high costs, staff shortages and **the inability to fly at full capacity**, partly as a result. **IAG has suffered less from this situation, and is known to be structurally more profitable and efficient, helped by the national markets in which it operates.** London Heathrow is traditionally a goldmine for its many high-end flights, and Madrid is developing rapidly as an aviation hub. In addition, IAG flies much less to Asia, and therefore suffers less from having to make detours due to the closure of Russian airspace.

Among Europe's low-cost airlines, there were also big differences in share price trends last year. **While easyJet's shares rose by 11%, those of Ryanair (-18%) and Wizz Air (-35%) plummeted**. Ryanair has always been a stock market favorite, but the company was unable to grow as much this year due to its total dependence on Boeing, which had to drastically reduce production of the 737 MAX. Wizz Air, meanwhile, has had to ground a number of aircraft due to a production fault with the Pratt&Whitney engines powering its fleet of Airbus A320neo jets. The engines have to be returned to the factory for inspection and repair. EasyJet uses another manufacturer's propulsion sources for these Airbus aircraft.
(...)

End of press review

> Air share price trend

Air France-KLM shares closed at **7.604 euros** on Friday January 3. Over the week, it is **down sharply (-6.05%).**

It was 13.60 euros on January 1, 2024, and 8.23 euros on July 1, 2024.

The analysts' 12-month average (consensus) for AF-KLM shares is 10.07 euros (it was 17.50 euros at the beginning of January 2024). 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: *In recent weeks, the share price had stabilized at a level consistently below analysts' consensus, before falling last week.*

> Fuel price trends this

The price of a barrel of Jet Fuel in Europe is up (+$3) to $92. 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 $77 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'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 our navigaction 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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New readers can receive it by sending me an email address of their choice.

| François Robardet

At the forefront of more responsible European aviation, we bring people together to build the world of tomorrow.
(Air France-KLM's raison d'être)

I represented current and former Air France-KLM employees. You can find me on my twitter account @FrRobardet and on LinkedIn.

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