

The aeronautics industry wants to be "neither a scapegoat nor a cash cow".



I Letter from François Robardet

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

N°999, January 13, 2025

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Editorial

Dear readers,

The launch of Air France Holidays deserves to be on the front page of this newsletter. This initiative is essential for the Group.



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But the immediate news takes precedence.

The first article carries the aviation industry's message at a time when the new government is about to decide on a new salvo of measures likely to have a negative

impact on air transport.

*Enjoy your reading
François*

Monday's letter

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> The aeronautics industry wants to be "neither a scapegoat nor a cash cow".

(source Journal de l'Aviation) January 9, 2025

My comment: *"The United States is innovating, China is planning, and Europe is taxing and regulating," sums up Guillaume Faury, representative of Gifas.*

Repressive measures, if they prove necessary, must at the very least be applied on a European scale, before being extended to all airlines worldwide.

A tax exclusively targeting air transport in France will not slow down the global development of aviation.

It will penalize French airlines, exposing the sector to a risk of downgrading similar to that experienced by the French car industry, to the benefit of foreign competitors.

Read the article:

GIFAS (Groupement des industries françaises aéronautiques et spatiales) is not in the mood to celebrate the start of a new year. And yet, 2024 has been a year of growth, offering excellent opportunities for the entire sector, and enabling it

to virtually return to its pre-crisis level. **However, GIFAS President Guillaume Faury made it clear that the organization has serious concerns about the sustainability of French and European government support for the industry,** and made a number of recommendations to the public authorities.

At a time when a new Finance Bill for 2025 is being drawn up by François Bayrou's government, **GIFAS is calling for the announced €300 million support for CORAC (Conseil pour la recherche aéronautique civile) to be maintained, enabling the industry to prepare for its future development. Considering decarbonization as the fourth aviation revolution,** he also hopes that the emergence of a sustainable aviation fuel industry will be encouraged. In this context, **GIFAS believes that the planned increase in the solidarity tax on airline tickets will be totally counter-productive, as it will prevent airlines from investing, including in this field.** GIFAS also calls for the maintenance of the CIR (Research Tax Credit), which represents 700 million euros, believing that the industry's competitiveness relies mainly on technology and the dynamics of innovation.

Curb tax increases to prevent relocation

The group is also calling on the government to stop raising taxes, in order to encourage companies to develop in France, particularly in view of the planned increase in corporate income tax. "These are the laws of economics: **companies will eventually stop expanding or locate activities elsewhere because it will be easier or cheaper**", fears Guillaume Faury, acknowledging that it is difficult for companies to resist the attractiveness of the USA in particular. "The de-industrialization that is underway in France is not so much the result of relocation, but rather the localization of new investments where money can be deployed more efficiently and with greater certainty," he notes.

(...)

Finally, **he calls for a "massive simplification of regulations, whether European or French", which can be monsters of complexity.** This, too, is vital for industry, and in particular the supply chain, which could "see many companies move elsewhere because it's becoming unbearable in Europe".

Avoiding a decline in aeronautics like that of the French automotive industry **Guillaume Faury** asserts his conviction that the world is destined to remain connected, as mobility is one of the basic and essential expectations of human beings. "Let's not do the same in the air industry as we have done in other sectors. **We have historically champion industries, some of which were not supported as they should have been at French and European level, and are now paying the price.** If we want the aeronautics industry to continue to develop and remain a champion, we have to support it, help it, encourage it, not put obstacles in its way, tax it, prevent it from operating", he pleads. "We're not prepared to play the role of scapegoat [in the context of environmental issues, editor's note], nor do we want to play the role of cash cow, from whom we're going to help ourselves, thinking that

this will solve short-term budgetary problems, while taking the risk of destroying an industry in the long term."

He **points out that the aeronautics industry creates value in all French regions, as well as jobs**. The target of 25,000 new hires by 2024 has been reached, after 28,000 hires in 2023, which means that the industry maintains 176,500 jobs. Still the biggest contributor to France's balance of trade at 30 billion euros, the sector achieved sales of 70 billion in 2023.

(...)

> **Air France spreads its wings in package tours**

(source Les Echos) January 8, 2025

My comment: *The Air France Holidays offer is more than a tool designed to compete with the traditional platforms mentioned in the article.*

The Air France Holidays offer should ultimately enable the Air France-KLM Group to counter the expansion of Google Flights.

The development of Google Flights by Google presents several risks for airlines, including:

1. Loss of control over ticket distribution

Airlines would become dependent on Google Flights, and could be forced to pay it commissions.

2. Traffic detour and marginalization of loyalty programs

Google Flights could direct users to partner platforms rather than direct airline sites. Airlines would lose both direct revenues and valuable data on customer behavior.

3. In the long term, Google could gain a dominant position enabling it to influence the airlines' flight schedules.

Google could launch tenders for the most profitable routes, forcing airlines to adjust their flight schedules at the last minute.

Airlines would become dependent on this platform, at the risk of seeing their profitability steadily decline.

Read the article:

In recent days, viewers of "Quotidien" may have noticed the arrival of Air France Holidays as the show's new sponsor. **Air France is working hard to publicize its "dynamic packages", which include a flight and a hotel stay.** It will be valid for "over 400 destinations at very attractive rates, accessible all year round", says a press release.

The offer, which has been tested since the summer and follows on from the "Air France Collection" private sales launched in 2017, is intended to meet several objectives. "On the one hand, we are seeing an increase in French demand for tailor-made travel. On the other, it's about developing a product in a segment that complements our core business", summarizes Bouchra Kaabouz, in charge of commercial strategy at Air France-KLM.

An offer already proposed by Transavia

It's a way for the company to broaden its playing field, and strengthen its offering in an ultra-competitive travel market. **Faced with platforms such as Kayak, Liligo and Opodo, and even the giants Booking and Expedia, airlines are inclined to go beyond simply selling tickets.** Emirates, Turkish Airlines and Qatar Airways, to name but a few, already offer flight + hotel combinations.

Unlike Ryanair, which has abandoned the idea, the package travel offer launched by easyJet in 2022 has been a great success, accounting for almost a third of its profits. Transavia, the low-cost subsidiary of Air France-KLM, has also launched its own service from 2021, and tripled its sales in this segment last year, according to Bouchra Kaabouz. **Air France** hopes to follow suit, and **has set itself the target of doubling its sales by 2025, and sixfold by 2029.**

Air France "is not a travel agency".

Despite appearances, **"we are not a travel agency;** we don't have the status of one", assures the CEO. Like Transavia, **Air France has joined forces with PerfectStay, a tour operator working on a white-label basis with several airlines.** Its partner HBX provides an inventory of premium hotels (from 3 to 5 stars) at the best rates.

Even so, this high-profile launch is not without its share of tensions among travel agencies. "To each his own," grumbles an industry executive.

(...)



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> AFI KLM E&M secures Leap spare parts as production ramps up

(source Aviationweek) January 10, 2025

My comment: This is very good news for our engineering and maintenance business.

The aircraft orders placed with Airbus in recent years (A220, A320, A350) have facilitated the conclusion of this agreement for the supply of spare CFM Leap engines.

Read the article:

AFI KLM E&M is delighted to have secured 10 spare CFM Leap 1A and 1B engines, at a time when supply chains and commissioning times are under pressure.

Speaking late last year to Aviation Week Network's Engine Yearbook, engine lessor ELFC president Richard Hough noted that **demand for Leap and Pratt & Whitney geared turbofan (GTF) replacement engines was so high that aircraft lessors could earn almost as much by removing and leasing engines from Airbus A320neo and Boeing 737 MAX aircraft as they could by leasing the aircraft as a whole.**

"Lease rates for Pratt & Whitney GTF and CFM Leap engines are over \$200,000 per month, more than double the rates applied to the previous generation of engines, but you have to take into account that **these engines cost well over \$20 million to**

purchase as spare parts," he said.

"The discounts that apply to aircraft purchases do not apply to spare engines, and given the current level of demand, there is little or no discount from the list price quoted," Hough added.

(...)

As part of AFI KLM E&M's new purchase agreement, announced on January 9, CFM will deliver the first spare engine to Leap Premier MRO's airline customers this year.

With this extended engine supply, we can offer even greater flexibility and reliability to meet the needs of airlines operating CFM-powered aircraft around the world," said **Anne Brachet, Executive Vice President, AFI KLM E&M.** **"Our customers can count on us to deliver the right engine for the right job. Our customers can count on us to help them achieve their goals.**" Our customers can count on us to offer them the very best in engine maintenance expertise and logistical support.

> **Delta Airlines targets record annual profit in its 100-year history**

(source Reuters) January 10, 2025

My comment: I was recently talking to my predecessor, Christian Magne. He reminded me that, in 2005, Delta Air Lines was in such dire straits that Air France had been approached to invest \$500 million in its historic partner.

At that time, Delta and Northwest had filed for Chapter 11 bankruptcy in the United States . Delta and Northwest were then full members of SkyTeam.

Air France and Delta on the one hand, and KLM and Northwest on the other, operated codeshare flights.

Note: Air France had merged with KLM a year earlier.

Thirteen years later, in 2018, Delta came to the rescue of the Franco-Dutch group, investing 375 million euros to acquire a 10% stake.

Today, Delta Air Lines is forecasting record profits (\$6 billion), while Air France-KLM is seeing its share price plummet.

Despite this, the French government persists, and is considering overtaxing its flagship airline ...

Read the article:

Delta Airlines said Friday it expects 2025 to be the most profitable year in its 100-year history, thanks to strong demand for its premium tickets and improved pricing power in the industry.

(...)

For the full year, Delta Airlines expects to post earnings of more than \$7.35 per share, compared with analysts' expectations of \$7.22 per share, according to LSEG data. The group has forecast adjusted earnings of \$6.16 per share for 2024.

"As we enter 2025, we expect strong travel demand to continue as consumers increasingly seek out the premium products and experiences Delta offers," said CEO Ed Bastian.

Revenues from "Premium" tickets, the airline's upgraded economy class, have been growing faster than those from classic economy tickets, and are expected to surpass them by 2027.

(...)

The sharp reduction in the number of seats on the domestic market, which affected carriers last summer, pushed up ticket prices and strengthened the sector's earnings outlook.

(...)

Industry analysts are optimistic about US airlines because of their capacity discipline. Analysts at JP Morgan speak of a "new golden age" for the sector.

(...)

> Aircraft rental company Avolon estimates that supply problems will last a decade

(source Reuters) January 10, 2025

My comment: *Over the past few weeks, I've been expressing my scepticism when specialists predict an end to spare parts supply problems by 2026.*

Avolon, the leading aircraft rental company, is talking about ten years!

If this hypothesis were to prove true, it would herald a difficult period for airlines.

Their expansion would be limited, much to the chagrin of investors, but this would have a positive impact on CO2 emissions.

Read the article:

Aircraft manufacturers' long-running production deficit will sustain the supply-and-demand dynamics driving airline and lessor profits **for at least another decade**, said the head of the world's second-largest aircraft leasing company, Avolon, on Friday.

Aircraft manufacturers and suppliers have struggled to keep up with the post-pandemic travel recovery due to rising costs and labor and parts shortages, problems that were exacerbated by Boeing's safety problems and staff strike last year.

Avolon's annual outlook report predicts that airline net income will rise by 16% to over \$36 billion by 2025, thanks to low fuel prices, high revenues and the fact that the aircraft shortage has enabled them to prioritize the most profitable routes.

"This production shortfall underpins the balance between supply and demand, not just for the next three or four years, but for at least another decade," Avolon CEO Andy Cronin told Reuters.

(...)

The Dublin-based leasing company said that Boeing and its main rival Airbus will continue to struggle to meet their production increase targets despite rising deliveries.

Avolon, which is a subsidiary of China's Bohai Leasing Co Ltd, also predicted that orders from Chinese companies would rise sharply to 800 aircraft by 2025, due to growing travel demand and the need to replace an aging fleet.

While Avolon's report describes the aviation outlook for 2025 as robust, **it also notes that economic cycles typically last four to six years, and that the current cycle is already in its fourth or fifth year, with growth slowing in Europe.**

(...)

> Sustainable fuels: Verso Energy ready to cover 50% of aviation needs

(source La Tribune) January 9, 2025

My comment: Let's start with a brief reminder of European constraints in terms of decarbonization of air transport.

By 2025, fuel suppliers must include at least 2% sustainable aviation fuels (SAF) in their deliveries to European airports. SAF is blended with kerosene, injected into airport fuel supply systems and delivered to aircraft without distinction.

The fuel used by Air France on departures from France already includes a mandatory share of sustainable aviation fuels.

By 2030, Air France is aiming for a worldwide incorporation rate of at least 10% for these fuels, which would enable it to exceed the incorporation targets set out in the French and European roadmaps (6% at European level).

These new fuels are of two types

1. 2nd-generation biofuels, derived from biomass - notably used oils or agricultural waste - that do not compete with food crops.

2. Synthetic fuels - also known as "power-to-liquid" or "e-fuels", made from CO₂ captured from the atmosphere and hydrogen extracted from water, using energy that must be low-carbon.

For more information on this subject, please visit the [Air France corporate website](#).

As for the plant that Verso Energy intends to install, there are many steps still to be taken, and success is far from assured.

One key question remains: who will benefit from the carbon credits generated?

Will it be allocated to the VP paper and cardboard mill, whose biomass boiler emits CO₂, to the airlines using the e-fuel produced by the plant, or will the carbon credit be shared 50/50?

Either way, CO₂ "savings" can only be counted once.

Read the article:

By 2030, airlines serving Europe will have to incorporate 1.2% e-saf fuel in their fuel tanks. This rate will rise to 35% by 2050.

The countdown is on for the application of the new European ReFuelUE Aviation regulation, which is giving airlines a few grey hairs. As of January 1, airlines serving the Old Continent are obliged to incorporate at least 2% of sustainable aviation fuels

(Saf) in their aircraft fuel tanks.

In 2030, this ratio will rise to 6%, and will have to include a small proportion (1.2% to be precise) of e-Saf. In other words: a new-generation synthetic fuel derived from renewable energy sources.

The problem is that this "green" e-kerosene, made from a combination of hydrogen and CO₂, is not yet available in Europe. **Of the twenty or so industrial projects listed in the EU, only a handful have reached the stage of final investment decision, and none in France.**

Against this tense backdrop, Paris-based **Verso Energy has just announced its intention to invest 1.3 billion euros (a third of which will come from its own funds) to build an e-Saf production unit near Rouen**, with a capacity of 81,000 tonnes per year. This will satisfy "half of France's needs by 2030", asserts Antoine Huard, the company's CEO and co-founder.

A site that "ticks all the boxes

If it comes to fruition, the project could "be the first to see the light of day in France", says Huard. In practical terms, the industrial complex envisioned by Verso Energy will be divided into two entities some fifteen kilometers apart. The first, a CO₂ capture unit, will be installed at the outlet of the biomass boiler at the VPK paper and cardboard mill in Alizay, Eure.

The carbon dioxide, collected at a rate of 350 kilotonnes per year, will then be piped to the site of the former Petroplus refinery in Petit-Couronne (Seine-Maritime), where a dual hydrogen electrolysis and synthetic e-kerosene production facility will be built. The project promises to create 250 direct and indirect jobs (800 during the construction phase).

The location was not chosen at random. Bordered by the Seine and served by RTE's high-volume grid, **it is capable of supplying - with a few reinforcements - the water and electrons needed for hydrogen production.** Not exactly a detail for Victor Levy Frebault, Group Development Director. It can take ten years to complete a new electrical connection of this power," he points out. Here, we can go fast.

But these are not the only assets of the former Petroplus site. The site is also close to several fuel storage sites (notably those of Rubis and the Bolloré/TotalEnergies alliance). And, above all, the Trapil pipeline that transports kerosene to Paris airports. "The site ticks all the boxes for a 21st century project like ours," sums up project manager Camille Petit.

Green light hoped for mid-2026

All that remains is for the group to pass the public consultation stage, which

will be launched next week, and **then the building permit stage, hoped for mid-2026**, for the plant to come on stream at the end of 2029. As for financing, Antoine Huard is confident. To hear him tell it, the group has the means to achieve its ambitions.

(...)

Stock market press review

> Air France - KLM hits all-time lows: buying opportunity or still too early?

(source abcbourse) January 13, 2025

My comment: *The 7.2 euro share price values Air France-KLM at 1.9 billion euros.*

While differences in debt levels should be taken into account, there's a world of difference with the valuations of :

- *Lufthansa (6.7 billion euros),*
- *IAG (22 billion euros),*
- *Delta Air Lines (41 billion euros),*
- *EasyJet (4.5 billion euros),*
- *Ryanair (€22 billion).*

Read the article:

Air France's share price has just sunk to an all-time low of 7.17 euros, which had been under pressure for several weeks.

The stock is now sinking into the unknown, as **several brokers have lowered their price target for the French airline. Oddo BHF lowered its target from €10 to €9**, while Citi's analysts downgraded the stock by the same proportion, from €10 to €9.50. These targets are still well above the current share price, but it's the underlying momentum that counts, and it's a seller's market without many counterparts to buy. **The stock is going down very easily and is not being defended very much, which is a sign that buyers are not yet rushing in despite the fairly sharp fall. The context for the group is not so alarmist, but the market has decided otherwise.**

In the short term, the mood is heavy, and we have not yet entered the oversold zone on the RSI indicator. So there's still a little room for bearish exaggeration,

which would allow us to take a small speculative ticket at around seven euros and take advantage of a situation at a discount to its comparables.

Air France's strengths

Air France enjoys strong brand recognition in the global air transport market, particularly in Europe and Asia, which reinforces its ability to attract international customers.

As a member of the SkyTeam alliance, the company benefits from significant synergies, notably in terms of codeshare, access to strategic hubs and frequent flyer programs, which enhances its competitiveness.

Its modernized fleet, incorporating more fuel-efficient aircraft, enables it to reduce its operating costs over the long term, while meeting consumers' growing expectations in terms of environmental impact.

Air France's weaknesses

Air France's heavy reliance on fixed costs, such as high wage costs and infrastructure spending, limits its financial flexibility in the event of an economic downturn or drop in demand.

The sensitivity of its activities to fluctuations in fuel and currency prices exposes the company to increased volatility in operating margins, despite the hedging strategies employed.

Intense competition from low-cost carriers in the European market and from Gulf carriers on long-haul routes continues to weigh on market share and fares.

End of press review

> Air share price trend

Air France-KLM shares closed at **7.274 euros** on Friday January 10. Over the week, it is **down sharply (-4.34%)**.

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 remained relatively stable.

Over the past two weeks, it has fallen to an all-time low.

For an attempt at an explanation, I refer you to the stock market press quoted above.

> Fuel price trends this

The price of a barrel of Jet Fuel in Europe is up (+\$4) to \$96. 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 \$80 per barrel.

From mid-February 2022 to the end of July 2022, it was yo-yoing between \$100 and \$120. Since then, it has oscillated between \$75 and \$99.

My comment: Over the past month, oil prices have shown little change. It is at a two-year low.

> Employee investment fund 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 our navigation website](#).

Details

This information does not constitute a solicitation to buy or sell Air France-KLM shares.

You can react to this press review or send me any information or thoughts that will help me to keep you better informed.

By return, you can ask me any questions you may have about the Air France-KLM group or employee share ownership...

See you soon.

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| François Robardet

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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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