

Government mobilizes ecosystem to launch sustainable aviation fuels industry

## I Letter from the Director of Air France-KLM



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

(The raison d'être of the Air France-KLM group)

**François** Robardet

Representative of the employees and former employees shareholders PS and PNC

N°901, February 27, 2023

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## Monday's Press Review

### > Government mobilizes ecosystem to launch sustainable aviation fuel industry

(source La Tribune) February 20, 2023 - Everyone **wants sustainable aviation fuels, the famous SAF**. Everyone agrees that they will be one of the main levers, if not the main lever, to decarbonize air transport. In any case, it is essential if we are to achieve the goal of zero net emissions by 2050. **However, the industry is struggling to get off the ground in France and Europe**

(...)

No less than **three ministers** were on deck on Tuesday, February 14, namely Agnès Pannier-Runacher (Energy Transition), Clément Beaune (Transport) and Roland Lescure (Industry), in order to boost the movement. They **have brought together energy companies, industrialists, airports and airlines to launch a working group** that will have the difficult task of defining the future trajectory for building the SAF sector in France. Olivier Andriès, CEO of Safran, Anne Rigail, CEO of Air France, Augustin de Romanet, CEO of the ADP group, and many others (Airbus, Thales, Suez, Avril, Ifpen, etc.) were among the participants.

(...)

This session enabled the ministers, and in particular Agnès Pannier-Runacher, to announce their desire to implement the National Low-Carbon Strategy in the aviation

sector and to find ways for the sector to collectively decarbonize without losing competitiveness. **They also announced that the government would appoint a "binomial" to ensure the link with the working group, as well as a timetable with a new general meeting at the end of April and the presentation of a definitive roadmap during the Paris Air Show.**

(...) **Safran CEO**

Olivier Andriès **has denounced the weakness of European ambitions in terms of SAF incorporation**, which should be between 5% and 6% in 2030, according to the negotiations underway in Brussels as part of the Refuel EU Aviation program, compared with the U.S. transition speed, which is aiming for 10% by 2030. Even if, as Agnès Pannier-Runacher reminds us, **the sustainability criteria are much less important in the United States**, the pace is significantly higher there, thanks in particular to the billions of dollars provided by the federal government.

(...)

Anne Rigail illustrated the situation with figures:

**"Current production (of SAF) represents a tiny fraction of aviation needs, so everything remains to be built.** If we project European and British production to 2030, we are looking at 2.5 million tons per year. The European and British mandates alone will require between 3 and 4 million tons per year by that date, even though we have seen that they are insufficient for the airlines. In France, it is estimated that 300,000 tons will be available per year from 2024."

She thus recalls that Air France-KLM has committed to at least 10% by 2030.

**Anne Rigail also adds that "our real fear, and it has been heard a lot here, is that France and Europe will be left behind in this global competition.** The United States is moving fast through the Inflation Reduction Act. Although their criteria are not the same as ours, their objective is to ensure the autonomy of American aviation, with a goal of 100% SAF by 2050.

(...) **We must add to this equation the need to produce green electricity, particularly to develop synthetic fuels** that require decarbonized hydrogen through water electrolysis. Figures from the Fnam, UAF and Gifas roadmap indicate that aviation needs are estimated at between 45 and 75 TWh in 2050, depending on different scenarios. "

It's not the thickness of the line," says Agnès Pannier-Runacher, who points out that **it's the equivalent of 10% to 15% of current annual electricity production in France.**

(...)

**Everyone - including energy companies - agreed that the emergence of an SAF industry in France requires clear objectives, a stable European regulatory framework and, above all, a lot of money.**

(...)

Like others, **Anne Rigail is calling for sustainable sources of financing in this area, with, for example, the earmarking of certain revenues, such as those from the European Union Emissions Trading Scheme (EU ETS) for aviation, for**

**this type of scheme.**

Marc Hamy, Airbus Vice President for Corporate Affairs, Sustainable Development and the Environment, reminded the audience of the need to include aviation in the European taxonomy in order to access green private financing. 800 billion needed to decarbonize air transport in Europe.

**My comment:** *The issue of French production of sustainable aviation fuels (CAD in French, SAF in English) goes beyond supporting French airlines.*

*Countries wishing to welcome tourists in the future will have to be able to provide this type of fuel to airlines, otherwise they will lose their appeal.*

*France is the world's leading tourist destination. Part of its economy depends on this sector.*

*Moreover, how can we convince foreign airlines to buy Airbus aircraft if Europe does not have sustainable fuel?*

*It is becoming urgent to define a timetable for making sustainable aviation fuels available and to allocate resources.*

*The ministers have committed to presenting the roadmap for decarbonizing the aviation sector at the International Paris Air Show (SIAE, better known as the Paris Air Show). It will take place from June 19 to 25, 2023.*

*Time is running out.*

## > **KLM: "Schiphol's shrinkage plan is contrary to European and global rules**

(Parool source, translated with DeepL) February 23, 2023 - On Wednesday, **Schiphol resigned itself to the firm's plans to reduce the number of flights at the airport** from 500,000 to 460,000 by the end of the year. With this knee-jerk reaction, Schiphol hopes to avoid further measures.

**KLM does not subscribe to this idea, says Marjan Rintel, managing director.**

"We have been saying for months that we are taking responsibility, but this is not listened to enough. **We are spending billions on new aircraft and investing heavily in sustainable jet fuel. This reduces carbon and noise emissions more than the restrictions at Schiphol.**"

(...)

But (...) she says "slot reduction has become the starting point without exploring alternatives. The cabinet still has not set noise limits, not regulated permits, not defined environmental targets."

(...)

**According to KLM, the way the firm wants to implement the markdown violates national and European legislation as well as international treaties. "The United States, among others, is very concerned about this. You can't just take away slots as a government. And if you want to restrict the free movement of goods and people, you have to prove to the European Union that this is the only way to achieve your goal."**

(...)

KLM indicated a week ago that it was ending all government support in April. With that, the airline also got rid of the restrictive conditions set by the cabinet and the presence of the state agent Kremers.

***My comment:** International rules only allow unilateral reductions in airport activity if the reduction is temporary and justified.*

*Otherwise, airlines can go to court, with a strong chance of a favorable ruling.*

### > **JetBlue would like to serve Amsterdam but...**

(source Air Journal) February 24, 2023 - After London and Paris, **JetBlue Airways wants to launch two new routes to Amsterdam, from New York and Boston. But it is complaining of obstructions from the Dutch airport**, and is demanding that KLM give up two pairs of slots in case of prolonged failure.

**The American company asked the U.S. Department of Transportation (DOT) on February 14, 2023 to intervene on its behalf against Amsterdam-Schiphol (...).**

This request for action follows, according to Routesonline, "diligent attempts to enter the market for air services between the United States and Amsterdam," says JetBlue, which was denied last September a request for two slots previously held by Aeroflot (banned from flying in Europe since the invasion of Ukraine by Russia, and placed on the European Union's blacklist).

**JetBlue details its various attempts, all of which have failed (so far):** the one via a "codeshare and interlining partner airline operating at Schiphol" was rejected in October 2022 by the slot coordinator Airport Coordination Netherlands (ACNL) "except in the context of joint operations with the other carrier, involving a revenue-sharing joint venture or a 'blocked space' agreement". The U.S. airline says this decision is "blatant discrimination" against the business model choices of low-cost and other airlines that choose not to be part of an international alliance. **JetBlue also notes that Aeroflot's slots are still not being offered to new entrants, as the Dutch government wants to reduce noise pollution by reducing air traffic.**

Things did not go any better according to JetBlue in its attempt to obtain Air France-KLM slots via the IATA (WASG, Worldwide Airport Slot Guidelines)

process, or more recently to recover Flybe's slots at Schiphol following the second bankruptcy of the British regional airline.

**The Open Skies complaint was filed against the Dutch government "under the Fair Competition in International Air Transport Act of 1978.** "The importance of new entrant access to AMS cannot be overstated given the extent of immune airline alliance activity in the transatlantic market," says JetBlue. Which asks the DOT "to require KLM to surrender two pairs of slots, at a commercially viable time.  
(...)

***My comment:** As in the case of the slot reduction at Schiphol, the Dutch government seems to have been careless in not respecting international treaties.*

*For this reason, JetBlue Airways has filed a complaint with the US Department of Transportation (DOT) against the Dutch government.*

### > **Value of the day in Europe - IAG stumbles despite good results after the acquisition of the airline Air Europa**

(source AOF) February 24, 2023 - **The IAG group, which includes British Airways and Iberia, is among the biggest decliners on the FTSE 100 index** (-8% to 152 pence or 1.73 euro) despite the publication of positive annual results. At the same time, **the group announced the acquisition of the remaining 80% of the capital of the Spanish airline Air Europa**, for 400 million euros, from the Globalia group. While analysts recognize that the operation will allow synergies, some fear the consequences of an even higher debt ratio.

**Obtaining the necessary regulatory approvals for the takeover could take around 18 months.** IAG says the deal follows the conversion on August 16, 2022 of its seven-year, €100 million unsecured loan to Globalia into a 20% stake in Air Europa.

IAG's Board of Directors believes that the acquisition of this airline will allow the group to benefit from growth opportunities in the Latin American and Caribbean market, as well as to increase connectivity to Asia

(...)

**" We are not convinced by the company's arguments in favor of the transaction," says Barclays, judging that the takeover "adds additional debt to a company, whose share price is already held back by concerns about its leverage."**

**IAG announces for 2022 an operating margin of 1.25 billion euros and a profit after tax of 431 million euros**, compared to a loss of 2.76 and 2.93 billion in 2021 respectively: earnings per share reach 8.7 euros compared to a loss of 59.1 euros in 2021. "A new positive result is expected in 2023, with an annual operating profit that

should be between 1.8 and 2.3 billion euros," adds IAG.

(...)

**My comment:** IAG is out of the red in 2022, but has done less well than Air France-KLM in net income: 431 million euros against 726 million euros for the Franco-Dutch group.

*Concerning the takeover of Air Europa by Iberia (a subsidiary of IAG), it should be subject to strong constraints imposed by the European Commission because Iberia, Air Europa and Vueling together would be in an ultra-dominant position at Madrid airport.*

### > Boeing suspends delivery of 787 Dreamliner again

(source Les Echos) February 24, 2023 - **The black series continues for the Boeing 787 Dreamliner. The American manufacturer has again suspended the delivery of its 787 long-haul aircraft**, already interrupted for several months in 2021 and 2022 for defects.

This time, **it is to analyze more closely an element of the fuselage**, said Thursday the U.S. agency overseeing aviation. "Deliveries will not resume until the FAA is satisfied that the problem has been resolved," the FAA said in a message. **The U.S. manufacturer said**

it discovered

while reviewing the certification files **that one of its suppliers had made an error in the analysis of the pressure bulkhead at the front of the aircraft**. Which thus took the decision to suspend the deliveries the time to redo the analysis and the documents related.

If the FAA indicates to work with Boeing "to determine the actions which could be necessary for the planes" recently delivered, the group wants to reassure. Assuring that there is no "immediate danger" for the 787 in service and that the last problem detected "should not increase" the modifications already planned on the produced planes.

(...)

**My comment:** Obviously, nothing or almost nothing goes well at Boeing.

*Don't shoot the ambulance, I would be tempted to write.*

### > Air India signs unprecedented contract for over 800 LEAP engines

(Source: Air & Cosmos) February 23, 2023 - **Air India has signed a record contract with CFM International for the purchase of more than 800 LEAP engines**, including 420 LEAP-1A engines, 380 LEAP-1B engines, and spare engines. The firm order will exclusively power the airline's new fleet of 210 Airbus

A320/A321neo and 190 Boeing 737MAX family aircraft

**Safran Chief Executive Officer Olivier Andriès said, "Safran is committed to supporting LEAP engine production and aftermarket activities in India** through its current and future capabilities and local partnerships.

Air India has been a CFM customer since 2002, when the airline introduced a fleet of CFM56-5B-powered Airbus A320neo aircraft. In 2017, Air India became the first LEAP-1A customer in India, powering its A320neo fleet with CFM's new engine.

***My comment:*** If Air India had a choice for the engines powering its future medium-haul Airbus, this is not the case for the 737MAX.

*The A320Neo and A321Neo are powered by either CFM LEAP-1A or Pratt & Whitney PW1000G engines*

*The 737 MAX family aircraft are powered by the latest CFM LEAP-1B engines.*

*LEAP*

*is a generation of jet engines designed by the CFM International consortium, owned 50/50 by Safran Aircraft Engines (formerly SNECMA1) and GE (General Electric).*

### > **Indian airports in ADP's sights**

(source Le Figaro) February 27, 2023 - A temporary calm hovers in the **arrival hall of Hyderabad airport** in this month of February. The luggage conveyors are at a standstill. Everything is deserted. Not for long. The airport operator, **GMR Airports, in partnership with the French ADP Group** (which manages the Paris airports), is putting **the finishing touches to the expansion of its terminal**. The CEO of the airport, Pradeep Panicker, does not hide his relief.

(...)

**The manager anticipates a doubling of annual traffic, which would reach 40 million in just four years.** Hyderabad, in the center of the subcontinent, will soon surpass Orly and its 29 million annual passengers.

**Pradeep Panicker's optimism speaks volumes about the growth of civil aviation in India.** Domestic and international passenger traffic has almost tripled in ten years to 342 million in fiscal year 2019-2020, according to the Airports Authority of India. That's an average annual growth of 10%.

(...)

In 2020, after three years of reflection, ADP

Group acquired 49% of the capital of Indian GMR Airports for 1.2 billion euros. "This is our biggest investment ever made outside France," notes ADP Group.

(...)

**ADP Group is deleveraging and accompanying GMR Airports in a major works plan of 269 billion rupees (about 3 billion euros). The aim is to expand the Delhi and Hyderabad airports. Another has just been built in Goa, on the west coast, while a fourth is being studied in Visakhapatnam, in the south.**

These projects are part of the strategy of the Congress Party and BJP governments to modernize and build terminals over the past two decades. In 2005, the authorities launched a first investment plan of 10 billion dollars while privatizing the airports of Delhi, Bombay, Bangalore, Hyderabad and Cochin.

(...)

The **Hindu fundamentalist government dreams of making the country a hub capable of competing with Dubai and Abu Dhabi.** "The central government, the airlines and the airports are all on the same page," says a GMR Airports executive. So it's not surprising that on February 14, the Indian Prime Minister, along with Joe Biden and Emmanuel Macron, made official the largest order in the country's history placed by Air India: 470 Airbus and Boeing aircraft, including 400 A320s, A321s and B737s in the medium range, as well as 70 long-range aircraft, including 40 A350s.

**For the Modi government, the plane must also become the priority means of transport for the middle classes, to the detriment of the train.** India has one of the oldest and most extensive rail networks in the world, with 126,000 kilometers of lines. However, the train can cover barely 50 to 100 kilometers in an hour. The authorities have started construction of only one high-speed line between Ahmedabad and Mumbai in the west, with help from Japan. And they have inaugurated a handful of semi-high-speed lines, such as the Delhi-Benares link in 2019.

But **fighting global warming matters less than economic growth to Prime Minister Modi.** He said at COP 26 in Glasgow in 2021 that his country would reach carbon neutrality only by 2070, a decade after China.

(...)

**The next step in the expansion of civil aviation will be the privatization of 25 airports, mostly in medium-sized cities, within the next two years to improve connectivity with the major hubs of Mumbai, Delhi and Bangalore.** The central government wants to encourage the private sector to invest in expanding these infrastructures. ADP Group and GMR Airports are just waiting for public tenders to position themselves. They will have to face the Adani conglomerate, known for its proximity to Narendra Modi. Adani had benefited from rule changes during the 2019 privatization, sweeping all six airports in the tender, much to the chagrin of GMR Airports. "Competition is not the same for everyone," concedes an executive of the unsuccessful candidate. The company had been searched by tax officials and then investigated by the federal bureau of investigation in the months leading up to the



privatization.

**My comment:** *In my last two letters, I already mentioned the development potential of air transport in India, well exposed in this article.*

## > **The European Union signs an air agreement with Japan**

(source Air Journal) February 21, 2023 - **The EU has signed an agreement to strengthen air services with Japan that will allow all airlines of both partners non-discriminatory access to routes between the two regions, "promoting open and fair competition."**

Announced on February 20, 2023 by the Swedish Presidency of the Council, "on behalf of the EU," the air agreement with "one of the Union's most important partners in Asia" will create a level playing field for European carriers "and a solid legal basis" for the further development of air services with Japan. In addition, together with the EU-Japan Aviation Safety Agreement, which will enter into force in 2021, this agreement will "further strengthen bilateral cooperation" between the parties in the aviation field.

The European Commission has negotiated an agreement with Japan that replaces "certain provisions in existing bilateral agreements" on air services between member states and Japan. These provisions "supersede" the corresponding existing provisions in 13 bilateral air services agreements between Member States and Japan. They meet a "key objective of the Union's external aviation policy by bringing existing bilateral air services agreements into conformity with Union law".

(...)

**Europe recalls that international aviation relations between Member States and third countries have been governed until now by bilateral agreements, "or other related bilateral and multilateral arrangements"**. Unlike EU law, these rules allow a third country to "reject, revoke or suspend the permissions or authorizations of an air carrier designated by a Member State but not substantially owned and effectively controlled by that Member State or its nationals. The agreement with Japan will therefore meet a key objective of the Union's external aviation policy by bringing existing bilateral air services agreements into line with EU law.

**Following today's signature, the agreement will be transmitted to the European Parliament for approval before returning to the Council for conclusion.** The EU and Japan will "exchange through diplomatic channels their respective notifications confirming that their internal procedures necessary for the entry into force of the agreement have been completed. The agreement will enter into force on the first day of the month following the date of receipt of the notification.

**The signing comes at a time when a similar agreement signed with Qatar is now being challenged, following the corruption scandal that has rocked the**

## European Parliament.

**My comment:** *Under the impetus of Germany and France, the European Union has a mandate to replace the multiple bilateral agreements governing air transport between each of the European Union countries and other countries.*

*The new agreements must promote open and fair competition.*

*While the open aspect of competition is clear in these agreements, the notion of fair competition is either absent or impossible to control.*

*This is what led European airlines to denounce the agreement with Qatar.*

## Stock market press review

### > Air France-KLM: the share price rises, analysts in support

(source CercleFinance) February 21, 2023 - **Air France-KLM shares are trading sharply higher on Tuesday morning on the Paris Bourse, buoyed by a Barclays note, which highlights the company's improved balance sheet.**

At around 10.45 am, the share price rose by 2.9%, making it one of the strongest risers on the SBF 120, which is losing around 0.4%.

In a study devoted to the airline sector, **Barclays believes that Air France-KLM should benefit from the strength of demand, but also from its internal restructuring.** From a

sector perspective, the analyst considers that the catching up of demand combined with the re-opening of Asian economies and corporate travel should more than outweigh the economic slowdown.

In this context, Barclays initiates coverage of the stock at 'overweight' with a price target of 2.3 euros. The intermediary also starts monitoring Lufthansa and Ryanair with a positive recommendation.

In a note published in the morning, UBS

teams maintain their buy advice on Air France-KLM, with a target of 2.2 euros, believing that the share price still has upside potential after their recent rebound.

**My comment:** *JP Morgan also raised its rating (from neutral to overweight) and price target (from €1.55 to €2.25) "due to higher margins resulting from the ongoing restructuring, the removal of state aid restrictions and the reopening of long-haul flights".*

## End of the press review

> **My comment on the evolution of the Air France-KLM share price since 2022**



The event that had the greatest impact on the share price in 2022 was the capital increase in June of 2.256 billion euros. This was used to accelerate the repayment of state aid and to reduce debt.

In 2023, the removal of state aid restrictions and the gradual improvement of the company's balance sheet have been welcomed by analysts.

The share price, which was below 1.30 euros at the beginning of the year, is now above 1.70 euros.

> **My comment on the evolution of the Air France-KLM share price this week**

Air France-KLM shares closed at 1.746 euros on Monday 27 February. It is up this week by +2.92%. The recent announcements on the 2022 results and on the end of the constraints imposed by the European Commission explain this rise.

Since the beginning of the year, it has risen by 38%. It was at 1.253 euro on January 2, 2023.

The average (consensus) 12-month analysts' rating for AF-KLM shares is 1.72 euros. The highest price target is 2.30 euros, the lowest 1.10 euros. I only take into account analysts' opinions after the May 2022 capital increase.

You can find the details of the analysts' consensus on my blog.

### > [My comment on the evolution of fuel prices in 2022](#)

**Since the beginning of the war in Ukraine, there is no longer any correlation between the price of a barrel of Brent oil and a barrel of Jet Fuel.** The difference between the two products was between \$30 and \$50, while in previous years it was only \$10.

### > [My commentary on the evolution of fuel prices this week](#)

**The barrel of Jet Fuel in Europe is up this week by \$4 to \$111.** After peaking at \$182 in June 2022, it had fallen back to \$132 by early August. It was \$79 a little over a year ago.

**Brent crude oil (North Sea) is down this week by -\$1 to \$82. This is close to the average level seen over the past five years, excluding exceptional events.**

From mid-February to the end of July, it was yo-yoing between \$100 and \$120. Since then, it has oscillated between \$85 and \$99.

At the beginning of March, Brent reached \$132, close to its record of \$150 (in 2008).

While oil has been back to its usual level for several weeks, **jet fuel is now approaching its usual level. The spread between jet fuel in Europe and Brent crude oil is now only \$29 per barrel.** Since the beginning of the Ukrainian conflict, the spread has been close to \$50.

## *Good to know*

### > [Advice for employees and former employees who are shareholders](#)

You will find on my [navigation](#) site [the modalities of access to the managers' sites](#).

To avoid forgetting to change your contact information each time you change your postal address, **I advise you to enter a personal e-mail address.** It will be used for all correspondence with the management organizations.

Keep all the documents related to your Air France-KLM shares in one place: all the letters you receive from the different managers, Natixis, Société Générale, your personal financial institution if you bought your shares through it.

### > [Management of employee investment funds](#)

When you invest money in one of the Air France FCPE funds, you get 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 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 stocks.

***My comment:*** If you would like more information on the management of the various Air France FCPEs, please consult [my website navigation, section Air France-KLM employee shareholding](#).

## **Details**

**This information is not intended to be 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 better carry out my duties as a director of the Air France-KLM group.

**You can ask me, by return, any question relating to the Air France-KLM group or to employee share ownership...**

See you soon.

To find the last press reviews of Monday, it is [here](#)

**If you like this press review, please pass it on.**

New readers will be able to receive it by [giving me](#) the email address of their choice.

**| François Robardet**

**Director of Air France-KLM representing the employees and former employees shareholders of PNC and PS.**

**You can find me on my twitter**

account @FrRobardet

## *Alternate Nicolas Foretz, PNC*



When I was elected, I received the support of the CFDT and the UNPNC.

This press review deals with subjects related to the Air France-KLM shareholding.

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