

Airbus expects aircraft numbers to double in 20 years

I Letter from François Robardet

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



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Monday's Press Review

> Airbus expects aircraft numbers to double in 20 years

(source AFP) June 14, 2023 - **Growth in global air traffic and the replacement by airlines of their aircraft with those emitting less CO2 should lead to a doubling of the world fleet over the next 20 years, according to Airbus.** In its annual forecast, published on Wednesday a few days before the opening of the Bourget International Air Show, the European aircraft manufacturer forecasts a need for 40,850 new passenger and cargo aircraft by 2042, **taking the world fleet to 46,560 aircraft, compared with 22,880 at the start of 2020.** This estimate is slightly up (3.4%) on the previous one published prior to the Farnborough Airshow, in July 2022. While Airbus expects more new aircraft, it anticipates that the number of aircraft to meet air traffic growth will be slightly lower (23,680 vs. 24,050 in the previous forecast), but that the need for aircraft to replace previous-generation aircraft will be higher (17,170 vs. 15,440). The number of aircraft already in service and still in service in 2042 has therefore been revised downwards, from 7,440 to 5,710. "We are seeing an increase in deliveries, but these are more replacement deliveries, for fleet renewal and for more fuel-efficient aircraft", summarized Bob Lange, Head of Business Analysis and Market Forecasts at Airbus.

The global airline industry is committed to carbon neutrality by 2050, which will require, among other things, more fuel-efficient aircraft that emit less CO2. At present, only a quarter of the fleet in service is made up of latest-generation aircraft,

which consume up to 25% less fuel than their predecessors. For its forecasts, based on over 6,000 different scenarios including energy prices, Airbus assumes average annual growth in world GDP of 2.5% and air traffic of 3.6%.

Between 2023 and 2042, domestic traffic in China is expected to increase by a factor of 3.3, and domestic flights in India by a factor of 5. In the so-called "mature" markets, the increase will be smaller: **US domestic traffic is expected to multiply by 1.4, intra-European flights by 1.3.** "Unsurprisingly, the markets where society is calling for greater restraint in air travel are generally the most mature markets", noted Bob Lange.

My comment: *There's going to be a lot of talk about aircraft fleets in this letter.*

This raises a question: are all the airlines (and their governments) aware of the scale of the efforts required over the next few years?

Globally, the majority of emissions come from a minority of countries.

The seven biggest emitters of greenhouse gases (China, the United States, India, the European Union, Indonesia, the Russian Federation and Brazil) will account for around half of global emissions in 2020.

The Group of 20 (Argentina, Australia, Brazil, Canada, China, the European Union, France, Germany, India, Indonesia, Italy, Japan, Mexico, the Republic of Korea, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom and the United States) are responsible for around 75% of global greenhouse gas emissions.

But the goal of zero net CO2 emissions by 2050 is looking increasingly unrealistic.

China has already pushed back this deadline. Its representative declared at the UN (in 2020): "Our goal is to start reducing CO2 emissions before 2030, and to achieve carbon neutrality by 2060".

However, according to a report by the IFC (International Finance Corporation):

"To achieve net zero emissions by 2060, the report estimates that China needs \$14-17 trillion in additional investment in infrastructure and green technologies in the power and transport sectors alone.

Given the scale of the resources required, public funding alone will not suffice. China must therefore carry out policy and regulatory reforms to boost the private sector and fully exploit its potential for investment and innovation."

The same applies to most of the countries mentioned above.

European airlines are well aware of this. They are calling on governments to increase investment in the production of sustainable aviation fuels.

They have been partially heard. Last December, France launched a €200 million call for projects.

The aim is to produce 500,000 tonnes of sustainable aviation fuels per year by 2030, enabling French airlines to meet their targets.

The United States, meanwhile, has adopted industry-wide measures via its Inflation Reduction Act.

Estimated at 369 billion dollars at the time of its adoption, the Act has no ceiling and could easily exceed 1,000 billion dollars, according to Credit Suisse and Goldman Sachs.

As far as airlines are concerned, the measures included in the Inflation Reduction Act consist of a tax credit for three years, from 2025 to 2027. Added to this is \$300 million in funding for research, production and distribution of non-fossil fuels. (source Les Echos).

> **Air France-KLM confirms its Airbus A350 mega-order**

(source Journal de l'Aviation) January 12, 2024 - The **Air France-KLM** group **confirmed its Airbus A350 mega-order** in December. Air France and KLM will finally share **33 A350-900s and 11 A350-1000s** to renew their long-haul aircraft fleets.

The Franco-Dutch group had already contracted 6 A350-900s last July. Deliveries are scheduled between 2026 and 2030.

Air France-KLM also has purchase rights for a further 40 Airbus A350s. This order is open-ended, and will give the group flexibility in allocating the aircraft to its various airlines.

Air France will thus become one of the main operators of the new Airbus long-haul family over the next few years. The French airline is currently lining up 27 A350-900s, and is still waiting for 14 aircraft of the same type from its first orders, as well as 4 A350Fs.

Air France-KLM opted for the A350 Family last September, in order to continue renewing and rationalizing its long-haul fleet. **The new aircraft will replace the 26 Airbus A330s currently flying the colors of Air France (15 A330-200s) and KLM (6 A330-200s and 5 A330-300s), as well as the Dutch airline's 15 Boeing 777-200ERs.**

A very large proportion of the group's 777-300ERs will also be replaced by A350s in

a second phase.

My comment: *When the decision was taken to replace the aging A330s and B777s, it was already a good one.*

Replacing them with A350s will enable the Air France-KLM group to significantly reduce its carbon footprint.

The numerous problems Boeing has since encountered with its latest long-haul models (the B787 Dreamliner and the B777-X) confirm this choice.

> **Transavia France begins its transformation from Boeing 737s to Airbus A320s**

(source Les Echos) January 10, 2024 - Sometimes things just happen. While **the Boeing 737 Max's setbacks are being played out in the media, on Wednesday Transavia France celebrated the delivery of its first Airbus A320, destined to gradually replace its Boeing 737-800s.** This confirms Air France-KLM's choice, two years ago, of Airbus' single-aisle aircraft over Boeing's to renew the fleet of its low-cost subsidiary.

This first A320 in Transavia livery is in fact the second in an order for 100 aircraft, with 60 options, to be divided between Transavia France, Transavia Holland and KLM. The 1st aircraft was delivered to Transavia Holland in December and is already in service. Transavia France's 1st A320, which will be based at Orly, will enter service next Monday on the Orly/Porto route, which was the airline's first service when it started up in 2007.

It is relatively rare for an airline to decide to change its aircraft manufacturer completely. Before Transavia, only EasyJet had managed such a move. In both cases, the challenge was to manage the fleet change in parallel with accelerated growth. Since 2019, Transavia France's fleet has grown from 38 to 71 aircraft, despite Covid, and from 7 million to 13 million passengers by 2023. Swapping Boeing aircraft for Airbus will require Transavia France and Transavia Holland to retrain all their crews, while managing annual growth of 6% and the integration of 10 to 15 new aircraft each year.

But the challenge is worth the effort. **Switching from a fleet entirely made up of older-generation Boeing 737s, predating the 737 Max, to the latest-generation Airbus A320neo should cut costs by 10%.** This includes lower fuel consumption, lower maintenance costs and greater operational robustness," explains Transavia France CEO Olivier Mazzucchelli.

The two Transavia subsidiaries are counting on these cost reductions to finally become profitable and meet the objective set by Benjamin Smith, Air France-KLM's CEO, of contributing to improving the Group's operating income by 400 million euros

by 2028. The new aircraft will also cut CO2 emissions by 15% and noise pollution at Orly by 50%.

However, the complete replacement of Transavia's Boeing aircraft by Airbus will take time. According to Olivier Mazzucchelli, Transavia's last Boeing 737 will not leave the fleet "until around 2030". By next summer, Transavia France will have just six A320s and 13 by the end of the year, compared with 70 Boeing 737-800s (the pre-Max model). Airbus aircraft will not become the majority at Transavia France until the end of 2027, when Transavia France plans to operate a total of 90 aircraft.

(...) So far,

Transavia France's takeover of former Air France domestic routes does not appear to have been a great success. The company has even had to give up some routes, such as Orly-Brest. While Transavia claims to be low-cost and inexpensive, its costs are increased by the use of Air France pilots and a main base at Orly. So it's not playing in the same league as Ryanair or Volotea.

And the prospect of resuming routes at Orly, on which Air France admits to losing several tens of millions of euros every year, is far from obvious for a company whose losses in France and the Netherlands still amounted to 179.9 million euros in 2022, on sales of 2.2 billion. The target for 2023 was to break even. But **the 8% margins targeted by the Air France-KLM group still seem a long way off, and Transavia France will have its work cut out to establish itself at Orly in the face of EasyJet, Vueling and the Maghreb airlines.**

My comment: *Three companies in the Air France-KLM group have B737s in their fleets: Transavia France (71 aircraft), Transavia Netherlands (43) and KLM (42).*

They will all be replaced by Airbus A320 NEO family aircraft.

The allocation of A320s and A321s will depend on any restrictions at Schiphol. It is likely that the A321s, which have a larger capacity than the A320s, will be allocated to KLM and Transavia Netherlands.

> TAP carried nearly 16 million passengers in 2023

(source AFP) January 12, 2024 - **Portuguese airline TAP, which is due to be privatized in the next few months, carried 15.9 million passengers in 2023, a number up 15.2% year-on-year but still lower than in 2019, before the health crisis,** it announced on Friday.

(...)

In 2019, TAP had carried more than 17 million passengers.

(...)

TAP, which was urgently renationalized in 2020 in the wake of the Covid-19 crisis,

benefited from an injection of €3.2 billion in public funds, accompanied by a restructuring plan negotiated with the European Commission, in force until 2025.

As part of this rescue plan, TAP had to reduce its fleet and the number of slots at Lisbon airport, compared with 2019, recalls the company, which returned to profit in 2022.

(...)

My comment: *The political crisis in Portugal could postpone the sale of TAP airline until 2025.*

If TAP continues its recovery in 2024, its value should increase.

> **Stock market, aeronautics, Airbus, Boeing: sky blue**

(source Les Echos) January 14, 2024 - One man's misfortune is another man's gain. But it's **not just the woes of Boeing and Pratt & Whitney that drove Airbus and Safran shares to new highs on Friday**. Above all, the European aircraft manufacturer's sales figures lend credibility in the eyes of investors to their preferred scenario for 2024, that of rising profitability thanks to accelerated production rates.

The 2% overshoot of its annual delivery target, deemed highly ambitious by analysts at the start of the autumn, satisfied them far more than the cherry on the cockpit of a record number of orders, triple the number of aircraft rolling off the production line.

Beating the previous sales peak, which dated back a decade, will certainly reassure portfolios worried about customers' financial health as they emerge from the post-Covid rebound. Delta Air Lines' abandonment of its 2024 earnings target, however, has reminded them of the difficulty airlines have in stemming the drift of their costs.

Nevertheless, easing tensions in the industry will remain the main focus of attention. Brokers are keen to see Airbus surpass its 2018 delivery record. This is undoubtedly the key to bringing its market capitalization - the closest it has come to Boeing's in fourteen months, to within 2.4 billion euros - into line with its share of the aerospace market, now in excess of 60%.

My comment: *The CEO of Safran, the world's leading supplier of spare parts alongside General Electric, recently pointed to difficulties with titanium and steel supplies.*

Tensions among equipment suppliers are set to continue for several years yet.

> **FAA tightens its grip on Boeing**

(source Journal de l'Aviation) January 12, 2024 - The serious incident involving Alaska Airlines' Boeing 737-9 on January 5 was truly one too many. **The FAA** (US Federal Aviation Administration) **has announced the opening of an investigation into whether Boeing failed to verify that its aircraft conformed to the approved design and were in a condition for safe operation.** It will also increase its oversight of the aircraft manufacturer's production, and is questioning the continued delegation of authority. **"It's time to re-examine the delegation of authority and assess the associated safety risks,"** said FAA Administrator Mike Whitaker.

An audit will therefore be launched to examine the 737-9 production line and its suppliers, and verify that Boeing is complying with approved quality procedures. Depending on the results, further audits may be organized.

Increased attention will also be paid to events linked to the 737-9's entry into service. Finally, the FAA will analyze the risks associated with the current system of delegation of authority and quality oversight, whose fragilities have already been highlighted after the 2018 and 2019 accidents.

"The downtime of the 737-9 and the multiple production-related issues identified in recent years are forcing us to consider all possible options to reduce risks. **The FAA is studying the possibility of using an independent third party to oversee Boeing's inspections and quality system,"** asserts Mike Whitaker.





My comment: Since March 2019 and the crash of the Ethiopian 737 MAX 8 (157 deaths), the very close ties between Boeing and the FAA have come under fire.

For some ten years, the FAA had outsourced part of its aircraft certification to Boeing (see my [letter n°696 of March 25, 2019](#)).

The many incidents that have occurred in recent months on new aircraft show that difficulties remain.

The latest incident (a door ripped off in flight, see photos above) led Boeing CEO Dave Calhoun to make his mea culpa.

Last week (Tuesday, January 9, 2024), he acknowledged a "mistake" after a door stalled during the Alaska Airlines flight, which resulted in 171 of the US manufacturer's 218 737 MAX 9 aircraft being grounded.

Mr. Calhoun promised to deal with the issue "transparently, every step of the way".

> **How China's C919 plans to profit from Boeing's woes**

(source La Quotidienne) January 12, 2024 - **The South China Morning Post, one of the Far East's most influential newspapers, published in Hong Kong, reports that China, and in particular aircraft manufacturer Comac, have taken the decision to promote sales of its C919 aircraft in Europe, ahead of any other continent except China itself.**

The Chinese authorities consider that few moments in history could have been more favorable to the sale of this aircraft, the first comparable to European or American planes, given the situation of Airbus and Boeing, absolutely unable today to meet demand.

According to them, today, buying an aircraft from either of the two traditional manufacturers can mean waiting up to seven years, given the saturation of their factories, despite the efforts of both companies to speed up deliveries. Unfortunately, **Comac** also has a serious problem: to date, the Chinese manufacturer has delivered only four aircraft, while the first has been in the customer's hands for just over a year.

In its most optimistic forecasts, it would manufacture no more than fifty aircraft a year by 2030, whereas this is the minimum number of A320s that the European consortium can manufacture in a month.

According to specialist data, this rate of Chinese production could not even meet domestic Chinese demand, although there are also many doubts as to whether this demand is real or state-induced, which would allow any Western buyer to bypass these orders.

My comment: *Fact or fiction?*

Let me remind you that almost all the Comac's equipment (see infographic below) is imported by China.

This is particularly true of the engines, which account for 25% of the aircraft's value; they are supplied by CFM International, the joint venture founded in 1974 by Safran and General Electric.

Comac has the same suppliers as Airbus and Boeing, and therefore the same supply problems. The Chinese manufacturer will find it hard to supplant Boeing in the years to come...



Stock market press review

> JPMorgan lowers its target price for Air France-KLM to 9.20 euros

(source Agefi-Dow Jones) January 10, 2024 - **On Wednesday, JPMorgan lowered its target price for Air France-KLM shares from 9.50 euros to 9.20 euros** and confirmed its "underweight" recommendation, ahead of the airline group's annual results publication on February 29.

The financial intermediary reduced its operating profit (Ebit) forecasts by 1% for 2023 and 3% for the following two years, **mainly due to higher unit costs, excluding fuel.**

According to JPMorgan, the increase in these costs in 2023 should be at the upper end of its forecast range of 0% to 5%.

JPMorgan continues to believe that higher unit costs and pressure on ticket prices linked to the Group's increased capacity should weigh on Ebit in 2024. Air France-KLM shares lost 4.8% to 12.71 euros.

No comment

> Delta Airlines takes the airlines plunge

((source Zonebourse) January 12, 2024 - (...) **Delta Airlines' shares fell 8.97% in New York after it cut its earnings forecast for 2024**, despite stronger-than-expected fourth-quarter results.

In its wake, American Airlines plunged 9.46% and United Airlines 10.63%.

(...)

No comment

End of press review

> Air France-KLM share price trend

Air France-KLM shares closed at 12.028 euros on Monday January 15. It is down by a very sharp -10.41% this week.

Since the beginning of November, the Air France-KLM share price has risen by over 20%.

It stood at 12.53 euros on January 2, 2023, and 17.77 euros on June 19, 2023.

The analysts' 12-month average (consensus) for AF-KLM shares is 17.24 euros

(it was 15.0 euros at the beginning of January 2023). The highest price target is 23.00 euros, the lowest 9.50 euros. I only take into account analysts' opinions subsequent to the May 2022 capital increase.

You can find details of the analyst consensus on my blog.

My comment: *Delta Air Lines' announcement that it was cutting its earnings forecasts for 2024 sent the share prices of major airlines plummeting, whether American or European.*

Low-cost carriers, which are not exposed to intercontinental traffic, were not affected.

> **Fuel price trends this** week

The price of a barrel of Jet Fuel in Europe is up +\$2 to \$110. It was \$94 at the end of June, and \$79 before the outbreak of war in Ukraine.

Brent crude oil (North Sea) is **down \$2 to \$77.**

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: *The spread between Jet Fuel in Europe and Brent crude oil was around \$15 before the conflict in Ukraine. In 2022, at the start of the Ukrainian conflict, the spread was close to \$50.*

It is up +\$4 this week, to \$33.

From February to July 2023, the spread had returned to reasonable levels (between \$12 and \$25). Since August 2023, it has systematically exceeded \$30.

Good to know

> **Advice for current and former employee shareholders**

You'll find [details of how to access the managers' websites](#) on my [navigation](#) site.

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

Keep all the documents relating to your Air France-KLM shares in one place: all the

letters you receive from the various managers, Natixis Interépargne, Société Générale, and your personal financial institution if you bought your shares through it.

My comment: *If you have shares in one of the funds managed by Natixis Interépargne, remember to log in to your account manager once a year, to avoid it being considered inactive.*

Please note: After 5 years of inactivity, Natixis Interépargne will send a letter/email to those concerned asking them to log in to their account or to call Natixis Interépargne to reactivate their PEE account.

After 10 years of inactivity, your account is transferred to the Caisse des Dépôts et Consignations.

To unblock your PEE, click [here](#).

> FCPE management

When you invest in one of Air France's FCPE funds, you obtain shares in these funds. You do not hold shares directly.

It's the supervisory boards, which you elected in July 2021 for a five-year term, that manage the funds and make the decisions.

The Aeroactions, Majoractions and Concorde funds only hold Air France shares.

The Horizon Épargne Actions (HEA), Horizon Épargne Mixte (HEM) and Horizon Épargne Taux (HET) funds manage portfolios of various equities.

My comment: *If you'd like to find out more about how the various Air France FCPEs are managed, please [visit the Air France-KLM Employee Share Ownership section of my website](#).*

Details

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

Please feel free to react to this press review, or to send me any information or thoughts that will help me better carry out my role as a director of the Air France-KLM

Group.

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

**former Director of Air France-KLM.
You can find me on my twitter
account @FrRobardet**

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

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

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