



I Letter from the Director Air France-KLM

François Robardet Representative of employees and former employee shareholders PS and PNC

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The Press Review on Monday...

> **With the A350, Air France is putting green into its engines**

(source: Ouest-France) 29 September - **Air France has just received its very first A350-900**, Airbus' latest generation aircraft. It is renewing its fleet at a sustained pace to reduce its environmental footprint. (...)

In total, the company ordered twenty-eight of its aircraft. They will be delivered gradually by 2025. The first commercial flights will begin on October 7 to Bamako and Abidjan, Africa. Just to get the crews up and running. Air France then plans to deploy it to other destinations: Toronto, Seoul, Cairo, Bangkok.

The stakes are high for Air France. The aim is to offer new comfort to its passengers and above all to improve its environmental performance.

The Flygskam (the shame of flying, a movement born in Scandinavian countries) shows that public opinion is sensitive to this subject.

(...) Anne Rigail, Air France's Chief Executive Officer: "**The A350 consumes 25% less fuel, or 2.5 litres per 100 km per passenger.** It will therefore emit 25% less CO₂. By the way, it also **allows us to reduce our fuel costs.** »

By 2025, half of Air France's fleet will be renewed with new generation aircraft. And by 2022, it will have separated from its ten A380s, the Super jumbo, which was its flagship for many years. Too fuel-guzzling,

too expensive to renovate, the wide-body aircraft with its two floors will soon be part of the memories.

Air France is therefore turning a new page in its history. Not to mention his past, even if it means awakening nostalgia. "Look at **the winged seahorse, the company's historical symbol, it is now on our engines and at the tip of our wings**. It's a real success, passengers take pictures of it and share it on social networks," Ben Smith shows, looking out the window.

Another return to tradition, Air France will christen each of its new aircraft, just like in the good old days, when the Caravelle was called Alsace. **This very first Airbus A350 is named Toulouse, a reference to the cradle of aviation** that today houses one of the major sites of Airbus, the European aircraft manufacturer. From there to see life in pink, not so sure, because the air traffic has not finished crossing areas of turbulence.

> **MRO Asia-Pacific: World aeronautics facing one of its greatest challenges**

(source Le Journal de l'Aviation) September 24 - **Asian air transport will double in size within 10 years** and its fleet, which will then reach nearly 16,000 commercial aircraft, **certainly offers very good prospects in terms of support and maintenance**.

In this context, **engine and equipment manufacturers clearly appear to be the best positioned**, with a real overall vision for the future and a very high market share in terms of revenues. They patiently build a coherent network of service centres through joint ventures or simple licensing agreements, which will allow them to support their customers as closely as possible in the region.

The major traditional airlines, often public, **continue to invest in their maintenance capacities in order to meet their own needs**, with, of course, the possibility of making their services available to other operators when possible.

But the **other important trend in Asia is a significant shortage of capacity available for third party airlines**. They have often been created quickly on the low-cost model with a fleet of aircraft under leasing contract, and do not, by definition, have their own basic maintenance resources. These companies are already being forced to scatter their aircraft throughout the region for heavy maintenance operations, and **the development of their fleet seems gradually faster than the increase in capacity of existing MRO centres, a particularly striking phenomenon in Southeast Asia**.

Of course, these companies dream of on-shoring and always competitive maintenance costs, but this can only be possible with a real acceleration in the development of maintenance capabilities.

Asia will continue to drive OEM growth for many years to come. And to achieve this, it is the **maintenance of the single-aisle fleets of the region's airlines** that is **now emerging as one of the greatest challenges facing world aviation**.

> **Amsterdam: clarification needed on Lelystad and nitrogen emissions**

(source De Telegraaf translated with DeepL) September 27 - **KLM needs clarification on** its growth opportunities at Schiphol Airport and the opening of Lelystad Airport, said CEO Pieter Elbers (...). On Thursday evening, **a motion was tabled in Parliament to delay the opening of Lelystad Airport until there is a solution to the nitrogen issue**.

"Clarity is the most important thing for us. (...) Although the future of aviation in the Netherlands is not clear by May 2020, KLM will have to cannibalise on its own network from next summer by exchanging different destinations between them. For example, Havana will be partially exchanged for Austin in the United States. As a result, KLM has stopped, while its competitors are developing their line network. It seems that there will be no growth opportunities during this parliamentary term, even if the Minister keeps emphasising the importance of Schiphol and KLM for the Netherlands.

When asked about the problems with the 737 Max, the planned replacement for the Boeing 737, Elbers replied: "I am convinced that Boeing will solve the problem with the Max". **Mr. Elbers also spoke about sustainable development, stressing that political and social support is necessary for KLM to move forward**.

(...) With respect to the Collective Agreement (CLC) negotiations, Mr. Elbers indicated that he did not want to disrupt the process. Negotiations will resume on Monday[editor's note: Monday, September 30], when the unions meet again. KLM is currently discussing a new CLA with its staff, which will result in higher salary costs.

> **Germany: The government's climate plans for aviation**

(source airliners translated with DeepL) 20 September - On Friday, the leaders of the Grand Coalition agreed on a comprehensive package of

climate protection measures with which Germany wants to achieve its climate objectives by 2030. airliners.de summarized the measures with direct effects on the aviation industry. Under the slogan "Travelling by train cheaper, making air travel more expensive", the **federal government wants to prevent price dumping in the low-cost segment**. According to the climate cabinet document, **ticket prices can no longer be sold at a price "lower than the applicable taxes, surcharges, fees and charges"**. (...)

However, the **most important decision for the aviation industry in the Climate Cabinet is an announced increase in the aviation tax. In return, train tickets for long-distance traffic will become ten percent cheaper**.

The document states that the government "will increase the air traffic tax on 1.1.2020 insofar as, in return, VAT on long-distance train tickets can be reduced by 19% at the reduced rate of 7% VAT". (...) The reduction in value added tax on railways costs about 400 million euros per year. (...)

There is nothing in the Cabinet climate package about the government's commitment to use the investment of aviation tax revenues for the research and development of climate-neutral fuels.

(...) Ralph Beisel, Managing Director of ADV, described the announced decisions of the climate cabinet as inappropriate. "Instead of further tightening the purely national fiscal stance in air traffic, we should significantly accelerate the development of climate-neutral air traffic. **The country does not need a conglomerate of subsidies, taxes and redistributions, but a coherent set of European rules.**

The "diversion" of air traffic tax revenues, in particular to finance a reduction in VAT on railways, must stop, according to Beisel: "Air traffic is the only mode of transport that is financed by users. Don't talk about being paid or subsidized by a taxman - and that's precisely what is being punished.

The central element of the agreement within the climate cabinet, however, is the pricing of CO2 emissions. Pollution charges for one tonne of CO2 are expected to cost ten euros from 2021. By 2025, the price should gradually rise to 35 euros. Only then should the price of pollution rights be set through trade and determined within a supply and demand corridor.

Since aviation has been part of the European Emissions Trading Scheme (ETS) since 2005, it is not affected by this new regulation.

Airlines currently pay 26.30 euros for one tonne of CO₂. However, it has been discussed so far that the EU system (ETS) could be replaced by the international CORSIA system.

What is not in the action document is also interesting. For example, the taxation of kerosene is not addressed. The exemption from value added tax often requested for international flights to and from Germany is also not included in the document. (...)

My comment: It is interesting to note that, contrary to popular belief, foreign airlines (here in Germany, but also in the Netherlands) face the same problems in their countries as French airlines:

- *high taxation,*
- *new taxes for the benefit of the train,*
- *no shifting of "CO₂" taxes towards tools to reduce the carbon footprint of aircraft.*

> Delta disrupts major traditional airline alliances

(source Les Échos) September 27 - **Twenty years after Skyteam's creation, Delta's CEO Ed Bastian is clearly preparing the next step: the creation, through equity investments, of a true multi-brand global air transport group under his control.** The most international of American companies confirmed this once again on Friday by **announcing a \$1.9 billion (€1.75 billion) investment in the South American company Latam, for 20% of the capital.** This transaction is in addition to Delta's long list of investments, which already owns 9% of Air France-KLM's capital, 49% of Virgin Atlantic, 40% of Aeromexico, 9.5% of Brazilian Gol, 3.5% of China Eastern and soon 10% of Korean Air.

Delta is signing its largest financial transaction since the acquisition of Northwest ten years ago. (...)

By way of comparison, Delta has only invested "375 million euros" in Air France-KLM. This shows the importance given to this acquisition, which is intended to forge the largest airline alliance on the American continent, in Delta's words. Created in 2012 from the merger of the Chilean company Lam and the Brazilian Tam, Latam is already the leading airline group in South America.

This will enable Delta to become the leader in the colossal market for air links between North and South America, ahead of American Airlines, also in the ranks to invest in Latam. The Atlanta airline had become the number one airline on the North Atlantic thanks to its alliance with Air France-KLM, strengthened by the acquisition of Virgin

Atlantic. And soon, it could also lead on transPacific routes thanks to its also capital-intensive alliances with China Eastern and Korean Air. (...)

However, **this strategy** goes well beyond the Skyteam business alliance and the other major competing alliances, Oneworld and Star Alliance, which Ed Bastian himself acknowledges have not generated as much profit as expected. It **amounts to constituting within the Skyteam alliance, a core group of companies linked no longer by simple commercial agreements, but real virtual joint ventures**. In this case, Delta's acquisition of a stake in Latam is even a direct blow to the Oneworld alliance, which thus loses its main member in Latin America.

***My comment:** Delta Airlines' acquisition of a stake in Latam surprised all aviation specialists. It comes a few months after the Chilean Supreme Court annulled a draft trade agreement between Latam and American Airlines, British Airways and Iberia Airlines.*

If this transaction is approved by the competition authorities, it will therefore be a serious blow to the Oneworld alliance airlines.

It will also impact the Skyteam alliance airlines. To avoid a quasi-monopoly situation between Brazil and the United States, it is likely that Delta will have to sell its stake in Gol, Latam's Brazilian competitor.

Will this have any impact on the partnership established by Air France-KLM and Gol between Europe and Brazil?

> **End of Aigle Azur: why French companies do not survive bankruptcy**

(source Les Échos) September 27 - The contrast is striking. **While in Germany and Denmark, two Thomas Cook subsidiaries - Condor and Thomas Cook Scandinavia - are escaping the bankruptcy of their parent company thanks to loans**, the German government for the former and a Norwegian bank for the latter, in France, **Aigle Azur was unable to avoid its liquidation on Friday evening**. And **XL Airways could suffer the same fate** if no binding takeover offer is made to the Bobigny Commercial Court by Wednesday.

This raises questions about the causes of the French institutions' inability to save airlines in difficulty. For the past 20 years, all the bankruptcies of French airlines - AéroLyon in 2002, Air Lib in 2003, Axis Airways in 2009, Air Méditerranée in 2016 - have led to liquidations.

In the case of both Aigle Azur and XL Airways, the common factor is the inability of potential buyers to submit a legally admissible takeover bid (...)

Among the candidates for a partial takeover of Aigle Azur, at least two had the means: **Air France and the Dubreuil Group**, the parent company of Air Caraïbes and French Bee. But even they **finally had to give up making a joint offer**, despite the government's encouragement. This is not because of Aigle Azur's liabilities (148 million euros), which were erased by the liquidation, but because of **the social and legal obstacles** posed by the rules for a takeover in France. **The first of these obstacles**, in the event of a partial or total takeover of an activity, is the obligation to take over employees linked to this activity, with their employment contracts and benefits. A protective obligation for employees, but which poses problems when the gap between the employees taken over and those of the buyer is too large. Marc Rochet, the president of the Dubreuil Group's airline division, himself pointed this out to France Info. "**The social and regulatory environment almost prevents the takeover of an airline**," he said. In the case of a transfer of activity, you are obliged to take over all the conditions attached to this activity, but there were people at Aigle Azur who had built themselves statutes that were not consistent with market conditions. We were ready to take them back, but under conditions that allow us to succeed. Laws supposed to protect employees and jobs have turned against them. »

The other legal difficulty of a return to work is the obligation to take back employees with their seniority. It is opposed to an air transport totem that is the seniority list: a ranking of pilots according to their seniority in the company, on which career and salary progression depends. Any newcomer enters this list from below. However, the obligation to take back the pilots of Aigle Azur with their seniority amounted to passing them off in front of older Air France pilots. And this is even if some Aigle Azur pilots would have gladly agreed to give up their seniority to join Air France. And the same problem arises for XL Airways pilots, for whom Air France has also decided not to make an offer. (...)

My comment: The situation of Aigle Azur or XL Airways is not comparable with that of Condor. The German government is not bailing out an airline in difficulty, it is simply allowing Condor to avoid suffering from the bankruptcy of its parent company, Thomas Cook.

Other companies have experienced situations similar to those of the two French companies.

In 2008, in the United States, Delta Airlines found itself in a situation of bankruptcy and placed itself under Chapter 11: its debts were partially erased, the staff's salary conditions were drastically reduced, -40%!

Closer to home, in 2008 too, it was Alitalia's turn to go bankrupt. A new company is created, the Italian Airline Company (CAI), which takes over 12,000 of Alitalia's 19,000 employees at lower salary conditions. This company will take the name Alitalia a few months later.

In both cases, the responsible governments have given significant time for these airlines to recover. XL Airways and Aigle Azur only had a few days.

> France will refer Norwegian Air to the European Commission

(source Reuters) 29 September - **The French Minister of Economy and Finance announced on Sunday his intention to refer the matter to the European Commission concerning public aid granted to the low-cost airline Norwegian**, in serious financial difficulty.

Invited by the "Grand Jury" RTL-LCI-Le Figaro, Bruno Le Maire considered that the plunge of the French airline XL Airways, in particular, was explained "in part" by competition from Norwegian, the third low-cost airline behind EasyJet and Ryanair, which disrupted the market with reduced transatlantic tariffs, at the price of high debt. "She's breaking prices, she's in debt, but she has Norwegian public support, and I can't accept that," he said. "**Competition rules must be the same for everyone**," he stressed. "We cannot accept it in Europe, we cannot accept it from Norway either".

"So I will write to the European Commission next week and tell them 'Get this all in order'," the minister said.

A spokesman for the Norwegian company told Reuters that "Norwegian has never received any government assistance". "It has successfully built a global company that carries 40 million passengers per year.

My comment: *Norwegian is not the only European company to receive direct or indirect subsidies.*

In France, many local authorities pay aid to Ryanair.

The French Minister of Economy and Finance would be well inspired if he put an end to his practices. Some of the local authorities have been condemned by the courts, following complaints filed by the Air France Group.

> **IAG reports on its annual results**

(source AOF) September 26 - The weather is definitely stormy for airlines. The latest victim is **IAG, which issued a warning on Thursday about its 2019 results**. The parent company of British Airways and Iberia **now expects operating profit (excluding non-recurring items) to be 215 million euros lower than in 2018**, whereas it had previously expected it to be at an equivalent level. In **addition, the group now expects unit income to decline slightly** at constant exchange rates, whereas it had previously expected it to remain stable. In

parallel, the AG estimated the financial impact of the strikes by British Airways pilots at 137 million euros. He also mentioned an additional impact of €33 million due to the threat of strikes by employees at Heathrow Airport.

> **SNCF wants to merge Eurostar and Thalys to challenge Ryanair and EasyJet in Europe**

(source La Tribune) September 27 - Before his departure on November 1 from the presidency of the **SNCF**, Guillaume Pepy struck a major blow. On Friday, he **presented to the directors of the French rail group a draft merger between Eurostar and Thalys, two companies in which SNCF has a majority shareholding of 55% and 60% respectively**. Responding to the code name "GreenSpeed", this project aims to create a European operator, first positioned on the routes currently operated by Eurostar (Paris, Amsterdam, Brussels and London...) and Thalys (Paris, Brussels, Amsterdam, Cologne...), then in a second phase on other European markets. Because SNCF does not refrain, in the long term, from applying for new high-speed rail markets in Europe, such as the United Kingdom, the Czech Republic or Poland if these countries were to build high-speed lines, or even to consider one day integrating Lyria, the Franco-Swiss operator owned by SNCF and the Swiss Railways. (...)

SNCF makes no secret of it: it wants to compete with airlines and the car. (...) "It is not only low-cost airlines that travel in Europe", explained Rachel Picard, General Manager of SNCF Travel.

The project is still in its early stages. According to Guillaume Pepy, if

it succeeds, it will take 18 to 24 months to reach the end. The process looks extremely complex. After being presented to the elected representatives of the staff, he will have to receive the green light from six boards of directors: those of Eurostar and Thalys but also their shareholders, SNCF, SNCB, shareholder of Thalys or Caisse des dépôts du Québec and an infrastructure fund, both shareholders of Eurostar. (...)

The nationality and therefore the seat of this new company are not officially chosen.

> Biofuels on the front line to fight emissions

(source Le Journal de l'Aviation) September 24 - Global awareness of the problem of global warming and the demonization of aviation is leading airlines to communicate more about the actions they are taking to reduce the industry's carbon footprint and meet CORSIA targets - neutral growth from 2020 and a 50% reduction in emissions by 2050 compared to 2008 levels. Among the measures put in place are fleet renewal or the adoption of best practices, but **most expectations are for the use of biofuels in the short term.** (...)

Today, only five airports in the world are regularly supplied (Oslo, Bergen, Stockholm, Brisbane and Los Angeles) and less than 1% of the airlines' demand is met. (...) Some carriers take the bull by the horns themselves.

KLM is very committed to reducing its ecological footprint, even going so far as to eliminate its flights between Amsterdam and Brussels to put its passengers in the Thalys. It (...) **has joined forces with SkyNRG and SHV Energy to build the first European aviation plant (SAF for sustainable aviation fuel) in Delfzijl.** Operational from 2022, it will produce its aviation biofuel from waste produced by the region's industries, such as frying oil. As part of the partnership presented in the spring, **KLM has committed to purchase 75,000 of the 100,000 tonnes of SAF that the plant will be able to produce each year for ten years, reducing its operating footprint by 200,000 tonnes of CO2 compared to kerosene (-80%).**

British Airways has taken a similar approach with Velocys and Shell. The three partners, gathered within Altalto Immingham, have applied to the British government for authorisation **to build a biofuel plant made from solid household waste.** It would allow the recovery of more than 500,000 tonnes of non-recyclable waste destined for landfill or incineration and supply both the air and automotive sectors. FAS would emit 70% less CO2 than kerosene and would not emit any sulphur oxide (NOx). (...) It is

also a runway that **Delta Airlines is** considering today. The company **has committed \$2 million to the Northwest Advanced Bio-Fuels feasibility study for a production plant** in Washington State. The conclusions are expected in the middle of next year. The **idea is to use wood waste from the forest as a raw material** to produce a biofuel from 2023 that could supply the major airports on the West Coast and cover 10% of Delta's fuel needs on the coast.

Several other companies are very committed, such as Qantas, which will operate all its flights between Los Angeles and Australia with a fuel composed of 50% SAF from next year. The company will supply itself from SG Preston in Los Angeles. A very advanced airport in this field, Los Angeles has been supplying all flights operated by United Airlines from the platform since 2016, allowing its aircraft to fly with a mixture composed of 30% biofuel. The company has just renewed its agreement with World Energy for two years.

My comment: Air transport is very active in reducing its carbon footprint. It funds many programs:

- *fleet renewal, which saves 30 to 40% of CO2 emissions,*
- *the shortening of routes, made possible in particular by the improvement of air traffic control systems,*
- *the financing of CO2 emission offsetting programmes, in particular by supporting reforestation projects (CORSIA system)*
- *the financing of second-generation biofuel production plants (second-generation biofuel does not use agriculture),*
- ...

These projects contribute directly to the reduction of CO2 emissions from air transport. They could be challenged by the introduction of new taxes.

End of the press review

> Follow-up to the referendum on the privatisation of Aéroports de Paris

The consultation mechanism on the privatisation of the ADP group is open from 13 June to March 2020. To lead to a shared initiative referendum (RIP), it requires the signature of 4.7 million voters.

On the Internet, the consultation is signed on the website referendum.interieur.gouv.fr

As of September 30, the consultation had collected 797,000 signatures, or 16.89% of the required signatures.

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

The Air France-KLM share price was €9.602 at the end of Monday 30 September. It is up (for the third consecutive week) **by 4.30%.**

The average (consensus) of analysts for the AF-KLM share is 10.66 euros.

The barrel of Brent oil (North Sea) **is down from \$3 to \$61.** It has returned to the average price of recent months, after having risen sharply following the attacks on oil installations in Saudi Arabia.

This indicative information does not in any way constitute an incentive to sell or solicit the purchase of Air France-KLM shares.

You may react to this press review or provide me with any information or thoughts that may help me to better manage my role as a director of the Air France-KLM group.

You can ask me, by return, any questions about the Air France-KLM group or employee share ownership....

See you soon.

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