



I Letter from the Director Air France-KLM

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No. 726, 21 October 2019

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The Press Review on Monday...

> **The new air transport tax approved by the National Assembly**

(source Le Journal de l'Aviation) October 18 - September saw two French airlines go bankrupt. But October is another month.... As part of the review of the draft finance bill for 2020, the **National Assembly has just approved the introduction of the new air transport tax**, announced by the government last July. It will enter into force on 1 January.

Article 20 of the draft law provides for the adjustment of the solidarity tax system (taxe Chirac) to include this "eco-contribution". It modifies the allocation of the tax revenue by adding the AFITF (Agence de financement des infrastructures de transport de France) among the beneficiaries alongside the SDF (Fonds de solidarité pour le développement). It also increases the tax rates to ensure the financing of the two agencies.

The government estimates that this tax will amount to €180 million per year - but the law provides for a ceiling of up to €230 million. It will be deducted from airline tickets departing from France, up to a maximum of €1.5 to €18 depending on the length of the flight and the travel class. **Its objective is not to help make air transport cleaner, to invest in research or in the creation of a commercially viable aviation biofuel industry. No, all of this amount should be used to**

finance so-called clean daily transport, in particular trains.

Elisabeth Borne, Minister for Ecological and Solidarity Transition, assures that it will not further affect the competitiveness of the French flag since 62% of it will be supported by foreign companies. "The government has made the choice that air transport should participate in environmentally friendly infrastructure, particularly rail transport. We do it in very reasonable proportions. **It considers it normal that "air transport contributes to the financing of mobility in all territories"**.

But the pill is having trouble getting through to the airlines, already crushed by their lack of competitiveness and disgusted by the failure of the foundations. SCARA, one of their unions, points out that "the aircraft has the particularity in France of being the only mode of transport to pay for and finance all its infrastructure, as well as many of the missions normally assigned to the State, such as airport security" and that it also pays "taxes to help soundproof the housing of people living near airports" for example. (...)

My comment: *First of all, a clarification: this new tax, like the solidarity tax (known as the Chirac tax), will not apply to connecting passengers.*

France is not the only country in Europe to apply an eco-contribution to air transport:

. The Netherlands announced at the end of last year that KLM will have to pay an additional 240 million euros: 140 million euros in aviation tax to the Treasury and 100 million euros for noise pollution

. In Germany, the government has decided to introduce a new tax for the development of rail links, estimated at €740 million per year (see below)

. In England, the Air Passenger Duty, whose aim is to limit the climate impact of air transport, will bring in 4.3 billion euros for the British State in 2019.

While the amounts differ from country to country, one constant is that airlines regret that the proceeds of these taxes are not allocated to research into alternatives to kerosene, which would reduce CO2 emissions.

> Germany will drastically increase its tax on airline tickets

(source Les Échos) October 16 - The first effects of the climate plan, presented on September 20 by Angela Merkel, will soon be felt. The

German Council of Ministers adopted on Wednesday a draft law providing for a 74% increase in air ticket taxes for domestic and domestic flights and a 41% increase for long-haul flights. The text, detailing tax measures to promote more virtuous behaviour in transport, housing and energy production, has yet to be discussed in the Bundestag.

(...) The government wants to encourage consumers to prefer the train when the alternative exists. He had already announced a reduction in VAT on long-distance train tickets from 19% to 7% as of 1 January 2020. **"Rail travel should not only become cheaper, but flights will also be more expensive,"** he said in a statement.

In detail, taxes on domestic and European flights from Germany will increase by €5.53 to €13.03. Long-distance flights will increase by around 10 and 16 euros, depending on whether or not they exceed 6,000 kilometres in distance. In total, the invoice may be around 60 euros for the longest journeys. By way of comparison, France has planned a fairly similar eco-contribution, ranging from €1.5 to €18 per ticket, which should bring in €180 million per year from 2020.

The German government expects an additional €740 million in tax revenue to be used to finance the reduction in VAT on long-distance train tickets. For a long time a poor relation of the country's transport policy, rail is thus the main beneficiary of this shift to drastically reduce CO2 emissions. The climate package also provides for an additional €20 billion by 2030 to modernise rail infrastructure and increase Deutsche Bahn's capacity. The stated objective is to double the number of users of this environmentally friendly means of transport by 2030.

In a tough international competitive environment, Germany will find itself among the countries with the highest taxes. (...) Only Great Britain and Australia have (...) higher taxes. (...)

My comment: *In Germany as in France, the proceeds of the new tax are intended to finance rail transport, not to implement a policy to reduce CO2 emissions from aircraft.*

> Air France KLM and China Eastern extend their joint venture to Virgin Atlantic

(source Agefi-Dow Jones) 16 October - **Air France-KLM announced on Wednesday that Air France, KLM and China Eastern have signed a memorandum of understanding to integrate the British Virgin Atlantic into their existing joint venture.**

This new configuration of the joint venture is scheduled to come into effect in spring 2020, Air France-KLM said.

"By combining our offers, we will create an even more attractive commercial offer for our customers, focusing on markets from the United Kingdom to China," said Patrick Alexandre, Executive Vice President of Air France-KLM in charge of sales and alliances. China Eastern Airlines owns 8.8% of **Air France-KLM**, which in turn **has signed an agreement to acquire a 31% stake in Virgin Atlantic. The Franco-Dutch group is still waiting for regulatory approvals to finalize this acquisition.**

> **AFI KLM E&M focuses on aircraft dismantling**

(source aerobuzz) 18 October - Since 2018, the Air France KLM group has completed the acquisition of two Boeing 777-200ERs. The GE90-94B engines of the aircraft were checked and brought back into compliance, before being made available (via the group's maintenance workshops) as an exchange solution for AFI KLM E&M support customer companies for this aircraft and engine type. Several hundred parts on these aircraft will be recertified before being resold or supplied to the worldwide network of spare pools (stock shared by several customers) and AFI KLM E&M workshops, thus contributing to improving the level of service provided to its customers and reducing maintenance costs for its customers.

Through its organisation and network, **AFI KLM E&M is structured to be able to exploit the potential of assets - equipment, engines - that can be put back into service after dismantling. As an "airline-MRO"**, i. e. by putting the experience of fleet management at the service of the maintenance and repair activity, the group benefits from extensive visibility on the fleet plans of client companies in order to identify investment opportunities opening up on the dismantling market. Dismantling activities can be carried out internally at KLM UK Engineering, which has capacity on single-aisle aircraft, and at Bonus Tech for engines, or by partners.

The recovered assets are then checked, revised and recertified, before being fed into its maintenance workshops and pools around the world. Parts can also be sold on the second-hand market through our trading joint venture AAF Spares. AFI KLM E&M Teardown Management centralizes the management and coordination of all these activities, from sourcing to trading and parts availability, and offers the necessary agility to quickly turn investment opportunities corresponding to maintenance needs into reality, explains Air France KLM E&M.

My comment: The use of second-hand spare parts is a good way out of the monopoly exercised by aircraft equipment and engine

manufacturers.

> Five Questions: stopping your holiday flights (Cinq questions: arrêt des vols loisirs)

(source De Telegraaf translated with DeepL) October 16 - The **government wants to try to limit new leisure flights in Schiphol.** This is indicated in Minister Van Nieuwenhuizen's draft White Paper on Aviation (Infrastructure).

Why is the minister running with this?

Under certain conditions, Schiphol is allowed to continue its growth after 2021. Currently, the airport's capacity is distributed on the basis of free competition. This means that in principle, every airline should have access to it, even if the route it wishes to use is already part of Schiphol's network. (...) **So the minister (...) comes with her own regulations to try to distribute these new flights in a different way.**

Why is the issue being addressed in this way?

This is the result of the European Commission's competition rules in Brussels, which have given a lot of space to low-cost carriers over the past twenty years. However, the so-called selectivity policy of 2008 has so far failed, because of Schiphol himself. The latter used low-cost airlines, which accelerated the filling of the airport. **Leisure flights are expected to depart in part for Lelystad and Eindhoven airports.**

What went wrong in the end?

The Minister has not been able to specifically transfer leisure flights from Schiphol to Lelystad (...). **Brussels wants newcomers to have the opportunity to settle in Lelystad as well.**

What are the minister's chances?

This is a difficult path that the Minister is embarking on; it has been the subject of many disputes over the years. Once again, it will be necessary to ask the powerful Brussels to authorise the adoption of a separate Dutch regulation. (...) Other airlines are preparing for a dispute with the KLM group.

Why the KLM group?

It already uses 70% of Schiphol's capacity, but wishes to further develop the intercontinental network. Due to current competition regulations, it will soon lag behind in the distribution of new landing rights. At the same time, KLM has the necessary fleet to operate direct flights to other economic centres around the world. That is why the government wants to do something about it.

My comment: *How can I ensure the development of KLM without harming the residents of Schiphol?*

The current proposal of the Dutch government is to require low-cost airlines to transfer some of their flights from Schiphol to other Dutch airports.

This project is close to the one already rejected by the European Commission in Brussels. It seems likely that it will also be rejected.

> France, Ryanair's new ring road and easyJet

(source Les Échos) October 17 - **France is on the way to becoming the new battleground for Ryanair and easyJet.** The Irish low-cost airline, which has been several years behind its British competitor on the French market, has decided to step up its efforts this year. At a press conference this Wednesday in Paris, its marketing director, Kenny Jacobs, announced the opening of 35 new routes from French airports next summer. This will bring the total number of routes marketed by Ryanair to or from 28 French airports to 233. For the time being, **easyJet remains** by far the **leading low-cost airline in France, with more than 20 million passengers carried last year** and more than 250 lines. But (...) after inaugurating its first two French bases last April, in Bordeaux and Marseille, with three Boeing 737s each, **Ryanair inaugurated a third base in Toulouse on October 4**, with two aircraft to start. A fourth base should soon be official at Beauvais Airport (...).

Ryanair hopes to increase from nearly 10 million passengers carried in 2018 on its French routes to 12.7 million in 2019 and nearly 20 million at the end of 2020. This would allow it to get closer to easyJet, but also to widen the gap with other low-cost airlines in France. **Transavia France, in particular, remains below 10 million passengers and its development plan is still pending.**

However, **Ryanair still has to count on the hostility of the French aircrew unions**, including the pilots' **union**, the SNPL. They still criticize it for not fully complying with French social constraints and call on the French authorities to be more firm. (...) In

addition, **Ryanair must** also take **into account the gradual disappearance of certain more or less legal subsidies granted by local authorities** in return for serving their small airports. At the beginning of the year, it had already announced its departure from Montpellier, after the end of subsidies deemed illegal. And this month, it was the turn of the urban community

of Grand Poitiers to vote for the non-renewal of the marketing contract.
(...)

***My comment:** Ryanair has decided to accelerate its development on the French market by setting up bases in France, such as easyJet, Vueling, Volotea... and Transavia France.*

> Norwegian and Jetblue are preparing a major alliance

(source La Tribune) October 17 - (...) It is a powerful alliance in the low-cost world that is being prepared on the transatlantic axis. This Thursday, **Norwegian, Europe's largest long-haul low-cost airline, announced the signing of a letter of intent with the second largest US low-cost airline JetBlue.** This is in order to establish a partnership that could start next summer.

(...) If successful, this agreement will be good news for Norwegian, which is in financial difficulty. Indeed, it would help to supply its transatlantic flights with Jetblue passengers. It would be in addition to the same type of agreement that Norwegian signed in London with Easyjet. For JetBlue, this partnership would enable it to market long-haul flights before the launch of its operations to London in 2021 and later to Paris and Amsterdam (...).

***My comment:** When a European company like Norwegian enters the transatlantic market, one of the main difficulties it faces is finding customers on the other side of the Atlantic.*

The alliance with JetBlue should enable Norwegian to overcome this difficulty.

> The situation is deteriorating further for Alitalia

(source L'Écho touristique) October 17 - Alitalia's future is still darkening. **The extension of at least eight weeks requested by Ferrovie dello Stato (and Atlantia) for the submission of a firm offer - revealed by Corriere della Sera - raises doubts, particularly legal ones, in the eyes of the Commissioners in charge of the case.** (...)

According to the Italian media, (...) the tone of the letter sent by Ferrovie dello Stato (and Atlantia) to request more time (this would be the seventh extension) to reach an agreement with Delta or, with Lufthansa, was not appreciated.

The Commissioners will take 48 hours to consider the extension granted to the company. While it is premature to imagine the liquidation of Alitalia to protect privileged creditors, this endless series turns to tragedy. The risk now is that a consortium will not emerge until

March 2020 (...).

In Frankfurt, a **Lufthansa spokesman reiterated Lufthansa's proposal for a commercial collaboration but denied any interest in investing in Alitalia**. The German company does not want to repeat the "traumatic" experience of the acquisition of Air Berlin. But in recent weeks, she has been trying to find out where to invest: on her table are the Condor, Norwegian Air, Sas, Adria Airways files. Alitalia is not the only one....

My comment: *It would be a question of granting a new deadline, until 1 December (2019), to finalise the project to acquire Alitalia.*

One of the main buyers, the Atlantia group, threatened to stop participating in the rescue plan. The Italian government has launched proceedings against its subsidiary Autostrade per l'Italia, which was implicated after the collapse of a bridge in Genoa.

> **Ethad Airways expects a return to profitability in 2023**

(source Reuters) October 8 - **Abu Dhabi-based Ethad Airways hopes to return to profitability in 2023 after a five-year recovery plan**, its sales manager Robin Kamark said Wednesday.

Ethad suffered its third consecutive year of annual losses in 2018 despite savings of nearly half a billion dollars by reducing its workforce and fleet. Kamark told reporters on the sidelines of an aviation conference in Abu Dhabi that Ethad has taken delivery of two Airbus A-350-1000 aircraft.

My comment: *Over the last three years, Ethad Airways has accumulated \$4.7 billion in losses. Over the same period, its sales increased from \$9 billion to \$5.9 billion.*

How can this company continue to operate without significant support from its government?

> **737 Max: Boeing and the FAA are passing the buck**

(source Les Échos) October 21 - Who in Boeing or the U.S. Civil Aviation must take the blame for letting the 737 Max MCAS system fly, which caused the Lion Air and Ethiopian Airlines crashes? This is the question underlying the latest bitter-sweet exchanges between the aircraft manufacturer and the Federal Aviation Administration (FAA) conducted through the intermediary press.

Accused this weekend of withholding information about MCAS

malfunctions, Boeing responded on Monday with a statement stating that it had informed the FAA "on multiple occasions" of changes to this stall protection system as part of the certification process. A

way for the aircraft manufacturer to counterattack on the media field, **after the disastrous effect produced by the publication, last Friday, of an exchange of messages dating from 2016 between a former Boeing test pilot and one of his colleagues, mentioning problems encountered in the simulator with the MCAS system.**

From these messages sent by Boeing to FAA investigators earlier this year, it appeared that the dangerousness of the MCAS system, which was able to take control of the pilots to put the aircraft in a nose-down attitude, had already manifested itself during a simulator session during certification tests... And, according to its managers, the FAA had not been informed of these anomalies. This would have the great advantage of relieving him of his responsibility.

Without formally contradicting its regulatory authority, Boeing claims to have kept the FAA and international regulators informed "on several occasions throughout the process" of developments on the MCAS system. "The process also included the evaluation of the MCAS in low speed configurations for training and certification," says the aircraft manufacturer. As for the exchange of messages between the test pilot and his former colleague, it would have been misinterpreted, Boeing asserts. According to the aircraft manufacturer, the problems mentioned concerned only the flight simulation software, not the aircraft. (...)

This would shake the ASF thesis that has been left in the dark. This could make all the difference in the event of a trial. **Unlike European regulations, which place the final responsibility on the shoulders of the aircraft manufacturer and its chief executive officer, American regulations place the responsibility for certification on the FAA.** This is despite the fact that the certification tests were conducted end-to-end by Boeing engineers, in accordance with the "delegation" principle, which allows the FAA to assign the certification of non-critical systems to the company that designed them. A system also applied in Europe, by the European Aviation Safety Agency, but under the responsibility of the company.

My comment: Last week's revelations raise the question of 737 Max's accident liability: is it the responsibility of the FAA (American Civil Aviation) or Boeing?

They are likely to delay the return to service of the B737 Max. Air Canada, which has a 737 Max simulator, does not plan any flights of

this aircraft until February 2020.

Stock market press review

> Air France KLM: more opinions

(source Boursier com) October 15 - Air France KLM has recovered 0.8% this Tuesday to 10.22 euros at closing, while broker Berenberg remains buyer on the airline, but with an adjusted target price of 13 to 12.40 euros. The Franco-Dutch company reported an increase in its activity in September with 9.3 million passengers transported (+2.2%). Among other opinions, AlphaValue decided to reduce its opinion from "accumulating" to "reducing" it despite an adjusted target of 10 to 10.1 euros. Redburn on the contrary went from "neutral" to "buy" on the value with a target price raised to 9.66 euros.

Bank of America Merrill Lynch, which recently took over the case with a "buy" advice and a target of 12 euros, expects market share gains and improved margins, while the solidity of the balance sheet also makes it possible to consider the payment of dividends...

My comment: *Financial analysts have been cautious about Air France-KLM in recent months. They are waiting for the publication of the third quarter results on 31 October, the most profitable for airlines.*

They are especially looking forward to Investor Day, November 5, during which Air France-KLM CEO Ben Smith is expected to announce the Air France-KLM Group's trajectory for the coming years.

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 21 October, the consultation had collected 847,000 signatures, or 17.95% of the required signatures.

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

The Air France-KLM share price was €10.55 at the end of Monday 21 October. It is up (for the sixth consecutive week) by 4.04%.

The average (consensus) of analysts for the AF-KLM share is 10.81 euros.

The barrel of Brent oil (North Sea) is up from \$1 to \$59. Apart from two short periods, it recorded its lowest price since the beginning of the year.

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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