

Air France-KLM confirms its order for 60 A220s



I Letter from the Air France-KLM Director

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Monday's Press Review ...

> Airbus: Air France-KLM confirms its order for 60 A220s

(source Agefi-Dow Jones) 18 December - **Airbus announced Wednesday that Air France-KLM has confirmed its order for 60 A220-300 aircraft to modernize the Franco-Dutch airline's fleet of single-aisle aircraft.**

These aircraft will be operated by Air France. "This is the largest Airbus A220 order from a European operator to date," the European aircraft manufacturer said in a statement.

The Airbus A220, the only aircraft specifically designed for the 100 to 150-seat market segment, had an order backlog of 530 aircraft at the end of November 2019.

My comment: Air France's order covers 120 aircraft, sixty firms, thirty options and thirty purchase rights. What is the difference between firm order, option and right to buy?

A firm order means that Air France has agreed to purchase an A220-300 on a given date and at a given price. In case of cancellation, a significant penalty is due.

An option means that Airbus has booked an A220-300 for Air France, at

a certain price. Air France will decide if it wants to convert this reservation into an order at a later date. The commitment is less important than with an order.

A purchase right is even less a commitment than an option. This simply means that Air France has agreed to buy an A220-300 at a given price, but without a delivery date being set. (source aviation.stackovernet)

> **Taxes galore: what if the democratization of air transport began to come to an end?**

(source La Tribune) 23 December - (...) The **year 2020 will mark the beginning of a new era for European airlines**. An era in which the weight of measures to combat global warming will weigh heavily on their cost structure, with the risk that, in the long term, the price of air tickets will soar, thus depriving the less well-off of this mode of transport, as was the case several decades ago.

Following the increase in environmental awareness of the climate emergency in 2019 and the media coverage of arguments against aviation, **many measures, mainly fiscal, will apply to air transport in 2020**. This sector, which accounts for 2.5% of global CO2 emissions, reduces fuel consumption per passenger by an average of 1 to 1.5% each year, but is unable to halt the emissions curve due to the dizzying growth in traffic, which doubles every 15 years. Because, **unlike other sectors, there is no technology today that would allow us to envisage carbon-free aviation in the short term**. Electric batteries are not powerful enough for commercial aviation and aviation biofuels are almost non-existent. (...)

Several countries will introduce, or plan to introduce, a new ecological tax in 2020. This will be the case for France with the entry into force on 1 January of its famous "eco-tax" of between 1.5 and 18 euros depending on the class of service and the distance of the flight, which will weigh on Air France's results to the tune of 60 million euros per year. **But also from Germany** after Angela Merkel's presentation in October of a climate bill, which plans to increase taxes on short and medium-haul flights by 74% and 41% on long-haul flights. **This will also be the case in Switzerland**, following the announcement in September of a draft revision of the CO2 law which would impose an aviation tax ranging from 30 to 120 Swiss francs (27-110 euros) with the aim of reducing air traffic by 10%. **Some countries are considering following suit. Others to add an aviation tax at the European level**. This autumn, nine European countries, including France, expressed their

willingness to create a European tax on aviation. (...)

As part of its "Green Deal", the new European Commission is working in particular on tightening up the emissions trading system. While part of these rights to pollute are allocated free of charge (the other part is paid at the carbon market price), "the idea is to reduce this volume of free rights, or even, in the long term, to make it disappear," explains the same European source.

Brussels is working to ensure that the emissions trading system forms the basis for Corsia, the global aviation CO2 compensation system. However, nothing is official and companies are afraid of having to pay twice for the same programs. Adopted in 2016 by the International Civil Aviation Organization (ICAO), the Corsia system will start up in 2021. It aims to offset all emissions that will exceed the 2020 level by financing CO2 reduction programmes (e.g. reforestation) by airlines. Air France-KLM expects an additional cost of 150 million euros in 2025. **According to the International Transport Association (IATA), airlines will spend a total of \$40 billion by 2035, when they hope to reverse the trend and cut CO2 emissions by 50% by 2050 compared to 2005.** In view of the growth in traffic over this period, **this colossal target set by the companies some ten years ago actually corresponds to a 90% improvement in energy performance.** (...)

On the other hand, the **switch to alternative fuels will also have a substantial cost.** Starting with biofuels, which are now being abandoned by oil companies and airlines who are passing the buck. The former say there is no demand, the latter say there is no supply. Not being forced to buy biofuel, most companies have so far been unwilling to take the risk of using a much more expensive energy source and to show a competitive disadvantage compared to competitors who would stay with kerosene. (...)

In the end, **all these measures, taken together, will result in considerable sums of money.** Above all, they will add to an already high tax burden. (...) The companies' savings and productivity plans will not be able to absorb all of these additional costs. As a result, the price of airline tickets is likely to skyrocket. **A danger for airlines, especially low-cost airlines, that a large number of passengers would not fly today if ticket prices were not so low.**

"Air transport should not be reserved for the wealthy. This would be the negation of everything we have done for decades to democratize air travel," Alexandre de Juniac, IATA Director General, told La Tribune,

recalling "the 62% drop in air fares observed over the past 30 years. (...)

My comment: *The air transport sector may have taken many steps to reduce its impact on global warming, but over the months it has become a scapegoat. However, it is only responsible for 2 to 3% of greenhouse gas emissions. Three times less than Internet use or consumption of meat and fish.*

Furthermore, I do not agree with the conclusion of the article. As much as it is acceptable to talk about democratizing air transport in Europe or North America, it is impossible on a global scale.

According to official air transport statistics (for the year 2016), in order for each inhabitant to travel by plane as much as Europeans, the world fleet would have to be multiplied by four ... Assuming that all inhabitants have the financial means to do so, which is far from being the case.

> **Ryanair base at Beauvais airport: the State is due to give its decision soon**

(source Le Parisien) December 16 - (...) The first weeks of 2020 will be decisive for the future of Beauvais airport. **Between the contract negotiations with Ryanair (75 % of traffic) and the signing, or not, of the curfew exemption order requested by the company, the stakes are high.**

On this last point, François Rubichon, Chairman of the Supervisory Board, insisted that "the curfew will be maintained between midnight and 5 a.m.", assuring that "respect for the living conditions of local residents" is "his obsession".

When we talk about a base (Ryanair wants to be able to store aircraft on site, editor's note), we're talking about three aircraft no more," he explains. **Derogations will be in exceptional cases. Sageb (the company operating the platform) is the first not to want it. Every late plane, arriving at night, costs us extremely dear.** »

The consultation process will end with the report from the Directorate General of Civil Aviation (DGAC), which will be submitted to Élisabeth Borne in the coming days. "If the Minister of Transport does not sign the order, there will be no Ryanair base in Beauvais," confirms François Rubichon (...).

This milestone was also the occasion for Philippe Hourdain,

President of the Chamber of Commerce of Hauts-de-France, majority shareholder of Sageb, to **announce the dismissal of his predecessor**, Philippe Enjolras, President of the CCI of Oise and candidate for mayor of Beauvais, notably **guilty, in his eyes, of having declared that it was "better to take the train than the plane"**.

***My comment:** Yet another illustration of the ambiguous links between Ryanair and the French regions: in Beauvais, when Ryanair arrives late at night, the company operating the airport is financially impacted!*

> **Wizz Air is also going to launch a low-cost airline in Abu Dhabi.**

(source Air Journal) December 16 - (...) After the announcement in October by Etihad Airways and Air Arabia for the second quarter of 2020, Abu Dhabi airport could welcome a second specialist in cheap flights as early as next year. Based in Budapest, Hungary, **Wizz Air has signed with Abu Dhabi** Developmental Holding Company (ADDH) to **launch a new company, (...) called Wizz Air Abu Dhabi**. It should start in the second half of 2020, with a fleet entirely composed of Airbus A321neo (Wizz Air has received 7 of the 185 ordered, plus 20 A321XLRs) and a network initially targeting European airports already served by the Hungarian low-cost carrier. In the longer term, the new carrier would target the Middle East, Africa and the Indian subcontinent - all if regulatory approvals are obtained.

Wizz Air will therefore be in direct competition with Air Arabia Abu Dhabi, the Emirates national carrier's project, and indirect **competition** in the Gulf with Flydubai (based in Dubai and allied to Emirates Airlines), Air Arabia (Sharjah), the SpiceJet project (in Ras al Kaimah), or even SalamAir (Oman) or Jazeera Airways (Kuwait).

Wizz Air CEO Jozsef Varadi said in Gulf News: (...) **This is (...) "a new direction for Wizz Air**, built on our successful ultra-low-cost model and which will bring affordable travel to more and more travellers" (...).

***My comment:** That a low-cost European company should decide to expand in the Middle East is a challenge. This could mean that the growth prospects of the intra-European market become limited.*

> **Coentreprise entre British Airways et China Southern**

(source Business travel) 18 December - (...) **British Airways and China Southern have signed a joint commercial agreement** that will deepen their cooperation.

Airlines have been code-sharing on ten routes since 2017: this agreement was extended to other routes and reciprocal benefits for frequent flyers in January 2019. (...)

British Airways has transferred its Heathrow-Peking service to the new Daxing International Airport, where China Southern has obtained 40 per cent of the slots with its neighbour, the state-owned carrier China Eastern. (...)

Partnerships have become increasingly important to China Southern since it left the Skyteam alliance last year. (...)

The airline is using the capacity offered by Daxing airport to focus on its operations in Europe and the United States, while its hub in Guangzhou in southern China will concentrate on Asia-Pacific.

It has a fleet of more than 850 aircraft, the third largest in the world behind American and United, and aims to have 1,000 aircraft by 2021. (...)

***My comment:** When China Eastern and China Southern each obtained 40% of the slots at the new Beijing-Daxing airport, they were both members of the Skyteam alliance, alongside Delta Airlines and Air France-KLM.*

Faced with this quasi-monopolistic situation, it was decided that China Southern should leave the Skyteam alliance.

As the third Chinese airline, Air China, is a member of the Star Alliance, it seems natural that China Southern should enter into agreements with British Airways, a member of the Oneworld alliance.

> Safran and General Electric turn to Airbus to compensate for Boeing's setbacks

(source Capital) 21 December - (...) **General Electric (GE) and Safran are trying to find solutions as the Boeing 737 MAX crisis drags on and weighs heavily on the results of both companies.**

Manufacturers have reached an agreement to increase the production rate of engines powering the Airbus A320neo to compensate for the setbacks of its great rival, grounded since March 2019, said Friday the Wall Street Journal. **The Leap engine, developed by Safran and GE within their joint venture CFM International, currently powers more**

than half of the Airbus A320neo and all Boeing 737 MAX aircraft.
(...)

However, none of the three companies wished to comment on this information. "We always talk with our suppliers" and these discussions are "confidential," an Airbus spokesman said.

For its part, a GE spokesman stressed that the group was working in partnership with its customers and suppliers 'to mitigate the impact of the temporary shutdown of the 737 MAX, while protecting the company's ability to accelerate production if necessary in the future'. On Tuesday 17 December, the CEO of the French aerospace group Safran, Philippe Petitcolin, announced that the production rates of the engine powering the Boeing 737 MAX would be reduced. (...)

> **Airbus hardly benefits from Boeing's misfortunes**

(source Les Echos) December 16 - (...) Contrary to what one might think, **Boeing's misfortunes do not benefit Airbus that much.** Admittedly, for the first time since 2011, the European aircraft manufacturer is well ahead of its American rival in 2019, both in terms of the number of deliveries and orders taken. This is thanks to the halt in deliveries of 737 MAX. Its best-seller, the A320, even became the best-selling aircraft, with a total of 15,193 orders at the end of October, all models combined, compared with 15,136 for the Boeing 737. (...)

The discontinuation of 737 deliveries did not result in an increase in A320 deliveries. On the contrary! At the presentation of its quarterly results in October, Airbus CEO Guillaume Faury even lowered the official annual target from 890 to 860 aircraft. A revision imposed by production delays on the latest version of the A321, the longest single-aisle aircraft in the range, a victim of its success. Of this total, deliveries of A320 Family single-aisle aircraft are not expected to exceed 700, instead of the 721 originally planned. (...)

Moreover, **even if some customers would have been happy to swap their MAX orders for A320s, Airbus would not have the industrial capacity to meet the demand.** Like that of its American rival, the order book for its single-aisle vessels is already full until 2024. Moreover, the European aircraft manufacturer (...) is already having a hard time delivering its customers on time. Some, such as the head of IAG, blamed him for his tardiness. To the point of ordering from Boeing!

The problems with the A320s are not limited to delivery delays. The

reliability of Pratt & Whitney-powered aircraft has severely disrupted production in 2018, and the A320 neo would also suffer from a C of G problem. This led Lufthansa to neutralize the last row of seats on its 20 A320s. Airbus promises new software for aircraft stability control for next summer.

> **Airbus is taking advantage of the Boeing 737 MAX's setbacks, contrary to what is being said**

(source La Tribune) 23 December - (...) In the short term, **Airbus cannot propose to B737 MAX customers to replace them with A320 Neo.** (...)

The A320 order book is so full that **an airline placing an order today will have to wait until 2024 to receive the first A320s.**

However, by removing this short term element, the setbacks of the 737 MAX do indeed benefit Airbus. They give it a predominant strategic position in the entire market segment ranging from medium-haul aircraft with 150 seats to long-haul aircraft with 240-250 seats, which accounts for more than 70% of aircraft sales. **If we look further, Airbus may even be in a favourable position on the entire market, this time for aircraft with more than 100 to 300 seats!**

First of all, the B737 MAX crisis completely undermined, not to say killed, Boeing's "NMA" (new midsize aircraft) **project**, an aircraft with a capacity of 220 to 260 seats depending on the version (two were planned), capable of covering distances of more than 5,000 nautical miles (9,200 kilometres). (...)

With the 737 MAX grounded, Boeing obviously focused on its flagship aircraft and the NMA was not launched. And for Boeing, Airbus officially launched the A321 XLR, a long-haul version of the A321, at the Paris Air Show. (...)

Airbus is now taking full advantage of this situation. Since its launch last June, the A321 XLR has been taking more and more orders. They account for a large part of the 1,000 orders booked by Airbus since January. **More than 400 copies were ordered**, including 50 copies each by American Airlines and United Airlines, two American companies that were closely studying Boeing's NMA. Would they have ordered the Airbus if the NMA had been launched? We'll never know. (...)

Airbus' strategic situation is all the more comfortable as the European aircraft manufacturer can afford to wait for Boeing to enter the single-aisle market, that of the 737 and the A320. Whatever scenario his rival is setting up. **If Boeing retains its 737 MAX, a return to "normal", if there is a return to normal, is not expected for two years from the aircraft's return to service for the** unknown time. United Airlines has just postponed the aircraft's possible entry into service until June. (...)

But it is in another scenario, that of the termination of the 737 MAX programme (which a number of aeronautics sector bosses are considering) **that Airbus finds itself in an even stronger position.** (...)

For, in the absence of new engine technologies, **the launch of a new American programme** within two or three years **would result in an aircraft whose performance would**, admittedly, be superior to that of the A320 Neo, but **not sufficient to create a substantial gap with the European aircraft.** (...)

By launching such an aircraft, which would not reach the market before 2027-2030, **Boeing would therefore run the risk that Airbus, according to its current business plan, would wait a few years to launch a new aircraft, which would in turn bring a real technological leap forward compared to current aircraft.** The European aircraft manufacturer expects to launch the A320Neo successor programme in the middle of the next decade, with entry into service in the early 2030s.

It is difficult, not to say impossible this time, for Boeing to launch a new \$15 billion aircraft a few years after having spent the same amount to launch the successor to the B737 MAX, knowing that these two cheques would be added to the bill for the 737 MAX, at least as high as the cost of an aircraft program. Admittedly, Boeing's weight in defence and services is very important, but it is not certain, however, that it is sufficient to finance all this expenditure. (...)

The equation turns into a puzzle for Boeing. (...)

My comment: *With the B737 Max crisis, Airbus seems to have gained a lead over Boeing. For the European manufacturer to benefit from this, it will have to find the financial means to increase its production capacity.*

But another threat is emerging for the American aircraft manufacturer with the emergence of a new competitor, the Chinese Comac. He is

completing the development of his C919, designed to rival the B737 Max and A320 Neo.

The C919 first flew in May 2017. Its certification by the Chinese authorities has been delayed until 2021. Only once this step has been taken can it hope to obtain its certification from the European and American authorities.

> Last minute: Weakened by the 737 MAX's setbacks, Boeing's CEO resigns

(source zonebourse) December 23 - Weakened by the setbacks of the 737 MAX, Boeing has separated from its CEO Dennis Muilenburg, who will be replaced from January 13 by David Calhoun, the current group chairman.

In a press release issued on Monday, the aircraft manufacturer explains that a 'change of management was necessary to restore confidence in the group, which must move forward to restore its relations with the regulatory authorities, its customers and all its shareholders'. (...)

The announcement of Dennis Muilenburg's departure, which had been anticipated for several months, was welcomed on the stock market, where Boeing shares gained 4% shortly after the opening of Wall Street. Since March, it had lost more than 20%. (...)

The appointment of David Calhoun, who was previously head of private equity operations for the Blackstone Group, will provide useful stability in the short term but not the long-term expertise the firm needs, analyst Richard Aboulafia said.

"Calhoun is respected in the industry, but in the long run does he bring the right toolbox? Private equity makes companies leaner. This is not Boeing's problem at the moment," the aviation specialist added. (...)

End of the press review

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

The consultation procedure on the privatisation of the ADP group has been open since 13 June and will run until March 2020. It requires the signatures of 4.7 million voters to lead to a referendum on a shared

initiative (RIP).

On the Internet, the consultation can be signed on the site referendum.interieur.gouv.fr

By 23 December, halfway through the signature deadline, the consultation had collected 1,047,000 signatures, or 22.19% of the signatures required.

My comment: For the record, the consultation mechanism on the privatization of the ADP group concerns the following bill:

The planning, operation and development of the Paris-Charles-de-Gaulle, Paris-Orly and Paris-Le Bourget airfields are a national public service within the meaning of the ninth paragraph of the preamble to the Constitution of 27 October 1946.

Let me remind you of the next steps in the process:

1- At the end of the nine-month period for gathering support, the Constitutional Council shall verify whether the bill has the support of at least one-tenth of the voters registered on the electoral rolls.

2- If the bill has not been examined at least once by each of the two Assemblies (National Assembly and Senate) within six months from the publication in the Official Gazette of the decision of the Constitutional Council declaring that the threshold of 10% of voters **has been** reached, the President of the Republic shall submit it to a referendum.

End of the press review

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

The Air France-KLM share is at 9.986 euros at the close of trading on Monday 23 December. It is down -5.79%.

The average (the consensus) of analysts for the AF-KLM share is 11.19 euros.

Brent crude oil (North Sea) is up \$2 to \$67 per barrel.

This indicative information in no way constitutes an invitation to

sell or a solicitation to buy Air France-KLM shares.

You can react to this press review or provide me with 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 employee shareholding...

I'll see you soon.

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| François Robardet

Air France-KLM director representing employee shareholders PS and PNCYou can find me on my twitter account @FrRobardet

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

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