

Air France-KLM



I Letter from the Air France-KLM Director

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

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Editorial

First of all, I would like to thank in particular the Air France and KLM staff who have mobilized to ensure the repatriation of the nationals of our two countries. They have enabled hundreds of thousands of people to return home safely and at reasonable prices.

After two weeks of confinement, which has often allowed you to complete ongoing files and then to carry out minor work in your home, here comes a more delicate period. What to do with your days?

I'm not in a position to give you advice. I can only tell you how I organize myself, keeping the same rhythm and trying to plan my day. Well, I'll grant you, when I have to write this letter, it keeps me busy for a long time.

On that subject, I must tell you how ashamed I am. I sometimes make small mistakes in my comments. But last week I made a big one.

In my commentary on the article "Four questions on possible corporate nationalisations", I wrote

Many of you have asked me about the rumours of the **privatization of Air France-KLM**.

Of course, you should have read

Many of you have asked me about the rumours of the **nationalisation of Air France-KLM**.

Thanks to those who pointed that out to me. Give or take a couple of days, it could have been mistaken for April Fools' Fools' April Fools' April Fools' April Fools' April Fools' April Fools' April Fools'.

*Let us continue to respect the containment measures.
Happy readingFrançais*

Monday's Press Review

> Ben Smith, CEO of Air France-KLM: "The most serious crisis in our history"

(source Paris Match) 2 April - Like dominoes, countries are closing their borders and, with them, dozens of airports. The planes remain grounded. Traffic is collapsing. The scenarios for ending the crisis that were worked out the day before are to be repeated the next day. "Our strategic and budgetary forecasts for the year are obsolete. **The situation is getting more complicated by the day, not just for us, but for all airlines around the world,**" explains Ben Smith, the CEO of Air France-KLM, who considers this crisis to be "the most serious ever since the creation of [our] industry".

The International Air Transport Association estimates the industry's revenue loss at \$252 billion, assuming a three-month crisis. "The airline industry has already suffered brutal shutdowns, on 11 September 2001 or during the eruption of an Icelandic volcano, but this crisis is totally unprecedented, affecting all continents one after the other," adds Anne-Marie Couderc, the group's president. While France was becoming more and more confined, it **was first necessary to repatriate nearly 300,000 nationals.** These latest flights are taking place this week. There was no **shortage of volunteers to operate them, with "an extraordinary mobilisation of employees," stresses Anne-Marie Couderc.** Only a few destinations are still served, less frequently than usual. For example, the six daily flights between Paris and Los Angeles have been replaced by three weekly flights. Orly closed on 31 March, only providing state flights, medical flights and emergency diversions. Activity fell from 10% of operations on March 23

to 5% on March 30. "We expect activity to be reduced to 3 to 4% over the next two weeks," calculates Ben Smith. **The Air France and KLM teams are demonstrating an exceptional commitment to maintaining connections.** This will also allow for an easier restart." To reassure its financial solidity, Air France-KLM, whose share price has lost more than 50% of its value on the stock market in three months, indicated on 13 March that it had 5.5 billion euros in liquid assets. It has embarked on a race to reduce its expenses. **Employees were placed in partial activity.** "We have pushed back many of the expenses budgeted for 2020 to 2021. Nevertheless, 40 to 60% of the costs remain incompressible," explains Ben Smith. **Bercy has eliminated €700 million in taxes collected from the sector** and implemented a €300 billion guarantee for bank loans to companies. Above all, Air France-KLM's main shareholders, the French State (14.3% of the capital) and the Dutch State (14%), are ready to act. Nationalisation operations" to protect companies are not ruled out, said Prime Minister Edouard Philippe. **"We are in full agreement with the Dutch State on state support,"** he told Bercy. Dissension is set aside. The priority is to support this group." A priority shared by several countries. The United States has just released more than 50 billion dollars for the sector, in the form of grants, loans and loan guarantees. **Air France is the largest customer of Aéroports de Paris, the largest private employer in the Ile-de-France region, with 356,000 induced jobs in the country. KLM is the third largest employer in the Netherlands...** "It's not just one company, it's part of the national transport infrastructure," says Smith. We need as much support as possible to ensure that Air France-KLM emerges from this crisis at least in the same position as its competitors." **The return to normal will take months.**

***My comment:** During the confinement and despite the partial activity, many Air France-KLM group employees continue to work. Some are involved in the repatriation of our nationals or the transport of cargo, others maintain our aircraft. Some respond to our customers, a delicate task when they try to convince them to postpone their trip rather than get their tickets refunded.*

And what about our managers? With their teams, they seek to preserve our companies' cash flow, they meet with governments to obtain aid and, above all, they develop scenarios for ending the crisis.

> Air France-KLM is seeking to borrow several billions guaranteed by Paris and Amsterdam

(source Reuters) 4 April - **Air France-KLM has begun talks with banks to borrow several billion euros in the form of loans guaranteed by the French and Dutch governments** in an attempt to deal with a lasting paralysis of its business due to the coronavirus pandemic, sources told Reuters.

According to three sources aware of the discussions, the French and Dutch states, which each hold 14% of the airline group's capital, have put aside their differences to settle Air France-KLM's cash flow problems.

The terms and amounts of this operation have not been finalised and are likely to change, the sources said. The most likely scenario would be a loan of up to EUR 4 billion guaranteed by the French State for Air France combined with a loan of almost EUR 2 billion guaranteed by the Dutch State for KLM.

The Franco-Dutch airline group has mandated BNP and Société Générale as advising banks for this operation, according to two sources. The two French banking groups did not wish to comment.

"We are of course in permanent discussions with both governments," said an Air France-KLM spokeswoman, refusing to comment further on this prospect.

France and the Netherlands, each of which has indicated its intention to provide financial support to the airline group which is the parent company of its national airline, have also declined to comment on these discussions.

"Air France-KLM is a fine company and we want it to remain as it is, which is why we are ready to support it", the French Minister of the Economy and Finance, Bruno Le Maire, recalled on Thursday at an online press conference.

"We have been in discussions with KLM and Air France for a long time and in particular with the French government," Dutch Finance Minister Wopke Hoekstra told Reuters on Wednesday.

"It is very important to help this essential company in these difficult times," he added.

(...) **The loans to Air France and KLM would be guaranteed by their respective governments**, according to two sources. On the French side, they would be part of the €300 billion programme of bank loans to companies which **the State has undertaken to guarantee up to 70%**.

(...)

According to European Union directives, which have been relaxed as a result of the crisis, **state-guaranteed loans cannot exceed a quarter of the turnover achieved in 2019**, which amounts to €4.15 billion for Air France and €2.77 billion for KLM. (...)

My comment: *The measures taken by the French and Dutch states are similar to those envisaged by most governments to support their airlines :*

*. direct financing to compensate for part of the loss of employees' salaries .
deferral of the payment of charges and taxes .
loans guaranteed by the States .*

These measures seem sufficient to get them through the health crisis, but a question arises: will the airlines be able to repay their loans if traffic takes several years to return to its 2019 level?

Faced with this question, French airlines would have preferred lasting tax cuts.

> **KLM zal weer opstaan (KLM will get up)**

(source Algemeen Dagblad with Deepl) 4 April - According to KLM CEO **Pieter Elbers**, the coronavirus crisis does not mean the end of aviation. After the crisis, the sector has an important role to play, he says. (...)

He **expects the impact of the coronavirus crisis to continue for some time to come. "Much longer than three months, yes even longer than six months.** We don't yet know what the world will look like after the coronavirus crisis, but I guess aviation will be a big part of it again.

Elbers' ambition is to rebuild as much as possible the once renowned international KLM network. When the economy is restored, we will do our part to rebuild trade relations. Even after the previous crises and wars, aviation in particular has been extremely important in rebuilding the economy.

KLM operates only a limited programme to 57 destinations, about 10 per cent of the flights it normally operates. (...)

The airline, which employs 28 000 people, had previously postponed almost all investments and projects in order to keep as much money as possible inside the gate. (...) "But **no airline can face this crisis alone**". In the

meantime, **the company continues to take cost-saving measures**. For example, 1,500 to 2,000 jobs are disappearing due to natural departures, but also due to the termination of temporary contracts. (...)

But that's not enough. KLM is talking to the cabinet about additional support on various fronts. "We are in intensive contact with several ministries. KLM is also consulting with its business partners,

including leasing companies, on the deferral of payments. (...)

> **Politiek vergeet lange termijn in KLM-debat (Politics forgets the long term in the KLM-debate)**

(source DFT translated with DeepL) April 3 - On Wednesday, the House of Representatives and Minister Koolmees (Social Affairs) hammered KLM, which will not extend temporary contracts. This would contradict the emergency transitional employment programme. GroenLinks, which has long supported the downsizing of airlines, has criticised KLM for its lack of solidarity. (...)

More help is needed, which is why it was learned on Friday that KLM is in talks for a €2 billion loan from Minister Hoekstra (Finance). In addition (...) **Parliament (...) has further increased costs for the airline with the authorisation to introduce the flight tax. This will cost KLM about 100 million euros a year** and, on top of that, jobs at KLM. (...)

***My comment:** The Dutch government has confirmed its willingness to introduce a sustainable development' tax on passengers. From 2021, this tax will amount to €7 per passenger, irrespective of the length of the flight.*

> **Transavia houdt vast aan plan ondanks uitstel Lelystad (Transavia sticks to the plan despite the Lelystad postponement)**

(source DFT translated with DeepL) 31 March - **The decision by Aviation Minister Cora van Nieuwenhuizen not to open Lelystad airport until November 2021 at the earliest is no great surprise for the low-cost airline Transavia.**

Transavia, which is regarded as a future big consumer of the leisure airport, is pleased that the minister is now providing clarification. The company still wants to fly from Lelystad, even though the opening date has been postponed. But for the time being, our aim is to bring the Dutch back to the Netherlands and to restart our operations as soon as possible. (...)

)
The low-cost airline, which is part of KLM and had the highest growth in the group before the coronavirus restricted air traffic, says it considered several scenarios. For 2020, that doesn't mean we'll have to change our plans. We have already adjusted our plans in response to the coronavirus by postponing flights from Brussels until the summer of 2021. The situation is now clear and we are preparing to fly out of

Lelystad in the winter of 2021.

My comment: *The proximity of the elections in the Netherlands (in March 2021) heralded a postponement of the decision to open or not to open Lelystad.*

For airlines using Schiphol, the impact of this postponement will be mitigated by the effects of the Covid-19 crisis, which will reduce air traffic for months or even years.

> **What are the impacts for the MRO sector?**

(source Le Journal de l'Aviation) 2 April - **The Covid-19 pandemic is obviously hitting the aircraft maintenance sector hard, with a large part of the world's commercial aircraft fleet likely to be grounded for periods ranging from two to eight months...** for aircraft that will resume operations. While the second quarter of 2020 will be the most difficult in the history of air transport, Le Journal de l'Aviation sets out here the likely consequences of this crisis on integrated support programs, engine maintenance, airframe maintenance, equipment support, line maintenance, cabin modifications and conversion sites.

Short-term issues

While maintenance players are organising themselves almost everywhere in the world to be able to continue their activity in optimal sanitary conditions, **the logistics involved in the distribution of equipment and spare parts is a direct victim of the scarcity of air freight capacity** worldwide, which results in a significant increase in transport costs, longer lead times, or even simply logistical impossibilities over the next 2-3 months. (...)

Impact on integrated support programmes

Flight-hour programs, such as the FHS program at Airbus, Goldcare at Boeing and RPFH at CFM International, were logically directly affected with the first reductions in flight hours in China and more generally in Asia as of February. These programs **will experience a significant drop in revenues** which will, by definition, be directly linked to the reduction in the number of cumulative flying hours for aircraft or equipment governed by this type of contract. On the other hand, these programs most often concern the most recent platforms, which will therefore be required to resume service with a certain priority when operators resume flights worldwide. They will, however, necessarily be impacted by postponements or cancellations of new aircraft deliveries. **Good visibility of the impact of the crisis on this type of activity is foreseeable from the third quarter of 2020.**

Impact on engine maintenance

Operators' financial difficulties will inevitably lead to a decrease in the number of engine shop visits over the coming months, particularly in the form of postponements. (...) Various types of engines powering older platforms and **some four-engine engines should see a significant reduction in the volume of activity, while a large number of these aircraft will be forced to take early retirement.** As a reminder, engine maintenance is the most profitable activity in the MRO sector, with worldwide spending estimated at more than \$32 billion last year. Good visibility of the impact of the crisis on this type of activity is foreseeable in the first half of 2021.

Impact on base maintenance

As with their engines, **a certain number of aircraft will be retiring early in view of their high maintenance costs** and this phenomenon will not necessarily be linked to the arrival of major scheduled visits. This **same phenomenon occurred in 2002 and 2009.** However, maintenance companies specialising in airframe maintenance should not see a significant drop in the volume of work if operators manage to resume a programme close to the pre-crisis period before next winter. On the other hand, further significant pressure on prices should be felt very quickly at the global level, with major risks for the most fragile independent structures, particularly in Europe. Average visibility of the impact of the crisis on this type of business is likely to be achieved in the second half of 2020.

Impact on equipment maintenance

OEMs and workshops specialising in equipment maintenance and repair will also be on the front line in the face of pressure from operators to reduce their costs. On the other hand, these companies have developed a wide range of offers making them particularly flexible to meet the needs of their customers. However, this activity remains closely linked to the level of global air traffic recovery in the coming months. As for integrated support programs, good visibility of the impact of the crisis on this type of activity is possible as of the third quarter of 2020.

Impact on line maintenance

The line maintenance sector was the first to be affected by the reduction in airline flights. An upsurge in activities linked to the immobilisation of fleets (cocooning) for intermediate periods (60 days), or even for longer periods for certain types of long-haul aircraft have however partially cushioned this drop in activity, but this phenomenon will be very short-lived. As a **reminder, line maintenance was a strongly growing activity** (+4% per year) and represents a significant share of the total MRO (17%), with worldwide expenditure estimated at nearly 14 billion dollars. A good visibility of the impact of the crisis on this type of activity can be envisaged as early as the third quarter of

2020.

Impact on cabin modifications

The consequences of the crisis on cab modification sites are undoubtedly the most complex to grasp, as situations and needs can differ from one operator to another. Logic would dictate that the launch of this type of project should be one of the last in the airlines' order of priorities over the next 24 months, as the projects already under way with a high degree of progress in terms of the number of aircraft concerned will no doubt be completed, or even accelerated as far as possible with the immobilisation of the fleets. However, aircraft repossessions by lessors and transitions remain an important source of potential changes, even if their volume is still difficult to estimate compared to pre-crisis levels. Good visibility of the impact of the crisis on this type of activity is possible in the first half of 2021.

Impact on conversions of aircraft to all-cargo aircraft

For the time being, this sector obviously remains full of future, driven by a growing demand in recent years (e-commerce). There is also a strong demand for older generation aircraft such as the 737-300F and 737-400F. **Conversions of single-aisle aircraft to all-cargo aircraft should also accelerate**, with a probable increase in the number of aircraft made available on the market with an average age of less than 15 years, which had been made difficult by the 737 MAX crisis in recent months.

My comment: *The impact of the health crisis on the aeronautical maintenance sector is all the stronger as few planes are flying. Moreover, airlines are giving preference to the most economical aircraft, i.e. the most recent ones, which do not require a major next visit.*

> **Delta Airlines expects a 90% drop in second quarter revenues**

(source Le Figaro with AFP) 2 April - **Delta Airlines**, one of the leading airlines in the United States, **will see its turnover fall by 90% in the second quarter of** its fiscal year because of the pandemic which is paralysing most air traffic, its boss announced in an email to staff on Friday.

Edward Bastian also announced the filing of a request for emergency assistance with the Treasury, while warning that without drastic savings measures taken internally, public money "would only take the company until June".

My comment: *Delta Airlines' forecasts (-90% revenue in the second quarter) clearly indicate that our partner does not expect a recovery in*

air traffic in the United States before July.

> **Richard Branson wants a bailout from Virgin Atlantic. Does he?**

(source Bloomberg, translated with DeepL) 2 April - In 2017, British billionaire Richard Branson has agreed to reduce his stake in Virgin Atlantic Airways Ltd. to just 20% by selling a third of the airline to Air France-KLM. In December 2019, he changed his mind about the £220 million (\$274 million) transaction and chose to retain his 51 per cent stake in the company he founded. The other half belongs to the American company Delta Airlines Inc. (...)

In order to alleviate the financial crisis, Virgin Atlantic is asking Boris Johnson's British government to grant it £500 million in state-guaranteed loans and credit guarantees. ...

It is **hard to imagine why Johnson would throw a lifeline to Virgin Atlantic before his shareholders in the U.S. and British Virgin Islands could put their hands in their own pockets.** Branson himself is worth \$5.2 billion, according to the Bloomberg Billionaires Index. So far, the tycoon has injected \$250 million into his various Virgin companies, more than \$100 million of which has gone to the airline, according to Sky News. But it's clearly not enough. While Virgin Atlantic's financial results may have improved before the coronavirus hit, the company lost a total of more than \$100 million in 2017 and 2018. Pandemics are a known risk when running an airline, but no one could have foreseen a shock as widespread and potentially as long-lasting as this one.

Government assistance is therefore probably justified, given the approximately 8,500 jobs at stake. However, the UK government's offer to cover 80% of the wages of laid-off workers is already quite generous; Virgin Atlantic's annual wage bill is over £300 million. (...)

If Branson is short of cash, there are other assets it could possibly monetize, including a majority stake in the space company Virgin Galactic Holdings Inc., which has a market capitalization of \$2.9 billion. If the owners don't give it more money, **the British government should insist that Branson dilute its stake in Virgin Atlantic as originally planned, but this time by transferring the capital to taxpayers.**

My comment: *This article illustrates what could happen: that states make their aid conditional on an entry into the capital of the airlines they support.*

During the financial crisis of 2008, the US government did this. It took a

stake in the banks it bailed out, which it sold a few years later at a substantial profit.

> **Emirates Airlines will be saved at all costs**

(source Air Journal) 1 April - No amount was mentioned on 31 March 2020 by Crown Prince Hamdan bin Mohammed bin Rashid al Maktoum, but the tone set in his messages on social networks is clear: the capital injection in the airline company wholly owned by the emirate will be at the level necessary to ensure its survival. **The Dubai government "is committed to fully support Emirates at this critical time and will inject capital into the airline"**, said the prince. The national carrier "has made Dubai a global air transport hub and is of great strategic value, being one of the main pillars of Dubai's economy, as well as of the UAE economy in general," he added. (...)

Among the cost containment measures announced are an incentive for some 100,000 employees to "take paid or unpaid leave due to reduced flight capacity", and a reduction in the basic salary for the majority of the group's employees "for three months, ranging from 25% to 50%. (...)" The presidents of Emirates and dnata - Sir Tim Clark and Gary Chapman - will suffer a 100% reduction in basic salary for three months. (...)

My comment: *Unlike European countries and the United States, Dubai's support for Emirates Airlines takes the form of a capital injection, not a loan. This is enough to bring water to the mill of those who for several years have been denouncing the unfair competition of the Gulf companies.*

> **China: timid recovery in domestic air traffic**

(source: Air Journal) April 5 - **Domestic air traffic in China** increased slightly in March compared to February but is **still less than half the level before the coronavirus crisis**, the Civil Aviation Administration of China (CAAC) announced.

The number of daily flights jumped 20.5% in March to 6,533, said Jin Junhao, a CAAC official. However, this represents only 42% of the capacity recorded before the implementation of the restriction measures to stop the spread of the coronavirus. According to China's major state-owned airlines - Air China, China Southern Airlines and China Eastern Airlines - travellers are still being cautious and booking at the last minute, while **fares remain low and seat occupancy lower than usual. China Eastern Airlines planned to increase its capacity on domestic flights to 40%-50% in March, but demand was only around 30%.**

As for international traffic, it is always almost at a standstill. Last week, the CAAC asked Chinese airlines to reduce their international routes to one route per country and to limit the number of flights to one per week to avoid a second wave of contagion of the virus, this time from abroad.

***My comment:** Nearly five months after the outbreak began in China, air traffic is struggling to take off again.*

> **Lufthansa discusses massive State aid**

(source La Tribune) 2 April - **The German airline company is in talks with the German government about public aid that could amount to several billion euros.** An entry of the State into the group's capital is also possible. (...) **According to a banker quoted by Reuters, Lufthansa's needs would be equivalent to those of American Airlines, which intends to ask the US government for up to 12 billion dollars (11 billion euros).** (...)

On 19 March, when the 2019 financial results were published, Carsten Spohr, Lufthansa's CEO, said that state aid was "currently not necessary" and that the group would ask for aid "when it becomes necessary".

"We will be able to hold out longer than others" thanks to the group's good financial situation, Carsten Spohr said. (...)

The Lufthansa group also announced that it would be putting more than 60% of its employees on short-time work. That is 87,000 of its 135,000 employees, including 62,000 in Germany. The group has also announced the extension of its emergency flight plan, which was to last until 19 April, eliminating almost all its air routes until 3 May. There are only 18 long-haul flights a week and some 50 daily flights between Frankfurt and Munich to "major cities in Germany and Europe". (...)

***My comment:** Any aid to Lufthansa is subject to the same rules as the aid to Air France-KLM. They will be of the same nature*

> **Lufthansa examines the future of Germanwings**

(Reuters source translated with DeepL) April 3 - **Lufthansa is considering options for its Germanwings business after it turned down a union proposal to consider reduced working hours,** also known as Kurzarbeit, as an interim solution to help the low-cost unit save money.

"There is no agreement on Kurzarbeit, the board is considering the options," a Lufthansa spokesman said in response to a question about the planned closure of Germanwings or the implementation of reduced working hours. (...)

"The future of Germanwings is increasingly being questioned," Lufthansa added.

> **easyJet's founder doesn't lose his way in the crisis**

(source Le Monde) 31 March - With nearly half of the world's inhabitants confined to their homes, the world seems to be without a compass, desperately seeking a way out of the crisis. The **founder of easyJet, Stelios Haji-loannou, is** not losing his bearings. **Criticized by the media for pocketing 40 million pounds (€45 million) in dividends in March** as airlines struggle to survive, he **replied: "Why would I leave that money to the company? To give it directly to Airbus? I have my charities and Airbus is not one of them! "**The entrepreneur has been at war with his own company for ten years and still holds 34% of the shares. He left angry and has been trying to break his toy ever since. **Stelios doesn't** like the fact that his ex is still trying to grow up. For him, she spends too much money and should instead take care of her share price and shareholders by increasing her profits. He is **furious that the company, which already owns 344 planes, all Airbus, is still looking to buy another hundred or so,** especially to replace the older ones. The contract is signed, but it requires that it be cancelled. And he threatens to call a general meeting every seven weeks to disembark a director. A demonic pigeon shot at a time when the sector is going through the worst crisis in its history.

Stelios Haji-loanna is a Marxist operetta capitalist in search of a new direction. The son of a wealthy Cypriot shipowner, raised in good British universities, he too became a rich shipowner before founding his own airline. Resident in Monaco, he delights the cross-Channel press with his repeated provocations.

But his analysis is clear. **He believes that the crisis will lead to a lasting recession in air transport and that those who have fewer planes will fare better than those who have overinvested. The company is betting the opposite:** the crisis will weaken traditional airlines. **EasyJet, which is profitable and has a cash position of £1.6 billion and low operating costs, will be able to win additional market share when it emerges from the downturn if it has newer aircraft at its disposal.**

**Two visions for the future, one defensive, the other offensive.
Which path to take? That's the question of the moment.**

***My comment:** Will air transport return to its 2019 level in the near future? For the founder of easyJet, the answer is clear: no.*

Last minute: easyJet has secured a £600 million (€680 million) loan from the UK government.

> A \$6.85 billion loss of revenue is what the air transport of Africa's six major aviation nations risks

(source Le Journal de l'Aviation) April 3 - In its latest scenario to assess the financial impact of the crisis, IATA looked at the six major civil aviation nations on the continent, namely **Egypt, Ethiopia, Morocco, Nigeria, Kenya and South Africa**.

In its analysis, it emerged that these six countries **will record 35.9 million fewer passengers in 2020, which corresponds to a loss of revenue of about 6.85 billion dollars**. In such a scenario, their cumulative GDP will be deprived of US\$12.55 billion and 1.32 million people could lose their jobs. (...)

African airlines are facing a liquidity crisis. Bankruptcies are a short-term risk in this case. The institution estimates that the continent's carriers will lose \$4 billion in revenue by 2020. "Airlines are fighting for their survival. (...) If governments don't act now, this crisis will be longer and more painful. »

For IATA, States can intervene through direct financial support, loans or loan guarantees, and tax relief. (...)

In addition to financial support, IATA has called on regulators to support the industry. Key priorities for Africa include operational facilities to ensure the continuity of air cargo operations, the removal of economic barriers (overflight charges, parking fees and slot restrictions) during this period, and financial relief on airport fees and taxes. (...)

> BOEING extends suspension of production activities in the Seattle area

(source AOF) 6 April - **Boeing announced** this weekend that it has **extended until further notice the temporary suspension of production operations at all sites in the Seattle (Puget Sound) and Lake Moses area east of Seattle**. The decision was made by the U.S. aerospace giant to protect the health and safety of its employees based on the current assessment of the spread of the Covid-19 virus in Washington State, the reliability of the supply chain and new

recommendations from government health authorities.

> **The spectrum of order cancellations or postponements on Boeing and Airbus planes**

(source La Tribune) April 6 - **First major cancellation of aircraft orders** since the Covid-19 crisis. In view of the unprecedented crisis that airlines are going through, it won't be the last. **Avolon, the world's third-largest aircraft rental company, cancelled, on Friday, an order for 75 Boeing 737 MAX aircraft that were to be delivered by 2023, as well as four Airbus A330 Neo aircraft that were to be delivered by 2021.** Avolon has nevertheless retained an option on another 16 737 MAX, but has postponed their deliveries to 2024 and beyond. The aircraft lessor also postponed the delivery of nine Airbus A320 Neo aircraft to 2027 and subsequent years, to be delivered between 2020 and 2021. As a result, **Avolon's order book for the period 2020-2023 has been reduced from 284 to 165 aircraft. (...)**

Requests for cancellations or postponements of deliveries are increasing. According to Alexandre de Juniac, director-general of the International Air Transport Association (IATA), **"no airline will buy aircraft in the next six or nine months"**, i.e. until the end of the year. There is **also the risk of bankruptcy of some companies** with outstanding orders, as governments will not be able to help all carriers. (...)

As a result, production rates are expected to fall. (...) **Airbus, which before the Covid-19 crisis was studying the possibility of increasing its production of A320 family aircraft, is now considering cutting it in half for three to six months.** The European group has asked its suppliers to slow down their deliveries by 40%, at a rate compatible with production of 36 aircraft per month in the short term, compared with 60 before the Covid-19 crisis. This production rate has already decreased with the barrier measures taken in the factories. A reduction in production rates for A350 and A330 wide-body aircraft is also envisaged. (...)

On the Boeing side, the impact of the Covid-19 adds to the B737 MAX crisis, which has already cost it \$18 billion. **Civil aircraft production is virtually at a standstill.** While production of the 737 MAX has been halted since January, the group also suspended its activities in Washington State on 25 March due to containment measures. This concerns, inter alia, the Everett plant, which assembles its wide-body aircraft (777, 747, 767 and part of the 787). On Sunday, the suspension of these two sites was extended "until further notice".

Last week, **Boeing announced the launch of a voluntary departure plan, without specifying its scope. In mid-March, the manufacturer asked for a \$60 billion aid plan for the American aerospace industry.** For Boeing boss Dave Calhoun, it is essential to "maintain the stability of [the] supply chain to be ready to restart once the pandemic is over". Boeing and its supply chain account for a total of 2.5 million jobs in the US, according to Boeing.

***My comment:** If, as the CEO of the Lufthansa Group believes, it will take four years for airline activity to return to pre-crisis levels, the need for new aircraft will be very limited during this period.*

The manufacturers will then have difficulty selling their planes. For their part, lessors risk finding themselves in overcapacity, with the result that the price of aircraft rentals will fall.

> Coronavirus: when states act as a parachute for air transport

(source: Newsbriefs) April 6 - **For airlines around the world, the question is not whether they will need help from their governments, but rather when and how that help will come.** In the face of an unprecedented crisis, even those most hostile to public aid have converted to state interventionism.

The most spectacular example of this conversion is given by American companies, which were the first to call for help and which are also, for the moment, the best served. The plan to support the American economy voted on last week provides for \$25 billion in direct aid to pay salaries and pensions, as well as loan guarantees for a further \$25 billion.

This aid is conditional on the acceptance of certain constraints, such as a ban on redundancy plans by 30 September and the maintenance of domestic routes for the next two years. But the amounts involved should enable carriers to let the crisis pass. According to its chief executive officer, **American Airlines would thus be eligible for a total package - aid and guaranteed loans - of 12 billion dollars, or nearly ten times its net profit for 2019 and more than three months of turnover.** Air France-KLM's partner and shareholder, **Delta Airlines, could receive up to \$11 billion.**

But the Americans are not the only ones to take out the cheque book for air transport. In Asia, **Singapore Airlines has obtained authorisation from its main shareholder, the Singaporean sovereign fund Temasek, to raise up to EUR 9.6 billion in the form**

of new shares (EUR 3.4 billion) and convertible bonds (EUR 6.2 billion), together with a bridging loan of EUR 2.5 billion. In addition, 75 % of the salaries of SIA employees on short-time working are financed by the government. The company, which grounded almost its entire fleet until the end of April, explains that it has enough to deal with the crisis and "seize the opportunities" when it comes out.

In the same Asia-Pacific region, **China, Hong Kong, Korea, Australia and New Zealand have announced state aid in the form of loans and exemptions from taxes and fees.** In the Middle East, the Emir of Dubai has promised a "capital injection" to Emirates. (...)

My comment: *Only two airlines seem to be able to overcome the crisis without having to ask for help:*

*. Wizz Air, which has a cash flow equal to six months of revenues
. Ryanair, which has an equivalent cash flow and whose social model (which is neither a model nor a social model) allows it to adjust the salaries of flight crews to the activity.*

> **Opec and its allies address the crisis in the oil market**

(source AFP) 4 April - **The Organisation of Petroleum Exporting Countries (Opec) and Russia want to resume talks to** consider a major response to the slump in the black gold market, plagued by the pandemic and a price war, but a meeting scheduled for Monday has been postponed to Thursday.

This exceptional meeting by videoconference should make it possible to **discuss a massive reduction in production, to the tune of 10 million barrels per day (mbpd)**, a volume mentioned by Vladimir Putin on Friday. (...)

An arms deal between Saudi Arabia, leader of the Opec, and Russia, not a member of the cartel, preceded this adjournment, the two countries accusing each other of having spectacularly failed their previous discussions a month ago. (...) **The figure of 10 mbpd is colossal since it alone represents roughly the Russian or Saudi production of 10.7 mbpd and 9.8 mbpd respectively in February,** according to Opec's latest monthly report.

This figure appeared for the first time on Thursday in a tweet from the American president. (...) This exit occurred whereas the tenant of the White House promised to defend the American oil sector, first world producer with 13 mbd, but whose shale oil has a high cost price and is not profitable any more at the current prices.

Washington's shadow hangs over the upcoming talks, Ryad having warned that they would take place "at the request of US President Donald Trump", according to the official Saudi press agency SPA.

According to a Russian source quoted by the TASS agency, the **American regulator has even been invited to take part in the meeting. Vladimir Putin said he was ready "to cooperate with the United States"**.

The main challenge for the cartel and its allies will be to avoid the fiasco of the previous meeting, which resulted not only in a lack of agreement but also in a price war launched by Saudi Arabia.

Crude oil prices, already battered by stalled demand as strict population containment policies became more widespread around the world in response to the Covid-19 pandemic, then plunged to levels seen since 2002 on Monday.

The two benchmark prices, that of European Brent and American WTI, ended the year with the worst quarter in their history, with prices divided by three over the period.

The prospect of an easing of the price war and of production finally being curbed jointly, even though it will certainly not be able to meet the abysmal deficit in demand for black gold, nevertheless allowed prices to recover on Thursday and Friday.

But beware of false hopes, warns Chris Beauchamp, analyst at IG: "the chances of reaching an agreement seem rather low" and the market "is preparing for a painful disappointment, which could see the gains of the last 48 hours quickly wiped out".

My comment: It's an arm wrestling match. On one side is the United States, a producer of shale gas at around \$65 a barrel. On the other side are Russia and the Opec countries, whose production costs are lower, between 25 and 50 dollars a barrel depending on the fields.

By lowering the price of oil to 30 dollars a barrel, the latter are putting US producers in difficulty.

Stock exchange press review ...

> Threshold crossing declaration

(source: AMF) March 26 - By mail received on March 25, 2020 (...)

Donald Smith & Co., Inc. (...) acting on behalf of customers under its

management, **declared that on 1 October 2019 it had exceeded the threshold of 5% of the capital of AIR FRANCE KLM and that** on this date it held, on behalf of these customers, 24,493,406 AIR FRANCE KLM shares representing the same number of voting rights, i.e. 5.71% of the capital and 4.86% of the voting rights of this company

...

This threshold crossing results from an acquisition of AIR FRANCE KLM shares on the market.

The declarant stated that on 24 March 2020, he held 22,440,688 AIR FRANCE KLM shares on behalf of the said customers, representing the same number of voting rights, i.e. 5.24% of the capital and 3.82% of the voting rights of this company.

***My comment:** Donald Smith was a shareholder in KLM prior to the merger and had first crossed the 5% threshold of Air France-KLM's share capital in 2013.*

With this new increase, Donald Smith becomes the sixth Air France-KLM shareholder to hold more than 5% of the capital. The five others are the French State, the Dutch State, China Eastern, Delta Airways and Causeway Capital Management.

End of the press review

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

The Air France-KLM share is at 5.118 euros at the close of trading on Monday 6 April. It rose by 6.51%. It has recovered 18.5% in three weeks. At the start of the coronavirus epidemic, it was at 9.93 euros.

The average (the consensus) of analysts for the AF-KLM share rose from 9.30 euros **to 8.97 euros.** You can find the details of the analysts' consensus on my blog.

A barrel of Brent Oil (North Sea) is at \$34, up \$11 this week. At the start of the coronavirus outbreak, it was \$69.

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.

To find the latest press reviews of Monday, it's [here](#).

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| François Robardet

Director Air France-KLM representing employee shareholders PNC and PS.

You can find me on my twitter account @FrRobardet

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

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