

Is the reduction for domestic flights really catastrophic for Air France?



I Letter from the Director Air France-KLM

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

N°754, May 4, 2020

If you do not see this page correctly, or if you wish to read the English or Dutch versions

If you do not see this page correctly, or if you want to read the English or Dutch versions,

Als u deze pagina niet goed ziet, of als u de Engelse of Nederlandse versie wilt lezen,

[follow this link](#)  [it is here.](#)  [vindt u deze hier](#) 

Editorial

Dear Readers

The Air France-KLM Annual General Meeting will be held on Tuesday 26 May 2020 at 2.30 p.m. at 45 rue de Paris, 95747 Roissy CDG, Cedex, excluding the physical presence of shareholders or other persons entitled to attend. It will be broadcast live via webcast on the Group's website.

*In the coming days, I will send you a special Flash giving you information on the resolutions submitted to the vote. You will find in this Flash my explanations of vote. As in previous years, **I will propose to those of you who are shareholders of the Air France-KLM Group to entrust me with your powers.***

The voting forms should reach you shortly.

You can find all the documents relating to the Annual General Meeting on the Air France-KLM Group's website, on the financial information page. In particular, it contains the resolutions that will be submitted to the shareholders' vote.

You will also find the link to the 2019 Universal Registration Document on the home page of my blog navigation com.

*Let us continue to comply with the containment measures.
Happy reading François*

Monday's Press Review

> Is the reduction for domestic flights really catastrophic for Air France?

(source La Tribune) 1 May - **Among the environmental measures the government is asking Air France to take in return for its help in overcoming the Covid-19 crisis is the elimination of certain domestic routes in favour of trains.** With the criteria adopted, Finance Minister Bruno Le Maire's plan avoids the main drawbacks of the proposal (rejected) by certain deputies last year, which would have been unsustainable for Air France. (...)

Two criteria in the formula adopted today change the situation and avoid a catastrophe for the French group. The first is in the definition of the cursor to be applied to switch from aircraft to trains. While François Ruffin proposed banning air travel on all routes on which the train "allows a travel time equivalent to the travel time of the plane + 2h30" (i.e. on routes where the travel time by train goes from 3h20 to 4h depending on the route), **the government goes** much less far by **requiring to abolish the plane "when there is a rail alternative lasting 2h30"**. (...)

The main domestic point-to-point lines from Paris-Orly (...) are preserved: in addition to Nice, Toulouse or Biarritz, Mulhouse, Marseille, Toulon, Montpellier, Brest, Clermont-Ferrand, Limoges... which were condemned in François Ruffin's proposal, are maintained in the government's plan. In fact, **only the lines to Lyon, Bordeaux and Nantes will be abolished.** (...)

The cross-cutting network (region-region) is not affected. In the absence of high-speed lines on this part of the network, train journey times are very long. However, these flights, or at least **those of HOP! are set to decrease with the forthcoming restructuring of the Air France group's domestic network to redress the financial situation.**

The second big difference between the bill rejected last year and the government's measures today is the inclusion of connecting traffic. **The "2h30 rule" will not apply to flights connecting a "hub"**. Thus a Lyon-Paris Charles de Gaulle flight would be maintained since it would allow Lyon passengers wishing to travel to Asia or the United States to take a connecting flight at Roissy. Failure to take account of this type of traffic would have penalized Air France without reducing aviation's CO2

emissions. Indeed, without a flight to Paris-Charles de Gaulle, a Lyonnais wishing to travel to Asia or the United States could have taken a British Airways flight to London or a Lufthansa flight to Frankfurt or Munich to take his or her connecting flight. Such pre-post routing flights remain much faster and less restrictive in terms of baggage transfer than a TGV trip to Roissy.

Nevertheless, there are some grey areas in Bruno Le Maire's speech. (...) Indeed, **will these "transfers to a hub" only be reserved for those who can justify a long-haul connecting ticket? Or will they remain possible for so-called point-to-point passengers? On the routes between Nantes and Rennes and Roissy, the latter account for 20% of traffic.**

Another question: will the Air France HOP hub in Lyon, which connects short-haul flights, mainly domestic flights, also benefit from the exception to the 2.5-hour rule? (...)

Finally, **the government needs to clarify whether these new rules will apply to the Air France group only or to all airlines.**

In the end, the measure announced by Bruno Le Maire is far from being catastrophic for Air France. On the other hand, it clearly establishes the principle of the transfer from air to rail on short-haul routes. (...)

Another measure of the government is of greater concern: that of obliging all Air France flights to use 2% biofuels from 2025 onwards. Without harmonization on a global scale, these alternative fuels, **which are two to five times more expensive than kerosene,** would lead to a competitiveness deficit between airlines based in countries forcing such incorporation and those based in countries that will not apply a similar measure. This would be the case even if the measure were applied to all carriers operating in France. This is because Air France would be "taxed" on a much larger part of its business.

In the end, of all the measures listed by Bruno Le Maire to ensure that Air France reduces its CO2 emissions per passenger kilometre on the domestic network by 50% compared to 2005, it is the renewal of the aircraft fleet that will bring the biggest gain. From October 2021, Air France will start replacing half of its short-haul fleet of A320 family aircraft with highly energy-efficient A220s.

My comment: Several conditions have been set by the French State for the granting of loans. Three are included in this article:

. the closure of air services (except for connecting passengers) if the SNCF offers a link of less than 2h30,

. the reduction of CO2 emissions . the use of 2% biofuels by 2025 . a reduction of the use of biofuels by 20%.

On the 2:30 restriction, it would be surprising if a company took advantage of it to reclaim the market. This was not the case between Strasbourg and Paris, nor between Lyon and Paris. Why would it be different for departures from Bordeaux, Nantes or Rennes?

With regard to CO2 reductions, I would like to clarify the content of the article. The finance minister announced two conditions
. The first is to reduce CO2 emissions per passenger kilometer (on the entire Air France fleet) by 50% in 2030 compared to 2005
. The second is "that Air France reduce its CO2 emissions on its flights in mainland France by 50% by the end of 2024".

For each of these conditions, the same question arises: will Air France be penalized compared to foreign airlines?
The article partly answers this question from an economic point of view, not a social one. If the reductions imposed cannot be achieved through technological advances, a reduction in Air France's activity in mainland France and consequently a reduction in the workforce will be necessary.

There remains the measure that is likely to have the greatest economic impact on Air France: the obligation to use 2% biofuels from 2025 onwards. At first estimate, it could lead to additional costs for Air France of around €100 million per year.
If no compensatory measures were put in place, Air France would be in a paradoxical situation: the less it polluted, the more it would be penalized.

It remains to be hoped that this aspect of the problem will be taken into account by the government.

> **Social distancing**

(source Le Journal de l'Aviation) April 28 - With the multiplication of progressive deconfinements around the world, the month of May will be synonymous with a certain resumption of operations for many airlines, at least for a rudimentary part of their domestic flight programs. **Barrier gestures will of course remain in place and health measures will now**

be imposed on passengers throughout their journey, at check-in, boarding and disembarkation.

Among the simplest measures already adopted by many carriers are, of course, the **compulsory wearing of masks, the reduction of the number of bags in the cabin and the limitation of interaction between flight crew and passengers**, i.e. the abolition of on-board services.

Some civil aviation authorities go even further by temporarily, but strictly, imposing **social distancing on board (we should say physical distancing)**, with the neutralisation of "middle" seats in economy class (a third less capacity on a single-aisle aircraft, half the capacity on a regional aircraft, etc.) or the non-commercialisation of certain rows located too close to the offices. This measure is not in force in **France, but only advisable**, which unfortunately allowed many to come and shout haro on Air France following the unfortunate flight of a journalist in search of a scoop a few days ago.

Maintaining distance on board, as much as possible, is a good idea. But to impose it is simply a sign of a lack of knowledge of air transport that will not deprive itself, at best to pass on the significant loss of income in the price of tickets, at worst simply to put an end to these flights that will not be profitable.

Finally, physical distancing on board a plane is a bit like another form of social distancing. Physical space has always been sold more expensive by airlines and history has shown, with very few exceptions, that exclusively premium airlines generally do not last very long. Air transport is already clearly in crisis enough to add to its plight.

***My comment:** Several flights have been the subject of controversy in the past weeks. On the last one (a flight departing from Pointe-à-Pitre) it appears that Air France respected the rules in force. All passengers wore masks.*

However, it is questionable whether the safety distances between passengers during boarding were respected. In my view, this is more a matter of individual responsibility than that of the airline.

> KLM alleen? Omarm eindelijk de Fransen (KLM as an independent entity? Let's embrace the French at last)

(source NRC, translated with DeepL) 30 April - Tribune by Jan van der Heyde and Thomas Meyjes, who held various management positions at KLM until 2002.

(...) According to the latest news, **it now seems appropriate, in addition to managing this catastrophic crisis, to separate KLM "en passant" from Air France.**

In 2004, KLM (including Martinair and Transavia) was sold to Air France. This transaction, moreover at a favourable price for the buyer, was based on the vision that KLM could not survive on its own. Despite the Dutch feeling that the takeover has brought nothing but misery since then, **this vision was correct. KLM and Schiphol have grown strongly.** Years of good news for the company, the staff and BV Netherlands. No matter how you spin it, this would not have been possible without Air France. Yet here they complain mainly about undesirable French interference. KLM works better than Air France, doesn't it?

Last year, when in addition to fighting, profits were made, we fought again: (...) stop the childish nagging at the top, join hands and work on drastic cost reductions. Your cost level is one of the highest in the industry. Reduce costs together now, to look better in the next crisis.

But the argument has intensified. Minister Wopke Hoekstra (Finance, CDA) insulted France by spending €750 million of Dutch taxpayers' money on AF-KLM shares without consultation, with the aim of achieving a better balance of power. The French, with President Macron at the forefront, were (and still are) the devil: with such European friends you don't need enemies. In the meantime, **this purchase has brought the Netherlands nothing,** neither money (the share price has only fallen since the purchase), nor influence.

On the contrary, Hoekstra was forced to hold an impromptu press conference last Friday evening to praise its billion dollar support. **The collaboration with France, even in such a crisis, is still unsuccessful. We blame the French for this, but one day we have to think about how irritating it is for others to have to listen to our bloodshed all the time.**

Soon, the market may prove to have changed structurally: business travellers will discover the video connection, tourists will wait and see. Optimists think that demand for air tickets will soon be at its old level, pessimists think that this will happen reluctantly. (...)

Revenues will lag even further, as average revenues (from far fewer passengers) will decline. This applies in particular to KLM. With a tiny domestic market, the business model is mainly built around transfer passengers: those who fly from A to B via the Schiphol hub. With KLM, you have to board an aircraft twice from A to B and you have an additional risk of infection at the transfer airport. A low fare can convince the sceptics. **KLM does not have many marketing tools at its disposal other than lowering the price.** (...)

For the time being, the costs are borne by the Dutch taxpayer. In

addition to this purchase of burnt shares, (...) last weekend it was announced that an additional two to four billion in aid would be granted. (...)

Can KLM succeed on its own? No. KLM must continue to face competition from low-cost airlines and competitors such as British Airways and Lufthansa. This is where the weakened but much larger Air France comes in, which knows all KLM's business secrets. So it's not going to work.

The icing on the cake is that the existing partners could also benefit.

Delta and China Eastern, which now each hold almost 10% of the shares and play a crucial role for KLM and Schiphol, **would see their interests diluted** by a share issue or a divorce. **Will they continue to fly to Schiphol** like Air France, for example by developing Transavia, restructuring the European network and transforming Charles de Gaulle into a magnificent hub, thus putting Schiphol and KLM at the service of the Royal Crown?

The vision of 2004 remains valid: only KLM will not survive. It must focus on the French. Firstly: there are no other partners. Second: count on the fact that today's billions will not be enough anyway. It would be good if France joined us. Third: with a single KLM, the misery is incalculable, not to mention the problems (and costs) of separation. **Our only salvation is in Paris. With swallowed pride, go there unconditionally!**

And, who knows, a new friendship with France on such a hypersensitive and visible issue could also improve our reputation (...) elsewhere in Europe.

My comment: *In the Netherlands the feeling towards Air France-KLM is changing.*

Before the health crisis, the Dutch press mainly reported on the positions taken in favour of a divorce between KLM and Air France. With the crisis this situation has been reversed. There are more and more voices advocating the retention of KLM within the Air France-KLM group.

As Pieter Elbers said in a webcast with KLM staff on 28 April: "Farewell to Air France is not a subject, we have shown in recent years that Air France-KLM is a strong combination at international level" (Afscheid van Air France is niet aan de orde, we hebben afgelopen jaren laten zien dat Air France-KLM op het internationale vlak een sterke combinatie is!).

> **The State ready to help Corsair, alongside the**

shareholder, says the Mayor

(source Zone Bourse) 4 May - **The French State is ready to support French airlines beyond the aid already granted to Air France-KLM, but the shareholders of these companies must also assume their responsibilities**, said Economy and Finance Minister Bruno Le Maire on Monday. (...)

The German private aviation group INTRO Aviation is the majority shareholder of Corsair, with 53% of the capital. TUI France owns 27% and the remaining 20% is held by a holding company of the group's employees. (...)

My comment: Corsair is in a very delicate situation. The French company cannot count on its two main shareholders.

Intro Aviation, which specialises in restructuring companies in difficulty, does not intend to reinvest in Corsair. As for tour operator Tui, to avoid bankruptcy, it has obtained a 2 billion euro loan from the German government.

> Ryanair cuts 3,000 jobs to survive, with flight crews mainly affected

(source AFP) 1 May - **Ryanair is going to cut 3,000 jobs in** order to survive the air transport crisis which is endangering the whole sector. The Irish carrier explains that **pilots and cabin crew will** be affected **mainly**, and that the plan concerns 15% of the total workforce of around 19,000 people.

These job cuts are "the minimum we need to survive the next 12 months", company boss Michael O'Leary told the BBC. If a vaccine is not found and traffic does not return to normal, "we may have to announce more cuts," he warned.

O'Leary also said **his restructuring plan could lead to base closures in the UK.**

The British trade union Unite is asking the company to give up these job cuts, saying it has "significant cash reserves and is better equipped than other companies" to deal with the crisis. (...)

The company expects some employees to take unpaid leave and others to see their wages cut by 20%.

Michael O'Leary had already cut his salary by 50% for April and May, and will now extend this measure for the rest of the fiscal year, until March 2021.

Ryanair is also forced to review its plans for growth and aircraft orders.

It says it is in negotiations with Boeing to reduce the number of planned deliveries over the next 24 months. (...)

My comment: If Ryanair is talking about job cuts only for its flight crews, it is because almost all of the so-called 'ground' activities are outsourced. The CEO of the low-cost Irish airline is careful not to mention their situation.

> Norwegian Air Shuttle - shareholders adopt rescue plan

(source Le Figaro with AFP) 4 May - **Norwegian Air Shuttle shareholders on Monday adopted a rescue plan** that should enable the low-cost company to obtain public aid and continue flying in an airline sector hit hard by the health crisis, the Norwegian media reported.

The plan provides for the conversion into capital of more than 10 billion crowns (€880 million) of debt held by bondholders and leasing companies. It will be followed by a capital increase of between 25 and 35 million euros.

Through this operation, Europe's third largest low-cost company will fulfil the Norwegian Government's conditions for the granting of guarantees of EUR 237 million, in addition to the EUR 25 million already granted. Without this lifeline, the company was threatened with bankruptcy. (...)

This plan will dilute the existing shareholders very significantly, reducing them to around 5% of the capital. (...)

My comment: Norwegian's business prospects are reduced. Its rescue plan includes the closure of most of its international lines. Only a few transatlantic routes would remain in addition to its medium-haul business.

> Iberia cederá rutas en Canarias a Volotea (Iberia cederá rutas en Canarias a Volotea (Iberia cederá rutas en Canarias a Volotea (Iberia cederá rutas in Canarias to Volotea from roads to the Canary Islands)

(source El economista, translated with Deepl) 4 May - **The airline company Volotea plans to open bases in Tenerife and Gran Canaria in 2021 after signing an agreement with Iberia to** operate certain routes at national airports, which in the case of the islands would mean the creation of around 100 direct jobs and 300 indirect jobs. Until last January, Volotea operated annually to Lanzarote, Fuerteventura, Gran Canaria and Tenerife and links the Canary Islands with various French cities such as Nantes, Toulouse, Bordeaux, Marseille and Strasbourg. It also connects Oviedo to Tenerife South.

The agreement with Iberia, signed last March, according to El Ecomomista this Thursday, is part of Iberia's acquisition of 100% of Air Europa and must be approved by the European Commission's competition authorities. If it is approved, Volotea will considerably strengthen the connectivity of the Canary Islands community, both in terms of routes and passengers carried and in terms of connectivity and employment. Volotea currently operates 17 routes in the Canary Islands (8 of which are exclusive) and has carried more than 150,000 passengers in 2019. (...)

The agreement with Iberia will allow (...) Volotea to continue its growth and become the second largest airline in Spain in terms of domestic traffic. (...)

My comment: Iberia's takeover of Air Europa still seems to be on the agenda.

By ceding routes to its competitor Volotea, Iberia is meeting the expectations of the European Commission: to avoid a virtual monopoly of the future Iberia - Air Europa combination on Spanish domestic routes.

> Iberia and Vueling get €1 billion, Aer Lingus shuts down 20% of the workforce

(source Air Journal) 3 May - **Iberia and Vueling, Spanish subsidiaries of the Iberian-British group IAG** (International Consolidated Airlines), **have obtained a billion euro loan guaranteed by** the Madrid government to deal with the fallout from the coronavirus pandemic. Iberia, the Spanish flag carrier, borrowed 750 million euros. As for the low-cost Vueling, it obtained a loan of 260 million euros. (...) The loans, to be repaid over five years, will be provided by a group of Spanish banks. (...)

Aer Lingus, the group's Irish subsidiary, has begun negotiations with the unions to reduce its workforce by up to 20%, i.e. 900 out of 4 500 employees. Last month, the Irish company has already reduced its staff working hours by 50% in response to the shutdown of its operations due to the coronavirus. For its part, **British Airways, the largest company in the IAG group, is planning to cut 30% of its workforce, i.e. 12,000 employees.** The British airline has already laid off 22,626 employees in April.

In the first quarter of 2020, the Ibero-British group has recorded an adjusted operating loss of 535 million euros against a profit of 135 million euros a year earlier, while its turnover has fallen by 13% to 4.6

billion euros. (...)

> **Pilots: bad weather at British Airways and Lufthansa**

(source Air Journal) 1 May - In view of the impact of the coronavirus on current operations and the forecast recovery in passenger demand to 2019 levels "which will take several years", **British Airways had informed its unions of "the proposal for a restructuring and redundancy programme", which could result in the dismissal of 12,000 employees** (22,626 are already on short-time working in April). **In a letter to the pilots, the British national airline states that 1130 out of a total of 4346 would be affected**, "955 for what it calls a volume adjustment and 175 as a result of efficiency changes". The distribution of these redundancies between captains and co-pilots would be "roughly equal".

British Airways adds that it also envisages "changes" in the working conditions of pilots, through flexibility in schedules, timetables or "the current operating environment". This is to ensure that "our remaining operations are efficient, flexible and competitive to enable us to survive in an increasingly lean and unpredictable industry". It has given itself 45 days to negotiate these measures, including with the BALPA union.

The Oneworld alliance company also explains that it cannot "eliminate the possibility" of completely suspending flights at its London-Heathrow base, where it has concentrated what remains of its flight schedule since the end of March and the suspension of its activities at Gatwick. But this second base may well not reopen once the health crisis is over, according to the BBC: in a note to Gatwick staff, **British Airways states: "As you know, we suspended our flight schedule at Gatwick at the beginning of April and there is no certainty when or if these services can or will return"**. Its operations there are five times smaller than those at Heathrow, and are mainly on tourist routes.

In Germany, where Lufthansa is still struggling with the government over a possible €9 billion aid package, the **pilots' union Vereinigung Cockpit (VC) said yesterday that they were prepared to sacrifice up to 45% of their wages for more than two years to help cut costs**. Its statement said the move would save the national airline €350 million, a "significant" contribution to its survival. The pilots "take their responsibilities" by proposing this salary reduction until 30 June 2022. (...)

Recalling that a similar decision had been taken in 1992 to avoid bankruptcy, **VC hopes for an agreement with Lufthansa's management which will make it possible to maintain jobs**, with

"protection against dismissal" as a result. **"We have always said that as the highest paid staff, we would be committed to our special responsibility in good times and bad,** even if it means painful cuts. Here is proof of that," said the VC president.

The Star Alliance airline also learned yesterday of the closure of Berlin-Tegel airport, effective June 1 and for an indefinite period. (...) This will impact some 60 airlines including Air France, Brussels Airlines, Royal Air Maroc, Ryanair and Alitalia.

***My comment:** All European airlines are anticipating a prolonged decline in activity.*

Most have chosen to downsize, including pilots. Thus, Air France plans not to replace retiring pilots over the next few years.

Lufthansa pilots, like KLM pilots, are offering an alternative: temporarily reduce their salaries in exchange for keeping pilots on the payroll.

> Lufthansa management confident that Berlin will soon provide assistance

(source Reuters) 3 May - **Lufthansa hopes its discussions with the government on possible financial aid can be concluded soon**, the German airline's board of directors said in a letter consulted by Reuters. The board of directors also says it is considering other alternatives such as placing itself under creditor protection.

The travel bans imposed by many countries around the world to curb the spread of the coronavirus have forced Lufthansa to ground 700 of its planes, causing a 99% plunge in the company's traffic and losing nearly a million euros in cash reserves per hour. (...)

Lufthansa is currently negotiating a 10 billion euro bailout that would result in the government taking a 25.1 percent stake in the airline, the weekly Der Spiegel reported Friday.

For its part, Reuters reported on Tuesday that Lufthansa is negotiating a 9 billion euro bailout, with loans from Austria, Germany and Switzerland, citing sources close to the group and the government.

***My comment:** The Lufthansa Group has less cash but more fully-owned aircraft than the Air France-KLM Group.*

The Lufthansa Group may, if necessary, carry out more sales and leaseback operations than the Franco-Dutch group in order to strengthen its cash position.

Note: in a sales and leaseback operation, an airline sells one of its aircraft to a financial institution, which then leases the aircraft back to the airline. This allows the airline to recover cash up to the value of the aircraft.

In this operation, the financial institution takes virtually no risk, as the airline undertakes to lease the aircraft until the initial amount is repaid.

> **China: Covid-19 put the aeronautics in the red in the 1st quarter**

(source: Le Figaro with AFP) 30 April - Chinese airlines posted heavy losses in the first quarter as a result of the Covid-19 pandemic, which heavily penalized the sector and caused travellers to flee. (...)

China Southern Airlines, the country's biggest airline in terms of passenger numbers, **posted 5.2 billion yuan (677 million euros) in losses over a year**, according to a press release transmitted Wednesday to the Hong Kong Stock Exchange. (...)

A Chinese airline can now operate only one weekly flight from China to a third country. For their part, foreign airlines are only allowed to operate one service per week to China. Beijing has also banned most foreigners from entering the country.

China Eastern Airlines, the second largest airline in terms of passengers, **recorded losses of 3.9 billion yuan (508 million euros) in the first quarter**, she announced in a statement. Its competitor Air China reported 4.8 billion yuan (625 million euros) in losses over the period. (...)

***My comment:** In China, like everywhere else in the world, air activity has stopped. It is resuming very slowly on the Chinese domestic market.*

> **Without Embraer, Boeing is giving up the chance to level the playing field with Airbus.**

(source Les Echos) April 27 - If Airbus employees have a little worry to worry about, they can always console themselves by thinking of their colleagues at Boeing. For the past two years, the American aircraft manufacturer has been accumulating bad news. And despite the billions of dollars promised by the U.S. government to save its industrial flagship, Boeing will necessarily come out of this crisis much worse off.

By abandoning the acquisition of Embraer's commercial aircraft business, Boeing has confirmed its long-term relegation to second place in the single-aisle market, far behind Airbus. At the same time, Boeing is giving up the world's leading manufacturer of commercial

aircraft, which will be regained in 2019 by its European rival. Until the 737 Max crisis, Boeing had always tried to match Airbus in the short and medium-haul single-aisle market segment, **which accounts for two-thirds of the demand for new aircraft**. But the takeover of Bombardier's Cseries programme by Airbus, which had enabled the aircraft manufacturer to extend its offer to aircraft with 110 to 150 seats, and the halt in deliveries of 737 Max aircraft had completely changed the balance of power in 2019, with 642 deliveries of single-aisle aircraft for Airbus, all models combined, compared with 121 for Boeing. Before the Covid-19 crisis, Boeing could nevertheless count on a return to flight of the 737 Max and the integration of the 110 to 150-seat range of the Brazilian aircraft manufacturer, which delivered 89 commercial aircraft in 2019, to quickly get back into the Airbus wheel. But today, the **American manufacturer can no longer afford to spend \$4.2 billion to buy Embraer. As for the 737 Max, no date has yet been set for its return to flight** and its production remains at a standstill. According to AFP, **the aircraft manufacturer is even preparing to reduce the workforce in its commercial aviation branch by 10%, cutting some 7,000 jobs around Seattle**.

My comment: Boeing is forgoing assistance from the U.S. government for the time being. The manufacturer has just launched a \$25 billion bond issue in seven tranches. Repayment terms would range from 3 to 40 years.

> **Airbus offers its solution for transporting freight in the cabin**

(source Le Journal de l'Aviation) April 30 - Despite its own difficulties, **Airbus** continues to mobilize for the health effort and for its customers. The European aircraft manufacturer is **now offering (free of charge for the duration of the covid-19 crisis) its own solution to A330 and A350 operators who wish to refurbish the cabins of their passenger aircraft to carry freight**. (...)

The Airbus solution has been designed to respond to an emergency situation such as the one experienced since March. **It involves removing the seats from the aircraft cabins and using the fixing rails to install pallets in their place**. (...) The operation is very simple: it uses standard pallets installed on the A320 family, which are easy to obtain and measure 1.5 m x 1.5 m, thus capable of being loaded through the boarding gates of long-haul aircraft. They are secured next to each other with standard cargo equipment such as straps, and the packages, brought by hand afterwards, are covered with a net. There is therefore no major investment to be made in terms of equipment or

specific kits. (...) Above

all, **it is faultless in terms of safety.** (...) The layout of "these pallets allows us to create access corridors to the masses transported: we are able to access all the packages and extinguish any fire that may break out. We therefore provide the required level of fire safety. **Another important point is the control of the aircraft's weight and centre of gravity.** As we place pallets at specific locations on the aircraft permanently and then place loads on these pallets, we know exactly where the loads are being transported, so we have perfect control of the C of G.

"(...) **Airbus has assumed that airlines will prefer to use the part of the cabin occupied by economy class, as the dismantling of business class seats represents a heavier task.** The galleys will also remain in place. "But this is not a mixed passenger/cargo solution, just as it is not a conversion to a cargo aircraft. "As far as **capacity is** concerned, it **depends on the decisions of each airline.** But there is one general principle: "what we are looking for is volume, not weight". (...) Each pallet has a volume of just over 2.5 m³ and can support 260 kg. On an A350 in standard configuration, the solution can provide an additional volume of 81 m³ (thirty pallets) and a mass of 7.8 tonnes, in addition to what can be placed in the hold and baggage compartments, bringing the total capacity to 42.5 tonnes. On the A330, the additional volume can be 67 m³ (28 pallets) and the mass of 7.3 tonnes, bringing the cargo carrying capacity to 37.5 tonnes.

Airbus says it has received 140 expressions of interest and is already working with some 20 companies to obtain permission from their regulatory authorities to implement the solution. (...) It is expected by the end of May.

***My comment:** Before the health crisis a large part of air freight (about 80%) was carried in the holds of passenger aircraft. In order to continue to move cargo, airlines are looking to optimise aircraft loading by using cabin space.*

> **London Heathrow Airport expansion postponed for at least two years**

(source AFP) 1 May - **The highly controversial project to expand London Heathrow airport, the busiest in Europe, will be delayed "by at least two years" because** of the coronavirus pandemic, the airport announced on Friday. (...)

The construction of a third runway at Heathrow, located in the west of London, is supposed to allow this airport to welcome 130 million passengers per year, against 78 million at present. Construction was

expected to start in 2022 and to last four years, and the project was to be financed by the consortium of investors owning the airport, including sovereign wealth funds from China, Singapore and Qatar.

The cost of this massive project is estimated at £14 billion (€16.5 billion) for its first phase.

***My comment:** The health crisis and the distant prospects of a recovery are undermining airport expansion plans. This is the case here for the construction of a third runway at Heathrow. It is also the case for the construction of terminal T4 at Charles-de-Gaulle, which has been postponed sine die by Finance Minister Bruno Le Maire.*

Even the future of London-Gatwick airport is in question (see the article "bad weather at British Airways" above).

> **Paris-Orly airport should remain closed until autumn**

(source Les Échos) May 3 - Closed to commercial traffic since March 31, Orly is sad these days, not just on Sundays. And, according to our information, this should last for several more months. In view of the airline companies' forecasts, the recovery of air traffic is indeed expected to be much slower. As a result, the **second Parisian airport is unlikely to reopen before autumn**, according to sources close to the dossier. (...)

In France, with the exception of Air France, which still operates flights to Marseille, Nice and Toulouse from Paris-Charles de Gaulle, as well as cargo and repatriation flights, all the airlines are virtually at a standstill. And it will take at least two years to return to normal, according to Air France-KLM boss Ben Smith, who expects traffic to continue to fall by 80% in June, 60% in July and 40% in August. **Roissy-CDG airport**, of which only three terminals (2E, 2F and 2A) remain open, **should be sufficient to absorb all of this summer's traffic departing from and arriving in Paris**, without the need to reopen Orly to commercial flights. In order to facilitate the implementation of health checks, ADP is even considering closing terminal A at CDG 2, to keep only terminals 2E and 2F at Roissy-CDG 2 open.

Orly airlines which so wish will nevertheless be able to resume their flights from Roissy-CDG airport. In particular, Corsair and Air Caraïbes had announced plans to resume flights to the French overseas departments from mid-June. However, traffic to the West Indies and Reunion Island would not justify reopening Orly, even though the airport has kept the minimum number of staff necessary to accommodate medical flights and possible diversions.

"We have to wait for the borders to reopen before we can get back up to speed," ADP explains. A large part of Orly's business is based on serving the Maghreb countries, whose borders are closed. In addition, the closure of the borders of the European Union should also last until September.

***My comment:** The postponement of the opening of Orly airport is problematic. The companies that use it (Transavia for example) maintain their planes there. If they were to migrate temporarily to Charles-de-Gaulle, they would have to transfer part of their spare parts stock there.*

Above all, this postponement could have serious consequences on the employment of the many subcontracting employees working on the Orly platform.

> **Coronavirus: 3,200 planes to be scrapped**

(source Les Echos) 30 April - A real cold shower: the Oliver Wyman cabinet presented its new post-covid forecasts for the aeronautics market up to 2030 in front of some 1,000 representatives of the industrial sector. The firm is even more pessimistic than the studies presented over the last three weeks by McKinsey, BCG and Archery. For Oliver Wyman, **the aeronautics industry was experiencing a bubble that has just burst with the Covid crisis.** With order books of more than ten years, increasingly swollen market announcements where the share of firm purchases and options is never clear and delivery times increasingly distant, aeronautics was living on a cloud, says Jérôme Bouchard, partner of Oliver Wyman. **"For the first time in 20 years, the aeronautics industry will have to worry about demand and not just supply, like other industries,"** he summarizes.

For the moment, of the 27,500 aircraft in service worldwide, 20,000 are at a standstill. By the end of the year, there should still be 10,000 on the ground. By the end of 2021, 21,000 planes would be flying and it would be necessary to wait until the end of 2022 for a complete restart. Thus, the air transport sector, which was always in demand for more and more aircraft, is suffering from massive overcapacity.

Oliver Wyman is therefore betting on order cancellations for 20% of the aircraft ordered in 2020 and 2021, and on postponement requests for 40% of purchases. Above all, the firm stresses that the airline industry will not be able to recover unless it scraps planes that are more than 20 years old, rather than 25 years old as has been the case up to now. According to the firm, 3,200 aircraft should be scrapped, if possible already this year.

From then on, the manufacturers will resume production but deliveries will be unbundled, which will oblige them to maintain a stock of "white tails". In view of the overcapacity, **the design office estimates that production of new aircraft is set to fall by 45% this year, a much more pessimistic forecast than that made by Airbus, which has announced a one-third reduction in production.**

On the aircraft maintenance side, the firm is also very pessimistic in the short term, announcing a 50% drop in worldwide turnover in 2020, which will take at least three years before it returns to growth. The firm calculates that worldwide maintenance revenues would fall from \$43.5 billion to \$19.7 billion.

In the long term, however, Oliver Wyman believes that we should not overreact. Between now and 2030, the world fleet of aircraft will increase to around 35,000 aircraft, 4,500 less than was forecast before the covid crisis, but 7,500 more than today. This leaves the industry with the prospect of a return to growth of around 2.7% per year after 2023. In maintenance, the recovery will probably be faster, since aircraft that take off again will have to be well maintained.

The presentation of the study did not generate much enthusiasm from the audience. "It's logical, it takes a certain amount of time to mourn the loss of endless growth, especially when for the past 12 years, all you've heard about is an increase in production rates," says Jérôme Bouchard.

***My comment:** Finally, there is at least one positive consequence to this health crisis: the reduction in air traffic leads to a reduction in CO2 emissions.*

This is not the case for another equally polluting sector of activity: the Internet. The multiplication of videoconferences and screenings accentuates the pollution of this sector.

End of press review

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

The Air France-KLM share is at 4.299 euros at the close of business on Monday 4 May. It is down -4.47% over one week. At the start of the coronavirus epidemic, it was at 9.93 euros.

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

6.08 euros. You can find on my blog the details of the analysts' consensus.

Brent crude oil (North Sea) is at \$26 a barrel, up \$6. When the coronavirus outbreak started, it was \$69. Production is always higher than the (low) demand.

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](#)

If you like this press review, pass it around.

New readers will be able to receive it by [giving me](#) the email address of their choice.

| 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.

If you no longer wish to receive this letter/press release, [unsubscribe](#)

If you prefer to receive the press review at another address, please let me know.

To contact me: [message for François Robardet](#). 10408 people receive this press review live