

Air France-KLM: nearly 2 billion in losses and a heavy social plan in sight



I Letter from the Director Air France-KLM

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

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Editorial

Dear Readers

It's the first day of deconfinement. Many of us have been pushing a sigh of relief. I have a special thought for those of us who have lost a loved one.

You will find a bonus article at the end of this week's letter. It's a subject covered on France Info on Sunday, May 10.

The Annual General Meeting of Air France-KLM will be held on Tuesday 26 May 2020 at 2.30 p.m. at 45 rue de Paris, 95747 Roissy CDG, Cedex, without the physical presence of shareholders or other persons entitled to attend. It will be broadcast live via webcast on the Group's website.

I'm supplementing Flash #82 sent earlier. If you wish to entrust me with your powers, you are sometimes asked for my full address:

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You will find all the information on my blog [navigaction.com](#).

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.

*Let us continue to respect the barrier measures.
Happy readingFrançois*

Monday's Press Review

> Air France-KLM: nearly 2 billion in losses and a major social plan in sight

(source Libération) May 7 - The company posted record losses for the first quarter due to the health crisis. Although the French state has granted it 7 billion euros in loans, it is preparing to cut thousands of jobs. Discussions have already begun in this regard.

The atmosphere was heavy on Wednesday morning at the Air France-KLM (...). And with good reason: the **losses announced by the Franco-Dutch airline company reached a record level of 1.8 billion euros in the first quarter**. Only the month of March was particularly affected by the effects of Covid-19. In other words, the financial results for the first half of the year are likely to be even more catastrophic.

Air France-KLM is paying not only for the dizzying drop in its revenues, since most of its aircraft are grounded, but also for the low price of oil. The airline, like most other carriers, is in fact operating a so-called "hedging" system. This means that it buys, in advance, the kerosene it needs at a set price. At the moment, not only is the defined price - about \$60 a barrel - well above the market, but not all of this fuel generates no revenue because it is not consumed. A kind of double penalty that weighs **almost EUR 500 million in the company's poor results**.

In addition, traffic is only expected to pick up again very gradually. The routes on which Air France-KLM is really profitable are the American continent, Asia and Africa. However, all these destinations currently generate almost zero activity since the Schengen area is closed. In order to make savings, the carrier will therefore have to make serious cuts in its costs and investments. These will fall from €3.6 billion to €2.4 billion. Already three long-haul Airbus aircraft will not enter the fleet this year.

However, it is on employment that the most violent measures are expected. **The CEO of Air France-KLM has announced discussions**

with the trade unions with a view to job cuts. And when this prospect was announced yesterday at the board of directors meeting, the two representatives of the State shareholder did not make the slightest comment, according to information from Libération. Anyone who says nothing consents. Those in the company who thought that the two loans, amounting to EUR 7 billion, had been granted by the State (15% shareholder) in return for a social protection clause, will be at their expense.

While **no figures have yet been announced**, the company's Chief Executive Officer, Benjamin Smith, plans to cut jobs in Air France's administrative services and regional stopovers. This will be made easier for him with the abolition of flights, since a train service, lasting less than 2 hours 30 minutes, can replace the plane as requested by the government. The regional transport subsidiary Hop should see its fleet and network reduced by almost half. A total of 6,000 to 10,000 jobs are threatened out of a workforce of 80,000 employees, according to a company manager who preferred to remain anonymous. **For the time being, the method mentioned is that of a voluntary redundancy plan.** But no one in the company can imagine that such a number of employees would want to leave the company on their own initiative. Under these conditions, recourse to layoffs is on the horizon. **A savings plan should be announced in July.**

Will employees react as they have often done by going on strike? This time nothing is less certain. Firstly because the low number of flights currently being operated would reduce the impact of such a move. Second, and especially because the pilots do not seem ready to stop work. "Benjamin Smith kept telling us, in French as well as in English, that we were the leaders of the company. The pilots are seduced by his speech, especially since he knows air transport much better than his predecessors at the head of the company," says a captain with a long union history (...).

My comment: *In the Air France-KLM group's results, one fact deserves clarification: the extra cost of the kerosene bill.*

Most European airlines use the so-called fuel hedging method. This method smoothes the price of fuel over several years.

Air France-KLM had covered 65% of its expected fuel requirements for 2020 at around USD 66 per barrel. Today, oil is at \$32. Air France-KLM therefore pays twice the market price for its fuel. If oil were worth more than \$66 a barrel, Air France-KLM would only pay \$66.

However, this year is a special year; the Air France-KLM group's

consumption will be lower than the volume of fuel hedged. This surplus will be invoiced to the Franco-Dutch group.

For the year 2020, the additional cost induced by these two mechanisms has been estimated at 450 million euros. The full amount has been accounted for in the first quarter results.

Our main European competitors, who practice the same fuel hedging policy, are also impacted.

> Air France: what you need to know about the thousands of job cuts ahead

(source La Tribune) 11 May - At the publication of Air France-KLM's quarterly results on Thursday 7 May, the Group's Chief Executive Officer, Ben Smith, made public what he and Air France's Chief Executive Officer, Anne Rigail, had already said internally. With the unprecedented crisis affecting air transport, **there will inevitably be job cuts at Air France. This will be at a much higher level than the 1,500 forecast between now and the end of 2022 in the forward-looking management plan for employment and skills (GPEC) presented at the end of February.** (...)

Staffing requirements will melt all the more drastically as overstaffing will be inflated by the competitiveness gains of the transformation plan, which will focus on three key areas: reducing fixed costs in general, optimizing support functions, and restructuring the loss-making domestic network to the tune of 200 million euros per year. Negotiations with trade unions to identify and deal with overstaffing have already begun in certain categories of staff. (...) A new GPEC and the transformation plan will be presented in June and July.

What will be the scale of the job cuts? 5,000, 7,000, 10,000 job cuts, or even more? Everyone has their own assessment. One thing is certain. The redundancy plan will be massive. Just looking at what's happening elsewhere in Europe gives you an idea. SAS will reduce its workforce by 50%, Icelandair by 43%, British Airways by almost 30%, or 12,000 positions. Even if its profile is different from that of Air France, the case of the British airline is the most telling.

With 45,000 employees, its size is indeed close to that of the French airline. (...) Air France employs 41,230 permanent staff according to the figures of the GPEC of February. (...)

Air France-KLM's announcement of a structural capacity reduction of 20% in 2021 also gives an indication of the scale of the future overstaffing. And this, even if the link between the reduction in capacity and the reduction in staff numbers (which would result in around 10,000

job cuts) is not necessarily automatic. (...)

On the "ground" (as opposed to seagoing personnel), the employment of support functions and the employment of staff in ports of call are under threat. One figure has started to transpire. That of a drop of at least 30% in the number of Air France support staff. According to internal sources, this reduction has been mentioned at the Air France Board of Directors, stating that the number of staff in support functions now stands at 6,000.

However, the GPEC at the end of February states that they amount to 7,360 out of the 25,220 ground staff on permanent contracts at Air France. If management's intention to reduce support functions by 30% were to be confirmed, 2,800 positions would be eliminated in these professions. Ground staff working in stopovers are also under threat. In particular those at regional airports. Despite the reduction in staff numbers in recent years, their cost is much higher than that of the ground handling companies outsourced by Air France's competitors. The future of the stopovers will depend on the scale of the reduction in the number of aircraft wingspans decided on the domestic network. (...)

Job cuts for ground staff will be carried out through a voluntary departure plan (PDV). This will not be the case for seagoing personnel (pilots and flight attendants). For the latter, management intends to use collective bargaining breaks, which have the advantage of being simpler and allowing the company to rehire them later if necessary, unlike a VSP.

Negotiations with the Air France **flight**

attendants have not yet begun, but **the over-staffing of cabin crew for 2021 is, according to our information, estimated by management at 1,800 employees. This represents 15% of the workforce. Nearly 1,200 natural departures were already planned over the next three years. Management will try to convince them to leave earlier** and to encourage others (among those who do not reach retirement age) to leave the company. Beyond the job cuts, the management does not intend to touch the working conditions in the collective contract signed in 2017, which runs until 2022.

As for the pilots (3,800 people), there will be no **major cuts in staff numbers** because of their remuneration system, which allows a certain level of overstaffing to be managed. Indeed, the remuneration of Air France pilots is made up of a fixed part representing 20 to 25% of their remuneration and a variable part linked to the activity carried out. Since flights were almost totally stopped in April, pilots only receive their fixed part and a guaranteed top-up, which enables them to keep 70% of their remuneration. In other words, their remuneration has fallen by 30%

since the beginning of the crisis.

(...) **The idea is therefore to get rid of all the pilots who were likely to retire within the next three years.** The GPEC in February had identified 300 natural departures among drivers. According to several sources, this figure obviously remains current.

The age pyramid is an asset for the company. The GPEC of February had identified 3,800 natural departures between now and 2022, all populations combined. (...) To these natural departures will be added all those that the management will encourage to leave. The financial conditions will have to be interesting. Because in view of the economic environment, it is not certain that the volunteers at the start will be jostling at the gate. In which case, forced departures would be a first for Air France. The last time such a scenario was evoked was in 2015. It had led to major social tensions.

And HOP in all this? Air France's regional subsidiary is expecting difficult days ahead. The restructuring of the domestic network will lead to numerous route closures. While its activity supplying the Roissy hub will be retained, the activity departing from Orly or between certain regional routes could be replaced by Transavia. The HOP unions denounce the lawsuit brought against them by some people for being responsible for Air France's losses on the short-haul network.

Recalling that the losses existed before the creation of HOP in 2013, the HOP inter-union considers in a press release that "HOP's share in this abyssal loss is a drop in the ocean" and that "the profitability of the Air France short-haul network is first and foremost an Air France problem. HOP is an agile, flexible airline that has long proven its ability to adapt. Its 100-seat modules are a real opportunity on an adapted network".

***My comment:** Only one figure has so far been mentioned by Air France: a 30% reduction in the number of staff in support functions. For the rest, we have to wait for Air France's recovery plan, which should be presented in July. It is on the basis of this plan that any overstaffing of the Air France group will be calculated.*

> KLM schrijft dieprode cijfers door coronacrisis (KLM writes numbers in deep red because of the coronavirus crisis)

(source ANP/DFT, translated with DeepL) 8 May - **KLM closed the first quarter of 2020 with an operating loss of €275 million.** The airline, like its peers in the industry, was hard hit by the coronavirus crisis, which led to the cancellation of a huge number of flights. Performance in the second and third quarters is expected to deteriorate further as 95% and 80%, respectively, of scheduled flights will not depart as things

stand at present.

KLM's operating loss increased by EUR 228 million on an annual basis.

The operating deficit of sister carrier Air France amounted to EUR 536 million. The result of the parent company Air France-KLM, to which Transavia also belongs, was negative by EUR 815 million. This was EUR 100 million less than analysts had forecast. (...)

In addition to the passenger flows dried up by the crisis, Air France-KLM is also facing unfavourable fuel agreements. Since the conclusion of the so-called hedging contracts, **the price of oil has fallen. The negative effect amounts to 455 million euros.** Deferred tax assets and depreciation for the early withdrawal of the emblematic Boeing 747 aircraft also weigh on the company with an expense of nearly 200 million euros. **The net loss in the first quarter amounted to 1.8 billion euros.**

The company's turnover fell by 922 million euros to more than 5 billion euros. **Until the coronavirus disrupted flights, results were slightly better than a year earlier.**

Despite all the cost-cutting measures, representing 350 million euros per month, Air France-KLM's cash flow loss is 400 million euros per month. (...) In

order to support Air France-KLM, the French Government has promised aid of EUR 7 billion in the form of loans and guarantees. Between €2 and €4 billion in aid from the Dutch government for KLM is still under negotiation. (...)

My comment: In January and February, the Air France-KLM group's results were encouraging. It was from March onwards that the situation deteriorated.

The group's cash position was nevertheless preserved, thanks to the issue of a 750 million euro bond and the sale of Amadeus shares for 356 million euros.

The Group has also forecast a 95% reduction in activity in the second quarter and an 80% reduction in the third quarter.

> Nine airlines request the reopening of Orly on June 26th

(source AFP) 7 May - **Nine airline companies based at Orly on Wednesday asked the state, in an open letter, to set the date for reopening the airport, which was closed on 1 April because of coronavirus, as of now at Friday 26 June.** (...)

Questioned by AFP about this open letter, Aéroports de Paris was very cautious about the advisability of setting a date for the reopening now. ADP "shares the wish that Orly should reopen as soon as possible," but "this reopening is only possible with good visibility on a significant number of flights," a spokesman said.

"It is recalled that (the airport) Charles de Gaulle is able to accommodate all aircraft that wish to do so," it was added from the same source.

The open letter of the companies is signed by the presidents of Air Caraïbes, Air Corsica, Amelia, Chalcir, Corsair, Frenchbee, La Compagnie, Level and Transavia.

According to the document, **the State has not given any clear indications on the date of Orly's reopening, referring only to "the end of June", and it also seems to postpone any decision until the end of May, after "further analysis".**

"This situation is not tenable, neither for our customers first, nor for our staff, nor for the survival of our companies," write the companies. The companies point out that setting a date for the reopening now would in no way prevent "a subsequent review", "for example in mid-June", in the event of "a further worsening of the health situation".

***My comment:** No decision has been made regarding the reopening of Orly. If the companies using Orly were to transfer their activities to Roissy, this would pose major problems in terms of organisation, management of subcontracting activities and aircraft maintenance. Most of these companies maintain their aircraft at Orly. They also store their spare parts there.*

> **Delta signs a joint venture agreement with LATAM**

(source Business travel) May 8 - **Delta Airlines and LATAM Airlines Group have signed a trans-American joint venture agreement**, which will operate on the airlines' networks between North and South America.

The news follows last year's announcement that Delta, a Skyteam member, would take a 20% stake in LATAM.

Following this agreement, **LATAM confirmed that it would leave the Oneworld alliance**, a decision that took effect on May 1. (...)

The code-sharing agreements between Delta and LATAM's subsidiaries in Peru, Ecuador, Colombia and Brazil which allow customers to purchase flights and access domestic destinations within their respective networks. **These agreements will be extended to cover long-haul flights between the United States/Canada and South America, as well as regional flights.** Delta and LATAM's

subsidiaries in Chile and Argentina also expect to sign code-sharing agreements in the coming weeks. (...)

My comment: *The agreement between Delta Airlines and Latam will allow our partner to strengthen its presence in South America, a region that Delta Airlines used to serve little.*

> **State aid: Brussels further relaxes its rules**

(source AFP) 9 May - **Brussels again temporarily relaxed its state aid rules on Friday**, allowing under strict conditions European countries to recapitalise companies in difficulty because of the coronavirus crisis. (...)

These conditions include a ban on the payment of dividends or bonuses to managers. The EU executive also insists that such aid must "be in the common interest, for example in order to avoid social difficulties and market failure resulting from significant job losses, the exit of an innovative or systemically important company from the market or the risk of disruption of an important service".

Brussels is also encouraging states to withdraw from the capital of the bailed-out companies in the future: if the state is still present after six years, it must submit a restructuring plan to the Commission.

The Commission also warns that companies already in difficulty on 31 December 2019 - i.e. before the coronavirus crisis - will not be eligible for this temporary framework.

Since the announcement of greater flexibility in the competition rules, Brussels has authorised state aid totalling around €1.9 trillion, according to a Commission spokesperson.

Germany leads the way with 52% of authorised aid, followed by France with 17% and Italy with 16%. This situation has already made several EU country officials grind their teeth, taking advantage of Germany's budgetary room for manoeuvre to support its companies at the expense of those in other less well-off countries.

My comment: *The decision of the European executive is surprising. Under the guise of relaxation, it puts limits on aid. It indicates that companies in difficulty before 2020 would not be able to benefit from it.*

Will Italy be allowed to bail out Alitalia again?

> **Rome wants to take advantage of the crisis to**

nationalize Alitalia

(source Les Echos) 8 May - Covid-19, which is putting the entire world airline industry on the wings, could save Alitalia. In any case, this is the wish of the Italian government, which announces that it is ready to inject at least three billion euros of fresh capital into the accounts of a company on the verge of bankruptcy. (...)

Under an initial €25 billion aid package approved last March, €500 million was already earmarked for the entire aviation sector, the bulk of which is to go to Alitalia.

"The government does not intend to carry out a new rescue. **We intend to relaunch the national airline**", said Stefano Patuanelli. (...) **"It will start on an equal footing with all its competitors.**

"That's actually far from being the case yet.

The company lost 600 million euros in 2019. With a hundred or so planes and 21 million passengers, it has become a small operator serving some twenty destinations and whose turnover collapsed by 87.5% in 2020. Stefano Patuanelli sought to allay fears, assuring that the new Alitalia "would focus strongly on long-haul flights, particularly with new transatlantic alliances".

This governmental optimism is not shared by Andrea Giuricin, professor of transport economics at the University of Milan-Bicocca. **"I am appalled. Alitalia was already losing 2 million euros a day before the crisis. It has cost Italian taxpayers 13 billion euros in twelve years, including 8 billion euros in the last three years.** The government's vision is that of a 1980s aviation sector without competition and with high prices," he warns.

> Brussels paves the way for public bailout of Lufthansa

(source Les Echos) 9 May - After several weeks of rumours, **Lufthansa confirmed on Thursday afternoon that it was negotiating "a 9 billion euro stabilisation package** with the Federal Economic Stabilisation Fund". Set up by the government in March, this fund has 400 billion euros of guarantees and 100 billion euros of capital to support strategic companies. (...)

Its details are being finalised, with **discussions focusing on "a dormant [non-voting] stake [Ndr] in the capital and a guaranteed loan"**, according to the group. But the company then also mentions various scenarios for a capital increase that would see the state raise "up to 25% plus one share", which would give it a blocking minority. In addition, the State would like "to be represented on the supervisory board" and to see Lufthansa renounce future dividend payments, the

company says. (...)

For several weeks now, these hypotheses have been at the heart of an arm wrestling match between Carsten Spohr and the government. While the Social Democrats in Angela Merkel's coalition refuse to write a blank check, **the Lufthansa CEO is fighting against any political interference in the company's management. If Berlin wins its case, Austria, Switzerland and Belgium, where it has subsidiaries, could also demand a say. "We need public support but not nationalized management," Spohr hammered home on Tuesday.** (...)

The group still has 4 billion euros in cash, compared to 5.1 billion in mid-March, but its CEO estimates that the second quarter will be worse than the first, in which Lufthansa recorded an operating loss of 1.2 billion euros. "Our industry was the first to be hit and will be among the last to recover," he says. According to him, by then Lufthansa will have to reduce its fleet by 100 aircraft and shed 10,000 employees. Unless the state, which has become an essential part of the equation, opposes it.

> **IAG records a massive loss in the first quarter**

(source Le Journal de l'Aviation With AFP) 7 May - The IAG airline group (British Airways, Iberia, Vueling) fell into the red in the first quarter, hit hard by the crisis of the new coronavirus that grounded almost all of its aircraft, with consequences that could last for years. **From January to March, a period that only takes into account the start of the containment in Europe, IAG recorded a net loss after tax and exceptional items of 1.68 billion euros**, compared to a profit of 70 million euros a year earlier.

Turnover plunged 13% to 4.6 billion euros, according to a press release. The group warns that the second quarter should be even "much worse" than the previous one. (...)

IAG said it did not expect a "significant" resumption of flights before July and expected half as many passengers in 2020, projections which are "very uncertain and depend on the relaxation of confinements and travel restrictions".

He also estimated that it would take until 2023 for demand to return to its pre-crisis level, which would result in the postponement of the delivery of 68 aircraft . (...)

At the end of April, IAG announced its intention to cut up to 12,000 jobs at British Airways, a British company with 42,000 employees. (...)

My comment: *In the first quarter, IAG recorded losses of the same*

order as the Air France-KLM group.

> **Virgin Atlantic cuts more than 3,000 jobs, London Gatwick airport threatened**

(source Le Journal de l'Aviation With AFP) May 5 - **Virgin Atlantic is to cut 3,000 jobs because of** the coronavirus crisis which is destabilising the entire British aviation sector to the point where there are increasing calls for the government to come up with a targeted aid plan. Virgin Atlantic, which

specialises in particular in transatlantic routes to North America, announces in a press release that 3,150 jobs will be cut, **i.e. about a third of its workforce.** (...)

***My comment:** Virgin Atlantic, the partner of Delta Airlines and Air France-KLM in the transatlantic joint venture is in great difficulty. The British government has decided not to help the company until its main shareholder, Richard Branson (who holds 51% of the shares) has been able to raise funds.*

> **Avianca falls under Chapter 11 of the U.S. Bankruptcy Act**

(source AFP) 11 May - **Colombia's second largest airline, Avianca, filed for bankruptcy protection in the United States on Sunday** to restructure its debt "due to the unpredictable impact" of the coronavirus pandemic. (...)

Chapter 11 of the U.S. Bankruptcy Act allows a company to restructure, often at the cost of massive job cuts, without pressure from creditors. (...)

Avianca, which was already placed under Chapter 11 in the United States in 2003, recorded a net loss of \$894 million in 2019, compared with a profit of \$1.1 million a year earlier.

Avianca Holdings, which carried 30.5 million passengers last year, also includes Colombia's Tampa Cargo, Ecuador's Aerogal, and companies of the Taca International Airline group with offices in Central America and Peru.

> **Indonesia flies to the rescue of its airline Garuda**

(source AFP) 11 May - **Indonesia is preparing a billion dollar aid plan for its national airline Garuda** to prevent it from succumbing to the coronavirus, a government official quoted by the Bloomberg agency on Monday said.

The rescue plan for the company, which has had to immobilise a large part of its fleet, consists of restructuring a \$500 million tranche of sukuk

(Islamic bonds) and providing it with a bridging loan of up to \$500 million for its operational needs over the next six months, revealed Deputy Minister of Public Enterprises Kartika Wirjoatmodjo. (...)

The Indonesian state holds nearly 61% of the capital of Garuda, which has temporarily reduced the salaries of its employees to cope with the fall in demand for air transport caused by the coronavirus. **Garuda Indonesia and its subsidiary Citilink have a fleet of more than 200 aircraft.** (...)

> **Thai Airways will be saved without going through the privatization box**

(source Le Journal de l'Aviation) May 6 - **The Thai government will release more than 4 billion euros in loans to save its state-owned airline. Thai Airways is** reducing its fleet to less than 100 aircraft for the takeover and is parting with its oldest aircraft: all of its Boeing 747-400s and all of its 777s powered by Rolls-Royce.

The rescue plan for the Thai Airways group is beginning to take shape and the Thai government is now moving towards a loan guaranteed by the Ministry of Finance worth 54 million baht (1.5 billion euros), accompanied by a short-term rescue loan of 90 million baht (2.6 billion euros). (...) On the

other hand, this support thwarts the company's plan to bail out the company for a while in the form of privatisation, with the Vayupak fund allegedly increasing its stake at the expense of the one held directly by the state (51%).

Thai Prime Minister Prayut Chan-o-cha warned, however, that this new aid would be his "last chance". "This is the last time that Thai Airways will receive government support," he said. If the situation worsens, there will be a complete structural overhaul," he said. (...)

The company also decided to reduce the size of its fleet by speeding up the withdrawal of 22 aircraft just before it ceased operations: its last ten 747-400s (CF6-80C2), six 777-200ERs (Trent 800) and its last six 777-300s (Trent 800). The company had already disposed of one 747-400 and five A330-300s last year.

> **GE and Rolls-Royce cut jobs, France plans to support the industry**

(source Actu-aero) 5 May - **The American engine manufacturer General Electric (GE) announced on Monday 4 May the loss of 10,000 additional jobs** in its aviation division, in addition to the previous announcement concerning 2,600 jobs lost in March due to the negative consequences of the Covid-19 pandemic on the air transport

and new aircraft markets over the next few months.

In total, these cuts represent around 13,000 jobs for the group, which will thus reduce its workforce in the aeronautics sector by 25% and are part of a \$3 billion savings plan desired by the group for 2020.

This weekend **Rolls-Royce indicated that it plans to cut up to 8,000 jobs**. This would represent a 15% reduction in the workforce of Rolls-Royce, which employs around 52,000 people. The English company is likely to face a long-term decline in demand in civil aviation and is particularly affected by this as it produces engines for the A350 and B787, but also engine variants for the A320 and A330, four programmes whose production rates will be reduced by the airframe manufacturers. Airbus and Boeing wish to reduce their production by 35% and 50% respectively overall because of the fall in demand from carriers. Last week the Boeing group confirmed its intention to reduce its workforce by 10%.

On the European side, the **Airbus** group **is still in discussions with governments**, particularly in France, to try to safeguard jobs in the coming months. The French Minister of the Economy, Mr Bruno Le Maire, confirmed on Monday on France Inter that the State was considering the creation of a fund to support the aeronautics industry. "We are going to draw up a plan to support the aeronautics industry, possibly with the setting up of an investment fund intended to support its subcontractors, SMEs and all the industrial fabric that gives life to Airbus," the Minister said of the **aeronautics sector, which represents some 200,000 jobs in France.** (...)

***My comment:** Job cuts are being announced all over the airline industry. The airlines were the first to take drastic measures. Now it's the turn of the manufacturers and engine manufacturers.*

These large groups will surely have the means to survive the crisis, provided that all the SMEs working for them do not disappear.

Toulouse, capital of aeronautics and space, in a "phenomenal air hole" > Toulouse, capital of aeronautics and space, in a "phenomenal air hole

(source Le Journal de l'Aviation With AFP) 6 May - "A phenomenal air hole": **the sudden paralysis of air transport due to the Covid-19 pandemic is shaking the entire ecosystem of Toulouse, the capital**

of aeronautics and space in France, threatening thousands of jobs.

Beyond the aeronautics industry in this city, home to Airbus and a cohort of subcontractors, an entire economic fabric -- businesses, craftsmen, self-employed workers and services -- is likely to be affected, warn stakeholders.

In this "phenomenal air hole", it will be necessary "to be able to adapt and ready to leave", analyses Christophe Cador, the president of Satys, specialized in particular in the painting of planes, whose head office is in Blagnac, the "Airbus city" on the outskirts of Toulouse.

Today, "we are working at 50-60% of our capacity", adds the man who is also president of the Aero-SME committee of the Groupement des Industries Françaises Aéronautiques et Spatiales.

Confronted with requests to postpone aircraft deliveries, **Airbus has reduced its production rate by 30%**, while Boeing, also a customer of Occitan suppliers, has cut 16,000 jobs and reduced its long-haul production. Guillaume Faury, executive chairman of the European manufacturer, also mentioned possible new measures to reduce production.

"Airbus purchases some 5 billion euros a year for subcontractors in Occitania," explained Alain Di Crescenzo, President of the region's Chamber of Commerce and Industry (CCI). In

total, in the **aerospace industry, "subcontracting represents about 86,000 jobs,"** he adds. **Of which 60,000 are in Toulouse alone,** out of some 451,000, according to its president Jean-Luc Moudenc.

"All the jobs will not be preserved" if aeronautics does not restart quickly, fears Yann Barbaux, president of Aerospace Valley, the competitiveness cluster of the aerospace industry. **"We know that we have three to five complicated years** ahead of us,

" points out Philippe Robardey, President of the Toulouse Chamber of Commerce and Industry.

"Some companies are going to disappear", the most fragile in terms of financial capacity, those that are mainly exposed to commercial aeronautics or that were already having difficulties before the crisis.

"And others will have to restructure or leave the sector," says Mr. Robardey, CEO of Sogeclair, a high-tech aeronautical engineering company.

In France's fourth-largest city, a champion of population growth but reputed to "catch a cold as soon as Airbus sneezes", the **shock wave also threatens beyond the sector: restaurants, hotels, services....**

"We have an overall ratio of industry and services of 2.5," explains Mr. Robardey. "If 20,000 jobs were threatened in the sector, a total of 50,000 jobs could be threatened in turn. (...)

My comment: The people of the Occitan region were relatively spared

by the Covid-19 outbreak. The same cannot be said for industrial activity.

> **Qantas temporarily abandons the Sunrise project**

(source Le Journal de l'Aviation) May 6 - Times are tough for **Qantas** too and the company **has announced that it is at least temporarily suspending its Sunrise project**. "This is not the time, given the impact that covid-19 has had on travel around the world. We are certainly not going to order any aircraft this year," said Alan Joyce, the Australian airline's managing director.

This is a difficult decision for Qantas, which had been heavily involved in **the project**, which involved **non-stop flights from Sydney and Melbourne to London and New York, among others**. It had even carried out three test flights with Boeing 787s - albeit very lightly filled and with volunteers on delivery flights - to study the effect of such long flights on crews and passengers.

It was above all a difficult decision for Airbus, whose A350-1000 had been chosen for these missions. Qantas was initially expected to finalise an order in March for a dozen aircraft, which needed to be modified to extend their range and allow them to carry out these very special operations - the maximum take-off weight, for example, had to be slightly increased to allow the installation of an additional tank. (...)

***My comment:** The very long-range aircraft project has lead in the wing. Getting passengers to travel for about 20 hours is not easy. Especially since fuel consumption increases impressively.*

Experts have told me that to make an 18-hour flight, the kerosene consumption is double what it would take an airplane to make three 6-hour flights. Is the time saved worth the extra consumption?

Stock market press review ...

> **Air France-KLM/Lufthansa: The flight of the bumblebee**

(source Les Echos) May 10 - The bumblebee is flying because it doesn't know that mathematics prevents it from doing so, said engineer Igor Sikorsky. **The former national airline monopolies, too, will continue to take off because governments are preventing their finances from putting them on the ground.**

But this will not take the buzz off the shareholders of Air France-

KLM and Lufthansa. They will not play stowaways in public rescue plans that will not avoid social breakdown either.

The terms of the €3 billion shareholder loan from the State to Air France, which is in a bad way (an annual coupon of a minimum of 7% for four years, higher than market indications suggest, its convertibility into capital under the threat of an "over-coupon" of 5.5%, in addition to the absence of dividends), place them rather at the back of the "eco-class".

Twenty-five years after its privatisation, Lufthansa's shares risk being diluted massively by Berlin, with a discount of nearly 70% and an entry price (2.56 euros each) never seen in almost three decades of listing. In any case, investors are betting on the widening of the stock market divide between low-cost and historic companies.

No matter what Warren Buffett thinks, the shareholders of the American tailplanes, supported by Washington with little in return other than jobs, may feel lighter.

My comment: It is difficult, if not impossible, to predict what the economic situation of the major airlines will be like in a few years' time.

In addition to the resumption of activity, the environmental measures that condition state aid could limit the growth of activity of these companies. At least in Europe.

> **AIR FRANCE-KLM: Air France KLM: analysts overhaul their accounts**

(source Boursier com) 11 May - The news surrounding the Franco-Dutch airline is marked by several analysts' notes following the publication of the carrier's quarterly accounts and the confirmation of a EUR 7 billion support plan by the French government.

While Davy downgraded the company's value to 'underperform', Bernstein reiterated its advice to 'outperform' and its target of 6.7 euros. **Barclays, for its part, reduced its target from 4.2 to 3.6 euros** with a recommendation maintained at 'line weighting' while **HSBC lowered its target from 4.25 to 4 euros** ('keep'). Finally, MainFirst remains to be 'sold' but raises its target from 1 to 4.21 euros.

Globally, only one analyst is positive on the stock, 9 are 'neutral' and 11 recommend to 'sell' the stock. The 12-month target is set at 4.54 euros ('Bloomberg' consensus).

(source CercleFinance com) May 11 - **Credit Suisse** now expects an operating loss in 2020 of EUR 5.1 billion. The research firm confirms its recommendation of underperformance on the stock and **lowers its price target by 21% to 2.95 euros** (instead of 3.76 E).

' We are recalibrating our expectations for a recovery in the sector in line with demand and the airlines' operational plans, which are becoming clearer. We are now modelling Air France-KLM's capacity to fall by 95% in Q2 2020 and by 80% in Q3 2020,' says Crédit Suisse. (...)

> **Direct from the steps: United Airlines**

(source Boursier com) May 11 - Money, too expensive. **United Airlines had to give up its bond investment, as lenders demanded too high a return. Apparently, the demand did not cover the offer on the basis of a 9% rate. It would have had to go up to 11% for the deal to be successful.** The bonds were due in 2023 and 2025.

My comment: It's hard to trust the airlines. The banks won't give them loans unless the states act as guarantors. The risk of default is too high.

The bonus article...

> **French of the world. Covid-19: the Swedish exception**

(source: France Info) 10 May - Faced with the pandemic, and unlike its neighbours, Denmark and Norway, the Scandinavian country has chosen not to confine its population but to bet on collective immunity. A risky choice and a counter-current strategy that seems to be working, as this French restaurateur from Stockholm shows.

It is a small wine bar in central Stockholm, open only in the evening, with tasting of products imported from France. Inside, there are about thirty seats, ten or so on the terrace. Today, with the Covid-19, the restaurant, opened three years ago by Édouard Prothery and his wife Delphine, is experiencing a halving of its turnover:

"At the beginning, we said to ourselves: if it's a few weeks, it's tenable, but we soon realized that it would be counted in months. We're in huge trouble."

But in Sweden there was no strict confinement like in France, Spain or Italy. The government acts in a pragmatic way. The authorities preferred to rely on the civic sense of the population: "There are just recommendations from scientific experts. It's a big gamble, because the Swedes are quite disciplined and respectful."

In this, Sweden is culturally very far from France, says Édouard

Prothery:

"People are disciplined and are much more autonomous in the way they respect others, have a sense of community. You don't need to put a fine on people to respect what they're asked to do."

But not everyone plays the game: Several restaurants in Stockholm were closed by the authorities because they didn't respect the rules on table spacing or limited number of customers. The masks

As for the masks we talk a lot about here in Sweden, it's not even a subject," says the Frenchman:

"A micro-percentage of the population has been wearing them for a week now. It's gradually being put in place, but someone arriving in Stockholm from abroad doesn't realize that there's a containment policy, because people keep moving around. It's just that everything is quieter, a lot of shops are closed and restaurants are pretty empty."

So schools and nurseries have stayed open. Only high schools and universities have been closed. All companies that could do so invited their employees to work from home. Sweden is a country where teleworking is already very common, much more so than in France. Here, social distancing is a bit all year round!

There is less hugging, less physical contact and the elderly are less involved in family life. Population density is not comparable with France either.

"Here, people think, and we're the first, that they're lucky," says Édouard Prothery. We know that being confined is a huge constraint. From an economic point of view, we complain about losing customers, but if we were in France, we know it would be worse."

Swedish authorities say the country could achieve her collective immunity this month, which would naturally stop the spread of the epidemic.

End of press review

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

The Air France-KLM share is at 4.073 euros at the close of business on Monday 11 May. It is down -5.26% 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 4.80 euros. Many analysts have lowered their price forecasts. You can

find on my blog the details of the analysts' consensus.

Brent crude oil (North Sea) **is at \$30 a barrel, up \$4**. At the start of the coronavirus outbreak, 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.

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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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