

Transavia on the domestic network: Air France pilots ok to negotiate

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

Thank you. Thank you.

Just a quick note to say how much I appreciated your support during this period of containment. It is with pleasure that every week I carry out for you this synthesis of aeronautical activity in the world.

*Let us continue to respect the "barrier" measures.
Enjoy reading François*

PS: You have until the evening of Tuesday 19 May to possibly entrust me with your powers for the Air France-KLM General Meeting to be held on Tuesday 26 May 2020. You will find all the information on my blog [navigaction.com](#)

Monday's Press Review

> [Transavia on the domestic network: Air France pilots ok to negotiate](#)

(source La Tribune) 13 May - New stage in sight for Transavia France.

Less than fifteen years after its launch by then Air France CEO Jean-Cyril Spinetta, Air France's low-cost subsidiary could soon start flying on the French domestic network, a market which is prohibited today by the "scope agreements" signed by the management of Air France and Transavia and the branches of the national airline pilots' union (SNPL) of each of the two companies now united. These agreements also prevent Transavia from serving the Paris-Charles de Gaulle hub or long-haul flights and are designed to avoid transfers of activity from the parent company to its low-cost subsidiary. Last year, management and the SNPL put an end to the 40 aircraft limit for Transavia, one of the main obstacles to its development.

While **Air France's management** does not intend at this stage to touch the bans on services to Paris-Charles de Gaulle and long-haul routes, it does **want to break the lock preventing Transavia from operating on domestic point-to-point flights**. This is in order to reorganise the group's domestic network services, currently provided by Air France and its regional subsidiary HOP, and to put an end to the chronic losses of the France group on this part of the network attacked by foreign low-cost airlines such as Easyjet, Volotea and Ryanair. **Last year, the Air France group's point-to-point short-haul business recorded an operating loss of 200 million euros.**

Air France management has therefore formally indicated to the SNPL its intention to modify the organization of the point-to-point activity. (...) When questioned, a spokesman for the SNPL confirmed that the SNPL had received a mandate from its board to start negotiations on this subject.

Negotiations will therefore begin shortly. Management's idea is to reach an agreement in June.

The arrival of Transavia on domestic staff will therefore be accompanied by a new scope agreement between Air France and the SNPL. The latter will have to define the activity levels of each of the two airlines in order to guarantee a certain level of activity for Air France. The Transavia pilots are Air France pilots, but they do not have the same contract. Today, for example, an agreement guarantees Air France the operation of at least 110 medium-haul aircraft for almost 10 years, and an annual activity level set for the pilots at 342,000 flying hours per year on medium-haul flights. The development of Transavia will find it difficult to guarantee such a medium-haul fleet to Air France. Flights to the Air France hub at Paris-Charles de Gaulle are of no interest to Air France management; **negotiations can only cover routes from Orly (radial routes) and those connecting regional cities (cross-Channel routes).** As a reminder, on 22 April, during a hearing at the Senate, Ben Smith, the CEO of Air France-KLM, had

expressed doubts about maintaining HOP at Orly by mentioning the possibility of "using other Air France tools" on the transversal routes (region-to-region). **Everything is being studied, he said, to ensure that "the domestic networks become profitable as quickly as possible".**

Several questions are being asked at Orly: will Transavia be able to replace Air France on "La Navette", a scheduled service to Nice, Toulouse, Montpellier and Bordeaux? Probably not", says a good connoisseur of the company. "There's a brand issue at stake". "La Navette is very popular with business customers and it is to be feared that they will not appreciate flying on Transavia, which has a more leisurely image," he continues. However, it remains to be seen what Air France management will say.

The other smaller domestic routes at Orly (Toulon, Clermont-Ferrand, Brest...) **are operated by HOP with 100-seater aircraft. Their** future is uncertain as management is considering concentrating HOP on supplying flights to the CDG and Lyon hubs. Will they be operated tomorrow by Transavia? Given the size of these markets and the difference in capacity between Transavia's aircraft (180 seats) and HOP's (100 seats), some trade unionists are wondering. However, the presence of low-cost airlines on crosscutting routes with similar traffic flows has shown that the use of large aircraft could work.

Another possibility. That these small domestic routes be stopped at Orly and concentrated at Roissy. And that the take-off and landing slots be used by Transavia to operate flights to Europe to counter foreign low-cost airlines. Indeed, because of the power of the TGV (and the limited number of slots at Orly), foreign low-cost airlines prefer to serve foreign rather than French cities. Before the crisis, competition from low-cost carriers on the domestic market from Orly was limited to Easyjet on Nice and Toulouse (and Biarritz in the summer), routes where the TGV's journey time is not competitive. Such a scenario would make it possible to meet the State's demand to reduce the number of domestic flights to reduce CO2 emissions (even if there is no rail alternative in less than 2h30 as is the case for example for Toulon, Clermont-Ferrand or Brest) and to optimise the slot portfolio at Orly as much as possible.

Orly's problems are less common on the cross-town network, which has been besieged from all sides for years by foreign low-cost carriers such as Easyjet, Volotea and Ryanair. The opportunities for Transavia's development on this part of the network are high.

However, **Transavia's development on the domestic market will depend on management's ability to successfully complete the "transformation" of the Air France group, particularly at stopovers.**

Unlike Air France, the groundhandling of Transavia's business is outsourced to companies with less costly staff. And Air France's management does not intend to transfer staff from its stopovers to Transavia, so as not to increase its costs.

Apart from the Air France pilots who are also in the cockpits of the low-cost subsidiary, **the development of Transavia in general is a threat to the employment of other categories of staff.** Apart from ground staff, there are no transfers of Air France flight attendants to Transavia either, due to the cost differences between the two contracts.

***My comment:** Negotiations on Air France's recovery plan are starting in a particular context. They must take into account one of the conditions imposed by the French government: the Air France group must reduce its net CO2 emissions from domestic flights by 50% between 2019 and 2024.*

This constraint did not exist during previous negotiations between Air France management and the SNPL. The development of Transavia had a minor impact on Air France's business.

Although the objective of reducing CO2 emissions could be partly achieved by replacing the A318 and A319 with A220s, this will not be enough. A reduction in domestic activity has already been announced.

The future development of Transavia will therefore be to the detriment of Air France, and even HOP! with important consequences for ground staff (Transavia subcontracts its assistance, not Air France). The same applies to cabin crew, as it is not envisaged that Air France cabin crew will be able to join Transavia France with the same remuneration conditions.

I was questioned by several unions of ground and cabin crew. They expressed their astonishment that in this very particular context, negotiations are not taking place with all the unions representing the company. Some of them went so far as to ask me whether this was indeed legal.

I share this feeling. The Air France group is going through its most critical period. It will need all the good will it can muster to recover. It would seem judicious for all social partners to be involved, together, from the start of negotiations.

> Vrees voor nieuwe coup bij KLM (Fear of a new coup at KLM)

(source DFT translated with DeepL) 16 May - **The airline KLM fears a new coup attempt by its parent company in France. The reason for this is the appointment of Angus Clarke, a close associate of Ben Smith, to the position of commercial director of Air France (...).**

Following this appointment, the current commercial bosses Pieter Bootsma and Patrick Alexandre, who hold this position for both Air France and KLM, were partly retired.

"(...) It's a misconception that more tickets will be sold because of this, it's a coup by the group around Smith. Clarke is a Trojan horse," an insider at the Telegraaf said Saturday.

Internal communication, in the possession of De Telegraaf, indicates that the works councils of KLM and Air France will soon be consulted on a comprehensive "group transformation plan". The step at Air France appears to be a prelude to the same situation at KLM, in which top executive Pieter Elbers is reportedly being assigned a vassal to Ben Smith, according to several sources (...).

"Surprisingly, the combination of Mr. Clarke's functions raises questions. We are going to ask for clarifications, also with regard to KLM," KLM works council chairman [employee-elect] Dario Fucci said on Saturday (...).

With this appointment and the announced transformation plan, the war between KLM and the parent company over independent business operations threatens to resume (...).

Both companies are currently kept alive by the French and Dutch states (...). Only **last week Elbers said (...)** that with the coronavirus crisis **it is not the time to start new discussions about the organisation.** He has long advocated focusing on the company rather than on puppets.

KLM is vulnerable, as it seems to be a mere prey in CEO Ben Smith's "group transformation plan". He has to intervene in depth and wants to manage the company himself, with two operational directors in the airlines. At the end of 2018, DG Anne Rigail had already agreed to play an operational and service role with Smith, but this decision was partly reversed when Elbers was reappointed under pressure from the cabinet. In practice, there is a bridgehead in France, where two captains are on a ship because in fact Air France and the holding company are the same. Although Anne Rigail is the boss of Air France, Smith is at the forefront of welcoming new aircraft. He also negotiated with the unions. "Rigail's position is further eroded by the appointment of Clarke. The holding company is still extending its tentacles and demonstrating that the French interest prevails," said one source. Smith would like to combine the positions of Elbers and his operations manager René de Groot into a single new position, insiders report. Pieter Bootsma, already mentioned, would be a candidate for this position. Last year,

Bootsma planned to succeed the current top sales manager, Patrick Alexander, from 1 January. This has not been the case so far.

My comment: *The creation of the position of Air France Chief Commercial Officer responds to a real need to improve the level of Air France's revenues. It has no impact on KLM's organization.*

Angus Clarke is currently Executive Vice President, Strategy, for the Air France-KLM Group. The day after his appointment as Air France Chief Commercial Officer, the Dutch press (as usual) put oil on the fire, fuelled by a fringe that I hope to reduce at KLM.

> **Air France will refund tickets for cancelled flights**

(source France 3) 16 May - For several weeks now, Air France customers have been demanding reimbursement of tickets for flights cancelled due to coronavirus. Good news, the airline has indicated that they will be able to be reimbursed, but they will have to be a little patient. **"Air France is changing its policy** on flights cancelled because of Covid-19." (...) **"Customers can either get a refund or a credit note. And to encourage travellers to take a credit note, it will be increased by 15 per cent over the initial value of the ticket,"** the journalist said.

"This credit note will be valid for all destinations, not just the original ticket. **It can be used until December 31, 2021 on Air France and KLM** (...)."

My comment: *This new policy applies to flights cancelled on or after 15 May.*

Assets will be increased by 15%. They can be reimbursed after 12 months, but the increase will not give rise to a refund.

Air Austral completes a €86 million financing round > **Air Austral completes a €86 million financing round**

(source TourMag) 15 May - The French flag may find a semblance of a smile again, after Air France, it is **Air Austral's** turn to blow a big sigh of relief. Indeed,

the French airline specializing in Reunion Island **has just been granted a financial rescue plan of 86 million euros.**

A €30 million shareholder loan from SEMATRA, the company controlling Air Austral and whose majority shareholder is the Reunion Region, contributed to the current account, **followed by a €56 million Loan Guaranteed by the French State (PGE)** granted by 3 banks (...).

Measures are also included in the rescue plan

- Negotiation with the governments of the postponement of the payment of taxes, social security contributions and various charges;
- Negotiation with its major suppliers of the postponement of payments;
- Implementation of partial activity measures for almost all of its 950 employees;
- Call for employee participation through, among other things, the voluntary donation of paid holidays to show the solidarity of its staff;
- The search for additional financing to secure adequate levels of liquidity and meet short and medium-term needs.

***My comment:** Air Austral will benefit from the combined support of its majority shareholder and the French State.*

> TUI (a Corsair shareholder) is going to cut 8,000 jobs worldwide.

(source La Tribune) 13 May - **The German group announced Wednesday that it plans to cut 8,000 jobs worldwide**, or more than 10% of its workforce (...). The company (...) reported a net loss in the second quarter of 763.6 million euros.

At the beginning of April, TUI signed a 1.8 billion euro bridging loan with the public development bank KfW, guaranteed by the German state.

This confirms and justifies the fact that TUI will not come and play the white knight at Corsair, in which it has a 27% stake, if a recapitalization were to be requested. A fortiori if the main shareholder, Intro Aviation (53% of the capital) does not put its hand in the pocket, as it has indicated internally.

***My comment:** Corsair's prospects for survival are dwindling. If neither of its two main shareholders, who hold a total of 80% of its capital, participates in its recovery, the French government could withdraw its support.*

> Delta Airlines is giving up the Boeing 777 and could lose thousands of pilots!

(source Capital) May 15 - Delta Airlines may soon be cutting staff. In an internal document sent to pilots on Thursday, the Atlanta-based group says it has more pilots than it needs since 85% of its flights have been cut and the resumption of air traffic will take time. In the autumn, Delta, which has 14,000 pilots on its payroll, says more than 7,000 will be idle due to a lean flight schedule. "I admit that this is an alarming figure, but it is important to stress that our intention is to align the workforce with

our needs over the long term," says John Laughter, head of flight operations, in the document.

Even with a gradual resumption of transport at the end of the year, the airline says it will still have between **2,500 and 3,500 pilots without missions in the third quarter of 2021**. However, Delta refrains from expressly saying that it will make job cuts. **The company has accepted billions of dollars in financial assistance from the federal government in exchange for a commitment to preserve jobs until September 30. It is not out of the question that a social plan may be announced as early as October 1**, as is already planned at its compatriot United Airlines and probably at American Airlines (...).

To stop the bleeding, **Delta will withdraw the long-haul 777**, produced by Boeing, **from its fleet by the end of the year** in order to "better align our network with the drop in demand resulting from the Covid-19 pandemic, make our fleet more efficient and modern and save money". The company has 18 models of 777s, a wide-body aircraft capable of carrying more than 300 passengers.

Delta also confirmed that the withdrawal of its single-aisle MD-90 models would be effective from June. Delta is expected to record asset impairment charges of \$1.4 to \$1.7 billion related to these decisions. **"Our primary financial objective for 2020 is to eliminate our cash expenditures by the end of the year, which means that over the next two to three years, we will have to shrink our network, fleet and operations in response to the significant drop in demand,"** Mr. Bastian stressed on Thursday. He added that long-haul flights would be operated by the Airbus A330 and A350-900, which are "more fuel-efficient and more profitable" when demand for international routes has resumed (...).

***My comment:** Long-haul airlines are unanimous in anticipating a lasting drop in activity of around -20%. Such a level has and will have significant consequences on employment throughout the air transport chain.*

> Richard Branson sells shares in Virgin Galactic to help Virgin Atlantic

(source: Le Figaro with AFP) 11 May - British businessman **Richard Branson is to sell \$500 million worth of shares in space tourism company Virgin Galactic to bail out his other activities hit by the pandemic, including Virgin Atlantic**. Virgin, the billionaire's group, announced Monday in a press release its intention to sell 25 million shares of Virgin Galactic, a group listed on the New York Stock

Exchange.

At Friday's closing price, around 20 dollars, this represents an amount of 500 million dollars. But following this announcement, the share price fell by 5% to 19 dollars on Monday in the first exchanges. Founded in 2004 by Richard Branson, Virgin Galactic took its first steps on Wall Street at the end of October (...).

The company, which specialises in transatlantic routes to North America, **already announced last week the loss of more than 3,000 jobs**. Its managing director, Shai Weiss, explains that he took this decision to reduce its costs and "preserve our future". The company had said that discussions were still under way with the British government, which seems to be in no hurry to help the company.

***My comment:** The British Government had made it clear that it would only participate in the eventual rescue of Virgin Atlantic if the main shareholder, Richard Branson, injected funds into his airline.*

It remains to be seen whether the contribution of the latter will be sufficient to convince the British authorities.

> **Air Canada to lay off more than half of its workforce**

(source AFP) May 16 - **Air Canada (...)**, which has cut its flights by 95% due to border closures and containment measures, **has decided to reduce its workforce "by 50 to 60%,"** she said in an e-mail statement. The company, which has about 38,000 employees, says it does not expect to return to normal for a long time.

"We have therefore taken the very painful decision today to reduce our activities according to plan, which unfortunately means a reduction in our workforce of 50 to 60 percent," **or at least 19,000 people**, according to Air Canada (...).

At the end of March, the Montreal-based company had laid off more than 16,500 employees, before announcing in early April that it intended to rehire them thanks to a wage subsidy program put in place by the government of Justin Trudeau. This program was extended Friday until the end of August (...).

The company says it has contacted the unions to implement the layoffs, which will begin in early June.

***My comment:** According to the unions, in order to minimize layoffs, Air Canada will require cabin crew to reduce their hours of work, take up to two years off work or resign while retaining travel privileges.*

> IAG hit hard by coronavirus

(source AFP) May 11 - **From January to March, a period which only takes into account the start of the European lockdown, the IAG group, which includes British Airways, Iberia and Vueling, posted a net loss after tax and exceptional items of 1.68 billion euros, compared with a profit of 70 million euros a year earlier.**

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

IAG said it does not expect a "significant" recovery in flights before July and anticipates half as many passengers in 2020, projections that 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 should lead to the postponement of the delivery of 68 aircraft (...).

"This means that a restructuring across the group is essential to get through the crisis and preserve an adequate level of liquidity," IAG boss Willie Walsh stressed.

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's result is identical to that of the Air France-KLM group: a net loss of 1.68 billion euros, compared to a net loss of 1.8 billion euros for the Air France-KLM group. Figures that make you dizzy. The Lufthansa group has not yet published its results.*

> The agreement between Swiss and Lufthansa: a model for Brussels Airlines?

(source Trends) 15 May - **The Swiss government is to inject 1.4 billion euros into the airlines Swiss and Edelweiss Air.** The aid is subject to strict conditions. And an example to follow for Brussels Airlines, a subsidiary of the German Lufthansa Group, on the same level as the Swiss company? (...)

Swiss is the group's most profitable subsidiary, while Brussels Airlines is the worst performer. **The Swiss government guarantees 85% of the**

loans requested by Swiss and Edelweiss Air. A total of CHF 1.5 billion (EUR 1.4 billion) will be made available by a consortium of banks consisting of UBS and Credit Suisse. It is a five-year loan with an interest rate of between 2.5 and 3.5%.

Lufthansa will also inject money into Swiss. The parent company will not pay a dividend for the 2019 financial year, allowing it to retain CHF 300 million for other operations. In addition, the **Germans will provide CHF 200 million in cash.** Lufthansa would also provide additional funds to Brussels Airlines in exchange for state support, administrator Etienne Davignon told Trends in mid-April.

The Swiss have negotiated all kinds of conditions (...). **The subsidiaries have pledged their shares to the government in exchange for the loans. If the loans are not repaid, Swiss and Edelweiss Air will revert to state ownership** - a scenario the government would prefer to avoid. In addition, until the loans have been repaid, no dividends will be paid out.

The Swiss brand, which is synonymous with quality, will be retained (...). The headquarters of the Swiss subsidiaries will also remain on Swiss soil (...).

In addition to support for the airlines, aid has also been made available for suppliers of technical maintenance, check-in, catering and handling services. A further CHF 600 million is earmarked for companies such as Gategroup, Swissport and SR Technics.

Remarkably, **the Swiss have stipulated that Zurich must retain its function as an international hub.** The airport has been developed in cooperation with the German centres in Frankfurt and Munich.

"Lufthansa has given us guarantees. The development of intercontinental connections will be balanced between the three hubs." (...).

***My comment:** The conditions set by the Swiss government to support its airline Swiss are similar to those that all states set to support their national airline, whether in France, the United States or even the Netherlands.*

France was one of the very first countries to contract its support for its mainline airline.

> **Alitalia: the alliances in question**

(source Air Journal) 12 May - **The future airline Alitalia will have to carefully evaluate its future alliances,** particularly on the transatlantic market, once the Covid-19 pandemic has passed and its nationalisation has been completed.

The Italian national airline, which is due to be renationalised by the summer, has not yet formalised its decision whether or not to remain within the SkyTeam alliance (the deadline is 21 May). But the Italian Minister of Economic Development Stefano Patuanelli has already mentioned the fact that Alitalia, which should concentrate "strongly" on long-haul flights, will have among the objectives of its management a "careful" study of the possibilities of an alliance, "autonomy" not being an option in his opinion. **Rumour already has it that Star Alliance is the favourite if SkyTeam leaves.**

The transatlantic market is more particularly evoked by the Minister, especially since it now seems certain that Alitalia will indeed leave the transatlantic joint venture with Air France-KLM and Delta Airlines, which it had joined in 2015 (...).

The government's intention "is not yet another rescue attempt but a rebirth of the flag-bearer", Stefano Patuanelli told MEPs, with a job "protected as much as possible".

***My comment:** The future "new" Alitalia will need the support of an alliance to recover. By raising the hypothesis of a change of partner, the Italian minister is trying to improve the agreement between Alitalia and Skyteam, the alliance founded by Air France-KLM and Delta Airlines.*

He is not sure that Star Alliance, to which Lufthansa belongs, is in a position to offer him a better deal.

> **EasyJet founder offers £5 million to anyone who will help him cancel an Airbus order**

(source BFM Business) May 12 - The tea towel is burning between Stelios Haji-loannou and the management of EasyJet. **The founder of the British low-cost company, main shareholder of the group,** multiplies attacks to get rid of the chairman of the board John Barton and the managing director Johan Lundgren. A general meeting is scheduled for 22 May to decide on their future, although the decision is still uncertain. In the

meantime, Stelios Haji-loannou is **working hard to thwart the decision that set the wheels turning. That of an order for 107 Airbus A320neo aircraft worth £4.5 billion (€5.13 billion) in 2013.**

The founder, who left the board in 2010 but still owns a third of the capital, never accepted this huge, "useless" order. All the more so in the context of the crisis in the airline industry: the due dates are going to represent 1.35 billion pounds by the end of the year, while the company is going to be cruelly short of cash.

Failing to impose this cancellation on management, Stelios Haji-loannou

is now looking for a defect in the contract. **The billionaire is even offering a reward of 5 million pounds for any information that would lead to its cancellation**, and a sum of 10,000 pounds for information that would help him in his process.

"If you are a current or former EasyJet employee, or anyone else who has seen something suspicious done by someone within EasyJet in their dealings with Airbus, you could get a reward from Stelios worth up to £5 million," he said.

In his view, the corruption charges that Airbus had settled with the British authorities in exchange for a huge fine earlier this year. **"As we have previously indicated, the board of directors firmly rejects any insinuation that EasyJet was involved in an irregularity," the company replied.**

***My comment:** The attitude of the founder of easyJet is not new. He has always favoured dividends over investments. No doubt he regrets not having sold his shares before the crisis.*

If he managed to cancel the Airbus order, he would put easyJet in difficulty. The British company would not be able to replace its older aircraft with less polluting ones. It would be difficult for it to meet the CO2 emission reduction targets that are likely to be imposed on all European airlines in the coming years.

> Ryanair, the European airline that can get through the crisis without help

(source Les Echos) 18 May - **If only one European airline were to survive the crisis without state aid, it would probably be Ryanair.**

The Irish low-cost company, which has become a small air transport group with its three regional sub-brands (Poland's Buzz, Austria's Lauda and Malta Air), announced on Monday morning a net profit of 648.7 million euros for the 2019-2020 financial year ending at the end of March, for a turnover of 8.5 billion, up 10% and a total of 148.6 million passengers.

Without the losses related to oil hedges, the profit would even have reached 1 billion euros, a slight increase compared to the 2018-2019 financial year. But above all, **Ryanair can be pleased with a solid cash position**, with 4.1 billion euros in cash on hand and 77% of its fleet in full ownership, **for a cash consumption reduced to 60 million euros in May (compared to 200 million in March)**. "These liquid assets will enable the Group to survive Covid-19 and emerge stronger when the crisis is over," says Ryanair, which is one of the few European companies not to have applied for State aid (although Ryanair continues

to claim subsidies from a number of regional airports). However, these profits will be the last for a long time to come (...). **Ryanair has already announced staff reductions and base closures** in order to adapt to a lasting drop in activity and a redoubling of the fares war in Europe (...). With this in mind, Ryanair has already announced its intention to reduce its workforce in Europe by around 15 %, by cutting some 3 000 jobs for aircrew. **The most threatened seems to be Lauda Air, which will remain in the red in 2019 and has to face a counter-attack from Austria and the Lufthansa group.** "Negotiations with staff representatives are under way, the press release said. If no agreement is reached by 20 May, the Vienna base will be closed on 30 May with 300 jobs lost," Ryanair points out. On the other hand, the two new super low-cost subsidiaries, Buzz and Malta Air, are still going strong. The former now lines up 465 Boeing 737s and has begun its expansion in Central Europe with two new bases in Prague and Budapest. The second has taken over French, German and Italian bases, with 120 Boeing 737s taken over from Ryanair, whose Irish fleet has fallen to 275 aircraft. The Covid-19 crisis nevertheless has an advantage for Ryanair: it has relegated to the background the problem of the Boeing 737 Max, for which the company has been waiting for the first deliveries for a year. Even if Boeing is still counting on a resumption of deliveries in the third quarter, **Ryanair** does not expect to receive its first Max "before October at best". But the group is no longer in such a hurry. **It has even started discussions with Boeing, as well as with Lauda's Airbus A320 rental companies, to reduce the number of deliveries planned over the next 24 months.**

***My comment:** If Ryanair is doing better than its rivals, it is largely due to its social model. Most of its pilots and cabin crew are paid only if they fly. A godsend for the low-cost company in the current context, a disaster for (former) employees.*

> **Cathay Pacific and Singapore Airlines are not escaping the slump...**

(source Boursier com) May 15 - Despite the (slight) resumption of traffic in Asian skies, clouds are still very thick on the horizon. **Cathay Pacific and its subsidiary Cathay Dragon have suffered a loss of 580.5 million dollars over the first four months of the year and report a "very gloomy" outlook .** In April alone, the Hong Kong-based company saw its traffic collapse by 99.6% with an average of 458 people transported per day! (...)

"As Hong Kong's domestic carriers, **we do not have the advantage of a domestic passenger network as a buffer,**" Lam said, "We have already announced that we will continue to operate a minimal schedule over the next two months. Although we intend to slightly increase our flight capacity from 3% in May to 5% in June, this is still subject to a possible easing of the government's health measures".

Yesterday, **Singapore Airlines**, another industry leader in Asia, **announced its first-ever annual loss against the** backdrop of a collapse in demand due to the pandemic and ill-adapted fuel cover.

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(source Boursier com) May 14 - Gulf companies are not immune to the crisis. Proof of this is that **Qatar Airways is going to reduce its staff by nearly 20%** after a dizzying drop in travel demand caused by the coronavirus pandemic (...). The airline employs more than 46,000 people, according to its website, which means that redundancies could affect around 9,200 people. According to the carrier's managing director, Qatar Air needs a "miracle" to get all flights back on track before 2023. **The leader also said** yesterday in the South China Morning Post that he was **discussing with Airbus and Boeing a postponement of aircraft orders** for several years. (...) **Qatar Airways has ordered more than 200 aircraft from the two manufacturers**, according to the newspaper. In view of the very slow recovery prospects, the Qatari group has also decided to withdraw 50 aircraft from its fleet.

> Why the crisis weakens Boeing more than Airbus

(source BFMTV) 15 May - The world's two largest aircraft manufacturers will therefore be faced with a new situation. New aircraft orders will become permanently scarce and order cancellations will multiply. (...)

In the first four months of the year alone, the number of cancellations soared while new orders were few and far between. **For Boeing's order book, the effect is dramatic.** At the end of 2019, the manufacturer was to deliver 5625 aircraft over several years. Four months later, **the list of deliveries to be carried out only includes 4834 aircraft, i.e. 791 less.** In comparison, Airbus appears to be in almost good shape, with a very slight increase in its order book (7,645 aircraft to be delivered compared to 7,482 at the end of December).

If Boeing is struggling more than its competitor, it is because the coronavirus pandemic follows the worst industrial accident in its long history. Banned from flight in the spring of 2019 after two terrible air disasters, **the B737 Max can no longer be delivered to the companies that ordered it.** And the new certification, which requires numerous technical validations, has been delayed. (...)

Some airlines are pleased about this because, simply because of this delay, they will be able to cancel their orders without any penalty to pay. Already between February and April, Boeing was notified of 317 cancellations of orders for this aircraft designed to meet the success of the Airbus A320 Neo.

Boeing (...) cannot even count on the patriotism of American airlines. Delta, the world's largest airline in terms of turnover, for example, took a very symbolic decision on Thursday by taking all its Boeing 777s out of its fleet. From now on it **will only fly Airbus (A330 and A350-900) for all its long-haul flights.** Aircraft that consume less kerosene and are therefore more profitable from an operational point of view.

Boeing can't even really count on Donald Trump to stand in the way of Airbus. Taxes on aircraft imported into the United States have already been raised to 15% last February. To increase them further, and even to keep them at that level, is to risk comparable taxation for Boeing aircraft sold to EU airlines. Except that the European giant has a factory in the United States while Boeing does not have one in Europe. It is therefore not in Boeing's interest to toughen up the trade war.

The American group is therefore forced to reduce its wingspan. Management **has warned the employees that a massive downsizing plan is to be launched. For the civil aviation branch, the purge will represent 15% of the workforce, or 12,000 jobs.**

Logically, the one awaiting Airbus employees should be a little less bitter. The extent of this is unknown, as the group has not yet unveiled its plan. But according to rumours and estimates by industry experts, the job cuts would be in the range of 7.5 to 10% of Airbus' worldwide

workforce.

My comment: *A few days ago, the CEO of Boeing panicked the stock markets by predicting the imminent bankruptcy of one of the five major airlines in the United States. Specialists are beginning to talk about American Airlines as the most endangered.*

But the manufacturer is also in a very delicate situation. It manages to avoid disaster thanks to the good health of its military activity. For how long?

> **Airbus, subcontractors : The State announces a plan for the aeronautics industry in crisis**

(source Actu) 18 May - On Monday 18 May 2020, **the Minister of the Economy, Bruno Le Maire, announced that a sectoral support plan will be launched to help the aeronautics industry**, which is facing serious difficulties in the context of the health crisis. (...)

A plan that could include "possibly the establishment of an investment fund for the sector to support subcontractors, SMEs, and the entire industrial fabric throughout the country that sustains Airbus, but which will be the most threatened tomorrow," Bruno Le Maire said a few days ago.

With airlines totally at a standstill and which might not confirm their aircraft orders in the coming weeks, or even cancel some of them, Airbus finds itself on the front line of the coronavirus crisis. But behind it is the whole fabric of subcontractors, including many SMEs, which could fall by domino effect. (...)

After having put employees on short-time working and reduced production rates, Airbus is already planning to cut 10,000 jobs, according to a report in the British daily The Telegraph. (...) On Thursday 14 May, Airbus described this information as "speculation".

Already, some subcontractors are going beyond speculation and are considering redundancy plans. The management of Derichebourg Aeronautics, one of Airbus' major subcontractors in Toulouse, for example, convened a social and economic committee on Monday 11 May. A meeting during which the company's management presented, via videoconference, a proposal for a collective performance agreement.

Derichebourg Aeronautics currently employs 1,600 people in Blagnac. According to the trade unions, 700 jobs would be threatened by the job protection plan.

> **Tarmac Aerosave reaches the end of its storage capacity**

(source Le Journal de l'Aviation) May 14 - In the current context, **Tarmac Aerosave is anything but idle.** The French group has had to reorganize its activity to cope with the influx of aircraft to be stocked as part of the generalized immobilization of fleets due to the health crisis. Despite this, **it is reaching the end of its storage capacities and is** working to expand them, while continuing its traditional recycling and maintenance activities.

In the first weeks of the crisis and faced with increasing demand, Tarmac Aerosave decided to postpone several planned maintenance and recycling sites. The less urgent ones were delayed, others were brought forward to free up capacity on the car parks. The car parks were also reorganised, in particular by reducing the number of aircraft stored for the long term. Thanks to these improvements, the company has gained 25% more space.

But this will not be enough. **The three sites in Tarbes, Teruel and Toulouse (Francazal) have a storage capacity of 250 devices.** At the end of December 2019, they were holding 150 aircraft, but this number rose to 170 in April and **should reach its limit as early as June, when Tarmac Aerosave should be managing between 230 and 240 grounded aircraft.** Estimating that half of the hundred or so aircraft received in recent months could remain on its sites for a year or more, and that leasing companies will also need its services, the company is now looking to expand its capacity. It has decided to speed up work to expand its car parks and even to open new sites that could be operational by the end of June.

Demand is particularly high for the storage of very wide-body aircraft. The Tarbes and Teruel sites have hosted at least four Air France Airbus A380s, five British Airways Boeing 747s, and seven A380s and ten A340-600s from Lufthansa - which has indicated that the A340-600s will remain in service for at least one year and that some may never be returned to service.

Tarmac Aerosave points out, however, that while several projects have been put on hold, particularly aircraft transition projects, some are still ongoing. The group carried out its first B check on an A380 last month. The aircraft was handed over to HiFly on April 30.

My comment: Tarmac (Tarbes Advanced Recycling & Maintenance Aircraft Company) Aerosave is established in Spain (Teruel site) and France.

Its main activity since its creation in 2006 is the dismantling of aircraft. It is the world leader in this field. But with the health crisis, the aircraft

storage business is expanding rapidly.

> **Commercial aircraft: sale-leaseback operations will intensify, but at what price?**

(source Le Journal de l'Aviation) 13 May - With the grounding of a very large part of the world's commercial aircraft fleet due to the coronavirus pandemic since March, airlines have an immense need for liquidity.

Sale and leaseback operations are therefore a quick way for operators to bring in fresh money, but they are also new opportunities for long-term leasers, especially since part of their portfolio is threatened by temporary rent reductions or even early returns of aircraft in the event of failures (...).

Examples of sale and leaseback operations have multiplied in recent weeks all over the world, particularly for Singaporean lessor BOC Aviation: Cathay Pacific for six of its Boeing 777-300ERs, United Airlines for 6,787-9 and 16,737-9s, Wizz Air for 6 A321neo and Southwest for 10,737-8s. Still for the island state, we know that Singapore Airlines is also seeking to carry out an operation of this type for a few aircraft. **Delta Airlines, for its part, has called on BBAM and Altavair AirFinance to obtain \$1.2 billion. For its part, Air France has turned to Fortress (FTAI) to sell it six A319s and ten A318s**, even though we know that these aircraft will not remain in the French airline's fleet for many years.

Leasing portfolios will take an even greater share of the world fleet, still gradually approaching the symbolic bar of 50% in number of aircraft (much more in value), compared to 43% last year. All the more so as, with interest rates remaining very attractive and significant negotiating power vis-à-vis airlines, these sale and leaseback operations represent great financial opportunities if they are aimed primarily at the least risky carriers.

Obviously, **"these good deals" will logically increase operators' costs over a longer period of time**, some of which will also be added to the repayment of loans granted during the crisis.

My comment: *In a sales and leaseback operation, an airline sells one of its aircraft to a financial institution, which then rents 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.

> **Towards a reopening of Orly airport at the end of June?**

(source Boursier com) May 13 - **Secretary of State for Transport Jean-Baptiste Djebbari said Tuesday that Orly airport, closed since the end of March because of the coronavirus epidemic, could reopen around June 26, if certain sanitary conditions are met.**

His comments came as the CEO of ADP Group, the manager of Paris airports, was reluctant to reopen the airport in southern Paris (...). **ADP management would prefer to extend the closure of Orly until the autumn, concentrating the little traffic from Roissy-CDG.**

But the main airlines based at Orly and their service providers, as well as the airport handling companies, are pushing for a rapid reopening of Orly. **"It takes two conditions for traffic to resume: one that the health situation improves (...), two that we agree between neighbouring European countries and Mediterranean countries in the broadest sense on health measures,"** Jean-Baptiste Djebbari explained Tuesday on the air of 'BFM TV'.

(...) In this case, it is the representative of the State (which holds 50.6% of the capital of ADP, whose privatization project is pending) who will have the last word. On

Sunday, **Mr. Djebbari cited a third condition, namely that the airlines provide the government with a flight schedule sufficiently substantial** to justify a restart of Orly. According to information published by 'Les Echos' on Tuesday evening, Air Caraïbes, French bee, Corsair, Air Corsica, Chailair and La Compagnie have already filed their flight plans. Transavia, the low-cost subsidiary of Air France, which accounts for a large part of the activity at Orly, is still missing and should file its plan on Wednesday. For

her part, **Overseas Minister Annick Girardin said Tuesday that the State would continue to help small airlines serving France's overseas territories** (...) citing Air Austral, Air Caraïbes, Aircalin, Air Tahiti Nui and Air Saint-Pierre. Air Caraïbes operates all of its flights to the Caribbean, French Guiana and Réunion from Orly airport, which have been discontinued since the end of March following the closure of Orly airport.

My comment: It's hard to see clearly in this case.

The decision to reopen Orly airport should not be taken before the beginning of June.

> Grand Paris Express: a consortium led by Vinci wins a €799 million contract

(source: Le Figaro with AFP) 15 May - **The Société du Grand Paris (SGP) has awarded a 799 million euro contract to a consortium led by Vinci to build a section on line 18 of the Ile-de-France metro network between Orly airport (Val-de-Marne) and Massy-Palaiseau (Essonne).**

This contract includes the construction of 11.8 kilometres of tunnel to be dug by two tunnel boring machines, the construction of the Antonypôle, Massy-Opéra and Massy-Palaiseau stations, as well as the crossing of the future Orly Airport station, already under construction, and 13 service works on the eastern side of the line. This is the first civil engineering contract for line 18, which is intended to link Orly to Versailles via Massy-Palaiseau and the Saclay plateau by 2030 (...).

Highly anticipated by the elected representatives and institutions located along its route, line 18 is also the most controversial of the Greater Paris metro project, as it crosses low-density areas (...).

The consortium, of which the various Vinci subsidiaries account for 75%, is made up of two Spie Batignolles subsidiaries for the remaining 25%.

My comment: *This section of line 18 of the Paris metro will provide a direct link between the Massy-Palaiseau TGV station and Orly airport. It will be an important element in ensuring the train-plane intermodality desired by the government.*

However, it will have to wait a little, as it is not expected to come into service before 2030.

End of press review

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

The Air France-KLM share is at 4.137 euros at the close of trading on Monday 18 May. It is up slightly by +1.57% 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 \$36 a barrel, up \$6. It has risen by

+38% in two weeks. Announcements of the start of deconfinement are giving the signal for a resumption of industrial activity. At the beginning of the coronavirus epidemic, it was at \$69. Production is still higher than (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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