

Air France is committed to reducing its CO2 emissions by 50%, announces Borne



Letter from the Director Air France-KLM

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Editorial

Dear Readers

This week is marked by the Air France-KLM Annual General Meeting to be held on Tuesday 26 May 2020. You will be able to follow it from 2.30pm on the Air France-KLM website.

Let's continue to respect the "barrier" measures.

Happy reading François

Monday's Press Review

> Air France has committed to reducing its CO2 emissions by 50%, announces Borne

(source Reuters) 24 May - Air France has pledged to drastically reduce its CO2 emissions in France, notably by reducing the number of domestic flights where the TGV is an alternative, in return for public aid granted to the company to deal with the coronavirus crisis, Transport Minister Elisabeth Borne said on Sunday.

"In exchange for the loan guaranteed by the State, Air France has made very strong commitments to reduce by 50% the CO2 emissions of its domestic flights by 2024 with in particular a drastic

reduction on routes where there is a rail alternative in less than 2h30," the minister said on France Inter (...).

My comment: *Will the Air France group be able to meet this commitment? Yes, thanks to the replacement of the old A318 and A319 with more fuel-efficient A220-300s and by reducing its domestic operations.*

Is this measure likely to reduce CO2 emissions in France?

Yes, on one condition: that all airlines operating in France are subject to the same constraint. For the moment, I am not aware that the French government has made this request.

> **The Air France Tribune will keep "La Navette" despite the arrival of Transavia on the servant**

(source La Tribune) 23 May - (...) **While Air France and HOP will see their activity decline on the short and medium-haul network, Transavia is set to develop strongly.** According to our information, during a videoconference held on 15 May with Transavia employees, Ben Smith and Anne Rigail, respectively Chief Executive Officer of Air France-KLM and Chief Executive Officer of Air France, detailed the broad outlines of the strategy they intend to implement to turn around the French domestic network, which has been structurally loss-making for years. **Now prohibited by perimeter agreements between Air France and its subsidiary, Transavia's development on this part of the network is at the heart of their project.**

"Last year, Air France and HOP lost 200 million euros on the domestic network and we want to reverse that. The need to be profitable and the two environmental conditions set by the government [in return for the 7 billion euro loan granted to get through the crisis, editor's note], that of shutting down the airlines on which there is a rail alternative in less than two and a half hours, and that of reducing our volume of CO2 by 50% by 2024, force us to look at all the tools at our disposal. And Transavia is a very powerful thing," explained Ben Smith.

Hence the opening of negotiations with Air France-Transavia's national airline pilots' union (SNPL) to define the conditions for deploying Transavia on domestic flights departing from Orly, but also between different regional cities where losses are heaviest.

In the emerging division of roles between Air France, HOP and Transavia, Anne Rigail "thinks that Air France can keep La Navette" linking Orly to "Nice, Marseille and Toulouse" and that "HOP can obviously keep its activity supplying the hubs at Roissy-Charles de

Gaulle and Lyon". "On the rest", i.e. the other flights departing from Orly operated by Air France or HOP and on the transversal routes, it is much less clear. And Transavia is an option (...).

He added: "The environmental conditions are leading us to abandon the Orly-Lyon, Orly-Bordeaux and Orly-Nantes routes, which means that there are many take-off and landing slots that cannot be returned to the competition. We therefore need to find ways of keeping Orly".

It should be noted that of the five current La Navette routes (Nice, Marseille, Toulouse Bordeaux, Montpellier), Bordeaux and Montpellier were not mentioned by Anne Rigail. While Orly-Bordeaux is condemned by the government decision to stop the lines on which a rail alternative exists in less than 2h30, Montpellier is not concerned by this measure. This reinforces the arguments of some observers who believe that it would make sense to have Transavia operate the Orly-Montpellier line since Air France's low-cost subsidiary has set up an operational base at the airport in Hérault (...).

For Ben Smith, the restructuring of the domestic network will have a "huge social impact", but also "an economic impact for many small towns that will have a different level of services or services that will be stopped" (...).

On fleet issues, Ben Smith explained that over the next six to eight years, the A220s could replace the entire medium-haul fleet of Air France (114 aircraft today). By saying this, he is closing the door to the A320 NEO. The company has ordered 60 A220s and 50 as an option (...).

***My comment:** As the videoconferences between Air France's senior management, Air France-KLM's senior management and Air France employees have gone on, the outlines of the Air France group's recovery plan are taking shape.*

The precise plan will be known at the end of negotiations between Air France and the SNPL.

Often in the past, agreements between the two parties have enabled the Air France group to develop, with positive repercussions for Air France pilots and negative consequences on the employment of other categories of staff.

Will it be the same this time?

> No respite for Air France and HOP: Easyjet and Volotea

return to attack the French regional market

(source La Tribune) 22 May - They have a boulevard in front of them and they intend to take it. **While Air France is preparing its plan to restructure its domestic network, the two foreign low-cost airlines, Easyjet and Volotea, are announcing their return to the French regional market (...).**

EasyJet has announced the partial resumption of flights from 22 European countries, mainly on domestic routes, from **15 June**. In France, around ten domestic routes will be relaunched: two radial routes (Paris-Charles de Gaulle-Nice, and CDG-Toulouse) and six cross-country routes Toulouse-Nice, Nantes-Lyon, Nantes-Nice, Lille-Nice, Lyon-Bordeaux, and Nice-Bordeaux.

For its part, Volotea will restart its activities on 16 June (...). In France, the Spanish airline will launch 15 routes, notably between several cities in mainland France and Corsica. In Rennes, for example, the company will serve Figari, Bastia, Ajaccio and Biarritz this summer (...).

HOP has planned to resume its flights on 8 June with 24 flights a week centred solely on Roissy and Lyon airports. This is to rise to 55 flights a week from 15 June and then to 72 from 22 June.

This resumption of operations by the two low-cost airlines reflects the desire of low-cost airlines to accelerate their strategy of gaining market share in France during the period of float at Air France which surrounds the future of the French domestic network.

Wishing to stop the losses which amount to 200 million euros per year on this part of the network served by Air France and its regional subsidiary HOP, **the group's management wants to bet on its low-cost subsidiary Transavia. Due to perimeter agreements within the group, this subsidiary cannot operate domestic flights.** Agreements with the Air France-Transavia national airline pilots' union (SNPL) are in progress to lift this ban. A plan is due to be presented in July. It could limit HOP's activities to supplying the hubs at Roissy-Charles de Gaulle and Lyon. This leaves open the future of direct regional flights that could be operated by Transavia.

A scenario that the HOP inter-union does not understand (...). Benjamin Smith's new strategy is the abandonment of the hexagonal network (...), he bets everything on Paris and abandons the province".

It is indeed clear that Transavia will not replace HOP on regional routes with the same frequency of flights, which is highly appreciated by business travellers.

My comment: *Competition from low-cost companies on the French domestic network is nothing new. Neither is the impossibility for Transavia to develop there.*

The example of Toulouse - Nice is typical. When Air France discontinued this service, easyJet immediately reinforced its offer. Yet Transavia could operate this Toulouse - Nice route profitably, but the agreements concluded between Air France management and the SNPL do not allow this.

It is legitimate to question the legality of these agreements. Do they respect the freedom of enterprise as defined in Article 4 of the 1789 Constitution, which is still in force? If not, why not take advantage of the current crisis to conclude agreements in good standing?

> **Rekenkamer: minister overtrad de wet met koop Air France-KLM (Court of Auditors: the minister broke the law by buying Air France-KLM)**

(source De Volkskrant translated with Deepl) 20 May - **Finance Minister Hoekstra did not comply with the law when buying Air France-KLM shares**, the Court of Auditors finds. Hoekstra bypassed parliament at the beginning of last year with this investment of 744 million euros (...). **This acquisition was illegal, the Court of Auditors said last Wednesday. By spending so much public money without consulting both houses**, Hoekstra violated Parliament's budgetary rights.

On 15 February 2019, the Council of Ministers decided that the Dutch state would take a major stake in Air France-KLM. By becoming a shareholder, the cabinet hoped to acquire more influence on the predominantly French board of directors in order to better safeguard the interests of the Dutch subsidiary KLM.

Under normal parliamentary procedures, a cabinet or minister must always seek prior approval from both Houses for extra-budgetary expenditure. This can only be waived in special circumstances. The purchase of the Air France-KLM shares was such a circumstance, as the purchase had to take place in secret and therefore could not be the subject of a prior public parliamentary debate.

In exceptional cases where Parliament cannot approve expenditure in advance, the minister must, however, inform the House of Representatives in advance of his financial intention. And Hoekstra failed to do so last year, the court concludes

Hoekstra justifies his action by stressing the great importance of secrecy. He feared that the purchase project would be disclosed if he

had involved Parliament earlier.

The Court of Auditors objects that Hoekstra's predecessor, Jeroen Dijsselbloem, did the same before the nationalisation of SNS Reaal - at that time also a listed company - and that these nationalisation plans were not previously leaked. Parliament's budget law is too important to be simply dismissed by the minister, the Court of Auditors says.

My comment: *The opinion of the Dutch Court of Auditors puts the Minister of Finance in difficulty, but the procedure for Air France-KLM's entry into the capital of Air France-KLM has been validated. The Dutch State is still a 14% shareholder.*

> **Spel om KLM-banen barst los (The game around jobs at KLM begins)**

(source De Telegraaf translated with DeepL) 22 May - **Air France KLM shareholders will vote on Tuesday on a new capital increase.** This will allow the conversion of debt securities into shares for a maximum of one billion euros, plus around 800 million euros of new shares. Minister Hoekstra will have to participate in the capital increase, otherwise his 14% stake in Air France KLM will be diluted (...).

Due to the coronavirus crisis, Air France and KLM are dependent on support from France and the Netherlands. **Minister Hoekstra has repeatedly stated in recent weeks that he is against bonuses for this reason. Although Smith has waived his short-term bonus after unrest in the Netherlands, he receives a long-term variable remuneration.**

"We will vote against," says Jasper Jansen of the Dutch Shareholders' Association (VEB). "At the time of the Air France-KLM bailout, there is no variable compensation". Hoekstra does not want to anticipate the vote, according to the Ministry of Finance.

Despite all the promised support, the minister will not get the seats he wants on the board of directors on Tuesday. In addition, Hoekstra will soon have to fight another battle, that of jobs and services. "The French will keep moving forward. Their plan of attack against KLM is already ready, among other things through intelligent use of data," says an insider.

The French have been moving fast lately. The scale of the Air France rescue plan was immediately revealed four weeks ago. Smith is currently working on a "total restructuring" and last week he placed his right-hand man, Angus Clarke, at Air France, where he is

now in charge of the fleet and network (...).

According to some sources, this is aimed at keeping hubs and services outside the Dutch sphere of influence. "Central control as is currently the case with Clarke is fine, as long as there is a clear objective. But it looks more like the seizure of power by a band of non-French mercenaries on the orders of Emperor Ben Smith," says De Unie union president Reinier Castelein.

At the same time, KLM is also working on its own business plan. This is linked to the lengthy negotiations with the banks on refinancing. It seems that the Netherlands is taking care of the details, while the French train continues, says Castelein. "The government's support must be given without too many conditions, so that KLM can maintain its own autonomy vis-à-vis Paris (...).

***My comment:** As the Air France-KLM Annual General Meeting approaches this Tuesday, 26 May, the Dutch press is getting more and more agitated. I hope that after this event, calm will return to the Air France-KLM group.*

> **Coronavoucher zorgt voor extra druk bij lening KLM (Corona voucher puts extra pressure on the KLM loan)**

(source De Telegraaf translated with DeepL) 21 May - There is still no prospect of a quick agreement between KLM and its banks on the €2-4 billion state-guaranteed loan package announced by the cabinet on 24 April.

KLM's repayment obligation to consumers makes negotiations with the banks for a support plan **even more difficult**. Various sources are reporting this to Telegraaf (...). This could require more money than the 2 to 4 billion euros currently under discussion.

For almost four weeks, the banks, KLM and the Dutch State have been in talks with each other. This contrasts sharply with the situation in France at Air France. There, the conditions and the amount of the aid of EUR 7 billion were immediately communicated at the time of the announcement at the end of April, although there are the same uncertainties. A final agreement was signed two weeks ago (...). KLM has a dozen banks, of which the three largest Dutch banks are the largest (...).

(...) **A banker** from the foreign banks (...) **also mentions the next step,** which may also cause headaches. "**Emergency loans to airlines will in many cases be followed by share issues in order to repay part of these loans**". The banker predicts that many new airline shares will be

issued in the coming years. Insiders believe that Air France-KLM will be concerned.

KLM is silent on discussions with the banks, but says they have not become more complicated because of the line the European Commission passed to the vouchers last week.

> **Het Financieele Dagblad - Departure premium for KLM employees (Prime de départ pour les employés de KLM)**

(source Het Financieele Dagblad translated with DeepL) 20 May - **KLM offers its employees financial compensation if they voluntarily leave the company after the summer.** The struggling airline hopes to limit the number of redundancies among its 30,000 employees.

From 1 June, employees will be able to indicate whether they wish to make use of the voluntary departure scheme offered by KLM. In principle, the scheme applies to all positions - pilots, cabin crew and ground staff with a collective agreement - although there are limits per position. The employee must leave between 1 September 2020 and 31 December 2020.

Pieter Elbers said everyone should prepare for a smaller KLM, as it will take years to recover the network.

My comment: According to a Dutch KLM trade unionist, the severance pay will be capped at 18 months' salary. Employees will have to pay 50% tax on the total.

> **Lufthansa's rescue in Brussels' sights**

(source Les Echos) 25 May - After weeks of arm wrestling, **the German government and the management of Lufthansa have reached an agreement on a 9 billion euro package** to save Europe's leading airline, which has been hit hard by the coronavirus. "This plan takes into account the needs of the company as well as those of the taxpayers and employees of the Lufthansa Group," the German Ministries of Finance and Economics said in a statement on Monday.

In detail, the **state is to take a 20 percent stake in the group's capital** through the use of 300 million euros in its 100 billion Economy Stabilization Fund. With each share being acquired at EUR 2.56, compared with more than EUR 8.50 at the close of the Frankfurt Stock Exchange, "when the company is healthy again, the state will sell this stake and hopefully [...] there will be a small profit", Finance Minister Olaf Scholz emphasised. The

Stabilisation Fund is expected to sell its stake at market price by 31

December 2023 if Lufthansa has repaid all the funds injected. In **addition to the €300 million, the company will receive up to €5.7 billion through a silent participation**, including €1 billion in convertible bonds representing 5% of the shares. The idea is to allow the State to reach a blocking minority in the event of an attempted takeover by a foreign player. **A €3 billion syndicated loan (including €600 million of private funds) from the state-owned KfW bank completes the package.**

Despite the reluctance of Lufthansa's CEO Carsten Spohr, **the federal government will be given two seats on the supervisory board.** They will, however, be occupied by independent experts, not politicians, and the executive will not have voting rights at general meetings. For its part, the airline has agreed to regulate future dividend payments and to limit executive remuneration.

Although the Lufthansa management board said on Monday that it supports the package, it still has to be approved by an extraordinary general meeting of shareholders and, above all, by the European Commission. However, **a new power struggle is emerging with Berlin, with Margrethe Vestager's competition services demanding in return for this rescue package that the airline give up certain take-off and landing slots at its two hubs in Munich and Frankfurt in favour of its competitors.**

In Brussels, there are fears that Lufthansa could further strengthen its role as European market leader. **Unlike Air France, which has only benefited from loans, this return of the German State to the group's capital more than twenty years after it left the group imposes additional conditions in the eyes of Brussels.** Berlin does not see it that way. According to the German press, Angela Merkel (CDU) has announced within her party's leadership a "fierce battle" with the European Commission.

My comment: *The conclusion of the Lufthansa rescue plan in Germany will allow the negotiations on the rescue plans for Swiss, Brussels Airlines and Austrian to be relaunched. Switzerland, Belgium and Austria had made the conclusion of an agreement in Germany a prerequisite.*

The European Commission intends to attach conditions to the German State's participation in the capital of the Lufthansa Group. These conditions will be carefully observed by the other European groups, which may find themselves concerned in the near future.

> German Efromovich and USAerospace ready to invest in Alitalia

(source AFP) 22 May - **Businessman German Efromovich and USAerospace Partners said Friday they were ready to invest in the Italian airline Alitalia. Separate, these announcements come at a time when Rome is planning its nationalisation.**

USAerospace Partners, an American group of companies specialising in air operations (maintenance, cargo, etc.), is prepared to invest up to 1.5 billion dollars and has requested a meeting with the various ministers concerned (...). USAerospace, which had already expressed its interest in Alitalia last March, bought the brand and assets of WOW Air, the low-cost Icelandic company, in 2019.

Mr Efromovich, a former majority shareholder of the South American airline Avianca, explained that he was prepared to invest €1 billion, either by acquiring Alitalia or by entering into a partnership with the State.

"My group, Synergy, does not have infinite resources. If Alitalia needed up to €1 billion, we would have no problem," he said in an interview with the business daily *Il Sole 24 Ore*. "I don't have a problem with a partnership. But if I had to do it with the public sector, I would have only one condition: zero political interference," he added (...).

Asked about the possibility of redundancies if he took over Alitalia, he said that "the cost of labour will be studied", but "it is clear that it must be the same as that of other companies in Europe. We will have to be competitive or the company will die". **Alitalia has been accumulating losses for years and had to be placed under the administration in 2017. Since then, the State has been looking in vain for buyers (...).**

My comment: New potential buyers are emerging. Since 2017, after each failure, the Italian state has had to bail out its national airline.

> Ryanair cuts more than 300 jobs in Austria

(source AFP) 22 May - Austria's second largest airline, **Laudamotion, a subsidiary of Ryanair, is to close its base in Vienna and cut more than 300 jobs**, after the union's rejection of a drastic wage cut in response to the coronavirus crisis.

"We regret the loss of jobs," the company said Friday, announcing in a statement that it would close on 29 May. The low-cost carrier had proposed in April to maintain jobs in exchange for a new collective agreement, giving employee representatives until Thursday evening to give their agreement.

The Vida trade union, which represents workers in the transport and service sectors in Austria, referred to "blackmail" to which it **said** it **not want to give in: "848 euros of net starting salary for stewardesses is clearly below the poverty threshold of 1,259 euros per month for one person"** in Austria, it said (...).

***My comment:** Ryanair's attitude towards its employees does not surprise anyone anymore, unfortunately.*

> **Ireland's Ryanair Accepts \$730 Million UK Government Backed Loan (Ireland's Ryanair accepts a \$730 Million UK Government Backed Loan)**

(source Simpleflying translated with DeepL) 18 May - **Irish airline Ryanair has received £600 million (about \$730 million)** from the UK's Covid Corporate Financing Facility (CCFF). This decision comes after the CEO of the low-cost carrier criticised state aid to airlines (...).

In an 18 May update, Ryanair indicated that it had a current cash balance of €4.1 billion (\$4.475 billion) in addition to posting a profit for the whole year. This will support the airline, which has reduced its expenditure. In March, Ryanair's average weekly cash consumption was approximately €200 million (~\$218 million). Today, the company only consumes around 60 million euros per week (~\$65 million) (...).

CEO Michael O'Leary has spent much of his time dealing with major airlines in Europe, including the Lufthansa Group, Air France-KLM, Alitalia, and many others. **In the financial results, Ryanair has devoted a table to the amount, in its own words, of 'illegal State aid' granted to airlines.** Mr O'Leary has often chosen interesting language to describe his disregard for aid to airlines (...).

***My comment:** Ryanair's CEO is accepting aid that he considers illegal. An attitude that no longer surprises anyone, unfortunately.*

> **In trouble, Norwegian Air Shuttle sees China land at its capital**

(source Capital) 22 May - Weakened, **Norwegian Air Shuttle is seeing its lenders take a large share of its capital.** Having seen its financial difficulties aggravated by the paralysis of air traffic caused by the coronavirus epidemic, **the third largest European low-cost airline recently agreed with its creditors to convert part of its debt and financial commitments into shares.** The operation enabled the company to strengthen its equity capital and to meet, as announced on

Wednesday, the conditions set by the Norwegian State for the granting of guarantees of €247 million (SEK 2.7 billion), in addition to the €27 million already granted.

In this framework, the leasing companies, from which Norwegian leases part of its aircraft, will inherit a significant part of the carrier's capital. **The Irish AerCap Holdings will become the largest shareholder with a 15.9% share and convertible bonds representing a further 7.2%. China's BOC Aviation, controlled by the People's Republic of China through a cascade of companies, will hold 12.67% (...).**

Heavily indebted after an all-out expansion, Norwegian plans to focus on its profitable routes and reduce sailings, particularly in long-haul, where it is one of the pioneers in the low-cost segment. The influx of new shares on the Oslo Stock Exchange on Wednesday caused its share price to plunge. By mid-morning, the share was selling more than 30%, bringing the year-to-date decline to 93%.

> **American Airlines: towards a second "chapter 11"?**

(source Boursier com) 18 May - After "chapter 11", "chapter 22"? **Investors seem to be increasingly betting on a second American Airlines bankruptcy in less than ten years.** The evolution of CDS (credit default swaps) in any case suggests such an outcome. CDSs, an instrument that provides protection against a possible default on the five-year debt of the leading American airline, have in fact reached 6,659 basis points, according to IHS Markit data used by France Télécom, an increase of more than 4,000% in the last three months! Bloomberg data also shows that the market believes that the probability of airline failure over the next five years is close to 100%...

Faced with a debt of \$34 billion, far more than the \$23 billion shown on the balance sheets of Delta and United (and nearly six times more than Southwest), **the Fort Worth-based company may try to reassure by saying it is "well sized" and expecting to reduce its operating and capital expenditures by more than \$12 billion in 2020, but the market is not budging (...).**

***My comment:** When a US company is placed under Chapter 11, its debts are partly wiped out. The company is restructured and the employment contracts of the staff are drastically reduced.*

A clarification on the CDS rate: this is an insurance taken out by lenders to protect themselves against default. For American Airlines it is 6,659 basis points, i.e. 66.59%.

> Etihad is thinking of doing without its brand new A380s and A350s that have never flown.

(source BFMTV) 24 May - In great difficulty, **the airline of the Emirate of Abu Dhabi is considering leaving its Airbus A380s on the ground for good**, like Air France. But **it may also never operate its A350s that were ordered and never put into service**, according to Reuters. This reduction of its fleet would be accompanied by the elimination of 1200 positions (...).

Five brand new A350-1000s already delivered by Airbus are currently grounded, according to the specialised information site Aeronews.

Etihad already cancelled orders for 42 A350-900s last year as part of a major restructuring after its ambitions to become a global airline giant (like its Gulf rivals Emirates and Qatar Airways) collapsed.

In addition to the reduction of the long-haul fleet, not confirmed by Etihad Airways but which should be decided soon according to Reuters, this restructuring measure could be accompanied by the elimination of 1,200 positions - in addition to the "hundreds of departures" recorded since the start of the health crisis, out of a workforce of 20,530 employees in August 2019.

***My comment:** The smallest of the three Gulf companies was already in great difficulty before the health crisis. Its turnover had fallen by almost 40% in three years.*

> Emirates to cut nearly a third of its workforce

(source La Tribune) 18 May - After Air France, its Dutch branch KLM, British Airways, Icelandair, SAS, it is the **turn of the Gulf airline Emirates Airlines to announce a new wave of redundancies** to absorb the losses linked to the impact of the coronavirus in the airline sector. The company announced the loss of 30,000 jobs (out of 105,000 in total), reducing its payroll by 30%, reports Bloomberg agency. As a further consequence, **the group plans to considerably reduce its fleet of Airbus A380s** capable of carrying more than 500 passengers. Before the crisis, Emirates was the first company to charter flights on the Airbus super jumbo (...).

Since 25 March and the first containment measures, Emirates had suspended all its flights. Its 271 wide-body aircraft, including 113 A380s, were grounded for almost two months. The carrier had first reduced its costs by cutting the basic salaries of most of its 100,000 employees by

25-50%, stressing that this decision was intended to avoid redundancies.

To bail out the company, the Emirate of Dubai, which owns 100% of the company, also intervened at the end of March, without specifying the amount of this aid. This capital injection is the second direct aid received by Emirates, after the one obtained in 1985 at the end of the company's first year of existence. Emirates has already indicated that it will take 18 months to return to normal activity.

My comment: Transparency is not an option at Emirates Airlines. It is impossible to know how much aid has been granted.

> This black scenario that makes Airbus, Boeing and the whole aeronautics industry sweat...

(source La Tribune) May 20 - The latest traffic forecasts from the International Transport Association (IATA) have given the aeronautics industry a cold sweat. **By estimating that air traffic would not return to its 2019 level before 2023-2024, the IATA simply reminded aircraft manufacturers that a whole section of their order book risked taking off: that of aircraft ordered by airlines to make growth.** At Airbus, this type of order accounts for two-thirds of the order book. Based on last year's level of deliveries (863 at Airbus), repeated over four years, this represents more than 2,000 aircraft. According to experts, this ratio between growth orders and renewal orders is similar at Boeing.

Also, "the recovery in traffic will not necessarily be synonymous with new aircraft deliveries", it is explained from a good source at Airbus. Especially since deliveries of aircraft for fleet renewal are also far from assured. With the low price of oil per barrel, airlines may be tempted to keep their aircraft a little longer than expected, even if they are more expensive than new aircraft in terms of kerosene consumption and maintenance.

These are some of the worst-case scenarios for the aviation sector. **"A gloomy scenario** based on IATA's assumptions of a recovery in traffic and the lack of support from credit agencies or governments **could lead to a drop in deliveries of 80 to 90% compared to 2018,"** explains Yan Derocles, analyst at Oddo BHF.

"But", he adds, "there are many elements that can change the theoretical demand for new aircraft". The analyst points in particular to "sales and lease back" operations, an interesting process in terms of short-term cash flow for airlines, since it allows them to resell the new

aircraft they ordered from a leasing company before leasing them. But also the different types of financial arrangements that facilitate transactions, such as the "securitisation" of purchases, or the role of credit agencies such as Eximbank in the United States, Coface in France, ECGD in the United Kingdom and Euler Hermes in Germany, which provide guarantees for the financing of export sales (...).

However, despite all these shock-absorbers, the fall in demand for aircraft is likely to be very significant over the next few years. **In particular, Yan Derocles expects deliveries of long-haul aircraft to fall by nearly 60% compared with 2018 and to maintain this level of deliveries until 2025. He is more optimistic for the level of medium-haul aircraft deliveries which, after a drop of more than half in 2020, could return to normal in 2023 (...).**

Such declines in demand for aircraft are forcing aircraft manufacturers to downsize. Boeing has already announced the elimination of 16,000 jobs in the commercial division. **Airbus is also reducing its wingspan.** Production has already been cut by a third and a further adjustment could be announced in June. **The impact on employment will be very heavy**, exceeding the 10,000 job cuts that took place under the Power 8 plan in 2007. Much smaller, the British engine manufacturer Rolls Royce announced on Thursday that at least 9,000 jobs will be cut.

But while large clients will be able to painfully withstand such declines in activity over several years, smaller subcontractors will not be able to do so. The French government is preparing a plan to support the aeronautics industry. The German and French aeronautics industries have also called for an ambitious European recovery plan to avoid bankruptcies.

***My comment:** The drop in aircraft orders is the consequence of the drop in traffic expected by the airlines. This is bad news for Boeing and Airbus and all their subcontractors.*

If the airlines' traffic forecasts are confirmed (no return to 2019 levels before 2024), it will also be bad news for the whole tourism sector.

> The Boeing 737 MAX validation flight is not scheduled until June.

(source AFP) 22 May - **Doubts are mounting over the date of return to service of the Boeing 737 MAX, which** has been grounded for more than a year. The test flight required for the regulators' green light is

not scheduled until at least June, regulatory sources told AFP Thursday. This information casts a veil over Boeing's calendar, which foresees a return to service of the MAX by "mid-2020", i.e. in June.

The civil aviation authorities can only approve the modified version of the aircraft after a flight test. But no test flight of the modified 737 MAX is planned before June at least, one of the sources told AFP on Thursday on condition of anonymity (...).

"As far as the MAX is concerned, work is progressing despite the various containment measures. However, the impact of Covid-19, including the travel restrictions it has entailed, means that we do not have a firm schedule for the test flights, which are required to validate the return to service," Janet Northcote, an EASA spokeswoman, told AFP by email.

The Federal Aviation Agency, the FAA, Boeing's principal regulator, said there was "no update" on the aircraft's certification date or pilot training....

***My comment:** The delay in the validation of the B737 Max should mainly penalize Boeing. Given the forecast recovery and the low oil price, airlines could continue to fly their old B737 models.*

> Airbus inaugurated an assembly line for its A220s in the United States

(source Clubic) 22 May - (...) **Airbus continues its development in the USA with the inauguration of a new 25,000 sq. m. assembly line in Mobile, Alabama, this time dedicated to the A220 (ex-Bomber CSeries).** We don't hear much about it, but Airbus is well established on the other side of the Atlantic, especially in Mobile, where the aircraft manufacturer already employs several hundred people in the production of other models (A319, A320 and A321). The opening of the new assembly line doubles the size of the group's production site there, which houses five main assembly stations. In the same vein , Airbus has begun assembly of the first A220 on **this line, which will produce A220-100 and A220-300 versions that will strengthen the fleet of JetBlue Airways, the "American easyJet", a company comparable in size to British Airways and Air France in terms of the number of aircraft.** JetBlue will also be the second Airbus customer, along with Delta Airlines, to welcome U.S.-built A220s. The first model should be delivered by the end of the year.

Airbus is making a real gamble on the future by opening a second assembly line in North America (after the one opened in Mirabel, near Montreal, which is struggling to become profitable).

My comment: *This A220 assembly line, located in the United States, will allow Airbus to sell these A220s without being taxed by the U.S. administration.*

End of press review

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

The Air France-KLM share is at 3.768 euros at the close of business on Monday 25 May. It is down sharply by -8.92% over one week. It had only fallen below 4 euros during the 2011-2012 crisis, between November 2011 and July 2012. Three major events had caused this crisis: the nuclear disaster in Japan, the crisis in the Eurozone, and the "spring" in the Arab world. During this period, the barrel of oil was at 110 dollars.

At the beginning of the coronavirus epidemic, the Air France-KLM share 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.

The barrel of Brent oil (North Sea) is stable at \$36. Announcements of the start of deconfinement are giving the signal for the 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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