

Air France's "Vesta" plan to overhaul its domestic network



I Letter from the Director Air France-KLM

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

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Monday's Press Review

> Air France's "Vesta" plan to overhaul its domestic network

(source Les Echos) 15 June - We want to go fast at Air France. **Less than a month after the announcement** by Air France-KLM CEO Benjamin Smith of a **40% reduction in Air France's domestic offer by the end of 2021, the "Vesta" plan**, in reference to the Roman goddess of the home, **is on the table**. Last week, the Air France and Transavia France sales departments presented internally the broad outlines of this project to reorganize the domestic network.

The stated objective is to reach an agreement with the unions before the first week of July. At that time, the forward-looking employment management plan - in plain language, the figures for future staff reductions - and Air France's overall restructuring plan are to be presented. The latter will have to obtain the State's imprimatur in return for the €7 billion loan.

The "Vesta" plan has two targets: to **absorb the recurrent losses of Air France's short-haul network** (nearly 200 million euros again last year) **and to reduce CO2 emissions from domestic flights by 50% by 2024.** This is in line with the commitment made to the government. To achieve this twofold objective, both economic and ecological, Air

France will be cutting back on its regional subsidiary Hop. A certain number of small, unprofitable routes will be eliminated, mainly on the inter-regional network. But also, and above all, a large part of its slots at Orly, or even its routes, will be transferred to Transavia France.

Eventually, **Hop's activity**, reduced to around thirty aircraft (compared with more than fifty before the crisis), **would be limited to supplying the hub at Roissy-CDG and the Lyon regional mini-hub** for inter-regional routes. **Transavia, for its part, will be able to launch new international and tourist routes from Orly.** The creation of Transavia France was, moreover, historically aimed at not giving up slots at Orly to easyJet.

Some Air France routes with high traffic and a predominantly leisure clientele, such as Orly/Biarritz and Orly/Montpellier, **could also be taken over by Transavia.** They would offer enough traffic to be operated profitably by Transavia's Boeing 737-800s, equipped with 189 seats. Some important Hop cross routes, such as Nantes/Marseille and Lyon/Nantes, could also be suitable. However, **such a transfer of activity will require the green light from SNPL**, the main Air France pilots' union, to lift the ban on Transavia's domestic routes.

The Air France brand will not disappear from Orly. As Ben Smith suggested in an interview with Les Echos, **Air France will continue to operate the "La Navette" service to Toulouse, Marseille and Nice, as well as** flights to the French Overseas Departments and Corsica. For these routes with high business traffic, the choice of frequencies still takes precedence over the search for the lowest fare, which therefore justifies Air France's decision to maintain the service.

On the other hand, services from Orly to Bordeaux, Nantes and Lyon seem doomed. As for the service to Montpellier, it could be taken over by Transavia from Orly, but with fewer frequencies, in order to be able to fill its Boeing 737-800s.

This transfer of activity will result in significant staff reductions at Hop, as well as in the ranks of Air France ground staff at Orly and at provincial stopovers. One of Transavia's cost differentials is based on the use of subcontractors for passenger handling and ground handling. No precise figures have yet been put forward, but internally, there is talk of a 30% reduction in ground staff.

My comment: This article is largely based on information published last week by the SNPL in a leaflet entitled "Air France / Transavia France

domestic network negotiations" .

Negotiations between Air France management and Air France's main pilots' union have one objective: to enable the Air France group to reduce its net CO2 emissions on its domestic network by 50% by 2024 (compared to 2019), while hoping to reduce short-haul losses to zero.

How do you do it?

The Air France Group's domestic network is today operated by Air France and HOP (Transavia France only operates international routes).

There are two levers for reducing CO2 emissions:

. replacing old aircraft (Air France and/or HOP) with new aircraft that consume less kerosene, such as the A220-300.

. reducing the number of aircraft operated on this domestic network.

The Management has evoked a 40% drop in this activity.

What are the consequences for the Air France group?

The routes abandoned by Air France and HOP cannot be taken over by Transavia, otherwise the Air France group would not reduce its CO2 emissions. If Transavia is to develop, it will mainly be on international routes.

What are the consequences for competing airlines?

If the CO2 reduction measure is not extended to the other airlines operating in France, the routes abandoned by Air France will be open to competition, mainly low-cost airlines. The example of Toulouse-Nice speaks for itself: closed by Air France, the route was taken over by easyJet.

What are the consequences for France?

If routes abandoned by Air France are taken over by competing airlines, the CO2 reduction target in France will not be achieved. On the other hand, if routes see their frequencies reduced or even cancelled without being taken over, it is the cities concerned which could suffer a loss of attractiveness.

The local elected officials perceived the danger. With some delay, a consultation process was launched, bringing together local authorities, the Air France Group and the government. This consultation should determine whether the objective of reducing CO2 by 50% by 2024 is achievable without impacting employment in the provinces.

I have not mentioned the impact on employees. Voluntarily.

It is the responsibility of the unions to take up this delicate issue. I have learned that several unions have already worked together. I hope that, in this unprecedented situation, all the unions in the Air France Group will be able to work together in order to preserve jobs within the Group as much as possible.

> **Air France unveils its flight schedule for this summer with nearly 150 destinations served**

(source BFMTV) 12 June - **Air France will gradually increase its flight schedule.** Subject to the lifting of travel restrictions, the national airline will increase its number of frequencies and destinations to **reach around 20% of its initial schedule at the end of June, 35% in July and 40% in August.**

In total, Air France plans to serve almost 150 destinations (see all destinations served from or to Paris here) this summer, i.e. 80% of its regular network. "We see a need to travel again and will gradually reopen our network to 150 destinations in France, Europe and the world this summer", the airline states in a press release.

Connections between Paris and the provinces and from region to region will thus be strengthened. "The offer will also be enriched to overseas territories and Europe, mainly to Spain, Greece, Italy and Portugal," says the company, which does not give any details on long-haul services, except that they "will gradually be reopened on a large part of the network.

Air France will use 106 of its 224 aircraft to operate this flight schedule. The airline reserves the right to increase or decrease the frequency of its flights for this summer depending on demand.

My comment: *It is difficult if not impossible for airlines to freeze this summer's flight schedule.*

Already, some flights have had to be cancelled by Air France, causing the anger of the few passengers who had booked.

> **Minister Hoekstra and the dilemmas at KLM (Le ministre Hoekstra et les dilemmes avec KLM)**

(source Het Financieele Dagblad translated with DeepL) June 11 - **Six weeks. That's how long it's been since Finance Minister Hoekstra promised KLM a support package of 2 to 4 billion euros (...).**

Since then, no further details have been announced, even though the French plan has already been approved by the European Commission's competition regulators. The German government has also overtaken

Hoekstra on the right. A few weeks ago, Brussels approved the emergency loan to Lufthansa. Only the British are still working on it. What's the cause of the delay? Is it Brussels? Is it the French?

According to two bankers involved in the negotiations, the main delays are due to additional political conditions that the government wants to impose. It is not a question of banning bonuses and dividends, but of making aviation more environmentally friendly. From the abolition of night flights, which will hit Transavia low-cost in particular, to the reduction of short-haul flights.

These local destinations are feeder routes for highly profitable intercontinental flights and a cornerstone of KLM's network concept. The banks concerned are concerned that this may put KLM at a competitive disadvantage, raising the question whether it will survive. They want to be sure that the USD 1 billion loan they are giving to KLM will also be repaid", says one of the bankers, on condition of anonymity (...). This is a difficult dilemma for Hoekstra. In order to gain political support for KLM's billion dollars, Hoekstra has to impose sustainability conditions. **But both the company and the banks involved are reluctant to intervene too radically in the network. These power lines in Europe are crucial for KLM (...).**

Once Hoekstra and KLM and the four banks concerned have reached an agreement, Hoekstra will have two more coordination tasks to perform. It will have to go through Brussels to obtain clearance from the European Commissioner for Competition Policy, Margrethe Vestager. This should not be a problem in itself, as Air France has received the approval without further requirements (...).

Secondly, he will have to coordinate the conditions of sustainability and the future earnings model of the group with the French government and the management of Air France-KLM, so that KLM is not out of step (...). Since Mr Smith took up his position, the KLM works council has been concerned about the decline of KLM's independent position. The senior management of the company is also concerned about a change in the management structure (...). **Minister Hoekstra has also been instructed by the Lower House of the Dutch Parliament to study the possibility of separating from KLM.**

Finally, Hoekstra has to come to an agreement with the other main shareholder, the French State. Hoekstra's predecessor, Jeroen Dijsselbloem, tried to agree on a cooperation protocol with his French counterpart some years ago (...). Dijsselbloem's idea was to inform each other before shareholders' meetings and to work together whenever possible. It remains to be seen whether Hoekstra will follow the same

line. Much will depend on Hoekstra's vision of KLM's future and its crucial role in the Dutch business climate (...)

***My comment:** The Dutch government is from a motley coalition, which makes it difficult to decide on the plan to support KLM.*

> **The MRO sector could record a 60% drop in turnover**

(source Le Journal de l'Aviation) 11 June - According to the consulting firm AlixPartners, **the maintenance sector** could suffer the impact of the current crisis to a greater extent than air transport. According to its analyses, the sector's turnover **could lose 60% to 65% of its value in 2019 and only be between 27 and 32 billion dollars in 2020 (based on 77 billion dollars in 2019).**

Since maintenance revenues are logically intimately linked to traffic, traffic inevitably drags the service sector with it when it collapses. But an aggravating phenomenon has been added: as the urgency for **companies is** to preserve their cash flow and limit their expenditure as much as possible, the **overwhelming majority of them have also postponed the heavy operations that were planned, which will amplify the loss of revenue.**

Line maintenance, equipment maintenance, heavy maintenance... all segments will be strongly affected, but the hardest blow will be dealt to major engine overhauls and cabin refurbishment sites, which could lose between 65% and 70% of their revenues over the year (...).

In the short term, the firm believes that all these effects will considerably worsen overcapacity in the MRO sector and force its players to adjust their workforce very quickly. In the medium term, it expects to see turnarounds or even bankruptcies and an accelerated consolidation of the sector.

> **EasyJet, Transavia: several companies resume service this Monday in France**

(source Le Figaro) 14 June - This is an expected date for air traffic in France, synonymous with a gradual recovery. Indeed, as of **this Monday, June 15, several companies are flying their planes again. This is the case, for example, of Transavia, a low-cost subsidiary of Air France, which is relaunching some of its routes in the country.** This date coincides with the gradual reopening of France's borders with the Schengen area.

The Nantes-Lisbon and Lyon-Lisbon, for example, will reopen on Monday. The same applies to certain flights to Porto. However, **no flights will be taking off from Paris for the time being, as Transavia**

takes off from Orly airport, which will only reopen its doors on Friday 26 June. For easyJet too, some routes will reopen on Monday. Paris Charles-de-Gaulle-Nice, 5 flights a week, Paris-Toulouse, 3 flights, Bordeaux-Geneva, 4 flights a week, and Nantes-Geneva, 5 flights a week, will resume service. This is a limited service, far from the standards of these airlines, but it will make it possible to resume service gradually and to meet low demand (...). In addition, **for the Orly restart scheduled in a little more than 10 days, on 26 June, operators will have to present a complete and reliable flight schedule by tomorrow, Monday, at the latest.** The reopening of Orly airport will therefore enable other airlines, such as Air Caraïbes and French bee, to resume long-haul flights to their main destinations, namely Guadeloupe, Martinique, French Guiana and Reunion Island. Transavia, which also has its Parisian planes taking off from Orly, will then see new routes open up.

***My comment:** The end of the containment announced by the French Head of State opens up prospects of recovery for air transport. It remains to be hoped that customers will be inclined to travel by air.*

> **Lufthansa puts pressure on Air France-KLM by cutting 22,000 positions**

(source La Tribune) June 11 - (...) All airlines have taken emergency measures to preserve their cash flow during the phase of flight stoppage. And all of them will restructure to face a recovery phase that promises to be slow, since it will take several years before traffic levels return to pre-crisis levels. **Airlines will downsize to adjust their production resources to traffic levels that will be lower for a few years than they have been for the past few years.** They will therefore be smaller, with fewer aircraft and staff, but also, for some of them, with working conditions and remuneration revised downwards. The aim is to survive, of course, but also to have a competitive advantage over competitors and attract investors in view of the capital increases that may be necessary next year for a large number of players.

Against this backdrop, three weeks before the announcement of Air France's plan to cut jobs, the French airline's European competitors are putting the pressure on.

Less than a fortnight after receiving 9 billion euros in aid from the German government, **the Lufthansa group** (made up of Lufthansa, Swiss, Austrian, Eurowings and Brussels Airlines) **announced that it planned to cut 22,000 jobs worldwide, i.e. 16% of its workforce (135,000 people), half of them in Germany.** This is more than double the over-staffing of 10,000 people mentioned so far. The German group

justifies such cuts by the weakness of the recovery.

"Air traffic demand will obviously recover very slowly," says Lufthansa. While only 80 of its 760 aircraft are in service, the group now operates 160 aircraft to serve more than 100 destinations, mainly in Germany and Europe. The addition of capacity will indeed be very gradual. By September, the seat supply will not exceed 40% of what was planned before the crisis. **Lufthansa plans to keep 300 aircraft on the ground in 2021 and 200 in 2022, and to dispose of around 100 aircraft.** The return to the 2019 traffic level is not expected before 2023.

"Without a significant reduction in personnel costs during the crisis, we will squander the opportunity for a better recovery and risk weakening Lufthansa," comments Michael Niggemann, Head of Human Resources at the Group Executive Board (...).

My comment: *To avoid disappearing, European airlines have been supported by their governments through short-time working measures. But these measures are not expected to last until 2023, by which time activity may have returned to its 2019 level.*

Airlines feel they have no choice but to make staff cuts, even if it means recruiting as business picks up again.

> **Premium on A380s and layoffs at Emirates Airlines**

(source Air Journal) 10 June - The **next Airbus A380s of Emirates Airlines are expected to be equipped with its first Premium class.**

Yesterday, it also announced the elimination of 600 pilot positions and 6,500 flight attendant and stewardess positions (...).

During his presentation two years ago, Tim Clark explained that this Premium Class should serve to curb "the flight of traditional passengers to the airlines that have it", those who want greater comfort but cannot afford Business Class. "Segment opinion surveys are clear: customers are prepared to pay a little more for a more comfortable seat, more space and a certain degree of exclusivity," he said at the time.

According to the Moneycontrol website, **Emirates Airlines also carried out a wave of redundancies yesterday: 600 pilots and 6,500 cabin crew were dismissed;** the website sources specify that most of the pilots would be "first officers undergoing training on A380s. Their departures are scheduled for 15 June, with visa extensions if the employees cannot return home due to travel restrictions; which suggests that the majority of the dismissals are foreign (...).

My comment: *The premium class was introduced by Air France at the end of the 2009 crisis. The reason was already to prevent companies*

wishing to save on transport costs from having their staff travel in economy class when business picked up again.

> **Austria wants to support Austrian Airlines and ecology**

(source Le Journal de l'Aviation) 10 June - **The Austrian government commits to saving Austrian Airlines. It has decided to grant financial aid of EUR 450 million**, divided into EUR 150 million to be added to the company's equity capital and EUR 300 million in loans repayable by 2026. **The support is conditional on commitments to reduce CO2 emissions at Austrian**, which could be accompanied by more general government measures affecting all Austrian air transport. **Austrian Airlines will thus have to (...) halve its CO2 emissions in Austria by 2030.** The other commitment, to reduce its overall emissions by 30% in 2030 compared to 2005, will be based in particular on the renewal of the fleet, which is also already under way, and will be facilitated by the decision taken in April to reduce the fleet by 25%. At the

same time, **the Lufthansa group will also inject 150 million euros into the company to boost its equity.** Other measures have been taken to reduce expenses: the renegotiation of contracts with suppliers will save €150 million and all of the company's employees have agreed salary cuts totalling €300 million.

(...) **The Government (...) took other decisions at the same time as it took the decision to support Austrian.**

One of these is the very substantial increase in aviation tax to EUR 12, with a future increase to EUR 30 for flights of less than 350 km. It was also decided to revise the structure of airport taxes to index them to aircraft emissions and noise.

Finally, an anti-dumping clause is being drawn up, the aim of which is to prohibit the sale of tickets at a rate lower than the legal fees and charges. Leonore Gewessler points out that this **excludes any sale of a ticket for less than 40 euros.** This would put a brake on the expansion of low-cost airlines, which had turned to Vienna after the bankruptcy of Air Berlin and Niki.

***My comment:** Like France and probably the Netherlands, Austria puts environmental constraints on the financial support it provides to its national airline.*

> **Brussels authorises Lisbon to bail out TAP Air Portugal**

(source Le Figaro with AFP) 10 June - **The European Commission on Wednesday authorised the Portuguese state to lend up to 1.2 billion euros to the airline TAP Air Portugal to enable it to meet "its**

immediate liquidity needs". "The Portuguese authorities have given assurances that TAP will repay the loan or submit a restructuring plan within six months to ensure its future viability," the Commission said in a statement.

Brussels points out, however, that the Portuguese carrier was already in difficulty before the coronavirus pandemic which put a stop to the air transport sector, and will therefore not be able to benefit from the relaxation of the rules on public aid to companies decided after the crisis.

TAP was 61% privatised in 2015 and the Portuguese State raised its stake to 50% in 2016. The private consortium Atlantic Gateway, led by American businessman David Neeleman and his Portuguese partner Humberto Pedrosa, now holds a 45% stake, with the remaining 5% owned by employees. In mid-April, Portuguese Prime Minister Antonio Costa said he was ready to nationalise the company if this was necessary to prevent its demise. He then explained that **negotiations between David Neeleman and the German company Lufthansa to sell his share of TAP had been interrupted by the health crisis.** The group which owns TAP recorded a net loss of 105.6 million euros in 2019, after a negative result of 118 million euros the previous year (...).

***My comment:** Before the health crisis, Atlantic Gateway (45% shareholder) had contacted the three European groups IAG, Lufthansa and Air France-KLM to try to sell its stake in TAP Portugal. Without success.*

> Scandinavian Airlines: Sweden and Denmark fly to the airline's rescue via recapitalisation

(source Le Journal de l'Aviation Avec AFP) 15 June - **Sweden presented on Monday a recapitalisation plan to get the Scandinavian airline SAS, which has been badly hit by the Covid-19 pandemic, back on the water, while Denmark is also considering supporting the company, according to the carrier.**

The Swedish government is planning a plan worth **up to 5 billion crowns (474 million euros)**, announced Swedish Minister of Enterprise, Industry and Innovation Ibrahim Baylan at a press conference on Monday. The plan is to be put to a parliamentary vote.

In addition, the company said in a press release that the Danish government has also given its approval for a recapitalisation of SAS. No amount has been disclosed.

SAS estimates that it will need "SEK 12.5 billion (EUR 1.2 billion) of new financing under the recapitalisation plan" (...).

SAS, which laid off around 90% of its employees in mid-March, announced at the end of April its intention to cut 1,900 full-time jobs in Sweden, 1,300 in Norway and 1,700 in Denmark, i.e. 40% of its workforce (...).

My comment: Sweden and Denmark are the two main shareholders of SAS.

> Hong Kong flies to the rescue of Cathay Pacific via a recapitalisation plan

(source AFP) 9 June - **Cathay Pacific on Tuesday unveiled a 39 billion Hong Kong dollars (4.4 billion euros) recapitalisation plan, mainly backed by the Hong Kong government, to help the Asian company cope with the impact of the coronavirus (...).**

"Cathay Pacific has explored the options available and considers that recapitalisation is necessary to ensure that it has sufficient liquidity to face the current crisis," the Hong Kong company announced in a statement on the Hong Kong Stock Exchange.

The plan provides for the issue of HKD

19.5 billion (€2.2 billion) of preference shares for the Hong Kong Special Administrative Region (HKSAR), which will also provide a loan of HKD 7.8 billion (€0.9 billion), according to a statement by the group.

The

issue of HKD

11.7 billion (EUR 1.3 billion) of shares is also planned for the company's traditional shareholders (...).

The Hong Kong and British conglomerate Swire owns 45% of Cathay's shares, while Air China owns 30% (...).

My comment: Hong Kong-based Cathay Pacific does not have a domestic network, which makes it more vulnerable than most Asian airlines. In the first four months of 2020, it recorded a loss of 600 million euros.

> The State announces 15 billion euros in support for the aeronautics industry

(source Le Journal de l'Aviation) June 9 - The State has now "decreed a state of emergency for the aviation industry". Noting the vacillations of a sector which until now "has not known the crisis", the **government**, through the Minister of the Economy and Finance, presented its support plan for the sector on 9 June. The aim is "to avoid any dropout", which would jeopardize the survival of 1,300 companies, 300,000 jobs and a positive contribution of 34 billion euros to France's balance of trade.

Bruno Le Maire **has thus promised a 15 billion euro effort, including the 7 billion euro support for Air France-KLM.**

The support plan will be presented to the Council of Ministers on 10 June, as part of the third draft amending finance law. **It is based on three objectives: preserving employment, accelerating the digital transformation of SMEs and ETIs, and accelerating the decarbonisation of the sector.** Here are the main measures announced.

Maintaining employment by saving order books

(...)

- A 12-month moratorium will be granted for the reimbursement of export credits granted to airlines. This represents a state effort of 1.5 billion euros.

- France will also ask the European Union to propose to the OECD a temporary easing of the repayment terms for new Airbus purchases (...). The measure could be adopted as early as July, retroactive from 1 June, and represents aid of €2 billion.

Immediate support for SMEs and TWAs and their digital transformation

- **A €1 billion equity investment fund will be created to support the French industrial fabric.** It is to be endowed from July with €500 million, provided by the State and the aeronautical prime contractors (Airbus, Dassault, Safran and Thales) to the tune of €200 million each, to which will be added €100 million provided by its manager (who will be chosen by invitation to tender). The remaining €500 million will be the subject of a call for funds. - **A second fund is to be set up to support the digitisation and robotisation of SMEs and TWAs. 300 million over three years,** entirely financed by the State, to enable SMEs and TSEs to catch up with neighbouring countries in digitisation and robotisation.

Accelerating the ecological transition

In order to prevent the aeronautics industry from turning away from research by reducing its investments and instead speeding up its decarbonisation, **CORAC (Council for Civil Aeronautics Research) will receive €1.5 billion over three years. This budget should make it possible to develop technologies for reducing fuel consumption, electrification of aircraft, hydrogen propulsion, etc.**

One of the objectives is to propose a carbon-neutral successor to the A320neo

as early as 2035, instead of 2050. **Two approaches are favoured: energy sobriety,** based on a 30% reduction in fuel consumption and a 100% biofuel capacity, **and the switch to hydrogen,** which would give rise to an aircraft with zero CO2 emissions. Elisabeth Borne, the

Minister of Ecology, also mentions a new "ultra-sober" regional aircraft, hybrid or hydrogen-powered. For these two programs, a demonstrator could fly in 2028.

My comment: *Nearly half of this plan is for Air France, to the great displeasure of the other French airlines.*

Note the 1.5 billion euro budget to produce a carbon-neutral aircraft. On this point, the CEO of Airbus has tempered the government's enthusiasm. If the date of 2035 for a "zero emission" aircraft seems realistic to him, it is still too early to say what will be the most suitable technological solution. Airbus is following "several technological tracks in parallel, from hydrogen solutions to fuel cells for smaller aircraft. But we are also studying solutions for very low consumption aircraft, using synthetic fuels".

The experts I have been able to consult have all expressed their scepticism about the possibility of flying a hydrogen-powered aircraft under maximum safety conditions.

> **This "and at the same time" of the support plan for the aeronautics industry**

(source Le Journal de l'Aviation) 9 June - As the French aeronautics industry is now entering the "hard" part of the crisis, **the aid plan for the sector unveiled this morning by the government at Bercy seems to have received a unanimous welcome from decision-makers in the sector and in particular the strong support of Airbus CEO Guillaume Faury.** According to him, "the plan announced by France is strong, adapted to the stakes," while the European group and its entire supply chain are suffering the full impact of the postponements of deliveries for its ranges of commercial aircraft and civil helicopters (...).

The significant financial resources concentrated on research related to the future "decarbonised"

aircraft are obviously welcome, while manufacturers have been forced to cut their R&D spending to make up for the most urgent need, especially since they have already committed themselves, alongside the airlines, to reducing carbon dioxide emissions by 50% by 2050 compared to 2005 levels. A real incentive to renew aircraft fleets more quickly, particularly in Europe, would have been a common sense measure to get out of the crisis more quickly.

But here we are, **if the projects announced**, such as that of the successor to the A320 (neo?) with a 30% increase in fuel consumption, compatible with a switch to hydrogen as a fuel, or that of a new regional

ultra-sober and hybrid electric aircraft, even running on hydrogen, **naturally leave one wondering, their date of entry into service**, although announced on a conditional basis, **is simply not realistic**, and not only because of the scientific acceleration needed for such a technological leap. Of course,

aircraft and engine manufacturers dream of it, but not sure that airlines, leasing companies, financial institutions and aftermarket players will be of the same opinion when they return to profit, even though the Airbus range of commercial aircraft has been completely renewed over the last five years.

This "and at the same time" finally leaves an impression of political communication that somewhat spoils the optimism that stems from the much-needed economic measures of this support plan.

> **EASA certification for the Velis Electro**

(source Aerovfr) 10 June - Today, **EASA and the manufacturer Pipistrel announced the world's first certification of an aircraft with a fully electric engine**. This is the Velis Electro, the latest development of the Slovenian manufacturer's electrically powered two-seater from the Sinus/Virus range, which was previously called Alpha Electro. The manufacturer is targeting the school market with this side-by-side two-seater, which has been certified for "less than three years". The announced autonomy should limit the aircraft to local lessons in an airfield, the continuation (navigation...) can be achieved by the SW121 model of the manufacturer, with thermal engine. The power of the Velis Electro comes from the first electric engine certified on May 18 by EASA, the E-811-268MVLC - this 57.6 kW, liquid-cooled (...). **The battery packs (2 times 24.8 kWh) are liquid-cooled. One pack is located at the front of the aircraft, the second at the rear of the cabin.** Only one is suitable for take-off and climb (...).

The aircraft, with a maximum weight of 600 kg and 428 kg unladen, is authorized for VFR by day.

In terms of performance, the manufacturer announces a cruising speed of 90 Kt for 98 of maximum speed in level flight, with a stall at 45 Kt and a Vne at 108 Kt. The speed of best rate of climb (75 Kt) allows to reach a rate of climb of 3,3 m/s. The composite airframe and the good aspect ratio of the canopy (12) allows to reach a glide ratio of 15. The autonomy could reach 50 mn (without counting the "VFR reserve") (...).

My comment: The known technological limitations do not allow us to consider flying airplanes equipped with electric motors carrying more

than ten or fifteen passengers.

> **Holidays: will the French decide not to take the train and plane?**

(source France2) 12 June - Will the French sulk over the train and plane to go on holiday this summer? The SNCF, which was banking on a return to normal traffic levels, has revised its forecasts downwards. The railway company has decided to cut 5% of its trains this summer, due to too few bookings. **To date, there is only 15% occupancy on trains in July and 6% in August.**

For some users, it was still too early to resume public transport. "No way. I completely ruled out that possibility, right away," explains one man. Same trend for the air sector. **For Air France, takeoffs are slow.** The airline plans to fly only 35% of its planes in July and 40% in August, compared to its usual schedule. Car rental companies, for their part, are seeing an increase in bookings.

***My comment:** Travel bookings, whether by plane or train, are very low. This leads operators to cancel rotations, causing anger from the (few) customers who have booked.*

> **What if airline tickets below 40 euros were to be banned?**

(source Europe1) 11 June - Faced with the crisis in the airline sector caused by the coronavirus, Austria has decided to introduce a floor price on air tickets. This measure does not meet with consensus and is unlikely to find an equivalent in France.

A floor price for tickets to support the airline industry is the choice Austria has made. Faced with an airline sector severely affected by the coronavirus crisis, the government set the minimum price of an air ticket at 40 euros. A series of measures to make air transport more sustainable was also presented. **In France, "there are a number of very attractively priced air tickets to Europe to attract travellers",** stressed Richard Vainopoulos, President of Tourcom, on Europe 1. But **these low prices are sometimes lower than production costs, which is** denounced by some airlines who would welcome a floor price measure similar to that in Austria.

The Austrian Minister for the Environment has made clear her support for the main national airline, Austrian Airlines, a subsidiary of Lufthansa. She took the opportunity to issue a warning to airlines that are selling off

tickets. "We are the pioneers against social dumping by low-cost airlines," said Elisabeth Köstinger.

A coherent measure according to Pascal de Izaguirre, Corsair's CEO. "It seems to me to be a fairly healthy measure. It would be wrong for some companies to take advantage of the crisis to try to eliminate competitors who are in a difficult situation by charging fares that are not in line with economic reality. **Offering prices below the cost of production should not be allowed to be the case**".

My comment: *Despite Austrian legislation, Ryanair offers tickets from France to Vienna for less than 60 euros per round trip.*

For such a measure to be really effective, it would have to be applied by all European countries. With the risk of slowing down the resumption of travel. Will governments dare to take this decision?

Stock market press review

> Air France - KLM in a speculative whirlwind

(source abcbourse) 12 June - The **Air France share has been experiencing very sharp variations over the past few weeks**. The share recently took off surrealistically, rising by over 80% to €6.50 before falling back like a soufflé with the market correction. However, this brief speculative movement should not make us forget the major crisis the sector is going through. Today, there is no reason to expect such a rapid recovery and, on the contrary, all the challenges facing the company may not be well taken into account by investors. The summer and the resumption of transatlantic flights will shed additional light on the speed of the return to normal, but today's expectations are a little too optimistic.

We remain negative on this issue and anticipate a return to a break-even point of around four euros.

My comment: *Over the last two weeks, the Air France-KLM share price has varied enormously: it went from €4.28 to €6.04 (+41.2%) then fell back to €4.682 (-22.5%). In addition, the volumes exchanged were very high (4 to 6 times the usual volumes).*

The main reason is short selling. This consists for a professional to sell shares he does not own. In doing so, he bets on the price to fall.

Already at the beginning of the health crisis, this situation had already been observed, with the share price falling from €9.7 to €4.3. Given the importance of the phenomenon, this practice was banned between March 18, 2020 and May 18, 2020.

End of press review

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

The Air France-KLM share closed at 4.682 euros on Monday 15 June. It is down a very sharp 22.5% over one week, after having risen by 41.2% the previous week. Read the detailed explanations in the "Stock Market Press" section above.

At the start 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 4.59 euros. Many analysts lowered their price forecasts at the beginning of the health crisis. You can find on my blog the details of the analysts' consensus.

The barrel of Brent crude oil (North Sea) is down slightly from \$1 to \$40. Announcements of the start of deconfinement give 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.**

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

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