

Air France's social bill for the crisis has already been greatly reduced



I Letter from the Director Air France-KLM

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Monday's Press Review

> **Air France's social bill for the crisis is already very low**

(source Les Echos) July 4 - **The bill for the Covid-19 crisis was officially presented this Friday to employee representatives of Air France and its regional subsidiary Hop!** after several hours of debate that began in the early morning and continued into the early evening. The number of job cuts is, as expected, less significant than the first estimates, probably distilled on purpose, which exceeded 8,000 jobs. **The stated objective is to cut 6,560 jobs out of 41,000 at Air France and 1,020 jobs out of 2,420 at Hop. This means a total of 7,580 fewer jobs by the end of 2022**, out of a total of 43,420. This **represents a workforce reduction of more than 17% at group level and 16% at Air France alone.**

This is comparable to the job cuts planned by the Lufthansa group (22,000 jobs, i.e. almost 16% of the workforce of the four airlines in the group), but far less than the clear cuts announced at British Airways (12,000 jobs, i.e. almost 30%) or easyJet (4,500 jobs, i.e. 30%). This is despite the fact that these job cuts take into account the problems of Air France's domestic network and its subsidiary Hop, which predates this crisis.

Furthermore, **Air France hastened to point out that the natural departures expected by the end of 2022 at Air France, estimated at more than 3,500, "will make it possible to compensate for more**

than half of this job reduction thanks to a favourable age pyramid". **This represents a residual overstaffing of around 3,000 positions at Air France and 820 at Hop, which the Group will endeavour to absorb, if possible without forced departures, in** accordance with the government's wishes, by means of voluntary departure schemes, early retirement and internal mobility.

The case already appears to be well under way. **A first collective bargaining agreement (RCC) has already been signed with Air France's main pilots' union,** covering 430 voluntary departures out of 4,217. The first departures are scheduled for August. **Another RCC agreement is currently being negotiated with the Air France flight attendant unions, for 1,560 voluntary departures,** which could also be concluded in August.

Negotiations in the coming weeks between management and the unions will therefore focus on the terms and conditions of the job preservation and voluntary departure plans for Air France ground staff and Hop employees. These are two categories of employees who have already paid the heaviest price under previous restructuring plans.

Since 2008, Air France has reduced its workforce by more than 10,000 employees. As for Hop, the airline has just completed a voluntary redundancy plan. Finding enough volunteers to achieve the objectives therefore looks more complicated than elsewhere.

In the case of Hop, the potion is all the more bitter because the closure of its routes from Orly and the 40% reduction in its offer will allow another company in the group, the low-cost Transavia, to take over some of its routes and open new ones. The Air France group's "reconstruction plan", which will be presented at the end of July, along with that of Air France-KLM, plans to make Transavia the leading airline at Orly, notably by transferring to it part of the domestic routes abandoned by Air France and Hop due to lack of profitability, such as Biarritz, Montpellier, Pau, Perpignan and Brest. By the

end of 2022, Air France's short-haul staff at Orly will thus increase from 893 to 644 positions, while the

number of positions at provincial stopovers will rise from 1,944 to 1,359. In addition, there will be severe staff reductions here and there, as in Marseilles, where ground staff will be reduced from 328 to 220. Or in Nantes and Bordeaux, where the closure of the Orly service will result in the loss of 90 out of 137 jobs in Nantes and 114 out of 173 in Bordeaux.

For these Air France short-haul staff, as well as those at Hop, an offer of redeployment within the Group will be made, management has indicated. The employees concerned could nevertheless be forced to relocate. In the event of refusal, the possibility of

dismissal cannot be ruled out. In addition, Transavia's expansion on domestic routes, which is still subject to an agreement with the Air France pilots' union SNPL, as well as internationally, on the Maghreb, could create a thousand jobs, the management indicated, without specifying a date.

But not in the immediate future. For the time being, the prospects for a return to growth remain rather distant. Although Air France has announced plans to reopen 80% of its network this summer, i.e. 150 destinations, its total seat supply will remain 60% to 70% below its pre-crisis level. In the most favourable hypothesis, Air France traffic would still be 30% lower at the end of 2020 compared to 2019, 20% lower in 2021, 10% lower in 2022 and 5% lower in 2023. The return to pre-crisis levels would therefore not occur before 2024.

This will make it more difficult to use certain "anti-licensing" tools, such as the Long-Term Partial Activity Scheme, also known as APLD, which is only intended for a maximum period of two years.

Nevertheless, the CEO of Air France-KLM cannot afford to cross the "red line" drawn by the Minister of the Economy, by resorting to dry layoffs. For, **in addition to the 7 billion euros in loans that have already enabled Air France to avoid suspension of payments, the group will still need an injection of public money in order to have a chance of repaying its debts.**

Bruno Le Maire's Dutch counterpart, Wopke Hoekstra, has already let the cat out of the bag by mentioning to the parliamentarians a possible recapitalisation of Air France-KLM next autumn, to which France and the Netherlands would subscribe, determined to remain on an equal footing with the French. This is therefore not the time to risk upsetting the public authorities or alienating public opinion from taxpayers.

***My comment:** Air France has adopted two measures to deal with overstaffing.*

A Collective Bargaining Agreement (CBA) is proposed to the cabin crew. Departures must take place within a short period of time, less than three months.

A Voluntary Departure Plan (PDV) is proposed for ground staff in most of the group's sectors. The exception is Air France's short-haul flights and HOP!, where geographical mobility constraints are envisaged if the number of volunteers is insufficient.

To avoid this situation, some unions have proposed an alternative: the use of a new scheme, the Long Term Partial Activity (LTA). The

well as the least profitable lines, notably some cross-divisional lines.

The Air France-KLM group had announced at its General Meeting last May that it intended to reduce Air France's domestic network capacity by 40% by 2021.

Unfortunately, the social plan that HOP! will undergo will be of the same order of magnitude, with the elimination of 40% of its total workforce. According to the figures communicated to the unions at an extraordinary Social and Economic Committee meeting held at HOP! headquarters today in Bouguenais, near Nantes, the company's plan provides for a total of 1,022 full-time equivalent job cuts out of a total workforce of 2,400 employees, including 328 flight attendants (pilots), 286 cabin crew (Stewart and flight attendants), 291 employees dedicated to maintenance activities, and 119 employees in support and administrative functions (training, operations, etc.).

HOP! could thus see its fleet reduced by 27 aircraft, including all of its ERJ 145s (...). HOP! had a total of 69 regional jets before the start of the pandemic: 14 CRJ 1000, 11 CRJ 700, 16 E190, 15 E170 and 13 ERJ 145.

Two of the four facilities linked to HOP! Maintenance and Engineering activities will also be closed: Morlaix (CRJ heavy maintenance, 300 employees) and Lille-Lesquin (line maintenance for all fleets, 57 employees). In addition, 12 of the 14 flight crew bases (all except Paris-CDG and Lyon) will be closed.

***My comment:** The HOP! rescue plan unveiled last week has had a major impact on the employees of Air France's short-haul subsidiary. Management's announcement of the possibility for HOP! employees to join Air France did not reassure them.*

As soon as this plan was announced, local elected representatives mobilized to try to find an alternative to the announced site closures.

> Air France: the plan to develop Transavia on the domestic network

(source La Tribune) 2 July - The transfer of activity on the domestic network of Air France and its regional HOP subsidiary to the low-cost subsidiary of the Transavia group is the major element of Air France's restructuring plan.

While Transavia is currently prevented by perimeter agreements from operating domestic flights, negotiations are underway between Air France management and the Air France-Transavia Syndicat national des pilotes de ligne (SNPL) to remove this ban and define a new perimeter agreement. Although the outcome of these

negotiations is not expected before the end of July, Air France has already defined the domestic routes on which it intends to position its low-cost subsidiary. These will expand its network of destinations in Southern Europe and the Maghreb countries. At

its main base in Orly, **Transavia will take over most of the routes previously operated by HOP! which will stop all its flights at the airport south of Paris to** concentrate (for services to Paris) on supplying the Roissy Charles-de-Gaulle (CDG) hub. Some of these routes were also operated by Air France depending on flight loadings. **At Orly, Air France will retain services to Marseille, Nice, Toulouse and Corsica.**

(...) **Air France therefore plans to position Transavia on Biarritz, Montpellier, Pau, Perpignan, Toulon and Brest.** The frequency of the flights is not specified, but it will necessarily be lower as the capacity of Transavia's aircraft is much higher than that of HOP and Air France. Transavia is also set to develop on the cross-network (region-to-region). While HOP! will concentrate on serving Lyon from several regional cities, Transavia will be positioned on the routes between Lyon and Nantes, Bordeaux and Toulouse, three major routes on which foreign low-cost airlines such as EasyJet have a strong presence. It remains to be seen whether Transavia will operate other major cross-country routes outside Lyon (...).

Transavia's development will have serious social consequences. Indeed, the transfer of activity will not be accompanied by a transfer of HOP! pilots. Only Air France pilots are at the controls of Transavia's aircraft. **The transfer of activity to Transavia will, however, have a high impact on Air France ground staff who handle Air France and HOP! flights. Because Transavia outsources these tasks.**

Despite this breakthrough on domestic flights, Transavia's domestic activity will remain marginal compared to the company's flights to European and Maghreb destinations. In addition to receiving at Orly the take-off slots corresponding to the resumption of activity by Air France and HOP! on the domestic network (not all of which will be used for domestic flights due to aircraft capacity which prevents a similar flight frequency), Transavia will inherit the many slots left vacant by the abandonment by Air France-HOP! of domestic routes on which there is a rail alternative in less than 2h30 (excluding CDG): Bordeaux, Nantes and Lyon. There will also be slots on the Clermont-Ferrand-Orly route, which will be stopped even though the train connects the capital of Auvergne to Paris in more than 3h30 hours. **Transavia will become the first operator of Orly instead of Air France.**

My comment: *Transavia, the only low-cost subsidiary of the Air France group, is able to compete with easyJet, Ryanair, Volotea, and Vueling on the French domestic market.*

Its development will be carried out with Air France pilots (agreements between the SNPL and Management prohibit Transavia from recruiting its own pilots) but without Air France hostesses or stewards being able to be transferred there.

It seems to be excluded, for cost reasons, that groundhandling could be carried out by Air France staff, even if they are overstaffed.

> **KLM haalt CO2-reductie 2030 makkelijk (KLM will easily manage to reduce CO2 emissions by 2030)**

(source Upinthesky.nl translated with DeepL) 6 July - **One of the conditions for the government's support is that KLM commits (...) to reduce its CO2 emissions. (...) By 2030, KLM will have to emit half as much CO2 per passenger as it did in 2005.** (...) Almost all the reduction in CO2 emissions will come from fleet renewal. (...)

) **The 2005 fleet was largely made up of old aircraft types.** (...) The company was on the eve of the second part of a fleet renewal programme in 2005. This means that between 2005 and 2030 there will have been two renewals.

For long-haul, there were more aircraft with three or four engines than with two. So a lot of emissions. The B777s and B767s were not the most economical either. (...)

The B787-10 is the successor to the B747. According to KLM, the Dreamliner emits 30% less CO2 per passenger. Compared to the 767, the difference is 25%. And if you compare the 747 combi with the 787, the difference per seat is 45%. This is because of the difference in the number of seats on board. (...)

Today's B777-200s will be more than 25 years old on average by 2030. This is the first generation Boeing 777. (...) The A330s will also disappear from the fleet. Pieter Elbers (...) said last year that he will leave the fleet in 2025. (...) We expect B787 and/or B777X aircraft to replace the B777-200s and A330s.

The B737-900s will have disappeared by 2030, given their age, as will probably some of the B737-800s. Logically, the B737MAX will return to replace them, with a decrease of 11 to 12%. Given their age, the B737-700s may last for some time. However, we expect them to be gone by 2030. (...)

Part of the Embraer 190s will be replaced by the E195-E2. It saves 10% fuel (...).

From 2005 to 2019, according to KLM, CO2 emissions per passenger have already decreased by 31%. This leaves 19% to be achieved. Of the 67 long-haul aircraft in the fleet at the end of 2019, (...) 46% (31 aircraft) of the fleet are old. All (or almost all) of these aircraft will be replaced in 2030. The potential benefit is therefore considerable. Especially considering that 75% of all emissions are caused by the long-haul fleet. We also expect a lot of changes in the short-haul fleet. KLM will undoubtedly continue to apply the normal deadlines for fleet renewal. The benchmarking years 2005 and 2030 will allow for this. **The promise to reduce emissions by 50 per cent should be easily met through the natural evolution of the fleet.**

My comment: KLM and Air France have been assigned the same objective by their respective governments: to reduce their CO2 emissions per passenger by 50% between 2005 and 2030.

The technological progress made by the engine manufacturers should enable the airlines of the Air France-KLM group to achieve this objective.

> **U.S. Treasury agrees billions in loans with 5 airlines**

(source AFP) 3 July - **The US administration on Thursday agreed with five major airlines, which** like the rest of the sector have been hit by the pandemic, on the **terms of large financial loans granted in exchange for compensation for the taxpayer.**

The government plans to lend a total of \$25 billion to the airlines as part of the huge \$2.2 trillion stimulus package adopted in March (...). But the companies were reluctant to accept this financial assistance for fear of draconian quid pro quo.

American Airlines, Frontier Airlines, Hawaiian Airlines, Sky West Airlines and Spirit Airlines were the first to finally agree to the government's terms, the Treasury said in a statement. Discussions are continuing with other companies in the sector.

Donald Trump's administration did not give details about the amounts of the loans or the terms of the **agreement**, stating only that it **required the borrowers to provide "warrants" - financial products that can be converted into shares - , shares of capital or financial instruments, "as appropriate compensation for taxpayers"**.

Borrowers must also undertake to comply with certain conditions such as the maintenance of a certain level of employment and ceilings on employee remuneration, the payment of dividends and share buy-backs.

The

loans are in addition to a further \$25 billion in government payments in exchange for a commitment by the airlines, which have been hard hit by the drop in air traffic since Covid-19 began its runway rollout, not to cut jobs until September 30....

My comment: *The US government is helping its national companies to the tune of USD 50 billion, 30% of which is in the form of loans to American (USD 5.8 billion), Delta, United, Southwest (USD 3.2 billion).*

In Europe, most companies received public loans: La Compagnie (EUR 10 million), Vueling and Iberia (EUR 1 billion), British Airways (EUR 300 million), easyJet (EUR 700 million), Norwegian (EUR 270 million), SAS (EUR 400 million), Finnair (EUR 600 million), Ryanair (EUR 650 million). Alitalia was nationalised with an injection of €3 billion.

The companies of the Lufthansa group have been aided in various ways: Lufthansa received €9 billion (€5.7 billion in cash, €3 billion in loans, €300 million in capital injections), Swiss Air €1.4 billion, Brussel Airlines €300 million in loans, Austrian €450 million in aid including €300 million in guaranteed loans.

In Asia, Cathay Pacific received 4.4M euros in public loans and Singapore Airlines received 12 billion euros from its shareholders.

In South America, the situation of the airlines is more delicate, as the States do not have the means to help their airlines. Avianca, Latam and Aeromexico have placed themselves under Chapter 11 protection in the United States, a procedure that allows a company to obtain a respite to restructure its debt and propose a rescue plan that will be validated by the court.

Within Air France-KLM, KLM will benefit from a €2.4 billion bank loan guaranteed by the Dutch State and a €1 billion loan from the Dutch State. For its part, Air France will benefit from a state-guaranteed bank loan of €4 billion and a state loan of €3 billion.

In addition, in the United States as in Europe, the companies have received aid on salaries, via compensation for employees working part-time, for a total amount exceeding €30 billion.

> Air Austral: agreement between management and unions on a cost-saving plan

(source Air Journal) July 5 - **Air Austral management and the unions have reached an agreement on a cost-cutting plan that includes voluntary departures and a three-year salary freeze in exchange for maintaining jobs**, reported the Réunion-La 1ere website.

This plan therefore includes a "collective performance agreement" and a "collective agreement termination agreement", two measures that were introduced by the Macron orders of 2017. **The first allows for the temporary modification of internal rules on remuneration, working time or mobility.** In addition to the three-year wage freeze, all employees must give up all or part of their 13th month, depending on their income. The second offers the opportunity to employees who wish to do so to leave the company under favourable conditions for a period of one year (...).

> TAP Air Portugal: after renationalisation, the challenge of restructuring

(source Le Figaro with AFP) 3 July - **The renationalisation of TAP Air Portugal, with the departure of its main private shareholder, on Friday marked the start of a "painful" restructuring plan for the airline (...).**

The Socialist government announced on Thursday evening that it had reached an agreement to allow the state to increase its stake in TAP from 50 to 72.5% by buying half of the private consortium Atlantic Gateway, owned by US businessman David Neeleman, for €55 million.

Portugal's Humberto Pedrosa, a former partner of Mr Neeleman and head of the road and rail transport group Barraqueiro, retains 22.5% of the capital while the employees retain their 5% stake. The American, founder of the American company JetBlue and the Brazilian company Azul, had refused the conditions demanded by the State to bail out TAP via a public loan of up to 1.2 billion euros.

The departure of Mr Neeleman, who was already seeking to sell his share to the German company Lufthansa before the pandemic, proved necessary to pave the way for the rescue of TAP which, according to European competition rules, must be accompanied by a restructuring plan (...).

"We want a viable TAP, serving the needs of the country," he added, adding that the state did not want an "oversized" company. "The restructuring plan will certainly imply a reduction in TAP's routes and the number of aircraft, and this will obviously have consequences for employment," Prime Minister Antonio Costa stressed on Friday (...).

After a brief return to profit in 2017, TAP recorded losses in 2018 and 2019 in excess of 100 million euros. At the end of last year, the

Portuguese carrier had a record number of more than 17 million passengers but accumulated negative equity of €580 million (...).

My comment: *TAP Air Portugal was in trouble before the health crisis. Its medium-haul activity was strongly loss-making.*

Its long-haul activity being concentrated on Brazil (one of the countries most exposed to Covid-19), TAP will find it difficult to emerge unscathed from the crisis. It could be the subject of a takeover by a major airline.

> **The new Alitalia has ambitions**

(source Air Journal) 6 July - (...) **The nationalisation announced at the end of April has been completed: on 29 June 2020, Alitalia-Tai was officially launched**, with Francesco Caio as chairman and alongside him the managing director and CFO Fabio Lazzerini (former head of Emirates in Italy). The newly appointed management "can already start working, with advisors from the Ministry of Finance, on the new industrial plan which will then be sent to the European Commission," Italian Prime Minister Giuseppe Conte said on social networks. Who has set him a set of government guidelines involving "the pursuit of a corporate strategy that is faithful to the principle of affordable management and fully oriented towards maintaining competition in the complex challenges of the post-Covid-19 aviation market", he added. However, **apart from the budget allocated of 3 billion euros, no more is known about the finances and business plan**: the Prime Minister simply spoke of a return to equilibrium in 2022, and to profits the following year (...).

The SkyTeam alliance airline thus sees the prospect of a disappearance fading away.

But **the European Commission has warned that the new company will have to be really different from the previous one: according to Competition Commissioner Margrethe Vestager, if there is no break with the old Alitalia ("the discontinuity must be real"), Europe will not be able to give the green light to a state loan.**

My comment: *Words fail me to comment this umpteenth episode of the Alitalia saga.*

> **easyJet launches three new routes from Paris-Orly and Nice from 2 August 2020**

(source TourMag) July 3 - In this period of recovery, **easyJet announces the opening of 3 new domestic lines**. As of August 2, **Parisians departing from Paris-Orly will be able to fly to**

two destinations : Biarritz and Montpellier, each with 4 flights per week.

La Rochelle-Île de Ré will also be linked from Nice for the first time by easyJet, with two flights a week.

My comment: For its business recovery in France, easyJet is adopting an aggressive strategy towards the Air France Group.

In June, the low-cost British airline positioned itself on the "Navette Air France" routes, which will not be operated by Air France this summer.

In July, it is targeting the routes that should be transferred to Transavia once negotiations between Air France management and the SNPL pilots' union have been successfully concluded.

> **Airbus** wants to cut 15,000 jobs: it's "excessive", Judge Bercy

(source La Tribune) June 30 - Airbus employees hit the ground running. At the beginning of the year, the European aircraft manufacturer was working on a production ramp-up to keep pace with the growth in air traffic, which is set to double every fifteen years, as it has done for the past sixty years. This Tuesday, as La Tribune unveiled yesterday, **Airbus announced the elimination "by the summer of 2021 at the latest" of 15,000 jobs in its "commercial aircraft" division (out of 90,000), including 5,000 in France.** A scale of the same order as that announced in May by Boeing (16,000 job cuts).

The European group also plans to cut 5,100 jobs in Germany, 900 in Spain, 1,700 in the United Kingdom and 1,300 at its other sites elsewhere in the world. These figures include Stelia Aerospace in France and Premium Aerotec in Germany (...).

In the end, this is the largest workforce reduction plan in the history of the group born in 2000 under the EADS banner (in 2007-2008, the Power 8 plan involved 10,000 job cuts, half of which were in subcontractors). It reflects the depth of the crisis affecting the aeronautics industry, a sector of activity in which "the sun never sets" with its pharaonic order books to accompany a growth in air traffic that has doubled every fifteen years for the past sixty years.

Faced with the increasing number of aircraft delivery postponements by air carriers, Airbus is obliged to drastically reduce its production by 40% in 2020 and 2021 (...). Guillaume Faury, the CEO of Airbus, does not foresee a recovery in the rate of production of single-aisle aircraft before 2022. And even later for wide-bodied aircraft, without giving details (...).

The announcement of the redundancy plan at Airbus marks the starting point for negotiations with the trade unions to reach an agreement on the terms of the Safeguard Plan for Employment (SPE) by the end of October.

Other parallel negotiations may lead to changes in the social plan. In particular, those on the conditions of application of the long-term partial unemployment scheme (Arme*), which can last up to two years, with the State paying 85% of the indemnity paid by the company (80% if a company or branch agreement is signed after October 1).

This mechanism could thus reduce the number of forced departures and enable Airbus to preserve its skills, which are necessary at the time of the takeover.

This is the wish of the Ministry of the Economy, which has judged the number of job cuts announced by Airbus to be "excessive" (...).

The long-term short-time working schemes in France and Germany, depending on their "precise modalities", could make it possible to preserve "up to 1,000 jobs" in France and 1,500 in Germany, the Airbus director told AFP.

The Airbus unions are on the same wavelength. In the wake of the announcement of the plan, they have affirmed their opposition to any "forced redundancies" (...).

The mayor of Toulouse said in a press release that "all means [will be] implemented to mitigate the effects of this plan on the employment of Toulouse residents".

"I am and will remain attentive to the situation of the aeronautics industry, which accounts for 40% of industrial employment in the region", Mrs Delga said after meeting Guillaume Faury, announcing that on Friday she would be presenting a "regional recovery plan for the aeronautics and space industry, worth almost €100 million".

My comment: When Airbus announced that it wanted to implement a job protection plan, like Air France, the Airbus unions reacted immediately. They said they favoured the new Long-Term Partial Activity Plan (APLD, also called ARME in the article).

For an explanation of this scheme, read the commentary on the first article.

> After the A380, the Boeing 747 also retires.

(source Le Point) 5 July - Too expensive, too polluting, too fuel-hungry: super jumbos are no longer popular. **After the A380, for which Airbus had announced the end of production in February 2019, it is**

Boeing's turn to retire.

The American aircraft manufacturer's four-engine plane lost the match against the B777 and Airbus A350 twinjets. Fuel consumption and the maintenance of two additional engines had already got the better of the A380, the European super jumbo, which offered a hundred seats more than the latest 747-8 version of the American aircraft. Thus, in the case of Lufthansa, which operates both aircraft, the 747-8 was equipped with 364 seats compared to 509 for the A380 of the same company. According to Boeing, a densified version of the 747 can have up to 500 seats.

The modest order book for the 747 is now prompting Boeing to stop production, as was envisaged when the financial results were released. Faced with the black hole of air transport, the American aircraft manufacturer has to cut the sick branches of its production. "The 747-8 program has more than two years of production ahead of it to meet our current commitments to our customers," Boeing told Bloomberg. Boeing has further reduced production rates from one aircraft per month last year to one every two months this year. If not withdrawn, **16 aircraft remain to be delivered.**

Boeing nevertheless retains an advantage with the F version, the cargo version of the 747-8, still in production. (...) The B747 (...) competes with the B777 and A350, whose tubular fuselages can accommodate dozens of containers. With two engines instead of four, the B777F can carry 103 tonnes, almost as much as the 747-200 cargo ship (110 tonnes), which was for a long time the benchmark for this activity. With the pandemic, freight transport has once again become buoyant (and profitable), but not to the point of filling the aircraft manufacturers' order books (...)

My comment: On July 1, 1984, a historic decision marked the decline of tri- and quadjets.

Prior to this date, the Extended-range Twin engines Operations (ETOPS) regulation required that, for a twin-engine aircraft to cross the ocean between Western Europe and North America, it had to be able to reach an alternate airport in less than 60 minutes on a single engine.

This very short period of time forced twin-engine aircraft to fly over Greenland, the Faroe Islands and Iceland, lengthening transatlantic routes and making the use of twin-engine aircraft impossible.

On July 1, 1984, the FAA (Federal Aviation Administration, the civil aviation administration in the United States) and ICAO (the International Civil Aviation Organization) decided to increase the alternate time from

60 to 120 minutes. Four aircraft models then met this new regulation: the Airbus A300-600 and A310-300 and the Boeing 757-200 and 767-200.

36 years later, almost all of the tri- and four-engine aircraft will have stopped flying.

> **The Boeing 737 MAX completed its certification flights**

(source Le Parisien) July 2 - Tests are done, results are pending. **The Boeing 737 MAX completed its series of certification flights on Wednesday.** This step is crucial for the survival of the American aeronautics giant's flagship aircraft, grounded after two deadly crashes five months apart, but it is not enough to get it back in service. The Federation Aviation Administration, the FAA, the U.S. Aviation Regulator, and Boeing "today completed certification test flights on the Boeing 737 MAX. During three days of testing this week, FAA pilots and engineers evaluated Boeing's modifications to the automated flight control system," the FAA said in a statement. The FAA will decide whether or not to give the 737 MAX the green light to return to flight.... **The FAA has detailed another half-dozen conditions to be met for possible certification. It has not given any timetable.** **If the green light were given in mid-September, the 737 MAX could be back in the air by the end of the year.** Ryanair, one of the biggest buyers of the aircraft, hopes to get its first delivery in November, group chief executive Michael O'Leary said Wednesday. The low-cost airline has ordered 210 737 MAX aircraft, to be delivered to it in stages starting in 2019, and is in talks with Boeing about compensation for late delivery (...).

My comment: *At the risk of repeating myself, once the aircraft is certified, will the airlines take delivery of their orders?*

The weak recovery could further delay the entry into service of this new version of the B737 Max.

> **The health crisis is upsetting their economic model. The most fragile airports will not survive it.**

(source La Croix) July 6 - Until a few months ago, airports were presented as unsinkable assets, showing steady growth and offering recurring revenues. To make up their public deficits, many countries (including France) have launched privatization programs, raising the stakes with major investment funds anxious to boost the performance of their portfolios. But that was before: the coronavirus epidemic and the

almost instantaneous halt in most world air traffic turned the situation upside down (...).

Augustin de Romanet, the president of ADP, is beginning to prepare the ground for the 8,000 employees by explaining that "adjustments" in terms of jobs are inevitable (...).

The future of the 86 regional airports is also darkening. Half of them are already in great difficulty due to a lack of sufficient traffic, a report by the National Federation of Transport Users' Associations (Fnaut) pointed out last year. Many owe their survival only to the infusion of public money. If direct and indirect aid were combined, the bill would amount to 170 million euros per year.

Until now, local authorities agreed to pay in the name of opening up their territory. But the tide is beginning to turn for air transport, notably for environmental reasons, and the argument of defending the province against the hegemony of Paris may no longer be enough to save the most fragile. In Poitiers, local elected officials have already decided to reduce the subsidy tap, and the government even wants to ban the shortest domestic flights.

My comment: *The break-even point for a French airport is estimated, excluding subsidies, to be around one million passengers per year.*

As the majority of the 86 regional airports do not exceed this level, the health crisis could lead to the closure of a large number of them.

> **Air transport: the worst is yet to come**

(source La Tribune) July 6 - At the beginning of the 2000s, when, against a backdrop of economic stagnation, they were hit by the shocks of 9/11, US military interventions in Afghanistan in 2002 and Iraq in 2003, and finally the Sras epidemic in Asia the same year, the airlines thought they had hit rock bottom. They were far from imagining that after having confronted the four horsemen of the Apocalypse, as they said at the time (very quickly joined by a fifth one, the soaring price of oil), they would one day experience an even more violent scenario (...).

Air transport, hit hard, experienced a nightmarish spring, with its procession of grounded planes, ghost airports and closed borders (...). In

contrast to the Sras crisis in 2003, when traffic had rebounded as quickly as it had fallen, **the recovery is expected to be extremely slow.** According to the International Air Transport Association (IATA)

and Airbus, airlines will have to wait three or even five years before returning to the traffic levels of 2019. An eternity. These forecasts do not include the possibility of a new wave of the epidemic, which would further shake the economy and maintain travel restrictions (border closures, quarantine on arrival, etc.).

In any case, without predicting the evolution of the virus, **all the conditions are met for a decrease in air travel over the next few years compared to the** pre-crisis situation (...). Beyond the health issue, the violence of the economic crisis may also have a very dissuasive effect. Combined with the increase in precautionary savings, **the loss of purchasing power** linked to the expected explosion in unemployment, partial activity and wage cuts in some companies **will affect "leisure" customers.** This, while **on the corporate side, the reduction of "travel budgets" and the generalization of videoconferencing will seriously curb business travel, the core target of all traditional airlines such as Air France or Lufthansa** (...). It also remains to be seen how public awareness of the various calls for a boycott of air travel made by several environmental organizations in Europe will evolve. While these have so far had no impact on air traffic, airlines are not immune from political decisions to reduce demand for air transport. Already strong before the crisis, **societal pressure is increasing to reduce the carbon footprint of aviation**, which accounts for between 2 and 3% of global CO2 emissions. Here too, companies' commitment to sustainable development is beginning to be reflected in their "travel policy" (...).

Not all restructuring plans will avoid bankruptcy. Limited during the sleeping phase, they are likely to multiply in the coming months. The next winter season could be a bloodbath. Because companies will enter this traditionally low season without the profits usually generated during the summer months, a high season period in normal times (...). In this context, **financial analysts expect fierce price competition** (...). **The most fragile airlines will be tempted to sell tickets at all costs to raise cash before winter, which could be their last.** And in Europe, the strongest of the big low-cost airlines like Ryanair or Wizzair may wage a blitzkrieg, not to survive, but to gain market share in a few months. **Those who are not strong enough and those who do not manage to recapitalize will not survive** (...). **"At the end of the day, there should be four major airline groups, maybe five, like Air France-KLM, Lufthansa, IAG and Ryanair . The others will soon collapse or join one of these groups," predicts Edward Wilson, Ryanair's managing director** (...).

My comment: Will there be passengers on the planes?

This simple question alone sums up the headache facing the airlines. In recent days, airlines have been forced to cancel flights due to a lack of sufficient passengers, leading to complaints and claims from travellers.

Business is starting up again weakly, more on short and medium-haul than long-haul flights.

As of 1 July, only 15 countries were allowed access to Europe. The list communicated by the Ministry of the Interior includes Algeria, Australia, Canada, Georgia, Japan, Montenegro, Morocco, New Zealand, Rwanda, Serbia, South Korea, Thailand, Tunisia, Uruguay, plus China, on condition of reciprocity.

Travellers from Andorra, Monaco, the Vatican and San Marino are also admitted.

But "in the case of China, Morocco and Algeria, the reopening of borders remains conditional on reciprocal action on the part of these countries and the reopening of their borders to residents in Spain," the interior ministry says.

The official list of countries authorized to travel to Europe does not therefore include the United States, Russia, Brazil, Israel, Turkey or India, countries that are still blocked because they still have too many cases of Covid-19.

The Covid-19 crisis is unprecedented in its scope, of course, but also in the uncertainty as to its outcome. If next winter's traffic does not pick up as expected, it is certain, as the article mentions, that the weakest companies will disappear.

End of press review

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

The Air France-KLM share closed at 4.208 euros on Monday 6 July. It is up slightly by +1.77% over one week. After a strong rise at the beginning of June, it had fallen by 30% in three weeks.

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 4.43 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 up slightly from \$1 to \$43. At the beginning of the coronavirus outbreak, it was \$69.

This indicative information in no way constitutes an invitation to sell or a solicitation to buy Air France-KLM shares.

You can react to this press review or provide me with any information or thoughts that will help me better carry out my duties as a director of the Air France-KLM Group.

You can ask me, by return, any question relating to the Air France-KLM group or employee shareholding...

I'll see you soon.

To find the latest press reviews of Monday, it's [here](#)

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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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