

Air France: Orly-Pau, negotiations and environment



I Letter from the Director Air France-KLM

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Monday's Press Review

> **Air France: Orly-Pau, negotiations and the environment**

(source Air Journal) 10 July - (...) One month after the reopening of its doors, **Pau-Pyrénées airport announced on July 9, 2020 the resumption on August 31 of Air France flights from Paris-Orly.**

Three daily flights will then be offered (two on Saturdays), in addition to the three operated from Charles de Gaulle airport. Between Pau and Lyon-Saint Exupéry, flights will be offered at the start of the new school year at the rate of "2 to 3 daily flights (except Saturdays), giving access to numerous connecting destinations"; since 10 June, HOP! has been operating on this route up to 6 times a week. The Palois airport stresses that this flight schedule is "getting closer" to the service it enjoyed before the health crisis.

The Orly - Pau route will therefore not disappear, unlike the Orly - Clermont-Ferrand route, the closure of which was announced this week following Air France's decision to reduce its domestic network by 40% as part of the Vesta restructuring plan to be presented at the end of July.

Yesterday, Air France also launched negotiations with the trade unions on the terms and conditions of departure of ground staff, which concerns more than half of the 6,560 job cuts announced (plus 1,020 at HOP). Management (...) "an organisation of ground

professions with 20,250 permanent contracts (in full-time equivalent) by the end of 2022": the trade union refers to a number of departures required "of 705 at the Hub, 220 at Global Cargo and 129 at the DGSI (Directorate General of Information Systems). Short-haul is very impacted, with a total of 835 departures scheduled. At Orly, staff numbers are expected to fall from 893 to 644 (-28%)". The closure of the physical agencies concerns 150 jobs, not forgetting the impact of the plan on provincial stopovers (...).

On the ecological side, one of the conditions set by the government for the 7 billion euro state aid, **the SkyTeam alliance company announced yesterday that it has joined forces with OpenAirlines, the world's leading provider of eco-piloting solutions for aircraft.**

As part of this agreement, OpenAirlines will "analyse data from thousands of flights operated by the airline every day. **Its SkyBreathe® solution, developed in partnership with Transavia France, a member of the Air France Group, will assess in detail the potential fuel savings and propose recommendations to maximize Air France's operational efficiency and reduce its CO2 emissions"** (...).

"We congratulate all airlines that go beyond the industry's collective targets and this new agreement shows Air France's leadership in the commitment to climate change," said Alexandre Feray, CEO and founder of OpenAirlines,

in a statement. "Already number 1 in the Dow Jones Sustainability Index (DJSI), the Air France-KLM group is recognized as a leader in environmental performance. We are honored that Air France has chosen us to contribute to its green recovery and further reduce its CO2 emissions. As we all work to rebuild our industry, which has been heavily impacted by the Coronavirus crisis, we will continue our unwavering commitment to help airlines reduce their costs and carbon footprint".

Air France (...) joins the large community of airlines that have already adopted SkyBreathe to improve their energy efficiency, including Norwegian Air Shuttle, Malaysia Airlines, Cebu Pacific, GoAir, Atlas Air "and other major airlines".

My comment: When Air France relaunched the Province - Paris routes in June, only Roissy-CDG was concerned. This made it possible to offer some international connections to passengers. In the middle of the municipal election campaign, a number of elected representatives were offended by the fact that they could not travel to Paris via Orly.

Air France had indicated at the time that not serving Orly was temporary; passenger flows were insufficient to serve the two Paris airports.

The article also mentions the use by Air France of Open Airlines software. It will enable Air France pilots to further reduce fuel consumption and consequently CO2 emissions.

> **Unions Object to KLM State Aid Conditions**

(source Airwaysmag) 9 July - In a joint letter to the European Commission, **KLM trade unions object to the conditions which the Dutch State sets for the aid to KLM.** (...)

According to the trade unions, the **restrictions on employment and wages are particularly contradictory to treaties such** as those of the International Labour Organisation (ILO). These treaties stipulate, among other things, that the **social partners must be able to negotiate collective labour agreements freely, without any government interference.** (...)

Although the letter opposes the conditions imposed by the Dutch State, it also stresses that the trade unions are aware of the particularly difficult situation in which KLM finds itself and of the staff's desire to contribute to the company's recovery.

So far, this has always been done in close cooperation with the trade unions and they therefore call for joint efforts to find appropriate solutions.

My comment: *The letter from the Dutch trade unions refers to the Dutch state's demand to reduce KLM's top salaries by 20%.*

Since February 2019, when the Dutch government acquired 14% of the capital of Air France-KLM, this is not the first government interference in the internal affairs of KLM.

> **Air France recapitalizes HOP to the tune of 230 million euros**

(source La Tribune) July 6 - According to our information (...), **Air France's board of directors validated last week a recapitalization of HOP to the tune of 230 million euros.** Air France will convert into capital a current account debt owed to it by its subsidiary. With **no cash outflow for Air France, this operation removes any risk of HOP being liquidated in 2021.** Indeed, it enables the latter to raise its equity to a level of more than half of the share capital, in compliance with the requirements of the French Commercial Code. This is something the company has not complied with for several years. **Since 2017, its shareholders' equity was less than half of the share capital** and this

situation could not continue beyond the 2020 fiscal year, otherwise the company could potentially be dissolved.

Although HOP is not going to die, it will nevertheless undergo extremely severe restructuring, since its size will almost halve by the summer of 2023. While the workforce will be reduced by 42%, the fleet will be reduced by 47%, from 55 to 29 aircraft, all Embraers, as the Bombardier CRJs, which are more economical according to management, will leave the fleet. In terms of available seat kilometres, the reduction will be only one-third (...)

On the maintenance side, the Lille and Morlaix sites will close and only the Clermont-Ferrand site will remain, with an "adaptation" to reduce costs that are considered too high.(...)

My comment: *How does a company get into HOP's situation?*

To make it (very!) simple, the share capital of a company represents the funds contributed at the time of its creation. The equity (also called shareholders' equity) is initially equal to the share capital. Then, year after year, profits and losses (among other things) are added to it.

As a company moves from one loss year to the next, its equity decreases. This is what happened to HOP. Its equity had become less than half of its share capital, which is prohibited by the Commercial Code.

To get out of this situation, several solutions exist, which can go as far as the dissolution of the company.

In the case of HOP, the regional airline had a debt of 230 million euros towards Air France. The waiver of this debt by Air France will make it possible to increase HOP's shareholders' equity by the same amount.

> **Coronavirus:** new tools for the MRO sector

(source Air & Cosmos) July 6 - Barfield Inc, the **US subsidiary of Air France Industries KLM Engineering & Maintenance (AFI KLM E&M)**, will **now distribute On Target Spray Systems' electrostatic trolley to help** prevent the spread of Covid-19. **The 3D electrostatic trolley's spray technology is three times faster than fogging and provides uniform protective coverage on all surfaces.** Disinfection has become the norm and health constraints are forcing companies to compete imaginatively to protect everyone's health. This includes the MRO industry.

The electrostatic trolley from On Target Spray Systems comes with a trolley with wheels and a winder around a patented technology designed to save customers time and reduce costs, says AFI KLM E&M who continues : "the trolley is built in the USA for heavy and difficult work and has robust air compressors designed to disinfect the interior and exterior of aircraft cabins".

"We are delighted to partner with On Target Spray Systems as part of our strategy to create solutions for our customers. The COVID-19 pandemic has changed our way of life and On Target Spray is here to provide peace of mind wherever we go," explains Hervé Page, President of Barfield. **For On Target, the coronavirus pandemic opens up opportunities that were barely imaginable just five months ago. Indeed, the American company specializes in electrostatic spraying technology for agriculture.**

> **Delta Airlines very cautious on the recovery but wants to avoid layoffs**

(source AFP) 10 July - Faced with the persistence of the Covid-19 pandemic, **the head of the American airline Delta AirLines remained very cautious on Thursday about resuming flights** while hoping to avoid as many dry layoffs as possible. (...)

"The continuous progression of the virus in the south of the United States, coupled with the containment measures implemented in the largest metropolises in the north of the country, encourages us to be very cautious in adding new flights," he wrote. (...)

United Airlines warned Wednesday that it could lay off up to 36,000 employees in October and American Airlines said in early July it expects to have 20,000 more employees than necessary to **operate in the fall.** (...)

> **Richard Branson unveils Virgin's rescue plan**

(source Forbes) July 7 - After months of uncertainty, billionaire Sir Richard Branson has finally found a solution to the threat hanging over his empire. (...)

Since March, Richard Branson has had to back down after comments from the British Parliament, which considered that the businessman should use his personal fortune to bail out his companies. Questions about his tax status and residence in the British Virgin Islands have also been in the media in recent months.

Recently, however, the mood within the Virgin group has changed. Indeed, **Branson is about to raise** more than a billion dollars to help secure his business empire after the Covid-19: **\$500 million from Delta**

(via deferrals and exemptions), **\$300 million in debt financing by the Elliott Management group** and **\$500 million from the sale of Virgin Galactic shares** in May and June. (...)

In addition, additional shareholder support of approximately \$500 million will be provided, largely by Delta Airlines, which owns 49% of Virgin Atlantic. The Virgin group, which owns 51%, will support Delta in its involvement with its subsidiary. (...)

Finally, as regards the **critical situation of Virgin Atlantic's staff, the representatives worked with the two main unions to reach an agreement as soon as possible**. Although 3,000 employees lost their jobs, communication with employees was "direct and consensual" according to a source close to the negotiations.

In comparison, British MPs recently called Virgin Atlantic's main rival British Airways a "national disgrace". The company tried to lay off 12,000 employees and changed the contracts of another 30,000 in a "calculated attempt to profit from the pandemic," as The Guardian reported. (...)

***My comment:** The British government had made it clear that, before giving its support to Virgin Atlantic, it required Richard Branson, the main shareholder, to inject funds into his airline.*

Now that this has been done, Richard Branson (and Delta Airlines, 49% owner of Virgin Atlantic) will participate in the rescue of Virgin Atlantic.

> **Emirates to cut 9,000 jobs in the wake of the crisis**

(source Air Journal) July 11 - **Emirates president said the Middle East airline is expected to cut up to 9,000 jobs due to the coronavirus pandemic.**

This is the first time the world's largest long-haul carrier has revealed how many jobs will be lost. Before the crisis, Emirates had 60,000 employees.

Tim Clark, who said the airline had already cut its workforce by a tenth, added: "We'll probably have to give up a few more, probably up to 15 per cent. "» (...)

At least **700 of the airline's 4,500 pilots received layoff notices this week**, meaning that at least 1,200 have been notified of their termination since the start of the coronavirus crisis. **Thousands of flight attendants have also been informed that they are no longer**

needed.

> Latam secures \$1.3 billion in new financing

(source AFP) 9 July - The **Chilean-Brazilian company Latam, the largest in Latin America, announced on Thursday** that it **had obtained financing of 1.3 billion dollars (1.15 billion euros)** from an American investment fund to get out of the coronavirus crisis without recourse to public money.

The \$1.3 billion comes from the Oaktree Capital Management fund and is in addition to the \$900 million already put on the table by Qatar Airways and the Cueto and Amaro families, shareholders of the airline. At the end of May, Latam declared bankruptcy in the United States (...).

"Latam will continue to fly. There will be no impact on cargo operations, reservations, vouchers or Latam Pass miles and points," the company said. Prior to the pandemic, the airline, which was created from the merger of Lan in Chile and Tam in Brazil, served 145 destinations in 26 countries. It had more than 42,000 employees and operated 1,400 daily flights, carrying more than 74 million passengers a year.

> Level France company should soon disappear

(source Capital) 10 July - The health crisis has claimed another victim. **The airline OpenSkies, which operates under the brand name Level France, announced on Wednesday 8 July that it was preparing to cease operations and implement a social plan (...).**

Level, the long-haul low-cost brand of IAG, the parent company of Iberia and British Airways, has been operating in France from Paris-Orly airport since 2018. Its three Airbus A330s serve destinations in the United States, Canada, Guadeloupe and Martinique. OpenSkies, created in 2006 under the name L'Avion, was acquired by British Airways in 2009 and has been flying under the Level brand since 2018. At the time, IAG intended to position itself on the long-haul low-cost market from Paris, where Norwegian Air Shuttle (Norwegian) had opened routes to the United States two years earlier (...). The Austrian branch of Level filed for bankruptcy in June.

My comment: Last year, ten companies operated the Paris - New York service, whereas only six companies were positioned on the London - New York route.

The discontinuation of Level France and the withdrawal of Norwegian as

a result of the Covid-19 crisis mark a return to more reasonable competition.

> **Ethiopian Airlines, an African exception**

(source Le Temps) July 13 - **It is an African exception, and perhaps even a world one.** Like all airlines, Ethiopian Airlines, a 100% state-owned group, has suffered the full impact of Covid-19. During the containment, the borders were closed. But while the vast majority of the players had their fleets grounded, **the Ethiopian company maintained 10% of its operations, transporting masks, medical equipment, food and other materials to the four corners of the world (...).**

In April (...) the company decided to focus on the cargo market, as it was necessary to transport medical equipment, food and humanitarian workers. **However, with only 12 dedicated aircraft, it did not hesitate to unbolt the seats of 24 passenger aircraft to triple its capacity. This segment now accounts for the bulk of revenues.** In addition, several countries, including the United States and Japan, have chartered its aircraft to repatriate their nationals in Africa in recent months (...).

Founded in 1946, Ethiopian Airlines, a member of the Star Alliance (...), has over the years become the leading African airline (...).

Eventually, Ethiopian Airlines intends to develop further as a hub between the rest of the world and Africa (...).

My comment: Under Bill Clinton's "Agoa" agreement of 20 years ago, Ethiopia, like about 40 African countries, benefits from the absence of U.S. tariffs. A similar agreement has been negotiated with Europe.

A garment "made in Ethiopia" is 27% cheaper than if it was imported from Vietnam or Bangladesh. Chinese and Indians have therefore made Ethiopia their Trojan horse: instead of exporting from home, they use Africa to flood the West with their goods, free of taxes.

But nothing is actually produced in Ethiopia: hangers and labels are imported from India, fabrics from China and Hong Kong. The African country just puts it all together. It is the newest and weakest link in this globalization process. Financially, it is a real godsend: Ethiopian women are among the lowest paid in the world. They earn \$50 a month, five times less than Chinese women and half as much as Vietnamese women.

> **Health crisis: the uncertain future of the Roissy airport extension project**

(source AFP) 10 July - **Will Terminal 4 at Roissy-Charles de Gaulle**, a mega-project with a capacity of 40 million passengers, **be built?** The global health crisis is forcing Aéroports de Paris and the French state to review their plans, which have been severely criticized by the French environmental authority (...).

In an opinion delivered on Wednesday and consulted by AFP, the Environmental Authority (EA) noted that the "equation to be resolved" between the increase in flights and road traffic and compliance with France's international targets for reducing greenhouse gas emissions "is not described or set out in full" (...).

In reaction, the ADP Group said on Thursday that it "will draw the consequences of all the recommendations" and "has decided to adapt the project to take into account the priorities resulting from the crisis and adjust the timetable accordingly".

For the Paris airports management group, the objective of the future terminal is to absorb the traffic at Roissy, Europe's second largest airport behind Heathrow, estimated at 120 million passengers in 2037, according to the ACI Europe airports organisation.

But this figure, put forward by ADP in support of its project, is based on the continued growth of world air traffic before the Covid-19 pandemic. Since March, traffic has plunged by 90% and should return to its pre-crisis level at best by 2023, according to the International Air Transport Association (IATA).

Faced with the evidence, the State, the majority shareholder of ADP and supporter of the project, has changed its position.

"Today at Roissy, we have 15% of the flights (...). **Capacity extensions at Roissy today appear to be a bold gamble. The T4 project is probably going to be reviewed**, asked : cost/benefit", **declared** on RMC and BFMTV **Jean-Baptiste Djebbari, Minister Delegate for Transport**, on RMC and BFMTV.

The project "is obsolete and will not have the funding", slips an airport source which adds that the extension of Roissy "is not in line with what citizens want". (...) At the same time, the **ban "on the construction of new airports and the extension of existing airports" is among the proposals of the Citizens' Climate Convention that President Emmanuel Macron will submit to parliament or referendum in 2021** (...)

***My comment:** Already before the health crisis, I was wondering about the relevance of building Terminal 4 at Roissy - CDG, with a capacity identical to that of Orly airport.*

The hypotheses that had led to its sizing seemed very optimistic to me.

From my point of view, they underestimated the consequences of the fight against global warming.

> **Confidence** in air transport: the three alliances together

(source Air Journal) July 9 - In a joint statement (...), **Oneworld, SkyTeam and Star Alliance**, the three major international alliances, which collectively account for more than 50 percent of world air traffic through their 58 airlines, have come **together to highlight the measures that the airlines are taking to ensure the well-being of customers during their travels**. "Dear Travellers, a video of the three alliances gives a glimpse of what customers can expect from their travel over the coming months as travel restrictions are eased and the world begins to reopen" (?).

The measures that travellers will experience during their journey, from check-in to their chosen destination, include :

- Obligation or recommendation for passengers and airline staff to wear face masks at the airport and on board, in accordance with applicable public health guidelines;
- . A safe airport environment with physical distance in all required areas;
- . Enhanced and intensified sanitation with emphasis on high contact areas on the ground and in the aircraft cabin;
- . Highly efficient, hospital-quality air filters on board modern aircraft. Known as HEPA (High-Efficiency Particulate Air), these filters remove 99.99% of airborne particles and contaminants.

(...) Oneworld (...) includes American Airlines, British Airways, Cathay Pacific, Finnair, Iberia, Japan Airlines, Malaysia Airlines, Qantas, Qatar Airways, Royal Air Maroc, Royal Jordanian, S7 Airlines and SriLankan Airlines (...)

SkyTeam (...).) includes Aeroflot, Aerolíneas Argentinas, Aeromexico, Air Europa, Air France, Alitalia, China Airlines, China Eastern, Czech Airlines, Delta Airlines, Garuda Indonesia, Kenya Airways, KLM Royal Dutch Airlines, Korean Air, Middle East Airlines, Saudia, TAROM, Vietnam Airlines and Xiamen Air.

(...) Star Alliance (...) comprises Aegean Airlines, Air Canada, Air China, Air India, Air New Zealand, ANA (All Nippon Airways), Asiana Airlines, Austrian, Avianca, Brussels Airlines, Copa Airlines, Croatia Airlines, Egyptair, Ethiopian Airlines, EVA Air, LOT Polish Airlines, Lufthansa, Scandinavian Airlines, Shenzhen Airlines, Singapore Airlines, South African Airways, SWISS, TAP Air Portugal, Thai Airways,

Turkish Airlines and United Airlines (...).

My comment: *The three main airline alliances (the list of airlines appears at the end of the article), are trying to reassure their future customers who are still too few to book trips.*

End of press review

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

The Air France-KLM share is at 4.10 euros at the close of trading on Monday 13 July. It is down -2.57% over one week.

Before the coronavirus epidemic, the Air France-KLM share was at 9.93 euros. Since the beginning of April, it has fluctuated between 4 and 5 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 oil (North Sea) is stable at \$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.

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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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