

Pushback support for Air France-KLM



I Letter from the Director Air France-KLM

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N°791, January 18, 2021

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Monday's Press Review

> **Miljardensteun Air France-KLM loopt vertraging op (Billions of euros in support pushed back for Air France-KLM)**

(source Het Financieele Dagblad, translated with DeepL) January 18 - Negotiations between the French and Dutch governments regarding a new capital injection for the ailing Air France-KLM are going very smoothly. Two deadlines have passed and it is expected that by the presentation of the annual results on February 18, there will still be no agreement on an issue. This is confirmed by insiders who are aware of the negotiations. **The parties feel doomed to each other as in a bad marriage. Nobody wants to separate, because Air France and KLM are both in a bad position, but both want to strengthen their position in the company.**

The problem is that, as with last summer's billion euro loans, the Dutch government wants to invest at the level of KLM and not at the level of the listed holding company based in Paris. This goes against the wishes of the French government, which claims that any investment in the group is also in the interest of KLM.

The French-Dutch airline, which was hit hard by the coronary crisis, is still in business, thanks to loans totalling 10.4 billion euros issued last year. **KLM is also one of the biggest users of the NOW payroll payment system**, which the government set up in connection with the pandemic. But risk capital is needed to restore its financial resilience. At the end of September, the group had negative equity of 4.7 billion euros, and the recent global lockdown with

negative travel advice has further eroded its financial health.

The airline group is facing a share issue (...) which will lead to a dilution of existing shares. However, if the French government takes the lion's share of this issue, the Netherlands will lose control of Air France-KLM.

The Dutch position is based on **the** estimates of **senior Ministry of Finance officials**. They believe that there is little support in the Netherlands for an injection of billions into the group, because they **feel that Dutch money is disappearing into a bottomless French well**. The restructuring implemented last year at Air France would not close the gap with KLM, which is also making deep cuts because of the krone crisis.

The government's negotiating team has chosen to convert the government's share of the €1 billion loan granted to KLM last year (term: five years) **into a perpetual loan**. In this way, the EUR 1 billion can be accounted for as equity and contributes to the financial health of KLM and, indirectly, of the Group.

(...)

The fact that the negotiating team is sticking so firmly to the line of an investment in KLM is partly the result of statements by the Minister of Finance and leader of the CDA party, Wopke Hoekstra. The minister had put himself in a difficult position by stating in April last year that Dutch taxpayers' money could only benefit KLM. His officials fear that if an investment is made in the Paris holding company, Hoekstra will be challenged on the basis of this declaration in the Lower House and later in the elections.

The French state is not afraid to increase the holding company's capital. If France were to take the lion's share in a share issue, the interest of the Netherlands would be diluted. This would mean that Hoekstra's earlier investment in Air France-KLM would have been in vain. **In 2019, the government bought a nearly 14% stake in Air France-KLM for 775 million euros, the same percentage as the French government, in order to ensure Dutch influence at the highest level.**

This is a diabolical dilemma for Hoekstra, say insiders, also because the Air France-KLM dossier has an impact on Franco-Dutch relations in Europe, for example. This is why Prime Minister Mark Rutte is keeping an eye on the situation.

There are two schools of thought at KLM itself. Some at the top are happy if, in exchange for participation in a share issue, it is agreed that KLM's autonomy within the group will remain unchanged. This situation has been repeatedly questioned from Paris, both by the French government and by the group's CEO, Ben Smith.

A group of hawks is in favour of strengthening the power of the government at the level of KLM. This group has little confidence in the Dutch government's negotiating capacity and wants to strengthen KLM's autonomy. They believe that Hoekstra should show more bite in the

negotiations and obtain concessions in exchange for financial support.

It is unclear how the competition authorities in Brussels will react to additional state aid to Air France-KLM. European Commissioner Margrethe Vestager left KLM unchanged by the 3.4 billion euro loan granted in June. However, with the capital increase that is now on the table, **she may demand concessions.** It is the French who are negotiating with Brussels. Neither the ministry nor KLM feels the need to comment during the negotiations.

The fall of the government and the upcoming elections do not facilitate the position of the Netherlands in the negotiations (...).

My comment: *The author of this article has been careful in using the conditional a lot. Several points deserve a comment.*

1. The NOW program can be compared to the partial activity in France. However, there is an important difference between the two systems: the amounts of aid under the NOW program are calculated on the basis of the loss of turnover and are greater than the amounts granted via the partial activity, which are calculated on the basis of the employees' loss of activity. Within the Air France-KLM group, this creates misunderstandings, particularly in joint activities, as Dutch employees continue to work full-time while French employees have reduced activity.

2. When the Dutch government invested 775 million euros in Air France-KLM, it bought back shares from minority shareholders. This investment did not benefit the Franco-Dutch group, unlike the investments made by Delta Airlines and China Eastern in connection with the issue of new shares. Each of these two companies contributed 375 million euros to the Air France-KLM group.

3. The existence of two currents of thought within KLM is not a surprise, but it has rarely been evoked with such precision by the Dutch press.

4. The resignation of the Dutch government could change the timetable for the recapitalization of the Franco-Dutch group. I invite you to read the article below.

5. The European Commission will have its say in the granting of new aid to the Air France-KLM group. It could renew the conditions imposed on Lufthansa last spring when the German State supported its national airline through a capital increase.

> In the Netherlands, Mark Rutte is forced to resign.

(source Le Monde) 17 January - A strange crisis, but one that seems

inevitable in the Netherlands: in the midst of the Covid pandemic¹⁹ and only two months before the legislative elections scheduled for 17 March, the **Liberal Prime Minister, Mark Rutte, presented his resignation to King Willem Alexander on Friday 15 January.**

Since October 2017, he had led a coalition of four parties: the People's Party for Freedom and Democracy (VVD, liberal), the Christian Democratic Appeal (CDA), the Christian Union (CU) and Democrats 66 (D66, pro-European centrists). It is a resounding affair, the so-called "allowances" affair, which will have sealed the end of this fragile alliance. And it was a parliamentary report on the scandal, presented in December 2020, that finally led to the break-up of the ministerial team, the third headed by Mr. Rutte, in power since 2010. A commission set up in the Chamber of Deputies to investigate the "allowances affair" concluded that some 26,000 families had been victims of "unprecedented injustices" over the past decade. The commission also cited serious breaches of the rule of law.

(...) It was

also because he was not sure that he would win such an ordeal in parliament next week that Rutte and his party agreed to the scenario of resignation, paving the way for the establishment of a caretaker government. **A resignation that was finally quite symbolic and not the first of its kind:** in 2002, the coalition of Social Democrat Wim Kok fell a month before the elections, swept away by a parliamentary report on the attitude of Dutch peacekeepers during the 1995 Srebrenica massacre in Bosnia.

(...)

The other concern of the Prime Minister, who had managed to repel the onslaught of the extreme right in 2017 and this time apparently had no serious rival, **is that the cast of his opponents has quickly changed. The Christian Democrats have been betting in recent weeks on the figure of Wopke Hoekstra, the current finance minister, who has gained popularity by showing his firmness in the debate on the European budget - and the stimulus plan of the Twenty-Seven - and by defending the position of the national airline KLM within the Air France group.** In the center, the D66 party is betting on a woman, Sigrid Kaag, the current Minister of Trade and Cooperation, a polyglot who studied at the ENA.

(...)

***My comment:** I have kept from this article only the elements related to the Air France-KLM group. The main interlocutor of the Air France-KLM group in the Netherlands is the Minister of Finance, Mr. Wopke Hoekstra. He will lead one of the four parties in power during the next legislative campaign. The elections will take place on March 17.*

> Despite the crisis, Transavia begins its ramp-up

((source Le Figaro) January 13 - With the second containment started on October 30, the news had gone unnoticed. **Since 2 November, Air France's low-cost carrier Transavia has been operating four routes which were previously operated directly by Air France or one of its subsidiaries, Hop.** These are Orly-Biarritz, Nantes-Nice, Nantes-Marseille and Nantes-Toulouse. Further transfers of routes to the low-cost operator should be announced shortly. **Transavia is set to play a major role in rescuing the Air France group.** "Thanks to Transavia and its unit costs comparable to those of easyJet, Air France will be able to make its short and medium-haul network profitable and develop it," Ben Smith, CEO of Air France-KLM, told Les Echos in mid-November. That's quite an ambition, because before the health crisis, the tricolor group was already losing a lot of money on its domestic network (200 million euros in 2019). The challenge is simple: to regain market share in France and Europe with Transavia, which offers low prices thanks to a typical low-cost organization: "We operate a single type of aircraft (the Boeing 737-800) by maximizing rotations with a first departure at Orly at 6 a.m. and a last return at 10:50 p.m. and all the options (hold baggage, specific seat) are paid for," explains Nathalie Stubler, CEO of Transavia France, in Le Figaro.

Paradoxically, the crisis has made this increase possible.

Air France's **SNPL** (Syndicat national des pilotes de ligne) **has gone back on one of its dogmas. In August 2020, it agreed that Transavia France should launch into the domestic market. A year earlier, it had agreed that the low-cost airline could exceed the ceiling of 40 aircraft, which until then had limited its development. By the summer of 2021, we will integrate 8 new aircraft, which will increase our fleet to 48 units," says Nathalie Stubler. We don't know if we'll be flying them right away. We will adapt to the situation in the spring of 2021.** "> (...)

My comment: *It is likely that the 48 Transavia planes will not be operated at 100% next summer, due to the health crisis. This should not generate a significant additional cost for the low-cost airline of the Air France group, as a few dozen Transavia pilots have joined Air France since last summer.*

> Delta Airlines still in heavy loss in Q4

((source: CercleFinance) January 14 - **Delta Airlines reports an adjusted loss per share of \$2.53 for the fourth quarter of 2020, slightly higher than analysts feared on average,** still illustrating the impact of the health crisis on the airline industry.

The Atlanta-based airline recorded a 69% decline in adjusted revenues to \$3.5 billion, a trend that was 10 percentage points better than the decline in

the previous quarter.

We have reduced our average cash burn to \$12 million per day, a reduction of nearly 90% since the early days of the pandemic in March, and are making progress toward reaching a cash breakeven point in the spring," management said.

> **British Airways sued by 16,000 customers after massive data theft**

(source Capital) January 12 - Opposing sales for British Airways. **The British airline is the target of a class action suit in the United Kingdom. It currently has 16,000 customers who believe they have been harmed by a data theft in 2018,** announces the law firm PGMBM, which is leading this class action - the largest ever initiated in the UK concerning data protection. The lawsuit has been authorized by the courts and PGMBM's objective is to convince as many clients as possible to join this action.

A total of 420,000 customers were affected at the time by the massive data leakage. A computer attack took advantage of a loophole in British Airways' systems and allowed the theft of personal and financial data, including names, addresses, payment card numbers and security codes on the backs of customer cards. The airline had been fined a record £20 million in October by the ICO, the UK's personal information protection agency.

PGMBM believes each victim could receive up to 2,000 pounds, which would cost the airline 800 million pounds. (...) Questioned by AFP, **British Airways says it will continue "vigorously" to oppose these accusations. "We do not recognize the damage figures put forward and they do not appear in the complaints,"** according to the company.

***My comment:** Initially the fine imposed on British Airways was £184 million. In October 2020, the ICO (the British equivalent of the CNIL) had decided to reduce the fine so as not to worsen the airline's financial situation.*

The ICO commissioner had then declared: "People have entrusted their personal data to British Airways which has not taken adequate measures to ensure the security of these data (...)"

> **The Corsair company is going to cut 10% of its workforce**

(source L'Écho touristique) January 15 - **Corsair announced the elimination of 10% of its workforce. (...) It will cut 112 flight and ground staff positions out of a total of 1,100,** the airline announced on Thursday.

According to the press release, a "collective bargaining break" measure has been proposed for cabin crew. This procedure "ended on December 30 and led to the departure of 65 cabin crew. For ground personnel, a proposal to

"eliminate 61 positions and modify 19 positions out of the 339 permanent contracts for ground personnel" was submitted to the employee representative bodies on Thursday. Corsair has "also planned to create 14 new positions".

As a

reminder, **the company was saved at the end of December thanks to the signing of an agreement with the State and a consortium of investors which** includes "an overall financial contribution of nearly 300 million euros for the restructuring and development of Corsair" which will be refocused on overseas services.

> **Norwegian abandons long haul**

(source Le Journal de l'Aviation) January 14 - **Given Norwegian's particularly serious difficulties over the past three years** and their brutal aggravation with the Covid crisis, **the company's long-haul business already seemed to be in the hot seat. The group's Board of Directors has just confirmed that it will be discontinued.** A new restructuring plan was presented on 14 January, which aims to return to the roots of the company's success: low-cost short-haul.

(...)

Low-cost will thus focus all its attention on serving the Norwegian domestic network - the only one currently remaining and served by six 737s -, the Nordic countries and major European destinations. **This with a fleet of Boeing 737s. It hopes to be able to operate about 50 of them in 2021, then add about 20 more in 2022 - it operated 140 aircraft before the crisis.**

(...)

The consequences will be felt in France, the United Kingdom, Italy and the United States, where Norwegian had bases for these long-haul operations. **Entities managing the employment of personnel on site will be put into bankruptcy.** As for the Boeing 787s, grounded since March 2020, they will no longer fly under the company's colors.

In addition, the company wants to massively reduce its debt to 20 billion kroner (compared to 48.5 billion at the end of September) and raise 4 to 5 billion kroner, by issuing new shares to current shareholders, through private placements and a hybrid instrument. **The company has again approached the Norwegian government with a view to potential participation in the plan. This is now under consideration, as the government considers the application to be different from the one examined (and rejected) last November.** (...)

My comment: *The shutdown of Norwegian's long-haul business comes after the bankruptcies of XL Airways and Level (a subsidiary of IAG), other low-cost long-haul airlines, confirming doubts about the relevance of this activity.*

2,000 employees attached to Norwegian's bases in Europe will lose their jobs.

> Airbus files a patent for the hydrogen aircraft

(source La Dépêche) January 12 -



Presented for the first time in October 2020, **Airbus** ' hydrogen strategy has already evolved. The Toulouse-based group **has filed a patent to protect an invention aimed at installing six independent engines, all powered by liquid hydrogen, on a regional aircraft.** As part of the "Zero Emission" program, which should result in a commercial aircraft in 2035, this concept is based on six removable engines with eight propellers containing a fuel cell. Each engine block, the "pods", is powered by a hydrogen tank. Electric motors and power electronics are also included. The interest in multiplying the engines is twofold.

On the one hand, it makes it possible to give more power to the aircraft, which will be capable of taking off at a higher weight compared with a two-engine configuration. In concrete terms, this means that the aircraft will be able to carry more passengers over longer distances. Second, the engines are independent and removable: an option that will facilitate and speed up maintenance and refueling operations. But **Airbus assures that this is just one of several options. The Toulouse-based aircraft manufacturer must make its technological choices in 2025 before launching a full aircraft program. Initially developed on regional aircraft, hydrogen technology will later be adapted for medium-haul aircraft.**

My comment: Before a regional jet flying on hydrogen is put into operation, many challenges will have to be overcome.

. How to safely transport liquid hydrogen at high altitude (the risks are greater

than with gaseous hydrogen, the one that powers land vehicles)

. How to store this fuel, which occupies a volume four times greater than kerosene, for the same autonomy?

. How to manufacture hydrogen without emitting CO²? Today, 95% of hydrogen is produced using fossil fuels.

> **Boeing consoles itself on a disastrous 2020 balance sheet with the return of MAX**

(source Les Echos) January 12 - From a business standpoint, the year 2020 will go down in history as the worst in Boeing's history. With only 157 deliveries last year (compared to 380 in 2019 and 806 in 2018!) and cancellations far outnumbering new orders, the U.S. aircraft manufacturer had not experienced such a rout since the great strike of 1995, which paralyzed production for sixty-nine days.

Never has the gap with Airbus been so wide. With 566 deliveries and 268 additional orders, the European aircraft manufacturer finds itself in roughly the same position of strength as Boeing was in 1992, at the very beginning of Airbus' history.

The **year 2020 was, it is true, a double whammy for Boeing, with the Covid-19 crisis coming on top of the 737 MAX crisis**, which had already caused deliveries to drop by 52 percent in 2019. More than the pandemic, it was the 737 MAX crisis that caused Boeing's order book to hemorrhage, with 758 MAX cancellations since it was grounded in March 2019 (although the company still has 3,324 orders in its portfolio).

In **addition to this double crisis, at the end of 2020, the discovery of faulty workmanship on some 787s even** led to a slowdown in deliveries of Dreamliner in December. However, **this did not prevent Boeing from delivering more long-haul wide-bodied aircraft than Airbus** (114 compared to 83), **thanks to the good performance of the cargo aircraft market, in** which it is very dominant. Cargo has also earned Boeing some of its biggest orders of 2020, such as DHL's order for eight B777s and Atlas Air's order for the last four 747s before production of the jumbo jet ceases in 2022. (...)

On the order side, 2020 also ended on another piece of good news for the MAX, with a firm order by Ryanair for an additional 75 units. This contract is unlikely to bring Boeing much in return, since it is part of a global agreement that also includes compensation for late delivery. Nevertheless, this announcement is the largest order placed in 2020, (...)

My comment: *Boeing has suffered a lot in the last two years. It is likely that the U.S. manufacturer will return to a production level close to that of Airbus*

when business resumes.

Russian and Chinese competitors are not yet in a position to compete with either Airbus or Boeing.

And no matter what anyone says, it is unlikely that passengers will be reluctant to board a B737 Max, which has already changed its name (B737-8 and B737-10). Who, apart from air specialists, cares what model of aircraft they will be using on their future trip?

> **Stock market press review**

> **Airborne bond exercises expected to continue in 2021**

(source L'Agefi) January 15 - Despite the health crisis that has led to huge losses for air transport, the bond market has enabled many American, European and Asian airlines to refinance their debt in order to be able to prepare for the expected upturn in activity. Wizz Air and Singapore Airlines have just completed a capital raising for 500 million euros and 500 million dollars respectively.

The **inaugural three-year loan of the Hungarian low-cost company carries an interest rate of only 1.35%, as investor demand was more than four times higher than the amount offered.** It will be used for Wizz Air's general needs to increase its financial flexibility despite a cash position of 1.56 billion euros at the end of September 2020. The company, listed on the London Stock Exchange since February 2015, estimated that this level of cash "would allow it to survive for two years if all its aircraft remained grounded".

The issue, led by Barclays, BNP Paribas, Citigroup and JPMorgan, is part of a €3 billion medium-term loan (EMTN) program announced by Wizz Air last August. This program is rated BBB- by Fitch, one notch above the speculative category. However, the outlook assigned to this rating is negative. Despite the arrival of vaccines that could accelerate the rebound in tourist flights in the second half of 2021, Fitch is taking into account government restrictions that, by weighing on traffic, "could postpone the decrease in the group's debt expected by the end of its fiscal year in March 2023," the agency said. For its part, **Singapore Airlines has finalized its first U.S. dollar-denominated bond** issue, with a maturity of 5.5 years. The interest rate was set at 260 basis points above the level of U.S. government bonds of similar maturity, resulting in **an annual coupon of 3%**. "Investor demand exceeded \$2.85 billion," the Singaporean company said. According to a document consulted by Reuters, 150 investors participated in the operation, 76% of them are based in Asia and 83% are portfolio managers.

(...)

Over the current fiscal year ending March 31, the carrier has increased its liquidity level by \$13.3 billion, two-thirds of this amount coming from a capital increase. Its main shareholder is Temasek, Singapore's sovereign wealth fund, which controls 55% of the capital.

During the second half of 2020, 19 airlines tapped the bond market for \$17.6 billion worldwide, with Delta Airlines alone having raised \$6 billion in September, Refinitiv statistics show. **For the current year, Dealogic expects at least \$14.9 billion in bond refinancing needs for the industry** as a whole, with an additional \$23.1 billion in syndicated loans due by December 31.

***My comment:** In Europe, before Wizz Air, Lufthansa and easyJet used the bond market with the same success.*

End of the press review

> Advice for employee and former employee shareholders

In January, you will receive statements from Natixis and/or Société Générale. By default, these statements are sent by post.

You will find on my website

<http://navigaction.com/Vous/Vendre%20acheter.htm> how to access the managers' websites.

To avoid forgetting to change your contact details each time your postal address changes, **I advise you to enter a personal e-mail address.** It will be used for all correspondence with the management bodies.

Keep all the documents relating to your Air France-KLM shares in one place: all your correspondence received from the various managers, Natixis, Société Générale, your personal financial institution if you purchased your shares through it.

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

The **Air France-KLM share is at 5.03 euros** at the close of trading on Monday 18 January. It is up +5.03% over one week.

Before the coronavirus epidemic, the Air France-KLM share was at 9.93

euros.

The average (the consensus) of analysts for AF-KLM shares is 3.10 euros. The highest target price is 5 euros, the lowest is 1 euro. You can find on my blog the details of the analysts' consensus. I no longer take into account the opinions of analysts prior to the beginning of the health crisis.

The barrel of Brent oil (North Sea) is down \$1 to \$55. Since the announcement of a potential vaccine, the price has risen by \$16 (+41%).

At the beginning of the coronavirus epidemic, it was at \$69.

This indicative information in no way constitutes an incitement 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 related to the Air France-KLM group or to employee shareholding...

See you soon.

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| François Robardet

Director Air France-KLM representing employees and former employee shareholders PNC and PS.

You can find me on my twitter account @FrRobardet

When I was elected, I received the support of the CFDT and the UNPNCCThis

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

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