

Airlines eagerly await the reopening of American skies



## I Letter from the Director of Air France-KLM

**François Robardet**

Representative of employees and former employees who are PS and PNC shareholders

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### *Last minute!*

#### > "Travel ban": a reopening of the American sky highly awaited by the airlines

(source Les Echos) September 20 - **This is THE news that all American and European airlines have been waiting for impatiently for several weeks. With the lifting of even partial restrictions on entry into the United States for vaccinated European travelers at the beginning of November**, a major part of their business will finally be able to resume in both directions. This is enough to bring out of mothballs a few long-haul jumbo jets and ease a little the fears of a brutal relapse in traffic this winter, after the summer upturn.

Initially hoped for the beginning of the summer, the reopening of the American borders had been delayed by the resurgence of the epidemic in Europe. However, the unilateral reopening of European borders to American tourists had already brought some relief to European companies, as more Americans than expected returned to Europe.

Lufthansa

's CEO, Carsten Spohr, had indicated that, even without the European clientele, the American routes had already become the most important in the German airline's long-haul network by this summer.

**Of all the long-haul destinations, the United States is by far the most important for European airlines.** In France, the United States is the leading international long-haul destination for French airports, with 8.88 million passengers in 2019 (and 411,594 tons of cargo). In 2020,

there were still 1.7 million.

The CEO of Air France-KLM, Benjamin Smith, had moreover clearly linked the achievement of the objectives for 2021 to the reopening of the American borders. Especially since both airlines had taken the risk of putting many offers back on the market. **The North American market alone accounts for 40% of Air France-KLM's long-haul revenues.** On Monday, the Canadian leader hailed this as "great news".

Its main competitors, IAG and Lufthansa, are just as interested. **The American market represents more than a quarter of British Airways' and Lufthansa's offer.** The stock market was not mistaken. **Even before the good news was confirmed, Air France shares were up by more than 5% in Paris, while Lufthansa shares gained 6% in Frankfurt and IAG shares jumped by 11% in London.**

**My comment:** *Finally, some good news for the airlines.*

*The U.S. will reopen its doors to people who have been to Britain, the 26 Schengen countries, China, India, South Africa, Iran and Brazil in the previous two weeks.*

*To take advantage of this access, which will not be accompanied by quarantine, travellers will have to present a complete vaccination schedule, undergo a PCR test within 72 hours before the flight and leave follow-up contact details with the airline so that they can be traced during their stay if they are contacted.*

*One question remains, the type of vaccine that will be accepted: thus, what will happen to the AstraZeneca which is not approved by the American health authorities.*

## **Monday's Press Review**

### **> Air France Boeing Jet Makes Emergency Landing in Beijing**

(Bloomberg source) Sept. 18 -- **An Air France-KLM flight made an emergency landing shortly after taking off from Beijing after the Boeing 777 suffered a technical failure and smoke filled the cabin.**

The flight, bound for Paris-Charles de Gaulle airport, returned to Beijing airport 14 minutes after departure, the carrier said in a statement Saturday. Passengers said they heard a loud bang before black smoke began to fill the cabin, the Beijing Daily reported. No injuries were

reported.

A Boeing spokesman referred to Air France for any information on the incident.

**"A failure in the aircraft's pneumatic system caused an overpressure in one of the air conditioning pipes,** which spread residue and dust in the cabin," Air France said in its statement. Maintenance work will be carried out on the aircraft, and passengers have been offered alternative flights to Paris, the company said.

***My comment:*** *It is an air pipe of the APU (Auxiliary Power Unit) which would be concerned.*

*According to the Acnusa website, the APU is a small on-board turbojet engine, generally located at the rear of the fuselage, which allows the aircraft to be autonomous for air and electricity during stopovers.*

*The APU provides : -  
on the ground, air for starting up the engines and for the air conditioning system, and electrical energy necessary for the aircraft;  
- on take-off, air conditioning by relieving the engines when optimum performance is required;  
- in flight, backup electrical energy and air conditioning.*

*In order to reduce CO2 emissions, the APU can be replaced on the ground by two types of equipment: one that supplies electricity and the other that provides heating or air conditioning for the aircraft.*

### **> Vliegtickets fors duurder door Schiphol (Much more expensive flight tickets because of Schiphol)**

(source De Telegraaf, translated with DeepL) September 19 - Airlines **KLM and easyJet find the proposed 40% increase in airport fees over the next three years unacceptable.** A 100-euro ticket comes with about 50 euros in taxes and airport fees. The increase would be 20 euros.

At the end of October, the airlines and Schiphol are expected to reach a compromise on the new fares. "Given the revenue shortfall in 2020 due to the coronavirus crisis, KLM can understand some fare increase. However, **KLM believes that the fare increases proposed by Schiphol are disproportionate and unwise, as they will nip the nascent recovery in the bud,**" the airline said.

KLM will end the year with another loss, as many borders outside Europe are still closed. Schiphol wants to increase its fares considerably, in order to partially offset the losses. However, the airport is still in good financial health, with equity of 3.6 billion euros at the end of June and a solvency of 38%.

EasyJet, the airport's second largest player after the KLM group, says the increase is not desirable at this time.

(...)The

increase in charges makes it more difficult to remain attractive as a transit airport. **"The position of the Netherlands in the global aviation sector is under threat. Airports in surrounding countries are not incorporating the effects of the coronavirus effect, or are doing so to a much lesser extent, in their tariffs,"** KLM said."

***My comment:*** *In addition to these fare increases, KLM will also have to bear the extra cost of building a new terminal and pier.*

### **Vueling takes over all the slots released by Air France at Orly to pass on the French government's aid**

(source La Tribune) 20 September - It's a victory by KO for Vueling. **The European Commission has just announced the allocation of all the slots made available by Air France at Paris-Orly airport - a measure demanded by Brussels in return for the State aid granted by France - to the Iberian airline, a low-cost subsidiary of the IAG group.** Vueling thus obtains no less than 18 additional daily slots (i.e. 9 return flights per day) at the Paris airport and will be able to operate them from November. Their transfer must now be finalised between the two airlines.

This award was made according to an open procedure, according to Margrethe Vestager, executive vice-president of the European Commission responsible for competition policy. According to the press release, **"the Commission, assisted by the monitoring trustee, (which) examined in detail the proposals received, giving priority to carriers already operating a base at Paris-Orly airport,** and then ranking the proposals according to the level of capacity and connectivity that the carriers would deploy by making use of the slots made available by Air France." This differs from traditional redistributions in which slots are redistributed 50-50 between new entrants and players already present on the platform. A

champion of competition in Europe, Margrethe Vestager said, "This will allow Vueling to expand its operations at this very congested airport and thus help ensure fair prices and more choice for European consumers. It

also helps to ensure that the considerable capital support given to Air France will allow this airline to overcome the financial difficulties caused by the COVID-19 pandemic without unduly distorting competition in the Single Market."

(...)

**Air France, like Lufthansa before it in Frankfurt and Munich, had to undertake to give back some of its slots at Orly in order to benefit from €4 billion of aid from the French State and thus complete its recapitalisation last spring.**

***My comment:*** This decision is in accordance with the rule laid down by the European Commission: all the slots should go to one airline.

*It is a godsend for Vueling. Orly airport, with a ceiling of 250,000 take-offs and landings per year, is saturated. It is very difficult to obtain new slots, even when an airline disappears.*

*For example, when Aigle Azur went bankrupt, Vueling was unable to obtain any additional slots.*

## **American Airlines invests \$200 million in GOL**

(Businesstravel source) Sept. 17 - **American Airlines has signed a letter of intent with GOL that will see the US carrier take a 5.2% stake in Brazil's largest airline.**

As part of the deal, the two carriers will establish an exclusive codeshare agreement, with GOL becoming AA's sole codeshare partner in Brazil and American becoming GOL's sole codeshare partner in the US.

(...)

American will invest \$200 million in GOL in exchange for a 5.2 percent equity stake and will have the right to appoint a member to GOL's board of directors.

(...)

***My comment:*** This year, the Brazilian airline GOL will have raised more than \$700 million (including \$515 million in long-term capital raised in the second quarter).

*Note that Delta Air Lines was present in the capital of GOL until 2019, before preferring LATAM (born in 2012 from the merger of the Chilean company LAN and the Brazilian TAM), allowing its competitor American Airlines to get closer to GOL. .*

*These transactions do not call into question the exclusive long-term strategic partnership between Air France-KLM and GOL, which has existed since 2014.*

## **Lufthansa wants to raise more than 2 billion euros to repay German aid**

(source Les Echos) September 19 - A major operation is in the offing at Germany's **Lufthansa**. The leading European air transport group (which includes the eponymous company, Swiss, Austrian Airlines and Brussels Airlines) **announced on** Sunday evening **that it would attempt to raise 2.1 billion euros through a capital increase**. This operation, validated by the board of directors, will start on Wednesday and will last until 5 October. The share price has been set at 3.58 euros, a discount of almost 40% compared to the theoretical price less voting rights (TERP).

**This capital issue should enable Lufthansa to** consolidate its accounts and above all **to repay part of the aid granted by Germany at the height of the crisis**, via the Economic Stabilisation Fund. **In 2020, when air traffic was collapsing, Berlin took a 20% stake in the group**. But the German government and Lufthansa had nevertheless made commitments to Brussels to repay the aid. **The aim is to bring the state's share back to its pre-crisis level within two years. The disengagement has already begun, as the Federal State now holds "only" 16% of the group.**

"We have always made it clear that we will only retain the Stabilization Fund for as long as necessary. We are therefore proud to be able to keep our promise and repay the measures faster than planned. We can now fully concentrate on the further transformation of the Lufthansa Group," said Carsten Spohr, CEO of Deutsche Lufthansa AG, in a statement.

(...)

Lufthansa posted a negative adjusted Ebitda of 852 million euros, with a return to the green not expected until the third quarter. **Its losses remain substantial and, above all, its flights are still very poorly loaded, with 7 million passengers, or only 17% of pre-crisis traffic.** But Lufthansa should return to 50% of 2019 traffic "in the coming months", thanks in particular to the rebound in business travel.

**My comment:** *Lufthansa's market capitalization is 5.2 billion euros. If the capital increase is successful, it will lead to a 40% dilution of existing shareholders.*

*This should not impact the role of the various shareholders of the German airline.*

*Unlike Air France-KLM, where four shareholders (the French and Dutch states, China Eastern, Delta Air Lines) hold significant shares of the capital, Lufthansa's shareholding is very dispersed.*

*While the German State still holds 16% of the airline's capital, the other shareholders hold a maximum of 3%.*

### **Shell wants to produce biofuel on a large scale for aviation**

(Reuters source) Sept 20 - **Royal Dutch Shell** plans to begin large-scale production of sustainable aviation fuel by 2025, a move designed to encourage global airlines to reduce their greenhouse gas emissions. The oil company **has announced plans to produce 2 million tons of sustainable aviation fuel by 2025**, ten times the current total production of sustainable aviation fuel worldwide.

With the use of sustainable fuel, made from used cooking oil in particular, greenhouse gas emissions from the aviation sector, which accounts for 3% of global emissions, could be reduced by up to 80%, according to Shell.

For the moment, Shell only supplies sustainable fuels produced by other companies, such as the Finnish group Neste.

(...)

Shell aims to have 10% of its fuel sales to the aviation sector in "green" fuel by 2030.

**My comment:** *For sustainable fuel to be produced in sufficient quantities for airlines, more projects similar to Shell's will have to be launched.*

*Commercial aviation consumed nearly 300 million tons of kerosene per year in 2019. Shell currently plans to produce "only" 2 million tons per year.*

### **> The European Union is about to open a boulevard to Qatar Airways**

(source La Tribune) September 16 - **It's a five year old file that is about to be completed. The European Union and its Member States are about to validate an open skies agreement with Qatar.** In other words, an agreement to liberalise air services that will allow member

airlines to serve any city without any restrictions in terms of capacity or frequency of flights.

(...)

**As of this autumn, Qatar Airways will therefore obtain third and fourth freedom rights without any limitation in terms of routes, capacity and frequencies, between any point in Qatar and the European Union. This is a first for a Gulf carrier.** The national carrier will therefore be able to operate its hub at full capacity to Europe once long-haul traffic picks up again.

Of course, these rights are also granted to European carriers, but they are much less attractive. Given the low volume of service to Qatar, Air France, Lufthansa and others will have no incentive to deploy capacity to Doha.

The agreement does provide for a five-year transitional period for traffic to Belgium, France, Germany, Italy and the Netherlands, which, unlike other European countries, have not yet liberalised their skies through bilateral agreements with Qatar. France currently grants Qatar Airways 42 frequencies, half of which are to Paris. It will gradually increase to 96 by the 2023-2024 IATA winter season, then open its skies completely the following year.

**The agreement goes even further in terms of cargo activity by granting a fifth freedom right**, i.e. the possibility for a Qatari airline to operate flights between the European Union and third countries. Initially, this will only concern the United States, with which Qatar and Europe already have open skies agreements. But in theory, this fifth freedom could be extended to any North or South American country. In return, European air operators will be able to serve most of Asia and Oceania from Qatar, but again the interest is limited.

Brussels has nevertheless put some safeguards in place and **this fifth freedom will never be fully granted**: limited to four weekly frequencies per Member State at the time of signing, it will go up to a maximum of seven during the IATA winter season of 2023-2024

(...)

Why is the European Union preparing to grant so many rights to a country whose national airline is dreaming of undercutting the Old Continent's companies?

According to an expert in the matter, **Brussels is banking on the quid pro quo that will be demanded of Qatar in terms of respect for the rules of competition, transparency and social law. A "fair competition" agreement in short**, with drastic conditions that will aim to rebalance the debates between Qatar Airways and its European competitors. Also in negotiation with Brussels in recent years, the United Arab Emirates had finally given up in 2019 judging a priori the

agreement too restrictive given the potential benefits.

On paper, Qatar will commit itself through this agreement to prohibit and eliminate any form of discrimination, unfair practice, or subsidy "which would be likely to jeopardize the fair and equitable conditions of competition of the air carriers of the other party". The agreement does include exceptions, however, with the possibility for states to provide temporary support to airlines in difficulty, subject to certain restructuring conditions.

To ensure that these conditions are met, each carrier concerned will have to provide a financial report and a financial statement which will be externally audited according to international standards at least once a year. Each State may also request additional reports, to be delivered within 30 days.

(...)

**The other "offensive" part of the European Commission concerns labour law.** While each country is free to establish "its own level of labour protection at national level", it must ensure that these measures are applied. Above all, the agreement commits each state "to do its utmost" to ratify the core conventions of the International Labour Organisation (ILO).

**Behind these laudable statements, the wording so far retained in the draft and the absence of coercive measures seem likely to limit the real impact of these clauses.** Although a member of the ILO since 1972, Qatar has so far signed only five of the eight fundamental conventions. The emirate has still not committed itself to freedom of association and protection of the right to organise and bargain collectively, and to equal pay. This is despite a three-year cooperation programme with the ILO launched in 2017.

This component alone sums up the potential fragility of this agreement: its success depends entirely on the ability of the European Commission to monitor and enforce the conditions set out in the agreement. Given the benefits of the agreement to Qatar Airways, European countries should be particularly vigilant about the level of commitment from Brussels in this regard.

**It will be able to rely on two monitoring bodies for this purpose.**

Firstly, a joint committee, representing the various parties, will be set up to monitor the implementation of and compliance with the agreement.

(...)

**The second body is an arbitration tribunal.** If the joint committee is unable to settle a dispute, the matter may be referred to it by either party. Three arbitrators will be appointed: one by the European Union, one by Qatar and one by mutual agreement (or by the ICAO Council President in case of disagreement), with the function of president of the tribunal. **This body seems to have more coercive powers** with the

possibility of suspending certain benefits for the party deemed responsible for a violation of the agreement.

**But in this case, it is likely that the diplomatic game will take over.**

***My comment:*** *What is the European Commission doing?*

*Last year, the Commission allowed Member States to support their national airlines on the grounds that they are indispensable.*

*In its press release authorising aid to Air France, the Commission said: "With a fleet of more than 300 aircraft, Air France is a very important company for the French economy, both in terms of employment and connectivity, for many regions of France as well as for the overseas departments and regions.*

*Now the European Commission is about to allow a Gulf airline to compete without limits with European airlines, with negligible compensation for European airlines.*

*At a time when the recovery of the business is showing its face, this decision in favour of Qatar Airways is incomprehensible.*

## ***End of the press review***

### **> Advice for employees and former employees who are shareholders**

You will find on my [navigaction](#) site the modalities of access to the sites of the managers.

To avoid forgetting to change your contact details each time you change your postal address, **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 the letters you receive from the various managers, Natixis, Société Générale, and your personal financial institution if you bought your shares through it.

### **> My comments on the Air France-KLM share price trend**

**Air France-KLM shares** closed at **4.089 euros** on Monday 20

September. It has risen sharply this week by 5.39%. It is benefiting from the announcement by the United States of the reopening of its borders to vaccinated travellers.

Before the coronavirus epidemic, Air France-KLM shares were at 9.93 euros.

**The average (consensus) analyst price for AF-KLM shares is 3.24 euros.** The highest price target is 5.5 euros, the lowest 1 euro. You can find the details of the analysts' consensus on my blog. I do not take into account the opinions of analysts prior to the beginning of the health crisis.

**Brent crude oil (North Sea) is up slightly by \$1 to \$74.**

Since a low point at the end of October 2020 (\$37), it has risen steadily until it reached \$69 at the beginning of March 2021. Since then, it has fluctuated between \$69 and \$77.

As air traffic recovers, this high price is bad news for airlines.

**This indicative information does not constitute an invitation to sell or a solicitation to buy Air France-KLM shares.**

You can react to this press review or send me 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 to employee share ownership...**

See you soon.

To find the last press reviews of Monday, it is [here](#)

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New readers will be able to receive it by [giving me](#) the email address of their choice.

**| François Robardet**

**Director of Air France-KLM representing employees and**

**former employees who are PNC and PS shareholders.  
You can find me on my twitter  
account @FrRobardet**

When I was elected, I received the support of the CFDT and the UNPNCChis  
press review deals with subjects related to the Air France-KLM shareholding.

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