

Air France KLM, cash avoids the crash



I Letter from the Director of Air France-KLM

François Robardet

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

N°836, November 29, 2021

If you do not see this page correctly, or if you want to read the English or Dutch versions

If you do not see this page correctly, or if you want to read the English or Dutch versions,

Als u deze pagina niet goed ziet, of als u de Engelse of Nederlandse versie wilt lezen,

[follow this link](#)  [it is here.](#)  [vindt u deze hier](#) 

Editorial

Dear readers,

In my previous letter, I offered you a dozen infographics on sustainable aviation, produced by a team of about ten people. These infographics were published by some of the team members at the end of the first half of 2021 via Twitter, LinkedIn and my letters.

Several of you have sent me your comments, especially regarding our further work.

Our action is mainly aimed at obtaining the establishment of an observatory of sustainable aviation, a body where air specialists and NGOs would meet. Its vocation would be to work on the effects of air transport on global warming as well as on the actions implemented at national, European and international levels to decarbonise the sector.

We are also considering the publication of a small book on the theme of sustainable aviation.

*Thank you for your loyalty.
François*

Monday's Press Review

> Air France KLM, cash avoids a crash

(source Décideurs Magazine) November 25 - **Appointed as CEO of Air France-KLM in 2018, Benjamin Smith** must have suspected that his position would not be free of some turbulence. He probably didn't know just how much. As he takes over from resigned boss Jean-Marc Janaillac against a backdrop of repeated strikes, the Canadian **presents his flight plan for the company in 2019**. On the menu: demining the remaining social conflicts, developing Transavia, the low-cost subsidiary of the group in particular to turn around the accounts on the French domestic market, densifying the aircraft to be more competitive, etc. The challenge was already promising to be a big one, **but this was without counting on the health crisis and its repercussions**

In April 2020, Paris stepped up to the plate to help its flagship company and the aeronautical sector, which is essential to the country's economy. Amount of government aid: 7 billion euros of which 4 billion allowed by a loan guaranteed by the State (PGE), the remaining sum being a shareholder loan. This support should not be confused with a "blank cheque", as Air France must make "an effort to be more profitable (...) and to become the most environmentally friendly airline on the planet", insisted Economy Minister Bruno Le Maire.

6,500 job cuts are planned, hopefully without redundancies

In 2020, Benjamin Smith is launching a new plan to adapt the company. Objective: to reduce by 40% the offer on French domestic flights by the end of 2021 with the closure of certain destinations when there is a rail alternative less than 2.5 hours away and when the service does not feed Roissy-Charles de Gaulle. All this "without social suffering". To achieve this, the manager is proposing a massive plan of voluntary departures and unreplaced retirements. In all: **more than 6,500 job cuts are planned, if possible without dismissal.**

While waiting to reap the benefits of adapting its workforce to an airline market that promises to be permanently affected by the crisis and competition, Air France-KLM is strengthening its financial position, aiming for a 4 billion euro recapitalization. **Last spring, the group carried out several operations to restore its equity, including a fundraising of more than one billion euros. Others are expected to follow**, such as equity issues or quasi-equity instruments. To this end, in May, the group's shareholders were invited to adopt extraordinary resolutions. **The company is now waiting for "the right conditions on the market" to act.** At the same time, the group has obtained a

rescheduling of its EMP and is discussing with the Dutch government and the European Commission to transform its shareholder loan of 1 billion euros to KLM (out of 3.4 billion euros of support from the country) into quasi-equity. The recapitalisation is not yet complete.

But the sky is already clearing for the company. In October, Air France-KLM announced that it was anticipating a positive gross operating surplus (Ebitda) for 2021 after it returned to the green in the third quarter, thanks in particular to the easing of travel restrictions. The quarterly turnover amounted to 4.57 billion euros, up by 81% over one year. This gives us reason to be more optimistic for the future.

***My comment:** The announcement of the new Omicron variant, subsequent to the publication of this article, does not fundamentally change the situation for the Air France-KLM group.*

The continuation of the recapitalization of Air France-KLM, synonymous with the repayment of the Covid debt, is dependent on improved market conditions.

> **A royal pilot for football fans**

(Air Journal source) Nov. 25 - **Dutch monarch Willem-Alexander was at the controls Wednesday of a KLM Royal Dutch Airlines flight** from Amsterdam to Prague, where a European Cup match between Prague Slavia and Feyenoord is being played tonight.

The King was at the controls on 24 November 2021 of the Dutch national airline's flight KL1355 between its base in Amsterdam-Schiphol and Prague-Vaclav Havel Airport, operated by Boeing 737-800 aircraft with room for 20 passengers in Business Class, 6 in Premium and 150 in Economy. A regular flight carrying, among others, fans of the Feyenoord Rotterdam team, who according to aviation24.de accepted with good grace the jokes of the royal pilot - known to be an Ajax Amsterdam fan.

A commercial pilot since 1987, Willem-Alexander has been taking the controls of a KLM aircraft several times a month, having not given up his passion since his accession to the throne in 2013 and wanting to keep his license. He **is qualified** on Fokker 70s, which were deployed by Cityhopper, and **on Boeing 737s; KLM has 'employed' him since 1996.**

(...)

***My comment:** The presence of the Dutch king at the controls of a KLM plane is less anecdotal than it seems.*

It marks the attachment of Dutch citizens to the national airline KLM.

The name of the company itself is evocative: KLM is the acronym of Koninklijke Luchtvaart Maatschappij, or in French "Compagnie royale d'aviation".

> Iberia's chief operating officer is now more pessimistic about the Air Europa deal.

(Reuters source) Nov 25 - Iberia's chief commercial officer said on Thursday the airline was now more pessimistic than optimistic about acquiring rival Air Europa.

"We are now more pessimistic than optimistic about the Air Europa merger," Maria Jesus Lopez, Iberia's chief operating officer, said at an event on the future of aviation in Madrid.

In an attempt to clinch the deal, International Airlines Group, owner of British Airways and Iberia, offered concessions to address EU antitrust concerns over its 500 million euro (\$579.6 million) bid for Spanish carrier Air Europa.

The EU executive, which did not provide details in line with its policy, extended until Jan. 4 its deadline for a decision on the deal.

> TAP Air Portugal: 134 million euro loss in the third quarter despite an increase in passengers

(source AFP) November 25 - **TAP Air Portugal suffered a loss of 134.5 million euros in the third quarter of 2021**, despite encouraging signs of recovery, including an increase in the number of passengers carried, the airline said Thursday evening.

(...)

"We are cautiously confident" about the evolution of TAP's business, said Christine Ourmières-Widener, the airline's French chief executive. The Portuguese carrier, whose financial difficulties have increased with the Covid-19 pandemic, was rescued last year by the state. **The government was forced to renationalise the airline in order to bail out its coffers in exchange for a restructuring plan, which was submitted to Brussels last December and whose conclusions are expected in the next few days.** This plan provides for a reduction in the workforce, a reduction in salaries and a reduction in the fleet.

> In Dubai, Airbus overcomes Boeing

(source Le Figaro) November 26 - **Airbus made a big splash at the Dubai air show**, the first of its kind to be held since the start of the

pandemic. The event even ended on 18 November with a bang for the European aircraft manufacturer, **with a total of 408 orders and purchase commitments, compared with only 80 for its American rival Boeing.**

In three days, the match was decided, consecrating the victory of Airbus, carried in particular by the success of the A321, which totalled no less than 358 orders (including a firm order for 255 aircraft on the first day).

It is true that this aircraft meets the aspirations of airlines, which are keen to equip themselves with mid-range models with increased passenger capacity (objective: reduce the cost per seat) and whose range offers maximum flexibility. This is a market segment in which Boeing is having difficulty asserting its advantages. As for its latest addition, the 777X, it did not convince any buyers in Dubai where it made its first appearance abroad.

(...)

My comment: *Boeing is paying a high price for its problems :*

. with the 737 Max: two accidents resulted in the death of 346 people. Boeing has admitted to having minimized the training needs of pilots for this model of aircraft,

. with the 787: the US FAA halted deliveries of the Boeing 787 in May this year because of problems with the quality control of newly built aircraft

The challenge for Airbus will be to raise its production rates to a level sufficient to satisfy its customers.

> **Government opens door to airport reform**

(source Les Echos) November 28 - The many calls for help from French airports to the State have finally been heard. While all the players in the sector, with their backs against the wall due to the crisis, have been calling for an overhaul of the regulations governing the setting of airport charges for the past two years, the government finally seems willing to study the subject. In a video message broadcast at the end of the annual congress of the French Airports Union on Friday, the **Minister Delegate for Transport, Jean-Baptiste Djebbari, announced the launch of a study on a possible reform of the regulatory framework.**

The aim of this reform, for which no date has yet been given, **would be** to enable airports to make the heavy investments required to support the energy transition in air transport. But also, more broadly, **to rethink the economic model of French airports, based on continuous traffic growth and made totally inoperative by the Covid crisis.**

"Airports have lost 60% of their turnover, while their costs have only fallen by 21%," recalled UAF President Thomas Juin. "To survive, we had to take on debt and reduce our investments by 30%. But the crisis is not over. We will not recover the traffic of 2019 before 2024, at best. And we won't recover our investment capacity for another ten years," he added.

Entrusted to the services of the Civil Aviation, **the study should notably weigh the advantages and disadvantages of a possible generalization of the system known as the "double box" or its watered down version, the "single box arranged".** This is a highly sensitive issue that has divided airlines and airports for years.

The double fund consists of separating the fees collected for purely airport activities, the amount of which is validated by the Transport Regulation Authority (ART), from the additional revenue from shops, real estate or car parks, on which the airport is free to set its margin. "This is the best way to establish the true price of services rendered to airlines and to avoid under-investing or over-investing in relation to their needs," says Franck Goldnadel, the head of Nice airport.

But **the airlines generally prefer the system of a single fund which adds up all the income in relation to the expenses.** This makes it possible to reduce the amount of the fees, by making the shops and car parks bear part of the cost of the services and investments.

Between these two extremes, airports have tried to find a middle ground by including some, but not all, commercial revenues in the subsidy calculation. This is notably the case for the Paris and Nice airports, while those of Lyon, Toulouse and Marseille have remained faithful to the single fund. This does not make the system any easier to understand.

(...)

My comment: *The issue of dual coffers is an old one. In my view, the issue is poorly framed, with most commentators addressing only the revenue side of the airport budget.*

Airports can retain the dual till system, which is the most common system in the world. It is easy for them to differentiate the sources of

revenue, putting commercial revenue on one side and airline revenue on the other.

The real question is how to allocate capital expenditure to one or the other.

For example, who should bear the costs of building the terminals?

The airlines, for whom this equipment is indispensable? Or the businesses, which also need the space?

The question was debated when Aéroports de Paris launched its project to expand Charles de Gaulle by building Terminal 4. The plans for this T4 terminal had been drawn up giving priority to the needs of the shops and neglecting the needs of the airlines.

One of Ben Smith's first decisions after taking office in 2018 was to indicate that, as it stood, Air France would refuse to occupy this T4 terminal, which was to be dedicated to it, leading ADP to review its plans before postponing its project indefinitely.

> Paris-Nice, Lille-Marseille... These journeys are systematically cheaper by plane than by train

(source L'Express) November 26 - **Train or plane?** With less than a month to go before the holidays and ticket prices on the rise, a surprising fact is attracting attention. **On certain destinations, at comparable times, the cost of an SNCF train ticket is equal to that of Air France, or even more expensive, for the same journey.** Compared to those of low-cost airlines, the difference is sometimes spectacular.

Take the example of the Paris-Nice journey, for a passenger without a discount card and aged over 26. If booked three weeks in advance, for a departure on 18 December at 7.20 am, Air France will charge €72 for a one-way ticket. At the same time, the train ticket is 115 euros. On the return journey, on 26 December, this passenger departing from Nice at 6.05am will pay 103 euros with the airline. On the rail, he will pay 115 euros at the crowing of the cock. The bottom line is that by choosing the cheapest route, our traveller will be able to get away with a round trip of 175 euros with Air France, compared with... 230 for the SNCF! This advantage does not take into account the length of the journey: 1h25 flight time on the plane - not counting security checks or time to get to the airport - compared to just under 6 hours for the train. **Clearly, the consumer has no financial interest in taking the land route rather**

than the air, even though the public authorities wish to encourage more ecological transport. And yet, according to figures from UFC-Que Choisir, the airline industry emits 70 times more greenhouse gases than the TGV.

(...)

A bug in the matrix? Not really. **Paris-Nice is not an exception.** By examining ten or so journeys, we compared the prices of the SNCF, Air France and low-cost companies over the next two months. Our typical traveller is always the same: an adult between 26 and 59, without a loyalty card or discounts, who books three weeks in advance. While the cost of the train remains advantageous on many occasions, the air traveller is a winner on a number of routes, such as Paris-Montpellier, Lille-Marseille or Paris-Biarritz.

(...)

These less expensive Air France routes often have one thing in common: the presence of a low-cost airline on the same route. The British EasyJet and the Irish Ryanair between Lille and Marseille, the Spanish Volotea between Nantes and Toulouse, or Vueling between Brest and Paris.

(...)

In this price war, the SNCF is at a disadvantage: the cost and maintenance of its infrastructure. "As well as the cost of tolls, which are fairly high fees that the railway company has to pay," notes Frédéric Marty, an economics researcher at the CNRS. This leads to higher operating costs. "We strongly support the railways, whose infrastructure costs are inherently much higher than those of aircraft: **the State is injecting 75 billion euros into the rail network over ten years,**" says the Ministry of Transport, which claims to be taking care to put in place all the measures "to prevent certain companies from adopting predatory attitudes in terms of price or social dumping.

In what way? We are making sure that the air transport industry assumes the environmental costs of its activity," they explain. **The airlines must therefore return carbon quotas: from 2022 onwards, they will have to carry out mandatory domestic compensation." A compensation that Air France already pays for... without this giving an advantage to the train.** No specific taxation of kerosene is moreover envisaged for the moment: it is a question of not penalizing the consumer who draws, him, advantage of this situation.

My comment: *What can we learn from this observation?*

When we have a choice between two similar products (here a train or plane journey between two large cities), the one that emits less CO2 is often

the most expensive.

Are we ready to choose the more expensive one to preserve the planet?

Are we ready, individually and collectively, to reduce our consumption to preserve the planet?

Are we, the inhabitants of the richest countries, ready to make an extra effort to allow the inhabitants of the poorest countries to enjoy a standard of living similar to ours without polluting more?

Stock market press review

> Global markets fall on new Covid-19 variant

(source AFP) November 26 - From stocks to oil, **world markets plunged Friday, panicked by the discovery of a new variant of Covid-19 in South Africa.**

The European indices suffered their worst sessions in over a year: Paris fell 4.75%, London 3.64%, Frankfurt 4.15% and Madrid 4.96%.

(...)

The downturn also affected the Asian stock markets and oil prices, which are heavily dependent on expectations of economic activity, which lost more than 10%.

(...)

Initially called B.1.1.529 and named Omicron by the World Health Organization (WHO) on Friday, this variant has the potential to spread very quickly, according to scientists, who do not know at this stage whether the vaccines currently available are effective against it.

"At the moment, **the most worrying thing about this new variant is how little we know about it**, with early indications that it may be more problematic than the Delta variant," said Craig Erlam, an analyst at Oanda.

(...)

The stocks of airline companies, already tested by the pandemic, drank the cup with the first travel restrictions.

In Europe, IAG, parent company of British Airways, lost 14.85% and Lufthansa 12.84%. Airbus slumped 11.49% and aircraft engine maker Rolls-Royce fell 11.62%. Hotel group InterContinental fell 9.16 percent.

On Wall Street, American Airlines fell by 8.79% and Delta Airlines by 8.34%.

(...)

In London, the barrel of Brent North Sea for the same month fell by 11.55% to 72.72 dollars.

(...)

End of the press review

> Payment of the 2019 Air France profit-sharing scheme. Advice for employees and former employees who are shareholders

The employees of Air France will receive these days the profit-sharing 2019. This profit-sharing should have been paid at the end of 2020. An agreement between the unions and Air France management has enabled Air France to temporarily relieve its cash flow by postponing the payment by one year.

The employees concerned have received a letter from Natixis giving them until 14 December 2021 to indicate their preference:

==> INVEST I save and benefit from a tax exemption*

==> INVEST AND RECEIVE I invest a part and receive the other

==> RECEIVE The amount is included in my taxable income

To avoid forgetting to change your address every 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, your personal financial institution if you bought your shares through it.

You will find on my [website](#) how to access the managers' websites.

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

Air France-KLM shares closed at **3.784 euros** on Monday 29 November. **It is down sharply this week by -5.59%. The announcement to stop flights to southern Africa following the discovery of a new variant (Omicron) explains this decline.**

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

euros.

The average (consensus) analyst price for AF-KLM shares is 3.29 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 down sharply this week from \$9 to \$73.

At the end of October 2020, it was at a low of \$37.

At \$86 on October 25, Brent reached a level not seen since 2014, supported by supply disruptions and underlying demand. Natural gas prices continue to rise to their highest level in at least seven years. Investors seem to feel that hydrocarbon producers have cut back too much during the pandemic so that demand pressure is unbalancing the market.

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](#)

If you like this press review, please pass it on.

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.

If you no longer wish to receive this letter/press review, [unsubscribe](#).

If you prefer to receive the press review at another address, please let me know.

To contact me: [message for Francois Robardet](#). 10975 people receive this press review live