

Air France-KLM drops Boeing



Letter from the Director of Air France-KLM

François Robardet

Representative of the employees and former employees shareholders PS and PNC

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Editorial

Dear readers,

This penultimate letter of the year 2021 gives me the opportunity to wish you a happy holiday season.

My thoughts are with the employees of the Air France-KLM group who will be at work to ensure that our customers travel safely.

I wish you all a pleasant reading.

François

Monday's Press Review

> Air France-KLM drops Boeing: medium-haul fleet to be 100% Airbus

(source La Tribune) December 16 - The A320 NEO is finally making its debut in the **Air France-KLM** group. And in a big way. The French group **has just named Airbus the winner of its entire tender to renew the medium-haul fleet of three of its airlines: KLM, Transavia Holland and Transavia France**, three operators who until now have been almost exclusively Boeing 737s. **The order is for 100 A320 NEO and A321 NEO aircraft, with 60 additional aircraft as options.** While

a mix appeared to be a possible option, Boeing and its 737 MAX have come up empty.

(...)

While Air France is a loyal customer of Airbus and the A320 CEO family (current engine option, the original version of the aircraft), **this is a real revolution on the Dutch side**. KLM is very attached to Boeing (...). The airline has only ventured into Airbus on long-haul routes and currently operates a fleet of 49 Boeing 737-700/800/900s. This is also the case for Transavia Holland, with 39 737-800s.

Transavia France has a larger fleet than its Dutch counterpart, with 50 aircraft at present and 61 planned by spring 2022, but its attachment to Boeing is less: the group's strategy of having two types of aircraft for Air France and Transavia (in order to have a watertight seal between the two airlines), has been shattered since Ben Smith took over. Smith has negotiated several agreements with Air France pilots, assuring them that they would not lose anything by developing a low-cost offer. Transavia's pilots almost all come from Air France and therefore have dual qualifications, Airbus and Boeing. Switching to an Airbus fleet for Transavia France will therefore not pose a problem.

(...)

However, the switch from an all-Boeing fleet to an all-Airbus fleet is not trivial, and examples of this magnitude are rare, as was the case with easyJet in the early 2000s.

(...)

The breakdown between the airlines has not been disclosed. In all likelihood, the two Dutch airlines will replace their fleets in equal proportions, i.e. about 50 aircraft for **KLM** and 40 for **Transavia Holland**. The limited number of slots at Amsterdam Airport Schiphol does not allow them to consider a significant increase in the number of aircraft. However, they **will be able to increase the size of the modules by integrating A321s instead of 737s**, which could mean a gain of several dozen seats per flight. KLM's 737s range from 142 to 188 seats and Transavia's up to 189, depending on the model, while the A321s offer 180 to 220 seats depending on the configuration. This leaves about 70 aircraft for Transavia France, representing a 15% growth potential for the low-cost airline. While the figure does not seem huge, it should be remembered that it was operating only 40 aircraft at the beginning of the year. Still, it could go a bit beyond that, as the fleet plan calls for a doubling of the number of aircraft in 2025 compared to 2020.

"This is a major step forward for KLM, Transavia and Air France, which will operate the best aircraft available to meet their needs. **The outstanding performance of the Airbus A320neo Family and the A350 Cargo, which are quieter, more fuel-efficient and have lower**

costs per seat, make them the best choice for the long-term growth of our fleet. They will play a key role in achieving our ambitious goals, including reaching zero net CO2 emissions by 2050," said Benjamin Smith, CEO of Air France-KLM Group.

(...)

Deliveries are expected from mid-2023. The timing is tight given the already full order book for the A320 NEO Family. The exact schedule is not specified at this time. A delay would not be bad news for Airbus either, which is now looking to spread its order book over time in order to sustain its ramp-up strategy.

The icing on the cake for Airbus is that Air France has also joined the party with a letter of intent (LoI) for four firm A350Fs and four additional aircraft as options. If this order materializes, it would be the largest received so far by the future cargo aircraft, which is scheduled to enter service in late 2025.

This is a radical change of strategy for the French airline, which had largely reduced its fleet dedicated to cargo for several years - to the point of having only two 777Fs left at present - to the benefit of cargo transport. Air France had been studying the possibility of converting old 777s into cargo aircraft, but the order for new aircraft comes as a surprise.

(...)

My comment: Changing aircraft types in a fleet is rare. Until now, EasyJet has been the exception. In the early 2000s, it opted for Airbus to replace its Boeing aircraft.

This year, the British low-cost airline Jet2 com decided to switch from Boeing to Airbus, ordering 36 A321neo aircraft.

That was before two "shock" announcements last week. First Qantas announced it was replacing the B737s in its medium-haul fleet as well as those of its low-cost subsidiary Jetstar with A220s, A320s and A321s.

A few hours later, the Air France-KLM group announced that it had selected Airbus to equip the medium-haul fleets of KLM, Transavia Netherlands and Transavia France.

The decision in favor of Airbus was based on several factors: the better environmental performance (noise and fuel consumption) of the A320neo and A321neo, and the availability of the A321neo.

While several hundred A321neo aircraft are in operation, its competitor, the B737-10 (the largest model in the B737 MAX family), is still in the certification process.

The choice of engine for the aircraft ordered by the Air France-KLM group has not yet been made. Two manufacturers are in the running, Pratt & Whitney with the PW1100G-JM, and the CFM International consortium (composed equally of Safran Aircraft Engines and General Electric) with the LEAP-1A.



> Pieter Elbers: 'Berlijn met de trein kost 7 uur, Milaan 13 uur, met het vliegtuig één uur' (to go to Berlin by train 7

hours, Milan 13 hours, by plane one hour)

(source Algemeen Dagblad) December 17 - While the photographer is setting up his equipment, Pieter Elbers checks his e-mails. (...) Elbers likes to use his time efficiently.

And so do his business clients, so they get on the plane. **Politicians are looking for ways to discourage short European flights.** The European Commission, for example, announced this week that by 2030, trains will have to beat planes on distances of up to 500 kilometers by deploying fast trains. **Rutte [the prime minister] also adopts the policy of discouraging short flights and announces, among other things, a higher flight tax.**

Elbers is neither cold nor hot about this. **Nothing is as flexible as the airplane, he says, and no train can compete with that. What Europe wants requires a huge investment in infrastructure. You will only get it back if there are enough passengers.** There are a number of routes where this is possible. Rome-Milan, in the same country. It also works in France. That's a good thing. But it's a different story if the trip crosses national borders with different track gauges, technologies and regulations. You may ask whether this is where the greatest environmental gains can be made.

The quickest and easiest way to save CO2 is to create one European airspace instead of the 20 we have now," says Elbers. His planes have to zigzag to Athens, for example, because each country has a different flight path. **If we had one European airspace, we would save 10 percent of CO2 at once.** (...) He sighs. We have been talking about this for 20 years, when in fact there is no infrastructural limit. Air traffic controllers need to be under one management.

"I'm not against the train, but it has to be an adequate alternative. I take the train when I go to Brussels. Paris? I go by plane. London? By plane. I took the Eurostar to London once. It took a long time. Four and a half hours. The business traveler, who wants to go to London in the morning and return in the evening, does not have this time, he can only do it by plane to London City.

And the "slow" train journey to London is done by high speed train. To Berlin it is 7 hours by train, Milan 13 hours, one hour by plane. And let's assume that there is a high-speed rail line from Amsterdam to Milan and that the economic center moves or the number of train passengers decreases. What then? We can easily change the destinations and frequency. We only need two airports and they already exist. This flexibility is also reflected in the ticket price.

Of course, **something has to be done about the CO2 emissions of airplanes.** Everyone agrees on that. Elbers is one of them, and if not,

he'll hear it from his kids at the dinner table, but just stopping flying is not the solution in his opinion. The question is why you do it. As KLM, I'm not going to fly less and sit in the corner waiting for things to get better. **KLM is happy to be part of the global search for a solution to make aviation more sustainable.**

(...)

New, more economical aircraft and sustainable fuel must bring about CO2 reduction in the years to come. The fuel-guzzling 747s have been sent to the scrap heap.

The share of sustainable biofuels must increase. Today we use less than 1%. In ten years, it will have to be more than ten percent. There is now a demand for sustainable fuel, so producers know there is a market. KLM and many other airlines are now saying that by 2050 we will be climate neutral. **We are following the Paris Agreement. Do we already know exactly how we are going to get there? No, but we do know what we can do over the next ten years.** New aircraft, sustainable fuel, a single airspace - all of this can be achieved in ten years and can already lead to a 30% reduction in CO2 emissions. No one knows what innovations are still to come; who could have imagined, 15 years ago, what we can do today with our phones? Companies like Airbus are investing billions in the development of hydrogen-powered aircraft, for example.

(...)

I don't see any shame in flying with our customers. What I see is the need to fly as consciously as possible. Traveling is in people's DNA. We have a need for mobility. **We are curious to discover other countries and cultures.** (...) We postponed this because of Covid-19, but it is over. You saw it when America reopened on November 8 after 600 days. The very next day we had 98 percent occupancy on our flights. Now, at Christmas, we have 30% more flights to the Caribbean, the Canary Islands. People want to travel.

(...)

2021 was a difficult year. With the arrival of the vaccines, we thought we were out of the woods. It was supposed to be the year of recovery, but all KLM colleagues had to show incredible resilience. It's very hard on our staff. Crews flying to Singapore have to stay in the hotel room for 24 hours after the flight. They are not allowed to leave. And it's been like this for almost two years."

Nevertheless, the sun began to shine again for the airline early in the second half of this year. The third quarter was profitable again after a year and a half of losses, and the last quarter is not looking bad (...).

Flights are starting (...) to fill up again. The business traveler sees that not everything is possible with online meetings. Next year, we will

cautiously hire new cabin crews, if the recovery continues.

My comment: KLM is very committed to the use of sustainable fuels and to research in general.

In 2019, KLM launched a project for the first European plant producing sustainable aviation fuel with SkyNRG (global leader in sustainable aviation fuels) and SHV Energy (global leader in LPG distribution) who will purchase the bioLPG produced. KLM had committed to purchase 75,000 tons of sustainable aviation fuel per year.

KLM is also collaborating with Delft University of Technology on a new aircraft concept called "Flying-V", a V-shaped aircraft, a model of which was presented on the occasion of the Dutch airline's 100th anniversary.



> Delta Airlines invests in its partners Virgin Atlantic, Aeromexico and LATAM

(Stock Market source) Dec. 13 - **Delta Airlines will invest in its partners Virgin Atlantic, Aeromexico and LATAM as the airlines transform their businesses to emerge from the global pandemic stronger and more resilient.** "These strategic investments in our partners will transform our ability to enhance the travel experience for our customers, enabling us to deliver a seamless travel experience while providing our customers with an unmatched network between North America and key markets around the world," said Ed Bastian, Delta CEO.

To support its global future, Delta will invest in Virgin Atlantic, Aeromexico and LATAM. Upon completion of their respective restructuring or recapitalization processes, Delta is targeting a 20% stake in Aeromexico and 10% in LATAM. In addition, Delta will retain its 49% stake in Virgin Atlantic.

The American company's stake in these carriers will be about \$1.2 billion in total. However, Delta does not intend to put new money

into its partners Air France KLM, Korean Air and China Eastern.

My comment: *Our shareholder Delta Air Lines has chosen to invest in its most troubled partners.*

The fact that Air France-KLM is not one of them can be considered as good news.

> IAG and Air Europa give themselves one month to find a new agreement to merge

(source AFP) December 16 - **The airline group IAG and the company Air Europa announced on Thursday to give themselves a month to find a new form of rapprochement**, after having put an end to the merger project they had been defending for two years.

"IAG has entered into an agreement of intent with Globalia to evaluate, before the end of January 2022, other structures that may be of interest to both companies," IAG, parent company of Iberia and British Airways, said in a statement.

The airline group does not specify what form this new merger could take. According to the Spanish daily El Pais, it could be a participation of IAG in the capital of Air Europa below 50%.

The two companies had announced Wednesday to have engaged in "negotiations" to "terminate the agreement" of acquisition dating from November 2019, the conditions no longer being "favorable" to this project.

(...)

Due to the termination of this agreement, IAG has planned to pay 75 million euros to Air Europa, says the statement. **These sums will be taken into account "to reduce the possible purchase price" in case a new agreement is found**, it is explained.

(...)

My comment: *The merger project seemed to be in jeopardy since the European Commission opened an in-depth investigation into the operation.*

The European Commission blames the Air Europa - Iberia merger for reducing competition in the Spanish market, which could lead to higher prices for passengers.

> Corsair launches its Nantes - Fort-de-France and Lyon -

Pointe-à-Pitre routes

(source Aeroweb) December 17 - **Corsair has launched its direct route between Nantes and Fort-de-France in Martinique.** Since December 16, the French airline has strengthened its service to the Caribbean by launching this new route.

This route will be operated by Airbus A330, from December 16, 2021 to April 21, 2022 with **two flights per week.**

(...)

(source Aeroweb) December 18 - **Corsair launched its new direct route between Lyon and Pointe-à-Pitre** on December 17. The French airline will serve Guadeloupe **once a week** with direct flights from Lyon Airport.

The airline will schedule these flights once a week from December 17, 2021 to April 29, 2022. This announcement further strengthens Corsair's presence at Lyon Airport. Indeed, the airline already offers flights Lyon / Reunion / Mayotte since June 21 and Lyon / Mauritius since October 23.

My comment: *The health crisis has grounded many aircraft.*

To avoid that these planes remain without flying for a long time, the airlines (here Corsair) use them to test the profitability of new routes.

> Air transport: Hong Kong's drastic health rules "kill" Cathay Pacific

(source AFP) December 18 - **The CEO of Qatar Airways** (Cathay's 3rd largest shareholder) **has railed against a border control rule that temporarily bans airlines that have brought in infected passengers.**

Hong Kong's strict adherence to the "zero covid" strategy is crippling the city's aviation industry and "killing" Cathay Pacific,

(...)

Qatar Airways is Cathay's third largest shareholder, with a 9.6% stake purchased for HK\$5.16 billion (\$661 million) in 2017.

Following Beijing's lead, Hong Kong has maintained some of the strictest quarantine measures and travel restrictions in the world, allowing the city to remain coronavirus-free but isolated internationally.

(...)

Earlier this month, AFP reported that Cathay has been hit by a wave of pilot resignations, with employees citing exhaustion and growing resentment.

Some Cathay flights operate on a "closed-loop" system that requires

pilots to spend weeks shuttling back and forth between the plane's bubbles and the hotel's to avoid triggering the quarantine on their return.
(...)

> **Is the suppression of French domestic flights legal? Brussels investigates**

(source La Tribune) December 17 - **The famous abolition of domestic routes when there is an alternative high-speed train in less than 2.5 hours** (excluding connecting flights) has not yet come into force and **is already threatened to never see the light of day**. This Friday, the European Commission announced the opening of an investigation against this part of the Climate Law voted last August.

The European Commission "has decided to make an in-depth analysis of the case, and will open a formal dialogue with the French authorities," a spokesman, Stefan De Keersmaecker, told AFP. This is a procedural step that does not prejudge the final decision on whether or not to ban the measure, he said.

(...)

This decision comes at a time when the measure has been the subject of a complaint in Brussels from an association of French airlines, the Scara (union of autonomous airlines), which does not include Air France, but also the Union of French airports and the association of European airports (ACI Europe).

They all denounce discrimination and distortion of competition in relation to other modes of transport, in particular rail, and contest the French government's decision to abolish the service unilaterally and without any study. This is, according to them, "contrary to European principles". Such a ban is normally permitted under Article 20 of the European regulation EC No. 1008-2008, "when there are serious environmental problems".

Article 20 of the European regulation on which the law is based provides for "an exception to the principle of free movement and free competition in the event of serious environmental damage,"

Thomas Juin, the president of UAF, explained to La Tribune. **"However, no impact study has demonstrated serious damage to the environment**. And if that were the case, then the Bordeaux bypass would also have to be closed! Moreover, there has been no study on the impact of alternative behaviors: train, car, private aviation? We don't know anything about it", he continued.

(...)

My comment: Legal, not legal the ban on certain domestic flights?

The real question is the profitability of the routes concerned. While the ban will take effect in March 2022, most of the routes have been abandoned by the airlines that operated them.

No competitor has tried to take over the vacated routes. Yet the airlines have unused aircraft.

> Emirates receives its last A380, the last of the Super Jumbos



(source Le Journal de l'Aviation) December 16 - **The latest new A380 has been delivered. MSN 272 was handed over to Emirates on December 16**, with its final registration A6-EVS. **This is the airline's 123rd A380. It is also the last A380 produced by Airbus.**

While any celebrations have been cancelled due to the health crisis, Emirates wants to send a message of optimism with this delivery, demonstrating its belief that a recovery in the airline industry is in sight. The **Dubai-based company has supported the program for 21 years. It signed the very first A3XX commitment contract in 2000 at the Farnborough Airshow, a deal that was critical to its launch. It was also the company that increased its purchases in the years that followed, becoming the A380's largest customer**, with nearly half of the order book. However, **it was also the company that signed the program's death warrant by not acquiring the last part of its order.** This 123rd A380 is fitted out in a four-class configuration, with all the features that make Emirates' aircraft special: first-class suites, spa showers, a bar in business class and the brand-new Premium Economy installed at the front of the main deck. Now available on six aircraft, it will be deployed on more than 50 A380s from 2022 as part of a retrofit program.

(...)

My comment: *With the end of the A380 production, two questions arise.*

1. Why is the A380 a failure?

First of all, an observation: the A380 is a superb aircraft that makes passengers dream.

But it suffers from many handicaps.

It is very (too) heavy. While a B777-300ER can carry 85T for 168T of empty weight, an A380 can carry 102T for 270T of empty weight.

In other words, the A380 weighs 100 tons more than a B777 and carries only 17 tons more! Moreover, it has four engines against two for its competitor. This means more fuel consumption and maintenance costs.

Designed to be used by airlines to relieve congestion at their hubs, its weight and size have closed the doors of many airports, unable to afford the modifications needed to accommodate this double-deck aircraft.

Finally, the arrival of the new generation of twin-engine aircraft (the A350 and the B787), which are much more efficient, has put an end to the last four-engine model produced.

2. Why does Emirates operate so many A380s?

The first answer that comes to mind is that the Gulf carrier connects saturated airports. This is sometimes true.

But there is another equally important reason. The three major Gulf carriers (Emirates, Etihad and Qatar Airways) have their hubs within a 200km radius.

The projected medium-term growth in air traffic in this region is such that experts predict airspace saturation before the three airports of Dubai, Abu Dhabi and Doha are full.

It is this situation that has led Emirates to operate exclusively B777s and A380s, in equal numbers.

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 managers' sites.

To avoid forgetting to change your contact information 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 organizations.

Keep all the documents related to your Air France-KLM shares in one place: all the letters you receive from the different managers, Natixis, Société Générale, 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 **3.769 euros** on Monday 20 December. **It is down this week by -1.18%**. The outbreak of the Covid-19 epidemic is probably the reason for this drop.

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

The average (consensus) analysts' 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.

The barrel of Brent (North Sea)

oil is down sharply this week from -\$5 to \$70. According to AFP, "crude prices were falling in early European trading on Monday, weighed down by concerns about demand for black gold as the Omicron variant and health restrictions progress.

In late October 2020, it was at a low of \$37.

At \$86 on October 25, Brent had reached a level not seen since 2014, supported by supply disruptions and underlying demand. The

announcement of the arrival of the Omicron variant led to a fall of nearly \$10.

This information is not intended to be a solicitation to buy or sell 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 the employees and former employees shareholders of 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 UNPNC. This press review deals with subjects related to the Air France-KLM shareholding.

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