

Lufthansa and AF-KLM join forces



| Letter from the Director of Air France-KLM

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Representative of the employees and former employees shareholders PS and PNC

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Monday's Press Review

> Lufthansa and Air France-KLM join forces against EU climate plans for aviation

(source Zegreenweb) January 28 - **An alliance of airlines and airports called on January 24 for changes to the European Union's planned climate change legislation**, arguing that it will make them less competitive with their non-European rivals.

Targeting aviation, a sector deemed responsible for 3% of global emissions, the European Union presented plans last July for stricter rules on CO2 emissions and the use of synthetic fuel blends, as well as the introduction of a kerosene tax.

The alliance, whose nearly 20 members include all subsidiaries of Lufthansa, Air France-KLM and major airports such as Frankfurt and Amsterdam Schiphol, argues that **on long-haul flights via non-European countries, hubs would not be subject to the same associated costs**, which could lead to a potential shift of business to those carriers.

The alliance categorically rejects a kerosene tax and proposes that the environmental surcharge be based on the entire flight itinerary, not just on connecting flights bringing passengers from the EU to international hubs such as Istanbul or Dubai.

In principle, **however, the alliance supports the EU's "Target 55" climate package**, which aims to reduce greenhouse gas emissions by

55% by 2030 compared to 1990 levels.

My comment: *The position taken by some European air transport players may come as a surprise: they are calling for an extension of environmental taxes.*

However, this is the best way to involve all airlines operating in Europe in the fight against climate change, including non-European airlines.

> Cabinet imposes new cuts on KLM

(source Trouw, translated with Deepl) January 27 - **KLM is still far from the mark. Because of climate change, the "social vision of aviation" has changed**, says the government official who oversees the implementation and compliance of the restructuring plan on behalf of the Cabinet. For that reason alone, **the airline** must change. To begin with, it **must make additional cuts, as the government official's** report showed late last week. And **Finance Minister Sigrid Kaag "approves of that,"** she told the Lower House on Wednesday.

The government kept KLM afloat during the Covid-19 crisis with 1.8 billion euros in NOW wage subsidies and 3.4 billion in loans and loan guarantees. Of the latter amount, the airline actually drew nearly 1 billion. But, Kaag

said during the discussion, KLM's situation is still so precarious that it is wise to keep the loan envelope available for some time.

In fact, if state agent Jeroen Kremers, the supervisor KLM had to put up with in exchange for state support, gets involved, the airline will have to make cuts again. Thanks to "decisive action" from the start of the crisis, Kremers writes, **KLM has more than met the cabinet's requirement to cut expenses. But more needs to be done: additional cuts are expected to yield 400 million euros per year from 2024.**

Mr. Kremers does not hide the fact that KLM's management has expressed reluctance. **KLM** itself will not say anything about this, but it is clear from all previous statements by the management that they **want to return to the previous situation as soon as possible**. For example, it is counting on a return of business travelers - even though many companies say they do not want to bring the number of business trips back to pre-Covid-19 levels.

KLM does not expect a further 4% reduction in revenue. But according to Mr. Kremers and Ms. Kaag, it is necessary to remain competitive in the long run. "Is it reasonable to think that these business travelers will come back?" contradicted Ms. Kaag in the House of Representatives about KLM's optimism. "I have question marks about that."

One of the bottlenecks KLM sees developing is staff shortages. Kremers assumes that the wage cuts decided in 2020 should not be overridden by new collective labor agreements. However, according to KLM, this may not attract specialists in the field of, for example, IT and finance. The most fundamental - but also least concrete - wishes are those of Mr. Kremers concerning the business model of KLM. In his view, the new "social vision" of aviation requires a company that can react more flexibly to unforeseen circumstances.

Very cautiously, Mr. Kremers also questions the "hub model", which both Schiphol and KLM use, with passengers using Schiphol in particular for their transfers. They are picked up at other airports and continue their journey via Schiphol to other destinations - often by KLM. In this way, KLM has built up a network of destinations that would not be profitable with Dutch passengers alone. Kremers reiterates the position that Dutch aviation policy has taken for years: the network is good for the business climate. Maintaining the "quality of the network" was even a condition of government support. But critics say the hub model creates far more flights than necessary, and Kremers also warns that network quality does not mean "as many destinations as possible.

The Dutch parliament has already requested an analysis of the destinations that are really needed. This analysis was put on hold when the previous cabinet collapsed, but it must be carried out, says Kremers. Preferably with the help of external experts.

KLM finds the mere idea of a smaller network abhorrent. But Ms. Kaag called the government official's remarks "very justified." She also spoke of the prospect of greater clarity for KLM regarding the government's "expectations." When asked, it turned out that she meant "requirements" with that last word.

***My comment:** For a week now, the exchanges between the KLM unions and the Dutch government have been tense.*

Last week I reported that the Dutch government had imposed various conditions on the support measures for KLM. One of these conditions is that KLM must implement a restructuring plan, the aim of which is to improve its competitive position by reducing controllable costs by at least 15 percent.

The measures taken by KLM at the beginning of the crisis were in line with this objective. They were the subject of fixed-term agreements with the unions. These agreements are now gradually coming to an end. It seems that the Dutch government is asking for the effects of these agreements to be renewed or renegotiated.

In addition, as expected, the new green finance minister, Ms Kaag, is reducing KLM's development targets. In the context of the fight against climate change, this is a valid point of view. However, passengers who no longer travel on KLM should not travel at all. Otherwise, the demands made by the Minister of Finance would be ineffective.

> **The State grants a new EUR 10 million extension to Air Austral**

(source AFP) January 28 - **The State has granted a new 10 million euro extension to the ailing airline Air Austral in the form of a loan**, a government source said Friday.

An order published in the Official Journal Friday morning specifies that the State "will pay 30 million euros under the program of the economic and social development fund (FDES), through Natixis, in the form of a loan to the company Air Austral SA.

Contacted by AFP, the **office of the Minister Delegate for Transport**, Jean-Baptiste Djebbari, **said that this loan was "an update of the amount of the loan already granted in August" 2021, which was 20 million euros.**

This extension comes just ten days after the state, with the approval of the European Commission, **released a separate "rescue aid" of 20 million euros**, again in the form of a loan.

With the additional 10 million euros on Friday, the total amount of direct and guaranteed loans by the State to Air Austral to cope with the air transport crisis caused by the pandemic reaches 130 million euros, according to a count by AFP. Air Austral did not communicate immediately on Friday.

(...)

My comment: *Is this new aid a sign that the Reunionese company is in worse shape than previously announced?*

> **MSC puts 1.2 billion euros to acquire ITA: the background of a good deal**

(source: The Daily) January 31 - There has been a major **change in the Italian sky!** ITA, the brand new Italian national airline that was born only a few months ago from the ashes of Alitalia, was looking for another major European airline to support its development. The Italian government, which owns 100% of ITA, was waiting for precise offers from the two airlines that had shown interest, namely Air France and

Lufthansa. ITA could have become a subsidiary of one of these two airline groups. **But the family-owned shipping group MSC has come out of the woodwork without anyone really seeing it coming, with an offer that represents many economic and political advantages for the Italian state.**

For Gianluigi Aponte, the CEO of the MSC Group, investing in ITA makes sense and can only be beneficial for both parties. **His proposal of between 1.2 and 1.4 billion euros to obtain a majority of the capital is not a short-term operation,** it is a definitive productive investment in his eyes, but under conditions that are totally non-negotiable.

MSC must obtain more than 50% of ITA's capital, a sine qua non condition! For the rest, **Gianluigi Aponte wants the Italian state to remain a shareholder in the company, along with a possible other minority shareholder, which could be the German company Lufthansa,** with whom MSC is currently negotiating to establish the rules of a commercial agreement.

Gianluigi Aponte also told the Italian press that it was out of the question that MSC would consider giving up its shares to Lufthansa in the long term. **MSC intends to manage and develop ITA through the board of directors and will be the real leader.**

(...)

Politically, ITA would keep its "Italianness" as Alfredo Altavilla, the current CEO of ITA, has stated, because even if MSC is in fact a Swiss company, MSC is an Italian family group with no other shareholders and an impressive economic and financial base.

And MSC is not subject to the pressure of an outside shareholder base looking for immediate profits. Thus ITA would remain an independent "Italian" airline and not become a subsidiary of a foreign company.

Something the Italian people should greatly appreciate.

Economically, it is a privatization that avoids financial risks for the Italian Treasury. **The MSC Group is based on 3 pillars, cargo, MSC Cargo has become the 1st container company in the world by overtaking the Danish Maersk in 2021, cruising, MSC Cruises is number 3 in the world behind Carnival and Royal Caribbean, and management of port facilities with more than 60 terminals worldwide.**

In addition, MSC has just acquired all the assets of the Bolloré Group in Africa, "Bolloré Africa Logistics". The MSC group, which employs nearly 100,000 people, has an estimated turnover of 30 billion euros in 2021.

For Gianluigi Aponte, the investment seems obvious because the synergies between ITA and MSC are perfect for both passenger and cargo transport.

ITA's flights would facilitate the movement of passengers on

MSC's cruise ships from all over Europe to ports of call, whether in Italy, Miami, Dubai or any other port of call.

In turn, this would provide a more than substantial number of passengers on ITA flights.

In his estimate of ITA's value, Gianluigi Aponte also included the potential of ITA's slots at Rome-Fiumicino, Milan-Linate and Milan-Malpensa airports for passenger and cargo flights.

(...)

Unlike the MSC Group, for which the Covid-19 pandemic had no real serious economic consequences thanks to maritime transport,

Lufthansa, like many of its competitors, had to rely on state aid, which should not give it the freedom to make a majority offer for ITA.

On the other hand, entering into a commercial agreement with a minority stake in ITA's capital is an option that makes sense.

Because ITA is a healthy company, with no debt and no excess staff. And the prospect of economic and financial stability that MSC brings, should facilitate the negotiations.

For its part, Lufthansa would bring to ITA the possibility of a common purchasing center for fuel, spare parts and maintenance, and would allow it to make significant savings. This would give ITA better negotiating possibilities on the conditions of future acquisition of additional aircraft.

But first, ITA could join the joint Lufthansa-Air Canada-United Airlines transatlantic network as an independent airline, not as a subsidiary of Lufthansa.

***My comment:** The plan proposed by MSC is attractive ... from the point of view of the Italians.*

It would ensure that ITA would remain under Italian control. But how to imagine a serene future for an airline that would become a subsidiary of a shipping company?

> Air India sold after 69 years in the hands of the Indian state

(source AFP) January 27 - **Air India on Thursday returned to the hands of its historic founders, decades after it was nationalized by the Indian state and ended up weighing heavily on the country's public finances** due to severe financial difficulties.

Tata, a sprawling family-owned conglomerate whose businesses range from tea to software to steel production to car manufacturing, is back at the **helm of Air India after striking a deal in October for 180**

billion rupees (**\$2.4 billion**).

The deal marks the end of a long search for a buyer by the Indian government, which has spent nearly \$15 billion to support the airline since 2009.

As of August 31, the airline had accumulated a total debt of \$8.2 billion. Under the agreement signed in October, Tata has agreed to take over about a quarter of this debt, or \$2 billion, while the rest is to be transferred to a dedicated legal entity.

For **Tata**, the purchase of what is today India's largest international airline is part of an ambitious program.

The conglomerate, which **owns 51% of Indian airline Vistara** - Singapore Airlines holds the remaining 49% - **as well as an 84% stake in AirAsia India**, will now try to bring them together.

Air India has a fleet of about 120 aircraft, as well as 4,400 landing and parking slots at domestic airports and 1,800 slots at foreign airports. The airline handles 50% of all international flights from India.

(...)

***My comment:** The task is proving difficult for the Tata group. For decades, hardly any Indian airline has managed to break even on a sustainable basis.*

Yet India has a huge domestic market, similar in size to China's domestic market.

> Ethiopian Airlines shows interest in the A350F but not in the A220

(Source: Journal de l'Aviation) January 28 - **Ethiopian Airlines will continue its fleet development plan with a greater focus on the cargo segment.** The airline plans to order about five more Boeing 777Fs and may also introduce "some" Airbus A350Fs. CEO Tewolde GebreMariam revealed this in an interview with Bloomberg on January 22.

By banking on the A350F, Ethiopian Airlines would become one of the first customers of the new freighter - other declared customers include Air Lease, Air France, CMA CGM and Singapore Airlines. Launched last year by Airbus, the A350F will be able to carry up to 106 tons of cargo (three tons more than the 777F) and will offer a volume equivalent to the 747F, with a full-load range announced at more than 9,500 km.

For the head of Ethiopian Airlines, **the long-term objective is to significantly increase the role of cargo in its activities even after the return to normal passenger flights.** Before 2020, the cargo segment constituted 15% of the carrier's turnover. Since the drop in

passenger demand and the boom in cargo demand, the activity represents 50% of its revenue and is its "bread and butter, allowing it to remain profitable and cash flowing". In the long term, this figure should stabilize at 30% once the industry returns to normal, he believes.

Tewolde GebreMariam is continuing its efforts to consolidate its Addis Ababa hub as a logistics hub for the growing e-commerce market in Africa. "We are building a new e-commerce warehouse in the cargo terminal. **E-commerce is growing especially between China and Africa and we want to maintain our leadership.**" Ethiopian Airlines' dedicated cargo fleet includes three B737-800(SF) and nine B777-200F aircraft. The airline also deploys at least six A350-900s and one Q400 as an auxiliary freighter (passenger aircraft temporarily converted to freighter).

Referring to the development of the passenger fleet, **Tewolde GebreMariam made it clear that the plan to acquire A220s is no longer part of the company's strategy.** The idea had been raised by the company in 2020, as part of the diversification of its fleet. (...) **The carrier's regional fleet currently includes some 20 Q400s in service.**

***My comment:** The links between Ethiopia and China are close. For many years, China has taken advantage of Ethiopia's privileged situation to flood Europe and the United States with its textile products at lower cost (for more details see [my letter n°748](#)).*

Now it is the African continent that China is targeting.

> **Qatar Airways in open conflict with Airbus places huge order with Boeing for 777X freighters and 737 MAX**

(source La Tribune) January 31 - **In a dispute with Airbus over the A350, Qatar Airways has placed a giant order with Boeing for 50 B777X freighters, including 16 options.** The contract is worth more than \$20 billion at list price, allowing the aircraft manufacturer to launch the program. **The Gulf company is the first carrier to buy this wide-body aircraft in a freighter version.** A breath of fresh air for the American aircraft manufacturer, which guarantees two years of production, according to its CEO, Dave Calhoun.

It must be said that the B777 has been plagued by setbacks since its launch with great fanfare in 2013. While the first aircraft were initially scheduled to enter service in 2020, they are not expected to arrive until the end of 2023. **By launching a cargo version of the 777X, Boeing is trying to take advantage of the current surge in air freight, driven by the rise of online commerce and congestion in shipping.**

The company, which formalized this agreement during a visit by the Emir of Qatar to the White House, also signed a letter of intent for 25

737-10 aircraft and indicated that it was ready to order a total of up to 50 737 MAXs. This is a way to compensate for the cancellation by Airbus of an order for 50 A321 NEOs due to a dispute between the aircraft manufacturer and the company over the A350.

(...)

> **Boeing remains in the red, weighed down by the 787's setbacks**

(source Les Echos) January 26 - **For the third year in a row, Boeing has again lost a lot of money in 2021. The American group revealed this Wednesday a net loss of 4.29 billion dollars, for a turnover of 62.286 billion.** This is much less than in 2020, which resulted in a historic loss of 11.9 billion dollars, but it is more than the 636 million losses in 2019 and it is especially more than expected for this year. **And that's because of a big bad surprise: a new one-time charge of \$3.5 billion to cover the cost of malfunctions and the halt in 787 deliveries.**

At the end of 2020, the discovery of defects on the fuselages of some 787s forced Boeing to halt deliveries of "Dreamliners"... which have still not been able to resume. In addition to the fuselage defects, other defects were discovered in the meantime, along with an investigation by the U.S. Civil Aviation Authority, which forced Boeing to extend the suspension of deliveries indefinitely.

The result: a bill of 3.5 billion dollars (...). **And it's not the last one, since Boeing already estimates that the 787 will cost \$2 billion more by 2023, and it is not yet able to tell its customers when they can be delivered.**

In total, the 787 crisis should cost Boeing 5.5 billion dollars, while the aircraft manufacturer has just come out of the 737 Max crisis.

(...)

In addition to the difficulties of the civil aviation branch, there are also some persistent problems in the defense and space division, which made a loss in the fourth quarter even though it remained profitable overall for the year (\$1.5 billion in operating income for \$26.5 billion in sales). The KC-46 tanker program required a new provision of 402 million dollars. On the other hand, the profits of its new "services" branch almost quadrupled last year, to 2 billion dollars on 16 billion in sales.

Faced with these uncertainties, the group concludes its press release without making any financial forecasts for 2022, except for the objective of generating more cash than in 2021. Nevertheless, barring unforeseen circumstances, Boeing should be able to return to profit in 2022. On the

other hand, the return to the level of turnover and profitability of 1998, when Boeing was at its zenith with 10.5 billion in net profits for 101.1 billion in turnover, is not on the horizon.

My comment: Boeing is still struggling. As long as the American manufacturer does not propose a new single-aisle model, it will have difficulty competing effectively with Airbus.

> 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 **3.975 euros** on Monday 31 January. **It is up +2.50%**.

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



Evolution of the Air France-KLM share price over five years. The sharp

drop corresponds to the beginning of the Covid-19 epidemic.

The analysts' average (consensus) for AF-KLM shares is 3.43 euros. The highest price target is 5.50 euros, the lowest 1.30 euros. You can find the details of the analyst 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 sharply this week from \$6 to \$91.

At the end of 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. It exceeded this record level last week, with the crisis in Kazakhstan explaining the rise.



Evolution of the oil price over five years. The sharp drop corresponds to the beginning of the Covid-19 epidemic.

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](#)

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| 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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