

What the war in Ukraine is costing Air France



I 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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Ukrainian cargo plane Antonov-225

Monday's Press Review

> What the war in Ukraine is costing Air France

(source TourMag) March 3 - After the strikes of 2019 and then the health crisis since 2020, **the war between Russia and Ukraine is a new blow for French airlines**, Air France in the lead. And this, on several aspects.

Firstly, there is the loss of revenue on routes suspended purely and simply by the conflict: from Paris, Lyon and Nantes to Kiev, from Paris to St. Petersburg, from

Paris, Lyon, Biarritz, Nice, Marseille and Toulouse to Moscow.

Not to mention the connecting flights to the rest of Ukraine and Russia, which are sometimes very lucrative because they are fueled by business traffic. Let's remember that 35 of the 40 largest French companies have subsidiaries in Russia, and that they are the country's largest foreign employer, with nearly 160,000 employees.

(...)

In response to France's decision on Sunday, February 27, to close its airspace to Russian aircraft, **Moscow has also banned European aircraft from flying over its territory**. This decision has serious consequences for Air France, which must find solutions for its flights to China, Japan and South Korea.

(...)

At the beginning of the week, flights to North-East Asia flew over Azerbaijan and Kazakhstan before landing in the Chinese, Korean and Japanese capitals, with delays of up to 50 minutes on the normal schedule, according to the French airline.

(...)

The last impact directly affecting Air France's portfolio: the price of oil. While the war in Ukraine raises doubts about energy supplies, the price of oil passed the \$110 a barrel mark on March 2, a level not reached since 2014.

If airlines negotiate their fuel purchases in advance, this price increase is bound to have an impact on their fuel budgets in the future.

To put a figure on all these consequences, **the Air France management refuses to give exact figures for the moment** and says it is "monitoring the situation in real time".

(...)

***My comment:** Flights to Russia and Ukraine represent a small share of airline revenues.*

The extension of distances for flights between Europe and Asia concerns few flights, as activity on this network is still far from its 2019 level.

As for the increase in the price of jet fuel, it should be offset for a few weeks by the hedges previously taken out by these airlines.

At this stage, the impact of the war in Ukraine is relatively small for airlines. In any case, it will be out of all proportion to the price paid by Ukrainians.

> **KLM and the VNV union reach an agreement in principle on a new collective agreement for pilots**

(source Luchtvaartnieuws, translated with DeepL) March 3 - **KLM and the pilots' union VNV have reached an agreement in principle** on a new collective labor

agreement for the pilots of KLM and its subsidiary KLM Cityhopper. The new collective labor agreement will be in effect until February 28, 2023. **Previously agreed wage increases will not be paid, but an inflation correction has been agreed.**

KLM (...) is satisfied with the result achieved, especially in view of the complicated and uncertain context created by the corona crisis, rising inflation and the war in Ukraine.

(...)

No agreement had yet been reached with the pilots on the contribution to be made by all KLM staff in terms of employment conditions by 2022, as required by the government as part of the loans granted to the airline.

It was agreed that the agreed and deferred salary increases from the CAO 2019 agreement (an additional 2.5% on August 1, 2020 and an additional 2.5% on August 1, 2021) **would again not be paid during the term of this CAO.** The same applies to the year-end bonus for 2022.

According to KLM, the price evolution has been taken into account at the same time. Therefore, pilots can count on a 1.5 percent salary increase on August 1, 2022 and January 1, 2023.

"With this agreement in principle, the pilots are once again making their contribution to the turnaround of KLM," the VNV said in a statement. "The agreement is a continuation of the existing agreements and has been updated on operational and macro-economic developments."

The collective labor agreement package still needs to be submitted to the VNV's member council. After approval, the new collective labor agreement will become final.

***My comment:** the collective agreements signed by KLM with eight unions at the end of 2020 defined the austerity measures that apply until the beginning of 2022 for pilots and until the end of 2022 for ground and cabin crew.*

As the Dutch government had requested, after the 2020 negotiations, that the efforts made by all KLM employees should cover the entire duration of the loans, a commitment clause had been inserted in the agreements between KLM and the unions.

The agreement mentioned in the article extends the efforts accepted in 2020 by the KLM pilots, while mitigating them.

> **2021 results: Lufthansa cuts losses by more than half**

(source Air & Cosmos) March 3 - On March 3, the Lufthansa Group published its financial results **for the year 2021**. For the past year, **Lufthansa has more than halved its operating loss to €2.3 billion**, compared to an operating loss of €5.5

billion in 2020. **The Lufthansa group's net result still shows a loss of nearly 2.2 billion euros**, but divided by three compared to the 2020 net loss (7.3 billion euros). **The group has achieved a revenue of 16.8 billion euros in 2021**, an increase of 24% compared to 2020.

In terms of capacity, the Lufthansa group was at 40% of the pre-crisis level of 2019. It expects to rise to 70% of the 2019 level this year, with a peak of 85% of 2019 capacity for the 2022 summer period.

Given the new uncertainties generated by the conflict in Ukraine, the group prefers not to make financial forecasts for the year 2022. It still expects a significant improvement in its operating result for the rest of 2022, after a first quarter that was still marked by the effects of the health crisis, with the occurrence of the Omicron variant.

(...)

Concerning discussions with ITA Airways, Carsten Spohr confirmed that he was in discussions with MSC and that he had met with the Aponte family. **Lufthansa is now waiting to have access to ITA's financials before making a decision.** "A minority stake could be a way to secure a cooperation or to pave the way for a full takeover," said Carsten Spohr.

My comment: *The table below compares the results of the three main European airline groups.*

I have selected three of the main indicators to assess performance in times of crisis.

Compared to IAG (British Airways, Iberia, Aer Lingus and Vueling) and the Lufthansa group, the Air France-KLM group is doing very well :

- . Air France-KLM's revenue loss is the smallest of the three groups,*
- . its operating result is much better than that of its competitors.*

Air France-KLM's net income is at a similar level to that of IAG. It should be remembered that it was strongly negatively impacted by the change in the pension scheme for KLM ground staff. This change, desired by the company, had previously been implemented for KLM pilots and cabin crew.

The significant efforts made by the employees of the Franco-Dutch group have borne fruit.

		Air France-KLM	IAG Group	Lufthansa Group
Sales figures	2021	14.3 billion	8.5 billion	16.8 billion

	2019	27.2 billion	25.5 billion	36.4 billion
		-47,4%	-66,9%	-53,8%
Operating result	2021	-1.6 billion	-3.0 billion	-2.3 billion
	2019	1.1 billion	3.3 billion	1.8 billion
		-2.7 billion	-6.3 billion	-4.1 billion
Net income	2021	-3.3 billion	-3.0 billion	-2.2 billion
	2019	0.3 billion	1.7 billion	1.2 billion
		-3.6 billion	-4.8 billion	-3.4 billion

> After the Brexit, France and Germany want to break up IAG according to O'Leary (Ryanair)

(source L'Écho touristique) March 7 - According to Mickael O'Leary, Germany and France plan to take advantage of post-Brexit rules to force British Airways to become an independent airline.

(...)Indeed,

according to the British newspaper Telegraph, after a pause of more than a year, Brussels officials are now considering how the so-called ownership and control rules will be applied post-Brexit. **Before the Brexit, airlines operating within the EU had to prove they were "owned and controlled" by member states.**

But the rules were suspended after the U.K. left the European bloc, with both sides agreeing to begin talks on a new post-Brexit regime. Now, **Brexit means that UK shareholders are no longer included in the EU ownership count. With a quarter of British Airways' parent company, IAG, owned by Qatar, that means the British airline could break the rules when they come back into effect.**

However, the rules are complicated and open to interpretation. **IAG insists it is already compliant by virtue of its Madrid-based board structure.** Brussels officials wrote to airlines before Christmas last year, asking how they would comply with the rules.

O'Leary said the reimposition of the rules, originally scheduled for no later than this month but likely delayed by Russia's invasion of Ukraine, would provide Air France and Lufthansa with an opportunity to weaken IAG's position. The group also owns the airlines Iberia, Aer Lingus and Vueling.

(...)

My comment: European legislation on air transport stipulates that, in order to obtain a license to operate flights between two destinations in the European Union, a company must be more than 50% owned "and effectively controlled" by nationals of Member States "directly or indirectly".

Since January 1, 2021, British nationals no longer fall into this category.

In a temporary response to this change, IAG placed all of its voting rights in Iberia in the hands of the Spanish retail chain El Corte Inglés, traditionally close to Iberia. This allowed the Iberian carrier to keep its license to operate in the European Union while the rules were eventually relaxed.

France and Germany's approach is simply to enforce the rules, not to break up IAG, as the article's deliberately catchy title indicates.

It is now IAG's responsibility to demonstrate that the various airlines of the group (British Airways, Iberia, Aer Lingus and Vueling) are in order.

The task for IAG will not be easy as its main shareholder is the government of Qatar, which holds 25% of the capital.

> **Etihad cuts losses from 2019 and 2020**

(Source: Journal de l'Aviation) March 1 - While the Covid-19 pandemic has disrupted Etihad's operations, the Abu Dhabi-based company is managing to continue its operational turnaround. It reported revenue up 18% to \$3.14 billion in 2021 and pushed its EBITDA back into the black.

Etihad remains in a loss, with a negative net income of \$476 million, but has reduced it significantly from 2020 - when it was \$1.7 billion - and even from 2019 - \$802 million in losses.

The average load factor remains very low at 39.6%, but has been steadily improving throughout the year and particularly in the fourth quarter, after the lifting of restrictions imposed in Abu Dhabi, reaching 70% in December.

Cargo activity broke its records, with a 27% increase in tonnage transported and a 49% increase in revenues.

However, the fleet has been significantly reduced from 103 aircraft in 2020

(largely grounded then) **to 67 aircraft in 2021**. However, a major development is in the works: the entry into service of A350s. The first one is expected to be operational in the second quarter.

My comment: For years, between 2011 and 2016, Etihad Airways opted for an external growth strategy. It took shares in many airlines (Air Seychelles, Aer Lingus, Virgin Australia, Jet Airways, JAT Airways, Alitalia, ...).

This strategy was a failure, Etihad Airways has then chained deficit years.

Etihad Airways, with its 67 aircraft, is now by far the smallest of the three so-called "Gulf" airlines, with Emirates and Qatar Airways each having more than 200 aircraft.

> **The crisis with Russia turns into a Berezina for aircraft rental**

companies

(source Les Echos) March 3 - **The aeronautics industry has been ordered to stop selling aircraft or spare parts to Russia**, but **this blockade applies more broadly to all services in the sector, starting with aircraft leasing**. Specialized firms have therefore been de facto forbidden to sign new leasing contracts. Above all, they must terminate current contracts as soon as possible and recover their aircraft by March 28 at the latest. A real challenge on this scale and with this tight schedule.

All the airlines registered in Russia, including Aeroflot, Rossiya, S7 Airlines, Ural Airlines, Azur Air, etc., **operate a total fleet of 980 aircraft**. According to the specialized firm Cirium, **777 are currently leased** to operators. Of this total, 515 aircraft are leased to foreign firms, with a catalog value of some 10 billion dollars, according to Reuters.

The global giant of the sector, the Irish AerCap (...) estimates its exposure to the Russian and Ukrainian market at **152 aircraft at the end of 2021**. That is, in value, 5% of its fleet of more than 2,000 aircraft leased to some 300 customers.

(...)

The sudden decision of the West already poses many practical problems of application. **How cooperative will the Russian authorities be when faced with leasers or their lawyers who want to recover their aircraft by force?** And even in favorable cases, how can foreign pilots be sent for repatriation flights, given the closure of airspace, which is larger than Russia alone? Moreover, many of the aircraft in question are currently scattered outside Russia, far from the headquarters of their operators, notably at various European airports, where they have remained parked due to the blockade.

(...)

More serious in the medium term for professionals, **this sudden and massive cancellation of contracts for more than 500 aircraft should have an impact on the value of average rents for Airbus or Boeing aircraft that will be replaced elsewhere in the world**, and on the value of many models on the second-hand market.

In a matter of hours, the world's two major aircraft manufacturers have cut ties with their Russian customers. Boeing is suspending major operations in Moscow, its training campus, and temporarily preventing its employees and partners in Russia from accessing sensitive technical data because of the lack of U.S. export licenses. **The Chicago-based aircraft manufacturer said it has suspended the supply of spare parts, maintenance and technical services to Russian customers.**

Its European rival **Airbus said it is taking similar action**, citing a growing list of international sanctions following Russia's invasion of Ukraine. "Airbus has suspended support services to Russian airlines, as well as the supply of spare parts to the country," the aircraft maker said in a statement Wednesday.

My comment: Aircraft leasing companies are facing their third crisis in three years:

suspension of Boeing 737 MAX flights, Covid-19 and now interruption of leasing contracts with Russian airlines.

This situation is causing a drop in leasing costs, which airlines could benefit from when business resumes.

In addition, Sabre and Amadeus have decided to remove Aeroflot from their reservation systems, forcing Aeroflot to suspend its international traffic from March 8.

> SCARA: 30% increase in airport security costs in one year

(source Air Journal) March 6 - The Syndicat des Compagnies Aériennes Autonomes (SCARA) denounces a 30% increase in the refundable advance on airport tax (TAP) decided by the State, and this "without any prior consultation with the profession".

The deficit of the airport security budget, which was previously estimated at 550 million euros, **has just increased to 700 million euros**, a 30% increase, explains SCARA. These 700 million euros were advanced by the State to the airports to cover their loss of revenue on the TAP due to the drop of more than 70% of air traffic during the health crisis. **The State therefore requires the repayment by the airlines of these 700 million euros, plus financial interest and management fees, over seven years from 2024.**

"The State is always puncturing the airlines exsanguinated at the end of the crisis," denounces the SCARA in a statement. **"It is therefore to make airlines, already heavily affected by the crisis, pay for a security / safety service that has not been rendered, on flights not made during the period of health crisis 2020-2022,"** adds the union that includes 50% of French airlines. In

addition, to simplify administration, **the French Civil Aviation Authority (DGAC) has combined all the various taxes with different statuses into a new tax called the Taxe sur le transport aérien de passagers (TTAP)** - the Taxe d'Aéroport (TAP), which is changing its name to T2S and which covers airport security/safety charges the Taxe de l'Aviation Civile (TAC), which finances part of the DGAC's expenses; and the Taxe de Solidarité sur les billets d'avion (Taxe Chirac), which finances the international organization UNITAID responsible for centralizing the purchase of drug treatments for developing countries and, since 2020, the French railway infrastructure.

But for SCARA, "it is a question of making the allocation of these taxes opaque and of making them safe in order to increase them in the future without any control being exercised by the contributing airlines".

My comment: *The regrouping of the three taxes (TAP, TAC, Taxe Chirac) into one (TTAP) is an opportunity to make a reminder.*

Of these three taxes, only the Taxe de l'Aviation Civile (TAC) is directly related to the

activity of airlines.

The Airport Tax (TAP) covers the cost of airport security, a governmental activity. France is one of the few countries to pass on the cost to airlines.

Finally, the Solidarity Tax on airline tickets (Taxe Chirac), initially intended to finance the international organization UNITAID, has seen its regime modified in 2019.

From now on, the proceeds of this tax will be allocated to two beneficiary organizations:

. the historical beneficiary: the Solidarity Fund for Development (FSD), up to an initial ceiling of €210 million

. a second beneficiary since January 1, 2020: for a second ceiling of €230 million above €210 million, the Agence de financement des infrastructures de transport de France (AFITF), a public administrative establishment of the State in charge of contributing to the financing of rail, road, port or river infrastructure projects and to the development of public transport projects in France.

This tax is payable by all public air transport companies, regardless of their nationality or legal status.

However, Air France is the main airline to contribute to this tax.

Stock market press review

> Air France KLM: a new blow

(source Boursier) March 7 - **Soaring oil prices are not helping the airline sector, which has already been hit by the health crisis. Air France KLM is the perfect example**, with its share price recording its biggest drop (-10% to 3.1 euros) in over two years in the morning in Paris. Elsewhere in Europe, easyJet stumbled by 8.8%, Ryanair plunged by 8%, Lufthansa lost 5.8% and IAG fell by 7.5%.

Although carriers generally cover part of their fuel bill to protect themselves against such events (Ryanair is the most covered), this "insurance" will not prevent a clear increase in their operating costs, as 100% of consumption is not protected. In addition, the three major 'traditional' European carriers must also face the closure of Russian airspace to serve Asia from the Old Continent. Not to mention the routes to Russia and Ukraine, which are now closed.

My comment: *The war in Ukraine impacts all airlines. At the end of the day, the Air France-KLM share was down "only" -6.07%, at 3.295 euros.*

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

The Air France-KLM share price was 3.295 euros at the close on Monday 7 March. **It is down -16.60%**.

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 3.46 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

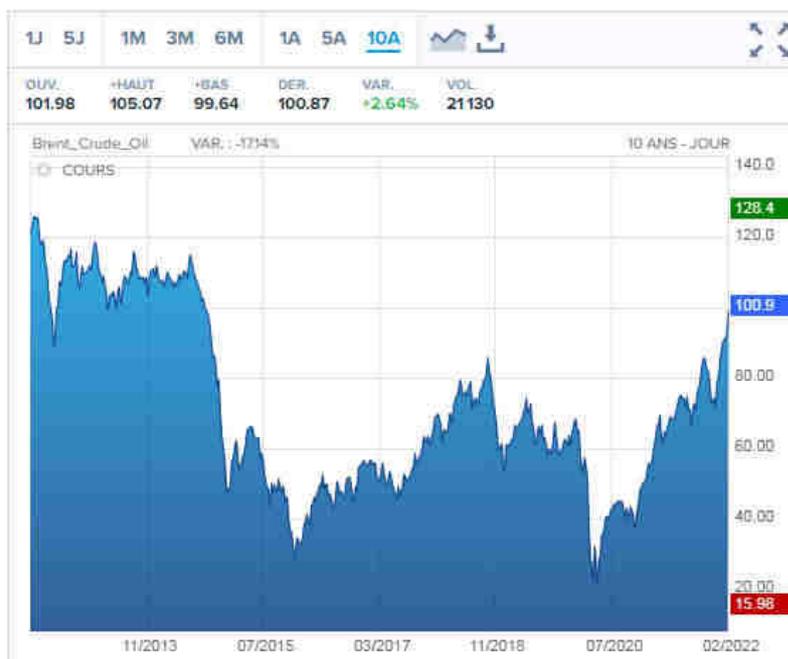
account the opinions of analysts prior to the beginning of the health crisis.

The price of Brent crude oil (North Sea) rose sharply this week from \$22 to \$123.

The crisis in Ukraine is the reason for the rise in the price of oil, which also affects copper and gold.

Brent crude has already exceeded its 2014 level of \$110.

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



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

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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| 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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