

Air France-KLM, Delta and Virgin want closer ties with ITA Airways



I Letter from the Director of Air France-KLM

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Representative of the employees and former employees shareholders PS and PNC

N°851, March 14, 2022

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Ukrainian cargo plane Antonov-225

Monday's Press Review

> Air France-KLM, Delta and Virgin want closer ties with ITA Airways

(Reuters source) March 10 - **Air France-KLM, Delta Air Lines and Virgin Atlantic are determined to forge closer ties with the new Italian carrier ITA Airways** (formerly Alitalia), a spokesman for the Franco-Dutch company said on Thursday.

(...)

On Thursday, the Italian daily **La Repubblica** reported that **Delta Air Lines and Air France-KLM had expressed interest to the Italian government in taking a majority stake in ITA Airways.**

The Italian government has also received expressions of interest from an international fund that already has stakes in low-cost airlines, the daily said.

(...)

Sources at Reuters also reported in **late January that German airline Lufthansa was in talks to acquire a 40% stake in ITA Airways.**

Italy's new national airline officially replaced Alitalia last October, ending the 75-year history of the carrier that had long been a symbol of Italian style and glamour before it suffered major financial setbacks.

My comment: *As always when it comes to Alitalia (now ITA Airways) one should be patient and cautious.*

As soon as ITA Airways was created last fall, the Skyteam member airlines (Delta Air Lines, Air France-KLM and Virgin Atlantic) entered into codeshare agreements with the successor of Alitalia.

Then, Lufthansa positioned itself to take over the Italian company with a partner. The German company then demanded exclusive access to ITA Airways' data ("data room") before making an offer.

This exclusivity was refused. Moreover, this "data room" has not yet been set up and the advisors who will have to study the applications have still not been appointed.

Unlike Lufthansa, Air France-KLM's hands are tied by the conditions imposed by the European Commission in return for public aid received to overcome the Covid-19 crisis, preventing it from taking a stake of more than 10% in a company in the sector.

Note: a "data room" contains all the information made available by a company seller to allow buyers to come and consult it in order to make a purchase offer

> Schiphol became more important in the Air France-KLM network during the Covid-19 crisis

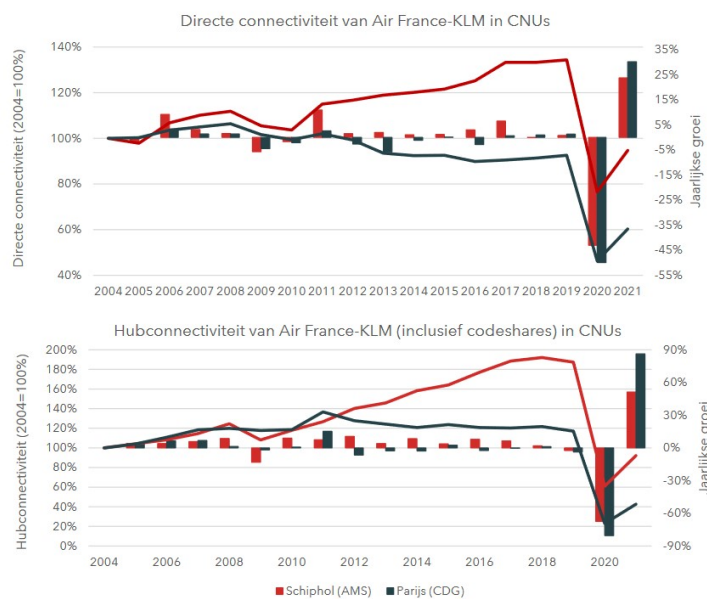
(source Luchtvaartnieuws) March 8 - **For years, the Air France-KLM network has been growing faster at Schiphol than at Paris CDG.** During the Covid-19 crisis, this development continued. As a result,

Schiphol's share of Air France-KLM's total connectivity has increased further. This was stated on Monday by Minister of Infrastructure Harbers in the Dutch House of Representatives, based on SEO Economic Research's annual report on network quality and government guarantees.

This audit follows the compliance with the state guarantees that were agreed upon when KLM merged with Air France. The report compares the Air France-KLM network from Schiphol with that from Paris CDG. It takes into account, for example, the number of direct connections (direct connectivity) and the possible connections with a transfer via the airport in question (hub connectivity).

"After a sharp decline in 2020, the Air France-KLM networks at Schiphol and Paris CDG are recovering. Both airports have seen similar development in 2021. In the longer term, the Air France KLM network is developing better at Schiphol than at Paris CDG. **Even during the Covid-19 crisis, Schiphol's share of Air France-KLM's total connectivity has increased,**" said Minister Harbers in his parliamentary letter.

(...)



Bron: Analyse SEO op basis van Official Airline Guide (OAG)

Schiphol (in red) - Paris (in black) connectivity since 2004

Schiphol is thus playing an increasingly important role in the Air France-KLM network, but only with regard to passenger flights. **Cargo transport shows a different trend:** "It is only in the cargo sector that Air France-KLM has developed better at Paris Charles de Gaulle than at Schiphol in recent years, **partly due to the gradual withdrawal of a number of Martinair cargo aircraft and a reduction in KLM's cargo capacity**", according to Minister Harbers.

My comment: *It has been several months (since the end of 2020) since the Dutch government officially recognized that the merger between Air France and KLM has benefited KLM more than Air France.*

This observation is shared by specialists in corporate mergers: "Managerial research shows that mergers and acquisitions are very interesting for the target companies, the acquired companies", says Valérie Moatti (professor at ESCP Business School).

The question of the separation between Air France and KLM is no longer on the agenda.

> **Air France has sold part of its Hop fleet**

(source Capital) March 9 - **Air France is** lightening its fleet. The airline **has sold 14 Bombardier CRJ1000s from its regional subsidiary Hop to the leasing company Jetcraft Aviation**, reports Air Journal. The aircraft are expected to be delivered between March and December 2022.

(...)

The Bombardier CRJ1000s were equipped with a single class of 100 seats.

With this sale, Air France has disposed of its last Bombardier CRJ1000s. **Hop's fleet now consisting of 15 Embraer E170s and 19 Embraer E190 two-class aircraft.** In 2018, the airline had already announced the retirement of its fleet of ATR 42-500s. The last Turboprops were officially retired at the end of June 2019.

(...)

My comment: *HOP! is the result of the merger of Airlinair (equipped with ATR), BritAir (equipped with Bombardier) and Regional (equipped with Embraer).*

The departure of the CRJ1000s is one of the last steps in the restructuring of HOP! whose role is now to supply the hubs at Roissy and Lyon.

The last stage could be the most difficult for the employees. If the number of voluntary departures desired by management is not reached, HOP! management would consider laying off employees. Unless the post-Covid takeover offers new development opportunities for the Air France Group's regional airline.

HOP!'s Embraer E170 and E190 are equipped with 76 and 100 seats respectively.

> **Bamboo Airways and AFI KLM E&M want to extend their collaboration**

(source: Journal de l'Aviation) March 11 - **AFI KLM E&M and Bamboo Airways have signed a memorandum of understanding that paves the way for further collaboration**

The maintenance company has already signed several agreements with the Vietnamese airline for the maintenance of its Boeing 787, Airbus A320 and Embraer aircraft.

They now plan to expand their agreements to include engine maintenance for the 787 GENx and A320 family - it operates V2500-powered A319s and A320neos, and CFM International-powered A321neos, A320neos, and A321neos

Bamboo Airways may also use AFI KLM E&M's services in Amsterdam for major 787 maintenance visits as well as for line maintenance at its stations.

Bamboo Airways will also have access to EPCOR's APU maintenance capabilities for its E-Jets (APS2300) and Dreamliners (APS5000).

> **Lufthansa: a new medium-haul subsidiary for 2023**

(source Air Journal) March 11 - The CEO of the **Lufthansa group has confirmed that the German airline will create a second CityLine subsidiary**, which will have the mission of supplying its Frankfurt and Munich hubs - **and employing some 250 pilots who have been out of work since the closure of Germanwings**

Carsten Spohr emphasized following the presentation of the annual financial results that Lufthansa will launch this new subsidiary in 2023, which should have around 40 Airbus aircraft. The new AOC (Air Operator Certificate) will aim to "protect the jobs of 250 pilots who lost them with the closure of Germanwings", based at Cologne-Bonn airport and disappeared two years ago when Lufthansa had launched its restructuring (its 4U code had been replaced by the EW of Eurowings). The subsidiary will also have the task of lowering the group's unit costs, especially at the two main airports

These pilots will be needed as of this summer with the expected recovery of medium-haul traffic, the CEO stressed; and letting them

go and rehiring them next year within the new subsidiary "would be very costly under German law. They will have the same contracts as those in force at Lufthansa Cityline. Lufthansa could benefit from the new subsidiary to increase the size of its fleet, the limit of which is currently being renegotiated with the pilots' unions (it operates 50 Airbus, Bombardier and Embraer single-aisle aircraft)

For Casten Spohr, the pilots' union Vereinigung Cockpit (VC) "cannot stop this project, because we can open AOCs (air operator certificates) as much as we want. These pilots could also have joined other AOCs, Lufthansa or CityLine, but the union did not want that because it did not want these pilots to bypass the seniority of the existing pilots.

(...)

Recall that in December 2020, the group assured that there would be "no dry layoffs" as part of its agreement with some 5,000 pilots operating in the subsidiaries Lufthansa, Germanwings, Austrian Airlines, Brussels Airlines and SWISS - an agreement extended only until April 2021; the short-time working of these pilots had been extended until the end of last year. But the Germanwings pilots were not "covered" by the exemption from compulsory redundancies "like their colleagues.

My comment: In all airlines around the world, the seniority list of pilots is crucial. Called the Professional Ranking List (PRL), it defines the career steps of the company's pilots (e.g. from first officer to captain), and therefore their remuneration.

Taking over the Germanwings pilots with their seniority would mean that some of them would be ahead of Lufthansa or CityLine pilots in the seniority list. The most senior Germanwings captains would even have been able to go straight to long-haul captain, thus taking the place of Lufthansa pilots and depriving them of salary increases.

HOP! and Air France were faced with the same problem as Lufthansa in 2021. It is customary at Air France for new pilots to be placed at the end of the career ranking list. This is the case for HOP! pilots who want to join Air France.

> **Boeing: a concern for the certification of the 737 MAX 10?**

(source Air Journal) March 10 - After the certification of the MAX 8 and then the MAX 9, the recertification of the MAX 8 involved in two accidents that killed 346 people at Lion Air and then Ethiopian Airlines,

and the certification of the MAX 8-200, the U.S. aircraft manufacturer still has to get the regulator to accept two last models: the MAX 7 would be on the right track, but the MAX 10 has another problem.

As the Seattle Times reports, citing multiple sources at the FAA, **Boeing would like to certify the 737 MAX 10 without the latest safety standards on cockpit crew alert design**; EICAS (engine indication and crew alert system) tells pilots what's wrong with the airplane and how to fix it, and is already in all other Boeings. **But the 737's cockpit doesn't lend itself well to its installation, and the aircraft manufacturer would like to set it aside in order to start delivering MAX 10s by the end of the year**

It's a timing issue for Boeing: the Aircraft Safety and Certification Reform Act of late 2020, which among other things allowed the FAA to regain control of a certification process partly delegated to manufacturers, **requires any aircraft certified after Dec. 31, 2022, to comply with the latest crew alert regulations, including the famous EICAS**. If the MAX 10 is not certified before this date, Boeing could be forced to redesign the aircraft's cockpit, further delaying its entry into service (initially expected in July 2020). This redesign had already been declared "unfeasible" by the manufacturer. And a pilot training program different from the other versions of the MAX would become mandatory

The Seattle Times explains that Boeing's lobbyists are expected to go into action soon in Congress, in order to obtain an amendment pushing back the deadline. The aircraft manufacturer said in a statement, "We continue to work transparently with the FAA to provide the information they need, and we are committed to meeting their expectations for 737-10 certification."

(...)

My comment: *The information reported by the Seattle Times, if accurate, is chilling.*

> **French airports still in crisis**

(source Journal de l'Aviation) March 10 - **The situation of French airports is still very mixed**. The UAF (Union of French Airports) reported that its members had welcomed 90.7 million passengers in 2021, a nice improvement of nearly 30% compared to 2020 but still down 57.7% compared to 2019. Figures still considered catastrophic for the profession.

(...)

The regional platforms (hosting more than one million passengers) and overseas territories are those that have recorded the least bad results (...). The situation in the smaller regional airports is quite disparate, Figari having benefited from the dynamism of the Corsican destination while the airports dependent on winter sports and British travelers have suffered.

For the moment, the UAF aligns itself with the traffic forecasts of ACI Europe and the DGAC for 2022, which estimate that it could flirt with 70% of its level in 2019. (...) It stresses (...) that **there is a danger for the most isolated regions, concerned by the public service delegations. The criteria for serving these routes may now appear too restrictive in view of the low traffic levels and the restructuring of Air France's regional network, and need to be reviewed to attract operators.**

(...)

In addition, **UAF once again raises the issue of financing airport security**, financed by the airport tax (renamed T2S and merged with the Chirac tax and the civil aviation tax within the tax on air passenger transport). With the drop in traffic, the revenue from this tax has fallen while the airports have borne the costs. To relieve them, the **State has granted them advances of 700 million euros, repayable from 2024.** (...) **UAF is asking (...) that these advances be transformed into subsidies.**

Finally, **airports are concerned about the implementation of the European Entry-Exit system**, which imposes stricter controls at Europe's external borders. Postponed until October 1 to avoid disruptions during the peak summer season, it could result in airport processing times that are twice or even three times longer for each passenger concerned, especially since the Ministry of the Interior has indicated that there will be no additional staff assigned to these controls. The UAF is therefore calling for the abolition of controls for intra-European flights, the possibility of making maximum use of control technologies to avoid the need to go through security checkpoints, and a simplification of procedures where possible.

My comment: *When everything is going well, the monopolistic situation of airports allows them to make profits at the expense of airlines.*

On the other hand, in a crisis situation, when the airlines reduce their number of flights, this turns against the airports, unable to diversify.

The only solution for airports to regain profitability after the crisis is to make their customers, the airlines, pay.

It should be noted that the project to extend Roissy CDG airport by building a terminal 4 was definitively abandoned last month.

"Air transport must accelerate its energy transition. We must draw the consequences in our future projects. After the State's decision to ask the ADP Group to abandon the current Terminal 4 project and to present a new project for the development of the Paris Charles de Gaulle hub, the ADP Group is taking time to reflect on the future of the airport. The Paris hubs have a vocation to become leaders in green aviation, serving all our stakeholders, and in particular the areas around the airport", commented Augustin de Romanet, CEO of the ADP Group.

> **The oil crisis may further hurt airlines**

(AFP source) March 9 - **Russia's invasion of Ukraine has driven hydrocarbon prices to historic highs.** Kerosene is currently trading at about US\$150 a barrel, up about 30 percent over a month and 100 percent over a year, according to S&P's benchmark Platts index.

"Upward pressure on prices will continue, especially if Russia's energy sector suffers harsher sanctions," the International Air Transport Association (IATA), a spokesman for the airlines, said Monday.

This was before US President Joe Biden provoked a new spike in prices by announcing on Tuesday an embargo on Russian oil. **"All companies that have a part of their consumption not covered will be directly affected,"** warned IATA

Airlines, whose fuel expenses represent between 20 and 30% of costs in normal times, protect themselves against sudden price changes by concluding contracts that guarantee them a fixed price on part of their kerosene, which is called "hedging".

For example, Air France-KLM saved \$300 million on fuel in 2021 (or 10% of its total bill) as prices rose during the year.

Even before the recent escalation of crude oil prices, the Franco-Dutch group was expecting \$470 million in avoided costs this year, thanks in particular to a consumption already acquired at 72% for the first quarter, a proportion which however declined to 28% in the fourth. "

The impact will be felt in a few months, once the airlines have been forced to use the barrels purchased at current prices," Paul Chiambaretto, associate professor of strategy and marketing at the Montpellier Business School and director of the Pegasus Chair, a specialist in the airline sector, told AFP.

(...)

In fact, "the pressure will increase if the prices of kerosene remain high

during the rest of the year and in 2023, when the covers will be reduced", underlined Moody's in a report on Tuesday, by evoking the risk to see the companies not "being able to return to their profitability of before the pandemic" at this deadline.

For the financial rating agency, European airlines are about 50% covered in 2022, and should expect their fuel expenses to increase by 20 to 25% on average. Other airlines, notably American, have purchased very little fuel in advance, according to the agency.

(...)

For Moody's, airlines, even with fuel hedges for 2022, "would have to increase ticket prices by about 5% to preserve margins." "And at a time of already high inflation...these increases could depress demand," IATA warned.

"We will always keep our prices affordable, but we are obviously monitoring the evolution of oil prices to adjust if the impact becomes too strong for us," said Nathalie Stubler, general manager of Transavia France.

***My comment:** "Hedging" policies depend on many factors, the most important of which is the local availability of oil. Generally, airlines on the same continent adopt similar strategies.*

For example, U.S. airlines do not hedge, while European airlines hedge about half of their annual consumption.

Stock market press review

> Air France-KLM: AlphaValue lowers its recommendation

(source CercleFinance) March 8 - **AlphaValue has changed its recommendation from 'accumulate' to 'lighten up' on Air France-KLM** after having made a number of adjustments linked to the Russian-Ukrainian conflict.

In a research note, **the Paris-based research firm explains its downgrade by the negative consequences of the crisis, which it believes will result in a drop in demand for travel and the cancellation of certain routes.**

AlphaValue adds that the need to make a detour to reach certain destinations will also result in an additional cost in the kerosene bill

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Its target price is consequently reduced from 3.93 to 3.34 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**

Air France-KLM shares closed at **3.735 euros** on Monday 14 March. **It is up strongly this week by +13.35%**.

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 3.30 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) is down sharply this week from -18\$ to 105\$.

The crisis in Ukraine is behind the rise in oil prices, which is also affecting copper and gold.

At the beginning of the week, Brent crude reached \$132, close to its record of \$150 reached in 2008.

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 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 UNPNCChis
press review deals with subjects related to the Air France-KLM shareholding.

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