

Ben Smith: Our efforts are producing real results



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,

*Due to the **OMNES conference** on Monday, this letter is being published 24 hours early.*

*As mentioned last week, the conference is taking place today, **Monday, June 13, at the headquarters and via video conference.***

Those of you who are available this afternoon and cannot come to the headquarters can follow the conference remotely by connecting via the link below

<https://primetime.bluejeans.com/a2m/live-event/etrgetbx>

With the permission of the participants, we plan to make a summary of the meeting which will be available for viewing later.

The theme: Air France employees facing ecological issues

Anne Rigail has agreed to participate, she will introduce it.

We will make a commented presentation of the infographics on sustainable aviation that we published on social networks last year at the same time.

Philippe FONTA, (former environmental director of Airbus) will lead a round table discussion on 3 topics

- Which energy sources to replace kerosene?*
- Air transport employees facing the ecological transition: a role to play in objectifying the societal debate?*
- The sector's ecological objectives are among the most ambitious in existence, what are the key factors to achieve them (policy, investment, institutions...)*

Thank you for your loyalty.

François

Monday's Press Review

> Ben Smith: Our efforts are producing real results

(source Journal du dimanche) June 12 - Ben Smith arrived at the head of the Air France-KLM group almost four years ago and has taken numerous decisions to restructure its capital, network and fleet and to reposition the Air France brand. Relaxed, in almost perfect French, the Canadian explains to JDD how the company is preparing for an exceptional summer. He also justifies the arrival of a new shareholder, the shipping giant CMA CGM, to develop in cargo.

On Tuesday you will complete a second recapitalization in two years. Is the situation stabilized?

I never imagined that I would experience such an incredible situation in my career: going from 54 million passengers in 2019 to 18 the following year! **The French government allowed us to obtain 7 billion euros in loans. Our other shareholders, the Dutch government, Delta Air Lines and China Eastern, also supported us.** In 2021, we carried out a first recapitalization, with China Eastern and the French government. The transaction we are closing on Tuesday will help us repay these loans, within the very precise framework set by Brussels.

Why is CMA CGM the ideal partner?

We started commercial negotiations on the freight business last year. CMA CGM had the ambition to diversify into air freight, we have the expertise in this sector, and a fleet for which we had just ordered four additional 100% cargo aircraft. The idea of a partnership with a capital dimension was born during the discussions. The objective is to have, initially, 20 aircraft between us. CMA CGM becomes a long-term reference shareholder, committed for ten years. **Joining forces with the world's third largest shipping group, which is French, gives us an undeniable advantage, while Lufthansa is getting closer to MSC, another shipping giant**

Will you be able to avoid the disruptions that are multiplying in the skies and at European airports?

Air France is not on strike! This week, it was a strike by the Paris airport firefighters that affected traffic and, before that, understaffing in security and passenger control. It's a shame, even frustrating, given the efforts we are making to be ready this summer. Dozens of airlines have to cancel flights in Europe and the United States. We are betting on a strong recovery and have been preparing for months for this key period in our strategy. **Today we have enough pilots, flight attendants, ground staff and mechanics to welcome a maximum number of customers under the best possible conditions. We have taken our responsibilities. It is up to the other players in the sector to do the same.**

How does the summer period look?

Our flight schedule is back to 90% of our pre-crisis capacity. Our supply to the United States is even higher than in 2019. Demand from Americans, already very strong last summer, continues to be very dynamic. Like the palaces and top restaurants in Paris, which are showing higher occupancy rates than in 2019 - with much higher prices - our business classes are full. We decided last fall to hire 300 pilots. **We have also repositioned some of our aircraft on transatlantic routes to Asia.** Long-haul traffic is still very low there, and the war in Ukraine is extending the journey by several hours. This generates additional costs that cannot be amortized by filling up the aircraft.

Will ticket prices increase?

We are passing on the increase in jet fuel to our prices, even if we use hedging tools. I don't know if these increases will penalize demand, but I do **note one positive element: the development of a luxury-leisure clientele, who travel for pleasure in business class.** This is offsetting the decline in business travelers. Our first flight is even fuller than before the crisis, and often fully booked on weekends to destinations like Los Angeles.

Are you confident that you will bounce back, after losses of close to 4 billion euros last year?

Before the crisis, we had managed to reduce our unit costs like no other airline in Europe. In the first quarter of this year, we posted better results than Lufthansa or British Airways. **Our efforts are showing real results.** When I arrived, a strike had just cost the group over 300 million euros. The dialogue with the 17 unions had not calmed down. On medium-haul routes, Transavia could only operate 40 aircraft, while EasyJet had 350 and Ryanair more than 450. On long-haul routes, passengers never knew what type of aircraft they would be boarding. **The Air France fleet was one of the most complicated in the world.** The brand was not clear. The business model was not making enough money. **Hence our decision to simplify the fleet as quickly as possible.**

(...)

Are you going fast enough in the development of Transavia?

As fast as possible. The fleet will grow to 61 aircraft this summer, from 38 before the crisis, and to 100 in the next few years. There is no limit. For the record, we were losing 250 million euros in 2019 in the domestic market with 50% of slots at Orly.

Is there a Ben Smith recipe?

I started in the airline business thirty-two years ago as a passenger agent, and at the time I was a trade unionist. I could see where the real priorities were. **When I arrived at the head of Air France-KLM, I found great professionalism and immense pride in working for our brands. This is a considerable asset.** Right from the start, I brought everyone around the table to understand and share the reality of our group's situation. The State was not going to renationalize Air France, despite what some people say, and so much the better when you look at Alitalia. Every time there is a conflict at Air France, it is a gift to Lufthansa and British Airways. Every time they hire, there is one less person here. Not understanding this meant losing everyone. The recapitalization and our considerable transformation efforts have given us back the time we no longer had

My comment: *In order to judge the Ben Smith recipe, it is necessary to put ourselves in context.*

Ben Smith arrived in 2018, in the midst of an internal crisis at Air France, a crisis that had caused the departure of the group's CEO following an unfavorable consultation,

As usual, I would be tempted to write. The arrivals at the head of the group of Mr. De Juniac or Mr. Janaillac had also occurred in delicate situations.

So how can we explain what is now considered a success?

First of all, Ben Smith's great expertise has enabled him to save time compared to his predecessors. He didn't need to meet with his CEOs at length to get an idea of the group's situation, either at Air France or at KLM.

Then several changes took place in the months following his arrival:

- . a change in the leadership of the SNPL, the powerful Air France pilots' union,*
- . the arrival of the Dutch state in the capital of Air France-KLM,*
- . the reaction of the French government, which appointed Martin Vial, the head of APE (the French state-owned investment agency), to the board of directors. His knowledge of the airline industry - he had headed Aéropostale and the Fédération Nationale de l'Aviation et de ses Métiers (FNAM) a few years earlier - was a real plus.*

. the separation of the functions of Chairman and CEO has also had a beneficial effect on relations between the two main subsidiaries (Air France and KLM) and their supervisory authorities. It was decided as soon as Mr Janailac's departure was announced.

Finally, and this may seem paradoxical, the health crisis at the beginning of 2020 has been a gas pedal in several areas:

- . the implementation of the restructuring plan of the two main subsidiaries,
- . the development of Transavia France,
- . the assumption of Anne Rigail's position, which has turned out to be faster than expected

Finally, the hardest part is starting now, even if we should not underestimate the efforts needed to guarantee the long-term future of the Air France-KLM group during the two years of the health crisis.

We will have to manage the resumption of activity, while the lack of skills in the airports (mainly among subcontractors) is likely to impact the quality of service.

The salary issue will also be a sensitive one, less than a year before the professional elections within the Air France group. According to INSEE, the rise in consumer prices will reach a new record in June 2022: 5.4% in one year.

> KLM repays a 350 million euro debt to the state

(source Luchtvaartnieuws, translated with DeepL) June 3 - **KLM will pay back more than 350 million euros of its debt to the Dutch state today**, its CFO Erik Swelheim said in an interview with RTL Z. The airline received a total of 942 million euros during the Covid-19 crisis.

Of this amount, **311 million euros were already repaid last month. With today's amount: 354 million to be exact, 277 million euros of debt remain.**

The initial promise of state aid to KLM in the event of a financial crisis was much higher, namely 3.4 billion, comprising a state loan of 1 billion and another 2.4 billion in the form of commercial loans and guarantees. Gradually, it became clear that KLM needed less help, and **now that the travel market is recovering rapidly, the company is in a position to pay off outstanding debts.**

Swelheim hopes that the remaining amount can be transferred to "The Hague" later this year. **In addition to the loans, KLM also received a subsidy during the crisis to continue paying salaries, via the NOW scheme. This amounted to 1.7 billion euros. The airline does not have to pay back this money.**

My comment: the aid granted by the French and Dutch governments to their airlines has been very different, much more favorable to KLM than to Air France.

This is one of the reasons why KLM has already been able to pay back two thirds of this aid.

Good to know: it would have been impossible, for economic reasons, for the French aid to have been modelled on the Dutch aid. The overall envelope would have been much higher than the French "whatever it costs".

> Labor conflicts and staff shortages at European airports

(source NU.nl) June 9 - Not only **Schiphol, but also other airports in Europe are facing problems due to lack of staff**. Airports are desperately looking for new employees, while current employees are on strike for better pay and conditions. This leads to cancelled flights and long queues for travelers across Europe during the summer season

Airports have lost a lot of staff during the pandemic and are struggling to find new employees quickly. Germany, Spain and Ireland, among others, are experiencing a shortage of airline staff. In Italy and France, staff are on strike this week for higher pay and better conditions.

The strikes in Italy have not only caused problems for travelers in the country itself, but also in the rest of Europe, resulting in cancelled flights. At Schiphol Airport, the strike led to the cancellation of several KLM and easyJet flights on Wednesday.

The airline staff problems are a heavy setback for the airlines. They were counting on a busy summer after the heavy losses suffered during the Covid-19 crisis. Many European countries were also counting on an increase in tourism to boost their hard-hit economies. These countries are fed up with the situation

In several countries, measures are being taken to counter the problems at airports. In the Netherlands, for example, the FNV union and Schiphol Airport reached an agreement on better conditions and higher wages after the strike in April.

In Ireland, additional staff will be hired. Until then, staff who work overtime are paid three times more. In England and Spain, too, additional staff will be hired, especially to ease passport controls at busy airports

In Italy and France, a suitable solution is still being sought. It is not impossible that airline staff will go on strike again.

My comment: Most airlines have announced flight cancellations for July (Lufthansa is cancelling 900 flights in July).

Whose fault is it that the summer season is disrupted?

Probably nobody's. In January, when recruitment should have been launched, no airline was able to guarantee airport managers and their subcontractors a level of activity for the summer. The outbreak of the invasion of Ukraine then complicated the forecasts.

And for the following seasons?

It will be up to the airline industry, especially the French, to consider the attractiveness of the positions offered.

During the health crisis, a large number of employees saw their contracts not renewed. It seems that a large number of them have turned to different jobs, not necessarily paying more, but with better working conditions and schedules: no shifting hours, reduced travel time.

> **Portugal: rising fuel prices complicate TAP's restructuring plan**

(source Le Figaro with AFP) June 9 - **The rise in fuel prices is one of the main difficulties in implementing the restructuring plan of the airline TAP Air Portugal**, renationalized in 2000, said Tuesday the group's general manager. "The higher fuel prices and the valuation of the dollar complicate the implementation of the restructuring plan," said Christine Ourmières-Widener, TAP's general manager, during a parliamentary hearing. **This increase has an impact of "300 million euros"**, she said, adding that the carrier is trying "to mitigate these costs" by deferring the increase on ticket prices. The Portuguese airline group, whose financial difficulties had increased with the pandemic, was rescued in 2020 by the state. (...)

My comment: *The increase in the price of kerosene, which is much higher than the increase in the price of oil, increases the costs of airlines considerably.*

To understand why the price of kerosene is increasing so much, read the paragraph "My comment on the evolution of the price of fuel".

> **For the boss of Wizz Air, exhausted pilots must work more**

(source According to The Guardian) June 10 - For airlines and customers hoping to use their planes, **a summer of danger seems to be in the offing**. The strong post-pandemic recovery in demand, coupled with significant shortages of both ground and flight staff, could lead to thousands of cancelled flights and chaos at airports

For József Váradi, head of the Hungarian low-cost airline Wizz Air, there is a

solution: work more, despite exhaustion. The firm's staff, and in particular its pilots, have not taken kindly to the very Stakhanovist speech he has been making in recent days. **We are all exhausted, but sometimes you have to go the extra mile," Váradi told his stunned troops.** We can't run this business if every fifth person in a base calls in sick because they're tired."

(...)

In short, it's a matter of not shooting off the handle and being willing to give a little more of themselves for the smooth running of the Wizz Air machine. In itself, this would be problematic in any company that cares about the health of its employees

But in addition to these basic social considerations, there are other considerations, this time of collective safety for the flights concerned. **Asking pilots who say they are tired to make extra efforts is "like giving the keys to a car to a drunk driver,"** said a representative of the European Cockpit Association, an ad hoc union.

Representing 40,000 pilots in Europe, the ECA is urging the European regulator, the European Union Aviation Safety Agency, to look into the speeches and practices of József Váradi and Wizz Air.

(...)

A spokesperson for the company was keen to respond to the Guardian, explaining that József Váradi's remarks, which were criticised by his staff, were taken from a longer speech of 15 minutes and that, of course, the safety of passengers and crew alike was the firm's first priority.

My comment: The CEO of Wizz Air announced that he wants to make his airline more low-cost than Ryanair!

We know now, one of the means he intends to use to achieve this: make the crew work even if they are tired.

The (slight) denial of Wizz Air's spokesman struggles to convince the detractors.

> **SAS: Denmark ready to take a stake and write off debts**

(source Air Journal) June 11 - **The Danish government announced yesterday that it will write off debts and inject money into Scandinavian airline SAS to help it overcome its serious financial difficulties.**

The Danish state, the largest shareholder with the Swedish state with 21.8% each, will increase its stake to 30%, announced Danish Finance Minister Nicolai Wammen at a press conference: "SAS is in a very serious situation ... There is a consensus that the state should take its share of responsibility to turn SAS around," he said. Following a political agreement with several parties in Parliament, Denmark will

"provide new equity" in SAS (for Scandinavian Airlines System) to reach a stake between its current level "and up to about 30%". Also, the Danish state will "accept a discount and a conversion of its existing financial instruments" in SAS, "at market conditions", said the Danish Minister of Finance. **In concrete terms, Copenhagen will write off a debt of 3.5 billion kroner (about 470 million euros) owed by the airline.**

If the Danish government has decided to intervene to save SAS from bankruptcy, **the Swedish government announced Tuesday that it will not participate in the capital increase project of nearly one billion euros.**

(...)

***My comment:** All is not lost for SAS. The Swedish government has announced that it is considering allowing SAS to convert debts owed to the Swedish government into capital.*

> **A historic climate package voted this week in the European Parliament**

(source Pascal Canfin, Member of the European Parliament) June 6 - **This Wednesday, the European Parliament is voting on a massive climate legislation package that will change the ecological landscape of our continent. These eight texts** (which will be completed by 6 others voted in September) change the rules of the game for cars, for our industries, for aviation, for the maritime sector, for the management of our forests, etc. and **introduce a world first: the famous "border carbon tax".** T

(...)

We are going to vote on banning the sale of non-zero emission cars in 2035.

(...)

As we change the rules of the carbon market so that European manufacturers pay the right price for carbon and as **we are the area in the world where the price of carbon is by far the highest (around 80/90 euros per ton of CO₂ at the moment), it is logical to ensure that products entering the European market also pay the same price so as to avoid any climate dumping and unfair competition.** The Parliament supports this mechanism and we will vote on several modalities to strengthen it by widening the scope to plastics for example or by including products processed from aluminium or steel such as cars and their equipment (gearboxes, etc.) for example. With this "border carbon tax" we are further connecting climate and trade rules. With other texts of the Green Deal that are also being negotiated, such as the mirror clauses for agricultural products or the end of imports of products from imported deforestation, we are changing the rules of world trade.

With the new rules we are putting in place, industry will pay much more for the CO₂ it emits. Historically, the price of carbon was less than 10 euros per ton; it is now structurally around 80-90 euros and should quickly reach 100 euros per ton. We are therefore in the zone where the price of carbon is beginning to be sufficient to

change economic models, make green investments profitable, etc. As the price of CO2 rises, so do the funds that support decarbonized investments. Over the period 2023-2030, around 80 billion euros will be available to finance concrete projects to move towards a zero-carbon industry in steel, aluminum, cement, chemicals, plastics, etc

Until now, airlines have benefited from "free allowances" that exempt them from paying a fair price for the carbon they emit. Given the carbon footprint of aviation, this situation is unacceptable. **We are putting an end to it. And we are going further than the European Commission's proposal because the Parliament should vote that paying for the carbon emitted will not only apply to flights within Europe (Paris-Nice as Paris-Madrid for example) but also to all flights from Europe to the rest of the world. Of course this will concern all companies operating these flights, whether European or not, to avoid any unfair competition.**

The same applies to maritime transport: today, a container ship crosses the planet between Shanghai and Marseille and pays nothing for the CO2 it emits. From now on, it will pay for the CO2 on its journey through a European port. We have also introduced measures to counter the risk of circumventing the legislation by making "fictitious" stops (for example, a container ship comes from Shanghai and stops in Tangier without unloading any goods, then leaves for Marseille and pays CO2 only on the Tangier-Marseille leg).

(...)

This vote is historic. It commits the future of our continent.

My comment: From this long forum I have essentially kept what concerned air and sea freight.

If the intentions are commendable, the consequences could be important for European air transport. Because, contrary to what is indicated, nothing is done to avoid unfair competition.

Let's compare the effects of the carbon tax on two airlines, one European (Air France) and one American (or Asian, or Gulf).

For Air France, 100% of passengers flying to and from Europe will be affected. On the long-haul network, 50% of passengers will be affected (100% on flights departing from Europe, 0% on flights arriving in Europe).

For an American airline, for example American Airlines, only passengers leaving Europe will be affected, not passengers arriving in Europe, nor passengers traveling elsewhere in the world.

This means that about 75% of passengers travelling on Air France will be affected, compared to 10 to 15% of passengers travelling on American Airlines.

If American Airlines decides to spread the European carbon tax over the price of tickets for all its passengers, the impact on its fares will be small. On the other hand, Air France will have to increase almost all of its fares by the amount of the carbon tax.

In the end, on the same destination, the price difference between the two airlines would be such that customers would undoubtedly prefer American Airlines.

The best solution to avoid this unfair competition would be for the carbon tax to apply to all air travel worldwide.

It is the responsibility of IATA, the International Air Transport Association, to implement this measure.

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.

> Management of employee investment funds. Good to know

When you invest money in one of the Air France FCPE funds, you get shares in these funds. You do not hold shares directly.

It is the supervisory boards, which you elected in July 2021 for a five-year term, that manage the funds and make the decisions.

The Aeroactions, Majoractions and Concorde funds only hold Air France shares.

The Horizon Épargne Actions (HEA), Horizon Épargne Mixte (HEM) and Horizon Épargne Taux (HET) funds manage portfolios of various stocks.

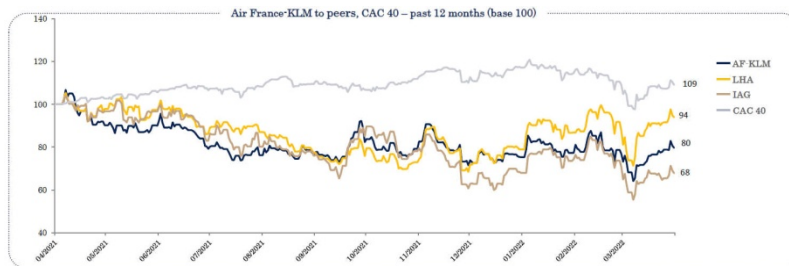
My comment: If you would like more information on the management of the various Air France FCPEs, please consult [my website Navigation, section Air France-KLM employee shareholding](#).

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

Air France-KLM shares closed at 1.602 euros on Friday 10 June. It is down this week by -7.02%.

The Air France-KLM DPS ended June 6 at 1.497 euros.

The results of the Air France-KLM capital increase will be known on Tuesday 14 June.



Air France-KLM share price performance compared to IAG and LH over one year.

Since March 2021, Air France-KLM's share price has evolved in much the same way as that of its two main European competitors, the Lufthansa and IAG groups.

However, there has been a divergence since the beginning of the year. Lufthansa's share price is performing better than Air France-KLM's, probably because the recapitalization of Air France-KLM is taking so long.

IAG's share price is down sharply. The high level of debt of the Anglo-Spanish group is highlighted by analysts.

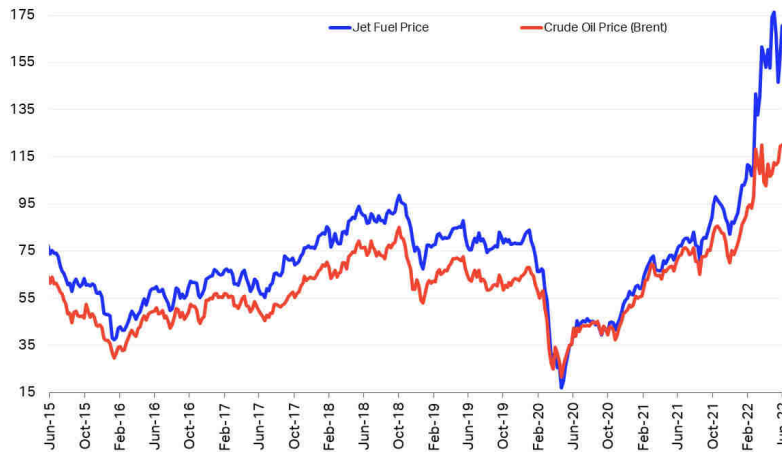
The average (consensus) analyst price for AF-KLM shares was 3.26 euros before the capital increase was announced. The highest price target is 5.50 euros, the lowest 1.30 euros.

You can find on my blog the details of the analysts' consensus. I do not take into account the opinions of analysts prior to the beginning of the health crisis.

> My comment on the evolution of fuel prices

Since the beginning of the war in Ukraine, there is no longer any correlation between the price of a barrel of Brent oil and the price of a barrel of Jet Fuel. This is very clear on the graph below, which covers the period June 2015 - June 2022.

Jet Fuel & Crude Oil Price (\$/barrel)



Source: S&P Global, Refinitiv Eikon

According to specialists, this increase is due to an increase in the fuel reserves of the armed forces, which are composed solely of Jet Fuel.

Indeed, for the past few years, to ensure the strength of the infrastructure, the French Army has favored a single fuel policy aimed at powering all equipment, land vehicles and generators with jet fuel for air use.

Jet fuel is down \$2 a barrel this week to \$170.

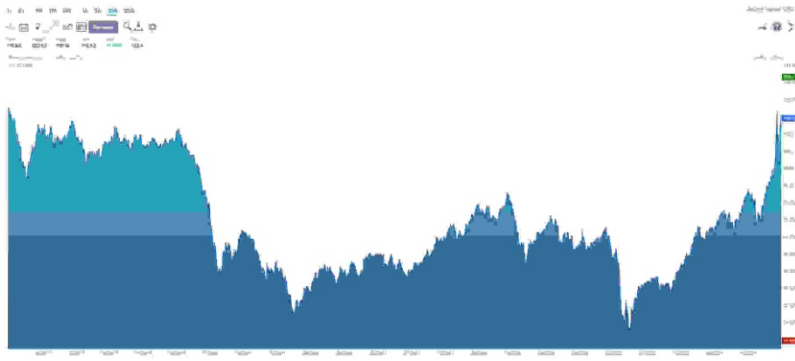
Brent (North Sea)

oil is up \$1 this week to \$122.

Since mid-February, it has been yo-yoing between \$100 and \$120.

At the beginning of March, Brent had reached \$132, close to its record of \$150 (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](#)

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

**Air France-KLM director representing employees and former employees who are PNC and PS shareholders.
You can find me on my twitter account @FrRobardet**

When I was elected, I received the support of the CFDT and the UNPNC. This press review deals with subjects related to the Air France-KLM shareholding.

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