

Baggage blocked at Roissy: half still being processed



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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Monday's Press Review

> Baggage blocked at Roissy: half still being processed

(source Le Figaro) July 8 - On **Friday, July 1, thousands of pieces of luggage remained blocked at Roissy airport, including about 17,000 for the Air France company alone**. If some travelers are worried that they will never see their luggage again, the company assures that the problem will be quickly solved.

(...)

This unprecedented situation can be explained by last week's labor movement, which caused a delay in the opening of the baggage sorter managed by Aéroports de Paris (ADP). **In addition, there was a computer problem at Air France** for the check-in of passengers traveling with the French airline. (...) **The two groups blame each other for the problem.**

(...)

A source at ADP confirms the double problem caused by the social conflict on Friday, July 1, but **believes that the direct impact of the strike concerns only 15 flights and 1,500 pieces of luggage, the rest being related to the companies' own management**. Indeed, the source in question stresses that it is the airlines that are responsible for the affairs of travelers and recalls that **if the Paris airport provides the industrial tool of baggage sorting, no employee deals directly with baggage.**

However, for many travelers, the problem, which dates back 7 days, has not been resolved. Since Tuesday evening, July 7, 10,000 pieces of luggage have been returned to their owners. But there are still several thousand pending. "Travelers

should be reassured, no baggage is lost but simply delayed," reassures the spokesman of Air France.

"We have reinforced our teams, we have a hundred people working day and night and are mobilized to transport the luggage", he says. And he assures that in case of unforeseen expenses: "The first necessity expenses will be reimbursed upon request to the customer service", he concludes.

My comment: *To catch up with 17,000 pieces of luggage is not an easy task. A whole logistical chain has to be put in place.*

To achieve this, an operational crisis procedure was activated on June 23: the MLP = Extended Local Mode.

But ...

Do we have enough containers? If there is a shortage, containers must be brought in from Orly.

Is there room in the planes to put additional containers? Will there be enough manpower at the end of the line to handle the extra luggage?

Are there time slots without too much activity, to add crews?

Are there baggage sorters available?

Depending on the answer to all these questions, airlines can, for example, run an MLP between 5pm and 11pm (handling 6,000 bags) or run it overnight (handling up to 20,000 bags). Air France has chosen to do MLP between 5pm and 11pm.

To be taken into consideration: these two MLPs do not have the same cost. Working during night hours costs more.

> **KLM COO leaves for British Airways**

(source Air Journal) July 7 - The chief operating officer of **KLM** Royal Dutch Airlines will leave next week to take the same position at British Airways.

The Dutch national airline, based at Amsterdam-Schiphol airport, **confirmed**

Wednesday that **it had been "informed" by René de Groot of his resignation**

from the position of chief operating officer on Friday, July 15, 2022 (...). René de Groot was appointed COO in November 2014 and started his first term as a member of KLM's statutory board in April 2015. He was reappointed in 2019, with his second term initially scheduled to end in 2023. **In addition to his role as COO, he is responsible for KLM's air operator certificate with the Dutch Civil Aviation Authority;** he will also resign from this position effective July 15.

Following his departure, the KLM supervisory board has started the process of

finding a successor, hoping to fill the vacancy "in the short term" (...). The "safeguarding of the responsibilities and tasks of the COO is ensured within the organization".

(...)

KLM has already "lost" at the end of June its emblematic CEO Pieter Elbers, who has just joined the Indian low-cost IndiGo.

(...)

My comment: *In 2014, René de Groot had succeeded Pieter Elbers as COO (Chief Operating Officer) when he took over KLM.*

Pieter Elbers and his team had based their actions on a fundamental principle: priority to KLM rather than the Air France-KLM group. What was good for KLM was good for the Air France-KLM group, what was good for the Air France-KLM group was not necessarily good for KLM.

With the departure of two important executives, KLM is turning a page. It remains to be seen what the strategy of the new KLM CEO, Marjan Rintel, who took office on 1 July, will be.

> **Air France-KLM completes purchase of CFM engines for Airbus A320neo**

(source Luchtvaartnieuws) July 5 - **The new Airbus A320neo and A321neo aircraft to be put into service by KLM and Transavia starting in 2023 will be powered by CFM engines.** Air France-KLM had already announced in April that it was negotiating exclusively with the Franco-American carrier, and today the two parties signed the purchase agreement.

Air France-KLM CEO Ben Smith said at the signing of the agreement, "Air France-KLM is committed to improving its economic and environmental performance. The latest generation of aircraft, such as our future A320neo and A321neo, offer savings of 10%, emit 15% less CO2 and are 50% quieter, thanks in particular to their advanced engines. With this agreement, Air France-KLM and CFM International are building on their long-standing relationship to make aviation more sustainable."

Late last year, it was announced that KLM and the Dutch and French divisions of Transavia would be switching from the Boeing 737 to the Airbus A320neo series. An order has been placed for one hundred aircraft, with an option for sixty more.

A320neo Family customers have a choice of two engine types: the CFM LEAP-1A, which is a combination of the U.S. General Electric and French Safran, and the PW1127G from the U.S. Pratt & Whitney.

For KLM technicians, **the choice of CFM seems like good news, since Boeing 737s are already powered by CFM engines, specifically the CFM56.**

(...)

***My comment:** The finalization of the contract between Air France-KLM and CFM was only a matter of weeks.*

> Germany's richest man becomes the largest shareholder of Lufthansa

(source Trends, translated with DeepL) July 7 - **Klaus-Michael Kühne, who made much of his fortune in logistics, has increased his stake in Europe's largest airline to 15.01 percent. In doing so, he overtook the German government as the largest shareholder.**

(...)

Mr. Kühne, who has also expressed interest in a seat on the Lufthansa supervisory board, did not comment on why he is building a stake in Lufthansa.

Recently, **shipping companies have become more involved in commercial aviation.** Air France-KLM recently announced that it will cooperate with logistics group CMA CGM. Container shipping giant MSC Mediterranean Shipping Company has already made a joint bid with Lufthansa to take over ITA, the successor to the bankrupt airline Alitalia.

According to Bloomberg's list of billionaires, **Kühne is** worth more than \$35 billion. He is **honorary chairman and majority shareholder of the world's largest ocean freight forwarder, Kühne + Nagel.** Kühne's holding company also owns 30 percent of Hapag-Lloyd. The company has not yet announced any cooperation with an airline.

***My comment:** Why did Mr. Kühne acquire a majority share in Lufthansa? The question remains open.*

Before him, at the beginning of 2020, another German billionaire, Mr. Heinz Hermann Thiele, had acquired a 15% stake in the German group, at the beginning of the health crisis. He had tried, unsuccessfully, to oppose the rise in capital of the German state, a condition sine qua non for obtaining state loans. His death in 2021 led his heirs to sell his shares.

With 15% M Kühne becomes the largest shareholder ahead of the German state (14.3%). With the third shareholder holding only 2.81%, Mr Kühne's declarations of intent are eagerly awaited.

> The Regional Chamber of Accounts criticizes the management of Tours airport

(source AFP) July 7 - **The Regional Chamber of Accounts of the Centre-Val de Loire region criticized Thursday the expensive management of Tours airport by local authorities, pointing to "modest" economic benefits and an**

"unbalanced public service delegation to the benefit" of the operating company Edeis.

In its report published Thursday, the Chamber points out the management defects of the Syndicat mixte pour l'aménagement et le développement de l'aéroport (Smadait), an emanation of Tours Métropole, the Centre-Val de Loire region and the Indre-et-Loire department, which "paid beyond its contractual obligations 2.087 million euros to its delegate without any compensation and even allowing the latter to distribute dividends while the actual operation is in deficit."

"The high level of subsidization of the airport ensures a particularly strong profitability to the delegatee," the Edeis group, the first regional airport manager in France, insist the magistrates, according to which "the net results, positive and growing, from the years 2014 to 2018 have been distributed in full as dividends." Smadait even pays for its own premises a rent to Edeis "for a right of way of which it is deemed to be the owner", according to the report.

"From 2011 to 2019, the passenger traffic received by the Tours-Val de Loire airport has recorded a growth of 63%, based almost exclusively on low-cost traffic that represents 95.6% of the airport's activity," also writes **the Regional Chamber,** which **refers to a "development of air activity" achieved in particular "at the cost of massive public subsidy of airlines."**

The contributions to the development of passenger traffic have thus reached an amount of 15.2 million euros from 2014 to 2019 for an "economic efficiency (...) not established." "The direct and indirect economic benefits, difficult to assess, appear modest in relation to the resources invested and the results of comparable airports," the Chamber points out.

(...)

Finally, the regional authority notes that in 2019, the airport "weighs less than 0.1% of national commercial passenger traffic", with 197,000 passengers.

My comment: What do Porto, London, Marseille, Dublin and Marrakech have in common?

They are all destinations served from Tours by a single company: Ryanair.

Ryanair is the only beneficiary of the 15.2 million in subsidies pointed out by the report of the Chambre régionale des comptes.

Once again this illustrates the economic model of the Irish company, based on obtaining subsidies from local authorities.

> Boeing ready to give up on the 737 MAX 10

(source: Journal de l'Aviation) July 8 - Boeing's difficulties with its regulator don't seem to be getting any better, so much so that the aircraft manufacturer is no longer ruling out the possibility of abandoning the highest capacity version of its 737 MAX.

In an interview with Aviation Week, **Boeing CEO David Calhoun mentioned the possibility of abandoning the 737-10, although no decision has yet been made.**

"It's kind of all or nothing. I think our case is compelling enough [to get a waiver for the December 2020 law, ed.] That's a risk I'm willing to take (...) When you consider everything we've been through, the debts we've had to accumulate, looking at a world without MAX 10 doesn't seem so scary."

But "we believe in this aircraft," says David Calhoun.

(...)

However, **Boeing has only six months left to get the 737 MAX 10 certified in its current configuration.** Indeed, after the accidents of 2018 and 2019, the U.S. Congress passed a law in December 2020 requiring the integration of a new crew alert system in all aircraft. Aircraft manufacturers were given two years to complete the certification of their aircraft under development, after which the new system will become mandatory to obtain type certification. This would give Boeing time to certify the 737 MAX 7 and MAX 10 in their current configuration. However, the FAA is becoming more stringent and Boeing is struggling to meet its requirements in a timely manner, putting the chances of a MAX 10 certification before the end of the year

If Boeing does not obtain a waiver, the MAX 10 cockpit will have to be modified, resulting in additional development costs, new production delays of at least two years and the loss of commonality with the other aircraft in the family, an absolutely essential element for customers operating the other versions (without it, pilots moving from any 737 MAX to the 737 MAX 10 will have to undergo specific training). This raises the question of whether the manufacturer should invest even more in an aircraft, while losing one of its major assets, which could call into question many orders.

Currently, the 737 MAX 10 has won orders for more than 700 aircraft and has 13 customer airlines (as well as leasing companies), the largest of which are United Airlines, VietJet and flydubai.

My comment: We are talking about a new alert system that manufacturers must integrate in cockpits from 2023: the EICAS (Engine Indicating and Crew Alerting System). Its function is to tell pilots what is wrong with the aircraft and how to fix it.

Boeing is trying hard not to have to install it in its B737 MAX 10 aircraft, simply because the B737 Max cockpit is small and there is no more room to insert new equipment.

*A word of clarification: in aeronautics, the term "**commonality**" is used to describe a set of characteristics common to several items of equipment from the point of view of design, manufacture or maintenance. The corresponding term in English is "commonality". The A320 family is the best example of success in*

Bonus Article

> Why do some airlines hedge and others not?

(source Zonebourse) July 5 - As you may have noticed recently with the volatility of currencies, currency risk is a real issue for investors as well as for companies that import inputs and/or export goods abroad in other currencies. The risk of variation (of currencies between them but also of variations of raw materials or rates) is a crucial subject for many industries, and notably for airlines. This is what we will discuss today.

Hedging is a strategy to hedge against volatility risks; it is usually applied to protect against commodity, interest rate or currency fluctuations.

As in all other industries, hedging represents a significant cost for novices. **If you do it wrong, you can quickly lose real fortunes. Moreover, in the long run, one can just as easily live with volatility and evolve unhedged as trying to smooth out one's price permanently and stubbornly following a hedging strategy. As you can**

see, not everyone can do this, even large companies

Good hedging requires:

. **Excellent know-how**, which is rare by default, but can be found in certain airlines such as Southwest Airlines, a group with an exceptional culture

. . . **a firm and well institutionalized risk management policy, so as not to let personal initiatives take foolish risks.** Good hedging is always methodical, almost systematically mechanical and therefore often boring (a bit like managing a long-term investment portfolio: trying to anticipate trends - such as buying low and selling high - will produce poor results and lead to considerable friction costs (i.e. high management fees).

The difficulty of hedging for an airline, as for any other industry (which is the same as investing in the stock market), **is that it is counter-intuitive.** It implies giving up margin points when prices are very high to hedge against the risk of a fall (downside protection), and taking an option on possible price increases (upside capture), even in a depressed context where all projections are negative. And very few people are able to do this. **Hence the need to be methodical, mechanical and boring (to be repeated 7 times in your head).**

In any case, **good hedging should be used to smooth the margin profile over the cycles rather than to bet on a possible rise or fall.** This applies as much to a company that hedges its cost of ownership (e.g. an airline with fuel) as to a commodity producer. Thus, good hedging should be seen more as an insurance program than as a speculative bet or a desire to make a one-time financial gain. **The**

problem is that it is very difficult to maintain this discipline. Again: "methodical, mechanical and boring".

Note also that there is an important institutional imperative regarding hedging: creditors require the borrower to hedge with the idea of guaranteeing a certain EBITDA margin, i.e. that the company remains able to cover its interest expense and evolve in its covenants (covenants are clauses, inserted in loan contracts concluded between a bank and a company, which impose on the debtor the respect of certain specific commitments and in particular of financial ratios). The creditor will generally ask the company to have debt levels that do not exceed a certain multiple of EBITDA). In order to accept to lend, creditors require a minimum of visibility. Now that you know more about hedging, it is time to find answers to the question: **why do some airlines hedge and others do not?**

. On the creditor side: **A first answer can be found in the role of creditors.** For example, Southwest Airlines hedges because it was able to negotiate exceptional loan conditions, but only in exchange for guarantees via its hedging strategy

. On the shareholders' side: Still in the register of the institutional imperative, **shareholders sometimes put the brakes on this kind of strategy.** When the price is high and we pay to hedge downwards, shareholders do not appreciate the management because they lose part of their profits. In these cases, the management is accused of not taking the opportunity to make record profits, of losing its seriousness, etc. So you have the company's ratios suffering compared to those of unhedged competitors or those that are simply less careful about these volatility risks. Conversely, when the context is bad, when selling prices are low, the management, which takes options to cover itself, can be slapped on the wrist and be judged as too aggressive.

In addition to the complexity of the process, it is never easy to satisfy all stakeholders with one's hedging policy: creditors, shareholders, mother-in-law.

In reality, these kinds of issues (risk management in general) **often have to do with the corporate culture as a whole** rather than a particular hedging program. In corporate cultures where responsibilities are diluted with mercenary, short-term obsessed, regularly renewed management whose compensation is closely linked to stock option bonus payments, the natural temptation to take reckless risks and find a way to justify them often leads to bad hedging strategies. For these companies, it may not be worthwhile to hedge (unless against stupidity)

. **Having a good hedging strategy is therefore mainly a matter of the company's culture: a healthy culture with a long-term vision and a competent and responsible management.**

And when it comes to airlines, good corporate cultures can be counted on the fingers of one hand. It's no longer a secret among investors that Southwest Airlines is one of the airlines with the most admirable corporate culture.

My comment: *It is important to say again and again that for airlines the objective of hedging (fuel hedging) is to limit the effect of fuel cost variations, not to "make money".*

A fuel hedging policy is considered good if it is neutral in the long term.

The article tries to answer the question: why do some airlines hedge and others do not?

The answers provided are incomplete.

U.S. airlines have little hedging overall for two reasons: they are an oligopoly in their domestic market (they can agree to adjust their rates) and they have a local source of supply. The United States is a major oil producer.

For the opposite reasons, European airlines mostly use fuel hedges and try to have similar strategies. One of the few European airlines that does not have a fuel hedging policy is Wizzair.

I would also like to remind you that fuel hedging is mainly based on the price of Brent crude oil, not on the price of jet fuel. The kerosene market is much smaller than the Brent market, and few organizations are willing to take risks on this market.

Finally, as I have been pointing out for several weeks (see below the paragraph "My comment on the evolution of the price of fuel"), the price of kerosene has been decorrelated from the price of Brent since February 2022, leading to a sharp increase in the fuel bill for airlines.

End of the press review

> Advice for employees and former employees who are shareholders

You will find on my [navigation](#) 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](#).

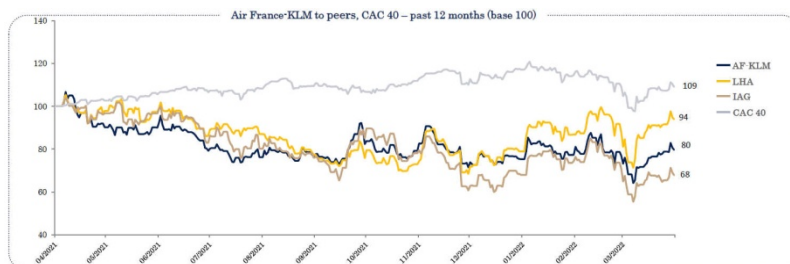
> My comments on the Air France-KLM share price trend

Air France-KLM shares closed at 1.106 euros on Monday 11 July. It is down this week by -2.56%.

Since the beginning of the capital increase operation, it has lost nearly 40%.

Several reasons explain this decline. The first is specific to Air France-KLM: it is the mechanical consequence of the capital increase.

The other two reasons are valid for all airlines: on the one hand, the acceleration of inflation, and on the other hand, the numerous flight cancellations planned during the summer throughout Europe.



Comparative evolution of the Air France-KLM share price vs. IAG and LH over one

year, before the recapitalization of Air France-KLM.

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 was delayed.

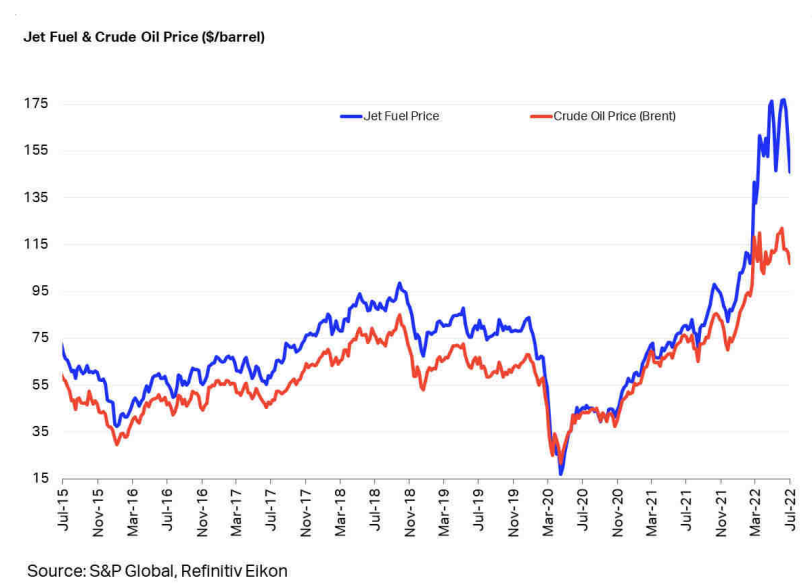
IAG's share price is down sharply. The high level of debt of the Anglo-Spanish group is highlighted by analysts.

The average (consensus) analyst price for AF-KLM shares after the capital increase is 1.39 euros. The highest price target is 1.90 euros, the lowest 0.85 euros. I only take into account analysts' opinions after the May 2022 capital increase.

You can find the details of the analysts' consensus on my blog.

> [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 - July 2022.



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.

In fact, 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 prices by region (source IATA)

8 July 2022	Share in World Index	cts/gal	\$/bbl	\$/mt	Index Value 2000 = 100	vs. 1 week ago	vs. 1 month ago	vs. 1 yr ago
Jet Fuel Price	100%	348.03	146.17	1154.32	399.58	-8.4%	-17.2%	81.9%
Asia & Oceania	22%	329.48	138.38	1093.22	395.39	-9.9%	-19.1%	78.7%
Europe & CIS	28%	349.11	146.63	1156.88	395.05	-10.0%	-19.2%	82.3%
Middle East & Africa	7%	329.97	138.59	1094.26	413.86	-10.2%	-19.6%	78.2%
North America	39%	358.79	150.69	1190.47	400.61	-6.1%	-14.5%	83.4%
Latin & Central America	4%	369.04	155.00	1224.48	429.37	-7.6%	-14.4%	86.4%

The barrel of Jet Fuel in Europe is down sharply this week from \$16 to \$147. It had already dropped \$15 the week before.

Brent crude oil (North Sea) is down this week by \$8 to \$106. 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.

This information is not intended to be a solicitation to buy or sell Air France-KLM shares.

You can react to this press review or send me any information or thoughts that will help me better carry out my duties as a director of the Air France-KLM group.

You can ask me, by return, any question relating to the Air France-KLM group or to employee share ownership...

See you soon.

To find the last press reviews of Monday, it is [here](#)

If you like this press review, please pass it on.

New readers will be able to receive it by [giving me](#) the email address of their choice.

| François Robardet

**Director of Air France-KLM representing the employees and former employees shareholders of PNC and PS.
You can find me on my twitter account @FrRobardet**

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

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