

AF-KLM annoyed by the Minister of Transport's letter



I Letter from the Director of Air France-KLM

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Representative of the employees and former employees shareholders
PS and PNC

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Monday's Press Review

Editorial

Dear readers,

The event of the week is co-organized by a member of my team: it is the third edition of the "States of the Air" which will be held on Wednesday, September 14 at the DGAC.

This event aims to :

. Bring together eminent professionals of our industry to collect their vision of what could become the air transport in the next 10 years, but also to promote exchanges with the people who attend these debates and round tables.

. To propose more technical conferences in a logic of maintenance of competences, through current topics such as cybersecurity, regulation, or agile methods...

Most of the players in the air transport industry will be present, including the General Manager of Air France Anne Rigail.

For several weeks now, I have been proposing a series of articles about climate change.

After an interview with Mr. [JM Jancovici](#), an article on the [Drawdown project](#) and [Air France's commitment to more responsible travel](#), you will find in this letter the climate presentation at the governmental seminar.

This presentation was made by Dr. Valérie Masson-Delmotte, Director of Research at the CEA, at the Climate and Environmental Sciences Laboratory.

Enjoy reading it.

François

> The boss of Air France KLM annoyed by the letter of the Minister of Transport

(source RTL) September 6 - The reaction was not long in coming. After the letter sent by the **Minister of Transport, Clément Beaune**, to the National Federation of Aviation and its Trades (FNAM) and revealed by RTL, Ben Smith, the CEO of Air France-KLM took advantage of a meeting this Tuesday morning, September 6, at the Ministry to answer him face to face. The minister **deplored the many problems encountered by passengers this summer and consequently referred the matter to the Directorate General of Civil Aviation to ensure that this does not happen again.**

In front of about 40 guests, the Air France-KLM boss clarified things: "**In the airports we are not responsible for the security queues nor for the baggage sorters**", explained **Ben Smith** according to a participant in the meeting contacted by RTL.

"We have been there this summer and welcomed thousands of people. We had anticipated the recovery and hired in number to offer the best reception conditions to our customers," added the director according to another participant, visibly annoyed by the letter received the day before and rejecting, in hollow, the fault in particular on Aéroport de Paris.

(...)

The Minister of Transport wishes to collectively learn the lessons of the summer season and prepare for the next seasonal peaks "by offering travelers the quality of service they are entitled to expect.

Clément Beaune also deplores the fact that companies are sometimes reluctant to apply European regulations that protect passengers in case of delay. Indeed, European passengers can be compensated from 250 to 600 Euros for flight delays

and some companies are accused of dragging out the files.

My comment: *Factually, the Minister of Transport is right. Some companies are dragging out the reimbursement files.*

This summer, delays have been numerous, but less in France than elsewhere, see further the article "Airline delays are already on the rise in the European sky".

However, not all delays are attributable to airlines, even though they are the only ones among the air transport actors to have to compensate their customers.

Before going further, here are some definitions taken from the blog of a lawyer, Maxime Bizeau:

-- beginning of the quote ---

The debtor of an obligation of means simply undertakes to take sufficient care to perform his obligation. In other words, he promises to do his best to satisfy the creditor. But he does not promise to achieve a certain result. (.. .)

The debtor of an obligation of result does not merely undertake to do his utmost to ensure that the expected result is achieved. More strictly speaking, he undertakes to provide the creditor with the expected result.

-- end of quote ---

It is paradoxical that airlines are subject to an obligation of result while the other links in the air transport chain are only subject to an obligation of means.

For example, security-related tasks (border controls, inspections at the PIF - Point d'Inspection Filtrage -) are the responsibility of the State. The French State is only obliged to provide the means to perform these tasks.

If a bottleneck at a checkpoint causes delays, it will be up to the airline to compensate the passengers, not the French State.

Economically, the reaction of the CEO of Air France-KLM is understandable.

> **The Netherlands will quadruple its tax on air travel**

(source Le Figaro) September 8 - **From the beginning of next year**, (...) according to sources interviewed by the Dutch daily De Telegraaf, the country plans to charge more to those who fly from its territory. Although the news has not yet been officially announced, **the passenger tax could rise from 7.95 euros to 28.58 euros per ticket from January 1, 2023. An increase of more than 20 euros directly from the price of the ticket.**

This increase is the result of a brainstorming between the various parties in the ruling coalition. According to De Telegraaf, the measure was decided to "encourage travelers to choose more sustainable transport options such as the train", but also to provide a source of additional revenue.

(...)

As a reminder, **the tax, introduced at the beginning of 2021, only applies to flights departing from the Netherlands, and not to connecting flights.**

The announcement should make people cringe, as it comes in a difficult context for the Dutch airport sector. Last June, the Netherlands announced a cap on the number of flights per year at Amsterdam-Schiphol, one of the busiest airports in Europe. The stated aim is to combat noise pollution.

My comment: Little by little, the environmental taxation of air travel is spreading in Europe.

In November 2020, here's what I was already writing about this topic.

As early as the end of 2018, the Netherlands had announced the implementation of this tax [of 7.45 euros at the time], which should impact KLM to the tune of 140 million euros per year.

In Germany, the government has decided to increase its tax on airline tickets. This will bring in an additional 740 million euros per year.

In Great Britain, the Air Passenger Duty, whose aim is to limit the climate impact of air transport, has existed for over ten years. In 2019, it brought in 4.3 billion euros for the British government.

While the amounts differ from country to country, there is one constant: airlines deplore the fact that the proceeds of these taxes are not allocated to research into alternatives to kerosene, which would reduce CO2 emissions.

> Why the takeover of ITA by a US fund would be a major feat for Air France-KLM

(source The Conversation) September 8 - One might have imagined that the Italian-Swiss giant MSC and its German ally Lufthansa would remain favorites in the race to take over ITA Airways, which was created at the end of 2020 to save Alitalia from bankruptcy. However, its 100% owner, the Italian state, chose at the end of August to enter into exclusive negotiations with a consortium for a stake in the capital of the American investment fund Certares. There is talk of a sale of 56% of the shares for around 600 million euros.

Certarès has presented itself with Delta Airlines and Air-France-KLM as partners. The Franco-Dutch group owned, in 2013, 25% of the capital of Alitalia before gradually withdrawing from it. From now on, it does not exclude the possibility of eventually taking a "minority stake" in ITA. Such an entry into the capital could not exceed 10%, however, as it remains constrained by the European Commission in return for the public aid received to overcome the Covid-19 crisis. In the meantime, even as simple "commercial and operational partners", the **presence of these airlines in the dossier remains highly strategic and goes beyond the simple game of acquisitions in the air transport sector.** As we explained at the 4th Rencontres Francophones Transport Mobilité conference, what lies behind this takeover is a battle being waged by the three international mega-alliances. A battle in which ITA is an important pawn.

Today, of the many carriers in the world, 57 belong to one of the three international mega-alliances. Skyteam has 18, Oneworld 13 and StarAlliance 26. They account for more than 60% of global international traffic, carrying more than two billion passengers in 2019.

By recruiting major airlines in the U.S., Europe, Asia and South America, as well as several "secondary" airlines around the world, a global alliance can offer passengers the possibility to travel to any point in the world. By optimizing connections, it is able to offer a "seamless" flight and harmonize frequent flyer programs. Skyteam offers 15,500 flights a day across 170 countries. However, in recent years, the **three rivals have been competing less through new memberships, which would strengthen their networks, than through the creation of new types of partnerships.**

Within the same mega-alliance, some airlines have decided to go even further in their cooperation and create what is known in the airline jargon as a "Metal Neutral Joint-Venture" (MNJV) or "quasi-merger".

In a given perimeter of destinations (a "bundle") on which they were rivals, the partners will now behave as if they were one and the same company. **According to very clear rules in the contract, they will share their revenues, profits and/or costs, so that the identity of the metal, i.e. the aircraft that will make the flight, does not matter.**

Within the three mega-alliances, there are now more than twenty MNJVs with colossal power, **especially in the juicy transatlantic air market** between Europe and North America. It's all about being strategic and not letting one of your own go to the other team.

Before going bankrupt in 2021, Alitalia was a privileged partner of the Air

France-KLM-Delta tandem: not only was it, too, a member of Skyteam since 2001, but it had joined its transatlantic joint venture in 2010. **As soon as its successor, ITA, was created,** Skyteam had to get it back. ITA had, at that time, hesitated (not for long, of course) to go to StarAlliance. Lufthansa, one of the leading StarAlliance airlines, wanted it badly and had put all its weight behind convincing it to join them. In the **end, ITA joined** its rival **Skyteam.**

So when the Italian government announced the privatization of ITA, StarAlliance quickly saw the opportunity to take revenge. An airline can only be part of one alliance, and once it is a member, it is difficult to change. The few times this has happened, it has been as a result of a merger, acquisition or takeover between rival alliance carriers.

Lufthansa's ITA would have had no choice but to pack up and join the StarAlliance team. This would have been a huge loss for Skyteam and especially for its transatlantic MNJV. In 2020, Skyteam had strengthened itself by "merging" the two transatlantic MNJVs it had (Air France-KLM-Delta and Delta-Virgin, Virgin is not part of Skyteam but is 49% owned by Delta) and remains today very open to integrate new partners. ITA could very well take the vacant place of the former Italian airline.

This is why overtaking Lufthansa in the takeover of ITA is a brilliant feat for the Air France-KLM and Delta tandem. Of course, negotiations are not over and ITA's financial situation is far from good. But at this stage, it seemed to be the right strategy to prevent their competitors from depriving them of an important asset. It was the best way to maintain their strength in the transatlantic market



My comment: Being part of an alliance is important for an airline. For example, most Skyteam member airlines are affiliated with Air France-KLM's Flying Blue frequent flyer program, which allows them to retain their business customers.

But as this article explains so well, participating in a Joint Venture in a promising market is a considerable asset.

Please note: the above infographic only mentions Joint Ventures on the North Atlantic.

Air France-KLM is involved in other joint ventures with airlines: in the East with China Eastern or on the South Atlantic with GOL (a cooperation close to the joint venture).

This is also the case for maintenance activities. AFI KLM E&M has initiated a number of joint ventures, with Go Solutions for Transavia and French Blue at Orly, with Safran in France, with Bonus Tech in the United States, with Sabena Technic in Singapore, with Lufthansa Technik in Germany, with Safran Nacelles in Dubai, with Triumph in the United States, etc.

If you would like more information on these joint ventures involving AFI KLM E&M, I invite you to consult the Universal Registration Document 2021 available on the [Group's corporate website](#), pages 42 to 44.

> Portugal discusses with Air France and Lufthansa the reprivatization of TAP

(source AFP) September 9 - **The Portuguese government wants to launch the reprivatization of TAP Air Portugal by the end of the year and has already started discussions with the Air France-KLM and Lufthansa groups, the weekly Expresso reported Friday.** Antonio Costa's socialist executive wants to re-privatize "at least half of the capital" of TAP "as early as this year in order to conclude the process at the beginning of 2023," the newspaper said, citing an unidentified government source.

Air France and Lufthansa are the "favorite" candidates for the takeover of TAP, says Expresso, adding that the IAG group, parent company of British Airways and Spanish Iberia, would also have expressed "its interest". "

Discreet talks between the government, financial advisors and airline groups have been underway for several months," reports Expresso, stressing that **the government wants TAP to keep its "hub" at Lisbon airport**, a gateway to its flagship destinations in South America and Africa. Questioned by AFP, neither the government nor TAP wished to comment on this information.

The Portuguese airline group, whose difficulties had increased with the Covid-19 pandemic, had been completely renationalized in 2020, in exchange for the application of a restructuring plan imposed by Brussels and whose conclusion is expected in 2024. 3.2 billion, the rescue plan for TAP provided for, among other things, a reduction in its workforce, a reduction in salaries and a reduction in its fleet. Some of these measures are currently being contested by the unions, which are demanding wage increases.

The company's accounts remain in the red although the recovery of tourism has

enabled it to reduce its losses in the second quarter, to 80.4 million euros against a little more than 128 million over the same period in 2021, thanks in particular to a number of passengers "multiplied by four". Privatized to the tune of 61% in 2015, the Portuguese state took back control of the company the following year, disagreeing with the debt-financed expansion strategy led by the consortium of American businessman David Neeleman.

My comment: *The health crisis experienced over the past three years has accelerated the consolidation of European air transport.*

In the near future, air transport in Europe could resemble the American air transport: an oligopolistic market around four major operators (Air France-KLM, IAG, Lufthansa and Ryanair).

Among the airlines in difficulty, ITA Airways and Air Europa are already the subject of takeover offers.

That TAP Air Portugal is turning to investors is not a surprise.

> **Airline delays are already on the rise in European skies**

(source Les Echos) September 5 - With 31,000 daily flights at the end of August in European airspace, **air traffic has recovered, on average, to 88% of the August 2019 level** (90% on intra-European), according to Eurocontrol. **But the number of delayed flights was up 5.4% in the last week of August**, compared to the same period in summer 2019.

On average, nearly 40 percent of flights (38.7 percent) were delayed by more than 15 minutes on departure (and 31.4 percent on arrival, over the last week of August, according to Eurocontrol). **At London-Gatwick, delayed flights even accounted for nearly 58% of traffic. Roissy-CDG fared better, with 40 percent of flights delayed on departure** (and 29 percent on arrival). Amsterdam-Schiphol and London-Heathrow also fared well, with 33% and 32% of flights delayed on departure respectively. But what these two airports have in common is that they have forced airlines to cancel a large number of flights to reduce congestion.

Because unlike the situation in the summer of 2019, which also resulted in a record number of delayed flights, **the main cause of the surge in air delays this summer is indeed to be found on the side of the lack of personnel in the airports.** The endless queues at the security checkpoints and the scenes of chaos observed on certain days in several major airports have caused these delays to cascade.

On the other hand, the summer weather made things rather easier, unlike the summer of 2019, which saw several severe stormy episodes in Europe. Similarly, air traffic management issues remained relatively contained this summer, although again, the number of flights delayed by air traffic control issues exceeded summer 2019 levels on three occasions.

This is especially true in France. With the exception of a poorly attended strike at the Aix control center in July, French air traffic control has not experienced any major lasting disruptions this summer, despite concerns about the implementation of new IT systems. **French air traffic control, which manages the largest airspace in Europe, generated only 16% of ATFM delays, compared with 29% in Germany.**

Overall, France suffered slightly less from air delays than most European countries, with an average of 64.4 percent of departures on time in early September, compared to 57.4 percent in the UK, 55.8 percent in Germany, 52.5 percent in the Netherlands and 47.5 percent in Italy. The most delayed country was Israel, with only 34.6% of departures on time.

***My comment:** When I look at myself, I feel sorry, when I compare myself, I feel better. This is what airport managers in France must think.*

Last minute: to avoid long queues and further delays, Amsterdam Schiphol airport has asked airlines to cancel their flights scheduled for this Monday, September 12 between 4:00 pm and 11:00 pm local time, due to a staff shortage. Airlines that comply with the request to cancel flights will be compensated, Schiphol management said.

> **Oil: Opec+ highlights risks of demand deterioration**

(Reuters source) Aug 31 - **The global oil market is likely to see a larger-than-expected surplus this year as** higher energy prices and tighter monetary policies dampen demand, Opec+ said in a report on Wednesday.

(...)

Last week, the Saudi Energy Minister, Prince Abdulaziz bin Salman, assured that Opec+ was ready to reduce its pumping in the face of volatile oil prices.

His words helped Brent crude oil rebound to over \$105 on Monday, its highest level in a month, but **the market price fell back to around \$96 on Wednesday as traders anticipated a drop in demand.**

(...)

The Joint Technical Committee (JTC) report said it expects global demand to increase by 3.1 million bpd this year but highlighted uncertainties related to inflation and tighter monetary policy, both of which are eroding consumer purchasing power. **"Rising energy prices are another risk going forward,"** he adds. "This could lead to a greater reduction in consumption than currently anticipated, especially at the end of the year."

According to the report, the global market would be in surplus by 900,000 bpd this year, 100,000 bpd more than previously expected. And that surplus is expected to persist next year, according to the committee's central scenario.

***My comment:** Oil prices are trending down for various reasons.*

The first reason, mentioned in the article, is a drop in consumption in Western countries.

The second reason is China, the world's largest importer of crude.

China's demand for oil may decline for the first time in two decades. Beijing's policy encourages people not to travel during the vacations, which reduces fuel consumption.

Nevertheless, experts believe that oil prices could rise again at the end of the year: a European Union embargo on Russian oil will take effect on December 5.

Bonus Article

> Climate presentation at the government's back-to-school seminar

(source Dr Valérie Masson-Delmotte) September 7 - (...)

The challenge for the coming years is to initiate structural transformations, relying as much as possible on co-benefits within the framework of strategies that focus on sustainability (production, consumption, quality of life, air quality, health).

Investment needs are significant (mobilize all sources of financing) and are estimated at 0.05 to 0.1% of global GDP each year.

Macroeconomic evaluations are very clear on the benefits of rapidly undertaking these transformations. **The cost of inaction (losses and damages, cost of adaptation) is clearly higher than the cost of investments to build a low carbon economy**

The benefits, for example in terms of air quality and avoided public health costs, can be greater than the investments.

Strategies that enable people to adopt a low-carbon lifestyle have an important role to play, with the potential to reduce global emissions by 40-70% by 2050, taking into account equity issues.

The impacts of climate change are getting worse. **Solutions exist and can be implemented for structural transformations, building a resilient development and a low-carbon economy, rather than managing crisis after crisis.**

Every decision counts and can either lock in exposures, vulnerabilities, greenhouse gas emissions, ecosystem degradation, or initiate profound transformations, in all areas, taking into account the issues of equity & just transitions.

You have a key role - the mental burden of climate action should not be on scientists, or younger people, it should increase with the level of responsibility, and you have critical levers for action.

There is still a narrow window of opportunity to limit the damage, but it is closing fast - each year of inaction will exacerbate the risks ahead, with increasing threats to global health and well-being.

Implementing these transformations requires overcoming multiple obstacles, with issues of training, collective dynamics, exemplarity, and power relations to be able to change the scale of action.

***My comment:** I thought it was important for all of us, airline employees, to read this presentation made to all members of the government.*

I have only reported the end of the presentation above. You will find the entire presentation (text and slide show) on my website on the [Sustainable Aviation](#) page.

I invite you to carefully examine page 18 of the slide show. It lists the effort required from the different sectors.

You will (re)discover that air transport is one of the sectors that has the least effort to make. This paradox should be put into perspective, as biofuel production is a sector in its own right.

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 employee shareholding funds, I invite you to 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 1.534 euros on Monday 12 September. It is up this week by +6.05%.

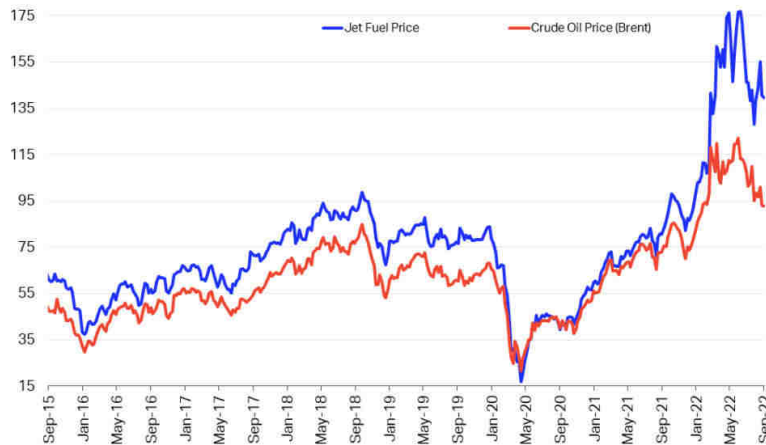
The analysts' average (consensus) for AF-KLM shares is 1.50 euros. The highest price target is 1.90 euros, the lowest 0.85 euros. I only take into account analysts' opinions after the May 2022 capital increase.

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

> **My comment on the evolution of fuel prices**

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

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



Source: S&P Global, Refinitiv Eikon

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

Indeed, for several 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.

I have no explanation for the sharp rise in fuel prices over the past month.

Jet fuel price per barrel by region (source IATA) as of August 29, 2022

Fuel Price Analysis

The jet fuel price ended last week up 8.1% at \$155.2/bbl:

26 August 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%	369.40	155.15	1225.17	424.12	8.1%	8.5%	95.9%
Asia & Oceania	22%	352.26	147.95	1168.78	422.73	10.7%	9.1%	93.4%
Europe & CIS	28%	378.68	159.05	1254.88	428.52	7.4%	8.1%	101.9%
Middle East & Africa	7%	355.70	149.39	1179.57	446.13	9.5%	8.4%	96.9%
North America	39%	373.58	156.90	1239.54	417.13	7.4%	8.8%	92.7%
Latin & Central America	4%	380.29	159.72	1261.79	442.45	5.6%	4.7%	96.2%

The barrel of Jet Fuel in Europe is down this week by -\$2 to \$142. After peaking at \$182 in June 2022, it was down to \$132 in early August.

It was at \$79 a little over a year ago.

Brent crude oil (North Sea) is up this week by \$1 to \$94.

Since mid-February, it had 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

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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To contact me: [message for François Robardet](#).

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