

Air France receives its twentieth Airbus A350-900 named "Angers"



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

> Air France receives its twentieth Airbus A350-900 named "Angers"

(source Air Journal) November 26 - **The twentieth A350-900 out of the 38 ordered was delivered yesterday to the French airline.** Registered F-HTYT, the aircraft rolled off the Airbus assembly line in Toulouse and headed for Paris-Charles de Gaulle, where it will be used for the airline's long-haul routes. It will make its first commercial flight today, flying to Lima, Peru.

Since 2019 and the delivery of its first Airbus A350, Air France has resumed the tradition of naming its aircraft after French cities. "Angers" was chosen "as a tribute to this city in the west of France, a major heritage site, which was a place of residence for the kings of France," says Air France. Before "Angers", it named its 19 previous Airbus A350s after "Toulouse", "Lyon", "Saint-Denis de la Réunion", "Nice", "Bordeaux", "Marseille", "Reims", "Dijon", "Saint-Malo", "Cannes", "Aubusson", "Pointe-à-Pitre", "Fort-de-France", "Chambord", "Cayenne", "Lille", "Menton", "Deauville" and "Biscarosse".

With the Airbus A350 in service on its long-haul network, Air France is continuing to integrate new-generation aircraft into its fleet, which are more economical and more environmentally friendly. **"With CO2 emissions reduced by 25% compared with the previous generation of aircraft, it is a major lever for reducing the airline's environmental footprint. Its noise footprint has also been reduced by 40%,"** the airline said.

This winter, Air France's A350s will serve 20 destinations on four continents, departing from Paris-Charles de Gaulle

(...)

By 2030, the latest generation aircraft (Airbus A350 and Airbus A220) will account for 70% of its fleet, compared with 7% currently, thanks to an ambitious investment plan of one billion euros per year.

My comment: *The decarbonization objectives assigned to Air France for 2030 are ambitious.*

They are achievable thanks to two main actions:

. the use of sustainable fuels (SAF, which have been purchased on a long-term basis, see [my letter 887](#)).

. the replacement of old aircraft, which will reduce greenhouse gas emissions and noise pollution.

These factual elements make it possible to respond to the criticisms of air transport detractors, who are quick to denigrate air transport and to advocate degrowth as the only solution.

> **Tour operator Corendon expands its offer from Brussels**

(source Trends Trends) Nov. 28 - **Dutch travel booking giant Corendon will double its departure capacity from Brussels airport** next season at the expense of Schiphol in the Netherlands. *The reasons cited are high costs and a chaotic situation at the Dutch airport*, Dutch newspaper De Telegraaf reported Monday.

Corendon will double the number of seats from Brussels Airport to 260,000 next season. Capacity at Schiphol will then rise to 230,000 seats.

Corendon boss Atilay Uslu fears that the company will be forced to cut capacity even further from the Dutch airport in the future because of staff shortages at Schiphol. "From Brussels, we can provide vacations for customers," he says.

In addition, flights from Belgium are cheaper, because fares at Schiphol airport have increased and Dutch aviation taxes have quadrupled, the CEO says.

My comment: *As a consequence of the Dutch government's announcement to reduce the number of flights allowed at Schiphol, the main airport of the Netherlands, passengers will now fly from Brussels rather than from Amsterdam.*

This will benefit the Lufthansa group, already well established in Brussels via its subsidiary, Brussels Airways.

> **Emirates confirms it will fly all its a380s from next summer**

(source BFMtv) November 24 - **Progressively abandoned by airlines, due to lack of profitability, the A380 - which has not been manufactured by Airbus for three years - is making a comeback in the skies, notably with Emirates**, the first user of this very large aircraft.

Currently, 70 of the 118 A380s are in operation, a figure that will rise to 80 by the end of the year and to 118 next summer. That is the entire fleet of the company confirmed this Wednesday to the German press its CEO, Tim Clark.

The Dubai-based airline, due to the configuration of its operations, is betting heavily on this aircraft while its competitors were putting it in the garage. It is investing 2 billion dollars to equip it with its new Premium Economy class.

(...) In contrast to the

current trend towards lighter, twin-engine, single-aisle aircraft, **the A380, which is very expensive to make profitable, is also making a comeback at other airlines.**

It is making a comeback on inter-continental

routes with British Airways (12 aircraft), Singapore Airlines (12), Qatar Airways (8), Qantas (6) and Korean (4). Lufthansa wants to put its fleet of eight A380s back into service next summer, almost three years after having retired them.

However, with the exception of Emirates, these returns are taking place under some pressure. They have to absorb a very significant increase in traffic at the moment, so they have to deliver. Especially

since **deliveries of the Boeing 777X have been slow.** This aircraft, the largest in Boeing's catalog but lighter than the A380, has only two engines, so it is much less expensive to operate and therefore less profitable.

(...)

The first deliveries were expected in mid-2020 before being postponed to the beginning of 2021 and then postponed again. They are now expected at the end of 2023. It is also supposed to compete with the A350, which is currently the largest aircraft in the Airbus catalog

(...)

My comment: *The three Gulf carriers, including Emirates, are located in a very small geographical area, with their three hubs grouped together in an area of less than 500km.*

Local air traffic control systems are almost saturated, leading the airlines to operate high capacity aircraft.

To meet this need, Emirates has placed a large order for 115 B777-9s, which has not yet been filled, forcing it to continue using its A380s despite the high cost.

> **Lufthansa retains supporters in Rome to take over ITA Airways**

(source: Les Echos) November 26 - **Another twist in the drama of the privatization of ITA Airways.** Will Lufthansa soon be in charge of the Italian airline?

At least that's what the German airline wants, since it is the only one in the running for the privatization of the Italian aircraft manufacturer. **At the beginning of the week, the shipping giant MSC announced its withdrawal. Last August, it had submitted** an offer of 850 million euros for 80% of ITA, leaving the Italian state with only a 20% share. The shipping giant was to assume 60% of the investment. Now alone on the track, and after having scrutinized ITA's accounts, Lufthansa maintains its interest in the company in crisis.

According to indiscretions of the "Corriere della Sera", **the Meloni government is studying the option of selling the majority of ITA to a consortium formed by Lufthansa and the state-owned railway group, Ferrovie dello Stato (FS).** The German group would have a majority stake of 51 per cent and the state would retain 20 per cent of the capital. The Italian Treasury refuses to categorically deny this. However, **the "German option" is favoured by Economy Minister Giancarlo Giorgetti.** As soon as he took office at the end of October, one of his first decisions was not to renew the exclusivity for negotiations with Certares, associated with Air France-KLM and Delta Airlines, decided by Mario Draghi's government. He believes that Air France would be a commercial partner and not an industrial one.

(...)

Andrea Giuricin Professor of transport economics at the University of Milan-Bicocca **"ITA is an essential part of Lufthansa's strategy,"** says Andrea Giuricin, professor of transport economics at the University of Milan-Bicocca. When it takes over rival airlines such as Austrian Airlines, Brussels Airlines or Swiss, it is very attentive to the development of the hub, whether in Vienna, Zurich or Brussels. **This is what it intends to do in Rome, which could enable it to fill a gap with its rivals concerning South America.** For historical reasons, especially those related to immigration and emigration, Italy has a great potential.

Ferrovie dello Stato and the freeway and airport operator Atlantia, on the other hand, have denied the rumors that they are entering the fray. They resurrected projects born in 2019 under pressure from the populist government League-M5S. "(...) Lufthansa wants a real privatization and to have a free hand, but there is a nationalist fringe within the Italian government that wants the state to remain the determining factor. This could complicate **negotiations that must be completed by next spring at the latest.**"

That's the amount of freedom ITA still has, whose accounts are steadily deteriorating. The state has just recapitalized the company to the tune of 400 million euros. Brussels has authorized a maximum injection of 1.35 billion euros of public funds and only 250 million euros remain. This is too little for it to continue to fly on its own wings. "It is too small, too fragile, and the airline sector is too complicated," insists Andrea Giuricin. **It can only be taken over by another group or it will crash.**

***My comment:** The umpteenth comment on this commedia dell'arte (a genre of Italian popular theater, born in the 16th century, where masked actors improvise comedies*

marked by naivety, source Wikipedia).

More seriously, the interest in buying ITA Airways has evolved in recent years with the restrictions on business travel.

Historically, the ex-Alitalia has always operated from two hubs: Milan, where business traffic was predominant, and Rome, which was oriented towards leisure traffic. The management of these two hubs with very different customer bases has regularly generated significant additional costs.

If the probable decline in business traffic at Milan is confirmed, airlines wishing to acquire ITA Airways may have to reconsider the contours of their offer.

An ITA Airways with reduced dual hub constraints would be more manageable.

> **Chinese airlines optimistic about the return of their long-haul flights**

(source Air & Cosmos) November 26 - **The three major Chinese airlines, Air China, China Southern Airlines, China Eastern Airlines, are back on the long-haul route even if health control measures are still in place but are now part of a relaxation dynamic.** Air China has announced the opening of 52 routes by March 25, 2023, while China Southern Airlines and China Eastern Airlines will each offer 42 routes, according to "People's Daily Online". Air China will operate 132 weekly frequencies on its 52 routes.

(...)

This return of long-haul flights is accompanied by a gradual relaxation of health control, including "the cancellation of the circuit breaker mechanism", to quote Li Yangmin, general manager of China Eastern Airlines. This mechanism was put in place if 5 or more passengers of an airline flight tested positive upon landing in China, with the consequence that all flights of this same carrier were suspended for two weeks. This suspension is extended to four weeks if 10 or more passengers test positive for Covid. On the other hand, **the quarantine remains for incoming travelers even if it is reduced to 8 days instead of 10 previously while passengers are asked to provide one negative test result instead of two from nucleic acid tests performed at most 48 hours before boarding.**

My comment: *This information should be taken with caution. The "zero Covid" strategy is unavoidable in China. The health system is not ready for a Western-style policy of "coexistence" with the virus. The number of nurses per 1,000 people in China, for example, is seven times lower than in the United States.*

The situation is different in its large neighbor, India.

India has lifted the latest travel restrictions related to the Covid-19 pandemic, with vaccination still recommended but not mandatory.

As of November 22, 2022, according to the Indian Embassy website in France, the new "guidelines" have been revised in light of the "sustained decline" trajectory of Covid-19 and the "significant progress" in vaccination coverage, both in India and globally. While all travelers "should preferably be fully vaccinated," and "preferably" wear a mask and respect physical distance, only a thermal check remains required upon arrival at the country's airports.

> **Border controls: French airports fear chaos in 2023**

(source Les Echos) November 25 - **The ban on air travel on routes served by trains in less than two and a half hours is not the only subject likely to feed the nightmares of French airport managers. The annual congress of the Union of French Airports (UAF), this Friday, was the occasion to draw up a small list.**

The main concern of French airports after two years of crisis remains the regulatory framework, which limits their margin of action in negotiations with airlines and the management of their capacity. The airports hope to see this framework evolve.

But the year 2023 also presents a new risk of chaos in airports, with the entry into force of a new European rule on border control. Starting in May 2023, international travelers from outside the Schengen area will have to register before crossing the border in order to benefit from a visa exemption. This system, **directly inspired by the United States' Esta program, is supposed to strengthen European security.** But its implementation worries airports, which fear endless queues at check-in kiosks. **"States have focused on the IT aspect of the project, but not on its implementation in airports,** which risks causing chaos, with hours of waiting at borders," says Olivier Jankovec, director general of the ACI association of European airports.

In the absence of additional resources, the implementation of the system should be "postponed or at least made more flexible during peak periods," says the airport representative. "

We are asking for a transition period, with a relaxation of controls in case of saturation," says Olivier Jankovec.

Another concern for 2023 is the proposed revision of slot allocation rules, for which the Commission has begun the consultation process. **Airports are anxious to optimize their infrastructure and are calling for stricter rules on the use of precious slots, while airlines are calling for more flexibility.** "We are heading towards a lack of airport capacity, which means we need to use slots to the maximum," says ACI's director, referring to the proposed restriction of flights at Amsterdam-Schiphol.

In addition to these European issues, there are French problems. The French airports, which feel that they are not treated as well by the legislator as the airlines, have not forgotten the promise of the previous Minister of Transport to study a reform of the regulations governing the setting of fares and the financing of their investments.

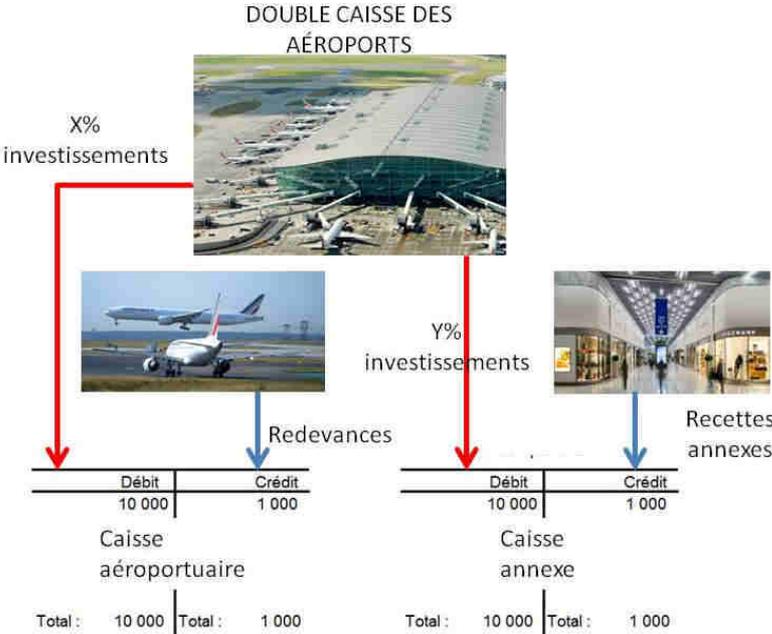
They have no shortage of ideas. **We need to review the application of the main principles,"** says Tanguy Bertolus, chairman of the board of Aéroports de Lyon. **The first is the fair return on capital invested, which is no longer respected in the case of airports. But also the level of fees, which now only cover 70% of the real cost of airport services,** and the principle of fee moderation, which limits fee increases but not decreases," he stresses.

This message is obviously not to the liking of the airlines. **"Airlines have lost in two years the equivalent of 10 years of earnings, while operating losses of airports amounted to 700 million euros in 2020, after 1.1 billion in profits in 2019,"** said Laurent Timsit, the general delegate of the National Federation of Aviation (FNAM). **If there is money to be found, it is not with the airlines.**

But for the moment, the current Minister of Transport, Clément Beaune, seems to be interested in other things. The Minister and the Union of French Airports have signed a "charter of commitment to quality of service" for the 2024 Olympic Games. But without additional means to improve the journey of passengers in airports.

My comment: The article mentions "the fair return on invested capital, which is no longer respected in the case of airports". It is a question of verifying whether the capital invested produces a sufficient return to repay the capital.

The case of airports is particular, because their revenues and investments are managed via a double fund.



The dual-use system consists of separating the fees collected for purely airport activities, the amount of which is validated by the Transport Regulation Authority (ART), from ancillary revenues from shops, real estate and parking lots.

The double-cash system also allows airports to allocate investments according to rules that are open to discussion. How do you ensure that the cost of building a terminal (which houses airlines and stores) is not split between the two funds to the detriment of the airlines?

As a result, aeronautical services, which are part of the regulated perimeter, cannot be subsidized by revenues from shops or parking lots (so-called non-aeronautical services), on which airports are free to set prices and which generate very high margins.

Consequently, deprived of this windfall to reach the profitability levels expected by shareholders in the aviation fund, airports are increasing airport charges.

End of the press review

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

Air France-KLM shares closed at 1.27 euros on Monday 28 November. It is stable this week (+0.55%).

It is penalized by the issuance of convertible bonds and by the suspension of a strike notice by cabin crew unions for the Christmas period.

The average (consensus) analyst rating for AF-KLM shares is 1.54 euros. The highest price target is 2.00 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

Oil and jet fuel have returned to levels close to those of the beginning of the year, although the gap between oil and jet fuel prices is still very wide. The increased need for diesel fuel to compensate for the reduced availability of gas is driving up the price of jet fuel, as both fuels are produced in similar ways.

Jet fuel in Europe is down this week by -\$6 to \$129 per barrel. It is close to its lowest level since the beginning of the health crisis. 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 down this week by -\$4 to \$83

From mid-February to the end of July, it was yo-yoing between \$100 and \$120. Since then, it has oscillated between \$85 and \$99.

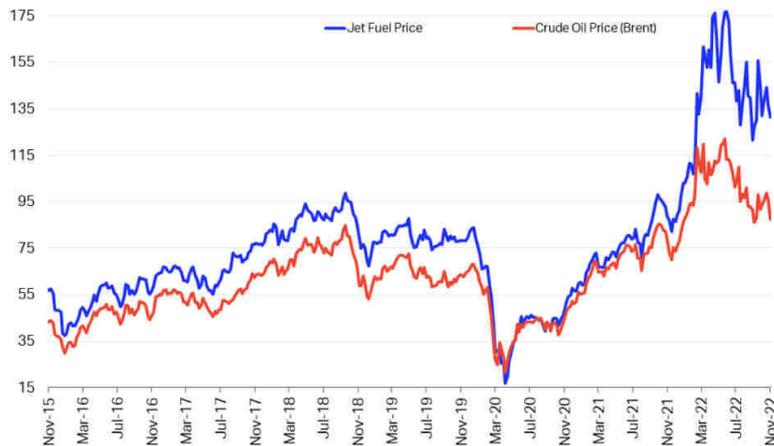
At the beginning of March, Brent reached \$132, close to its record of \$150 (in 2008). Fears that the economy will be in recession by the end of 2022 have caused fuel prices to fall.

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 - November 2022.

Jet fuel price developments - longer term perspective

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



Source: S&P Global, Refinitiv Eikon

Jet fuel price per barrel by region (source IATA) as of November 18, 2022

Fuel Price Analysis

The jet fuel price for week of down 3.9% at \$131,3/bbl:

18 November 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%	312.55	131.27	1036.61	358.84	-3.9%	-0.5%	48.0%
Asia & Oceania	22%	286.74	120.43	951.39	344.10	-6.6%	0.1%	34.4%
Europe & CIS	28%	319.27	134.09	1058.00	361.29	-4.0%	4.1%	55.0%
Middle East & Africa	7%	292.39	122.80	969.62	366.73	-5.9%	0.7%	41.0%
North America	39%	324.81	136.42	1077.72	362.67	-2.4%	-3.6%	51.7%
Latin & Central America	4%	322.19	135.32	1069.03	374.86	-1.3%	-4.6%	49.6%

Good to know

> 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

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 navigaction, section Air France-KLM employee shareholding](#).

Details

This information is not intended to be a solicitation 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

Alternate Nicolas Foretz, PNC



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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