

Four lessons from the airlines' record summer

I Letter from the former Director of Air France-KLM

At the forefront of more responsible European aviation, we bring people together to build the world of tomorrow.

(Raison d'être of the Air France-KLM group)



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former representative of PS and PNC employee and former employee shareholders

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Monday's Press Review

> Four lessons from the airlines' record summer

(source Les Echos) August 4 - **Following in the footsteps of Air France-KLM and IAG, Lufthansa also announced record second-quarter results at the end of last week.** According to CEO Carsten Spohr, they were the best in the group's history, with EBITDA of 1.1 billion euros and a margin of 11.6%.

Despite soaring fares, demand for travel continues unabated, and results for the summer period are expected to be on a par with those of the major players in the European air transport industry.

Everyone should therefore come out a winner in the summer of 2023, but some more than others. **The big winner of this exit from the crisis, in all categories, is unquestionably Ryanair**, whose profits quadrupled in the second quarter. Not only has the Irish airline once again become Europe's number one in terms of passengers carried (183 million expected by 2023), it is also Europe's most profitable airline group, with an **operating margin of 18% in the second quarter, compared with 16.3% for IAG (British Airways, Iberia, etc.), 11.6% for Lufthansa and 9.6% for Air France-KLM.**

(...)

First observation: while profits are soaring thanks to cost-cutting and fare increases, **none of the three leaders in European air travel has yet returned to**

pre-crisis business levels. The most advanced on this path is IAG, which reports having restored 94% of its 2019 offer, with a target of 97% by the end of December. Air France-KLM, although ahead of schedule in the recovery, is at 92% in the second quarter and is aiming for 95% by the end of the year. As for **Lufthansa**, the German group is still only at 83% of its 2019 offer level, and hopes to reach only 85% by the end of the year.

Its CEO **attributes this underperformance to staff shortages in control towers and airports, delays in Airbus deliveries and even shortages of spare parts for its aircraft.** But it's not the only one to remain below pre-crisis levels.

According to figures from OAG, which analyzes airline supply, of the world's top 20 airlines, only six have exceeded 2019 levels: three low-cost (Southwest, Ryanair and EasyJet) and three "traditional" (United Airlines, Turkish Airlines and Latam). For all the others, closing the Covid parenthesis completely will have to wait until 2024, or even 2025.

Second observation: while **the crisis has led to the disappearance of a number of "challengers"** and accelerated the sale of certain lame ducks, it **has also favored the breakthrough of new players** with double-digit growth rates. These include Turkey's Pegasus (+34% year-on-year growth) and Hungarian low-cost carrier Wizz Air (+24.6%).

But also some restructured "returnees" such as Air India (+28%) and Poland's LOT (+26.5%). Some twenty new airlines were created during the crisis, taking advantage of the abundance of low-cost aircraft, some of them - such as Breeze Airways, Play and Norse Atlantic - stepping on the toes of the major airlines.

Third observation: the crisis has not fundamentally altered the hierarchy of the heavyweights, either in Europe or worldwide. With the notable exception of Turkish Airlines, which dropped from thirteenth to seventh place, the leading pack looks much the same as it did in 2019, dominated by American airlines (United, American, Delta), followed by Emirates, Southwest and Ryanair.

The same goes for Europe. While Air France-KLM took advantage of the crisis to take market share from its competitors, the second quarter saw a return to the pre-crisis rankings, with IAG back in second place and the Lufthansa group clearly in the lead, both in terms of sales (9.4 billion euros) and passenger numbers (55 million). The pending acquisitions of Spain's Air Europa by IAG and Italy's ITA Airways by Lufthansa should further strengthen this ranking.

The final lesson of the summer is that, while Air France-KLM is no longer Europe's lantern in terms of profitability, and even looks set to meet its margin target of 7% to 8%, IAG has once again become an investor favorite, with its share price up 32% since January 1 (compared with 19% for Air France-KLM). With the return in force of American customers, what was IAG's weakness during the crisis - its extreme exposure to American markets (70% of its business) - is now its strength.

Conversely, what was one of Air France-KLM's strengths - its two-hub network - is now a weakness, with the Dutch government's decision to reduce traffic at Amsterdam-Schiphol. Air France-KLM also remains the only airline group to have not one, but two governments on its board. This helped during the crisis, but is not seen as an advantage in normal times.

***My comment:** The sharp rise in prices has enabled European airlines to achieve record operating margins and pay off some of their Covid debts.*

But the future is uncertain. Business passengers are slow to return, the shortage of spare parts means that not all fleets can be brought back online, and kerosene taxation is increasingly likely (see my [previous letter](#)).

While the end of the year looks promising, we'll have to wait until the first quarter of 2024 to see if the recovery persists at the same level.

> **The long-awaited upturn in European business travel keeps being postponed**

(source Bloomberg, translated with DeepL) August 7 - **Since the end of the coronavirus pandemic, the region's biggest airline groups have been counting on corporate warriors returning to the skies. But until now, many corporate customers have remained on the sidelines of the travel revival.**

Just two years ago, Carsten Spohr, CEO of Deutsche Lufthansa AG, boldly predicted a 90% rebound in business travel, claiming that people had tired of videoconferencing. Yet Europe's largest airline group has so far only recovered around 60% of pre-crisis business volumes, and is aiming for 70% by the end of the year.

British Airways is observing similar trends. **Luis Gallego, CEO of parent company IAG SA, says progress is "slower than we thought at the beginning of the year".**

Ben Smith, CEO of Air France-KLM, says he doesn't expect the French domestic market to ever recover. "We won't," he said.

The reasons are varied, but stacked up they form a wall of obstacles that the airlines have not been able to overcome. This is a major challenge, because business travelers generally pay more, even if they occupy an economy seat - they fly at shorter notice and choose more expensive tickets that offer them more flexibility.

This makes them more profitable customers than leisure passengers, who have largely contributed to the airlines' recovery from the Covid lows. And airlines are counting on the return of business travellers, as the "revenge travel" boom that fuelled the leisure segment is beginning to wane

(...).

During the crisis, large companies cut their travel budgets to survive, and discovered that the ease and efficiency of conferencing software made some trips unnecessary. Today, faced with cost inflation and pressure to reduce greenhouse gas emissions, **they see no need to change course.**

While most airlines didn't expect business travel to fully recover after the pandemic, they did expect it to reach 85%, said Neil Glynn, analyst at Air Control Tower. Instead, business traffic is around 60% in Germany, 70% in Japan and a maximum of 80% in the USA. **This is partly due to a culture of remote working, as well as awareness of carbon emissions and employee well-being.**

Concerns about business travel in Europe mirror weaknesses in the US, where American Airlines Group Inc. and Southwest Airlines are among the carriers that have made changes to adapt to declining corporate demand. Scott Kirby, CEO of United Airlines Holdings Inc. described a "business recession" in the U.S., while expressing confidence in a return to normal.

(...)

Air France-KLM's Smith said that while the group saw an increase in business travel volumes immediately after the pandemic, growth in corporate bookings came to a virtual standstill. He pointed out that Air France has always had a high proportion of leisure travelers in its premium cabins, "and this balances out quite well with business traffic".

Airlines said they were seeing progress. IAG's Gallego expects some business customers to return this quarter, as the risk of summer airport chaos fades. Executives are also encouraged by so-called "bleisure travelers", who combine vacations with business trips.

(...)

Leisure travel is helping to sustain business traffic at London Heathrow Airport," said outgoing CEO John Holland-Kaye. However, business passengers represent only 30% of all passengers at the UK hub, compared with 34% before the pandemic.

(...)

My comment: *Of the three major European airline groups, Air France-KLM is the least dependent on business customers (Lufthansa and IAG carry two to three times as many business passengers as the Franco-Dutch group).*

There are good reasons for this.

British Airways has a business clientele linked to the stock market sector and to privileged exchanges with the United States.

Lufthansa, on the other hand, carries more industrialists than Air France and KLM.

Air France has a larger tourist clientele than its competitors (France is the world's

leading tourist destination).

> **Lufthansa falls 6.6%, weighed down by rising costs in Q2**

(source Agefi) August 3 - **Lufthansa shares fell 6.6% on Thursday morning, to 8.24 euros, despite better-than-expected results, as the airline's costs rose** and capacity was constrained this year by labor shortages in air traffic control and supply problems.

Lufthansa reported higher costs in the second quarter, particularly for air traffic control and airport charges, as well as for maintenance and spare parts.

Its Franco-Dutch rival **Air France-KLM made similar announcements last week**, also citing the impact of wage increases.

"The market did not like the increase in unit costs excluding fuel announced by Air France-KLM last week, so there is a risk of the same [for Lufthansa]," say Deutsche Bank analysts in a note to their clients.

My comment: *Investors punished the airlines, accusing them of failing to control costs.*

Yet they have posted record results, passing on cost increases in ticket prices.

Article Bonus

> **Debate: Decarbonization, quotas... what to do with airplanes, the privilege of a minority?**

(source The Conversation) August 2 - President Emmanuel Macron recently stated his intention to invest several billion euros in decarbonizing aviation. Several voices have been raised to underline the risky, even illusory nature of this ambition, and the urgent need to reduce air traffic.

A few weeks earlier, the engineer Jean-Marc Jancovici proposed limiting the number of flights in a lifetime to four, sparking a heated debate on reducing the use of airplanes by individuals.

However, these polemics overlook a central aspect of the problem: **air travel is a privilege that maintains relations of domination within and between countries.**

Air travel, a privilege of the global North
Emmanuel Macron's speech, Jean-Marc Jancovici's proposal and most of the

reactions they provoke are based on a presupposition: air travel is an unavoidable means of transport, and the problem is that it pollutes. Yet between 80% and 90% of human beings have never taken a plane in their lives. In **2018, only 4% of the world's population took an international flight.**

This minority who do travel by air are not evenly distributed across the planet: they live in wealthy countries. Around 40% of people in the wealthiest countries have flown at least once in the year, compared with less than 1% in the poorest countries.

If we relate the distances flown from a continent to its population, the distance per head is 3,000 km in Europe, compared with 100 km in Africa. **Most airlines connect countries in the global North. They are used to move people between these countries, for leisure, but also to fuel trade and economic exchanges.**

The airplane is therefore a mode of transport that supports the economic and political domination of the countries of the North, and contributes to class domination within them.

Let's take France as an example: air travel is far from commonplace, and remains the prerogative of the wealthiest and most highly educated. More than half of the wealthiest 10% of French people fly at least once a year, compared with 13% of the poorest 50%. This is the case for a third of people with higher education qualifications, compared with 10% of those with fewer qualifications.

Travel has long played an important role in the socialization of the elite. Whether as part of a cultural or study trip abroad, they help to prepare them to occupy dominant positions. Later on, they help them maintain a cosmopolitan lifestyle or career that indicates their class allegiance.

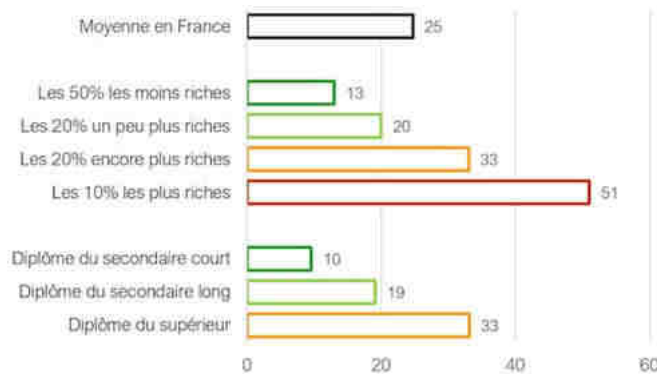
Flying is therefore a privilege that enables the accumulation of lasting resources - or capital - of many kinds: social, cultural and economic. As a result, the social trajectories of members of the dominant classes are marked by a significant number of airplane flights.

And yet, the strong social selectivity of air travel is barely visible in public debate. This is because the people who take part - economic or political leaders, scientists, journalists - speak from their class position.

For them, air travel is familiar, even if they now consider it a problem or have given it up. This leads them to spread the - false - idea that a flight quota is a limitation for everyone. They fail to see that this is mainly the case when the aircraft is crucial to maintaining a dominant position or passing it on to one's children. Jean-Marc Jancovici can thus generalize:

"Four flights in a lifetime is not zero, we could very well set up a system in which, when you're young, you have two of the four flights to go and discover the world."

Annual air travel rate (%) by standard of living and level of education



33% of university graduates have flown at least once in the year. Eurobarometer 2014, Enquête nationale transports 2008, Demoli and Subtil, 2019.

The carbon footprint issue A marker of class domination, air travel is an excessive emitter of greenhouse gases (GHGs), far more than any other means of transport.

Every year, on average, an upper-class person emits several tonnes of GHGs when travelling by air. As a result, the carbon footprint of her social trajectory is out of all proportion to that of most individuals, who have never flown in their lives, or only flown exceptionally.

As a result, the sustainable resources she has accumulated through these trips have come at a very high ecological cost. Whether or not this person has stopped flying in recent years only marginally changes the cost of their privilege.

The debate on the future of air travel is therefore primarily about the ecological footprint of dominant social positions, and not about universal individual behavior that needs to be corrected.

Quotas, an ambivalent proposal
From this perspective, **how should we interpret the idea of a quota of four airplane flights in a person's life?**

The first interpretation is progressive. It could be argued that extending the privilege of flying four times to the whole of society would enable all young people, without distinction, to "discover the world". However, this interpretation is extremely costly in ecological terms.

Flying each person four times in his or her life would consume a very large proportion of the carbon budget remaining to mankind. To give an order of magnitude, offering every Frenchman and woman four Paris-New York round-trips in their lifetime would consume the equivalent of 6% of the vastly overestimated carbon budget that the National Low-Carbon Strategy allocates to transport by the end of the 2020s.

As the carbon budget decreases over the years, this would weigh even more heavily: these flights would be equivalent to 5 to 10% of France's total carbon budget in 2050.

This progressive interpretation is hardly conceivable. Another, probably more in line with Jean-Marc Jancovici's vision, would be not to encourage people who don't fly to fly, but to limit those who do.

Ultimately, this means allowing members of the upper classes in Northern countries to continue to enjoy the privilege of flying a little. So it's their privileges that should be the focus of the debate, like that emerging around the decarbonization of aviation.

Decarbonizing for a minority?

If we want to keep global warming to a minimum, continuing to fly airplanes means rapidly decarbonizing them. This is the case even if we decide to limit flights by the upper classes of the richest countries.

However, in the short term, there is no solution that will enable us to fly as much without emitting GHGs. **Emmanuel Macron has therefore proposed an investment of 8.5 billion euros between now and 2027 to develop "ultra-clean aircraft" and sustainable fuels.**

The ambition appeals to the world of engineers, whose properties are in affinity with both the aircraft standard and this type of technological reasoning. It also provokes a great deal of opposition: ultra-clean aviation will not exist in the foreseeable future, and it would in any case require a very large amount of farmland or low-carbon electricity.

But **the question is not just whether it's possible, but whether it's desirable.** Before deciding whether a sector merits such an investment, let's get back to the heart of the debate on more thorny issues than technological feasibility: who are we giving the opportunity to consume such a large share of humanity's remaining carbon budget? To what collective ends?

A necessary democratic debate

Asking these questions would make it possible to address a central dimension of the

ecological catastrophe: it is first and foremost the work of the planet's most privileged fractions, in terms of class as well as gender and race.

Such a debate would help to make more acceptable the necessary downsizing of a sector which, while a symbol of French industry, is also one of the most unfair and carbon-intensive in recent history.

To make it more acceptable, including in the eyes of those who will suffer most: those who work in it. This would be an interesting democratic exercise, which should be followed by many others.

My comment: *The authors of this article are Yoann Demoli , Senior Lecturer in Sociology, Université de Versailles Saint-Quentin-en-Yvelines (UVSQ) and Julien Gros, CNRS Research Associate, affiliated with LISST (Université Toulouse Jean-Jaurès).*

Among other things, they address an often-heard question: is air travel a means of transport for the rich?

On a global scale, the answer is clear: yes.

40% of people in the wealthiest countries have flown at least once in the year, compared with less than 1% in the poorest countries.

I've been wondering about this for a long time. Is aviation destined to carry 40% of the world's population by 2050?

If so, how can we hope to limit the impact of aviation on the climate? If not, how can we explain to those who don't travel today that they won't be traveling tomorrow?

This question applies to all aspects of the fight against climate change. Should inequalities persist in the name of this fight, or should we develop decarbonization scenarios that incorporate a reduction in global inequalities?

According to Céline Guivarch, economist at CIRED:

"Generally speaking, both at country and individual level, the least wealthy are the most vulnerable to climate change, while the richest are responsible for the majority of GHG emissions.

(...)

Because emissions are so low in the least developed countries, it is illusory to think that they will be able to develop without increasing their emissions. This means that very strong action is needed to reduce emissions in developed countries".

Are we ready?

End of press review

> Air France-KLM share price over the past year



Two events have had an impact on the share price over the past year:

- . in June 2022, the capital increase of 2.256 billion euros
- . in February 2023, the announcement of good results for 2022.

No further comments

> Air France-KLM share price trend

Air France-KLM shares closed at **1.487 euros** on Monday August 7. It is **down** this week by **-5.32%**. **Good quarterly results announced by Air France-KLM and Lufthansa were offset by higher-than-expected unit costs. Shares in the two air transport groups fell similarly.**

It stood at 1.253 euros on January 2, 2023.

The analysts' 12-month average (consensus) for AF-KLM shares is 1.97 euros (it was 1.50 euros at the beginning of January). The highest price target is 2.45 euros, the lowest 1.10 euros. I only take into account analysts' opinions subsequent to the May 2022 capital increase.

You can find details of the analyst consensus on my blog.

My new comment: Air France-KLM's and then Lufthansa's announcements of good quarterly results were offset by higher-than-expected increases in unit costs.

Shares in both airlines fell by similar amounts.

> **Fuel price trends this** week

The price of a barrel of Jet Fuel in Europe has risen sharply for the third week running, up \$5 to \$122. It was at \$79 before the outbreak of war in Ukraine.

Brent crude oil (North Sea) is **stable this week at \$86.**

From mid-February 2022 to the end of July 2022, it was yo-yoing between \$100 and \$120. Since then, it has oscillated between \$75 and \$99.

The gap between Jet Fuel in Europe and Brent crude oil is widening. It now stands at \$35. In 2022, at the start of the Ukrainian conflict, this gap was close to \$50.

***My new comment:** The gap between Jet Fuel in Europe and Brent crude oil has been widening since the end of June 2023. It now stands at \$35.*

In the space of six weeks, Jet Fuel in Europe has risen by 30%.

Good to know

> **Advice for current and former employee shareholders**

You'll find [details of how to access the managers' websites](#) on my [navigation](#) site.

To avoid forgetting to change your contact details each time you change your postal address, **I advise you to enter a personal e-mail address.** This will be used for all correspondence with management bodies.

Keep all the documents relating to your Air France-KLM shares in one place: all the letters you receive from the various managers, Natixis Interépargne, Société Générale, and your personal financial institution if you bought your shares through it.

***My comment:** If you have shares in one of the funds managed by Natixis Interépargne, remember to log in to your account manager once a year, to avoid it being considered inactive.*

PEE inactivity is governed by the Eckert law.

After 5 years of inactivity, Natixis Interépargne sends a letter/email to those

concerned asking them to log in to their account or to call Natixis Interépargne to reactivate their account.

Natixis Interépargne sends this information every year after 5 years of inactivity and up to the 10th year. After 10 years of inactivity, the assets are transferred to CDC, which holds them for 20 years.

This is the old 30-year prescription period, which breaks down into 2 stages: 10 years with the account keeper and 20 years with CDC.

Inactivity means not carrying out any transactions and/or not logging on to your account and/or not calling and/or not writing to Natixis Interépargne.

This system also applies to PERCO/PER since the PACTE law.

> **FCPE management / Air France-KLM share consolidation**

When you invest in one of Air France's FCPE funds, you obtain 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 equities.

My comment: *If you'd like to find out more about the management of the various Air France employee shareholding funds, please visit the [Air France-KLM employee shareholding section of my website](#).*

My specific comment on the share consolidation: *On July 21, Natixis Interépargne sent information to all current and former employee shareholders by e-mail.*

It reads as follows:

On July 12, 2023, Air France-KLM published a press release (click [HERE](#) to access this document) announcing a share consolidation (1 new share will consolidate 10 old shares, resulting in a 10-fold increase in value) and share capital reduction.

Holders of FCPE units are not affected by the exchange period running from July 31 to August 30 mentioned in the press release.

On this date, the Concorde, Majoractions and Aeropelican FCPEs will carry 10 times fewer shares, the share value having been multiplied by the same amount.

As this operation offsets each other, holders of shares in these FCPEs will see no impact on the amount of their savings.

For your information, on August 31, the share price (multiplied by 10) will be re-correlated with the unit value, which will remain unchanged:

- so that the value of the FCPE unit will be as close as possible to the share price;*
- with the effect of reducing the total number of FCPE units.*

A new communication will be sent to you before the end of the trading period, on August 31, by our services [Natixis Interépargne].

Details

This information does not constitute a solicitation to buy or sell Air France-KLM shares.

Please feel free to react to this press review, or to send me any information or thoughts that will help me better carry out my role as a director of the Air France-KLM Group.

By return, you can ask me any questions you may have about the Air France-KLM group or employee share ownership...

See you soon.

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| François Robardet

former Director of Air France-KLM.

You can find me on my twitter
account [@FrRobardet](#)

***Nicolas Foretz, PNC, Director of Air France-KLM
representing employee and former employee
shareholders, PNC and PS***



To write to Nicolas: [message for Nicolas Foretz](#).

During our election, we received the support of the CFDT and the UNPNC.

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

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