

Air France flight cancellations: the Transport Minister understands



Letter from François Robardet

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)

Employee and former employee representative

PS and PNC shareholders of Air France-KLM

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Editorial

Dear readers,

You will not find in this letter the article in the Referente newspaper, picked up by Businesstravel, headlined "Air France-KLM withdraws from the TAP takeover process".

This is false news, immediately denied by the Air France-KLM group: "As we have said, we remain strongly interested in the TAP privatization project and will await the next steps", said the airline group in a statement.

Reminder: Air France employees are entitled to a profit-sharing bonus for the 2023 financial year. They must log on to the manager's website (Natixis Interéparagne) before Wednesday April 17 17:00 to make their choice of allocation (payment and/or savings).

*Happy reading!
François*

Monday's Press Review

> [Air France flight cancellations: the Transport Minister](#)

understands

(source Mesinfos) April 8, 2024 - **Last October, the Air France group announced the elimination of six routes to and from Paris-Orly airport by 2026.** In mainland France, this concerns the airports of Toulouse, Nice and Marseille. They will be replaced by Transavia flights, a subsidiary of the Air France-KLM group.

Local elected representatives in the Bouches-du-Rhône département were quick to react. Renaissance MPs Lionel Royer-Perraut and Didier Parakian referred the matter to the then Minister of Transport, Clément Beaune. His successor, Patrice Vergriete, responded in a letter to Didier Parakian. **For the Minister, the cuts are justified and alternatives must be proposed.**

The domestic air market has evolved. According to the Minister of Transport, **society** has changed since the health crisis, and **is faced with new working habits, such as telecommuting.** This is causing "a drop in air traffic linked to business travel, particularly on radical routes", he writes. Traffic on the Orly-Marseille shuttle has, he says, dropped by 68% compared with 2019. "The 'business' clientele has fallen from 150,000 passengers in 2019 to 50,000 in 2023".

Another reason for the cuts is the Marseille - Paris rail service. This service "offers a better balance in terms of greenhouse gas emissions". According to the Minister of Transport, this is a significant argument, as "more and more passengers are taking it into account when choosing their mode of transport".

The Minister of Transport understands this choice: "Air France must implement all solutions to improve its profitability". But Patrice Vergriete agrees with Didier Parakian: "this development must not be to the detriment of the regions". To compensate for this reduction, **Air France has indicated that it will be accompanied by "an increase in the number of flights to Paris-Charles de Gaulle airport,** with ten daily frequencies instead of the current eight". Transavia, a subsidiary of the Air France-KLM group, is set to take over the Orly - Marseille route with two daily frequencies.

My comment: *The "La Navette" product, inaugurated in 1996, sought to capture business traffic between Paris and the main provincial cities through its flight frequency and flexibility.*

In addition to the increase in telecommuting, another phenomenon explains the decline in ridership and the lack of profitability of these routes for business travelers.

Large companies based in France are required to publish annual reports on their commitments to corporate social responsibility (CSR) and sustainable development.

Since January 1, 2023, they have been required to present the carbon footprint of

their activities, including employee business travel.

This has led them to favor rail travel, which has a much smaller carbon footprint than air travel.

Political reactions to Air France's abandonment of these routes have ranged from acceptance to strong protest.

Faced with this situation, not a single politician has dared to suggest that the deficit on these routes be made good by setting up a Délégation de Service Public (public service delegation)!

Yet this would be the only way for Air France to maintain its shuttle services.

> **Delta Airlines confirms its 2024 targets after a good first quarter**

(source AFP) April 10, 2024 - US airline **Delta Airlines exceeded analysts' forecasts in the first quarter, marked by "record" sales and "robust" demand**, confirming its full-year targets. "We achieved record sales thanks to a tremendous operational performance, enabling strong earnings growth," commented Ed Bastian, the company's CEO, quoted in a company statement issued on Wednesday. "**We anticipate a continuation of this strong momentum for our business and, in the second quarter, we expect record sales, an operating margin around 15% and earnings per share of \$2.20 to \$2.50 per share,**" he continued, expressing management's "confidence" about the year as a whole. In an audio conference with analysts, he said that **the second quarter should generate "the highest quarterly sales in the company's history"**. Delta expects net earnings per share of six to seven dollars and three to four billion dollars in free cash flow. In the first three months of the year, the company posted sales of \$12.56 billion (+6%) and net income of \$37 million, compared with a loss of \$363 million a year earlier.

(...)

Also of note in the first quarter: a rebound in business travel (+14%), thanks to "the return of key accounts" notably in the technology, consumer services and financial services sectors. "Growth is normalizing and we are in a period of optimization, focusing on our most profitable +hubs+ and achieving productivity gains", noted CFO Dan Janki. **The company also intends to reduce its debt by "at least \$4 billion" by 2024.**

(...)

My comment: *Let's take a look back at the recent history of air transport in the United States: in the early 1970s, the major airlines shared the country's domestic market without really engaging in fierce competition. This paradigm changed in 1978, when President Jimmy Carter passed the Airline Deregulation Act.*

Faced with increased competition, and to avoid disappearing like Pan Am, some of the major U.S. airlines reacted by merging.

In 2008, four years after the merger between Air France and KLM, Delta Air Lines (Air France's partner) bought Northwest (KLM's partner).

Little by little, the US market has evolved into an oligopoly, as I explained in [Letter 903](#).

Over the next few years, support for sustainable aviation fuels (see following article) will boost the operational and financial efficiency of US airlines.

> **Next-generation SAF: the United States launches the world's largest factory with a bang**

(source Les Echos) April 10, 2024 - **It will be the world's largest new-generation SAF plant.** American start-up DG Fuels has released details of its future facility in Saint James Parish, Louisiana. This \$4 billion-plus gamble on the future is set to produce 600,000 tonnes of SAF (or CAD in French, for sustainable aviation fuels) at full capacity. That's the equivalent of 30,000 transatlantic flights (around 3% of annual traffic on this route), if this fuel is blended at 50% with traditional fuel.

It's a real technological leap forward that the start-up is proposing. Unlike almost all biofuels on the market today, which are produced from waste oils or animal fats, the company has **chosen a technology that combines the use of biomass and synthesis.**

This is Fischer-Tropsch CANS technology, developed by British chemist Johnson Matthey and oil company BP. "We take synthetic gases and turn them into liquid fuels, whether biodiesel or biokerosene. And synthetic gases can be obtained from biomass

(...).

DG Fuels, for its part, is agnostic about the different sources of biomass used.

For its first plant in Louisiana, the company will rely on sugarcane residues. It is expected to purchase around \$120 million worth of this per year, a third of it from local producers located around the site. It will then extract the carbon and combine it with hydrogen to produce synthetic gas, which will then be transformed into SAF.

(...)

The choice of this technology should avoid the problem of biomass availability, which currently limits the future of these biofuels. "Compared with some other biomass projects, we are able to produce three to four times more SAF for the same quantity," adds Christopher Chaput.

Nor does the question of hydrogen availability and cost seem to haunt the start-up. **We're open between green hydrogen, derived from renewables, and blue**

hydrogen, formed from gas with carbon capture," explains the DG Fuels co-founder. In Louisiana, it's pretty easy to access cheap carbon capture. Elsewhere, I'm hoping we'll be able to access abundant renewable sources, solar, wind, even hydroelectric." As a

result, **DG Fuels is already a self-proclaimed "low-cost" producer of SAF.**

"Some people are talking about SAF being two or three times more expensive than conventional kerosene. We'll be well below that," assures Christopher Chaput, who even claims that it will be possible to compete with the spot price of Jet-A in the United States, **if federal subsidies are maintained.**

This model seems to be convincing airlines, which have obligations to incorporate sustainable fuels (6% by 2030 in the European Union, and up to 70% by 2050). **Air France, which wants to go beyond these obligations with a 10% incorporation target in 2030, had invested with Airbus in DG Fuels and signed a 600,000-ton supply contract with DG Fuels between 2027 and 2036, with an option for a further 75,000 tons from 2029 (in addition to the million tons ordered from Neste).** In addition to Air France-KLM, **the American company has already signed pre-contracts with several airlines, including Delta.** Around two-thirds of Louisiana's production has already found takers, even though the plant won't come on stream until 2028. "We could sell everything if we wanted to," adds Christopher Chaput. There are still uncertainties linked to the American presidential election and the future of the Inflation Reduction Act (IRA), which Donald Trump has promised to seriously reduce, or even repeal
(...)

My comment: *The United States has put in place substantial financial and tax incentives to accelerate the structuring of the sustainable aviation fuels sector, which began over ten years ago.*

Europe is a little behind, but is starting to react.

The airlines are strongly mobilized.

Last week, KLM CEO Marjan Rintel appeared in Brussels to discuss the future of transport at the Clean Mobility Dialogue with European Commission President Ursula von der Leyen, Executive Vice-President for the European Green Deal Maroš Šefčovič, European Transport Commissioner Adina Valean and CEOs from the transport sector.

She reiterated that climate change is a global challenge and therefore requires global measures in addition to those already adopted by the European Union.

Since October 2023, Wopke Hoekstra has been the European Commissioner for Climate Action. Previously, he was Minister of Finance of the Netherlands from 2017 to 2022. He has a thorough understanding of air transport issues: he has closely

followed the dossiers concerning Air France-KLM.

> **In order to take over Air Europa, IAG proposes to sell 40% of its flights to competitors**

(source AFP) April 8, 2024 - **The IAG group, which wants to buy the Spanish airline Air Europa, said on Monday April 8 that it was ready to give up 40% of the routes operated by this company to the competition in order to obtain the green light from Brussels for this acquisition, i.e. "more than double" what had initially been proposed.**

(...) As part

of the discussions with the European Commission, "we have analyzed each route" to "detect any competition problems", assures the head of IAG. "We guarantee that after the closing of this transaction, there will not be a single route where Iberia and Air Europa will operate exclusively: there will always be a competitor," adds Luis Gallego.

(...)

However, this project remains subject to the green light of Brussels, which opened an "in-depth investigation" into the deal at the end of January, fearing that it would reduce competition on several routes. Brussels is particularly concerned about the conditions of competition on Spanish domestic routes, particularly between the peninsula and the Balearic and Canary Islands, and on routes between Madrid and several European cities. Long-haul routes between Madrid and North and Latin America are also under investigation.

My comment: *According to Reuters, IAG has improved its basic offer:*

=== beginning of quote

EU antitrust authorities have failed to seek the views of rivals and customers on the remedies submitted by British Airways owner IAG as part of its deal to acquire Air Europa, indicating that the remedies are insufficient to address the authorities' concerns, people with direct knowledge of the matter said.

=== end of quote

It is not up to IAG "to analyze each route for competition concerns"; that is the role of the European Commission.

This issue promises long discussions before a consensus is reached.

> **Boeing: crisis spreads to long-haul aircraft after whistleblower appears**

(source Les Echos) April 10, 2024 - More bad news with potentially far-reaching consequences for Boeing. **The US Civil Aviation Authority (FAA) announced on**

Tuesday evening that it was opening a new investigation, following statements by a Boeing engineer about new quality problems, this time affecting long-haul aircraft.

In an interview with the "New York Times", Sam Salehpour, a ten-year Boeing quality control engineer, claims that Boeing ignored his warnings about quality defects in the assembly process for the 787 and 777, Boeing's two main long-haul aircraft families.

According to him, the carbon-fiber fuselage sections of the 787s, which already arrive prefabricated on the Charleston, South Carolina assembly line, **would not be properly assembled to each other** "and could come apart in mid-flight after thousands of flights".

Tiny pieces of drilling debris could have slipped between the front and rear sections of the fuselage, he explains in a letter to the FAA. The engineer also accuses Boeing of retaliating against him following his warnings of what he describes as problems potentially affecting the structural integrity of the aircraft.

In a statement, **Boeing refutes his accusations, calling the claims "inaccurate"**, and asserting that 787 fuselages had been designed and tested to withstand up to 44,000 pressurization cycles, the equivalent of seventy years of operation.

Since entering service in 2011, none of the 1,200 or so B787s in service worldwide has suffered a serious in-flight accident, the only two aircraft destroyed being victims of fires on the ground. The same applies to the B777, which entered service in 1995, and whose production method is not the same as that of the B787.

However, problems with the assembly of fuselage sections were detected in 2007 on the first B787s, even before they entered service. These defects led Boeing to delay delivery of the first aircraft for several years.

In 2020, the discovery by Boeing engineers of other manufacturing defects on fuselage sections and tailplane attachments on a number of B787s also forced the aircraft manufacturer, in agreement with the FAA, to halt B787 deliveries for almost a year. **The issues raised were subjected to a rigorous technical review under FAA supervision," Boeing says** in a press release. This analysis has validated that these issues present no safety concerns, and that the aircraft will maintain its service life over several decades. We continue to monitor these issues under established regulatory protocols, and encourage all employees to speak up when issues arise. Retaliation is strictly forbidden at Boeing", assures the aircraft manufacturer.

Boeing's assertions have not, however, deterred the FAA from conducting its own investigation into the allegations made in the interview.

The engineer has also been invited to testify next week before a Senate committee investigating Boeing's problems. So there's more to come for the aircraft manufacturer.

For the time being,

however, **the FAA has not asked Boeing to halt or slow down deliveries of 787s and 777s**, as was done for the single-aisle 737 MAX. **This seems to indicate that the U.S. regulator does not see an immediate safety risk in the engineer's accusations.** Otherwise, it would probably have grounded the 787s, as it did in 2013, even though the aircraft now represents one of the aircraft manufacturer's few sources of profit.

***My comment:** The current context at Boeing means that any alert is taken very seriously by the FAA.*

In the last few letters, I indicated that the FAA had changed its attitude towards Boeing to return fully to its role of authority: the opening of a new investigation is a step in this direction.

If the FAA were to impose capital expenditures, it would be a major blow to Boeing's finances. Boeing's finances are already strained by delays in deliveries and the sums paid out following the B737 MAX accidents.

> **Aircraft production: Airbus recovers, Boeing collapses**

(source La Tribune) April 9, 2024 - **The gap between Airbus and Boeing continues to widen.** While the European aircraft manufacturer, buoyed by its ramp-up objectives, is again accelerating its deliveries in the first quarter compared with the same period last year, its American rival is suffering the consequences of its repeated quality problems.

Airbus delivered 142 aircraft in the first three months of the year, compared with 127 in the first quarter of 2023. **This increase in activity was mainly driven by the A320 NEO family**, with 116 aircraft delivered, representing 11.5% growth. This is in line with the ramp-up of the manufacturer's flagship family, which is targeting an average of 75 aircraft per month by 2026. Two more A350s were also delivered.

This industrial success must be qualified, however. Airbus had already succeeded in delivering 142 aircraft in the first quarter of 2022, before experiencing a complicated start to 2023, **notably due to still significant bottlenecks in the supply chain.** It is therefore benefiting from a rebound effect. This did not prevent the aircraft manufacturer from achieving its targets in 2023... and missing them in 2022.

Be that as it may, momentum remains positive for Boeing. The American manufacturer has had to make do with 83 aircraft delivered since the start of the year, compared with 130 during the same period last year. **Deliveries of 737 MAXs have almost halved**, falling to 66 units, while **787s are barely making headway.** This should translate into a significant drop in sales in the first-quarter results, and probably in profitability.

Above all, it illustrates Boeing's difficulties in getting back on track in terms of

production quality, following a series of problems including the loss of a door plug on an Alaska Airlines 737 MAX 9 last January. In fact, Dave Calhoun, CEO of the American group, who will be leaving at the end of the year, has temporarily abandoned any plans to increase production rates for the 737 MAX, and has refused to present any delivery targets for the year.

In terms of orders, Airbus is also on the rise, with 170 gross orders (and no cancellations to date). Boeing continues to sell well, with 131 gross orders, more than last year.

***My comment:** Airbus will remain dependent on its supply chain in 2024, before returning to normal in 2025.*

In the single-aisle market, orders for the A320 NEO remain buoyant.

Bear in mind that China is trying to obtain international certification for its COMAC C919 single-aisle jet, which could compete with Boeing's B737 MAX as well as the A320 NEO.

On the wide-body market, I agree with the Journal de l'Aviation this week: the A350 could become the biggest success story in commercial aviation, in terms of deliveries, orders and future developments.

End of press review

> **Air France-KLM share price trend**

Air France-KLM shares closed at **9.432 euros** on Friday April 12. It is **down this week by -1.50%**.

Since the beginning of the year, following the announcement of mixed results for the fourth quarter of 2023, the Air France-KLM share price has lost 30%.

It was 12.53 euros on January 2, 2023, and 17.77 euros on June 19, 2023.

The analysts' 12-month average (consensus) for AF-KLM shares is 16.04 euros (it was 15.0 euros at the beginning of January 2023). The highest price target is 23.00 euros, the lowest 9 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 comment:** Air France-KLM's share price is down slightly this week.*

The previous week, two analysts had revised their price targets downwards.

For most investors, the announcement of weaker-than-expected results for the fourth quarter of 2023 overshadowed the good results for the full year.

> **Fuel price trends this** week

The price of a barrel of Jet Fuel in Europe is down \$2 to \$112. It was \$94 at the end of June, and \$79 before the outbreak of war in Ukraine.

Brent crude oil (North Sea) is **down -\$1 to \$90.**

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.

My comment: *The spread between Jet Fuel in Europe and Brent crude oil was around \$15 before the conflict in Ukraine. In 2022, at the start of the Ukrainian conflict, this differential was close to \$50.*

The Jet Fuel spread in Europe and Brent crude are down this week, to \$22 a barrel. This is the seventh week in a row that the spread has fallen to \$25 or less.

From February to July 2023, the spread had returned to reasonable levels (between \$12 and \$25). From August 2023 to February 2024, the spread between Jet Fuel in Europe and a barrel of Brent crude oil systematically exceeded \$30.

Good to know, special 2023 profit-sharing bonus

> **Deadline for employee responses: April 17, 2024**

Air France employees have been informed that they will receive a profit-sharing bonus in April.

Payment of this bonus can take several forms :

. a total or partial payment into a bank account (in which case it is subject to income tax),

.

o PEE (Plan d'Epargne Entreprise) blocked for 5 years (except in cases of early release provided for by law)

o PERCOL (Plan d'Epargne Retraite d'entreprise Collectif) or PERO (Plan d'Epargne Retraite d'entreprise Obligatoire) blocked until retirement (except in cases of early

release provided for by law
).

Employees must log on to the manager's website before 17 April 17:00 to make their choice of allocation (payment and/or savings).

CAUTION: if you do nothing, your profit-sharing bonus will be allocated:
. **50% to the FCPE Monétaire du PEE** (Natixis ES Monétaire), blocked for 5 years (except in the case of early release provided for by law),
. **50% on the PERCOL's Equilibre pilot-controlled grid**, locked in until retirement (except in the case of early release provided for by law).

You will find [information on how to access the manager's site](#) on my [navigation](#) site.

My comment: *If you haven't already done so, I advise you to enter a personal e-mail address on the manager's website. This will be used for all correspondence. So that you don't forget to change your contact details each time you change your postal address,*

Reminder: if you hold shares in one of the funds managed by Natixis Interépargne, remember to connect to your account manager once a year, to avoid it being considered inactive.

Please note: After 5 years of inactivity, Natixis Interépargne will send a letter/email to those concerned asking them to log in to their account or to call Natixis Interépargne in order to reactivate their PEE account.

After 10 years of inactivity, your account is transferred to the Caisse des Dépôts et Consignations.

To unblock your PEE, click [here](#).

> **FCPE management**

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 hold only 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 how the various Air France FCPEs are managed, please [visit the Air France-KLM Employee Share Ownership section of my website](#).*

Details

This information does not constitute 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 to keep you better informed.

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

See you soon.

For the latest Monday press reviews, [click here](#).

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

New readers can receive it by [giving me](#) the email address of their choice.

| François Robardet

Representative of PS and PNC employees and former employees who are Air France-KLM 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 linked to Air France-KLM shareholding.

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