

Air France-KLM and Lufthansa forced to tighten bolts



## I Letter from François Robardet

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## Monday's Press Review

### > Air France-KLM and Lufthansa forced to tighten bolts

(source La Tribune) April 30, 2024 - The first quarter is not the best, that's understood. However, **European airlines' results for the start of 2024 are cause for concern**. Ahead of IAG on May 10, Lufthansa and Air France-KLM have reported operating losses approaching 1.4 billion euros combined. Quite a blow after last year's record performance.

For the past two years, Air France-KLM had been returning to controlled loss levels, comparable to those achieved in 2019. Lufthansa, with a slightly later recovery, achieved this last year. By way of comparison, both groups posted half as many cumulative operating losses in the first quarter of 2023 as they did this year. They then went on to post a record-breaking summer. **How, then, to explain this complicated start to the year, when demand still seems to be holding firm at high levels, and capacity, passenger numbers, sales and unit revenues continue to grow significantly?**

The battle of unit costs

**First and foremost, both groups have struggled to keep their costs under control.** Air France-KLM's unit costs jumped by 4%, while Lufthansa's rose by 3%, excluding fuel and carbon quotas. Within the French group, part of the rise in costs came from its Dutch subsidiary KLM, which had to disburse 50 million in exceptional salary payments and as much due to disruptions caused by bad weather conditions

in the Netherlands, "with very high compensation for customers", according to Steven Zaat, CFO of Air France-KLM. The weather had already affected the end of 2023.

These exceptional events do not explain everything. Operations in Amsterdam were also impacted by problems in the supply chain at the beginning of the year. And then there are the costs associated with the increase in activity, notably with a rise in personnel costs (+12%) or those linked to purchases and consumption for aircraft maintenance (+25%). Moreover, this rise in unit costs was already felt in the last quarter of 2023, when Air France-KLM finished in the red.

For **Lufthansa**, the situation is somewhat different. The German group **seems to have been primarily affected by the recurrent strikes at Lufthansa in Germany**. According to CFO Remco Steenbergen, it was the industrial action that drove up unit costs.

(...)

Additional cost-cutting measures

**In any case, both groups have decided to go even further with their cost-cutting measures.** Despite the already significant impact, Reemco Steenbergen announced: "Over the coming months, we will be working to offset the effects of rising costs. We have taken additional measures to this end, particularly at Lufthansa Airlines, which is heavily affected by the increase in personnel costs and fees." The release states that **"plans include reducing operating costs, halting new projects and assessing the need for additional staff in administrative areas."**

(...)

**For its part, Air France-KLM is announcing an "acceleration of transformation initiatives"**, in addition to the 700 measures already underway to rationalize costs and improve synergies within the Group, and the stabilization of operations. On this last point, CFO Steven Zaat was pleased to note that the measures taken at KLM are beginning to bear fruit, with an improvement in operating performance. He believes that this will now enable the company to reduce its costs.

(...)

Although unit costs are expected to rise by a further 2% in the second quarter, the CFO is still counting on a sharp reduction in the second half of the year. This should enable him to limit the increase to between 1% and 2% over the full year. Continued fleet renewal, with 47 deliveries of new-generation aircraft this year (and 32 last year), should also contribute to this control.

Fiscal years driven by demand

**If the two groups manage to keep these costs under control, they can still look forward to good years ahead, buoyed as they are** by continuing strong demand, particularly from the growing number of routes to Asia and the continuing buoyancy of transatlantic traffic. **Summer bookings at Lufthansa look set to be very good**, well up on last year's already very satisfactory figures.

(...) In

fact, Lufthansa has lowered its earnings forecasts by 500 million euros. It is therefore unlikely to match last year's record, but will still post a solid year, with operating income of 2.2 billion euros.

The picture is more mixed at **Air France-KLM**, where **booking levels are holding steady in the various medium- and long-haul segments, and are down slightly at Transavia for the second quarter**. However, **this is also against a backdrop of year-on-year capacity increases**, slight at Air France and KLM (+3% each), and very substantial at Transavia (10-15%). Over the full year, the Group is aiming for a total capacity increase of 5%.

**My comment:** First-quarter results were mixed, but there were no unpleasant surprises.

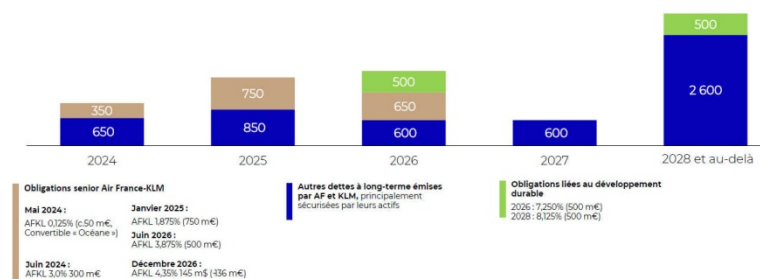
Investors were not mistaken. After losing around 15% following the presentation of the 2023 annual results in February, the share price has remained stable this week at around €10.

On the debt front, in March Air France-KLM redeemed 452 million euros in OCEANE bonds (Obligations Convertibles En Actions Nouvelles ou Existantes). One billion euros remain to be repaid by the end of 2024.

Note: the Group will have to repay 1.6 billion euros in 2025 and 1.75 billion euros in 2026.

#### PROFIL DE REMBOURSEMENT DE LA DETTE AU 31 MARS 2024

Profil du remboursement de la dette<sup>(1)</sup>  
En m€



(1) Excluant les paiements de dettes des locations opérationnelles, les emprunts perpétuels de KLM et les quasi-fonds propres perpétuels d'Air France



### > Greenwashing: 20 airlines, including Air France, targeted by EU investigation

(source Les Echos) May 2, 2024 - **Air France-KLM and 19 other European airlines are being targeted** by the European Commission. At issue: "misleading greenwashing practices". The companies **are suspected of misleading consumers about the potential offsetting of CO2 emissions caused by a flight through climate projects or the use of sustainable fuels**.

(...)

Complaint filed a year ago

This action by the European authorities follows a complaint filed last year by 22 European consumer associations, including UFC-Que Choisir and CLCV in France, which accused 17 European airlines of "implying that air transport can be sustainable".

"Deceptive offers", according to UFC-Que Choisir. To illustrate these misleading practices, the consumer association took the specific example of Air France, which offers to invest 138 euros (in addition to the price of the ticket) in sustainable fuels to offset the CO2 emissions of a Paris-Copenhagen flight, even though these fuels are still very little used.

Several practices identified

**"If the airlines concerned do not take the necessary steps** to resolve the issues raised in the letter, **the CPC Network authorities may decide to take further enforcement action, including sanctions**", writes the Commission. Several types of "greenwashing" practices have been identified.

In addition to misleading claims about offsetting CO2 emissions, some companies also claimed to be moving towards zero net greenhouse gas emissions, without however specifying the contours of this goal. **Other companies also allegedly presented customers with a comparison of flights in terms of their CO2 emissions, without providing sufficient and precise information on the elements on which the comparison was based.**

### > **Commission and national consumer protection authorities take action against 20 airlines for misleading greenwashing practices**

(source france representation ec europa) April 30, 2024 - Following an alert from the European Consumers' Organisation (BEUC), **the European Commission and EU consumer protection authorities** (Consumer Protection Cooperation Network authorities - CPC) **have sent letters to 20 airlines identifying several types of potentially misleading green claims** and inviting them to bring their practices into line with EU consumer protection legislation within 30 days.

The CPC

network (...) focused on airline claims that CO2 emissions caused by a flight could be offset by climate projects or the use of sustainable fuels, to which consumers could contribute by paying additional charges. The authorities are concerned that the practices identified could be considered misleading actions or omissions, prohibited under Articles 5, 6 and 7 of the Unfair Commercial Practices Directive. **However, the airlines have yet to clarify whether these allegations can be supported by solid scientific evidence.**

Key elements of the action

The European Commission and the CPC

Network have identified several types of potential misleading practices on the part of 20 airlines, such as: -

creating the false impression that paying an additional fee to fund climate change

projects with a lower environmental impact, or to support the use of alternative aviation fuels, can reduce or fully offset CO2 emissions;

- using the term "sustainable aviation fuels" (SAF) without clearly justifying the environmental impact of these fuels;
- using the terms "green", "sustainable" or "responsible" absolutely, or using other implicit environmental claims; -

claim that the airline is moving towards zero net greenhouse gas (GHG) emissions, or towards any future environmental performance, without clear and verifiable commitments, targets and independent monitoring systems; -

present consumers with a "calculator" to quantify the CO2 emissions of a given flight, without providing sufficient scientific evidence as to the reliability of this calculation and without giving any information on the elements used for this calculation;

- present consumers with a comparison of flights with regard to their CO2 emissions, without providing sufficient and precise information on the elements on which the comparison is based.

Next steps

**The European Commission and the CPC Network authorities have invited the companies concerned to provide, within 30 days, a response setting out the measures they propose to address concerns** arising from their environmental claims for the marketing of their products under EU consumer protection legislation. Following receipt of the companies' responses, the European Commission will organize meetings with the CPC Network and the airlines to discuss the solutions proposed by them. In addition, the Commission will monitor the implementation of the agreed changes. **Should the airlines concerned fail to take the necessary steps to resolve the issues raised in the letter, the CPC Network authorities may decide to take further enforcement action, including sanctions.**

(...)

***My comment:*** Last June ([letter no. 918](#)), 22 associations filed a complaint against 17 airlines, including Air France-KLM and Lufthansa. The two articles above report on the European Commission's follow-up to this case.

*Last September, the European Parliament passed the Refuel EU legislation requiring airlines to gradually replace kerosene with "Sustainable Aviation Fuels".*

*It's surprising that the European authorities should criticize the use of the term "Carburants d'Aviation Durables", which in French means "Sustainable Aviation Fuels".*

*In any case, transport companies need to be increasingly cautious about the terms*

*they use in their communications.*

*Take Ryanair, for example: its discourse has evolved.*

*Whereas in 2019, it presented itself as "Europe's cleanest and greenest airline", in 2023 it is only "Europe's most fuel-efficient major airline".*

*And yet, for the third year running, it is Europe's most polluting airline (source: Le Vif).*

*I would like to take this opportunity to reiterate my commitment to the creation of a Sustainable Aviation Observatory with the OMNES association.*

*In addition to getting the stakeholders involved to work together, the aim was to provide neutral, factual knowledge based on recognized scientific research. These elements and their sources are intended to serve as a basis for communication by European airlines. They can be found on the [Sustainable Aviation Observatory website](#).*

## > **Air Tahiti Nui : Philippe Marie, a new CEO and challenges to face**

(source TourMaG) May 3, 2024 - The Air Tahiti Nui Board of Directors reached a decision on April 30.

Philippe Marie, current President of Marara Paiements, a subsidiary of the Office Polynésien des Postes et Télécommunications, will take over the reins of Air Tahiti Nui on July 1 from Michel Monvoisin, who has been in place since 2013.

**This former director of the Banque de Tahiti is no stranger to the world of Polynesian air transport**, having already served as the company's General Secretary from June 2004 to March 2007, and joined the Board of Directors last October.

**He arrives with the mission of breathing new life into the Tiare flower carrier at a delicate time.**

**The company** recorded a loss for 2023 of 3.3 billion Fcfp (almost 27 million euros), and is **now operating in a highly competitive environment**, with Air France, which has increased its frequencies, French bee, Delta and United Airlines flying from the United States. The

French Polynesian Institute of Statistics (ISPF) has set a new record for tourist numbers in 2023, with 261,813 visitors expected. More than in 2022 and more than in 2019.

However, all these airlines serving Polynesia are driving prices down, considerably

reducing margins.

For the time being, Air Tahiti Nui, 85% owned by the Polynesian government, has a healthy cash position, but **President Moetai Brotherson wants a revolution. A new lease of life and even a change of business model.**

A new man at the head of the company may embody this change, but the cards are also largely in the hands of the territory.

Indeed, **it is the government that has fostered abundant competition, making it** virtually impossible to sell tickets at the right price, while costs in the French overseas territories have risen by 35% in recent years. **The airline's sales also depend on the government's tourism policy. The number of hotels is saturated**

(...)

Regulating competition in the air, and encouraging promoters to invest in the construction of new hotels are the responsibility of politicians, and are key to the growth and profitability of Air Tahiti Nui.

Opening up the capital? A

few days ago, he declared on Radio 1 Tahiti: "The entry into the capital of major groups in the sector is a factor for progress. Should we move in that direction? If so, which partners should be offered a stake in ATN? It's up to the future management team to make proposals.

In this respect, the President's trip to Singapore last month perhaps augurs an entry into the capital of a major Asian airline?

At this stage, nothing is set in stone. But a press release relayed by the website [outremers3603](#) indicated that Moetai Brotherson had been welcomed by the Singapore Airlines management team "with whom he was able to discuss opportunities for the development of air transport in French Polynesia. Discussions focused on connectivity, tourism development and cooperation between the two countries".

**Singapore Airlines said it would be happy to collaborate with Tahiti, as is already the case with Aircalin.**

A general meeting of Air Tahiti Nui shareholders is scheduled for early May.

This may be an opportunity to find out a little more about the strategies that are beginning to take shape. However, the executive's request to the company's future CEO has been made clear in recent days: "Make sure that ATN can stand on its own two feet".

***My comment:*** *Air Tahiti Nui's new CEO has a tough job ahead of him.*

*This article is a continuation of what I wrote in [Newsletter 959](#) about the contradictory management of Air Tahiti Nui.*

*The Polynesian government, the airline's main shareholder, will have to take a clear*



*stand: does it want a strong local airline or strong competition?*

## > **"Your safety is not for sale": pilots' unions oppose Airbus's plan for a single pilot on its aircraft**

(source france3-regions) April 30, 2024 - **Aircraft manufacturers such as Airbus are planning to further automate aircraft with the help of artificial intelligence (AI)**. This could mean doing without one of the two pilots on board, fears the Syndicat national des pilotes de ligne (SNPL). They demonstrated on Friday April 26, 2024 at Roissy-Charles-de-Gaulle airport.

Will there ever be a single pilot on a plane? Although there are still many obstacles in the way, this idea is far from being a fantasy. **Airbus has already been working for years on aircraft capable of flying with a reduced crew**. These are programs that have pilot unions worried.

On

Friday April 26, 2024, the Syndicat National des Pilotes de Ligne (SNPL) demonstrated in front of Terminal 2E at Paris-Charles de Gaulle Airport to voice their opposition to the **Reduced Crew Operations (RCO) and Extended Minimum Crew Operations (eMCO)**

projects, which aim to reduce the number of pilots in the cockpit of airliners. Signs held up by pilots read: "Safety requires 2 pilots at the controls. Ready for a pilotless plane? Your safety is not for sale. Demand 2 pilots at the controls."

The SNPL wanted to make airlines and the authorities aware of the need to keep two pilots in the cockpit.

(...)

Airbus puts resources into reducing crews

According to the pilots' unions, aircraft manufacturers are continuing their trials.

"Airbus is currently putting a great deal of effort into developing RCO (Reduced Crew Operations). Under its impetus, at regulatory level, a safety study has been set up by the EASA (...) The objective today is to deploy the RCO on its long-haul part on the Airbus A350 by 2027, and its medium-haul part by 2030. If all aspects of this project were implemented, it could mean a 40% reduction in the pilot workforce," points out the SNPL France Alpa (the union representing three-quarters of French pilots) on its website.

(...)

Airline companies tempted

Even if major obstacles remain on the road to international acceptance, **some airlines would not be insensitive to this abolition of co-pilots thanks to new technologies**.

In 2021, Hong Kong's Cathay Pacific is said to have already carried out tests with a single-pilot Airbus A350. Longer flights would thus be possible with a pair of pilots alternating rest breaks, instead of the three or four currently needed to keep two in the cockpit at all times. **Real savings for airlines**.



But at the time, the company backed down.

(...)

Serious safety issues

Lufthansa is also said to be working on this single-pilot program, but has no intention of using it. It has to be said that resistance from pilots is very strong, and this also raises serious safety issues concerning the automation of aircraft.

### **Airbus continues to work on this single-pilot project, but the participation of airlines has not been reported.**

(...)

Safe deployment would require constant monitoring of the solo pilot's alertness and vital signs by the on-board systems, said the European Union's Aviation Safety Agency (EASA) last year.

Airbus is not the only industry player working on this issue. Marc Rochet, CEO of Air Caraïbes and Chairman of French Bee, announced at the 2021 Paris Air Forum that he was "working on it", without giving any further details. This had already aroused the anger of the SNPL.

The fact remains, however, that this project is not likely to materialize any time soon. **Willie Walsh, Director General of the International Air Transport Association (IATA)**, which federates the vast majority of the world's airlines, said last year that he **was sceptical about the possibility of such aircraft appearing in the medium term.** " Personally, I don't **see it happening in my lifetime**," said 61-year-old Willie Walsh at a press conference on the sidelines of the IATA congress in Istanbul in June 2023. What's more, **the aircraft in service today and those about to be delivered will remain in service for 20 or 25 years.** They are not equipped for single-pilot operation.

***My comment:*** Airlines and aircraft manufacturers rely on feedback from flight reports to continuously improve flight safety. In this context, Artificial Intelligence offers real added value.

*Nevertheless, an incident may be the consequence of a chain of events that are as yet unknown and improbable: in such a case, Artificial Intelligence runs the risk of showing its limits.*

*I share the opinion of the head of IATA: the transition to a single pilot will not take place for several decades ... or ever.*

*We'll have to keep a close eye on the future position of the European Union's Aviation Safety Agency on the e-MCO (Extended Minimum Crew Operations) and RCO (Reduced Crew Operations) projects mentioned in the article.*

## > Germany raises taxes on airline tickets by 19%.

(source Air Journal) May 4, 2024 - On May 1, Germany increased the tax on airline tickets by 19% to between 15.53 and 70.83 euros per passenger, depending on the flight.

**This increase**, decided by Berlin as part of its 2024 budget, is intended to **give preference to rail whenever possible - at the same time, rail transport saw its VAT rate cut from 19% to 7%** last January, a reduction that would be covered by the increase in taxes on plane tickets (650 to 740 million euros according to various estimates).

**The International Air Transport Association (IATA)**, which defends the interests of civil aviation, **strongly denounced this tax increase in Germany**: "At a time when Germany's economic performance is anemic at best, weakening its competitiveness by raising aviation taxes is political folly. The government should be prioritizing measures to improve Germany's competitive position and encourage trade and travel. Instead, it has opted for a short-term grab that can only harm the long-term growth of the economy," said its managing director, Willie Walsh.

According to IATA, international passenger numbers in Germany are still 20% below pre-pandemic levels (197 million passengers in 2023 versus 248 million in 2019). And due to Germans' strong commitment to the environment, the impact is even greater on domestic flights, with a 50% drop over the same period (23 million domestic passengers versus 46 million).

**For its part, France has adopted a tax on major airports in the draft 2024 budget, which should raise 600 million euros each year to finance the ecological transition.** According to Aéroports de Paris, "the impact on the plane ticket will be of the order of 1.50 euros per passenger on average".

**My comment:** In [Letter no. 959](#), I shared an article about rail and air intermodality in Europe, which included the following European project:

*"By December 31, 2040, all European airports with 12 million passengers per year must offer passengers the possibility of connecting with long-distance trains, if possible at high speed.*

*Germany's policy could not be clearer: the increase in taxes is designed to ensure that in future there will be very few domestic flights and very few medium-haul flights to neighbouring countries.*

*This tax mechanism undermines the competitiveness of European airlines in relation to other major airlines, first and foremost Turkish Airlines, often mentioned in my*

letters.

## Stock market press review

### > Air France KLM: analysts continue to adjust after the accounts

(source Boursier) May 2, 2024 - **Air France KLM rallied 2% to 9.82 euros on Thursday**, as analysts continued to adjust **after the carrier reported a larger-than-expected first-quarter operating loss...**

JP Morgan thus 'underweights' Air France-KLM, with an adjusted target price of 9.30 euros, while Morgan Stanley remains 'market weighted' on the airline, but with a target reduced to 12.50 euros. **Analysts explain that one-off costs and higher expenses have affected earnings, as well as weak freight revenues.**

Bernstein ('outperform') points out that the operating deficit was higher than anticipated due to €100 million in ancillary costs, including a one-off salary payment of €50 million (at KLM) and €50 million in disruption costs mainly related to adverse weather conditions in Amsterdam earlier in the year. **Sales performance remained solid, with higher revenue per available seat kilometer and strong growth at low-cost carrier Transavia underlining the strength of the leisure travel segment.** Forecasts have been maintained apart from a reduction in capital expenditure, with management accelerating its cost-cutting efforts, which should lead to sequential improvements in unit costs throughout the year...

Deutsche Bank ('hold') is mainly citing a weaker-than-expected first quarter, with "promising summer ticket sales" unlikely to be enough to compensate. For Barclays ('overweight'), the underperformance at operational level is explained by weak freight revenues and high growth in unit costs due to disruptions. **"We expect the focus to be on non-fuel costs, cash flow, unit revenue trends and summer capacity.** Mergers and acquisitions will also be a focus, with the ongoing SAS deal and the TAP privatization process."

**My comment:** *The announcement of results for 2023 and forecasts for 2024 led to a 15% fall in the Air France-KLM share price in February.*

*The mixed first-quarter results have reassured investors, who are convinced that 2024 will be on target for Air France-KLM.*

## End of press review

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

**Air France-KLM shares** closed at **9.97 euros** on Friday May 7. It is **up this week by +2.57%**.

Like other companies in the airline sector, Air France KLM has had to cope with flight disruptions due to Iran's attacks on Israel.

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

**The average (consensus) 12-month analyst price for AF-KLM shares is 15.09 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:*** For the past month and a half, the Air France-KLM share price has been hovering between 9.50 and 10 euros.

*First-quarter results did not worry investors, and the share price rose by over 2% this week.*

## > **Fuel price trends this** week

**The price of a barrel of Jet Fuel in Europe is down -\$5 to \$102.** It was \$94 at the end of June, and \$79 before the outbreak of war in Ukraine.

**Brent crude oil** (North Sea) is **down -\$5 to \$84.**

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 \$18 a barrel. It has been two months since the spread returned to a level of \$25 or less.*

## > **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's 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 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.

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## **| François Robardet**

**Represented Air France-KLM's employee and former employee PS and PNC 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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