

Air France still among the top 10 best airlines



Letter from François Robardet

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

for employees and former employees

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Editorial

Dear readers,

Following the publication of the universal document by the Air France-KLM group for the 2024 Annual General Meeting, some of you have rightly noticed that I have directly received the remuneration linked to my duties as director in 2022.

Normally, this remuneration is paid to my union.

This was an administrative problem.

I subsequently paid this remuneration to my union, in accordance with an agreement signed between my union and myself.

This procedure was validated by the tax inspector.

I can only congratulate the (very) attentive readers who pointed out this anomaly.

I wish them, and all of you, a pleasant reading of this new letter.

François

PS: if anyone still has doubts, I can provide them with the supporting documents.

Monday's Press Review

> Air France still among the top 10 best airlines

(source Journal de l'économie) June 27, 2024 - 2024 marks the 25th anniversary of the Skytrax World Airline Awards, often referred to as the "Oscars of the aviation industry". Since 1999, the independent British organization Skytrax has compiled an annual global ranking of the best airlines, based on a worldwide passenger satisfaction survey.

This year, **more than 100 nationalities took part, making it the world's largest air passenger satisfaction survey. Air France achieved** notable results at the Skytrax World Airline Awards 2024.

Although the French airline slipped from 7th to 9th place in the world rankings, it **remains Europe's best airline**, ahead of Swiss International Air Lines in 10th place. This recognition is the **fruit of a steady rise in quality over the past two years**. In particular, Air France was singled out for the quality of its first class, **ranking second worldwide for first-class cabins**.

Air France's efforts to improve its services were rewarded with three other prestigious awards: best first-class catering in the world, best first-class lounge restaurant (CDG), and first place in the "Western Europe" category for the second year running. **These distinctions testify to the company's commitment to offering its passengers a high-quality travel experience.**

This year's ranking is dominated by Asian and Gulf carriers, with Qatar Airways in the lead, followed by Singapore Airlines and Emirates. Qatar Airways also won the awards for Best Global Business Class and Best Business Class Lounge, confirming its position as industry leader.

(...)

My comment: *By remaining Europe's second-largest airline (behind Turkish Airlines), Air France is reaping the rewards of its strategy to renew its fleet and improve product quality on the ground and in the air.*

The share price, down 22% in recent weeks, does not reflect this situation (see stock market press review below).

The rest of the ranking calls for three comments:

. Transavia France ranks second among European low-cost airlines, which is quite an achievement for a company in full expansion.

. Turkish Airlines remains Europe's leading carrier. It enjoys the unfailing support of the Turkish government, which has built a gigantic airport for it.

. *Ethiopian Airlines is Africa's best airline, but only ranked 35th worldwide.*

> Air France-KLM maintenance still not back to pre-Covid levels

(source Le Monde) June 24, 2024 - (...) Anne Brachet, General Manager of Maintenance at Air France-KLM, the world's second-largest maintenance company just behind Lufthansa, is defending her troops. **The incidents that have affected the company's aircraft in recent weeks**, such as the "hot smells felt in the cabin" on two planes, or the emergency landing on Sunday June 9 of an Air France Boeing 777-300 ER in Istanbul, Turkey, due to an engine problem, **"are not due to poor maintenance"**. In his view, "maintenance fixes problems. It doesn't create them".

More than these rare black spots, it's the failures of the subcontractor chain that worry her. According to Ms. Brachet, **the "main difficulty is resources", i.e. staff management and the supply of spare parts**. Rather than citing the war in Ukraine, the maintenance boss stresses the "hyperoptimization of the supply chain" throughout the industry. Just-in-time production with a single supplier" has not withstood the Covid-19 pandemic. What's more, she denounces, **"Covid was the occasion for a drastic downsizing", from which the aerospace sector has yet to recover**. As "the recovery was extremely rapid, with many aircraft orders and constraints on raw materials", delivery delays, both for aircraft and spare parts, have been piling up.

There will initially be "an improvement in 2025, before **a return to normal in 2026**", says Ms. Brachet. That's **if all goes well**, she adds, because "the more time goes by, the more manufacturers put off" the moment when everything will return to normal.

Nevertheless, the delays in deliveries are weighing on the results of the Franco-Dutch company's maintenance business. In 2023, it achieved sales of 4 billion euros. But, with only "1.8 billion [euros] generated externally", i.e. from customers other than Air France and KLM, **maintenance has still not returned to the 2 billion euros in sales recorded in 2019, the last year before Covid-19.**

Yet, with 200 customers, many of them airlines and aircraft lessors, and over 3,000 aircraft serviced and repaired, maintenance remains optimistic about its business. **"We recruited 450 new staff this year"**, says Ms Brachet, who now manages a workforce of over 12,000, including Air France and KLM personnel. **To maintain the thousands of Safran LEAP engines** that will power the majority of Airbus' A320 and Boeing's 737 MAX medium-haul aircraft, **the manager has decided to split the workload between Air France and KLM**. In addition to the LEAP, Ms Brachet is also expecting a major contract with India's Indigo airline, which ordered 500 Airbus A320s for over \$55 billion (€51.3 billion) just over a year ago. The biggest order in

history.

My comment: *The Air France-KLM group's Maintenance activity is suffering from the same constraints as the entire aeronautical industry :*

. a shortage of spare parts, a situation that is set to persist beyond 2026,

. difficulty in recruiting. Young mechanics tend to prefer manufacturers.

> **Transavia NL takes another step in the expansion of Brussels Airport**

(source Luchtvaartnieuws, translated with DeepL) June 27, 2024 - **Transavia Netherlands reached another milestone in its expansion plans at Brussels Airport on Thursday, with the installation of a third Boeing 737 at the Belgian airport.** The KLM subsidiary also launched its new scheduled service between Brussels and Bari.

On Friday, Transavia will open a route to Marrakech, and a day later, on Saturday, Transavia will begin flights to Thessaloniki in Greece. This summer, the low-cost airline will offer a total of 46 flights a week to 12 destinations from Brussels airport. Transavia began operating flights from Brussels Airport to Innsbruck in the 2021/2022 winter season, and has been steadily expanding its operations at the airport ever since. In the coming winter season, the airline will also launch a service to Las Palmas.

Zaventem, Brussels airport, is Transavia Netherlands' fourth base. The others are Schiphol, Eindhoven and Rotterdam. There are also several bases in France, but these belong to sister company Transavia France.

The majority of passengers on Transavia flights from Brussels are Belgian, but **travelers from the Dutch provinces of Noord-Brabant, Zeeland and Limburg also use the service in relatively large numbers. For them, the Belgian airport is often as far away as Schiphol.**

My comment: *The development of the Air France-KLM group's two Transavias continues.*

Transavia Netherlands is moving some aircraft from Schiphol airport to Brussels, anticipating a possible reduction in slots at Schiphol.

For its part, Transavia France is strengthening its presence at Bordeaux airport by opening five new routes.

> **Lufthansa to raise ticket prices in Europe, including an**

"environmental surcharge

(source AFP) June 25, 2024 - Travelling on board a **Lufthansa** aircraft will soon cost more. Europe's leading airline group **announced on Tuesday that it would be raising the price of all its European flights departing from the 27 countries of the European Union, the UK, Norway and Switzerland**, according to a press release. The surcharge, the amount of which will vary "depending on the itinerary and flight fare" on a scale of between 1 and 72 euros, will apply to all flights scheduled "from January 1, 2025", it says.

The German company explains this decision by the fact that it "will not be in a position to bear the growing additional costs resulting from regulatory requirements alone in the coming years". Lufthansa is referring to the mandatory quotas imposed by the EU to **incorporate more sustainable fuels** (known by the acronym "SAF" for "sustainable aviation fuel") into aircraft fuel tanks, in order to gradually replace kerosene.

The proportion of SAF is set to rise to 2% by 2025, 6% by 2030, 20% by 2035 and 70% by 2050. However, SAF production is still in its infancy: in 2023, it accounted for 0.5% of global demand for aviation fuel.

(...)

To make up for the lag in SAF production in Europe, the main European airlines, including Lufthansa, called on the EU in March to draw inspiration from the USA, where production benefits from incentives.

As a reminder, before Lufthansa, Air France-KLM had already taken the decision to pass on part of the extra cost of sustainable aviation fuels in ticket prices. This measure has been in place since the beginning of 2022.

(...)

My comment: Lufthansa and its main subsidiaries (Brussels Airlines, Swiss) will pass on the extra cost of sustainable aviation fuels.

Air France-KLM, world leader in the use of this type of fuel, has adopted this measure from 2022.

As a reminder, in Europe, the incorporation of 1% of these fuels entails an additional cost of 100 million euros.

In the United States, the additional cost is virtually nil. The Inflation Reduction Act of 2022 (IRA) provides \$369 billion over ten years to support green industry. Airlines benefit.

European airlines are constantly alerting the European Union to this distortion of competition.

> Supply chain difficulties prompt Airbus to revise delivery forecasts

(source Journal de l'Aviation) June 25, 2024 - **Airbus has been forced to revise its ambitions for this year downwards. Citing persistent difficulties in its supply chain**, mainly in the areas of engines, cabins and aerostructures, the aircraft manufacturer is now aiming to deliver "only" 770 aircraft in 2024, compared with 800 in its previous forecasts.

This target is still higher than the level achieved in 2023, and still reflects the increase in production rates, since Airbus delivered 735 aircraft at that time.

As for the A320neo program, the increase in production rates to 75 aircraft per month continues, but the target will now be reached in 2027, rather than 2026.

At the same time, **an audit carried out in the space business revealed new commercial and technical difficulties to be overcome**. As a result, the Group recorded additional charges of 900 million euros in the first-half accounts, linked to updated assumptions on schedules, workload, sources of supply, risks and costs over the lifetime of certain telecoms, navigation and observation programs.

As a result, the financial target has also been adjusted: **annual EBIT should be around 5.5 billion euros, instead of the 6.5 to 7 billion euros initially targeted**.

***My comment:** Airbus is not spared by problems in the supply chain.*

Its customers are impacted, as Lufthansa's CEO stated: .

"The aircraft delivery problems are having a 'brutal' impact on Lufthansa and will not be resolved until 2030. The aircraft shortage could therefore cost Lufthansa around €500 million a year",

without giving an exact figure.

> With the acquisition of Spirit, Boeing and Airbus reinternalize a strategic production line

(source Les Echos) July 1, 2024 - It's the first step in a long process of reconquest.

On **Monday, Boeing confirmed the acquisition of its supplier Spirit AeroSystems for \$4.7 billion (4.37 billion euros)**. The Wichita, Kansas-based equipment manufacturer has been in the eye of the storm since a door it had manufactured was ripped off in mid-flight on an Alaska Airlines flight on **January 5**. On March 4, the U.S. Federal Aviation Administration (FAA) reported that "non-conformance issues" had been identified in Boeing and Spirit Aerosystems' production controls.

The terms of the deal, which was announced at the beginning of March, changed

during negotiations: Spirit AeroSystems shareholders, who were initially due to receive cash, will now be paid in Boeing shares. The aircraft manufacturer, which has seen its share price plummet by almost 30% since the incident, needs to conserve cash. Even so, the deal offers Spirit AeroSystems shareholders a 30% premium on the level prior to the announcement of the acquisition. **Boeing is also taking over its supplier's debt, raising the real value of the buyout to \$8.3 billion.** "We believe this agreement is in the best interests of travelers, our customers, Spirit and Boeing employees, our shareholders and our country more broadly," said Boeing boss Dave Calhoun, quoted in the release.

The acquisition should enable Boeing to demonstrate its determination to regain control of part of its supply chain. A return to the situation of the early 2000s, when Spirit AeroSystems was part of Boeing. The company's fuselage production activities were subsequently sold and listed on the stock exchange. (...)

Most of Spirit AeroSystems' \$6 billion in sales (and \$633 million in losses) last year still came from Boeing. But by breaking away from the American aircraft manufacturer some twenty years ago, Spirit has increased its orders for its direct competitor Airbus, which has been one of the focal points of discussions in recent months.

Part of the equipment manufacturer's business is now set to be acquired by the European aircraft manufacturer, which also announced on Monday that it had signed a binding agreement with Spirit AeroSystems. In particular, Airbus is to take over from its supplier "the production of A350 fuselage sections in Kinston (North Carolina) and Saint-Nazaire (France), the production of A220 wings and central fuselage in Belfast (Northern Ireland) and Casablanca (Morocco)", as well as the production of components "for the A220 in Wichita", it said in a press release. Together, these operations would employ over 2,500 people.

This part of the deal would be negotiated for a symbolic one euro, and Spirit AeroSystems would even pay Airbus a balancing payment of \$559 million. The European aircraft manufacturer, which has seen its production rates slow down as a result of Spirit's difficulties, is expected to invest in its production lines to increase output.

My comment: I take over the comment of the journalist from Le Monde

=== beginning of quote

This is not the first time that the question of a company's boundaries has arisen. They have always evolved, as capitalism has for over two centuries, following the slope of task specialization, a guarantee of greater efficiency and the development of competition. Countries have done the same, and the phenomenon has accelerated

with globalization. The case of Boeing is a perfect illustration.

In the early 2000s, Boeing took globalization one step further, selling off its component manufacturing and retaining only assembly. A milder version of the factory-less company, which has led to the gradual dismantling of many of the world's major conglomerates.

But what we gain in productivity, we risk losing in supervision. Like deindustrialization for countries, outsourcing can be costly as soon as it gets out of hand.

What should you do yourself? What to delegate, and how?

*This is a question that is constantly renewed. And there's no definitive answer.
=== end of quote*

> **Beijing steps up pace to obtain European green light for its C919, rival to the A320neo and 737 MAX**

(source Les Echos) June 25, 2024 - **Beijing is pulling out all the stops to enable its C919 airliner, announced rival to the A320neo and 737 MAX, to fly in Europe first, and then the USA.** According to the South China Morning Post, experts from the European Union Aviation Safety Agency (EASA) are expected in China in July.

Several meetings have already taken place. Last April, Chinese civil aviation officials (CAAC) met in Cologne, Germany, where EASA is headquartered. But while Beijing relaunched its application last November (a first attempt, dating back to 2019, had been interrupted by the Covid pandemic), **the announced visit by European experts should mark the real first step in the aircraft certification process.**

(...)

But this first step will have to be followed by many others. Although Beijing lifted the veil at the start of the year, stating - without giving details - that its aim was to "promote China's national aeronautical programs abroad", **European certification is unlikely to come any time soon. Perhaps in 2025 or 2026**, the target date set by Beijing (...)

).

These scheduling constraints mean that China will not be able to take full advantage of Boeing's repeated accidents. Or those of Airbus, which is struggling to cope with persistent difficulties in its supplier chain.

(...)

The C919 (...) claims the same performance as the A320neo and Boeing 737 MAX. In fact, it shares some of the same technologies, starting with its engine: the Leap, the new-generation engine produced jointly by France's Safran and the USA's General Electric.

In the meantime, the C919 will have to make do with CAAC technical certification alone. This blank check, obtained in September 2022, is insufficient to enable the aircraft to fly anywhere in the world, and above all to be purchased by non-Chinese airlines. To date, only Air China, China Eastern Airlines and China Southern Airlines have integrated aircraft into their fleets or placed firm orders

***My comment:** The certification process for a new aircraft takes a long time, sometimes years ... for aircraft from manufacturers who have already certified one or more models.*

Comac, the manufacturer of the C919, will have to be very patient.

Note that Comac uses the same suppliers as Boeing and Airbus.

The Chinese manufacturer should therefore have the same supply difficulties as its two main future competitors...

> **When the lack of prospects for Roissy CDG airport starts to make people cringe**

(source Journal de l'Aviation) June 25, 2024 - Tongues are definitely starting to wag as France is definitively plunged into uncertainty, both politically and economically.

Ben Smith, CEO of Air France-KLM, took advantage of the Franco-Dutch group's 20th anniversary to lob a few jabs at the Paris airport operator, in particular the fact that there aren't enough gangways available in the terminals used by Air France during the morning rush of connections.

The lack of contact parking stands obviously leads to delays (waiting before disembarking, bus journeys if the aircraft is parked offshore, longer baggage delivery times, increased stress for connecting passengers...) and situations that will not help the attractiveness of the French airline over the next few years.

(...) To make

matters worse, the **lack of development plans for Roissy CDG airport should also be seen in the context of the traffic growth expected** in Europe over the coming decades (+44% in 2050 compared to 2019 traffic levels in Eurocontrol's baseline scenario).

But it's not the state-controlled ADP Group that should be pilloried. The Paris airports operator may have just increased its charges, but **none of the last three Transport Ministers has given any direction**, let alone the shadow of a priority, as to the future development of the Roissy hub. **The construction of Terminal 4, it will be recalled, was abandoned in 2021** as "obsolete" and not in line with "the environmental policy of the government" led by Jean Castex. For the time being, Ben

Smith is not looking for a giant new terminal at CDG. But can this situation last much longer?

(...)

The future of Roissy CDG airport looks set to be just as complex, and just as dependent on the outcome of the next legislative elections...

***My comment:** The project to build Roissy terminal 4 was an ambitious one, similar in size to Orly airport. It would eventually house Air France*

However, the project did not meet with the approval of Air France, which criticized the priority given to shops to the detriment of airlines. What's more, the project was to be implemented over a 10-year period, during which Air France would have had to operate the current terminals and Terminal 4 simultaneously.

Since the project was abandoned, Aéroports de Paris has made a number of improvements.

Nevertheless, if Air France is to continue to compete with its European rivals, major work needs to be planned quickly.

The departure of the CEO of Aéroports de Paris before the end of the year does not augur well for a rapid decision.

Stock market press review

> Air France-KLM loses altitude due to political uncertainty in France

(source Les Echos) June 28, 2024 - **We remain constructive on Air France-KLM's strategic position and management, begins the Barclays analyst** in his note on the Franco-Dutch group.

So why on earth did he downgrade his opinion from "overweight" to "in-line weight", and slash his price target from 15 euros to 9.50 euros?

Because of the political risk in France and the Netherlands.

Neither of the two extreme political parties would be favorable to Air France-KLM," explains the analyst.

If the extreme left were to take over a future French government, we would expect higher labor costs and a deterioration in industrial relations [which had been very good until now with the government and had helped overcome the Covid crisis, editor's note].

If the far right comes to power, we expect there to be less direct pressure on labor costs, but the unions could also become more militant.

Any protectionist policy would limit the traffic rights of non-French airlines to France, which might be good for unit revenues in the short term, but **would call into question the carrier's ability to maintain existing international partnerships**, adds Barclays. **An ungovernable France would limit Air France-KLM's chances of winning the TAP Portugal bid.**

Far from being a boon, the Olympic and Paralympic Games, which start on July 26, will create an imbalance in traffic, with connecting passengers and freight likely to avoid Paris, which is too congested, Barclays warns.

In the Netherlands, the broker points to uncertainties over the number of flights allowed in and out of Schiphol airport.

Added to this are staff shortages at KLM and engine problems with Embraer E2 aircraft.

In the long term, however, the broker remains positive on Air France-KLM shares: "The Paris market has a unique combination of point-to-point and connecting traffic, and the Group has a well-established partnership with Delta. Its management team is very strong, in our opinion, and industrial relations at Air France have improved."

Overall, the airline industry continues to benefit from sustained demand, with consumers favoring "experiences over goods."

On the stock market, the day's deterioration took precedence over long-term sentiment: Air France-KLM shares ended down 4.17%.

My comment: *Investors hate uncertainty.*

Since the European elections, Air France-KLM's share price has fallen by nearly 22%.

End of press review

> Air France-KLM share price trend

Air France-KLM shares closed at **8.228 euros** on Friday June 21. It is **down sharply this week (-12.02%)**.

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 14.75 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: *The Air France-KLM share price had regularly exceeded 10 euros for a month and a half. It has now fallen by 22% in one month.*

Read the stock market review above for more details.

> **Fuel price trends this** week

The price of a barrel of Jet Fuel in Europe is stable at \$106. It was \$94 at the end of June 2023, and \$79 before the outbreak of war in Ukraine.

Brent (North Sea)
oil is up \$1 a barrel to \$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.

My new comment: *Since the beginning of the year, the price of a barrel of oil has been relatively stable. It fluctuates between \$80 and \$90.*

The price of a barrel of Jet Fuel in Europe is falling steadily, from \$120 to \$100.

The spread between Jet Fuel in Europe and Brent crude oil has followed the same trajectory as Jet Fuel, approaching its pre-Ukraine level.

> **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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