

Peter Hartman, former KLM executive, warns that



Letter from François Robardet

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Monday's Press Review

> Former KLM executive Peter Hartman warns: stop being mean to Paris

(source Luchtvaartnieuws) August 17, 2024 - It's been 20 years since KLM merged with Air France. After all these years, opinions are still divided. **Former KLM CEO Peter Hartman (75) is adamant that the marriage with Air France was the best option for KLM. "Otherwise, we wouldn't have survived," he says.**

Mr. Hartman, as second-in-command to KLM CEO Leo van Wijk, spearheaded the agreement with Air France CEO Jean-Cyril Spinetta in 2004. In effect, Air France took over KLM as a newcomer, but **it was a merger** with the structure of a "light holding company" overseeing more or less independent airlines, Air France and KLM, **and a two-hub system (Schiphol and Paris CDG)**. The plan was sketched out on a cigar box. Multi-year guarantees for KLM were agreed as part of the deal.

"This was the only way to ensure the long-term survival of KLM, its brand and its organization in the Netherlands. **A stand-alone KLM would not have been viable in the long term. Things weren't going well at the time,**" says Hartman. Before Air France, British Airways, SAS ("Alcazar") and Lufthansa had already bid for a merger, but this would not have been favorable to KLM, according to Mr. Hartman. "After the failure of the Alitalia deal, Air France was undoubtedly the best and only airline left in Europe. But the French carrier had to be privatized first. Consolidation was necessary, still is, and is in full swing in the aviation sector.

First the low-hanging fruit

Van Wijk and Spinetta seized the low-hanging fruit after 2004 to achieve billions in synergies and savings by joining forces, and smart commercial combinations were also made to optimize the network and generate additional revenues. **Difficult projects were brought to a successful conclusion. Everything went according to plan in the early years, and until the credit crunch in 2008, the share price hit record highs.** The Air France-KLM holding company was also able to guarantee investments in KLM's fleet, for example, and landing rights were retained for the Netherlands, with KLM's identity remaining deliberately Dutch in the company's shareholding.

According to Hartman, who succeeded Van Wijk at the helm of KLM in 2007, **the fact that the Air France and KLM networks complement each other perfectly also played an important role.** "Where the European market was increasingly dominated by low-cost carriers, we deployed Transavia. On intercontinental routes, we have been able to grow faster thanks to alliances and Air France's strong partners in America, such as Delta Airlines and China, among others. With two hubs in Paris and Amsterdam, this has worked very well".



Jean-Cyril Spinetta and Leo van Wijk sealed the merger deal at the end of 2003.

KLM benefited most

According to Hartman, KLM has benefited most from the merger with Air France. "The size of the company increased by two-thirds in the first ten years. After that, quarrels at the top gradually took over, which is not wise. **A possible dissociation of the two airlines, as some keep suggesting, would be, if at all legally possible, a real nonsense. Suicide!** Once again, this proves how little people know about aviation. After all, Air France, or rather the holding company, owns KLM. And Air France-KLM is also anchored in SkyTeam, which gives it considerable advantages. It's regrettable that the alchemy of the first decade has disappeared, but a separation is simply not possible - Air France and KLM are far too intertwined for that. It's totally unrealistic. Hartman, who has worked at KLM and Air France-KLM for almost 45 years and has known five KLM CEOs (Van der Wal,

Orlandini, De Soet, Bouw and Van Wijk) before becoming CEO himself in 2007, is all for groupthink within the Air France-KLM group. As Group Vice-Chairman, he also knew his successors at KLM, Eurlings and Elbers.

Hartman: "**As a KLM man at heart, I've never felt at a disadvantage.** You work first and foremost for the group, and that's the essence of any merger. It's not for nothing that Leo and I were vice-presidents of Air France-KLM. It's not appropriate to cut these roots with a blunt axe. It certainly hasn't improved relations between Air France and KLM. So stop polarizing and being nasty to Paris. The arrogance on both sides must stop. KLM's current CEO, Marjan Rintel, is working hard to improve relations. Of course, finance, like many commercial issues, is a Group matter. KLM is a strong operating company at the Schiphol hub. For Air France, the same applies at Charles De Gaulle.

Egos and power struggles

According to Hartman, **attempts to drastically downsize Schiphol and break up the hub are very unwise.** "MP De Hoop of GroenLinks/PvdA even advocated abolishing the hub function earlier this year. **These statements are as thoughtless as they are disrespectful.** Several thousand jobs would be threatened. If we separate fact from fiction, and once again understand the contribution made by the Air France-KLM Group, the future looks rather bright, both economically and in terms of climate change. Provided we put egos and power struggles aside". Hartman also believes that Ben Smith is doing an excellent job. "Operationally, he's a rock and he won't let Dutch cheese eat his French baguette. We need to regain confidence and pride. **The French and Dutch must continue to learn from each other and move forward without fuss, with a common vision.** This is how KLM will earn the right to exist within the group. There's no shame in KLM being part of a French company. After all, what counts is the global network, which today is much larger than it would be if KLM stood alone. And with the arrival of SAS and Copenhagen, and later perhaps TAP Air Portugal, the situation will only improve.

Mr. Hartman calls on all parties involved to stop bombarding each other and constantly throwing oil on the fire. "We need to get back to building things constructively in close consultation. Negativism and disinformation have no place in my eyes. It's extremely damaging. Even when it comes to reducing the size of Schiphol. Our international reputation as an airline and a flying nation is at stake".

Smits, Harbers, Sondag

Hartman is disappointed with the performance of former KLM Supervisory Board Chairman Hans Smits. "He caused unnecessary tension by making remarks about Air France and KLM. In particular, he wanted to take KLM out of the group". In his view, former Transport Minister Mark Harbers and acting Schiphol CEO Ruud Sondag did nothing but "cause unnecessary unrest, particularly among staff, through their unfounded policies and practices".

"In this respect, I have every confidence in new Minister Barry Madlener and Schiphol CEO Pieter van Oord. **Above all, KLM must remain realistic,** but the

Netherlands must cherish aviation. Navel-gazing is very dangerous, because the threat comes from outside. Above all, let's not forget the great importance of cargo and technical services as business units within the hub. Young people are sufficiently interested in the fine profession of aviation technician and GWK, but we need to create more training capacity for this," said Hartman.

The KLM executive believes that Ben Smith should be allowed to state clearly that he is the real boss of the Air France-KLM group. "So that everyone in France and the Netherlands knows exactly where they stand. One thing is certain: the shrinking of Schiphol will never be accepted by partners like the Americans and the Chinese. Harbers didn't listen, and that destroyed a lot. It's scandalous, in fact. The former director of Schiphol, Jos Nijhuis, also caused confusion with his volume policy. He flouted the selectivity policy agreed with Aldersakkoord and allowed Schiphol to fill up with European low-cost airlines and Gulf carriers such as Emirates and Qatar Airways. In so doing, the airport grew too fast, with all the consequences we know today in terms of infrastructure and environmental pollution".

My comment: *This is what's called setting the record straight, or crossing all the "i"s and crossing all the "t"s.*

Having lived it from the inside, I can confirm that for too many years, the desire to split up the group, promoted by KLM's main executives (Mr Pieter Elbers and Mr Hans Smits, quoted by Mr Hartman), has damaged the Air France-KLM group and all its subsidiaries.

This culminated in February 2019 with the Dutch state's surreptitious acquisition of a stake in Air France-KLM. This decision, taken by the Dutch Finance Minister in order to influence the Group's future, was taken without consulting the French government... or the Dutch parliament.

The Dutch government invested 750 million euros to acquire 14% of the capital. It bought shares on the market, without the Franco-Dutch group benefiting directly from this investment.

The Covid-19 crisis and the departure of the aforementioned executives marked a turning point in relations between the various parties. It is undeniable that the Dutch state played a crucial role in KLM's survival.

Today, the Air France-KLM group finds itself in a fragile situation. Another internal crisis of this magnitude would be unthinkable.

> **Fast, free Wi-Fi on Delta**

(source abouttravel) August 15, 2024 - With the introduction of T-Mobile's fast, free WLAN, **Delta Air Lines is taking an important step towards offering reliable,**

streaming connectivity across its global fleet. Most transatlantic flights should have free WLAN by the end of the summer. On Viasat-equipped routes to and from Germany, the launch will begin in August, and in September for Switzerland. Today, free streaming connectivity is already available on nearly 700 aircraft, representing over 90% of Delta's main US fleet. **The airline expects the majority of its customers to have access to the product by the end of the year.**

"As we continue to introduce fast, free WLAN and associated in-flight experiences, we can offer new possibilities for customers, both for domestic and international travel," explains Ranjan Goswami, S.V.P. - Customer Experience Design. "The scale of the free Wi-Fi offer to our customers is unprecedented in the aviation sector and is testament to the incredible efforts of Delta's teams across the business, who have successfully completed an extremely complex rollout."

Next steps

To ensure Delta delivers the first-class service passengers expect, the airline is gradually introducing the offer on Viasat-equipped wide-body aircraft on various routes. Other routes will follow as soon as reliable, high-quality service is available. This strategy mirrors the approach adopted in 2022 for in-flight facilities.

With the introduction of free Wi-Fi on international flights, **no Skymiles registration is required for the international Wi-Fi portal initially.** Later this year, all Viasat WLAN-equipped aircraft will officially switch to the Delta Sync personalized WLAN experience, which will be activated by customers' Skymiles membership for exclusive border experiences and offers.

Provisional
timetable

Last month, fast, free WLAN was introduced on most flights to/from France (Paris and Nice) departing/arriving from all U.S. airports. For the future, the airline is planning the following schedule.

Delta's regional routes, including those served by Boeing 717s, should follow a similar process and be launched during 2025.

(...)

My comment: After Turkish Airlines, Delta is now planning to offer its customers free wifi service. It would not be surprising if other airlines followed suit.

However, not all airlines have the same facilities for offering free wifi. U.S. airlines, for example, operate mainly on a domestic network, which means that their flights pass through well-covered areas within the U.S. territory.

By contrast, other major airlines, such as Air New Zealand, have to contend with flights crossing vast stretches of sea, where providing good wifi coverage is more complex.

Free wifi could become a significant competitive advantage for airlines. It could also act as a lever to encourage membership of airline loyalty programs, in exchange for

free access to this service.

> **Russian skies give wings to Chinese airlines' assault on Europe**

(source Les Echos) August 13, 2024 - Chinese tourists are back in Europe. The number of flights between China and Europe has jumped by 74% this summer, compared with the summer of 2023, according to data from research firm OAG, the equivalent of some 30 extra flights a day. **Supply is now higher than it was before the pandemic.**

But there is another side to the coin. **Most of this extra capacity has come from Chinese airlines**, while European airlines have barely moved at all. (...)

The advantage of Russian skies

The reason for this discrepancy is well known. As **European airlines are unable to fly over Russia, they are forced to take a long detour to the south to serve China, and their flight times have lengthened by an average of two to three hours.** This gives Chinese airlines a major competitive advantage, as they can always cross Russian skies. This is reshuffling the cards on routes between Europe and China, particularly in France.

Paris, which until Covid was the preferred European destination for Chinese tourists and their main gateway to Europe, has been particularly hard hit by this new situation. Despite the efforts of the French authorities to bring back Chinese tourists, **the number of flights between France and China this summer still represented only 58.5% of those for summer 2019**, according to OAG. Air France, which operated 32 flights a week to mainland China (excluding Hong Kong) before the pandemic, is still capped at 14 weekly flights (seven to Beijing and seven to Shanghai), plus one daily flight to Hong Kong. And Paris is only the third most popular European destination for the Chinese, behind London and Frankfurt.

France lags behind

This is already better than last summer, when the number of flights between France and China was still only 26.5% of the 2019 level, and Paris was languishing in 5th place among European destinations. **The trouble is, this spectacular 121% year-on-year growth has been driven by Chinese airlines.** The latter have taken advantage of the additional traffic rights granted by the French authorities for the Olympic Games, to massively increase their market share and push their advantage, to the detriment of their European competitors.

However, the Chinese airlines' summer offensive was not limited to France. London, Milan, Madrid, Amsterdam, Brussels and Budapest also saw double-digit increases in Chinese air travel. London was taken by storm, with 35% more flights. And **almost all Chinese airlines took part in this rush to Europe.**

The

three main carriers, Air China, China Southern and China Eastern, were the most reasonable, with 7% to 14% more seats. But **European airports also saw the arrival of several regional Chinese airlines this summer**, such as Juneyao

Airlines, Sichuan Airlines, Xiamen Airlines, Shenzhen Airlines and Tianjin Airlines, which until then had been mainly domestic.

(...)

On the other hand, in the United States, where the authorities continue to restrict access to Chinese airlines to counterbalance the closure of Russian skies to American airlines, Chinese air travel remains 80% lower than before Covid.

My comment: *European and Chinese airlines are unable to compete on equal terms due to the closure of Russian airspace. This imbalance is likely to worsen in the future, as European airlines will be obliged to use much more expensive, sustainable aviation fuels.*

A political riposte could be to reduce bilateral agreements and traffic rights between Europe and China. However, before implementing such a policy, another parameter needs to be taken into account.

According to a 2023 study by the United Nations Tourism Organization, China has regained the top spot among the world's biggest spenders on international tourism. Chinese passengers therefore represent a valuable opportunity for Europe's economic fabric.

> **Air NZ becomes the first major carrier to abandon its climate target**

(source BBC, translated with DeepL) July 30, 2024 - Air New Zealand has abandoned its 2030 carbon emissions reduction target, citing **difficulties in sourcing more efficient aircraft and sustainable kerosene.**

The decision makes Air New Zealand the first major carrier to abandon such a climate target.

The airline added that it was working on a new short-term target, and remained committed to the industry-wide goal of achieving net zero emissions by 2050.

The aviation sector is estimated to produce around 2% of global carbon dioxide emissions, which airlines are striving to reduce through measures such as replacing older aircraft and using fuels from renewable sources.

(...)

In 2022, Air New Zealand adopted a 2030 target to reduce its emissions by almost 29%.

This was far more ambitious than the 5% target set by the global aviation industry for the same period.

Sustainable aviation fuels (SAF) are a key part of the industry's emissions reduction strategy, but **airlines have been struggling to buy enough of them.**

"SAF is more expensive than traditional fuels, and there isn't enough capacity to produce it on a large scale," said Ellis Taylor of aviation analysis firm Cirium.

(...)

IATA, the international airline organization, said that the sector's emissions reduction target was "net zero by 2050 and that airlines were not reducing their commitment".

It added that while this target was achievable, "**we also depend on appropriate support measures from governments**".

"We need a scaling up of all solutions, including SAF production, as well as emerging technological solutions, including the use of hydrogen and carbon elimination.

Mr. Taylor said that **airlines were also affected by delays in the delivery of new aircraft**, with "Boeing and Airbus not delivering enough new jets in recent years, largely due to problems in the manufacturers' supply chains."

(...)

My comment: *The target of reducing CO2 emissions by 29% by 2030 was very ambitious, not to say over-ambitious. This decision seems both realistic and courageous.*

Indeed, airlines are dependent on factors they cannot control, such as the late delivery of new-generation aircraft and the lack of sufficient quantities of Sustainable Aviation Fuels (SAF) on the market.

What's more, the need for capital in relation to low margins is reducing airlines' room for manoeuvre.

I'll say it again: without adequate support policies for SFCs, it's legitimate to wonder whether other airlines might not in turn abandon their objectives.

Air New Zealand has just sent a signal to legislators and political decision-makers. Will this warning be heeded?

End of press review

> Air France-KLM share price trend

Air France-KLM shares closed at **7.750 euros** on Friday August 16. It is **virtually stable this week (+0.75%)**.

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

The analysts' 12-month average (consensus) for the AF-KLM share is 11.11 euros (it was 15.0 euros at the beginning of January 2023). The highest price target

is 19.60 euros, the lowest 8 euros.

I only take into account analysts' opinions after July 1, 2023.

You can find [details of the analyst consensus](#) on my blog.

My comment: *The Air France-KLM share price is once again flirting with its all-time low.*

The airlines' mixed half-year results have led to a fall in their share prices. The announcement of Air France-KLM's half-year results, which were also mixed, paradoxically boosted the share price.

The average (consensus) 12-month analyst price for Air France-KLM shares is 11.11 euros, down nearly 3 euros in two months.

It's impossible to compare companies on the basis of their share price. Capitalization (the total value of outstanding shares) is a more relevant indicator.

Here are the capitalizations (as of July 29) of a few airlines:

- Air France-KLM: 2.2 billion euros
- easyJet: 4.2 billion euros
- Lufthansa: 7.1 billion euros
- IAG: 9.8 billion euros
- Ryanair: 16.7 billion euros
- Delta Air Lines: 26.3 billion euros

A few benchmarks:

- when Delta Air Lines and China Eastern acquired a stake in Air France-KLM in 2018, the group's capitalization was 3.75 billion euros.
- when CMA CGM took a 9% stake in 2022 (for an investment of around 400 million euros), the group's capitalization was 4.4 billion euros.

> Fuel price trends this week

The price of a barrel of Jet Fuel in Europe is down \$1 to \$96. It was \$94 at the end of June 2023, and \$79 before the outbreak of war in Ukraine.

Brent crude oil (North Sea) is up \$1 to \$80 per barrel.

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 Partners for the Future, 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...

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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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