

Cutting short domestic flights: We'll go further

I Letter from the Director of Air France-KLM

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

(Air France-KLM Group raison d'être).



François Robardet

Representative of current and former employee shareholders PS and PNC

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Monday's Press Review

Editorial

Dear readers,

Thank you to all those who have already given me their proxy for the next Air France-KLM Annual General Meeting, to be held on Wednesday June 7, 2023.

For those of you who have not yet done so, please refer to my [Flash no. 99](#) for instructions on how to proceed.

Thank you for your trust and loyalty.

Happy reading

François

> **Abolition of short domestic flights: "We'll go further", promises Clément Beaune**

(source AFP) May 25, 2023 - **The government intends to toughen the rule banning domestic flights if the alternative is less than 2.5 hours by train, which** officially came into force on Tuesday, **Minister Delegate for Transport Clément Beaune said on Wednesday.** "I'm telling you, we'll go further, we'll go further", said the Minister on Franceinfo. The list of banned domestic short-haul flights "will be reviewed twice a year to see if the rail offer is improving", he noted, noting that the text was valid for three years.

"My responsibility as Transport Minister is precisely to improve rail connections, so that more and more, this 2.30-hour rule is leading to the closure of airlines", remarked the Minister. "We're closing three routes, and we're going to continue. **Perhaps we'll gradually tighten the 2.30-hour rule to 3 hours, for example,**" he warned. In concrete terms, few routes would be affected by a move to three hours. This could possibly be the case for Paris-Mulhouse (2h43 by TGV), but this airport is Franco-Swiss and also serves Basel. Paris-Limoges could also be a possibility, once the rail line has been upgraded.

Asked about the 4-hour threshold advocated by the Citizens' Climate Convention, he replied: **"It's possible, but we need to develop the railways in parallel"**, citing the purchase of additional TGVs and the planned construction of a high-speed line between Bordeaux and Toulouse. The ban on short domestic flights in France unless there is an alternative, "with a satisfactory service", by train in less than 2h30 came into force on Tuesday, a change that had been anticipated with the end of connections between Paris-Orly airport and Nantes, Bordeaux and Lyon.

This ban, provided for in the Climate and Resilience Act of August 22, 2021 and already applied in practice, had been suspended pending an in-depth investigation by the European Commission following a complaint from part of the airline industry, which deemed it contrary to the principle of free provision and unsuited to the fight against climate change. **Connections with Paris's Roissy-Charles-de-Gaulle airport, on the other hand, have been maintained, officially to enable international connections.** However, it is still possible to buy one-way tickets between Roissy and Bordeaux, Lyon and Nantes.

My comment: Please note that the figures given in my comment below are orders of magnitude.

Why do TGV ticket prices rise when competition from air travel disappears? To answer this question, we need to look at the costs of both means of transport.

To open a route, an airline needs aircraft. The infrastructure already exists (terminal, runway).

A rail company needs high-speed trains. But it also needs to build a new high-

speed line (LGV). This was the case for Paris-Strasbourg and Paris-Bordeaux, for example. It could be the case between Paris and Lyon (this route is close to saturation point) if air links between Paris and Nice, Montpellier and Marseille were to be discontinued.

It takes as many TGVs as planes to carry the same number of passengers per day.

Since a TGV costs approximately the same as a short-haul plane, the difference is due to infrastructure.

For airlines, the additional infrastructure costs are low. Any terminal improvements are no more than the cost of an airplane.

The same cannot be said for rail. The cost of two kilometers of high-speed line (LGV) is that of a short-haul aircraft. Building a 500 km (or 2h30) LGV is equivalent to the cost of 250 airplanes.

*In other words, **to replace the five aircraft on a commuter route with trains, we'd have to invest an amount equivalent to the price of 255 aircraft!***

Are we ready to assume these costs (financial, but also environmental) to build new high-speed lines?

Wouldn't it be more appropriate to invest these sums in the production of sustainable fuel?

My purpose here is not to answer these questions, but to illustrate with an example the choices we will collectively have to make if we are to combat climate change effectively.

I'll be coming back to this issue in a special Flash, currently being written.

> Reducing the number of flights at Schiphol saves up to 11% in emissions

(source Luchtvaartnieuws, translated with DeepL) May 24, 2023 - **Reducing the number of flight movements at Schiphol to 440,000 would cut emissions of greenhouse gases and other harmful substances by between 4 and 11 percent. This reduction would be smaller if airlines decided to use larger aircraft.**

This is the conclusion of a study carried out by the TO70 consultancy on the

environmental impact of reducing capacity at Schiphol, commissioned by the Ministry of Infrastructure and Water Management. (

...)

The consultancy announced last June that the number of movements should be limited to 440,000 a year by November 1, 2024, compared with 500,000 before the Covid crisis. (..

.)

Mr. Harbers insists on the reduction to 440,000 and has studied the effects on emissions to this end. Carbon dioxide, carbon monoxide, nitrogen, sulfur dioxide, particulate matter and substances of very high concern, a collective term for substances such as formaldehyde and benzene, were all taken into account.

If the number of movements is reduced but the fleet composition remains unchanged, emissions of all substances fall by 10-11%. If flights are cancelled on specific segments, resulting in a fleet of larger aircraft, the reduction is 9-10%. **If airlines choose to use larger, more polluting aircraft, the environmental gain is only 4% on average. Nitrogen emissions increase by almost 3% in this scenario.**

The study is indicative. "Once **it is clear what changes capacity reduction actually brings about in airline schedules, further calculations can be made**", said Minister Harbers.

(...)

My comment: *The Dutch government, under pressure from the European Commission, is examining in greater detail the consequences of reducing the number of flights at Schiphol.*

All other things being equal, it finds - not really surprisingly - that a 10% reduction in the number of flights accompanied by a 10% increase in aircraft capacity would have little environmental impact.

This leaves two solutions for reducing greenhouse gas emissions: reduce the number of passengers (and the number of flights), or switch fleets to less polluting aircraft.

Unless the Dutch government prohibits airlines operating at Schiphol from changing their fleet composition. I can't imagine Air France-KLM, or even Ryanair and Qatar Airways, accepting this diktat.

> Lufthansa still has to convince people of the merits of its takeover of ITA Airways

(source Les Echos) May 26, 2023 - **Lufthansa has not seen the last of ITA Airways.** After months of negotiations, the German group **has finally convinced the Italian government to hand over control of the national airline.** But it still has to convince investors of the merits of this acquisition, which has been greeted with circumspection and even skepticism.

The day after the announcement of the agreement with Rome, Lufthansa's flat share price showed no sign of approval for the deal, which is the biggest consolidation operation in Europe since IAG's delayed takeover of Spain's Air Europa in 2019. This lack of enthusiasm was also palpable in the questions from analysts at the conference organized for them on Friday by Lufthansa Group CEO Carsten Spohr.

To justify his decision to invest 325 million euros to acquire a 41% stake in the Italian airline, **Lufthansa's big boss had to emphasize on several occasions the precautions taken to avoid experiencing the same setbacks as Air France-KLM and Etihad with the defunct Alitalia.** While Lufthansa's aim is to eventually acquire all ITA Airways shares, the increase in capital will be gradual, and the full takeover will not take place until the new Italian airline has become profitable. This is not expected before 2025. "Carsten Spohr emphasized: **"We cannot be forced to buy out the entire company if the profitability target is not met.** Which is not for tomorrow. ITA Airways' first full financial year, in 2022, ended in an operating loss of 338 million and a net loss of 486 million, on sales of 1.57 billion. This forced the Italian government to reinject 250 million euros in the first quarter, in order to boost its cash position. And forecasts for fiscal 2023 point to further losses.

Another precaution: during the first 41% phase, Lufthansa will not consolidate ITA Airways' results with its own, as its CEO also emphasized. This will avoid tarnishing the Group's results. What's more, the purchase of the 41% stake will be financed entirely from Lufthansa's own funds, without adding to its debt.

Carsten Spohr also had to argue against references to the successive failures of Air France-KLM and Etihad with Alitalia. **ITA Airways is not Alitalia,"** he insisted. It's a new company, which doesn't have to bear Alitalia's liabilities, and which starts with much lower operating costs", he stressed.

While ITA has taken over part of Alitalia's fleet and employees, it has undergone a serious slimming-down, with fewer than 4,000 employees for 66 aircraft, compared with over 10,000 employees for around 100 aircraft at the time of Alitalia. The employment contracts of the staff taken over have all been revised downwards. What's more, the Italian government has undertaken to assume Alitalia's liabilities, and in particular to finance the pensions of its former employees.

However, **Lufthansa's investment in ITA is more than just an airline; it is an**

investment in the Italian market. At present, ITA only represents 10% of the Italian market, compared with 40% for Ryanair. Nevertheless, Italy remains Europe's third-largest aviation market, after Germany and France, and the Lufthansa Group's second-largest international market, after the United States. The lure of the Italian market

With the help of the Group's various subsidiaries and its Star Alliance partners, Lufthansa is confident that it will be able to take a larger slice of the Italian cake, which currently largely benefits Air France-KLM. "Instead of flying via Paris or Amsterdam, ITA's international passengers will be able to fly via Rome or the Group's other hubs [Frankfurt, Munich, Brussels, Vienna, Zurich NDLR]."

Lufthansa will give ITA Airways the means to achieve its ambitions. Its 100% Airbus fleet is set to grow from 66 aircraft, mainly medium-haul, to 94 by 2027, with around one-third long-haul A350s. The division of roles between Rome-Fiumicino and Milan-Linate airports, which has always been a problem for Alitalia, will also be clarified. "Rome will be the long-haul hub, while Milan will specialize in point-to-point traffic for premium customers", explains Carsten Spohr.

A few uncertainties remain. Apart from possible political interference, the **first is Lufthansa's ability to obtain the green light from Brussels for this takeover, without having to give up too many routes.** Lufthansa's boss is counting on ITA's low market share in Italy against the low-cost carriers to obtain lenient conditions. But the Commission, which has just been rejected by the European Court of Justice on the issue of state aid to Alitalia, could prove more difficult on the long-haul segment.

Lufthansa needs a quick green light to move on to the phase of integrating ITA Airways into its frequent flyer program, its joint venture with United Airlines and the Star Alliance. Three pillars which ITA absolutely needs if it is to develop its long-haul flights.

Finally, the Lufthansa boss did not explain how ITA will be able to regain lost ground against the low-costs, whose three main competitors - Ryanair, EasyJet and Wizz - now have a 60% market share. Even with lower costs, this market for intra-European routes will be difficult to win back, which will further reduce ITA's capacity to feed its Rome hub.

My comment: For the fourth time, an airline is trying to come to the rescue of Italy's national airline.

The first to fail was KLM in 2000. Air France and then Etihad tried again, without much success.

The result: ITA Airways has only a small share of its domestic market (10%),

and its workforce has been divided by five in twenty years, from 21,300 employees in 2004 to 4,000 today.

To date, Lufthansa has failed to convince observers.

> **Air safety: will there be just one pilot in the plane?**

(source Les Echos) May 24, 2023 - **The fear of seeing man replaced by machine is not new, but it is now spreading to professions as skilled as airline pilots.** For several months now, **the main pilots' organizations in Europe and the United States have been at war** with the plans of certain aircraft manufacturers, led by Airbus, to take advantage of advances in automation to keep only one pilot in the cockpit, at least during the cruise phase of flight.

Unusually, the international airline pilots' association IFALPA, with over 150,000 members in some 100 countries, its European counterpart ECA, and the main American pilots' union ALPA, held a joint press conference to denounce a "new threat to safety". In France, the main pilots' union, SNPL, is also mobilizing, and is planning actions to alert public opinion.

All of them **unanimously and unreservedly reject any plans to reduce the number of pilots in the aircraft**, which they see as contrary to the basic principle of air safety, which is that each of the two pilots should be able to rely on the expertise and supervision of his or her colleague at all times. Reducing crew numbers means reducing safety," sums up a French pilot from the SNPL. Advances in automation are there to help pilots with their tasks, not to replace them. Only a human crew is capable of dealing with unforeseen situations", he stresses.

Added to this concern for safety is the usual suspicion that airline executives want to reduce the number of pilots in order to cut costs and remedy the growing shortage of aircrew. "You'll always have low-cost airlines willing to do anything to save a few dollars on wages", assures an ALPA representative.

However, **both Airbus and the airlines categorically deny any desire to reduce the number of pilots.** We have no objective of reducing the number of pilots," says the aircraft manufacturer. Our sole objective is to improve safety through technological progress, which has enabled us to reduce the number of accidents by a factor of 30 over the last three decades.

According to Airbus, the various research programs aimed at further automating aircraft piloting, such as "Dragonfly", have no other aim than "to reduce the pilot's workload in the cockpit, while improving in-flight operations and overall aircraft performance".

A case in point is Airbus's EMCO (Extended Minimum Crew Operations) project, which aims to enable one of the two pilots on a long-haul flight to remain at the controls alone during the cruise phase, while his colleague takes a rest. Under the supervision of the European Aviation Safety Agency (EASA), with a view to possible regulation as early as 2027, this project would combine a number of technological innovations, such as an automatic emergency descent mode in the event of depressurization, assistance in the event of engine damage or monitoring of the pilot's level of alertness on duty, so that the pilot remaining alone at the controls can deal with the unexpected, at least until his colleague returns to his station.

Here again, the aim is not to reduce the number of pilots. "The aim of these studies is to improve crew fatigue management on long-haul flights and enable them to better organize their presence in the cockpit during cruise phases, thanks to additional automated functions. They require a minimum of two pilots on board," says Airbus. Today, **on long-haul night flights, you can have one pilot asleep in the cockpit and the other trying to stay awake," explains an expert in the field. If tomorrow, automatic systems can enable them to take it in turns to rest, so as to arrive at their destination in better shape, that would be a plus for safety".**

But **for pilots' associations**, EMCO clearly remains synonymous with reduced crew numbers. And therefore unacceptable. For while there will always be two seats in the cockpit, giving both pilots the option of resting alternately would be tantamount to flying solo for the majority of the flight, they explain. Furthermore, **this possibility of resting could open the door to a revision of the "reinforced" crew rules, which consist of taking on board one or two extra pilots on very long flights (over 9 or 10 hours), in order to ensure relief.** Once again, this means savings for the employer.

However, **the real "casus belli" in the eyes of pilots' representatives remains the SPO project, for "Single Pilot Operations",** which this time would concern the possibility of operating short-haul flights, averaging one hour, with a single pilot. However, this "threat" seems much more remote. While Airbus admits to studying certain technological concepts **"aimed at determining whether a commercial aircraft can be flown by a single pilot without compromising safety"**, it is quick to point out that these are only research projects, with no deadline or certainty of success. "There are many R&T projects in aeronautics, but not all of them necessarily go into service," stresses the aircraft manufacturer.

And **here again, the aim is not to eliminate pilot jobs, but rather to develop a technological response to the worst-case scenario: the inability of one or both pilots to control the aircraft.** Unfortunately, there is no shortage of examples of this scenario, but it represents a technological challenge that is still

beyond the reach of civil aviation requirements.

"Considering the solo pilot means being able to automate an entire flight, including the return to earth of an unmanned aircraft. Today, we're not in a position to say whether this will be certifiable, or when," says a specialist in the field.

Hence the reservations expressed by the European Aviation Safety Agency. While the body responsible for ensuring flight safety has not ruled out authorizing EMCO-type solo piloting phases by 2027, the regulator has ruled out the possibility of a single pilot, at least by the next decade. As for Airbus, the manufacturer clearly has other technological priorities for the next generation of single-aisle aircraft than to alienate the pilot profession.

My comment: *Improving flight safety is the primary concern of aircraft and engine manufacturers and airlines, ahead of reducing fuel consumption.*

On the subjects mentioned in the article (EMCO and SPO), I agree with the pilots' representatives.

For me, reducing the number of flight engineers on long- and short-haul aircraft is out of the question.

It's interesting to note that public transport systems operated by a single "pilot", or none at all (automatic subways, elevators), are designed to stop quickly in the event of a malfunction.

Such a procedure is unthinkable for a long-haul or short-haul aircraft.

> **Embraer: eight E2s for Royal Jordanian**

(source Air Journal) May 19, 2023 - **Royal Jordanian announced on May 18, 2023 the firm order of two E195-E2s** direct from the Brazilian aircraft manufacturer (they were already listed as unidentified), **and the leasing of a further six E2s from leasing company Azzora:** two E195-E2s, and four E190-E2s. Jordan's national airline, based at Amman-Queen Alia airport, expects these eight Embraers to join its fleet in the fourth quarter of 2023, as the E2 family makes its debut.

Last February, after announcing the forthcoming arrival of twenty Airbus A320neo aircraft, the Oneworld airline signed a memorandum of understanding for ten Embraer E2 family aircraft, covering both **the E190-E2 and E195-E2 - configured to seat 12 passengers in Business class, and 80 or 108 in Economy respectively.**

The Embraer E2 "is aligned with RJ's strategic objectives of renewing and

expanding the fleet deployed to destinations in the Levant (...
)

My comment: This article is a nod to Jordan, where I'm writing this letter between Petra (considered one of the Seven Wonders of the World) and Wadi Rum, a magnificent desert with seven colors of sand.

Royal Jordanian has a fleet of 25 aircraft: 14 A320 family aircraft, 7 B787s and 4 older Embraers.

The new Embraers will save 25% fuel compared with the old models.

End of press review

> **Air France-KLM share price over the past year**



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

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

No further comments

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

Air France-KLM shares closed at **1.66 euros** on Monday May 29. It is **down slightly** this week **by -1.78%**.

It stood at 1.253 euros on January 2, 2023.

The average (consensus) 12-month analyst price for AF-KLM shares is 1.95 euros (it was 1.50 euros at the beginning of January). The highest price target is 2.50 euros, the lowest 1.10 euros. I only take into account analysts' opinions subsequent to the May 2022 capital increase.

The Air France-KLM share price suffered from the announcement of mixed quarterly results and a weaker-than-expected full-year forecast (passenger business at 95% of 2019 levels). Since then, **analysts have been won over by the prospect of strong activity this summer, and the end of the constraints imposed by the European Commission.**

You can read more about the analyst consensus on my blog.

No further comments

> **Fuel price trends in** 2022

Since the start of the war in Ukraine, there has been no correlation between the price of a barrel of Brent crude oil and the price of a barrel of Jet Fuel. In 2022, the spread between the two products fluctuated between \$30 and \$50, whereas in previous years it was no more than \$10.

Over the past three months, the spread between the two products (Jet Fuel and crude oil) has narrowed, approaching the gap that existed before the war in Ukraine.

No further comments

> **Fuel price trends this** week

The price of a barrel of Jet Fuel in Europe is virtually stable this week at \$92. After peaking at \$182 in June 2022, it fell back to \$132 in early August. It was at \$79 before the outbreak of war in Ukraine.

Brent (North Sea) oil is virtually stable this week at \$77. The effect of OPEC+ production cut announcements is fading.

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

While oil has been back to its usual level for several weeks, **Jet Fuel is now very close to its usual level. The difference between Jet Fuel in Europe and a barrel of Brent crude oil is now just \$16.** In 2022, at the start of the Ukrainian conflict, this gap was close to \$50.

While it's too early to draw any definitive conclusions, this is good news for airlines. If confirmed, they will be able to devote more resources to sustainable aviation fuels.

No further comments

Good to know

> Advice for current and former employee shareholders

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

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

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

> 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.

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

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

See you soon.

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| François Robardet

Director of Air France-KLM representing employees and former employees who are PNC and PS shareholders.

You can find me on my twitter account @FrRobardet

Substitute Nicolas Foretz, PNC



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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