

We're as ready as we can be for summer

| 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.

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



François Robardet

Representative of PS and PNC employee and former employee shareholders

N°915, June 5, 2023

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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 haven't yet done so, you still have Tuesday left. You can find out how to proceed in my [Flash n°99](#).

Thank you for your confidence and loyalty.

*Happy reading
François*

> **Air France-KLM: "We're as prepared as we can be" for summer, says Ben Smith**

(source Journal de l'Aviation) June 5 - On the sidelines of the IATA (International Air

Transport Association) General Assembly, which opens on June 5 in Istanbul, Benjamin Smith, CEO of Air France-KLM, spoke about the summer ahead for the Group. **"We are much better positioned operationally than we were last year,"** he asserts, having been better able to accompany the recovery and anticipate the summer peak than we were in 2022 - when we had to restart very quickly. The pressure on services and systems will therefore be relieved.

While Transavia Netherlands may face some difficulties in keeping up with its flight schedule, Air France-KLM is not experiencing any capacity shortages.

"We have deliveries that are delayed, but we're not short of aircraft. And, fortunately, we don't have the same pilot shortage problem as in the United States," he explains, pointing out that the company has the number of pilots needed for its operations, but that more capacity was needed to be trained for the future. The number of cabin crew is also perfectly adequate. **The only real difficulties in terms of recruitment are for mechanics, who are "very much in demand" by both airlines and manufacturers.**

In fact, Benjamin Smith asserts that the availability problems currently affecting the Pratt & Whitney GTF powering Air France's Airbus A220-300s (and KLM's Embraer E2s) are not having a significant impact on operations. "It's not unusual for new aircraft to be accompanied by problems of this type. It's not a problem of safety, but rather of youth and availability, because engines have to be removed more often, faster than they should."

(...)

My comment: *During the Covid-19 crisis, the Air France-KLM group kept job cuts among flight crews to a minimum.*

In doing so, it set itself apart from most of its competitors.

This strategic choice enabled it to better manage the recovery in activity, which was stronger than expected.

> Second chamber unanimously criticizes KLM for non-compliance with agreements

(source Luchtvaartnieuws, translated with DeepL) June 1, 2023 - **The Lower House unanimously criticizes KLM's alleged failure to honor agreements made in 2020 when the airline received state aid.** Whether the cabinet should take legal action against KLM is a question that fractions of the government, in particular, are struggling to assess today. They want to wait until Minister Kaag presents an assessment in the autumn.

This came out on Thursday at a meeting of the parliamentary commission in the Lower House. The latest report by public official Jeroen Kremers was at the center of the discussion. In it, he found that KLM had failed to meet the conditions for cost reduction. Pilots, in particular, contributed less. Instead, new agreements have been

concluded, resulting in higher costs. KLM also distributed profits for 2022, even though it was still receiving government bonuses at the time. Finally, KLM did not do enough to stop possible tax evasion by pilots living abroad, Kremers said.

Although KLM and the unions rejected the state official's criticisms, another voice was heard in the hemicycle. Henk Nijboer, a PvdA MP, described KLM's behavior as "unacceptable, not worthy of a company that receives state aid". KLM has strayed from reality". D66 stated that agreements had been reached: "You are therefore morally obliged to respect them. (...) What signal does this send to society and taxpayers, and if there is another crisis? How much trust is left? CDA colleague Slootweg said: "The CDA cherishes KLM, but we can expect them to respect the agreements". VVD

MP Heinen compared the situation to a suitcase: "Taxpayers' money seems to have been treated in the same way as a suitcase: you hand it over in good faith and you have to see how you get it back." Coalition partner ChristenUnie commented: "The picture Kremers paints is disconcerting. The terms 'junk pilots and moral scoundrels' are absent but would not have been out of place in the report. Tax evasion should have stopped, but it hasn't," said MP Grinwis.

MP Alkaya said the SP had been the only group to vote against the 2020 aid package because it had found the conditions unverifiable. "You can't promise preconditions in the case of state aid, it simply doesn't work. I understand perfectly well that the unions are saying: you can't force us into wage moderation with state aid, with a gun to our heads. When granting the aid, the State should have nationalized KLM.

For the Chamber, the question of whether and how measures should be taken against KLM remains unresolved. Minister Kaag has announced that she would like to carry out an assessment and see whether legal action can be taken for non-compliance with the agreements. This assessment will not be ready before autumn.

The governing parties, VVD, CDA, ChristenUnie and D66, seem to want to wait for this assessment. The VVD wants the national lawyer to examine the legal aspect of the question. The Christian Union does not rule out the possibility that public aid could be cancelled by the European Commission if it turns out that the conditions have not been met. At the same time, **there was a private law agreement between the State and KLM, which could make any legal challenge difficult.** In particular, the Van Haga Group advocates mediation between KLM and the state agent, and warns against taking any firm action until the chill has dissipated.

All parties agree that the image that emerges from the public official's report is not conducive to confidence in KLM. "I don't see how the public can still support this company if this is how you treat agreements. The board should take this to heart," said PvdA MP Nijboer. "This undermines confidence in KLM," said D66. "If KLM treats loan conditions in this way, we can conclude that this should have

consequences for next time," said the Christian Union.

Minister Kaag said two steps were underway: evaluation and possible legal action. The evaluation aims to draw lessons for possible future state aid to KLM or other companies. "In doing so, we will also examine what the state should have done differently and whether it should have done so," said Kaag. For any legal action, the government will seek the advice of an external consultant and the state's lawyer. Kaag said she planned to inform the Assembly about the legal steps before the summer break. According to the Minister, the European Commission cannot go back on the aid package because Brussels does not revise the conditions.

Ms. Kaag declared that it was "more than disappointing that KLM did not meet the conditions, which we did not expect. KLM has an exemplary role, and this should weigh heavily on the shoulders of the company and the Board of Directors".

***My comment:** When the Dutch state granted aid to KLM (in the form of loans and guaranteed loans), it did so with strings attached.*

A state agent was appointed to monitor compliance with the constraints.

KLM quickly challenged the State Agent's action, accusing him of going beyond his prerogatives; he was trying to impose his views on the Dutch company's long-term strategy.

Most of the State Agent's criticisms concerned points that were not part of the quid pro quo agreed by the Dutch government. These criticisms were highlighted by a section of the Dutch press eager to see KLM leave the fold of the Air France-KLM group.

> Recently approved Chinese airline flights to the USA avoid Russian airspace

(Reuters source) June 2, 2023 - **Chinese airlines are avoiding flying over Russian airspace on newly approved flights to and from the US**, (...) while previously approved Chinese airlines' US flights still use Russian airspace.

On May 3, the U.S. Department of Transportation (USDOT) declared that it would allow Chinese airlines to increase their passenger services to the U.S. to 12 round-trips per week, the same number of flights Beijing had authorized for U.S. carriers. Previously, only eight weekly flights were authorized for Chinese airlines. Annie Petsonk, USDOT assistant secretary for aviation and international affairs, declined to answer a question about whether the Biden administration had required Chinese carriers to avoid Russian airspace as a condition for approving the four new flights.

(...)

The Chinese carriers could not be immediately reached. The Chinese Embassy in Washington had no immediate comment.

In February, two US senators urged the Biden administration to prevent Chinese airlines from overflying Russia on US routes, which gives them an advantage in terms of fuel consumption and flight time. In due course, Airlines for America, which represents major U.S. carriers, welcomed the senators' initiative, highlighting the industry's long-standing concerns about overflying Russia.

***My comment:** If the information is confirmed, a similar measure between France and China would mean that flights between the two countries would no longer be restricted (see [my letter n°911](#) on this subject).*

> **Portugal wants to retain a strategic stake in the privatization of TAP**

(source Reuters, translated with DeepL) June 2, 2023 - **Portugal wants to retain a strategic stake in state-owned airline TAP** and will not offer its entire capital in the next privatization, Secretary of State for Finance Joao Nuno Mendes said on Friday.

In April, the government commissioned the public holding company Parpublica to choose two independent experts to assess TAP before its privatization, which could be launched in July, according to Finance Minister Fernando Medina.

At least three major global carriers - Lufthansa, Air France-KLM and IAG, owner of British Airways - have expressed interest.

(...) "

The government is not open to selling the entire capital of TAP", said Mr. Mendes, without giving further details.

(...)

No comment

> **Boeing's busy schedule continues**

(source Air & Cosmos) June 1, 2023 - At every public meeting, Boeing President Dave Calhoun is asked about the company's plans for a new family of airplanes by 2035. And a new meeting with the international press, including a very large European contingent, at Boeing's site in Charleston, South Carolina, was no exception to what has almost become a rite. And the answer is the same: **"the top priority is the certification of the 737 MAX 7, 737 MAX 10 and the 777-9 and 777-8F.** Our teams are fully mobilized on these objectives", he stressed.

Ordered by Southwest Airlines, **"the 737 MAX 7 will be certified in 2023"**, said Mike Fleming, Director of Program Development and Customer Support at Boeing Commercial Aircraft.

It will take longer for the Boeing 737 MAX 10, which requires design modifications, and whose flight test program now involves three aircraft. The number of flight hours accumulated is 8,500 out of a total of 400 "missions" (flights). "The objective is to enter commercial service in 2024", added Mike Fleming. The two models in the 737 MAX family total over 800 firm sales, including more than 600 for the 737 MAX 10. Another hot topic is the 777-9's path to certification. Test aircraft now total 2,800 flight hours in 1,000 missions. "The timetable has not changed: **certification and entry into commercial service in 2025**", comments Mike Fleming.

Even the prospect, denied by Airbus, of the launch of an A220-500, an even longer version with a 180-passenger capacity, does not prompt Boeing to propose a competing offer. "Firstly, this A220-500 has not been launched. Secondly, while this version is a good product in its own right, it will be competing in a market that demands the versatility offered by a family of aircraft. And I don't see the point of an airline swapping an A320neo for an A220-500," says Darren Hulst, Marketing Director at Boeing Commercial Aircraft. "**Offering a competitor to the A220 is not our priority at all**," stresses Dave Calhoun, who continues: "I'm not going to start with an aircraft that we're going to shrink. I'm leaning more towards a smaller aircraft using electric propulsion".

It's true that the 50-seat market is now occupied by just one manufacturer, ATR, and that this type of aircraft module, given its capacity and range, is a technologically and commercially credible response to the ecological transition of air transport.

At Boeing, innovation in the field of decarbonization involves both the EVTOL or ADAVE program developed by Wisk, now a 100% subsidiary of the aircraft manufacturer, **and the Sustainable Flight Demonstrator program with NASA.** Two airframes are planned for the future demonstrator developed with NASA, with first flight scheduled for 2028. The aircraft, a transonic twin-engine high-wing aircraft with a high aspect ratio, will be equipped with a guyed wing and is primarily intended as a successor to the single-aisle jets currently in service. "This aircraft is destined to occupy approximately 50% of the single-aisle short- and medium-haul commercial market, and will benefit from fuel consumption gains of up to 30%", added Nasa administrator Bill Nelson at the time of the announcement. At the same time, Boeing has become a 100% shareholder in Wisk Aero, which is developing an autonomous, all-electric, vertical take-off and landing air cab (ADAVE or eVTOL) designed to carry four passengers. As Wisk Aero's market aircraft, the Generation 6 is the very first candidate for FAA type certification of an autonomous eVTOL.

This long-term project goes hand in hand with an increase in production rates for the 737 MAX and 787. The aim is to increase production rates from the current three 787s per month to five per month by the end of this year, with a gradual rise to 10 Boeing 787s per month by 2025 or 2026. To this end, a second assembly line will be added to the Charleston site, replacing the fuselage section joint verification line, which is installed in parallel in the same hangar as the current assembly line.

Infrastructure work has already begun, and everything should be ready by 2024. The fuselage section joint verification line will be transferred to Everett. This industrial evolution will give the Charleston site the capacity to increase its production rate to 10 Boeing 787s per month, at a rate of five aircraft per line.

My comment: Of course, Boeing is bogged down in its certification problems.

But I find it hard to imagine, as its CEO claims, that the American manufacturer is not working on a new model of medium-haul aircraft.

Boeing missed the boat once by adapting the B737 MAX in response to Airbus's launch of the A320 NEO family, and can't afford to let its European rival get another head start.

> **China's C919 medium-haul aircraft finally flies...**

(source Journal de l'Aviation) May 30, 2023 - "Competitor to Airbus and Boeing", "rival to the A320neo", "a real turning point for the Chinese air transport sector"... The least we can say is that the non-specialist press has had a bit of a field day over the past two days, with the first commercial flight of the COMAC (Commercial Aircraft Corporation of China) C919.

The Chinese single-aisle aircraft linked the Shanghai Hongqiao and Beijing Daxing hubs on May 28, flying the colors of its launch operator China Eastern, with 130 passengers on board. While this is an important event for the Middle Kingdom's aviation industry, and one that has been hailed by the world's two leading aircraft manufacturers, it's not the end of the story.

The Chinese medium-haul program is now seven years behind schedule, and the hardest part is yet to come, with production still to ramp up to meet COMAC's ambitious target of 150 aircraft a year within 5 years.

The spectre of the difficulties encountered on the ARJ-21 program, the first Chinese-designed commercial jet to go into series production (less than a hundred examples in fifteen years), is still very much present, and it will take a long time to deliver the 1,200 or so aircraft officially contracted by the aircraft manufacturer for its new 180-seat single-aisle jet (orders and purchase intentions). Beijing will logically provide the resources (Airbus and Boeing do not benefit from the same level of state support, limiting export sales of the C919), but it's not certain that this will be enough. In the meantime, **commercial flights operated by the C919 will be closely scrutinized over the coming months, to get an initial idea of the aircraft's availability rate.**

It should also be remembered that **if the C919 is flying today, it's thanks to a major contribution from Western aircraft manufacturers. Its LEAP-1C engines are produced by CFM International (a 50/50 joint venture between Safran and GE Aerospace), the nacelles by Nexcelle (Safran Nacelles and Middle River**

Aerostructure Systems), **its avionics systems** by Collins Aerospace and GE, **its APU, wheels and brakes** by Honeywell, **its complete landing gear and air conditioning system** by Liebherr-Aerospace... The medium-haul jet is cruelly dependent on American and European technological know-how, a fact that is worth remembering in view of China's ambitions, and which will be particularly difficult to replace in less than three decades.

The industrial and commercial success of COMAC's C919 is therefore intimately linked to Sino-American relations, which are already atrocious and are obviously destined to come to a complete halt in the event of an attempt to take control of Taiwan by force. In that case, the C919 wouldn't make much more history than the Shanghai Y-10, the Chinese copy of the 707 that flew in the early 80s.

So does this new "competitor to Airbus and Boeing" really represent a threat to the world's commercial aircraft duopoly? As we know, Airbus and its industrial partners are already planning a new generation of single-aisle jets for the next decade. Boeing will obviously do the same once all variants of its 737 MAX family are back on track. As for China's C919 medium-haul aircraft, it's finally flying...

***My comment:** This article shows that, apart from the aircraft's structure, most of the components of the Chinese Comac C919 are manufactured far from China.*

No surprise there. In fact, all three major aircraft manufacturers (Airbus, Boeing and Comac) use the same equipment and engine suppliers for their planes.

The best example comes from engines: CFM International (a 50/50 joint venture between Safran and GE Aerospace) supplies Airbus with LEAP-1A, Boeing with LEAP-1B and Comac with LEAP-1C, engines with similar characteristics.

Oil press review

> Oil: OPEC+ to limit production until 2024, Riyadh to reduce its output in July

(source Reuters) June 4, 2023 - **Saudi Arabia decided on Sunday to cut its oil production significantly in July, a move that adds to an Opec+ agreement to limit crude supply until 2024** as the organization and its allies seek to boost black gold prices.

The Saudi Energy Ministry announced that the country's production would fall to 9 million barrels per day (bpd) in July, from around 10 million bpd in May, the sharpest reduction in years.

At the end of seven hours of talks in Vienna, the Organization of the Petroleum Exporting Countries and their allies led by Russia also agreed to continue limiting supply until 2024.

The global production targets of Opec+ members will be reduced by an additional 1.4 million barrels per day (bpd) from 2024 onwards, bringing them down to a total of 40.46 million bpd, the organization said.

Many of these reductions will not be real, however, as the organization has revised downwards the targets for Russia, Nigeria and Angola to bring them in line with their current production levels.

The United Arab Emirates, on the other hand, has been authorized to increase production by around 0.2 million bpd to 3.22 million bpd.

Saudi Arabia is the only Opec+ member with sufficient reserve and storage capacity to be able to easily reduce and increase its production.

At Sunday's meeting, the most influential Opec members and the largest Gulf producers, led by Riyadh, tried to persuade African countries like Nigeria and Angola, whose output is low, to have more realistic targets, sources told Reuters.

Nigeria and Angola have long been unable to meet their production targets, but have objected to setting benchmarks lower than the current ones, as new targets could force them to make real cuts in their extractions.

The United Arab Emirates, on the other hand, called for a higher baseline, as their production capacity has increased.

Russia, meanwhile, has decided to extend its program to cut oil production by 500,000 bpd until the end of December 2024, Deputy Prime Minister Alexander Novak said on Sunday.

Opec+, which produces around 40% of the world's crude, has already cut its output by two million bpd, or 2% of global demand, under an agreement reached last year. In April, the organization announced further production cuts in addition to these two million bpd, for a total volume of around 1.6 million bpd from May until the end of 2023.

According to Alexander Novak, the Opec+ cuts are intended to ensure oil market stability.

Western countries accuse the organization of manipulating crude oil prices and depressing economic activity through high energy prices.

Its officials counter that monetary easing by most Western countries over the past decade has fuelled inflation and forced oil-producing countries to act to preserve the value of their main export commodity.

According to analysts, Sunday's decision by Opec+ is a warning to those betting on a fall in crude prices.

"It's a clear signal to the market that Opec+ is willing to put and defend a price floor," said Amrita Sen, co-founder of think tank Energy Aspects.

"The Saudis have followed through on their threats against speculators, and they clearly want higher oil prices," stressed Gary Ross, Opec specialist and founder of Black Gold Investors. With Brent crude oil LCOc1 at \$76 a barrel on Friday, UBS analyst Giovanni Staunovo said he expected prices to jump when trading opened on Monday.

My comment: At the end of 2022, the experts (Goldman, EIA (Energy Information Administration - USA), JP Morgan) were predicting a barrel of oil between 90 and 98 dollars for the year 2023.

This has not been the case. Since the beginning of the year, the price of a barrel of oil has fluctuated between \$70 and \$89.

Announcements of production cuts are expected to boost the current price (\$76).

It should be noted that global daily production is around 100 million barrels.

Below is the evolution of the price of a barrel of oil since the beginning of 2023.



Reminder (source: prixdubaril website):

The OPEC+ alliance (or OPEC+ in its English-language form) also known as the "Vienna Group" is made up of 24 oil-producing countries with the aim of bringing relative stability to the oil market through joint agreements on oil production.

It comprises the 14 OPEC countries (Organization of the Petroleum Exporting Countries) plus 10 other oil-producing countries, including Russia, Mexico and

Kazakhstan.

The 14 OPEC members control 35% of world oil supplies and 82% of proven reserves. With the addition of the 10 non-OPEC countries, these shares increase to 55% and 90% respectively. This gives OPEC+ an unprecedented level of influence over the global economy.

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 **1.636 euros** on Monday June 5. It is **down slightly** this week **by -1.45%**.

It was 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 find details of 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 that 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 stable this week at \$92. After peaking at \$182 in June 2022, it fell back to \$132 in early August. It was \$79 before the outbreak of war in Ukraine.

Brent (North Sea) **oil is virtually stable this week at \$76. 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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