

Why Air France-KLM and CMA CGM are divorcing



## I Letter from François Robardet

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)

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## Monday's Press Review

### > Why Air France-KLM and CMA CGM are divorcing a year after their union

(source Les Echos) January 16, 2024 - **The alliance between Air France-KLM and CMA CGM in the air cargo sector will not have lasted more than a year.** Even if the wording remains ambiguous, a genuine divorce between the two French groups is now on the horizon.

Between the end of their partnership in the air freight sector, the departure of the Marseille-based logistics company from the airline's board of directors and its possible withdrawal from the company's capital by the end of February 2025... the deal seems to have been amicably settled.

Less than two years after the publication of the bans, Air France-KLM and CMA CGM announced, this Tuesday morning [January 16] in a joint press release, the end of their commercial cooperation. The decision was justified by the fact that "a constrained regulatory environment in certain key markets" had prevented the partnership from "operating optimally".

According to close sources, the **main problem was access to the important North American market.** As Air France is already allied with Delta Airlines and other global airlines in Skyteam, the new Franco-French capacity-sharing arrangements seemed to pose problems for the anti-trust authorities on the other side of the Atlantic, especially if the deal were soon to be extended to Delta or Virgin Atlantic.

What's more, the resources of both sides have evolved since the crisis. Air France has significantly increased its passenger flights over the past year, with bunkers to be filled to maximize route revenues. The pace of development of freight resources has therefore changed since the initial negotiations. For its part, CMA CGM now has five of its own aircraft, and is expecting six more - including four brand-new Airbus A350 freighters to replace smaller A330s. However, two new Boeing 777 freighters have been sold back to an American operator, according to the SNPL pilots' union, which is concerned about the fate of CMA CGM Air Cargo's 120 or so crew members.

**When this "strategic partnership" was revealed in May 2022** (to become effective in April 2023), the combination seemed coherent. It linked a logistician who had emerged from Covid-19 with deep pockets, thanks to the extraordinary rise in freight rates, to an airline group weakened by the closure of borders during the pandemic.

**At the time, both groups were counting on growing demand for airfreighted goods**, while supply chains were at a standstill following the Covid-19 pandemic. The agreement provided for the two companies to jointly operate the "all-cargo" aircraft of their respective airlines.

**In addition, the group headed by Rodolphe Saadé took a 9% stake in Air France-KLM through** a capital increase. This made CMA CGM Air France-KLM's third-largest shareholder, after the French state (28.6%) and the Dutch state (9.3%).

In their press release, Air France-KLM and CMA CGM state that they will "terminate the existing agreements on March 31, 2024". From this date, "each group will operate independently". "The two groups remain committed to working together, so that cargo customers can continue to benefit from their respective networks", they assure us.

Beyond this style clause, **some experts are already expecting CMA CGM to take back its marbles and join forces with another airline**. Despite its network of 160 agencies worldwide, which sell maritime services, and its presence in logistics, soon to be extended to include the former activities of the Bolloré group, **the Marseilles-based group seems too small to carry much weight in the face of large specialized fleets such as those of UPS, Cargolux, DHL, Atlas Air, China Airlines and others**.

Barred from the American market, CMA CGM flies mainly from Roissy-CDG to Hong Kong, Shanghai, as well as Mumbai, Abu Dhabi and Cairo.

Foreshadowing a clear-cut divorce in the medium term, **the two companies "have agreed that CMA CGM will leave the Air France-KLM Board of Directors on March 31, 2024"**. Rodolphe Saadé's appointment to the Board had been ratified

at the end of May 2022 at the Annual General Meeting.

**In addition, the 2022 agreements stipulated that CMA CGM would remain a shareholder in Air France-KLM until at least June 15, 2025, and would even retain half of its shares until mid-June 2028.**

**In the end, the shipowner's full exit from the airline group is now possible as of February 28, 2025, and "without any additional holding period",** according to the new divorce agreements.

***My comment:** In 2020, at the start of the Covid health crisis, freight rates exploded. In the maritime sector, container prices sometimes quadrupled. Charter companies' profits soared.*

*In 2021, while one of its main competitors in the sea freight sector, Italy's MSC, was planning to acquire Alitalia alongside Lufthansa, CMA CGM launched its own cargo airline. Lacking the experience of the airlines, CMA CGM opted for a partnership with Air France-KLM.*

*The partnership was a win-win situation. Air France-KLM contributed its skills and sales network, CMA CGM its financial resources. While neither partner was under any illusions about persistently high prices, the prospects for success were strong.*

*But, as mentioned in the article, prices fell more than expected, and the US did not grant the anti-trust immunity needed to develop operations on the transatlantic network.*

*The end of cooperation appeared inevitable.*

*It remains to be seen under what conditions CMA CGM will exit Air France-KLM. The 9% stake acquired for 400 million euros is now worth just 270 million euros.*

*Other air freight operators are also suffering. Due to the collapse of the freight market, Canada's Cargojet has decided not to buy Boeing B777 freighters, preferring instead to acquire lower-capacity B767s.*

## **> Storm cancels dozens of flights at Amsterdam's Schiphol airport on Monday**

(source Zonebourse) January 21, 2024 - **Amsterdam's Schiphol airport has canceled dozens of flights scheduled for Monday, as a precautionary measure, due to high winds expected when storm Isha reaches the Netherlands, the airport said on Sunday.**

In a statement, Schiphol said it had canceled 130 inbound and outbound flights

and advised travelers to check the status of their flights online.

Dutch airline **KLM, the airport's main user, told Dutch news agency ANP that it had cancelled 65 European flights on Monday.**

**My comment:** *We sometimes forget that Amsterdam is further north than Paris.*

*In winter, weather conditions regularly lead to reduced activity at Schiphol.*

*This was already the case last week, when on January 16, over a hundred flights were delayed and dozens cancelled at Schiphol due to a severe cold snap.*

## > **IAG to propose corrective measures to the EU for the Air Europa agreement**

(source Reuters, translated with DeepL) January 16, 2024 - British Airways owner **IAG expects EU antitrust authorities to open a full investigation into its proposed purchase of Spanish carrier Air Europa** and will propose remedies to address their concerns, IAG's chief executive said on Tuesday.

The deal is part of a wave of consolidation in the airline sector, with Germany's Lufthansa looking to buy a minority stake in Italy's state-owned ITA Airways, and Korean Air looking to buy Asiana.

**EU regulators have recently taken a tougher line when deciding whether or not to approve deals, and now sometimes want acquiring airlines to divest assets and not simply give up certain routes or airport slots to address competition concerns.**

"We have informed the team in charge of the dossier (at the European Commission) that we will formally submit remedies in phase 2 to enable them to fully assess the viability and appropriateness of our proposals," said IAG's Luis Gallego.

Phase 2 refers to the full-scale investigation that the Commission is expected to launch at the end of its preliminary examination on January 24.

"In the meantime, we are continuing to test the interest of a series of corrective action takers to ensure that they meet the Commission's requirements," said Gallego.

IAG, which also owns Iberia, said in February that it had agreed to pay 400 million euros (\$436 million) to Spain's Globalia for the 80% of Air Europa it did not already own.

**My comment:** *The Lufthansa-ITA and Iberia-Air Europa cases are different.*

*As part of Lufthansa's takeover of ITA, the European Commission is checking that there is no link between ITA and Alitalia.*

*In 2021, when ITA took over part of Alitalia's assets, it did not have to repay the loans taken out by Alitalia (600 million in May 2017 and 300 million in October 2017). ITA was "not the economic successor" and "therefore not required to repay the illegal state aid received", the Commission had stressed.*

*However, in September 2023, Rome's Labour Court ordered that 250 employees dismissed by Alitalia some time ago be reinstated by ITA. If this decision were to be ratified, it would call into question the conditions of Lufthansa's takeover of ITA, since ITA could be forced to repay Alitalia's debts.*

*As far as Iberia's takeover of Air Europa is concerned, the question of competition clearly arises, particularly on domestic routes in Spain. It will be up to the European Commission to decide in the coming months.*

## > **Safran makes great strides on engines for future Airbus and Boeing models**

(source Les Echos) January 21, 2024 - Seventy years after its debut, the Modane wind tunnel continues to serve as a nursery for the great achievements of French aeronautics. It is here, at this Onera site nestled deep in the Alpine valley of the Maurienne, that **Safran has begun the first wind tunnel test campaign for the future "Rise" engine, which will power the new generation of Airbus and Boeing medium-haul aircraft by the middle of the next decade.**

For the moment, this engine of the future is limited to a small 1/5th-scale demonstrator, more reminiscent of a propeller engine on a passenger aircraft than a wide-body turbine. And yet, with its two rows of shroudless blades, this small fan already foreshadows the future "green" engine, which should halve noise and reduce an aircraft's carbon footprint by 80%, with 100% sustainable aviation fuels and 20% lower fuel consumption.

**French engine-maker Safran and its American partner GE have put all their know-how into this multi-billion euro project, not hesitating to break with the architecture of their two previous "best-sellers", produced on a 50/50 basis. The CFM-56 and its successor, the Leap engine, power more than half of all Airbus A320s and all Boeing 737s.**

To increase the amount of air drawn in to propel the aircraft, **the two engine-makers designed a fan with a diameter of four meters, twice as large as that of current A320 engines.** This meant doing away with the fairing around the blades, so as not to increase weight and drag. Hence the propeller-engine look of the unshrouded fan, very different from today's engines, but also from the projects of its competitors Pratt & Whitney and Rolls-Royce, who have stuck to a conventional architecture.

This so-called 'open fan' solution is the one that offers the most possibilities," explains Eric Dalbiès, Safran's Director of Strategy, R&T and Innovation. But we're still looking at other possibilities. In the end, aircraft manufacturers will make their choice.

To optimize engine operation, **Safran and GE have also added, for the first time, electrical hybridization**, in the form of a transfer of electrical energy between the high-pressure and low-pressure parts of the engine during certain phases of flight. This further reduces fuel consumption by several percent.

The new engine has even forced Safran and GE to rethink their fifty-year-old partnership, which is based on a 50/50 sharing of revenues from the sale of CFM engines. Traditionally, we take care of the cold end of the engine [the front end with the fan, editor's note] and GE takes care of the hot end," explains Eric Dalbiès. But as on an 'open fan', most of the effort goes into the cold part, we have renegotiated the boundaries of our agreement with GE, in order to preserve a balanced distribution of costs."

And so far, **everything seems to be running smoothly**. We've already carried out a quarter of the 400 tests planned," says Pierre Cottenceau, Safran Aircraft Engines' Vice President, Engineering and R&T. And we've started manufacturing the first parts of the future demonstrator. We'll be completing the wind tunnel tests with Airbus in June. After that, we'll move on to the ground testing phase of the full-scale demonstrator, from 2025 to 2026, followed by flight testing, first on GE's test aircraft, then on an Airbus A380, between 2027 and 2028."

**Safran and GE's objective is to have an engine to propose to Airbus and Boeing around 2027-2028**, by which time the two aircraft manufacturers would be ready to officially launch the replacement programs for their A320 and B737, with **a view to entry into service around 2035**.

These "green" aircraft could end up looking quite similar to today's planes. **Despite its imposing size, the future Rise engine should fit under the wings, like current engines. Airbus has reportedly decided against positioning it at the rear of the fuselage. As for Boeing, it has yet to reveal much about its plans for the future**, apart from a vague project for an airplane with guyed wings, like the biplanes of yesteryear, which seems more in the realm of research than feasibility.



**My comment:** If you'd like to learn more about this astonishing engine, please refer to my (lengthy) commentary in [my letter no. 918](#).

One of the challenges facing manufacturers will be to guarantee safety in the event of a blade fracture.

Indeed, while some single-aisle aircraft use engines without fairings, like the ATR72-500 below, no special measures are taken to protect their fuselage.

This will not be the case for the Rise. The fairings will therefore have to be reinforced to protect against the impact of a broken blade.



> **Akasa Air orders 150 Boeing 737 MAX: Indian airlines' buying spree continues**

(source La Tribune) January 18, 2024 - The 737 MAX's problems are not deterring



customers, starting with **Akasa Air**. The Indian airline **has just announced an order for no fewer than 150 examples of Boeing's medium-haul aircraft at the Wings India 2024 show**. This follows in the footsteps of Air India and Indigo, who bought almost 1,000 aircraft (firm and options) at last year's Paris Air Show. In any case, it's good news for Boeing, the American aircraft manufacturer being in turmoil after the loss of a door stopper on an Alaska Airlines flight two weeks ago.  
(...)

**The Indian low-cost carrier has opted for the 737 MAX 8-200, a denser version of the MAX 8 developed for low-cost airlines** such as Ryanair. Like Ryanair, **it has also opted for the stretched 737 MAX 10 version**, although this has not yet been certified by the safety authorities. Aircraft to be delivered by 2032

This is not Akasa Air's first order for a 737 MAX, but it will enable it to triple its fleet. It bought 72 aircraft in 2021, then 4 more last year. It currently operates 22 aircraft, which began to be delivered in mid-2022 for the start of the company's operations. It operates them on the Indian domestic network.

***My comment:** Over the past few years, the Indian government has been stepping up investments (airport renovation, expansion or construction) to accelerate the emergence of major national airlines.*

*For their part, Indian airlines are placing huge orders for aircraft.*

*They have a long way to go: by June 2023, only 700 commercial aircraft were in service in India.*

*Out of a global fleet of 24,000 aircraft, this is still a drop in the ocean. By way of comparison, this is barely more than the fleet of the Air France-KLM group (543 aircraft including subsidiaries).*

## **> Erdoğan hails Turkish Airlines' contribution to the country's economy**

(source Air Journal) January 22, 2024 - President Recep Tayyip Erdoğan on Thursday hailed the contribution of Turkish national carrier Turkish Airlines (THY) to the country's economy, also congratulating it on its achievements.

**"According to 2023 figures, Turkish Airlines has contributed \$56 billion (TL 1.68 trillion) to our country's economy**, with around \$16 billion in service exports, reinforcing its leadership in this field," Erdoğan said in a video message sent to the Turkish Airlines Management Summit. **"In line with our vision of the 'Century of Turkey', we are moving confidently and decisively into the future. Our country's level of success in the aviation sector is steadily increasing,"** he said.

"Turkish Airlines, not only being the most valuable brand in Turkey but also the



airline that serves most countries in the world, is making a name for itself through its contribution to our country's economy," the President added. At the same time, he expressed his satisfaction that Antalya, the shining star of world tourism, "is also benefiting from the powerful wings of Turkish Airlines".

**Turkish Airlines carried 83.4 million passengers last year, an annual increase of 16.1%**, the company announced earlier this month. The number of passengers carried on domestic flights climbed 19.1% year-on-year to 30.4 million in 2023. At the same time, the national airline recorded a 14.4% annual increase on international routes, reaching 53 million from January to December last year.

**Erdoğan also stressed that he considers the order for 220 aircraft announced by Turkish Airlines in the final weeks of the previous year to be a significant reflection of his future vision.**

(...)

***My comment:** The Turkish head of state has placed the aviation sector at the heart of his economic program.*

*Turkish Airlines aims to become the world's leading airline by 2033, carrying 170 million passengers.*

*It will then be able to make full use of Istanbul's new Turkish airport, capable of handling 200 million passengers a year by the same date.*

*Enough to make European and Gulf airlines sweat.*

### > **Boosted by India and Turkey, ADP returns to pre-crisis levels**

(source La Tribune) January 17, 2024 - It's almost here. **The ADP Group, which manages Paris's airports, has just published its 2023 traffic results, and it's almost back to its pre-health crisis level of activity.** With 336.4 million passengers last year, it was on the verge of beating its 2019 record, **aided by its stakes in Turkish group TAV Airports and Indian group GMR Airports.**

The ADP Group thus returned to 98.7% of its 2019 traffic levels, even exceeding them in some months, as was the case in December. This represents an increase of over 20% compared with 2022.

With 99.7 million passengers, Paris airports are up 15% year-on-year. But while **Paris-Orly has already surpassed its pre-crisis level, Paris-CDG still has some way to go. The latter is still penalized by the late recovery in traffic with Asia, while ADP is beating records with North America and Africa.** Overall, the two airports are back to 92% of their 2019 levels.

The Turkish group TAV, 46% owned by ADP, matched its 2019 performance with

95.5 million passengers. Although growth was recorded at all its airports, it was uneven from one hub to the next. Almaty in Kazakhstan and Medina in Saudi Arabia led the way, behind Antalya's main airport.

**The biggest increase was undoubtedly achieved by the Indian group GMR Airports, 49% owned by the ADP Group.** With year-on-year growth of over 23%, it has surpassed its pre-crisis level (105% of 2019 traffic). With the opening of Goa airport a year ago (not included in the growth calculations), and the formidable dynamism of New Delhi and Hyderabad, its traffic has reached 107.6 million passengers. This makes it the ADP Group's biggest entity in terms of traffic.

The Group's other airports accounted for 33.6 million passengers. Despite a 20% increase over 2022, they remain below their pre-crisis traffic levels.

***My comment:** After reading the two previous articles, it's easy to see why India and Turkey will enable the ADP Group to post good results in 2023.*

*The investments made by the ADP Group in these two countries are proving to be judicious.*

## **End of press review**

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

**Air France-KLM shares closed at 11.494 euros on Monday January 22. It is down sharply this week by -4.44%.**

**Since the beginning of the year, the Air France-KLM share price has lost 16%.**

It stood at 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 17.24 euros** (it was 15.0 euros at the beginning of January 2023). The highest price target is 23.00 euros, the lowest 9.50 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:** Delta Air Lines' announcement the previous week that it was cutting its earnings forecasts for 2024 had sent the share prices of major US and European airlines plummeting.*

*This week's decline, which is less marked for Lufthansa, can be explained by the*

*end of the cargo partnership with CMA-CGM.*

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

**The price of Jet Fuel in Europe is up +\$5 to \$115.** It was \$94 at the end of June, and \$79 before the outbreak of war in Ukraine.

**Brent crude oil** (North Sea) is **up +\$2 to \$79.**

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

***My comment:** The spread between Jet Fuel in Europe and Brent crude oil was around \$15 before the conflict in Ukraine. In 2022, at the start of the Ukrainian conflict, the spread was close to \$50.*

*It is up again this week, by +\$3, to \$36.*

*From February to July 2023, the spread had returned to reasonable levels (between \$12 and \$25). Since August 2023, it has systematically exceeded \$30.*

## **Good to know**

### > **Advice for current and former employee shareholders**

You'll find [details of how to access the managers' websites](#) on my [navigaction](#) 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 Interépargne, Société Générale, and your personal financial institution if you bought your shares through it.

***My comment:** If you have shares in one of the funds managed by Natixis Interépargne, remember to log in to your account manager once a year, to avoid it being considered inactive.*

*Please note: After 5 years of inactivity, Natixis Interépargne will send a letter/email to those concerned asking them to log in to their account or to call Natixis Interépargne in order to reactivate their PEE account.*

After 10 years of inactivity, your account is transferred to the Caisse des Dépôts et Consignations.

To unblock your PEE, click [here](#).

## > 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 is 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 the management of the various Air France employee shareholding funds, please visit the [Air France-KLM employee shareholding 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

**former Director of Air France-KLM.  
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account @FrRobardet**

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This press review deals with subjects linked to Air France-KLM shareholding.

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