

Air France-KLM

Janailac's failed gamble puts Air France into a tailspin

Chief executive is French carrier's latest boss to fall victim to unions



Dropped by the pilots: Chief executive of Air France-KLM Jean-Marc Janailac © AFP
David Keohane in Paris and Josh Spero in London MAY 6, 2018

On a sunny afternoon last Friday in Paris Jean-Marc Janailac told reporters he had become the latest chief of Air France to fall victim to its unions.

Mr Janailac, who heads Air France-KLM, had just lost a massive gamble to put an end to strikes over pay that had already cost the airline some €300m.

He had put his job on the line and asked workers to vote on a staggered pay increase of 7 per cent over four years, an offer unions had already rejected.

Amid broad-based labour protests in France, the [gamble failed](#). More than half of the workers who voted turned down the deal, plunging the airline into crisis. Mr Janailac will now stay on at the head of the group until May 15 when the board meets.

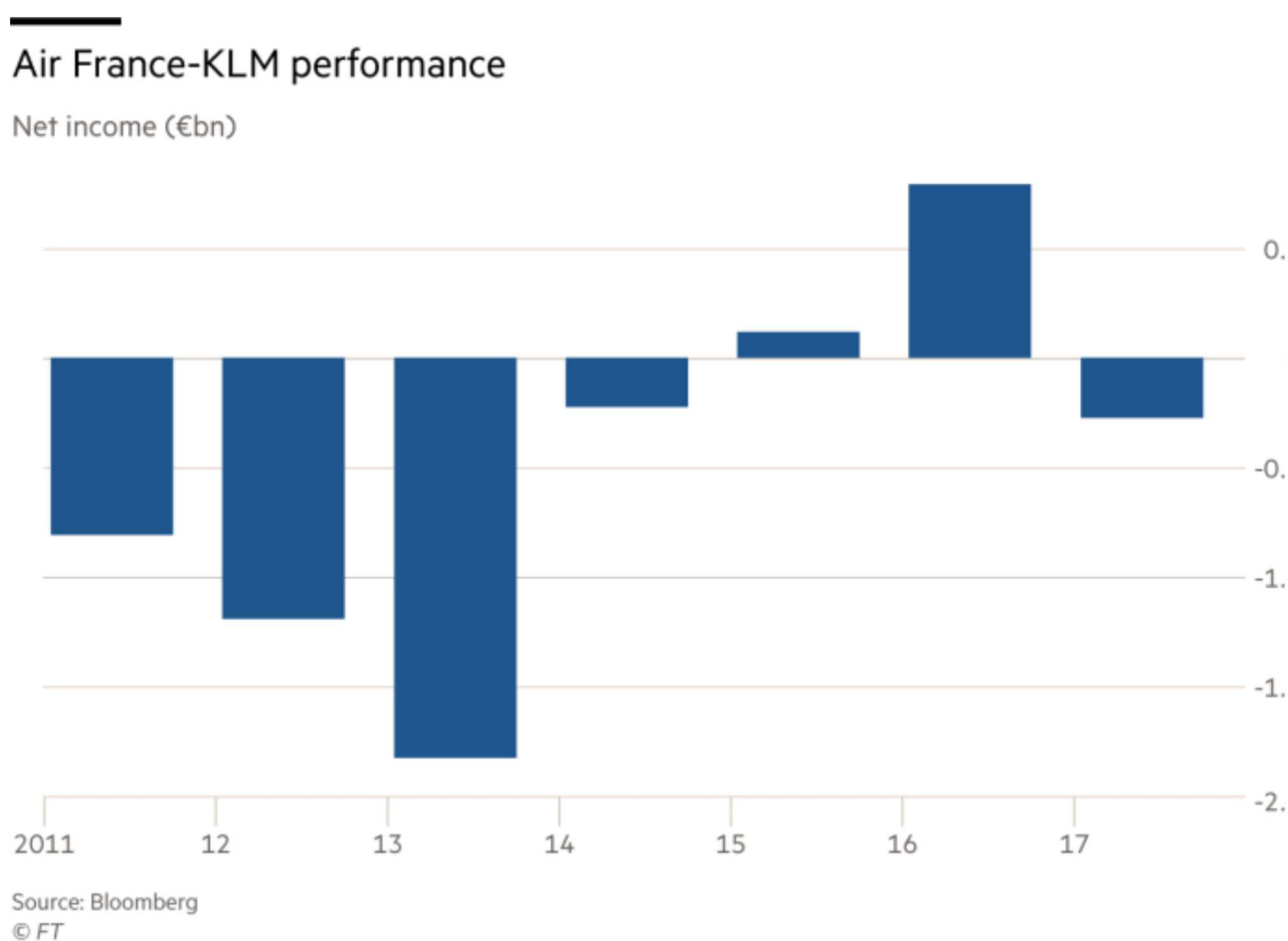
“Beyond salary expectations, this vote is the translation of a malaise. It calls for a profound transformation,” said Mr Janailac who was [appointed in 2016](#) with the job of cutting costs and expanding the low-cost offering of the Franco-Dutch airline.

“Thirteen days of strikes and more than two months of conflict have weakened Air France, jeopardising its performance and its future. It’s a huge mess that can only delight our competitors, weaken our alliances and disorient our teams,” he added.

Analysts reacted with disappointment. “This result is the worst possible outcome . . . This leaves the company with no CEO, no labour contract, an ongoing dispute and likely emboldened unions

which will be even less likely to concede on their demands now,” said Daniel Roeska at Bernstein.

The French government was also quick to warn that the airline needed to reform and should not rely on the state as a backstop. “If Air France does not make the necessary competitiveness efforts, Air France will disappear,” said Bruno Le Maire, finance minister on Sunday.



Air France unions are asking for an initial pay increase of closer to 5 per cent — versus 2 per cent offered for 2018 — as well as future pay increases not dependent on the company’s financial performance.

“There was a problem of trust because they could manipulate the numbers,” said Yannick Floch, vice-president of the powerful pilots’ union at the heart of disagreements.

Mr Janailac announced the vote last month amid a clash between [French president Emmanuel Macron](#) and swaths of society resisting his economic reforms.

“His error was launching the vote at a time of great political upheaval. He is almost a victim of timing,” said Arnaud Aymé at consultancy Sia Partners. He added some workers were expressing their anger at management “short-circuiting” the unions.

The share price of Air France-KLM, which is 14.3 per cent owned by the French state, has fallen 40 per cent so far this year. [Delta](#) and China Eastern are the next largest shareholders with close to 9 per cent each.

The group, formed by Air France's [merger in 2004](#) with Dutch KLM, is facing increasing competition from low-cost rivals and deep-pocketed Middle Eastern airlines on both short and long-haul routes, while the industry is preparing for a sustained higher oil price.

In its efforts to reform, Air France is undergoing similar disruption to what British Airways, Lufthansa and other carriers experienced as they fought unions to cut costs. However, it is more difficult for the French company because of rigid labour laws and a relatively unfettered right to strike.

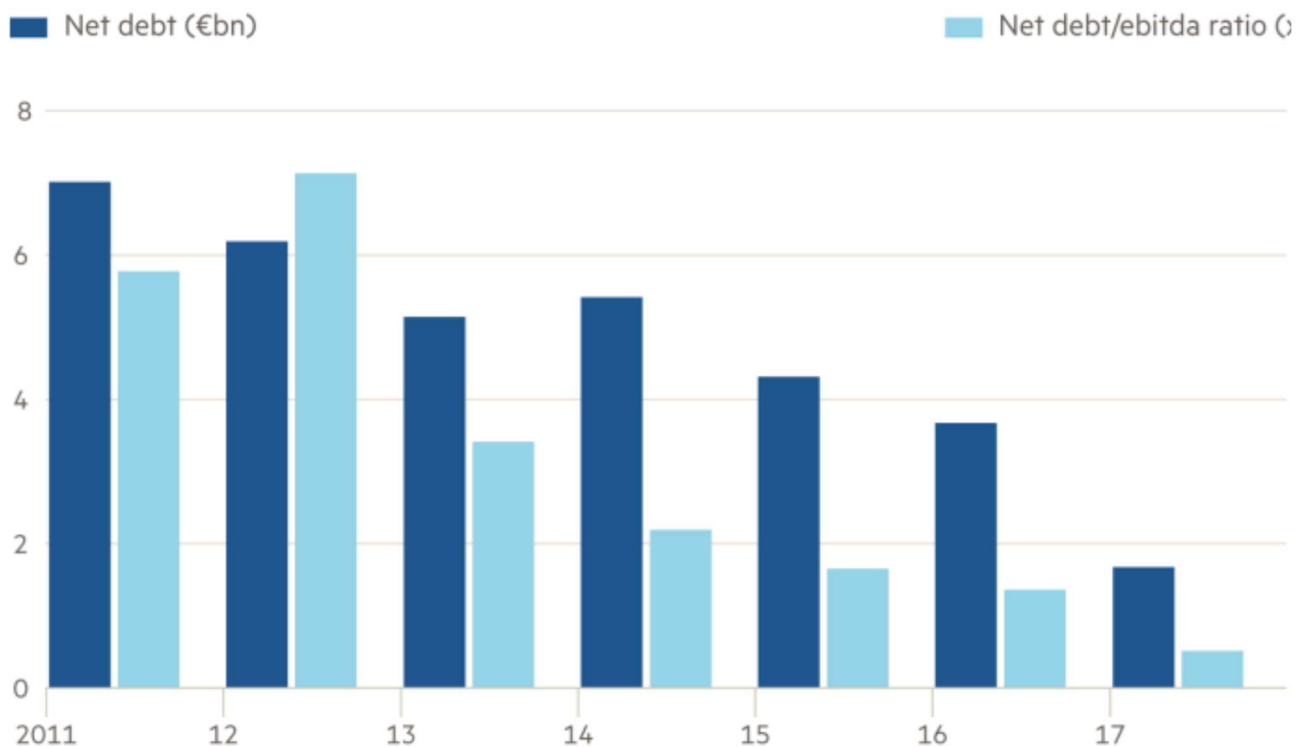
“There has to be some sort of multiyear plan that investors find credible. They have to show that they can reduce costs, ex-fuel, by about 1 per cent a year. That’s roughly what Lufthansa is offering and what IAG is offering,” said Stephen Furlong at Davy Research.

Mr Janailac is not the first Air France executive to suffer at the hands of its unions. In 2015 the human resources director was chased by an [angry mob](#) who ripped off his shirt and forced him to scramble over a fence to safety wearing only trousers and a tie. The carrier’s previous boss, Alexandre de Juniac, left after being worn down by the constant battles with pilots unions.

“Two consecutive Air France-KLM CEOs have failed to deliver meaningful restructuring at Air France. Each has tried markedly different approaches, with de Juniac more confrontational and Janailac starting out with a more conciliatory approach,” said Gerald Khoo at Liberum.

The ongoing fight with unions has undermined the company even if Mr Janailac has put the airline in better shape since taking over, say analysts. “It’s something of a catastrophe to be without a leader at this point in time,” said John Strickland, an aviation consultant.

Air France-KLM leverage



Sources: Bloomberg; company
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Mr Khoo added that [the group's balance sheet](#) was much improved compared with the last recession. However, it remained relatively weak and “neither the balance sheet nor the profit margins are in any shape to deal with a tougher environment”.

Last week, the group said losses in the first quarter had increased to €118m and the ongoing strikes would harm full year numbers. Significantly KLM made an operating profit of €60m. The group predicted an increase in costs of up to 1 per cent.

Frédéric Gagey, group chief financial officer, told analysts that while KLM had been able “to take the benefit of the good trading environment”, Air France had “due to the strikes, missed that opportunity”.

Whether the next chief executive is combative or collaborative — or even French — will be important.

“I remember speaking to an Air France manager a few years ago,” said Mr Strickland, “and in his view Air France could easily cut its costs by 30 per cent, but it would need to have [forceful Ryanair chief executive] Michael O’Leary as the CEO to do it.”

The unions have said they are amenable to a solution. “I think we can come to a deal quickly,” suggested pilots’ union vice-president Mr Floch. “The two sides are not that far apart.”

But with strikes set to continue, observers wonder if they can be reasoned with, given their new

position of strength. "Now the unions are in a good position to get a big salary increase," said Sia Partners' Mr Aymé.

"The difficult thing with unions is you need to realise you are married to them. You're not just in this for life, you are literally in this forever. They will not go away," added Bernstein's Mr Roeska.

Macron's reforms enrage unions



King Emmanuel the First: Protesters in Paris liken the French president to the Bourbons of the ancien regime © AP

Jean-Marc Janailac's resignation from Air France-KLM over a pay dispute with unions comes against a broader backdrop of intense social conflict in France.

President Emmanuel Macron is engaged in his own battle with a cross-section of French society — including rail and hospital workers, students and pensioners — who oppose his economic reforms.

After pushing through labour reforms last year, the president is forging ahead with plans to overhaul heavily indebted state railway operator SNCF, enraging rail unions who have launched [disruptive rolling strikes](#).

The fight over SNCF, which the government is attempting to prepare for increased competition, has triggered three months of strikes and inflicted travel chaos on millions of French commuters.

In the face of protest, Mr Macron recently [took to French television](#) to urge voters directly to keep faith with efforts to “put France back to work”.

But this month has seen further, often violent, demonstrations against Mr Macron's liberalising agenda. Sunday saw a large protest organised by leftwing parties on the anniversary of Mr Macron's first year in office while on May Day, Paris witnessed hundreds of black-masked protesters, chanting anti-capitalist slogans, smashing windows and clashing with police.

However, analysts doubt the unrest will change Mr Macron's direction. He has a strong parliamentary majority and any retreat would hit his ability to push for more reforms.

“With the opposition in disarray, and voters having given Macron a large absolute majority in the lower house, we expect the government to stand fast,” said Guillaume Menuet, director of European economics at Citi.

“People would start to care if Macron's popularity was falling but it's not, he had a bad spell . . . but now he seems to be fluctuating around the 40 per cent mark which is pretty normal by the historical standards of the French presidency,” added Mr Menuet.

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