

**Interview with Jean-Cyril Spinetta
by Enjeux Les Echos
on 1st October 2006**

“I certainly don’t feel we are dictated to by the markets”



Jean-Cyril Spinetta, Chairman of the Air France Group since 1997. Prime architect of the merger between Air France and KLM in 2000, he has transformed the former state-owned airline into a world leader, which today reports the best results in the business.

Enjeux: You get the impression when you look at the survey we are publishing today, that all big companies are “at the mercy of” globalization. Do you think this criticism is justified?

JCS: First, I’m not sure whether an air transport company like Air France is best placed to answer that question. Our business is concentrated in France, so cannot be relocated, except for a very minor part. Our factories are airports, so I can’t see how you can transfer them abroad. The question of whether we can produce things cheaper elsewhere may be recurrent and justified in other companies, but it does not apply to us. However our goal is to have greater global reach, first in Europe thanks to the Air France-KLM agreement signed in 2003, and then worldwide with our SkyTeam Alliance, which gives our network a worldwide dimension. Our mission is to be an airline which links Europe to the rest of the world.

Enjeux: Would you say that the gap between the activity of major French companies and the national economy is getting bigger?

JCS: This is true, but for a very good reason. Many French companies are among the world leaders in their sector, Michelin, Danone, Lafarge, Saint-Gobain, etc. If they are where they are today, it’s due to thirty years of hard work by the economic players themselves and the French State, and people tend to forget this. Georges Pompidou redefined France’s industrial policy in the early 1970s, precisely because he wanted to give French firms an international dimension. The outcome is, I believe, very fortunate for our economy. Those profits generated by our national businesses which are so often criticized – and sometimes by politicians themselves, which is even more difficult to understand – are the fruit of thirty years of hard work.

Enjeux: Do these profits benefit the national community?

JCS: Absolutely! Look at the number of people currently hired by major French banks! Furthermore, if an industrial group like Michelin is still based in Clermont-Ferrand, it's because it opted for worldwide growth. Otherwise it would be off the map today. For instance, if the head offices and R&D departments of our big groups are based in France, it is because they have developed very extensive roots on international markets. Can we seriously criticize this?

Enjeux: Do you see the pressure from financial markets on today's chief executives as being a source of alienation or stimulation?

JCS: I certainly don't feel dictated to by financial markets, whether in terms of strategy or in my day-to-day job of running the company. I think we should be consistent. If we use the funds of national savings, then we must account for them. Moreover, I don't think the markets are as narrow-minded as they are made out to be. The air transport sector's performance in terms of profit margins is relatively poor. Investors know this. They don't expect miracles, but they continue to invest in us. Any pressure there is comes from the ongoing comparison with our competitors in every area. However there is nothing awful about these benchmark studies, on the contrary they can even be stimulating. Why are my peers doing better than me? This question could be valuable for a top manager. We at Air France are constantly comparing performance in the framework of our agreement with KLM, and it's a source of progress. Basically, the market sends out the right questions which oblige us to respond. I must say, in this respect, I really enjoy the road shows where we meet the investors. You find out how other people see us and the way we perform. And it's interesting to know how we are perceived in London, Zurich or on the West Coast of the United States.

Enjeux: People criticize financial markets for focusing on short-term profits.

JCS: Investors are often handling vast sums of money, which correspond to the savings and pensions of the middle classes. The least they should do is look carefully where they step before committing the money they are responsible for. They don't have any fixed ideas, they can change their minds if the firm performs well. For example, since the Air France-KLM merger, which was not well regarded at the beginning, we have seen a positive change in opinion. People's reticence to the merger, sometimes unexpected, did not stop us doing what we thought was right. And when the project is a good, solid one, this soon becomes obvious, so markets immediately rectify their assessments. The only golden rule is not to tell stories. Because the guardians of these pension funds listen to you attentively, take notes and remind you of your commitments the following year. But I don't remember ever having to promise things which I knew were not realistic.

Enjeux: People condemn the system of stock options which encourage chief executives to meet shareholders' demands. What do you think?

JCS: We don't have stock options at Air France, so I'm not in the best position to talk about them.

Enjeux: Is this your own choice?

JCS: Up until 2002, state-owned firms didn't have the right to have stock options – it wasn't allowed by the government. Since then, we have had other priorities. Personally, I think it's a wonderful system for a company that's starting up, one which has a good project but little cash, as it can use this system to attract highly qualified people who are willing to be paid later rather than now. In well-established companies, this type of remuneration has become the norm. The government can of course regulate the exercising of these options and decide on the applicable tax scheme. But once this has been done, I don't see the point of getting upset each time a chief executive cashes in his or her options as long as it's within this legal framework. One thing does shock me, however, and that's the idea that a chief executive should only be interested in boosting the share price if he is to give the best of himself. I find this perfectly obscene.

Enjeux: Is corporate governance changing in France?

JCS: There has been a considerable change in corporate governance in France, and it's not over. We are gradually evolving towards more stringent controls by boards of directors and the different specialized committees. From now on, remuneration committees are well aware that they have to account to shareholders who are becoming more sensitive to this issue. Transparency in remuneration is also a very good thing, as it is in extra perks. We have seen some very questionable remuneration systems, which combine severance pay with golden handshakes, for example. Combining perks such as these can only put chief executives in a bad light.

Enjeux: You must have to meet the demands of your employees, shareholders and customers. Where does the most pressure come from?

JCS: You have missed the fourth party, which are stakeholders. In our case, these are the public authorities, airport residents, consumers, etc. and I believe that the company must be accountable to these people. One of the advantages of Dutch law is that it explains this new responsibility very clearly. We would do well to give it a legal framework in France too. For the rest, I focus most of my energy and time on my employees. They need explanations, to be helped to understand some things. And I'm not being critical when I say this. It is most probably what I like doing best. The important thing is not just to have good ideas, but to know how to talk about them and share them with the employees. I spend lots of time on this, as the role of a chief executive is in fact to clarify strategy and to justify the changes to come.