

# **Terrorism takes a toll on tourism: The effects of terrorism on France's tourism and the country's national airline Air France**

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# Terrorism Takes a Toll on Tourism

## The Effects of Terrorism on France's Tourism and the Country's National Airline: Air France

Reilly Baldwin

The objective of this research paper is to analyze how the rise of numerous terrorist attacks in France have affected France's tourism industry, specifically how it has affected France's national airline company Air France. This paper will describe France's tourism industry as a background to provide context for its current state. The change in the industry's success will be highlighted by a timeline of the recent terrorist attacks and how the country has been affected. Furthermore, Air France's current success after the attacks will be examined in comparison to how they were succeeding before the terrorist attacks. Finally, Air France's ability to respond to the effects of the attacks and a future projection is compared to the American airline company US Airways after 9/11.

*The last time I saw Paris, her heart was warm and gay, I heard the laughter of her heart in every street café.*

**Oscar Hammerstein II**

### INTRODUCTION

Sitting there, in a café in the foreign city of Paris, I was far from the life I knew – my family, my friends, and the Canadian ways of living. The French language surrounded my ears, the smell of fresh butter croissants filled my nose, and cigarette smoke filled my lungs. Different as it may have been, the experience was thrilling. Paris, the city of light. I felt alive and part of something big. That's the magic of Paris.

My initial days in France were just as I had remembered the country when I visited Paris six years ago. However, as I walked down the Champs Élysées this time, it wasn't the mass of tourists that caught my attention, but rather something much different: the armed French police – a result of increased security due to the high threat of terrorism within the country. Their presence was daunting and certainly changed the traditional dynamic and chic environment of Paris. There were metal detectors and guards everywhere near city landmarks, large military SUV's roamed the streets, and if I went into a grocery store with my knapsack, it had to be checked and even stored in a locker outside the entrance of the store. When the time came to decide on a phenomenon that was affecting France, terrorism came immediately to mind. If terrorism was affecting my experience on exchange, the effects terrorism must be having on businesses must be significant.

### FRANCE'S TOURISM INDUSTRY

With France's rich history dating back to the invasion of the Vikings, then the ruling of the numerous Louis', with the famous Marie Antoinette and Napoléon, and France's involvement in various wars; notably World War One and Two, France has always been recognized on a global scale. Combine this with France's unique architecture, its world renowned cheese and wine, and its famous attractions such as the Eiffel Tower and the Chateau de Versailles, there is no wonder why France, especially Paris, is the world's number one tourist destination. With all it can offer, it can easily defend its title every year.

Annually, France is visited by over 83 million people, with people arriving from all around the world such as North American, Asia, India, and Europe (French Embassy, 2015). In 2015, European and North Americans remained the primary visitors; however, Chinese tourists visiting France rose to 2.2 million and visitors from India rose to 500,000 (French Embassy, 2015).

Paris welcomed over 99.8 million travellers through its airports in 2015, with 65.8 million going through the primary Aéroport-Paris Charles de Gaulle (Tourism in Paris, 2015). Of the people choosing to make Paris their

destination, 4.4 billion euros were generated by Parisian hotels (Tourism in Paris, 2015). During foreigners' time discovering Paris, they on average spend 155 euros per day on expenditures (Tourism in Paris, 2015). Tourist spending is one of the largest contributors to France's economy, representing seven percent of France's GDP. In addition to providing a steady stream of revenue for the country, tourism represents a 12.4% share of tourism-related salaried employment in Paris and the Greater Paris region. This accounts for approximately 400,000 jobs (Tourism in Paris, 2015). In return to promote, maintain and operate tourist attractions, France ranks as the six biggest spender for international tourism, spending \$42.4 US billion (Tourism in Paris, 2015).

When analyzing activities cited by leisure tourists as reasons for visiting Paris in 2014, discovering the city came in as the number one reason (54.6%), number two being visiting museums and monuments (46.3%), and gastronomy represented a primary reason by 9.6% visitors (Tourism in Paris, 2015). France has built up a strong reputation as a cultural destination; however, France's image as the top travel destination has recently blacked in the wake of the series of on-going terrorist attacks.

### **TERRORISM STRIKES TOURISM**

In the past 2 years, it has become far too frequent to see France's tricolored flag raised and projected on monuments to declare solidarity as a country and to show empathy for the victims of terrorism attacks. France has been suffering from an extreme period of violence and radical attacks like nothing the country has seen in years. France's involvement with the US-coalition to air strike the Islamic State (IS) and France's western liberalism views can be seen in the eyes of the Islamic State as an atheist power trying to impose such ideas on their Islamic society (Burke, 2016); a few reasons why many speculate France is in the Islamic State's target. Regardless of the reason for being a primary target of IS attacks, France has been relentlessly affected by the series of attacks. The following table is a timeline of the main terrorist attacks affecting France:

#### **Timeline Of Attacks**

##### **January 7-9, 2015**

###### Charlie Hebdo Massacre

After the publication of numerous controversial cartoons which satirically depicted the Prophet Muhammad, two gunman killed a total of 12 people: eight journalists, a visitor in to the Charlie Hebdo's office, two police officers, and a caretaker during the three day crises.

##### **November 13, 2015**

###### Paris Attacks

The worst terrorist attack on Europe in a decade, when a series of explosives placed in numerous restaurants, the Bataclan concert hall and the Stade de France go off. 130 people were killed and hundreds were injured.

##### **November 14, 2015**

###### State of Emergency

In response to the attacks in Paris, President Francois Hollande announced a state of emergency in France, and implemented border control checks at all entry points.

##### **November 21, 2015**

###### Brussels goes on lockdown

With the main suspects of the Paris attacks being Belgian extremist, the city is placed in lockdown to carry out over 19 raids to arrests those involved with the Paris explosive. Fear and security is extremely high in both France and Belgium.

##### **November 23, 2015**

An explosive vest is found in Paris that contains the same type of explosive used in the Paris attacks.

##### **March 22, 2016**

###### Brussels Airport Bombing

Twin blast hit the main terminal in the Brussels airport, with another explosion going off at the Maelbeek metro station, killing a total of 32 people and injuring 340 people from around the world.

**July 14, 2016**Bastille Day Attack

An Islamic extremist crashed a 19 tonne truck through barriers and into crowds of Nice celebrating France's independence. More than 300 people were hurt and 84 confirmed dead.

**July 26, 2016**Priest Beheaded

In the northern city of Rouen, France, two gunmen claiming to be from the Islamic State entered the church and took the priest and four other people hostages. They beheaded the priest before being shot dead by police.

**November 20, 2016**

Seven ISIS members were arrested in Strasbourg and Marseille, France. The group was nervously awaiting a weapons delivery to carry out an attack in Paris and potential Strasbourg, one of the largest Christmas markets in Europe.

**Sources: BBC News, (2016), Chazan & Banks, (2016), Dearden, (2016)**

**Terrorism Effects On France's Tourism**

After numerous tragic terrorist attacks in the past two years, especially the Paris terrorist bombing of November 13<sup>th</sup>, 2015 that killed 130 people; Paris known as The City of Light, has been not looking so bright. The terrorist attacks have had a large impact on the tourism industry, decreasing the number of visitors and economic growth of France. In the first half of 2016, tourism dropped 6.4% in the central French area of Île-de-France, which amounts to one million fewer visitors and an economical loss of €750 million.

The attacks have spread anxiety among travelers about the possibility of another attack, resulting in a large decrease in the number of tourist visiting Paris. The fallout of tourist from the attacks have caused many Parisians hotels' occupancy rate to fall to a slim 32% in the second half of July 2015 compared to 77% the previous year (Chazan & Banks, 2016). The same effect hit hotels in Nice in the two weeks following the Bastille Day attack, with hotels suffering a 45% decrease in revenue (Chazan & Banks, 2016).

At Mont-Saint-Michel, a castle located on an accessible island and known for being a top tourist destination for its beauty and uniqueness, business was so poor after the November 13<sup>th</sup> Paris attack that the Sodetour Group, the chain owning most of the local hotels and restaurants on Mont-Saint-Michel, saw a decrease of 70% for most of their businesses (Alderman, 2016). The chief executive of the Sodetour Group explained he had to send a third of his 230 employees home for four months and temporarily shut half of the five hotels and four restaurants. Business has slowly picked up; however, 17 positions have been eliminated and businesses on the island are now only hiring new employees on temporary contracts to mitigate in case of a future attack.

By the end the of August 2016, the after-shock of both the Paris and Nice attack seemed to be fading, allowing businesses profits to revive and receive higher amounts of visitors again. Unfortunately, France's steady environment was shaken once more by the killing of a priest near Rouen, located in lower Normandy, an attack carried out by militants claiming allegiance to the Islamic State. The attack may have only killed one man, not as a dramatic scene as the previous attacks; however, the fact that Rouen is a small French town that may people could most not likely place on a map is what had a further impact on tourism. This small-town attack demonstrated to the public how an attack could happen anywhere.

Across the globe, other countries are suffering from security problems, yet France is the center of attention as it has never been associated with violence or terrorism in the minds of tourists. A security guard, Salim Toorabally, who was at the Stade de France the night three suicide bombs detonated expressed his reaction: "I didn't think that we were being attacked by suicide bombers. I would never have thought that we were going to see this type of attack in France" (Rubin, 2016).

Even after the Charlie Hebdo attack, the country and its tourism industry bounced back rapidly. But the recent attacks are different – they are not targeted attacks like Charlie Hedbo or historic war attacks. The attacks in 2015 and 2016 are aimed at the general public to kill random people, at random times and in random locations.

### **TERRORISM EFFECTS ON AIR FRANCE**

There is no denying the fear of being a victim of a random terrorist attacks in France has taken a toll on France’s tourism. Hotels, restaurants, and museums have all seen a decrease in business over the past months. In addition, another industry that has been affected by the effects of terrorism is France’s aviation industry; specifically, Air France, who has recently experienced a downturn in the company’s performance. Air France is the French Flag carrier and one of the largest airline’s worldwide.

### **History of Air France**

On October 7, 1933, five French airlines, Air Union, Air Orient, Société Générale de Transport Aérien, CIDNA, and Aéropostale, all came together to create one aligned airline – Air France. During this time, Air France was in the commercial aviation industry with a specific focus on mail transportation. The airline continued to expand and add new destinations, such as an Atlantic crossing, until all flights were suspended when the Second World War started. When the war ended, Air France flights resumed with the company became nationalized in 1945 (History, 2015).

The aviation industry then hit a massive boom with the creation of first jet planes in 1950. Air France started operating the first Caravelles and Boeing 707s, which increased demand and sales substantially. The increase in flights, passengers, and number of planes compelled Air France to relocate its headquarters from Orly to Paris-Charles de Gaulle 1 in 1974 (History, 2015). To accommodate for the ever-growing demand, Paris-Charles de Gaulle 2 was built in 1982 (History, 2015).

A period of intense competition was next created when the idea of accessible worldwide travel became the dream for both passengers and airlines. Air France differentiated itself by positioning its brand as a high-quality brand with great comfort, detailed in-flight service, and the “chic” way to travel. In the 1990s, acting upon the need to offer diverse networks of flight destinations, Air France took over and merged with a variety of French airlines to ultimately expand their medium-haul and long-haul flights (History, 2015). However, the integration with many French airlines was not sufficient due to the “open skies” agreement between France and the United States; where airlines needed to offer an increasing number of international destinations.

This lead to the creation of the SkyTeam alliance, an alliance by Air France and a dozen of different airlines from most major countries and continents. Then in 2004, Air France took their growth one step further and merged with KLM Royal Dutch Airlines to become the largest European airline group (Air France KLM – Corporate, 2015). Both airlines operate under their individual name, brand, operations, and from their respective hubs Paris-Charles de Gaulle Airport and Amsterdam Airport Schiphol, but share a network of flight paths.

### **Air France’s Position Before The Attacks**

According to the International Air Transport Association, the global airline industry was projected to produce a high net profit of \$19.7 billion in 2014 (Davies, 2013). This was due to the decrease in fuel prices and the adoption of new, larger, and better planes from Boeing and Airbus. Such conditions did allow Air France to see company benefits.

Before the notable attacks began in 2015, Air France’s revenue in 2014 was €24.9 billion with €5.41 billion of debt (Figure 1). The company was pleased with their financial revenue, however numerous aspects made the environment a difficult year to achieve stronger profitability. Air France’s brand has been traditional recognized as luxury airline, through great comfort and quality customer service, with it being especially popular among the business travelers. However, the emerging success of budget airlines such as Ryanair Holdings PLC and easyJet

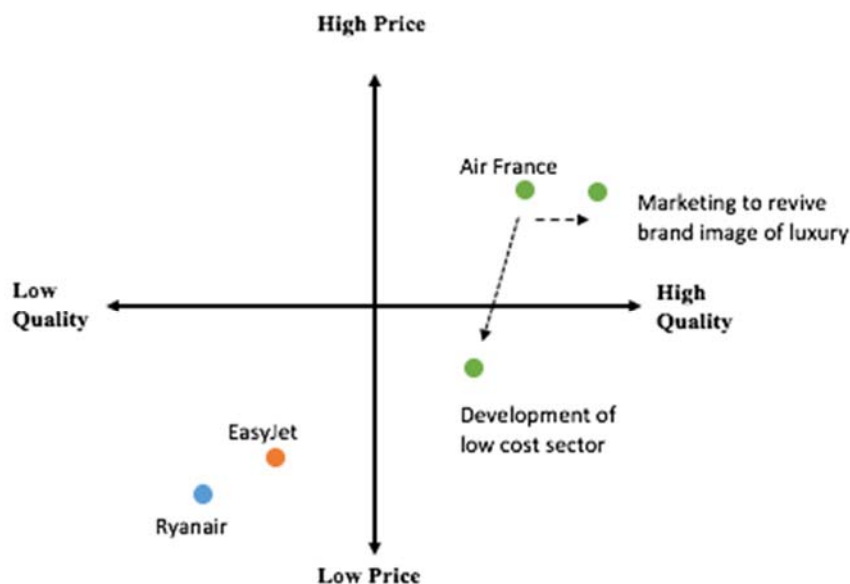
PLC in Europe began affecting Air France’s market share. Air France responded in two ways. The first was to launch a new marketing campaign with the tag line “France is in the Air”, where exceptionally chic, funky and artistic advertisements convey France as a lively, creative and open destination (Figure 2). The campaign was extremely successful, as airlines traditionally have a customary and conservative marketing style; however, Air France adopted a special and bold position to differentiate its quality of service from the budget airlines. Frédéric Gagey, the CEO of Air France states:

“2014 is the year of Air France’s commercial offensive. With the move upmarket of our products and services, the launch of new destinations, new ambition in terms of digital services as well as greater availability of our Mini fares.”

(Pursuitist, 2015)

The second strategic response to compete with the budget airlines was the implementation of a cost reduction plan to develop the company’s low cost sector. The plan consists of positioning the airline to be more cost competitive to be able to reduce ticket prices and offer more discounts fares (Landauro, 2016). Air France’s evolving market position is demonstrated in following Position Map.

Air France was successful at cutting costs, which is demonstrated by key figures in the company’s annual financial report (Figure 3). However, the implemented cost reduction plan unfortunately created tensions between cabin crews, because a method of cost cutting was by changing work conditions and eliminating thousands of jobs. As a result, pilots and crew members striked, causing a €425 million loss in revenue due to passengers not being transported (Landauro, 2016).



**Figure 1.** Position Map. Created by Reilly Baldwin. Information gathered from: (Thomas, 2015) (Pursuitist, 2014)

In 2014, Air France was producing positive revenues, but was also dealing with the threat of emerging competition and numerous employee and management disputes.

## **Development of a New Threat**

From the beginning, Air France's strategy has been to *"Bring Europe closer, carry the world to Europe and welcome the world in Europe"* (History, 2015). Air France has strong strategies in place to increase their efficiencies in all areas of their value chain, to continue building alliances and to progress their commitment to high class customer service. However, their financial report for the first half of 2016 (January – June 2016), Air France identified the following risks to the company's current development in 2016 and going into 2017:

### Terrorist attacks, threats of attack, geopolitical instability

The on-going situation of geopolitical instability and terrorist attacks in many countries could have a negative impact on both the Group's "passenger" traffic and, consequently, its revenues, and on the level of operating expenses.

**Source:** First half financial report, (2016).

For Air France to state this in their financial report to investors and stakeholders is significant. It sounds an alarm bell that passenger revenues are at risk due to terrorism. The question then becomes how has terrorism affected Air France?

## **Effects of terrorism on Air France**

The numerous on-going terrorist attacks across France, and even Europe as a whole, certainly have had various impacts on the country. Air France, a national prided company, was no exception to the crippling effects of terrorism within France. The attacks have caused not only financial problems, but also a decrease in the company's on time flight performance as quality of flight services and timing have been disturbed by the threat of attacks. The attacks have been primarily targeted at locations within French cities, however numerous exterior terrorist threats forced Air France to make emergency landings, divert flights or all together cancel flights. This has only increased the fear of flying and specifically flying to or from France. Because of the following timeline of threats or attacks, Air France has had to increase their level of security, adopt new terrorist mitigation procedures for employees, and implement new advertising campaigns to avoid losing passenger.

### **December 2015**

Air France flight from Mauritius to Paris was diverted to Kenya to make an emergency landing after a suspected bomb was found. Fortunately, the CEO of Air France declared the object found in the aircraft's bathroom to be only a fake bomb made of cardboard, paper and a household timer (The Latest, 2015).

### **December, 2015**

On Tuesday, an Air France flight traveling from San Francisco to Paris was diverted to Montreal, Canada, after reports of an anonymous threat. All 231 passengers and 15 crew disembarked the plane to be subjected to a security check, before getting back on and continuing their journey several hours later. (Westcott, 2016)

### **January 2016**

French ambassador to Burkina Faso says Air France flight from Paris to Ouagadougou diverted as a result of hotel attack (Breaking News, 2016).

### **March 2016**

Brussels Airport was shut down following the terrorist attacks in the city in March 2016, and remained closed for the following days. Due to the fear and the closing of the airport, Air France allowed passengers who had a ticket to or from Brussels in the weeks following the attack to postpone their trip for no extra charge if it was within a certain timeframe, or those guest who want to postpone their trip by months,

wished to change their origin or destination or no longer want to travel at all were eligible for a non-refundable voucher valid for one year on Air France, or one of Air France's subsidiaries (Vora, 2016).

### **March 2016**

Air France: Nothing found after anonymous threat forces evacuation of NYC-bound flight at Paris Charles de Gaulle (Breaking News, 2016).

The result of terrorism being felt outside of France has caused not only logistical issues for their flying destinations within France, but also the logistics and Air France's image for international flights have become affected. "The terrorist attacks that have happened in Europe, but especially in France, are of course hurting France as a destination," Air France-KLM chief financial officer Pierre-François Riolacci said (Westcott, 2016).

Air France, just like France as a destination, has become positioned in many passenger's minds as a risky form of transportation due to the persistent threats of terrorism. The inconsistent performance of the airline due to the growing number of threats of attacks has distilled fear among the travelling population; consequently, passengers booking with Air France have declined.

### **Financial Effects**

In 2015, the attacks on France started becoming more frequent, violent and prevalent in the global news of current events. However, it was the November 13<sup>th</sup>, 2016 Paris terrorist attacks which killed 130 people that really brought France to the center of the world's attention and brought to light the reality of the horrifying presence of terrorism within France. In the wake of the Paris attacks, all airports were temporarily closed with flights being grounded for the following days. The result for Air France was a considerable loss of revenue from tickets sales being cancelled due to the grounding flights and further having travelers cancel their tickets to France for the weeks following the attack. Air France declared it suffered a \$54 million loss (Westcott, 2016). After a national period of mourning, life started to resume itself as usual; however, business in the aviation industry was not so prosperous. Before the attacks, Air France stated its level of passenger were higher than in the same period last year; but even if flights had resumed, the fear of an attack left seats vacant. By using the measure of seats sold called the "load factor", Air France determined the number of seats sold in 2016 had fallen behind the number of seats sold in 2015 (Rothman, 2015). It was down by 0.9 percentage from the year earlier in the November 14 to November 30 period (Rothman, 2015).

The Paris attacks directly affected the French airline's ticket sales and the company projected the effect of such a large terrorist attack would continue to affect ticket sales into the following year. Air France's chief financial officer added however, that the effect of the attack will be "very limited" and "current booking trends are in line with a progressive recovery" (Westcott, 2016). Air France's projections may have been accurate but their predictions did not include the effects of any possible further attacks occurring. Sadly, any recovery Air France had made after the Paris attack was halted when terror struck again only seven months later in Nice, France. On July 14, 2016 – Bastille Day, a 19-ton truck purposely ran over and killed 84 people. The image of France was only darkening with each attack, resulting in a consistent difficulty for Air France to sell seat tickets. Chief Financial officer, Pierre-Francois Riolacci, explained how "bookings for July and August were slow, and forced ticket prices down by 10% or more to fill seats" (Wall, 2016).

Both the Paris and Nice attacks were covered in the media internationally, informing the public about the terrorist crisis France was undergoing. Subsequently, the majority of dominant countries issued travel alerts to exercise a high degree of caution when travelling to France and to be "vigilant when attending large holiday events, visiting tourist sites, using public transportation, and frequenting places of worship, restaurants, hotels, etc." (Travel Advice and Advisories for France, 2016).

The growing levels of media covering the terrorist attacks have reached millions of people worldwide and have scared tourist away from France; causing a decrease in Air France’s ticket sales. In Air France’s most recent Financial Report for the first half of 2016 (January – June), the total passenger network revenues amounted to €9,413 million, which was down by 2.6% from 2015. Table 1 represent a breakdown of the Passenger Network activity by region:

|                          | Load Factor<br>(in %) |                     | Number of Passengers<br>(in million) |                     | Scheduled passenger<br>revenues (in euro million) |                     |
|--------------------------|-----------------------|---------------------|--------------------------------------|---------------------|---|---------------------|
|                          | 2016                  | Change from<br>2015 | 2016                                 | Change from<br>2015 | 2016  | Change from<br>2015 |
| <b>Asia/Pacific</b>      | 86.10%                | 0.4                 | 2,873                                | -4.3                | 1,426   | -8.60%              |
| <b>North<br/>America</b> | 86.80%                | -0.7                | 3,525                                | 1.8                 | 1,830   | -0.70%              |
| <b>Latin<br/>America</b> | 87.10%                | 1.0                 | 1,513                                | 3.8                 | 764   | -8.00%              |

**Table 1.** The breakdown of the Passenger Network activity by region.  
Created by Reilly Baldwin. Source: First half financial report, (2016, p.16).

From the table above, it is noticeable that the number of passengers travelling did not actually largely decrease, demonstrated by the increase in number of passengers and the load factor. However, revenue from sales decreased. Therefore, Air France was able to fill their planes but only at the cost of largely reducing ticket prices to entice hesitant travelers with cheaper flights. Air France also reduced the number of full-freighter aircraft flights, which reduces the percentage needed to maintain a strong load-factor because there are physically less seats to sell. The largest change in passenger revenue from the previous year came from the Asia/Pacific market. Air France’s chief financial officer (CFO) describes how it is the Japanese market, one of the biggest tour groups to visit Paris, who represent the massive drop in ticket sales for the Asian market (Rothman, 2015). For the Japanese who are known for their high uncertainly avoidance according to Hofstede’s theory of culture dimensions, the threat of terrorism has only further scared them away from traveling. Interestingly, Air France still received a large number of Chinese tourist booking trips, as the media in China does not provide the same in depth coverage of the attacks compared to the news releases in Japan (Rothman, 2015). North America was additionally affected, represented by North American’s being Air France’s target market with the greatest negative load factor change from the previous year.

It would be rationale to conclude that a large decrease in number of passengers would result from the on-going threat of terrorism. Yet, whether due to Air France’s accurate marketing of cheaper flights or other external reasons, the number of passengers flying has not decreased but revenues did decrease because of the discounting and lowering of ticket prices. Though revenues decrease, for both Air France’s sector of passenger network and the company’s total revenue, total operating expenses decreased by 7.3 % to €10.30 billion (First half financial report, 2016). This has allowed the company to produce a positive income from operating activities – income was –€154 million in 2015 but has been improved to €119 million in 2016 (First half financial report, 2016). Dominate cost saving activities are represented by the following two expenses:

- Aircraft Fuel: the first half of the year’s fuel expenses totaled to €2.26 billion versus the €3.14 billion it cost the previous year in June 30, 2015. The fuel bill declined by 28.0% due to Air France’s improved fuel efficiency which saved €79 million, and the decrease of market fuel price to save €858 million.
- Landing fees and air route charges for the use of airspace and airports decreased to €914 million compared to €941 million in June 30, 2015. The fees decreased by 2.1% because of changes in passenger related activity, such as the use of fewer full-freighter aircraft due to less passenger demand.

**Source:** First half financial report, (2016)

Relative to a decrease in operating expenses, Air France has been able to maintain a stable economic position and continue to offer reliable business due to the company's ability to decrease their level of debt. In 2012, Air France launched "Transform 2015", a company transformation plan to reduce cost in efforts to reduce debt. It was questioned if Air France's target level of debt reduction would be reached after the Paris attack; however, Air France's CFO affirmed Air France's goal of cutting net debt to €4.4 billion won't be impacted (Rothman, 2015). The plan was highly reflected in the company's 2016 financial position, where the sum of net debt stood at €4.3 billion, aligned with the plan's target. This represents a deduction by a third of the total debt over four years (First half financial report, 2016).

The effects of the terrorist attacks certainly put a strain on Air France's profitability; however, the attacks additionally catalyzed further tension between Air France and its cabin crew. Air France is unfortunately notorious for consistent labor disputes, with strikes occurring yearly. Therefore, as Air France started making cross-department cuts to accommodate for the increased economic constraints from lack of ticket revenue and to ensure the debt target from the "Transform 2015" plan would be met, pilots and air craft crew became discontent with their work conditions. Due to the disputes regarding employment contracts, cabin crew refused to work and started striking in early June 2015, which caused 30% of domestic and medium-haul sized flights, and 10% of long-haul flights to be cancelled (Mcpartland, 2015). The CFO of Air France highlighted how the June 2015 pilot strike costed €500 million (Rothman & Fouquet, 2015).

What can be interpreted from Air France's financial analysis is how the effects of terrorism on Air France's profitability have short-term effects in relation to each terrorist attack, but have not had a dominant effect in reducing the company's overall profitability. In July 2016, Air France posted the year's first half revenue at €11.82 billion (First half financial report, 2016), where if the second half of 2016 produces similar results (11.82 billion x2 = 23.64 billion) would put Air France in a very similar financial position as they were in 2014 before the rise of terrorism. Revenue in 2014 was €24.9 billion (Full Year 2014 Results, 2015). Air France reported a decrease in revenue in 2016, however the effects of terrorism are not solely the cause of the decrease. The volatile environment of changing currencies, fuel cost, aircraft fees, and employee relations have a much larger influence on Air France's profitability.

### **AIR FRANCE'S FUTURE: A COMPARISON TO US AIRWAYS**

France has been suffering from a series of extreme and violent attacks unlike any of the developed and economically stable countries have seen since 9/11. This led many to fear that the terrifying effects of 9/11 on American airlines could happen in Europe as well. Air France being affected by terrorism can be thought to be compared to the US's aviation industry after the 9/11 terrorist attack. However, the downfall of major US airlines, notably US Airways, does not provide an adequate project for what could happen to Air France, as the two airlines had different financial and industry environment stabilities before the attacks.

As previously stated from the analysis of Air France's position before the attacks, Air France was relatively stable. But on the contrary, US Airways was already headed for a financial disaster even before 9/11 occurred because of extreme debt and long established organizational problems. In 2000, US Airways had approximately \$7.3 billion of debt but only turned a profit of \$37 million, compared to Air France who had a profit of €24.9 billion before the attack (Isidore, 2000). In addition to financial problems, US Airways' organizational structure was extremely fragile due to the failure to evolve traditional airline practices to meet the new 20<sup>th</sup> century consumer demands (Isidore, 2006). This lead US Airways to struggle to keep cost low and provide desirable work conditions for employees. Therefore, when 9/11 struck, US Airways was affected deeply by the attack. For weeks, they were losing \$3 million a day from the closure of airports and the cancellation of thousands of tickets (Carey, 2003). Therefore, without a previously large profit to keep them operating during the after math of the attack, there was no surprise when US Airways filed for Chapter 11 bankruptcy in 2002 and then again in 2004 (Carey, 2003). Airline

consultant experts have stated that 9/11 was a catalyst for US airlines changes. US Airways was either going to have to make changes to their fundamental structures or face failure, and 9/11 initiated those changes.

It can be projected that Air France will not suffer as badly and for as long as US Airways. This is due to Air France's stronger financial stability; more revenue and the reduction by a third in net debt over four years that has enabled the Air France to remain viable. It is unlikely the airline will have to file for bankruptcy as did US Airways. Air France also has a more beneficial aviation environment, such as lower fuel cost and improved airport security, and the airline has the consistent advantage of France's long-standing history of being one of the most desirable tourist destinations. In addition, Air France has the aid from the French government, who has introduced a promotional plan aimed at reassuring visitors about the beauty and levels of safety in Paris. The French government will be spending approximately €10 million to help restore the image of the European nation following several high-profile terror attacks (McHuge, 2016). Even more, the return of visitor seems already to be increasing, with tourist revenue for hotels and restaurants rising again. According to a US based tour group who saw a large decrease in bookings after the November 13, 2015 attack, the tour group has stated their France bookings for 2017 are back on track (McHuge, 2016).

## CONCLUSION

The repetitive occurrence of terrorist attacks in France have undoubtedly take a toll on France in various ways. The image of France is no longer only associated with romance, gastronomy, and luxury, but now the country now has the addition of violence and risk to their image due to terrorism. With each new attack, the level of tourist visiting France decreases, taking a toll France's national airline Air France. Air France has seen a fall in tickets sales and number of passengers following after each attack; however, these decreases are only temporary and have only had a small effect on Air France's overall profit. Other factors such as industry instability and human resources problems have had larger effects than terrorism on the company. As a comparison to US Airways, Air France is faring much more strongly after the terrorist attacks, credited to higher profits and lower expenses to manage the decrease in revenues, and a better company practices such as the successful launch of new marketing campaign "France is in the Air". Overall, Air France has been able to respond and manage the company's impact in the wake of the series of terrorist attacks, while France as a nation has come together to show strength, openness and love to help recover from the dark terrorist attacks. Long live "*Liberté, Égalité, Fraternité*".

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## APPENDIX

Figure 1: Air France Full Year 2014 Results

### Full Year 2014 Results

#### Full Year 2014 Results

- Revenues of 24.9 billion euros, stable (+0.3%) like-for-like<sup>1</sup>
- EBITDA<sup>2</sup> of 1,589 million euros, down 266 million euros
- EBITDA of 2,014 million euros excluding the impact of the Air France pilot strike, up 159 million euros
- Operating result of -129 million euros, up 275 million euros like-for-like
- Third year of unit cost<sup>2</sup> reduction, down 1.3% like-for-like
- Net result, group share of -198 million euros, improvement of more than 1.6 billion euros
- Adjusted net result, group share<sup>2</sup> of -535 million euros
- Net debt<sup>2</sup> of 5.41 billion euros, up 59 million euros compared to 31 December 2013

Source: Full Year 2014 Results

Figure 2: "France is in the Air" marketing campaign





Source: Pursuitist

Figure 3: Air France's 2016 Operation Expenses

## Operating expenses

Operating expenses decreased by 7.3 % to €10.30 billion. For capacity measured in EASK (equivalent available seat-kilometers) up by 0.3%, the unit cost per EASK decreased by 1.2% on a constant currency, fuel price and pension expense basis (see page 30 for the detailed unit cost calculation).

At €7.0 billion, **external expenses** decreased by 10.9% (€7.9 billion one year earlier).

The breakdown in operating expenses was as follows:

| (In € million)                             | June 30, 2016 | June 30, 2015<br>restated | Change (in %) |
|--|---------------|---------------------------|---------------|
| Aircraft fuel                              | 2,263         | 3,141                     | -28.0         |
| Chartering costs                           | 215           | 217                       | -0.9          |
| Landing fees and air route charges         | 914           | 941                       | -2.9          |
| Catering                                   | 215           | 223                       | -3.6          |
| Handling charges and other operating costs | 750           | 741                       | 1.2           |
| Aircraft maintenance costs                 | 1,246         | 1,160                     | 7.4           |
| Commercial and distribution costs          | 463           | 465                       | -0.4          |
| Other external expenses                    | 953           | 987                       | -3.4          |
| <b>Total</b>                               | <b>7,019</b>  | <b>7,875</b>              | <b>-10.9</b>  |

The main changes were as follows:

- Aircraft fuel: first half fuel expenses amounted to €2.26 billion versus €3.14 billion at June 30, 2015. The fuel bill declined by 28.0% thanks to improved fuel efficiency (-€79 million) and especially a €858 million decrease in the price after hedging, despite a negative foreign exchange effect of €49 million.

Source: First half financial report, (2016).