



ISSUES FOR
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INVESTORS

AIRLINES IN ASIA

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Richard Welford Author

Researchers:

Richard Welford

Helen Roeth

Sharan Bal



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Our approach is based on analysis of material ESG factors, which change according to sector and market. We provide our clients with local market knowledge of important regulatory landscapes in Asia, along with a fresh perspective on local operational and sectoral issues. We offer an annual subscription model for our monthly sectoral or thematic reports and give our clients access to the underlying data. Reports can also be commissioned (by investors or foundations) and kept for internal use or be offered for general distribution, as part of a general effort to promote ESG integration into the Asian investment process. Our analysts conduct seminars and webinars to discuss findings, often with contributions from experts, companies and policy-makers.

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Many of our clients are signatories to the UN backed Principles of Responsible Investment (PRI), an investor initiative. As signatories they commit to incorporate ESG issues into their investment analysis and to support the development of ESG tools, metrics and methodologies. As a signatory to the PRI we voluntarily contribute time and resources to the Emerging Markets Disclosure Project and other collaborative initiatives. Responsible Research is also a strong supporter of independence in research, without which conflict and bias can deliver investment risk. The company is one of the founding members of the Asian Association of Independent Research Providers and also of the Asian Water Project.

About the Author

Richard Welford is a Director of Responsible Research. He has spent six years working with the airline sector in Asia and has acted as a sustainability consultant to Cathay Pacific and China Southern Airlines, both mentioned in this report. He is also Chairman of CSR Asia and a Director of ERP Environment.



For more information, please contact Responsible Research:

Email: info@responsibleresearch.com

Tel: +65 9386 6664

www.responsibleresearch.com

EXECUTIVE SUMMARY

This report provides an overview of environmental, social and governance (ESG) issues surrounding the airline industry in Asia. The issues that we highlight are those we view as the most material to companies and which pose the biggest threats to the operations of the companies, their brands, reputation and profitability. Responsible airlines will be monitoring, measuring and reporting on the impacts and risks that these issues pose to themselves and their investors.

The issues identified in this report are discussed in parallel with an analysis of the disclosure by the airlines on ESG related issues. We undertake a scoring analysis and ranking of the region's 24 listed companies in the sector on the basis of their Sustainability and CSR reports and other disclosure.

Recent trends such as the growth of low cost airlines and the potential environmental challenges associated with this development are discussed. Key regulations, legislation and incentives in the region are identified and analysed in terms of how they affect the operation and business of the airline industry.

The company scoring reveals that many airlines in the region have systems in place to deal with business issues related to the environment, labour, corporate governance and economic performance. Disclosure on social issues, human rights and product responsibility tends to be weak, as does reporting on key sector specific issues not covered in reporting guidelines such as the Global Reporting Initiative. These key issues include the European Emissions Trading Scheme, biofuels, decommissioning of planes, landing techniques, land use (e.g. at airports), discrimination due to age, gender, physical appearance, and fair operating practices.

Cathay Pacific emerges as the leading company in the region when it comes to disclosure on ESG issues. The company demonstrates impressive reporting and communications strategies in the majority of indicator areas covered in this analysis. Korean Air and Asiana Airlines (also Korean) come in second and third place respectively.

The aviation industry in Asia is undergoing fundamental changes driven by market liberalisation, changing business models and stronger competition by low cost carriers, and in some parts of the region slowly diminishing political intervention into the management of national or quasi state owned airlines. Airlines are also going to be significantly impacted by climate change and other environmental risks. There is a need for them to engage on these issues if they are to maintain the trust of stakeholders and avoid more damaging regulations.

Employment practices are highly variable across airlines in the region. Accusations of gender bias and recruitment of staff on the basis of personal characteristics rather than ability to do the job abound. Recruitment and retention in a marketplace where a new 'battle for talent' is emerging and where, in some places, birth rates are decreasing is going to be a key determinant of profitability.

Safety and security remains a huge issue for the industry. Ensuring the safety of passengers and their well-being during flight is an area of concern. There are also major concerns relating to the way that companies are governed and the extent to which companies operate in a truly competitive environment.

Disclosure on the economic impacts of aviation and on the governance of companies is relatively strong in the region. Most companies provide significant information on their economic contributions and their governance structures. Labour issues and environmental indicators are less well disclosed even though this report highlights that these areas are very much linked to some of the key risks for companies and their investors in this industry.

Investors will already acknowledge that the airline industry is challenged by relatively low profitability and is highly susceptible to economic disturbances. But there is now a growing recognition that the brands and reputations associated with many of the players in the region are likely to be inextricably linked to many of the issues highlighted in this report. Those that are transparent and can respond to the issues via their differing disclosure vehicles are set to gain a competitive advantage through their non-financial performance.

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