

# Carbon Performance assessment of airlines: note on methodology

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**Transition  
Pathway  
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## 1. INTRODUCTION

The Transition Pathway Initiative (TPI) is a global initiative led by asset owners and supported by asset managers. Established in January 2017, TPI is now supported by over 110 investors globally with over \$39 trillion of assets under management.<sup>1</sup>

On an annual basis, TPI assesses how companies are preparing for the transition to a low-carbon economy in terms of their:

- *Management Quality* – all companies are assessed on the quality of their governance/management of greenhouse gas emissions and of risks and opportunities related to the low-carbon transition;
- *Carbon Performance* – in selected sectors, TPI quantitatively benchmarks companies' carbon emissions against international climate targets made as part of the 2015 UN Paris Agreement.

TPI publishes the results of its analysis through an open access online tool hosted by the Grantham Research Institute on Climate Change and the Environment at the London School of Economics (LSE): [www.transitionpathwayinitiative.org](http://www.transitionpathwayinitiative.org).

Investors are encouraged to use the data, indicators, and online tool to inform their investment research, decision making, engagement with companies, proxy voting and dialogue with fund managers and policy makers, bearing in mind the Disclaimer that can be found in section 6. Further details of how investors can use TPI assessments can be found on our website at [www.lse.ac.uk/GranthamInstitute/tpi/about/how-investors-can-use-tpi/](http://www.lse.ac.uk/GranthamInstitute/tpi/about/how-investors-can-use-tpi/).

The purpose of this note is to provide an overview of the methodology being followed by TPI in its assessment of the Carbon Performance of airlines.

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<sup>1</sup> As of November 2021.

## 2. THE BASIS FOR TPI'S CARBON PERFORMANCE ASSESSMENT: THE SECTORAL DECARBONIZATION APPROACH

TPI's Carbon Performance assessment is based on the Sectoral Decarbonization Approach (SDA).<sup>2</sup> The SDA translates greenhouse gas emissions targets made at the international level (e.g. under the Paris Agreement to the UN Framework Convention on Climate Change (UNFCCC)) into appropriate benchmarks, against which the performance of individual companies can be compared.

The SDA is built on the principle of recognising that different sectors of the economy (e.g. oil and gas production, electricity generation and air transport) face different challenges arising from the low-carbon transition, including where emissions are concentrated in the value chain and how costly it is to reduce emissions. Other approaches to translating international emissions targets into company benchmarks have applied the same decarbonization pathway to all sectors, regardless of these differences.[2]

Therefore, the SDA takes a sector-by-sector approach, comparing companies within each sector against each other and against sector-specific benchmarks, which establish the performance of an average company that is aligned with international emissions targets.

Applying the SDA can be broken down into the following steps:

- A global carbon budget is established, which is consistent with international emissions targets, for example keeping global warming below 2°C. To do this rigorously, some input from a climate model is required.
- The global carbon budget is allocated across time and to different regions and industrial sectors. This typically requires an integrated economy-energy model, and these models usually allocate emissions reductions by region and by sector according to where it is cheapest to reduce emissions and when (i.e. the allocation is cost-effective). Cost-effectiveness is, however, subject to some constraints, such as political and public preferences, and the availability of capital. This step is therefore driven primarily by economic and engineering considerations, but with some awareness of political and social factors.
- In order to compare companies of different sizes, sectoral emissions are normalised by a relevant measure of sectoral activity (e.g. physical production, economic activity). This results in a benchmark pathway for emissions intensity in each sector:

$$\text{Emissions intensity} = \frac{\text{Emissions}}{\text{Activity}}$$

Assumptions about sectoral activity need to be consistent with the emissions modelled and therefore should be taken from the same economy-energy modelling, where possible.

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<sup>2</sup> The Sectoral Decarbonization approach (SDA) was created by CDP, WWF and WRI in 2015 (<https://sciencebasedtargets.org/wp-content/uploads/2015/05/Sectoral-Decarbonization-Approach-Report.pdf>). See also [1].

- Companies' recent and current emissions intensity is calculated, and their future emissions intensity can be estimated based on emissions targets they have set (i.e. this assumes companies exactly meet their targets).<sup>3</sup> Together, these establish emissions intensity pathways for companies.
- Companies' emissions intensity pathways are compared with each other and with the relevant sectoral benchmark pathway.

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<sup>3</sup> Alternatively, future emissions intensity could be calculated based on other data provided by companies on their business strategy and capital expenditure plans.

### 3. HOW TPI IS APPLYING THE SDA

#### 3.1. Deriving the benchmark pathways

TPI evaluates companies against benchmark paths, which quantify the implications of the Paris Agreement goals at the sectoral level. For each sector benchmark path, the key inputs are:

- A time path for economy-wide carbon emissions, which is consistent with meeting a particular climate target (e.g. limiting global warming to 1.5°C) by keeping cumulative carbon emissions within the associated carbon budget.
- A breakdown of this economy-wide emissions path into emissions from key sectors (the numerator of sectoral emissions intensity), including the sector in focus;
- Consistent estimates of the time path of physical production from, or economic activity in, the sector in focus (the denominator of sectoral emissions intensity).

There are various models available that provide sector-specific emissions paths and estimates of sectoral activity, under various scenarios<sup>4</sup>. These emissions paths can be divided by activity to derive sectoral pathways for emissions intensity. In the case of airlines, TPI obtains the necessary inputs from publications by the International Energy Agency (IEA) and supplements them with data from the International Civil Aviation Organisation (ICAO).

Section 4 describes in more detail how TPI uses IEA data to derive benchmark pathways for airlines.

#### 3.2. Calculating company emissions intensities

TPI is based on public disclosures by companies. In any given sector, disclosures that are useful to TPI's Carbon Performance assessment tend to come in one of three forms:

1. Some companies disclose their recent and current emissions intensity and some companies have also set future emissions targets in intensity terms. Provided these are measured in a way that can be compared with the benchmark scenarios and with other companies (e.g. in terms of scope of emissions covered and measure of activity chosen), these disclosures can be used directly. In some cases, adjustments need to be made to obtain estimates of emissions intensity on a consistent basis. The necessary adjustments will generally involve sector-specific issues (see below).
2. Some companies disclose their recent and current emissions on an absolute (i.e. un-normalised) basis. Provided emissions are appropriately measured, and an accompanying disclosure of the company's activity can be found that

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<sup>4</sup>Alternatively, in the absence of sectoral activity data, input assumptions on overall economic growth can be used as a measure of sectoral activity (under the assumption that the sector grows at the same rate as the overall economy).

is also in the appropriate metric, recent and current emissions intensity can be calculated by TPI.

3. Some companies set future emissions targets in terms of absolute emissions. This raises the particular question of what to assume about those companies' future activity levels. The approach taken in the TPI is to assume company activity increases at the same rate as the sector as a whole (i.e. this amounts to an assumption of constant market share), using sectoral growth rates from the IEA in order to be consistent with the benchmark paths. While companies' market shares are unlikely to remain constant, there is no obvious alternative assumption that can be made, which treats all companies consistently. Sectoral growth rates from the IEA's baseline scenario are used.

The length of companies' emissions intensity paths will vary depending on how much information companies provide on their recent emissions, as well as the time horizon for their emissions targets.

### 3.3. Emissions reporting boundaries

Company emissions disclosures vary in terms of the organisation boundary that a company sets. There are two high-level approaches: the equity share approach and the control approach, and within the control approach there is a choice of financial or operational control. Companies are free to choose which organisation boundary to set in their voluntary disclosures and there is variation between companies assessed by TPI.

TPI accepts emissions reported using any of the above approaches to setting organisation boundaries, as long as:

1. The boundary that has been set appears to allow a representative assessment of the company's emissions intensity;
2. The same boundary is used for reporting company emissions and activity, so that a consistent estimate of emissions intensity is obtained.

At this point in time, limiting the assessment to one particular type of organisation boundary would severely restrict the breadth of companies TPI can assess.

When companies report historical emissions or emissions intensity under *both* the equity share and control approaches, as is sometimes the case, TPI chooses the reporting boundary that seems most appropriate, based on the criteria of consistency with the reporting of activity, consistency with the target, and the length of the available time series of disclosures.

### 3.4. Data sources and validation

All company data in TPI come from companies' own disclosures. The sources for the Carbon Performance assessment include responses to the annual CDP questionnaire, as well as companies' own reports, e.g. sustainability reports.

Given that TPI's Carbon Performance assessment is both comparative and quantitative, it is essential to understand exactly what the data in company disclosures refer to. Company reporting varies not only in terms of what is reported,

but also in terms of the level of detail and explanation provided. The following cases can be distinguished:

- Some companies provide data in a suitable form, and they provide enough detail on those data for analysts to be confident that appropriate measures can be calculated or used.
- Some companies also provide enough detail, but from the detail it is clear that their disclosures are not in a suitable form for TPI's Carbon Performance assessment (e.g. they do not report the measure of company activity needed). These companies cannot be included in the assessment.
- Some companies do not provide enough detail on the data disclosed and these companies are also excluded from the assessment (e.g. the company reports an emissions intensity estimate but does not explain precisely what it refers to).
- Some companies do not disclose their carbon emissions and/or activity.

Once a company's preliminary performance assessment has been made based on the principles and procedures described above, it is subject to the following quality assurance:

- *Internal findings review*: the preliminary assessment is reviewed by analysts who were not originally involved in making it.
- *Company review*: once the initial findings review is complete, TPI writes to companies with their assessment and requests companies to review it and confirm the accuracy of the company disclosures being used. The company review is done for all companies, including those who provide unsuitable or insufficiently detailed disclosures.
- *Final assessment*: company assessments are reviewed and, if it is considered appropriate, revised.

### 3.5. Responding to companies

Allowing companies the opportunity to review and, if necessary, correct their assessments is an integral part of TPI's quality assurance process. We send each company its draft TPI assessment and the data that underpin the assessment, offering them the opportunity to review and comment on the data and assessment. We also allow companies to contact us at any point to discuss their assessment.

If a company seeks to challenge its result/representation, our process is as follows:

- TPI reviews the information provided by the company. At this point, additional information may be requested.
- If it is concluded that the company's challenge has merit, the assessment is updated.
- If it is concluded that there are insufficient grounds to change the assessment, TPI publishes its original assessment.
- If the company requests an explanation regarding its feedback after the publication of its assessment, TPI explains the decisions taken.



- If a company requests an update of its assessment based on data publicly disclosed after the research cut-off date communicated to the company, TPI can note the new disclosure on the company's profile on the TPI website.
- If a company chooses to further contest the assessment and reverts to legal means to do so, the company's assessment is withheld from the TPI website, and the company is identified as having challenged its assessment.

### 3.6. Presentation of assessment on TPI website

The results of the Carbon Performance assessment will be posted on the TPI website, within the TPI tool (<https://www.transitionpathwayinitiative.org/>). On each company page, its emissions intensity path will be plotted on the same chart as the benchmark paths for the relevant sector. Different companies can also be compared on the tool's main page, with the user free to choose which companies to include in the comparison.

## 4. ASSESSMENT OF AIRLINES' CARBON PERFORMANCE

### 4.1. Deriving airline sector benchmark pathways

The focus of TPI's Carbon Performance assessment is the airline sector as a whole, including international and domestic aviation, and both passenger and freight transport.

TPI uses inputs from the IEA via its Energy Technology Perspectives 2020 (ETP 2020) [3], Net Zero by 2050 (NZE 2050) [19] and World Energy Outlook 2021 [20] reports. IEA modelling includes a specific module for the transport sector, the Mobility Model (MoMo).[3] This provides projections of energy demand, carbon emissions and transport activity for each mode of transport, including air transport, under various scenarios. In addition, TPI uses activity data and forecasts from the International Civil Aviation Organisation [21-22], to complement the benchmarks with freight activity data.

#### 4.1.1 Choice of scenarios

The IEA's work can be used to derive three benchmark emissions intensity paths, against which airline companies are evaluated by TPI.

The three benchmarks employed for the airline sector are:

- An **International Pledges scenario**, which corresponds to the National Pledges scenario in other TPI sectors and reflects the world's current emissions reduction commitments for international aviation. This scenario is directly derived from the IEA's Stated Policies Scenario, as presented in the ETP2020 report. Commitments made close to or after the publication of IEA scenarios are not included. When combined with aggregate NDCs and ICAO commitments to reduce international aviation emissions, the included policy commitments are known to be insufficient to put the world on a path to limit warming to 2°C or below, even if they will constitute a departure from a business-as-usual trend. The expected global temperature increase is 2.7°C by 2100 with a probability of 50%. [3]
- A **Below 2 Degrees scenario**, which is consistent with the overall aim of the Paris Agreement to limit warming, albeit at the lower end of the range of ambition. This scenario is directly derived from the IEA's Sustainable Development Scenario. It gives a probability of 50% of holding the global temperature increase to 1.65°C. [3]
- A **1.5 Degrees scenario**, which is consistent with the overall aim of the Paris Agreement to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels". [23] This scenario is directly derived from the IEA's NZE 2050. While the sector does not reach net zero by 2050, absolute emissions decline by approximately 80% between 2019 and 2050. The scenario gives a probability of 50% of holding the global temperature increase to 1.5°C. [19]

#### 4.1.2 Emissions intensity metric

The calculation of emissions intensity benchmarks for airlines requires suitable measures of both air transport activity and carbon emissions.

The two main metrics for air transport activity used in the airline industry are:

- 'Passenger kilometres' or 'revenue passenger kilometres' (or RPKs), which is the total number of paying passengers multiplied by the distance flown; and
- 'Revenue tonne kilometres' (or RTKs), which is the total number of revenue-generating tonnes of both passengers and freight multiplied by the distance flown.

The IEA uses RPKs as its activity metric. However, **TPI uses RTKs**, otherwise the Carbon Performance of individual airlines with freight businesses that are significantly larger or smaller than average can be distorted. To include freight in the activity metric we:

- (1) Convert the RPKs provided in the IEA model for each scenario to equivalent RTKs, using a conversion factor of **95 kilograms per passenger**.<sup>5</sup> This is consistent with the assumptions of the IEA's 2020 Energy Technology Perspectives, ICAO's 2018 Annual Report, and the majority of airlines' own reporting practices;
- (2) Use ICAO's freight (and mail<sup>6</sup>) transport statistics (in RTKs) for 2019 and 2020 [22], as well as future projections to 2050, to derive freight activity as follows:
  - a. for the International Pledges scenario, applying ICAO's projected average mid-range post-COVID annual growth rate for freight traffic of 3.6% between 2018 and 2050 (used as a proxy for 2019-2050); [21]
  - b. for the Below 2 Degrees scenario, assuming that the freight traffic growth rate is proportionately different to passenger activity growth rate between the Below 2 Degrees and International Pledges scenarios. This assumption results in an annual freight and mail traffic growth rate of 3.17% between 2019 and 2050.
  - c. for the 1.5 Degrees scenario, assuming that the freight traffic growth rate is proportionately different to passenger activity growth rate between the 1.5 Degrees and International Pledges scenarios. This assumption results in an annual freight and mail traffic growth rate of 2.27% between 2019 and 2050.
- (3) summing the passenger RTKs and freight RTKs calculated in (1) and (2) above to obtain an activity metric for the airline sector of equivalent RTKs.

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<sup>5</sup> In our previous aviation methodology note, published in October 2019, we used the conversion of 150kg per passenger. This conversion factor takes account of the mass of passengers and their luggage (estimated to be 100kg, on average) plus an additional 50kg, to include the mass of infrastructure required to transport passengers (such as seats, the galley, toilet facilities, etc.).

<sup>6</sup> Mail tonne kilometres accounted for less than 3% of total freight and mail tonne kilometres in 2014 [11], so we use the term freight to include mail in the remainder of this paper.

In addition to an activity metric, the calculation of emissions intensity benchmarks requires an appropriate measure of carbon emissions. This varies by sector and depends on where emissions occur in the value chain. In the airline sector, the majority of lifecycle emissions arise from jet fuel combustion. These so-called 'Tank-to-Wheel' (TTW) emissions represent around 84% of total lifecycle (or Well-to-Wheel (WTW)) fuel emissions, the balance being upstream (Well-to-Tank) emissions occurring during fossil fuel extraction, refining and distribution.[13] Emissions from jet fuel combustion are reported by airlines under Scope 1 and are sometimes referred to as 'flight-only' or 'aircraft' emissions. Other emissions reported by airlines in Scope 1 relate to ground operations, but these are generally minimal (around 1% of total Scope 1 emissions). Airlines' Scope 2 emissions, which include emissions from purchased electricity, are also minimal (generally less than 1% of total Scope 1+2 emissions). Thus, jet fuel **TTW or flight-only emissions** are an appropriate measure of Carbon Performance in this sector, as they represent the majority of emissions within the scope of influence of airlines' sustainability policies. This is also consistent with IEA data, which exclude emissions from ground vehicles and electricity used in the air transport sector.

For each of its scenarios, the IEA model provides total TTW emissions projections for the air transport sector. The figures include full lifecycle emissions from conventional jet fuel, in addition to those from sustainable biofuels. Biofuels' share of total air transport energy demand is currently very small (around 0.1%), but it is projected to grow significantly in the coming decades. Emissions from combustion of biofuels (i.e. TTW emissions) are similar to those from conventional jet fuel combustion, but airlines apply a CO<sub>2</sub> emissions factor of zero for the combustion of biofuels. This is in line with the UNFCCC reporting guidelines, which recommend that biofuel emissions at the point of use are reported as zero in the energy sector. The assumption here is that negative emissions during the growing stage of the biofuel offset the emissions from combustion. It should be noted, however, that additional emissions occur in the feedstock production, processing, and distribution stages, resulting in net positive lifecycle emissions from biofuels.[13] Nevertheless, for comparability with emissions data currently reported by airlines, TPI assumes TTW emissions from biofuels are zero<sup>7</sup>.

Thus, the measure of emissions intensity that TPI uses to derive benchmark pathways in the airline sector is the ***Tank-to-Wheel (TTW) CO<sub>2</sub> emissions (from conventional jet fuel only) in grams per revenue tonne kilometre (RTK)***.

In its ETP2020 and NZE 2050 reports, IEA directly provides TTW CO<sub>2</sub> emission projections from the aviation sector. Hence, these are used to construct the final TPI emission intensity benchmarks.

Finally, we note that the **COVID-19 pandemic dramatically increased company emissions intensities in 2020, while dramatically decreasing the sector's absolute emissions**. This has led to a readjustment of the carbon budget allocated to the

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<sup>7</sup> In the future, airlines' reporting of biofuel emissions will be subject to change. For example, under the rules of the new ICAO agreement, Carbon Offset and Reduction Scheme for International Aviation (CORSIA), the emissions factor to be applied to biofuel combustion reflects the reduction in lifecycle emissions compared with conventional jet fuel and is therefore likely to be greater than zero.

sector. COVID is having a persistent negative short-term impact on aviation activity and emissions levels. As underlying IEA scenario data is given in 10-year intervals, simple linear interpolation of emission intensity from 2019 to 2030 would not reflect the true state of the sector’s emissions. IEA’s NZE 2050 report provides a peak emissions estimate of 950Mt in 2025 [19]. We use that figure, as well as NZE interpolated activity between 2020 and 2030, to calculate the benchmark intensity in 2025. Assuming that the shorter-term aviation activity recovery will be the same across scenarios, we keep the same projected intensity in 2019-2025 for all three scenarios.

Note that figures used for 2020-2025 are consistent across all three scenarios, to reflect the short-term impact of the COVID-19 pandemic.

Figure 1 shows the benchmark emissions intensity paths for the airline sector, while Table 1 provides the underlying data on emissions and air traffic, expressed as RTKs. For example, under the International Pledges scenario in 2030, total global TTW emissions from the airline sector (including both domestic and international aviation) are projected to be 1,147 million metric tonnes or megatonnes of CO<sub>2</sub>. Under the same scenario in 2030, total RTKs (for both passenger and freight transport) are projected to be 1,552 billion (assuming each passenger is equivalent to 95 kg). Therefore, the average carbon intensity of an airline aligned with the International Pledges path is  $1,147 / 1,552 = 0.739$  megatonnes of CO<sub>2</sub> per RTKs. This equates to 739 grams of CO<sub>2</sub> per RTK. Note that figures used for 2020-2025 are consistent across all three scenarios, to reflect the short-term impact of the COVID-19 pandemic.

Figure 1 Benchmark global carbon intensity paths for the airline sector

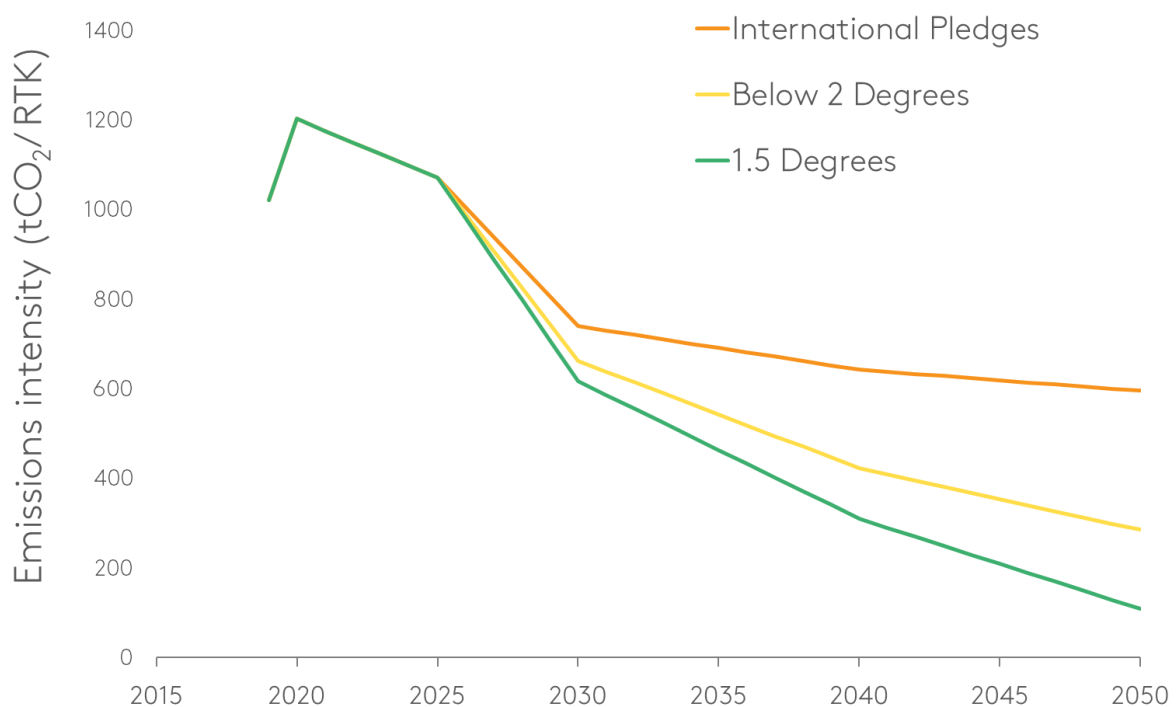


Table 1 Projections of emissions and tonne kilometres (passenger and freight) used to calculate intensity paths (Source: IEA, ICAO and own calculations)

	2020	2025	2030	2040	2050
<i>International Pledges scenario</i>					
TTW CO <sub>2</sub> emissions (Mt)	606	950	1147	1367	1700
Passenger tonne kilometres (billions)	264	619	453	1643	2164
Freight tonne kilometres (billions)	240	268	342	487	694
Total revenue tonne kilometres (billions)	504	887	1552	2130	2858
Carbon intensity (gCO <sub>2</sub> / RTK)	<b>1202</b>	<b>1071</b>	<b>739</b>	<b>642</b>	<b>595</b>
<i>Below 2 Degrees scenario</i>					
TTW CO <sub>2</sub> emissions (Mt)	606	950	951	799	718
Passenger tonne kilometres (billions)	264	619	1110	1447	1915
Freight tonne kilometres (billions)	240	268	327	446	609
Total revenue tonne kilometres (billions)	504	887	1437	1893	2524
Carbon intensity (gCO <sub>2</sub> / RTK)	<b>1202</b>	<b>1071</b>	<b>662</b>	<b>422</b>	<b>284</b>
<i>1.5 Degrees scenario</i>					
TTW CO <sub>2</sub> emissions (Mt)	606	950	783	469	210
Passenger tonne kilometres (billions)	264	619	974	1,146	1,487
Freight tonne kilometres (billions)	240	268	297	371	465
Total revenue tonne kilometres (billions)	504	887	1,270	1,517	1,952
Carbon intensity (gCO <sub>2</sub> / RTK)	<b>1,202</b>	<b>1,071</b>	<b>616</b>	<b>309</b>	<b>108</b>

The benchmark paths above take account of CO<sub>2</sub> emissions only. A critical point to note is that aviation has climate-change impacts that go beyond CO<sub>2</sub> emissions, which result from aircraft flying at high altitude. These impacts include the warming caused by Nitrogen Oxides (NO<sub>x</sub>) and water vapour emissions, and by the formation of contrails and increased cirrus cloudiness.[15] There is generally high uncertainty over the radiative forcing from non-CO<sub>2</sub> effects, but they are estimated to be significant and may **double** the overall climate change impact of aviation.[15] Furthermore, a recent study found that the radiative forcing effect specifically of contrail cirrus is expected to increase faster in the future than that due to CO<sub>2</sub> emissions. This is because the effects on cirrus cloud formation of growth in air traffic and change in traffic patterns (such as shifts to higher altitudes), will not be offset by the expected small reductions in radiative forcing from contrail cirrus as a result of factors such as reduced soot emissions from alternative fuels [16]. For now, TPI's analysis does not take into account the non-CO<sub>2</sub> impacts of aviation, due to the current uncertainty in quantifying them, but if these impacts were to be taken into account the TPI benchmarks would almost certainly be tighter. This issue is currently under review.

## 4.2. Calculating airlines' historic and current emissions intensities

Airlines report emissions in various ways. While some provide a breakdown of Scope 1 emissions from flight and ground operations, others do not provide this split. A small number of airlines do not provide a breakdown of total emissions between Scope 1 and 2. In these cases, in the absence of further information and given that emissions from jet fuel combustion make up over 98% of all Scope 1 and 2 emissions, TPI takes the total Scope 1 emissions reported (or total Scope 1 and 2 emissions, where applicable) as being all jet fuel emissions.

The greenhouse gas emissions reported by airlines also vary, with some providing CO<sub>2</sub> emissions separately, while others report all greenhouse gas emissions in equivalent tonnes of CO<sub>2</sub>. IEA provides an estimate of CO<sub>2</sub> emissions only. The non-CO<sub>2</sub> emissions reported by airlines (such as methane and nitrous oxide) are very small, typically less than 1% of airlines' total greenhouse gas emissions, so TPI allows the comparison of emissions intensities expressed in terms of all greenhouse gases, as reported by some airlines, with the CO<sub>2</sub>-only benchmark intensities.

Another variation between airlines relates to the coverage of flight operations included in Scope 1 emissions. Some airlines operate regional services through third-party partners and emissions from those flights are generally reported under Scope 3 as indirect emissions. In several cases, these emissions represent around 10-15% of an airline's total flight emissions. For such airlines, TPI calculates the emissions intensity to ensure consistency with the activity figures reported by the airline. Thus, if the passenger and freight activity data include third-party flights, then the emissions from those operations are also included in the carbon intensity calculation.

Airlines also report their activity in a number of ways. Frequently, an airline's passenger and freight activity are reported separately, in terms of passenger kilometres and freight tonne kilometres, respectively. In such cases, TPI converts the reported passenger kilometre figures to tonne kilometres using the same conversion factor as used for the benchmarks (i.e. assuming each passenger is equivalent to 95 kg). The resulting passenger tonne kilometres are added to the airline's reported freight tonne kilometres, to obtain total RTKs. This is then combined with the reported flight emissions to calculate the airline's carbon intensity.

Some airlines report their activity in terms of total RTKs transported (including passenger and freight activity). In those cases, TPI assumes airlines use a conversion factor of around 90-95kg per passenger and therefore directly uses the reported RTKs to calculate the airline's carbon intensity.

Some airlines, particularly low-cost carriers, report only RPKs, but no freight activity data. In such cases, TPI assumes that the airline has no freight transport business and converts RPKs to RTKs, assuming 95 kg per passenger.

In a small number of cases, airlines report only carbon intensity, expressed in terms of emissions per RPK, but do not disclose the underlying RPK or CO<sub>2</sub> data. While we are unable to verify the carbon intensities in such cases, TPI takes the reported intensities at face value, as long as there is enough confidence that they have been

calculated based on flight-only carbon emissions<sup>8</sup> and revenue passenger kilometres. TPI then expresses the reported intensities in terms of RTKs, assuming 95 kg per passenger.

### 4.3. Estimating airlines' future emissions intensities

Compared with other sectors such as electricity and steel production, there is unusual uniformity in the airline sector in terms of how companies state their emissions targets. This is attributable to the coordinating role of the airline industry body, the International Air Transport Association (IATA). The majority of airlines have adopted an intensity target proposed by IATA to improve fuel efficiency by an average of 1.5% per year between 2009 and 2020. While the IATA target relates to international aviation, most airlines have adopted the targets across their entire operations, both international and domestic. This target is generally expressed in terms of fuel consumption per revenue tonne kilometre. As fuel efficiency improvements translate directly to carbon emissions reductions, TPI applied this target to carbon intensity in previous research cycles. However, currently, targets for the year 2020 are not included in company assessments as they are no longer forward-looking.

While most airlines set an intensity target based on jet fuel combustion, several apply the intensity target to all Scope 1 or total Scope 1 and 2 emissions. In such cases, it is assumed – in the absence of any other specific information – that the intensity target applies equally across all scopes. This is in line with TPI practice in other sectors.

Beyond 2020, many airlines replace their carbon intensity (or fuel efficiency) target above with an absolute emissions reduction target, that is, one based on total CO<sub>2</sub> emissions, rather than emissions per revenue tonne kilometre. This is in line with the target that has been included in the Carbon Offset and Reduction Scheme for International Aviation (CORSIA), which was proposed by IATA and then agreed by ICAO member states in 2016. The target seeks to stabilise CO<sub>2</sub> emissions from international aviation at the 2020 level, through the use of carbon offsetting, whereby airlines fund climate reduction projects in other sectors. Under the scheme, the **gross** absolute emissions from international aviation may grow beyond 2020, but the **net** absolute emissions (i.e. after carbon offsetting) are expected to level off.

In addition to the target derived from CORSIA, some airlines adopt a longer-term target based on IATA's industry goal to reduce **net** absolute emissions from international aviation by 50% by 2050, based on 2005 levels. Again, this target is based on the expectation that net absolute emissions will be reduced, at least in part, through carbon offsetting. There is no equivalent industry target for emissions reductions within the sector, that is, for emissions reductions that could be achieved without the use of offsets.

The IEA model produces a carbon budget for air transport, excluding the use of offsets. Thus, emissions reductions are assumed to be achieved directly within the

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<sup>8</sup> Or alternatively, Scope 1 or total Scope 1 and 2 emissions, given that flight emissions make up the vast majority of total Scope 1 and 2 emissions.



airline sector rather than in other sectors. This is based on the rationale that the IEA’s economy-wide carbon budget is allocated between sectors in a cost-effective way and that emissions reduction in other sectors are already taken into account in the overall carbon budget and hence would not be available for purchase by airlines in the form of offsets.[3] As the emissions intensity benchmark paths derived from the IEA model do not allow for offsets, TPI does not use any airline targets that are based on net absolute emissions reductions.

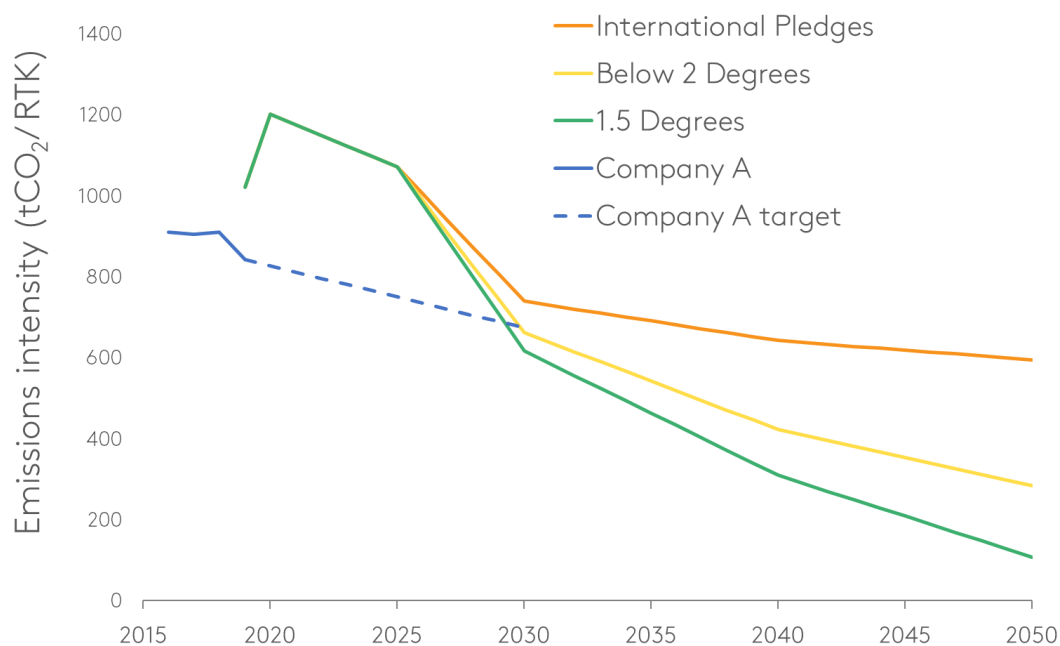
#### 4.4. Worked examples<sup>9</sup>

##### Company A: a simple case

Company A reports its historical emissions intensity in terms of CO<sub>2</sub> emissions from jet fuel combustion per revenue passenger kilometre. For example, in 2019 it was 80 gCO<sub>2</sub>/RPK. TPI has been able to independently verify the emissions intensity using separate company disclosures of emissions and passenger kilometres. Company A does not disclose any data for freight activity, so TPI assumes that Company A has no freight operations. Thus, TPI converts the reported intensity figures to carbon emissions per RTK by assuming that one passenger is equivalent to 95 kg or 0.095 tonnes. Therefore, Company A’s carbon intensity for 2019 can be expressed as 80/0.095 t = 842 grams of CO<sub>2</sub> per RTK.

Company A has also set a target to reduce the intensity of its aircraft carbon emissions per passenger kilometre by 20% from 2019 by 2030. This can be applied to the carbon intensity expressed in RTKs, given that all Company A’s operations relate to passenger transport. Therefore the 2030 target is to reduce CO<sub>2</sub> intensity to 842 x (1 - 0.2) = 674 gCO<sub>2</sub>/RTK.

Figure 2 Carbon Performance of Company A compared with sector benchmarks



<sup>9</sup> In the following examples various numbers are rounded for ease of presentation.

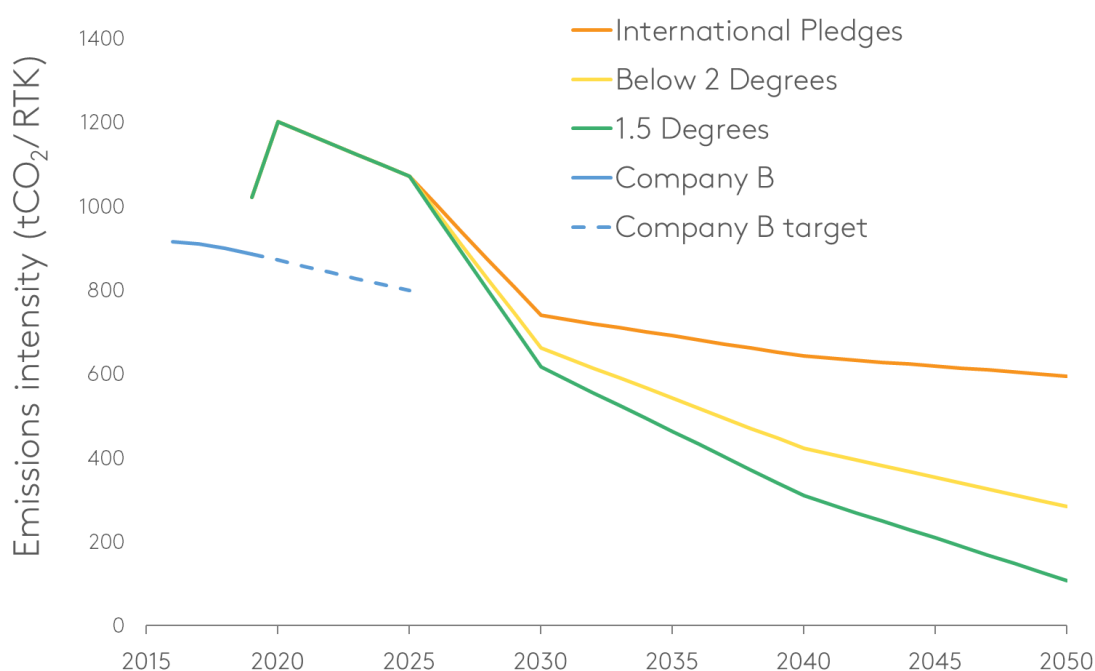
*Company B: recalculation of carbon intensity using separately disclosed passenger and freight data*

Company B provides separate carbon intensity figures for passenger and freight operations. These are not in a form suitable to use in our assessment. However, Company B also provides separate data for flight emissions, passenger kilometres and freight tonnes kilometres, which can be used by TPI to calculate carbon intensity in terms of RTKs. For example, Company B's total CO<sub>2</sub> emissions from flight operations (excluding those operated by third parties) were 32,301,249 tonnes in 2019, passenger kilometres were 277,462 million RPKs (also excluding third party flights) and freight tonne kilometres were 10,118 million tonne kilometres (excluding third party flights). Thus, total revenue tonne kilometres for 2019 are calculated as  $((277,462 \times 0.095) + 10,118) = 36,478$  million RTKs and the carbon intensity is calculated as  $(32,301,249 / 36,478) = 886$  tonnes per million RTKs, equivalent to 886 gCO<sub>2</sub>/RTK.

Company B provides a carbon intensity target to reduce CO<sub>2</sub> emissions per RTK by 25% by 2025 compared with 2006 values. Company B also states that by 2019, 67% of the target had been achieved. Thus, Company B's carbon intensity in 2019 was  $(67\% \times 25\%) = 16.75\%$  lower than that in 2006, implying the 2006 intensity was  $(886 / (1 - 16.75\%)) = 1,064$  gCO<sub>2</sub>/RTK and the target for 2025 is  $(1,064 \times (1 - 25\%)) = 798$  gCO<sub>2</sub> per RTK.

Company B provides two further emissions targets; a medium-term target to cap net absolute emission at 2020 levels and a longer-term target to reduce net absolute emissions by 50% by 2050, relative to 2005 levels. As noted above, the TPI benchmark does not take account of emissions reductions from carbon offsetting and therefore these targets are not used in assessing the Company B's Carbon Performance.

**Figure 3 Carbon Performance of Company B compared with sector benchmarks**



## 5. DISCUSSION

This note has described the methodology followed by TPI in carrying out its Carbon Performance assessment of companies, with a particular focus on airlines.

TPI's Carbon Performance assessment is designed to be easy to understand and use, while robust. There are inevitably many nuances surrounding each company's individual performance, how it relates to the benchmarks and why. Investors may wish to dig deeper to understand these.

### 5.1. General issues

The assessment follows the Sectoral Decarbonization Approach (SDA), which involves comparing companies' emissions intensity with sector-specific benchmark emissions intensities that are consistent with international targets (e.g. the sum of International Pledges).

TPI uses IEA modelling to calculate the benchmark paths. The IEA modelling has a number of advantages, but it is also subject to limitations, like all other economy-energy modelling. In particular, model projections often turn out to be wrong. The comparison between companies and the benchmark paths might then be inaccurate. However, there is no way to escape the need to make a projection of the future in forward-looking exercises like this. The IEA updates its modelling every two years with the aim of improving the accuracy of its projections and TPI plans to update its benchmark paths accordingly.

TPI uses companies' self-reported emissions and activity data to derive emissions intensity paths. Therefore, companies' paths are only as accurate as the underlying disclosures.

Estimating the recent, current and especially the future emissions intensity of companies involves a number of assumptions. Therefore, it is important to bear in mind that, in some cases, the emissions path drawn for each company is an estimate made by TPI, based on information disclosed by companies, rather than the companies' own estimate or target. In other cases, the information disclosed by companies is sufficient on its own to completely characterise the emissions intensity pathway.

### 5.2. Issues specific to airlines

In the context of the SDA, TPI's approach to assessing the Carbon Performance of the airline industry is to focus on the CO<sub>2</sub> emissions from jet fuel combustion, as this is where the majority of the industry's lifecycle emissions are concentrated.

Benchmarking the performance of airlines can be achieved using integrated modelling of the transportation sector. TPI uses the IEA's modelling (combined with freight forecasts from ICAO). A significant source of variation between the low-carbon scenarios of different transportation modelling groups is the share of the burden that is placed on avoiding air transportation and shifting modes of transportation, as opposed to improving fuel efficiency and increasing the use of low-carbon fuels.[17] TPI indirectly reflects the different projections of air transport activity by using three different IEA scenario narratives (e.g. more stringent policy assumptions in the 1.5 Degrees and Below 2 Degrees scenarios leading to lower

aviation activity projections than in the International Pledges scenario). Nevertheless, uncertainty about actual future airline activity remains high.

TPI benchmarks airlines between now and 2050. The three benchmark pathways do not diverge very much in the next few years due to the specific features of the industry, as well as the impact of the COVID-19 pandemic. These include the long life of aircraft, the high cost of infrastructure and the existing cost differential between conventional and alternative low-carbon jet fuels, which together mean that technological developments are slow to be reflected in lower carbon intensities for the industry.

In terms of emission targets, companies generally set them on absolute net emissions, which rely on airlines purchasing emissions reductions from other sectors through the carbon offset market. However, TPI benchmarks are derived from the IEA's modelling work, which uses the approach of allocating **gross** carbon budgets to each sector in a cost-effective way. IEA projects that, after taking into account emissions reductions from other sectors, airlines will still have to reduce their gross emissions significantly. Although in principle offsetting is a means to reduce emissions cost-effectively, we do not currently take into account airlines' net emissions targets, because it is unclear how much their gross emissions will fall and this is the key piece of information required for benchmarking.

To provide investors with more information about their long-term emissions reduction plans, airlines could augment their net targets with gross targets, or with an alternative, suitably firm indication of what proportion of a net target will be met by own emissions reductions as opposed to offsetting. Nonetheless, in future assessments, TPI will look to establish how airlines' net targets compare with comparable benchmarks. This would provide an additional measure of companies' Carbon Performance. To do this, it would be necessary to convert airlines' targets expressed in terms of absolute CO<sub>2</sub> emissions into carbon intensity targets, expressed in terms of CO<sub>2</sub> per RTK. This would require information, such as:

- Details of what proportion of an airline's net emissions will be capped at 2020 levels under the target. If the target is based on CORSIA then it will relate solely to an airline's international flight emissions. In addition, CORSIA excludes emissions from certain international routes, to or from countries that have not signed up to participate in CORSIA;
- An estimate of the growth in emissions (beyond 2020) that are not included in the target above (that is, from domestic and excluded international flights);
- An estimate of the growth in passenger and freight activity for each airline beyond 2020.

Currently, much of this information is not publicly available, but with the introduction of CORSIA and its Monitoring, Reporting and Verification requirements, effective from next year, we would expect that information disclosure will improve in the future.

Finally, a distinguishing feature of the airline sector is that its climate-change impact is greater than the effects of its carbon emissions. The non-CO<sub>2</sub> radiative forcing

effects of aircraft flying at altitude are substantial and may be of similar magnitude to the CO<sub>2</sub> impacts, although there is uncertainty over the size. [15, 18] As a result, TPI's assessment focuses solely on the Carbon Performance of airlines. ICAO recognises the need for an up-to-date scientific assessment of the full climate effect of aviation. [18] Without this, the airline sector's contribution to climate change is likely underestimated.

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