

ESG ISSUES PLAGUING THE AIRLINE INDUSTRY

Airline industry, having faced severe repercussions from the COVID-19 pandemic due to widespread border closures, is now poised for a notable financial recovery. This industry net profits are expected to reach \$9.8 billion in 2023 which is more than double the previous forecast of \$4.7 billion in December 2022 as reported by the International Air Transport Association (IATA)[1].

While the industry aims for a swift recovery, it confronts formidable challenges from environmental, social, and governance (ESG) perspectives. Scientists have issued a dire “final warning” on the climate crisis, emphasizing the urgent need for decisive action to mitigate the irreversible damage caused by escalating greenhouse gas (GHG) emissions[2]. Despite the economic allure of the aviation sector, there is a pressing need to prioritise ESG considerations to prevent further financial losses, particularly in the face of potential environmental catastrophes.

This article seeks to delve into the ESG issues affecting the airline industry at both domestic and global levels, exploring potential alternatives to address these challenges and ultimately enhance the well-being of all stakeholders.

Environmental Issues

High dependency on traditional jet fuel: Airlines are significant contributors to GHG emissions, primarily due to the burning of fossil fuels for aviation. The industry's carbon footprint has come under increasing scrutiny as the world strives to meet climate goals. International Civil Aviation Organisation (ICAO) Member States adopted a collective long-term global aspirational goal (LTAG) of net-zero carbon emissions by 2050 at the 41st ICAO Assembly[3]. Since the aviation industry is the third largest contributor of transportation GHG emissions (11% of all emissions)[4], massive efforts are required to be in place to achieve the net-zero carbon emissions target including the usage of sustainable aviation fuel (SAF).

Despite the global development of SAF, there are still issues on lack of supply of SAF in the market and the prohibitive price where SAF costs around three to five times more than traditional jet fuel[5]. The high cost of SAF is constraining airlines' ability to make substantial contractual commitments to SAF, leading to a continued reliance on traditional jet fuel[6].

Low decarbonisation awareness: The aviation industry also encounters various obstacles in its efforts toward decarbonisation, such as passengers' unwillingness to bear the expense of low-emission solutions and prohibitively high cost of SAF[7]. Additionally, numerous individuals within the aviation industry are sceptical regarding the efficacy of carbon offsets in addressing emissions, particularly as SAF and other mitigation measures gain prominence[8]. Descriptive statistics derived from data collected from 407 Malaysian airline passengers reveal that only 1.5% of them have previously purchased carbon offset schemes.

Social Issues

Insufficient manpower: In 2020, around 1.3 million jobs in the airline industry were reported lost, resulting in a significant impact[9]. This loss had a severe effect as numerous senior employees were also laid off during this period, taking valuable experiences with them. This situation necessitates the industry to cultivate new talents, a process that will take an extended duration to compensate for the loss of institutional knowledge.

According to IATA, the aviation industry is anticipated to boost employment in 2022 in an effort to rebuild its workforce after facing considerable job losses in 2020[10]. However, despite these efforts, total employment is projected to stay below pre-pandemic levels, posing a challenge for the industry.

This is attributed to the time needed for recruitment, training, and completion of essential security checks and other requirements before the staff becomes job-ready. Despite the aviation-centered economy have rebounded to pre-pandemic levels, passengers continue to experience numerous delays and cancellations that have created more uncertainty in air travel due to lack of workforce.

Employment insecurity: Additionally, job security is one of the challenges faced by the aviation industry. In recent years, discussions with union leaders and industry executives have shed light on the challenges associated with recruiting and retaining talent.

Key obstacles include heightened competition for workers from other sectors, comparatively low remuneration, inadequate benefits, and the around-the-clock nature of the job[11]. In certain instances, delays in employment could serve as a limitation on airlines' capacity to fulfil passenger demand.

Governance Issue

Ineffective leadership and management: In late October this year, MyAirline suspended its flight operations due to significant financial pressures[12]. The Malaysian Aviation

Commission (MAVCOM) has suspended the air service license (ASL) of MyAirline after it failed to satisfactorily address issues regarding its flight operations suspension[13].

The occurrence of this unfortunate event has been attributed to irresponsible management and shareholders. It is cited that the management has acted in a criminal manner by hiding crucial information and even defrauding both the authorities and their customers[14]. The inadequate governance demonstrated in this incident has impaired Malaysia's international reputation in the airline industry.

Proposed Alternatives

To address environmental challenges in the aviation sector, concerted efforts should focus on reducing dependence on traditional jet fuel. Initiatives such as increased investment in SAF research and development, collaboration for incentives and subsidies, and the implementation of regulations to gradually decrease the allowable percentage of traditional jet fuel can pave the way for a more sustainable future. Faster production, supply and use of SAF is crucial and hence, the need for incentives from the governments and regulators[15].

Banks and other financial institutions should be encouraged to provide funding for SAF production and purchase as part of their environmental, social and governance commitments[16].

Simultaneously, raising awareness among passengers and industry professionals about the benefits of low-emission solutions and collaborating with governments to introduce financial incentives for eco-friendly choices can enhance decarbonisation efforts.

In response to social issues, the aviation industry should implement targeted programs to overcome workforce challenges. Retraining and upskilling existing employees, coupled with collaborations with educational institutions for specialised training programs, may expedite the compensation for institutional knowledge loss.

Additionally, addressing employment security concerns requires the establishment of industry-wide standards for job security, remuneration, and benefits, fostering partnerships with unions and industry representatives for a more stable work environment.

Governance challenges, particularly ineffective leadership and management, necessitate regulatory enhancements to ensure transparent financial reporting and ethical practices within airlines. Training programs and certifications for airline executives can contribute to improved leadership competence.

These comprehensive solutions aim to propel the aviation industry toward a more sustainable, socially responsible, and well-governed future, mitigating challenges in ESG aspects.

In conclusion, it is imperative for the aviation industry to address ESG concerns proactively. Striking a balance between economic growth and sustainable practices is essential to ensure long-term resilience and reputation management. Collaborative efforts from industry stakeholders, policymakers and the public are essential to address these challenges and promote a more sustainable future for the airline industry.

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