



EasyJet's net-zero announcement: A licence for continued pollution?

Last week EasyJet announced amid much fanfare that it would become the first major airline to operate carbon net-zero flights across its whole network. To achieve this Britain's leading budget airline pledged that it would offset all its carbon emissions generated from burning fuel on its flights. At a time when flight shaming hits air travel, airlines scramble to be seen as taking the climate crisis seriously.

Lennart Hermans and Dr Tom Steffen, from Osmosis Investment Management, provide their analysis of the announcement. Osmosis evaluates companies based on their operational resource efficiency, i.e., the productive use of resources within the operations of a business relative to the economic value it generates.

So, what does EasyJet's announcement tell us about their resource efficiency?

Aviation represents one of the hardest sectors to decarbonise. In the absence of wide-ranging societal change when it comes to our addiction to flying or any realistic technological solution that will allow airlines to meet the challenge on their own, offsetting carbon is a positive contribution to addressing climate change. We commend EasyJet for extending their initiatives in this area.

However, based on our in-house emission database, EasyJet's latest reported emissions amount to 7,600,000 tons per year. Ranking airlines from highest to lowest emissions produced relative to revenue generated, EasyJet compares unfavourably to its sector peers belonging to the second most inefficient quartile. Differences in emissions performance seem to be driven by the average age of the fleet, fuel and route optimisations, and fuel mix, with minimal effect of whether an airline operates in the budget or full-service segment. Indeed, both low cost and traditional airlines appear across the efficiency distribution.

EasyJet estimates that the offsetting would cost it £25 million (~US\$32 million) coming down to a carbon price of £3.3/tCO₂ (~US\$4.3/tCO₂), well below the price of €25 (~US\$27.6) at which a metric ton of CO₂ is currently traded under the EU Emission Trading Scheme (EU ETS).

Carbon offsetting provides capital to projects that remove the equivalent amount of carbon emissions from the atmosphere elsewhere. A popular method of offsetting involves planting trees in the developing world. Rather than reducing their own emissions, EasyJet currently chooses to pay to have its emissions neutralised.

At Osmosis we do not include offsetting of carbon emissions in our model. Integrating offsets would result in a biased view as EasyJet did not reduce its generated emissions; neither did its operations become more efficient. We firmly believe that rewarding the most resource efficient companies, while penalising the resource intensive companies is the right approach to identify the firms that are best positioned for a green transition.

Offsetting at the wrong price does not address the core issues

Companies need to dramatically reduce their environmental footprint if they are to successfully transition to a greener economy. While Osmosis does not adjust companies' generated emissions for their offsetting, we

do believe that internal carbon pricing can be a powerful tool to induce change. In theory, pricing the external costs of carbon emissions – costs to society, such as flooding and health impacts – ties the damage done back to the polluter. Companies can then decide whether to improve their efficiencies and reduce emissions or continue polluting and pay for it. This mechanism, however, is only successful if the price that one pays for polluting is set correctly.

The World Bank’s High-Level Commission on Carbon Prices, led by Nobel Laureate Joseph Stiglitz and Lord Nicholas Stern, concluded that the explicit carbon-price level consistent with achieving the Paris temperature target is at least US\$40–80/tCO₂ by 2020 and US\$50–100/tCO₂ by 2030.¹

For example, if a ton of emitted CO₂ costs an airline US\$50 then the company will have an incentive to reduce its emissions by improving its operational efficiency as long as it is more economical to do so. If on the other hand the price for the generated externality is set too low and every airline pledged to go net-zero, we would see no operating efficiency improvements and companies would have a free ticket to generate emissions at their own discretion.

Hence, the fact that EasyJet offsets its emissions at an estimated price of US\$4.3/tCO₂ provides little incentive for reducing the carbon generated by its flights – the underlying source of the problem.

Bottomline, carbon offsetting shouldn’t distract from the goal of reducing corporate emissions. The practice of offsetting can be used as a last resort; however, it will only be truly effective if the price covers the caused externalities and stimulates emission reductions. Still, every cloud has a silver lining and we are encouraged to see EasyJet’s research agreement with Airbus to develop hybrid and electrical aircrafts. The company also aspires to reduce the number of empty seats flown – a measure that would actually improve its resource efficiency.

IMPORTANT INFORMATION

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