Impact management: creating and sustaining value.

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Environmental, social and economic impacts increasingly need to be measured, managed and communicated to a wide group of stakeholders. Like many businesses airports are feeling the pressure.

Airports looking to maintain competitive advantage must be able to demonstrate to investors, as well as the communities in which they operate, a broader range of value measures. Not only do they need to create real value in the form of a return on capital invested, but they also need to demonstrate their value to the wider economy and society. And that value includes managing and reducing their environmental impact. Multiple compromises will have to be made over the coming decades between growth, the environment and communities. The successful airports of the future will be able to make best use of the information available to understand all these issues, their consequences and how to respond. This will be key to maintaining asset value and future viability.

In an ever more uncertain and competitive world, airports are already faced with a series of complex challenges to the way that they currently operate. Additional pressure is being placed on the industry as the global community tries to meet the challenge presented by climate change. The aviation sector currently contributes approximately 2% of total energy-related Greenhouse Gas emissions. This may not sound like much but it represents over 660 million tonnes of CO$_2$ annually and is rapidly growing (see Figure 1 on next page).

Despite only contributing to a small proportion of these emissions, airports are also expected to play their part in controlling them. There are many examples of airports leading the way in emissions reductions and operational efficiency. Such as the Swedavia group of airports which is aiming to be zero carbon by 2020. The International Air Transport Association (IATA) has also set ambitious efficiency and emissions targets.
Just last month at International Civil Aviation Organization’s (ICAO) 38th Assembly meeting, governments agreed to negotiate a global market based approach to addressing climate change by 2016. This was the outcome that aviation business groups were calling for. The alternative, a patchwork of different regulations around the world, would be an administrative nightmare as well as raise concerns about competitive distortions for both airlines and hub airports. In the interim ICAO has reaffirmed its target of improving energy efficiency by 2% a year as well as formally endorsing the use of the Clean Development Mechanism as an approach to carbon offsetting.

With many hundreds, if not thousands, of new airports to be built in emerging economies over the coming decades, it is hard to see how they will be exempt from this pressure. Easy access to cheap finance is no longer a given and investors increasingly expect companies of all types to demonstrate just what a competitive advantage and a license to operate will be increasingly critical. Airports contribute many benefits to the wider economy and society, including access to markets, jobs, social progress and global connectivity. As airports, particularly in mature aviation markets, seek to maintain competitive advantage, their ability to communicate these benefits in comparison to their environmental impacts will have a material influence on key business decisions. Getting this message across is not always easy—the difficulties faced by a number of large hub airports in securing additional capacity demonstrate just what a challenge this can be.

One way of demonstrating this is through Total Impact Measurement and Management (www.pwc.com/totalimpact) which gives boards and investors better insight into the social, fiscal, environmental and economic impacts of their activities. Being able to measure, understand and compare the trade-offs between different strategies, means that decisions can be made with more complete knowledge of the overall impact they will have and a better understanding of which stakeholders will be effected by which decisions.

Finally, it is not just the impact that airports have on their surroundings that is important. Airports will increasingly need to understand what impact climate change itself is likely to have on its own operations. The coming decades are expected to see major shifts in the frequency, severity and distribution of extreme events and climate conditions. Many airports are located in low-lying coastal regions where sea level rise and increased precipitation pose a real threat. Failure to develop comprehensive climate change risk management strategies will impact the continuity of business operations, profitability and asset value. Basing investment and risk management decisions on past experiences only will increasingly expose business to losses in the future. Airports will need to look to the future and understand what risks are posed to their physical assets and ability to operate by disasters and the changing climate. Climate Analytics help to identify and quantify climate risk by translating complex scientific information for commercial use by businesses in efforts to plan and manage assets, investments and operations.

It is clear that there are still many challenges that lie ahead for the aviation sector in both achieving its targets for a low carbon future and preparing itself for a changing climate. In a future world where stakeholders are likely to increase their demands on businesses to deliver value—for the economy and society, and not at the cost of the environment—being able to measure, manage and communicate this in a meaningful way will be critical. Maintaining competitive advantage and a license to operate will depend upon it.

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